

# Final Decision

## AusNet Services Transmission Determination 2022 to 2027 Attachment 4 Regulatory deprecation

January 2022

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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](mailto:AERInquiry@aer.gov.au)

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## 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

Attachment 13 – Pass through events

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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 AusNet Services, we make determinations on the indexation of the regulatory asset base (RAB) and depreciation building blocks for AusNet Services' 2022–27 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 AusNet Services' 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 \$479.7 million (\$ nominal) for AusNet Services for the 2022–27 regulatory control period. This amount represents a decrease of \$34.5 million (or 6.7%) to the \$514.3 million (\$ nominal) in AusNet Services' revised proposal.<sup>2</sup> It is \$80.5 million (or 14.4%) lower than the regulatory depreciation amount determined in the draft decision. The key reason for the decrease compared to our draft decision is the higher expected inflation rate that resulted from our updated calculation in the post-tax revenue model.

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 AusNet Services' opening RAB as at 1 April 2022 (Attachment 2), forecast capital expenditure (capex) (Attachment 5) and asset lives. Our final decision straight-line depreciation for AusNet Services is \$4.2 million higher than its revised proposal. This is mainly due to the higher forecast capex in our final decision.

The indexation on the RAB is impacted by our decision on AusNet Services' opening RAB (Attachment 2), forecast capex (Attachment 5) and the expected inflation rate (Attachment 3). Our final decision indexation on AusNet Services' forecast RAB is \$38.8 million higher than its revised proposal. This is largely because we decided on an expected inflation rate of 2.45% per annum for this final decision compared with the inflation rate of 2.25% per annum that AusNet Services included in its revised proposal. The higher indexation has more than offset the small increase in straight-line depreciation (since indexation is deducted from the straight-line depreciation), which has resulted in a lower regulatory depreciation amount compared to the revised proposal.

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<sup>1</sup> NER, cl. 6A 5.4(a)(1) and (3).

<sup>2</sup> AusNet Services, *Revised Proposal Post Tax Revenue Model*, 1 September 2021.

In coming to this final decision on AusNet Services' straight-line depreciation:

- We accept AusNet Services' revised proposed straight-line method to calculate the regulatory depreciation, which is consistent with our draft decision.
- We accept AusNet Services' revised proposal to continue with the year-by-year tracking approach to implement straight-line depreciation of existing assets, consistent with our draft decision. However, we have updated the inputs in the depreciation module for 2020–21 capitalised leases capex and 2021–22 actual inflation.
- We accept AusNet Services' revised proposed asset classes and standard asset lives for its forecast capex, including the accelerated depreciation treatment of polymeric insulators and instrument transformers. These are consistent with our draft decision.

Table 4.1 sets out our final decision on the forecast regulatory depreciation amount for AusNet Services over the 2022–27 regulatory control period.

**Table 4.1 AER's final decision on AusNet Services' regulatory depreciation for the 2022–27 regulatory control period (\$million, nominal)**

	2022–23	2023–24	2024–25	2025–26	2026–27	Total
Straight-line depreciation	183.7	170.8	182.2	194.9	205.9	937.6
Less: inflation indexation on opening RAB	87.6	89.0	91.0	94.0	96.3	457.9
<b>Regulatory depreciation</b>	<b>96.1</b>	<b>81.9</b>	<b>91.1</b>	<b>101.0</b>	<b>109.6</b>	<b>479.7</b>

Source: AER analysis.

### Accelerated depreciation

For this final decision, we accept AusNet Services' revised proposal on accelerated depreciation of its insulators and instrument transformers. This is consistent with our draft decision.

AusNet Services' revised proposal adopted our draft decision in relation to the accelerated depreciation treatment of insulators and instrument transformers.<sup>3</sup> In the draft decision, we accepted that decommissioned assets (comprising insulators and instrument transformers) will be depreciated on an accelerated basis over the 2022–27 regulatory control period. We also allowed for new polymeric insulators to be separately identified in a new asset class going forward and depreciated at a relatively shorter standard asset life than the towers and conductors asset class to which they had previously related. However, we did not accept the future treatment of assigning a shorter asset life for instrument transformers. We therefore required instrument

<sup>3</sup> AusNet Services, *Revised revenue proposal 2023–2027*, 1 September 2021, p.116.

transformers to remain allocated to the existing switchgear asset class and depreciated over 45 years.

### Standard asset lives

For this final decision, we accept AusNet Services' revised proposed standard asset lives in respect of the forecast capex for the 2022–27 regulatory control period and the accelerated depreciation treatment of insulators and instrument transformers as discussed above. They are consistent with our draft decision.

Table 4.2 sets out these standard asset lives for the 2022–27 regulatory control period. We are satisfied that:<sup>4</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 AusNet Services.

**Table 4.2 AER's final decision on AusNet Services' standard asset lives at 1 April 2022 (years)**

Asset class	Standard asset life
Secondary	15.0
Switchgear	45.0
Transformers	45.0
Reactive	40.0
Towers and conductor	60.0
Establishment	45.0
Communications	15.0
Inventory	n/a
IT	5.0
Vehicles	7.0
Other (non-network)	10.0
Premises	10.0
Land	n/a
Easements	n/a

<sup>4</sup> NER, cl. 6A.6.3(b)(1) and (2).

Asset class	Standard asset life
Polymeric insulators	35.0
Lease L&B 2022–23	25.0
Lease L&B 2023–24	19.0
Lease L&B 2025–26	31.8
Lease L&B 2026–27	15.4
Buildings	40.0
In-house software	5.0

Source: AER analysis.

n/a: Not applicable. We have not assigned a standard life to the 'Land' and 'Easement' asset classes because those assets are not subject to depreciation.

Note: A small negative balance in an asset class labelled 'Inventory adjustment (Other non-network)' will be returned to customers in the first year of the 2022–27 regulatory control period.

## 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>5</sup>

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<sup>5</sup> AER, *Draft decision, AusNet Services transmission 2022–27, Attachment 4, Regulatory depreciation*, 30 June 2021, pp.6–9.



## Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
capex	capital expenditure
NER	National Electricity Rules
RAB	regulatory asset base
RFM	roll forward model

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