Final decision

AusNet Gas Services
Gas distribution access arrangement
1 July 2023 to 30 June 2028

Attachment 4 – Regulatory depreciation

June 2023

AUSTRALIAN
ENERGY
REGULATOR

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Tel: 1300 585 165

AER reference: 212595

Amendment record

Version	Date	Pages
1	2 June 2023	16

Contents

4 Regulatory depreciation

Depreciation is a method used in our determination to allocate the cost of an asset over its useful life. It is the amount provided so capital investors recover their investment over the economic life of the asset (otherwise referred to as 'return of capital'). When determining the total revenue for AusNet, we include an amount for the depreciation of the projected capital base.[1] Under the building block framework, regulatory depreciation consists of the net total of the straight-line depreciation less the indexation of the capital base.

This attachment outlines our final decision on AusNet's annual regulatory depreciation amount for the 2023–28 access arrangement period (2023–28 period). Our consideration of specific matters that affect the estimate of regulatory depreciation is also outlined in this attachment. These include:

- the standard asset lives for depreciating new assets associated with forecast capital expenditure (capex)
- year-by-year tracking approach to depreciating assets in the capital base
- proposed accelerated depreciation relating to uncertainty around the future of gas networks
- proposed accelerated depreciation relating to reduced asset lives for mains and services pipelines.

4.1 Final decision

We determine a regulatory depreciation amount of $281.4 million ($ nominal) for AusNet for the 2023–28 period. This represents a reduction of $82.9 million (22.8%) from AusNet's revised proposed regulatory depreciation amount of $364.3 million ($ nominal). Our final decision reflects the following key amendments:

- we do not accept AusNet's revised proposed accelerated depreciation of $200 million ($2022–23), and instead we approve a lower amount of $105 million[2]
- we adopt a lower expected inflation rate for the 2023–28 period, which reduces the adjustment for indexation of the capital base that is offset against straight-line depreciation in determining regulatory depreciation.

Table 4.1 sets out our final decision on AusNet's regulatory depreciation amount over the 2023–28 period.

[1] NGR, r. 76(b).

[2] This accelerated depreciation relates to future of gas uncertainty and the risk of network stranding.

Table 4.1 AER's final decision on AusNet's regulatory depreciation amount for the 2023–28 period ($ million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28	Total
Straight-line depreciation	102.1	103.9	112.9	122.2	129.0	570.1
Less: indexation of capital base	54.5	56.4	58.2	59.5	60.1	288.8
Regulatory depreciation	**47.6**	**47.5**	**54.7**	**62.7**	**68.9**	**281.4**

Source: AER analysis.

The regulatory depreciation amount is the net total of the straight-line depreciation less the inflation indexation of the capital base.

AusNet's straight-line depreciation is impacted by our decisions on accelerated depreciation (section 4.4.2), its opening capital base as at 1 July 2023 (Attachment 2), forecast capex (Attachment 5) and standard asset lives (section 4.4.4). Our final decision straight-line depreciation for AusNet is $122.6 million ($ nominal) lower than AusNet's revised proposal. This is largely driven by our decision to reduce the amount of accelerated depreciation.

The indexation of the capital base is impacted by our decision on AusNet's accelerated depreciation, its opening capital base (Attachment 2), forecast capex (Attachment 5) and the expected inflation rate (Attachment 3).[3] Our final decision indexation on AusNet's projected capital base is $39.7 million lower than proposed by AusNet. This is largely because of the lower expected inflation rate of 2.92% per annum for the 2023–28 period compared to 3.37% per annum in AusNet's revised proposal.

The reduction to straight-line depreciation (due to lower accelerated depreciation) has therefore more than offset the reduction in indexation of the capital base, resulting in a lower regulatory depreciation amount compared to the revised proposal.

4.2 AusNet's revised proposal

AusNet proposed a revised total forecast regulatory depreciation amount of $364.3 million ($ nominal) for the 2023–28 period, as set out in Table 4.2.

Table 4.2 AusNet's revised proposal regulatory depreciation amount for the 2023–28 period ($ million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28	Total
Straight-line depreciation	123.8	126.9	137.4	148.2	156.5	692.8

3 Capex enters the capital base net of forecast disposals (and capital contributions where relevant). It includes equity raising costs (where relevant) and the half-year WACC to account for the timing assumptions in the AER's PTRM. Our final decision on the capital base (Attachment 2) also reflects our updates to the WACC for the 2023–28 period.

Less: indexation of capital base	62.9	64.6	66.2	67.3	67.4	328.4
Regulatory depreciation	**60.9**	**62.3**	**71.1**	**80.9**	**89.1**	**364.3**

Source: AusNet, *Revised proposal PTRM*, January 2023.

To calculate the depreciation amount, AusNet used a similar approach to its initial proposal. It adopted the draft decision positions in relation to depreciation, with the exceptions that it:

- maintained its proposed accelerated depreciation of $200 million ($2022–23), consistent with its September 2022 addendum
- proposed 3 new asset classes for new mains and services pipelines with a reduced standard asset life of 50 years instead of the approved 60 years.[4] AusNet's initial proposal also included new asset classes for mains and services pipelines which it used to reallocate both new and existing (post-1998) assets.

4.3 Assessment approach

We have followed our assessment approach for regulatory depreciation from our draft decision. Attachment 4 (section 4.3) of our draft decision details that approach.[5]

4.4 Reasons for final decision

We accept AusNet's proposed straight-line depreciation method for calculating the regulatory depreciation amount as set out in the post-tax revenue model (PTRM) and the year-by-year tracking approach to implement this method, subject to amending some inputs in the depreciation module. However, we have reduced AusNet's revised proposed forecast regulatory depreciation to $281.4 million ($ nominal) for the 2023–28 period. This is $82.9 million (22.8%) lower compared to AusNet's revised proposal and is mainly due to our reduction to accelerated depreciation applied in this final decision. The reduction is partially offset by the lower expected inflation rate we have applied (Attachment 3).

Our assessment of AusNet's continuation of the year-by-year tracking depreciation approach, accelerated depreciation, and its proposed standard asset lives are discussed in turn in the following subsections.

4.4.1 Year-by-year tracking approach

For this final decision, we accept AusNet's continuation of the year-by-year tracking approach in its revised proposal for calculating the depreciation schedule for its existing assets. This approach is consistent with AusNet's initial proposal, our draft decision and the

---

4 In AusNet's revised proposal, the new mains and services pipeline asset classes were 'Transmission pipelines - post June 2023', 'Distribution pipelines - post June 2023' and 'Service pipes - post June 2023'. In AusNet's initial proposal the proposed new mains and services pipeline asset classes were 'Transmission pipelines - post 1998', 'Distribution pipelines - post 1998' and 'Service pipes - post 1998'.

5 AER, *Draft Decision, AusNet gas services, Access Arrangement 2023–2028, Attachment 4, Regulatory depreciation*, June 2022, pp. 4–10.

2018–22 access arrangement period. As discussed in our draft decision, we consider this approach meets the requirements of the NGR.[6]

AusNet has used our amended template depreciation tracking module to implement year-by-year tracking consistent with its initial proposal and our draft decision. [7]

In our draft decision, we made some amendments to AusNet's proposed depreciation tracking module.[8] AusNet's revised proposal adopted all of our draft decision changes except that it updated the final year asset adjustments to be consistent with the roll forward model (RFM) to reflect its revised proposed accelerated depreciation.

To reflect our decision on accelerated depreciation as discussed in section 4.4.2, we have:

- amended the final year asset adjustments for the 'Distribution pipelines', 'Service pipes', 'Accelerated depreciation – long life assets' and 'Accelerated depreciation – future of gas' asset classes
- removed the proposed new asset classes 'Transmission pipelines – post June 2023', 'Distribution pipelines – post June 2023' and 'Service pipes – post June 2023'.

We have also amended some inputs to align with our final decision RFM amendments as discussed in Attachment 2, including:

- updating the 2022 capex estimate
- amending the remaining asset lives of some of the final year asset adjustments for cathodic protection and the mains and services pipeline assets to reflect the updated 2022 capex estimate.

4.4.2 Accelerated depreciation for future of gas and risk of network stranding

For this final decision, we do not accept AusNet's revised proposed accelerated depreciation of $200 million ($2022–23) and instead we determine a reduced amount of $105 million. Our reasons for this decision are discussed below.

4.4.2.1 Case for accelerated depreciation

For this final decision, we confirm our draft decision position that there is a case for accelerated depreciation relating to the uncertain future for gas networks in Victoria. In accepting some accelerated depreciation for AusNet, we recognise that the publication of the *Gas Substitution Roadmap* indicates that the Victorian Government is committed to the net zero emissions target by 2050.[9] This will likely mean a limited role for natural gas beyond this

---

6 AER , *Draft decision, AusNet Gas Services Access Arrangement 2023–28, Attachment 4 – Regulatory Depreciation, December 2022*, pp. 10–11.

7 As discussed in the draft decision, we required the Victorian distributors to use this amended version of our template in their proposals since it allows for the half-year 2023 extension period. AER, *Draft decision, AusNet Gas Services Access Arrangement 2023–28, Attachment 4 – Regulatory Depreciation, December 2022*, p. 5.

8 AER , *Draft decision, AusNet Gas Services Access Arrangement 2023–28, Attachment 4 – Regulatory Depreciation, December 2022*, pp. 10–11.

9 Victorian State Government, *Gas Substitution Roadmap*, July 2022.

date. The 2023 *Gas Statement of Opportunities* (GSOO) shows a material decline in gas volumes over the next 20 years under the most likely scenario. There is also considerable uncertainty around likely medium to long term forecast volumes of customer abolishments. Further, the future role for hydrogen and other renewable gases is also uncertain at this time.

We consider the case for accelerated depreciation is also supported by the long term 'future of gas' modelling that AusNet provided with its initial proposal and September 2022 addendum. While AusNet did not provide updated future of gas models with the revised proposal, its proposed $200 million ($2022–23) of accelerated depreciation is consistent with the amount it modelled in the September 2022 addendum. As noted in the draft decision, this modelling shows that where stranding occurs, accelerated depreciation both in the 2023–28 period and subsequent periods generally extends the life of the network because the associated higher revenue and tariffs in the shorter term are not enough to strand the asset and this is followed by lower tariffs due to the reduction to the capital base.

Consistent with our draft decision, we have considered the balance between accepting some accelerated depreciation and also price stability. This is also consistent with our 2021 information paper, *Regulating gas pipelines under uncertainty*, which stated:[10]

> '… regulated depreciation or risk compensation cannot be adjusted without constraint to guarantee cost recovery for the regulated businesses. [The AER] must have regard to consumers' interest in having affordable and stable or reasonably predictable gas access prices to encourage their use of the gas infrastructure. Having said that, it is fair to note that regulated businesses also have an interest to maintain price affordability to avoid further decline in gas customer numbers.'

4.4.2.2 Targeting a 'base' real price path of 1.5% per annum

For the final decision, we have adjusted our draft decision approach to accelerated depreciation, by first excluding capital expenditure sharing scheme (CESS) and operating expenditure (opex) efficiency carryover mechanism (ECM) amounts from revenue when setting a base real price path constraint for determining the amount of accelerated depreciation. This 'base' real price path constraint is 1.5% per annum and applies to all 3 Victorian gas distributors.

In the draft decision, as a placeholder:

- we set a limit on accelerated depreciation such that a 0% per annum real price change was achieved over the 2023–28 period
- we noted that the 0% per annum value could change for the final decision.

We consider that our amended approach for the final decision addresses a concern submitted by AusNet in its revised proposal that our draft decision approach did not appropriately consider incentive schemes. AusNet submitted that under our draft decision approach, any 2023–28 (CESS and ECM) revenue adjustment rewards (or penalties) for

10 AER, *Information paper on regulating gas pipelines under uncertainty*, 15 November 2021, p. 29.

2018–22 expenditure were effectively negated by a corresponding reduction (or increase) to accelerated depreciation.

To address this, our final decision approach excludes these revenue adjustments when determining the allowed accelerated depreciation. We consider this adjustment is appropriate as it preserves the intended objectives of the CESS and ECM schemes applying to expenditures in the 2018–22 period. Under these incentive schemes, networks are rewarded for efficient expenditure and penalised for inefficient expenditure. Our amended approach for accelerated depreciation is therefore to:

- Set a base real price path constraint of 1.5% per annum for all 3 Victorian gas distributors which excludes the impact of the 2023–28 revenue adjustments for CESS and ECM. The accelerated depreciation allowance is calculated using this base price path constraint.
- Add back in the 2023–28 revenue adjustments relating to the CESS and ECM to adjust the building block revenue allowance and resmooth for the resulting real price path (which is therefore different from the base price path constraint).

For AusNet, this approach results in accelerated depreciation of $105 million ($2022–23).

4.4.2.2.1 Increased price path constraint relative to the draft decision

Our final decision base price path constraint of 1.5% per annum is higher than the 0% per annum real price path constraint we set in the draft decision. It reflects the respective updates since the draft decision including for opex (abolishments), forecast demand, weighted average cost of capital (WACC) and expected inflation. It also reflects that AusNet’s engagement with consumers subsequent to the draft decision, showed a willingness to pay a higher price now if it would mitigate the risk of price increases in the long-term. The Energy Users' Association of Australia also submitted that modest real increases to network charges from accelerated depreciation would be appropriate.

In their submissions, stakeholders were mostly supportive of the draft decision price path constraint approach and they acknowledged the impact of uncertainty of future demand in assessing accelerated depreciation. Several raised concerns about increasing the draft decision price path target of 0% per annum in the face of sustained rising cost of living stresses.

AusNet also submitted various concerns about both the reasoning and the implementation of our draft decision approach as discussed in section 4.4.2.2.2.

Having carefully assessed the material before us, we consider our final decision approach achieves a balance between what consumers pay now to mitigate future price increases, and the risk of greater price increases in the future if mitigation is delayed. While we acknowledge stakeholders’ concerns around affordability, we consider that on balance it is appropriate to increase the price path constraint above the 0% per annum set in the draft decision to reflect updated inputs since the draft decision including for opex (abolishments), forecast demand, WACC and expected inflation. Setting the base real price path constraint at 1.5% per annum allows for an appropriate amount of accelerated depreciation for each distributor.

4.4.2.2.2 AusNet's submission on our draft decision approach

AusNet's revised proposal acknowledged the importance of price stability but considered our draft decision price path constraint approach did not best balance the needs of current and future customers.

It noted the risk of stranding had increased since its September 2022 addendum but acknowledged there would be changes to certain market and sector information subsequent to its revised proposal, including for inflation, interest rates and forecast demand.

AusNet indicated that, in its view, it was arbitrary for the AER to place a 0% per annum real price rise restriction as a placeholder in the draft decision. AusNet also indicated that it did not consider that the AER's placeholder approach to setting accelerated depreciation reached the right balance between short and long-term price paths, or fully recognised the increasing stranding risk on its investment. It submitted that the outcomes of previous access arrangement decisions should be considered to treat each network consistently and to preserve incentive properties. Among its concerns was that its 2023–28 revenue adjustment rewards for CESS and ECM effectively reduced its allowed accelerated depreciation. As discussed above, we consider this concern is valid and our final decision price path constraint approach to determining accelerated depreciation specifically addresses it.

AusNet also put forward other ways in which our draft decision approach penalises it, particularly relative to Australian Gas Networks (AGN) and Multinet Gas Networks (MGN) including:

- factors in the (current period) 2018–22 decision that affect the approved 2022 tariffs and, therefore, the half-year 2023 tariffs,[11] including the 2018–22 smoothing profile, demand forecasting accuracy, and previous accelerated depreciation
- the impact of the half-year 2023 extension period over-recovery affecting 2023–28 revenues.

AusNet submitted that by setting the price constraint from the approved base year tariffs for the half-year 2023 period, the draft decision did not adjust for the impacts arising from the 2018–22 access arrangement and the half-year 2023 extension period decision. We have reviewed the relevant information AusNet provided in its revised proposal and also checked its claims against some of the source material it referenced. We acknowledge that some of the factors AusNet listed may result in it having lower base year (half-year 2023 extension period) tariffs relative to if different decisions or actions by AusNet and/or us had been taken. However, our view is that those decisions and actions were taken during the 2018–22 period on the basis of the information that was available at that time, and in circumstances where the adoption of a price constraint for accelerated depreciation purposes for this 2023–28 access arrangement review would not necessarily have been foreseen. Noting this, we consider that in making our final decision, we have had appropriate regard to the price path in the 2018–22 access arrangement and the half-year 2023 extension period, and we do not consider that any further adjustment is required for the additional factors listed by AusNet.

11 The half-year 2023 extension period tariffs are equal to the approved 2022 tariffs in real terms.

We have therefore only adjusted our draft decision approach for the final decision to first omit 2023–28 CESS and ECM revenue adjustments as described above.

4.4.2.3 Stakeholder submissions

There was a mixed range of views expressed by stakeholders on the issue of accelerated depreciation, which included submissions from Origin Energy (Origin), Energy Users' Association of Australia (EUAA), Brotherhood of St. Laurence (BSL), the AER's Consumer Challenge Panel (CCP28), AGL, Red/Lumo Energy, and a combined submission from BSL, St Vincent de Paul and Victorian Council of Social Service (VCOSS).

Retailers Origin, AGL and Red/Lumo Energy were supportive of the draft decision's 0% per annum real price path approach considering the uncertainty of demand in the future.[12]

Origin acknowledged stranding risk arising from the Victorian Gas Substitution Roadmap, and the difficulty for the networks and the AER in balancing the interests of networks and customers. Due to demand uncertainty, Origin submitted that accelerated depreciation is a matter of judgement.[13]

Origin and BSL stated that increases to gas tariffs in the short term would exacerbate the cost-of-living pressures for many customers and increase the incentive for customers to disconnect from the gas network, leaving those who remain with higher costs.[14]

The EUAA was more supportive of the networks' revised proposals and submitted that the proposed accelerated depreciation for AusNet and MGN will have a 'small influence' on the overall bill price compared to the impact of movements in wholesale prices.[15]

BSL remained concerned about the impact of the draft decision, as a whole, on energy costs for the 2023–28 period and beyond. It submitted that the risk of asset stranding means that our draft decision to accept accelerated depreciation is contradictory with the amount of forecast capex and opex that was accepted. It noted that since accelerated depreciation is still 'open' at the final decision stage, capex and opex should also similarly still be considered. It further submitted that accelerated depreciation should not be increased from the draft decision. Similar views were expressed in BSL's joint submission with St Vincent de

---

12 Origin, *Submission to Victorian gas access arrangement draft decision and revised proposals*, 23 February 2023, p. 1. AGL, *Victorian Gas Distribution Access Arrangements 2023 - 2028: Draft Decisions and Revised Proposals*, 24 February 2023, pp. 1–2. Red Energy and Lumo Energy, *Revised proposals - Victorian Gas distributors Access Arrangement 2023-2028*, 23 February 2023, pp. 2–3.

13 Origin, *Submission to Victorian gas access arrangement draft decision and revised proposals*, 23 February 2023, pp. 1.

14 Origin, *Submission to Victorian gas access arrangement draft decision and revised proposals*, 23 February 2023, p. 1. Brotherhood of St Laurence, *2023-2028 Victorian gas distribution access arrangement, Draft decision and revised proposals*, February 2023, pp. 7, 8 & 11.

15 The EUAA submitted this in the context that for AusNet and MGN, the revised proposed accelerated depreciation amounts were higher than those in our draft decision. For AGN the revised proposed accelerated depreciation is equal to that in our draft decision. The Energy Users' Association of Australia, *Submission - Victorian Gas Access Arrangement Proposal 2023-2028*, February 2023, pp. 2–3.

Paul and VCOSS. Discussion of our final decision capex and opex is contained in Attachments 5 and 6.[16]

4.4.2.4 Consultation by the distributors

The Victorian gas distributors have undertaken extensive consumer engagement including on the topic of accelerated depreciation for the future of gas. This has included customer workshops, stakeholder roundtables, retailer reference groups and deep dives. While some stakeholders still hold concerns on accelerated depreciation, we consider aspects of the distributors' process are consistent with some of the expectations listed in our *Regulating gas pipelines under uncertainty* information paper including to “actively and meaningfully engage with their customers on the range of available options” and “that good consultation will involve a range of scenarios being put to consumers with respect to demand forecasts, expenditure and any stranding mitigation measures, together with the price impacts of those scenarios”.[17]

In our draft decision, we noted that the Victorian gas distributors should further engage with their customers on the issue of accelerated depreciation, and where relevant discuss updates to their respective proposed accelerated depreciation amounts for other parameters such as WACC and inflation. Since then, AusNet undertook a survey with 800 customers to gather contemporary insights into customers' preferences for pricing over time and what issues customers consider when looking at an energy bill.

CCP28 noted the quick response of the networks to engage with customers and stakeholders between the draft decision and revised proposal. However, it raised concerns about the robustness of the conclusions of the engagement regarding the impact of accelerated depreciation on consumer bills. It also submitted that other stakeholders were not consulted on this and that many stakeholders do not support any accelerated depreciation for the 2023–28 period.[18]

4.4.3 Accelerated depreciation for reduced standard asset lives for mains and services

In our draft decision:

- for cathodic protection assets, we accepted AusNet's proposed reduced standard asset life of 50 years associated with its existing (post-1998) assets and new (2023–28 forecast capex) assets
- for mains and services pipelines, we did not accept AusNet's proposed reduced standard asset life of 50 years associated with its existing (post-1998) and new (2023–28 forecast capex) assets.

---

[16] Brotherhood of St Laurence, *2023-2028 Victorian gas distribution access arrangement, Draft decision and revised proposals*, February 2023, pp. 6–22. Victorian Community Organisations, Joint submission to 2023-28 Victorian Distribution Access arrangements, February 2023, p. 2.

[17] AER, *Information paper on regulating gas pipelines under uncertainty*, 15 November 2021, p. 47.

[18] Consumer Challenge Panel 28 (CCP28), *Advice to AER on AGN, AusNet and MGN Revised Proposals*, 24 February 2023, p. 11.

For the mains and services pipelines, AusNet's revised proposal adopted our draft decision approach for the existing (post-1998) assets. However, it did not adopt our draft decision approach for the new (2023–28 forecast capex) mains and services pipelines assets and instead proposed a 50-year standard asset life, consistent with its initial proposal.

AusNet submitted that reducing the standard asset life to 50 years from the original approved life of 60 years is a modest step to mitigate the future risk of the network stranding. It also referenced our 2021–26 final decision for Evoenergy gas distribution, where we accepted reduced standard asset lives for its pipeline assets because we considered these assets would have economic lives shorter than their technical lives.

Evoenergy proposed accelerated depreciation through reduced standard asset lives for its pipeline assets to depreciate forecast capex and it did not propose any accelerated depreciation for its existing assets. In contrast, AusNet's approach to accelerated depreciation was to target a total accelerated depreciation amount ($200 million ($2022–23)) based on its long-term future of gas modelling. In AusNet's revised proposal, most of the impact of the accelerated depreciation was for the depreciation of existing assets (i.e. those in the 1 July 2023 opening capital base) while the impact of its proposed reduced standard asset lives of 50 years for mains and services pipeline assets is relatively minor at about $2 million.[19] Under our final decision approach to limit overall accelerated depreciation in this access arrangement based on a real price path constraint, the standard asset life for these assets does not impact AusNet's 2023–28 overall depreciation or revenue. This is because the $2 million increase to straight-line depreciation of the forecast capex from the reduced standard life will be balanced by a corresponding $2 million reduction accelerated depreciation of the opening capital base. This is shown in Table 4.3.

AusNet also submitted that the proposed standard asset life of 50 years reflects the useful life of these assets on its network based on its engineering assessment that it submitted to us in September 2022 prior to the draft decision. In our draft decision, we noted this assessment but considered that there was insufficient evidence to justify a shortening of asset lives to 50 years. [20]

We therefore consider that maintaining the standard asset life at 60 years and increasing the accelerated depreciation of the opening capital base is an appropriate way to manage the stranding risk as it allows flexibility to assess future accelerated depreciation for the 2028–33 access arrangement.

---

19 In terms of the increase to straight-line depreciation for the 2023–28 period.

20 AER , *Draft decision, AusNet Gas Services Access Arrangement 2023–28, Attachment 4 – Regulatory Depreciation, December 2022*, pp. 17–19.

Table 4.3 Impact of reduced standard asset lives of 50 years for mains and services assets on accelerated depreciation and straight-line depreciation ($million, 2022–23)

	Total AD approved using price path constraint	AD of opening capital base	SL Dep: opening capital base	SL Dep: capex	SL Dep: total
AER final decision – maintains approved asset life of 60 years	105	105	462.4	59.1	521.5
Alternative – reduced asset life of 50 years	105	103	460.4	61.1	521.5

Note; 'AD' refers to accelerated depreciation, 'SL Dep' refers to straight-line depreciation.

4.4.4 Standard asset lives

For the final decision, we accept the majority of the standard asset lives in AusNet's revised proposal as they are consistent with those approved for the draft decision.[21] The exception was that AusNet proposed a reduced standard asset life of 50 years for mains and services pipelines. For the reasons discussed in section 4.4.3, we do not accept this reduced life for mains and services pipelines and instead maintain the existing 60 year standard asset life.

The standard asset life for the 'Equity raising costs' asset class needs to be reviewed each access arrangement period. We consider the standard asset life for this asset class should reflect the lives of the mix of assets making up the approved forecast net capex, because the equity raising cost benchmark is associated with that forecast.[22] AusNet's revised proposed PTRM used our standard approach to reflect the weighted average of the standard asset lives of all depreciable asset classes over the 2023–28 period, resulting in a proposed standard life of 36.1 years. For this final decision, our amendments to the standard asset lives for other asset classes mean we have determined an updated standard asset life of 41.9 years for the 'Equity raising costs' asset class.

Table 4.3 sets out our final decision on AusNet's standard asset lives for the 2023−28 period. We are satisfied the asset lives approved in this final decision will result in a depreciation schedule that reflects the depreciation criteria of the NGR.[23]

21 For this final decision, we have not assigned a standard asset life to the 'Cathodic protection' asset class since it has no forecast capex. This change is presentational and does not impact revenue. Consistent with our draft decision and AusNet's revised proposal, the forecast capex for these assets is allocated to the 'Cathodic protection - post 1998' asset class.

22 For this reason, we used forecast net capex as the weights to establish the weighted average standard asset life for amortising equity raising costs.

23 NGR, r. 89.

Table 4.3 AER's final decision on AusNet's standard asset lives for the 2023–28 period

Asset class	Standard asset life
Transmission pipelines	60.0
Distribution pipelines	60.0
Service pipes	60.0
Cathodic protection	n/a
Supply regulators/valve stations	50.0
Meters	15.0
SCADA and remote control	15.0
Other - IT	5.0
Other - non IT	5.0
Buildings	40.0
Land	n/a
Capitalised leases 1 July 2023	n/a
Cathodic protection - post 1998	50.0
Accelerated depreciation - long life assets	n/a
Accelerated depreciation - future of gas	n/a
Equity raising costs	41.9

Source: AER analysis.

n/a not applicable. We have not assigned a standard asset life to some asset classes because the assets allocated to them are not subject to depreciation or they have no forecast capex.

Glossary

Term	Definition
AER	Australian Energy Regulator
AGN	Australian Gas Networks (Victoria and Albury)
AusNet	AusNet Gas Services
Capex	capital expenditure
GSOO	Gas Statement of Opportunities
MGN	Multinet Gas Networks
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
Opex	operating expenditure
PTRM	post-tax revenue model
RFM	roll forward model
WACC	weighted average cost of capital