



**FINAL DECISION**  
**Australian Gas Networks**  
**Victoria and Albury gas access**  
**arrangement**  
**2018 to 2022**

**Attachment 5 – Regulatory**  
**depreciation**

November 2017

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## Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
AGN	Australian Gas Networks
NGL	National Gas Law
NGR	National Gas Rules

## 5 Regulatory depreciation

When determining the total revenue for AGN, we include an allowance for the depreciation of the projected capital base (otherwise referred to as 'return of capital'). Regulatory depreciation is used to model the nominal asset values over the 2018–22 access arrangement period and the depreciation allowance in the total revenue requirement.<sup>1</sup>

### 5.1 Final decision

Our final decision approves forecast regulatory depreciation of \$236.7 million (\$ nominal) for AGN over the 2018–22 access arrangement period. This is \$1.5 million (or 0.6 per cent) higher than AGN's revised proposal of \$235.3 million (\$ nominal). This is because we have:

- Amended AGN's opening capital base as at 1 January 2018 (attachment 2)
- Updated the value of expected inflation for the 2018–22 access arrangement period.

We therefore do not accept AGN's revised proposed regulatory depreciation allowance.<sup>2</sup> Our final decision on AGN's regulatory depreciation allowance for the 2018–22 access arrangement period is set out in Table 5-1.

**Table 5-1 AER's final decision on AGN's regulatory depreciation allowance for the 2018–22 access arrangement period (\$ million, nominal)**

	2018	2019	2020	2021	2022	Total
Straight-line depreciation	78.3	86.2	97.2	90.9	97.3	450.0
Less: indexation on capital base	38.5	40.5	42.8	44.9	46.6	213.2
<b>Regulatory depreciation</b>	<b>39.8</b>	<b>45.7</b>	<b>54.4</b>	<b>46.1</b>	<b>50.7</b>	<b>236.7</b>

Source: AER analysis.

In the draft decision, we accepted AGN's proposed year-by-year tracking real straight-line approach to calculate the regulatory depreciation allowance and accelerated depreciation of assets to be replaced through its mains replacement programs over the 2018–22 access arrangement period. However, we identified required changes to certain aspects of the proposed regulatory depreciation allowance, including:

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<sup>1</sup> Regulatory depreciation allowance is the net total of the straight-line depreciation (negative) and the annual inflation indexation (positive) on the projected capital base.

<sup>2</sup> NGR, r. 89(1).

- Adjustments to the year-by-year tracking depreciation model so that the future depreciation profile is based on actual capex incurred over the 2013–17 access arrangement period rather than previously approved forecast capex.
- Assigning a standard asset life for the 'Equity raising costs' asset class
- Adjustments to other components of AGN's proposal including the opening capital base, expected inflation and forecast capex for the 2018–22 access arrangement period.

AGN's revised proposal adopted these draft decision amendments.<sup>3</sup>

Table 5-2 sets out our final decision on the standard asset lives for AGN over the 2018–22 access arrangement period.

**Table 5-2 AER's final decision on AGN's standard asset lives (years)**

	Standard asset life
Mains & services	60.0
Meters	15.0
Buildings	50.0
SCADA	15.0
Computer equipment	5.0
Other assets	15.0
Equity raising costs	55.2

Source: AER analysis.

Note: These asset classes are used for both the Victorian and Albury networks. The same standard asset lives are used on both networks.

## 5.2 Assessment approach

Our approach to the regulatory depreciation allowance is set out in section 5.3 of our draft decision. We have not changed that approach in this final decision.

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<sup>3</sup> AGN, *Revised final plan - response to the draft decision*, 14 August 2017 pp. 1-3