Final Decision

AusNet Services Transmission Determination 2022 to 2027
Attachment 2
Regulatory asset base

January 2022

AUSTRALIAN ENERGY REGULATOR

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Tel: 1300 585 165
Email: AERInquiry@aer.gov.au

AER reference: 65242

Note

This attachment forms part of the AER's final decision on AusNet Services' 2022–27 transmission determination. 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. The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision. In these circumstances, our draft decision reasons form part of this final decision.

The final decision includes the following attachments:

Overview

Attachment 1 – Maximum allowed revenue

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

Attachment 12 – Pricing methodology

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Contents

2 Regulatory asset base

Our revenue determination includes AusNet Services' opening regulatory asset base (RAB) value as at 1 April 2022 and the projected RAB value for the 2022–27 regulatory control period.[1] The value of the RAB substantially impacts AusNet Services' revenue requirement, and the price consumers ultimately pay. Other things being equal, a higher RAB would increase both the return on capital and return of capital (depreciation) components of the revenue determination.[2] This final decision sets out:

- the opening RAB as at 1 April 2022
- the forecast closing RAB as at 30 March 2027
- that depreciation based on forecast capital expenditure (capex) is to be used for establishing the RAB as at the commencement of the 2027–32 regulatory control period.[3]

2.1 Final decision

Opening RAB as at 1 April 2022

Our final decision is to determine an opening RAB value of $3575.1 million ($ nominal) as at 1 April 2022 for AusNet Services. This amount is $0.7 million (or less than 0.1%) lower than AusNet Services' revised proposed opening RAB of $3575.7 million ($ nominal) as at 1 April 2022.[4] It reflects our update to the roll forward model (RFM) for our amended inputs for the final year asset adjustments for capitalised leases, 'growth assets' and actual consumer price index (CPI) for 2021–22. This final decision is $29.2 million (or 0.8%) higher than our draft decision value for AusNet Services' opening RAB of $3545.9 million ($ nominal).[5]

To determine the opening RAB as at 1 April 2022, we have rolled forward the RAB over the 2017–22 regulatory control period to arrive at a closing RAB value at 31 March 2022 in accordance with our RFM. This roll forward includes an adjustment at the end of the 2017–22 regulatory control period to account for the difference between actual 2016–17 capex and the estimate approved in the 2017–22 determination.[6] All other adjustments are applied as part of the final year adjustments

1 NER, cl. 6A.14.1(5D).

2 The size of the RAB also impacts the benchmark debt raising cost allowance. However, this amount is usually relatively small and therefore not a significant determinant of revenues overall.

3 NER, cl. 6A.14.1(5E).

4 AusNet Services, *Revised regulatory proposal 2023–27*, September 2021, p. 111.

5 This is mainly driven by higher indexation of the RAB because the updated 2021–22 actual inflation (3.0%) used in the final decision RFM is higher than the inflation estimate (1.9%) used in the draft decision.

6 The end of period adjustment will be positive (negative) if actual capex is higher (lower) than the estimate approved at the 2017– 22 determination.

at 30 March 2022 to establish the opening RAB value at 1 April 2022.[7] The roll forward also includes an adjustment for new assets—labelled 'growth assets'—added to the opening RAB at 1 April 2022 and a true-up for the difference between actual and forecast 'growth assets' rolled in at the 2017–22 determination.[8] Expenditure on growth assets occurs throughout the regulatory control period, but this capex is not added to the RAB each year (as is usually the case). Instead, these assets are added to the RAB at the commencement of each regulatory control period.[9]

Table 2-1 sets out our final decision on the roll forward of AusNet Services' RAB for the 2017–22 period.

Table 2-1 AER's final decision on AusNet Services' RAB for the 2017–22 period ($ million, nominal)

	2017–18	2018–19	2019–20	2020–21	2021–22[a]
Opening RAB	3170.0	3188.1	3221.4	3249.2	3229.9
Capital expenditure[b]	131.0	147.6	156.5	144.3	137.8
Inflation indexation on opening RAB	58.0	60.1	53.9	22.5	97.3
Less: straight-line depreciation[c]	170.9	174.3	182.7	186.1	167.9
Interim closing RAB	3188.1	3221.4	3249.2	3229.9	3297.1
Difference between estimated and actual capex in 2016–17					–45.5
Return on difference for 2016–17 capex					–13.0
Final year asset adjustment (excluding growth assets)[d]					46.2
Growth assets adjustments[e]					290.2
Closing RAB as at 31 March 2022					**3575.1**

Source: AER analysis.

7 These end of period adjustments are applied at the end of the final year of the roll forward period which in this case is 31 March 2022. For AusNet Services this includes adjustment for capitalised leases, growth assets and reallocation for accelerated depreciation purposes associated with insulators and instrument transformer assets. Our final decision on the latter is set out in section 4.2 of attachment 4 of this final decision.

8 The growth assets are capital expenditure (capex) works done by AusNet Services during a regulatory control period as a result of requests from Australian Energy Market Operator (AEMO) or distribution network service providers. While the assets constructed due to these requests provide prescribed transmission services, the forecast capex associated with these assets sit outside of the revenue determination. This is because AusNet Services is not responsible for the planning of these expenditures. These growth assets sit outside of the RAB and are governed by commercial contracts until such time as they are rolled into the RAB at the subsequent revenue determination. That is, the residual value of the capex amounts are rolled into the RAB at the start of the next regulatory control period. AusNet Services has proposed and the AER has accepted the inclusion of growth assets into the RAB in previous regulatory control periods, which at the time the assets were labelled as 'group 3 assets'.

9 This adjustment may include estimated expenditure where actual expenditure is not yet known; so there is an additional true-up required at the next revenue determination.

(a) Based on estimated capex provided by AusNet Services. We will true-up the RAB for actual capex at the next reset.

(b) As-incurred, net of disposals, and adjusted for actual CPI and half-year WACC.

(c) Adjusted for actual CPI. Based on forecast as-commissioned capex.

(d) Includes final year asset adjustment of $48.1 million for the residual value of capitalised leases and –$1.9 million adjustment for revaluation of inventories.

(e) Roll-in of 'growth assets' at 1 April 2022, and true-up for difference between actual and estimated growth assets rolled in at the 2017–22 determination.

In the draft decision, we accepted AusNet Services' proposal to capitalise the value of its existing leases due to a change in the accounting reporting standard. We also accepted the roll-in of 'growth assets' into the opening RAB as at 1 April 2022. However, we amended the input values for these final year (end of period) adjustments associated with capitalised leases and growth assets.[10] We also updated the following inputs for the RFM resulting in a reduction to AusNet Services' proposed opening RAB as at 1 April 2022:[11]

- the forecast straight-line depreciation inputs for 2020–21 and 2021–22 to be consistent with the values calculated in our 2021–22 return on debt update and approved cost pass through in the 2017–22 post-tax revenue model (PTRM)
- the estimated inflation input for 2020–21 of 1.92% using the actual September 2020 CPI of 0.69% published by the Australian Bureau of Statistics (ABS)
- the 2021–22 weighted average cost of capital (WACC) input following the return on debt and cost pass through update for that year in the 2017–22 PTRM.

We noted the roll forward of AusNet Services' RAB included estimated capex for 2020–21 and 2021–22, and estimated inflation for 2021–22, because these actual values were not yet available.[12]

In its revised proposal, AusNet Services has adopted all of our draft decision changes.[13] In addition, it has updated 2020–21 estimated capex with actuals and

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10 We have also amended the proposed end of period reallocation for the 'Insulators' and the 'Instrument transformers' asset classes for accelerated depreciation purposes. This does not change the overall value of the opening RAB as at 1 April 2022 as the amendment only changes the allocation of the value of these assets between asset classes.

11 AER, *Draft decision: AusNet Services transmission determination 2022 to 2027, attachment 2 – Regulatory asset base*, June 2021, pp. 4–5.

12 AER, *Draft decision: AusNet Services transmission determination 2022 to 2027, attachment 2 – Regulatory asset base*, June 2021, pp. 15–16.

13 AusNet Services, *Revised regulatory proposal 2023–27,* September 2021, p. 109; AusNet Services, *Revised regulatory proposal 2023–27, RFM,* September 2021.

revised the 2021–22 capex estimate with latest figures.[14] AusNet Service has also updated the final year adjustments for capitalised leases and growth assets.[15]

We have checked the 2020–21 actual capex in the revised proposal and are satisfied it reconciles with the values presented in AusNet Services' annual regulatory accounts for that year. We accept AusNet Services' revision to the 2021–22 net capex estimate of $137.8 million ($ nominal) for this final decision.[16] This amount is $3.4 million higher than what we approved in our draft decision, reflecting more recent data. We note that the financial impact of any difference between actual and estimated capex for 2021–22 will be accounted for at the next reset.

Our final decision also updates the estimated inflation input for 2021–22 in the RFM with actual CPI of 3.01%. This value is based on the September 2021 CPI published by the ABS, which became available after AusNet Services submitted its revised proposal.

As part of its updates to the final year adjustment in the revised proposed RFM for:

- Capitalised leases – AusNet Services submitted that there should be a further amendment to include an additional return on capital component.[17] We do not consider this is necessary and engaged with AusNet Services on this issue. We explained that the roll-in of the capitalised leases at the end of the period means that these assets earn a return from 1 April 2022 onwards and therefore the proposed additional return component is not required. In its response, AusNet Services agreed with our position and provided a revised estimate for the value of the final year adjustment associated with the capitalised leases.[18] We are satisfied with AusNet Services' revision for the capitalised leases final year adjustment, which resulted in a $1.6 million ($ nominal) decrease to the opening RAB as at 1 April 2022.
- 'Growth assets' – AusNet Services submitted that the roll-in value of these assets is $6 million ($ nominal) lower than the draft decision due to updates for CPI, and revisions to contract values and in-service dates for certain completed projects.[19] For this final decision, we are satisfied with the revised proposed value for the final year adjustment associated with the growth assets after verifying this value against

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[14] AusNet Services, *Revised regulatory proposal 2023–27,* September 2021, p. 110; AusNet Services, *Revised regulatory proposal 2023–27, RFM,* September 2021.

[15] AusNet Services, *Revised regulatory proposal 2023–27,* September 2021, pp. 110, 112–113; AusNet Services, *Revised regulatory proposal 2023–27, RFM,* September 2021.

[16] This amount is on an as-incurred basis and includes a half-year WACC allowance to compensate for the six month period before capex is added to the RAB.

[17] AusNet Services, *Revised regulatory proposal 2023–27,* September 2021, p. 110.

[18] AusNet Services, *Follow up Response to AER Information Request #018*, 8 October 2021.
Other than removing the return on capital component, the revised estimate also corrected an error in the reported value of the capitalised lease for 2021–22. In combination, the two changes resulted in a $1.6 million reduction to the value of the final year adjustment for capitalised leases.

[19] AusNet Services, *Revised regulatory proposal 2023–27,* September 2021, pp. 112–113.

the project cost information provided by AusNet Services.[20] This approach is consistent with our draft decision where we noted that the method applied by AusNet Services to calculate the roll-in value of growth assets was the same as that approved in our previous determinations. We therefore accept that the revised proposed $291.5 million of growth assets is the appropriate amount to be rolled into the RAB as at 1 April 2022.[21]

We also consider the extent to which our roll forward of the RAB to 1 April 2022 contributes to the achievement of the capital expenditure incentive objective.[22] As discussed in the draft decision, the review period of past capex for this transmission determination will apply to 2015–20 capex.[23]

AusNet Services' actual capex incurred for 2015–16 to 2019–20 is below the forecast amount set at the previous transmission determinations. Therefore, the overspending requirement for an efficiency review of past capex has not been satisfied.[24] Given this, we consider the capex incurred in those years are consistent with the capital expenditure criteria and can therefore be included in the RAB.[25]

For this final decision, we have included AusNet Services' actual capex for 2020–21 and estimated capex for 2021–22 in the RAB roll forward to 1 April 2022. At the next reset, the actual capex for 2020–22 will form part of the review period for whether past capex should be excluded for inefficiency reasons.[26] Our RAB roll forward applies the incentive framework approved in the previous transmission determination, which included the use of a forecast depreciation approach in combination with the application of the capital expenditure sharing scheme (CESS).[27] As such, we consider that the 2017–22 RAB roll forward contributes to an opening RAB (as at 1 April 2022) that includes capex that reflects prudent and efficient costs, in accordance with the capital expenditure criteria.[28]

Forecast closing RAB as at 31 March 2027

Once we have determined the opening RAB as at 1 April 2022, we roll forward that RAB by adding forecast capex and inflation, and reducing the RAB by depreciation to

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20 AusNet Services, *Response to AER Information Request #018*, 17 September 2021.

21 Any difference between the estimated and the actual value of the growth asset rolled in for the 2022–27 regulatory control period will be trued-up at the next 2027–32 determination. This amount does not include the growth assets trued-up adjustment (–$1.3 million) for the difference between forecast and actuals approved in the 2017–22 determination.

22 NER, cll. 6A.14.2(b) and 6A.5A(a).

23 AER, D*raft decision: AusNet Services transmission determination 2022 to 2027, attachment 2 – Regulatory asset base*, June 2021, pp. 17–18.

24 NER, cl. S6A.2.2A(c).

25 NER, cl. S6A.2.2A(c).

26 Here, 'inefficiency' of past capex refers to three specific assessments (labelled the overspending, margin and capitalisation requirements) detailed in NER, cl. S6A.2.2A. The details of our ex-post assessment approach for capex are set out in AER, *Capital expenditure incentive guideline*, November 2013, pp. 12–20.

27 AER, *Final decision: AusNet Services transmission determination 2017–22*, attachment 2, April 2017, p. 14.

28 NER, cll. 6A.5A(a), 6A.6.7(c) and 6A.14.2(b).

arrive at a forecast closing value for the RAB as at the end of the 2022–27 regulatory control period.[29]

For this final decision, we determine a forecast closing RAB value at 31 March 2027 of $3983.1 million ($ nominal) for AusNet Services. This is $36.4 million (or 0.9%) higher than AusNet Services' revised proposal of $3946.7 million ($ nominal). Our final decision on the forecast closing RAB reflects the amended opening RAB as at 1 April 2022, and our final decisions on the expected inflation rate (Attachment 3), forecast depreciation (Attachment 4) and forecast capex (Attachment 5).[30]

Table 2-2 sets out our final decision on the forecast RAB for AusNet Services over the 2022–27 regulatory control period.

Table 2-2 AER's final decision on AusNet Services' RAB for the 2022–27 regulatory control period ($ million, nominal)

	2022–23	2023–24	2024–25	2025–26	2026–27
Opening RAB	3575.1	3630.7	3716.0	3834.8	3932.4
Capital expenditure[a]	151.8	167.2	209.9	198.6	160.3
Inflation indexation on opening RAB	87.6	89.0	91.0	94.0	96.3
Less: straight-line depreciation[b]	183.7	170.8	182.2	194.9	205.9
Closing RAB	**3630.7**	**3716.0**	**3834.8**	**3932.4**	**3983.1**

Source: AER analysis.

(a) As-incurred, and net of forecast disposals. In accordance with the timing assumptions of the PTRM, the capex includes a half-year WACC allowance to compensate for the six-month period before capex is added to the RAB for revenue modelling.

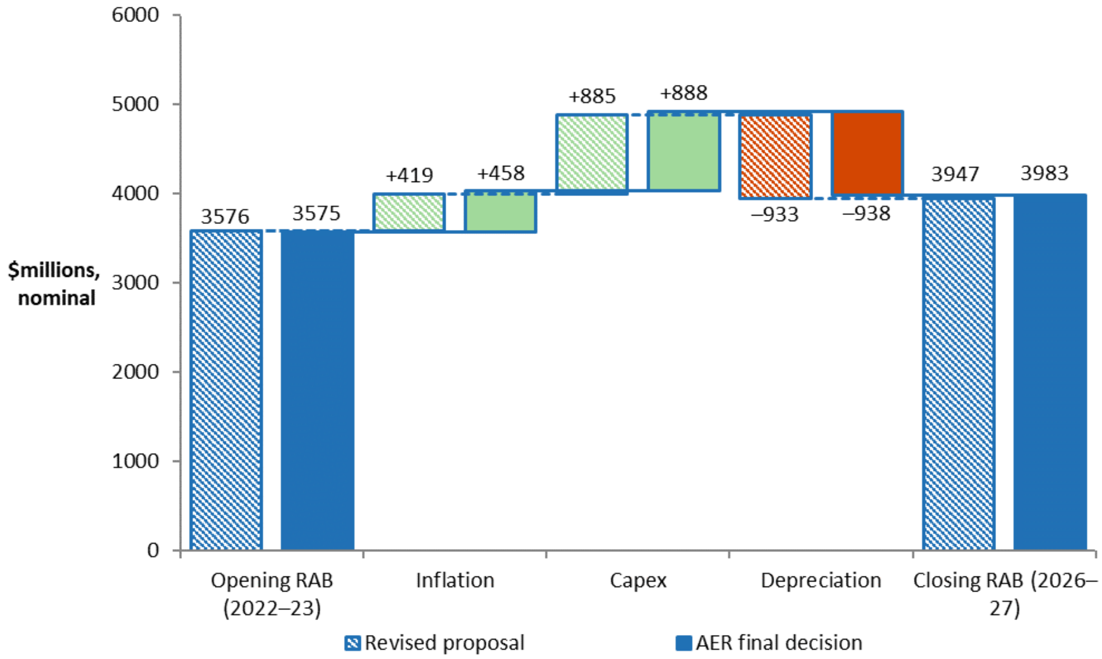
(b) Based on as-commissioned capex.

Figure 2-1 shows the key drivers of the change in AusNet Services' RAB over the 2022–27 regulatory control period for this final decision. Overall, the closing RAB at the end of the 2022–27 regulatory control period is forecast to be 11.4% higher than the opening RAB at the start of that period, in nominal terms. The approved forecast net capex increases the RAB by 25%, while expected inflation increases it by 13%. Forecast depreciation, on the other hand, reduces the RAB by 26%.

29 NER, cl. S6A.2.4.

30 Capex enters the RAB net of forecast disposals. It includes equity raising costs (where relevant) and the half-year WACC to account for the timing assumptions in the PTRM. Therefore, our final decision on the forecast RAB also reflects our amendments to the rate of return for the 2022–27 regulatory control period (attachment 3).

Figure 2-1 Key drivers of changes in the RAB—AusNet Services' revised proposal compared with AER's final decision ($ million, nominal)



Source: AER analysis.

Note: Capex is net of forecast disposals. It is inclusive of the half-year WACC to account for the timing assumptions in the PTRM.

Forecast net capex is a significant driver of the increase in the RAB. In our final decision, we accept AusNet Services' revised proposed forecast capex of $816.9 million ($2021–22)[31] for the 2022–27 regulatory control period as we are satisfied that it reasonably reflects the capex criteria.[32]

Application of depreciation approach in RAB roll forward for next reset

When we roll forward AusNet Services' RAB for the 2022–27 regulatory control period at the next reset, we must adjust for depreciation. For this final decision, we determine that the depreciation approach to be applied to establish AusNet Services’ opening RAB at the commencement of the 2027–32 regulatory control period will be based on the depreciation schedules (straight-line) using forecast capex at the asset class level approved for the 2022–27 regulatory control period.[33] This approach is consistent with

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[31] This amount is net of disposals, and excludes the half-year WACC adjustment. We note that AusNet Services’ revised proposal capex forecast, submitted on 1 September 2021, was $818.7 million. However, AusNet Services subsequently identified an error and revised its South West Communications Loop (South West Comms Loop) upgrade project capex down by $1.8 million. This reduced the proposed total capex forecast to $816.9 million. Our final decision is to accept the corrected amount.

[32] Please see section 5.3 of Attachment 5 of this final decision for the discussion on forecast capex.

[33] NER, cl. 6A.14.1(5E).

our draft decision. AusNet Services' revised proposal adopted our draft decision approach.[34]

As discussed in attachment 9, we will also apply the CESS to AusNet Services for the 2022–27 regulatory control period. We consider that the CESS will provide sufficient incentives for AusNet Services to achieve capex efficiency gains over that period. We are satisfied that the use of a forecast depreciation approach in combination with the application of the CESS and our other ex post capex measures are sufficient to achieve the capex incentive objective.[35] Further, this approach is consistent with our *Framework and approach*.[36]

2.2 Assessment approach

We did not change our assessment approach for the RAB from our draft decision. Attachment 2 (section 2.3) of our draft decision details that approach.[37]

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34 AusNet Services, *Revised regulatory proposal 2023–27*, September 2021, p. 115.

35 Our ex post capex measures are set out in the capex incentives guideline, AER, *Capital expenditure incentive guideline for electricity network service providers*, November 2013, pp. 13–19, 20–21. The guideline also sets out how all our capex incentive measures are consistent with the capex incentive objective.

36 AER, *Final framework and approach for AusNet Services 2022–27*, 24 April 2020, p. 20.

37 AER, *Draft decision: AusNet Services transmission determination 2022 to 2027, attachment 2 – Regulatory asset base*, June 2021, pp. 10–15.

Shortened forms

Shortened form	Extended form
ABS	Australian Bureau of Statistics
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
capex	capital expenditure
CESS	capital expenditure sharing scheme
CPI	consumer price index
NER	National Electricity Rules
PTRM	post-tax revenue model
RAB	regulatory asset base
RFM	roll forward model
WACC	weighted average cost of capital