

# Final decision

ElectraNet transmission determination  
1 July 2023 to 30 June 2028

Attachment 4 – Regulatory depreciation

April 2023

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#### **Amendment record**

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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 ElectraNet, we make determinations on the indexation of the regulatory asset base (RAB) and depreciation building blocks for ElectraNet's 2023–28 regulatory control 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 ElectraNet'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 \$313.9 million (\$ nominal) for ElectraNet for the 2023–28 period. This amount represents an increase of \$86.1 million (or 37.8%) to the \$227.8 million (\$ nominal) in ElectraNet's revised proposal.<sup>2</sup> It is \$39.6 million (or 14.4%) higher than the regulatory depreciation amount determined in the draft decision. The reasons for the increase compared to our draft decision is due to a higher straight-line depreciation<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 ElectraNet's opening RAB as at 1 July 2023 (Attachment 2), forecast capital expenditure (capex) (section 2.4 of the Overview to this final decision) and asset lives. Our final decision straight-line depreciation for ElectraNet is \$13.9 million lower than its revised proposal. This is mainly due to the lower opening RAB as at 1 July 2023 and lower forecast capex determined in our final decision.<sup>5</sup>

The indexation on the RAB is impacted by our decision on ElectraNet's opening RAB (Attachment 2), forecast capex (section 2.4 of the Overview to this final decision) and the expected inflation rate (Attachment 3). Our final decision indexation on ElectraNet's forecast RAB is \$100.0 million lower than its revised proposal. This is largely due to applying a lower expected inflation rate of 2.92% per annum for this final decision compared with the 3.37% per annum that ElectraNet applied in its revised proposal. 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> NER, cll. 6A 5.4(a)(1) and (3).

<sup>2</sup> ElectraNet, *2023–28 Revised revenue proposal, Post-Tax Revenue Model*, December 2022.

<sup>3</sup> This due to a higher straight-line depreciation for existing assets resulting from a higher as-commissioned opening RAB as at 1 July 2023 compared to our draft decision.

<sup>4</sup> This is due to a lower expected inflation compared to the draft decision.

<sup>5</sup> Based on as-commissioned capex and opening RAB as at 1 July 2023.

In coming to this final decision on ElectraNet's straight-line depreciation, we accept the revised proposal on the following elements which are consistent with our draft decision:

- the straight-line method to calculate the regulatory depreciation as set out in our PTRM
- asset classes and standard asset lives (discussed in section 4.1.1)
- the continuation of applying the year-by-year tracking approach to implement straight-line depreciation of existing assets:
  - ElectraNet'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. 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.<sup>6</sup>
- the accelerated depreciation amount of \$18.7 million for early replaced assets.

Table 4.1 sets out our final decision on the forecast regulatory depreciation amount for ElectraNet over the 2023–28 period.

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

	2023–24	2024–25	2025–26	2026–27	2027–28	Total
Straight-line depreciation	161.3	179.0	182.7	196.7	189.7	909.4
Less: inflation indexation on opening RAB	112.5	116.1	119.4	122.4	125.0	595.5
<b>Regulatory depreciation</b>	<b>48.8</b>	<b>62.9</b>	<b>63.3</b>	<b>74.3</b>	<b>64.7</b>	<b>313.9</b>

Source: AER analysis.

### 4.1.1 Standard asset lives

Our draft decision accepted ElectraNet's proposed asset classes and standard asset lives, with the exception of the standard asset lives for the 'Right of use assets', 'Working capital depreciation' and 'Equity raising costs' asset classes.<sup>7</sup> ElectraNet's revised proposal adopted our draft decision asset lives for these asset classes.<sup>8</sup>

For this final decision, we accept ElectraNet's revised proposed standard asset lives in respect of the forecast capex for the 2023–28 period.

<sup>6</sup> Amendments include updates for actual 2022–23 CPI and rate of return inputs.

<sup>7</sup> AER, *Draft decision: ElectraNet transmission determination 2023 to 28, Attachment 4, Regulatory depreciation*, September 2022, pp. 9–11.

<sup>8</sup> ElectraNet, *2023–28 Revised revenue proposal*, December 2022, p. 6; ElectraNet, *2023–28 Revised revenue proposal, Post-Tax Revenue Model*, December 2022.

Table 4.2 sets out these standard asset lives for the 2023–28 period. We are satisfied that:<sup>9</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 ElectraNet.

**Table 4.2 AER’s final decision on ElectraNet’s standard asset lives at 1 July 2023 (years)**

Asset class	Standard asset life
Commercial buildings	30.0
Communications – civil	55.0
Communications – other	15.0
Computers, software, and office machines	4.0
Easement	n/a
Land	n/a
Network switching centres	5.0
Office furniture, movable plant, and misc	10.0
Substation primary plant	44.8
Substation demountable buildings	15.0
Substation establishment	55.0
Substation fences	35.0
Substation secondary systems – electromechanical	27.0
Substation secondary systems – electronic	15.0
Transmission lines – overhead	55.0
Transmission lines – underground	40.0
Accelerated depreciation	n/a
Transmission line refit – insulators replacement 2013–18	27.0
Communications – other (post 2018)	10.0
Transmission line refit – 2018–23	48.1
Synchronous condensers	40.0

<sup>9</sup> NER, cl. 6A.6.3(b)(1) and (2).

Asset class	Standard asset life
Transmission line refit – insulators replacement 2023–28	42.5
Right of use assets	4.8
Equity raising costs <sup>a</sup>	32.4

Source: AER analysis.

(a) For this final decision, the forecast capex determined for ElectraNet 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' and 'Easement' asset classes because these assets are not subject to depreciation. We have also not assigned a standard asset life to the 'Accelerated depreciation' as it does not contain forecast capex for the 2023–28 period as agreed by ElectraNet.<sup>10</sup>

## 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>

<sup>10</sup> ElectraNet, *Response to AER information request #031 – Energy delivered and standard asset life for accelerated depreciation*, 31 March 2023.

<sup>11</sup> AER, *Draft decision: ElectraNet transmission determination 2023 to 28, Attachment 4, Regulatory depreciation*, September 2022, pp. 3–7.

# Glossary

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

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