# FINAL DECISION
# Powercor distribution determination
# 2016 to 2020

# Attachment 5 – Regulatory depreciation

May 2016

AUSTRALIAN ENERGY REGULATOR

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# Note

This attachment forms part of the AER's final decision on Powercor's distribution determination for 2016–20. It should be read with all other parts of the final decision.

The final decision includes the following documents:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Value of imputation credits

Attachment 5 – Regulatory depreciation

Attachment 6 – Capital expenditure

Attachment 7 – Operating expenditure

Attachment 8 – Corporate income tax

Attachment 9 – Efficiency benefit sharing scheme

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Attachment 17 – Negotiated services framework and criteria

Attachment 18 – f-factor scheme

# Contents

# Shortened forms

| Shortened form | Extended form |
|---|---|
| AEMC | Australian Energy Market Commission |
| AEMO | Australian Energy Market Operator |
| AER | Australian Energy Regulator |
| AMI | Advanced metering infrastructure |
| augex | augmentation expenditure |
| capex | capital expenditure |
| CCP | Consumer Challenge Panel |
| CESS | capital expenditure sharing scheme |
| CPI | consumer price index |
| DRP | debt risk premium |
| DMIA | demand management innovation allowance |
| DMIS | demand management incentive scheme |
| distributor | distribution network service provider |
| DUoS | distribution use of system |
| EBSS | efficiency benefit sharing scheme |
| ERP | equity risk premium |
| Expenditure Assessment Guideline | Expenditure Forecast Assessment Guideline for Electricity Distribution |
| F&A | framework and approach |
| MRP | market risk premium |
| NEL | national electricity law |
| NEM | national electricity market |
| NEO | national electricity objective |
| NER | national electricity rules |
| NSP | network service provider |
| opex | operating expenditure |
| PPI | partial performance indicators |
| PTRM | post-tax revenue model |
| RAB | regulatory asset base |
| RBA | Reserve Bank of Australia |
| repex | replacement expenditure |

| Shortened form | Extended form |
|---|---|
| RFM | roll forward model |
| RIN | regulatory information notice |
| RPP | revenue and pricing principles |
| SAIDI | system average interruption duration index |
| SAIFI | system average interruption frequency index |
| SLCAPM | Sharpe-Lintner capital asset pricing model |
| STPIS | service target performance incentive scheme |
| WACC | weighted average cost of capital |

# 5 Regulatory depreciation

Depreciation is the allowance 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 Powercor, we make determinations on the indexation of the regulatory asset base (RAB) and depreciation building blocks for Powercor's 2016–20 regulatory control period.[1] The regulatory depreciation allowance is the net total of the straight-line depreciation (negative) and the indexation (positive) of the RAB.

This attachment sets out our final decision on Powercor's regulatory depreciation allowance. It also presents our final decision on the revised proposed depreciation schedules, including an assessment of the revised proposed standard asset lives for depreciating forecast capex and the revised proposed depreciation approach for existing assets.

## 5.1 Final decision

We do not accept Powercor's revised proposal regulatory depreciation allowance of $526.9 million ($ nominal) for the 2016–20 regulatory control period.[2] Instead, we determine a regulatory depreciation allowance of $558.7 million ($ nominal). This amount represents an increase of $31.8 million (or 6.0 per cent) on Powercor's revised proposed amount. In coming to this decision:

- We accept Powercor's revised proposed asset classes, its straight-line depreciation method, and the standard asset lives used to calculate the regulatory depreciation allowance (section 5.4.1).
- We accept Powercor's revised proposal approach to depreciation associated with existing assets. The revised proposed approach is consistent with the preliminary decision (section 5.4.2).
- We made determinations on other components of Powercor's revised proposal which affect the forecast regulatory depreciation allowance—for example, the opening RAB at 1 January 2016 (attachment 2), expected inflation (attachment 3), and forecast capex (attachment 6).[3]

Table 5.1 sets out our final decision on the annual regulatory depreciation allowance for Powercor's 2016–20 regulatory control period.

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1 NER, cll. 6.12.1, 6.4.3.

2 To accurately reflect the depreciation proposed by Powercor, the revised proposal depreciation amounts presented in this attachment are calculated using the rate of return from the revised proposal. These amounts are different from the amounts set out on page 246 of Powercor's revised proposal which are calculated using the rate of return from our preliminary decision. See Powercor, *Revised regulatory proposal*, 6 January 2016, pp. 10, 246 and attachment 1.10 (*PAL PUBLIC RRP MOD 1.10 PAL 2016-20 PTRM.xlsm*) and Powercor, *Letter re: Impact of rate of return on allowed revenues*, 20 January 2016.

3 NER, cl. 6.5.5(a)(1).

**Table 5.1 AER's final decision on Powercor's depreciation allowance for the 2016–20 regulatory control period ($ million, nominal)**

| | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|---|---|
| Straight-line depreciation | 187.2 | 181.9 | 196.9 | 212.4 | 222.0 | 1000.5 |
| *Less:* inflation indexation on opening RAB | 76.8 | 82.7 | 88.7 | 94.1 | 99.5 | 441.8 |
| **Regulatory depreciation** | **110.4** | **99.3** | **108.2** | **118.4** | **122.5** | **558.7** |

Source: AER analysis.

## 5.2 Powercor's revised proposal

Powercor's revised proposal for the 2016–20 regulatory control period forecasts a total regulatory depreciation allowance of $526.9 million ($ nominal).[4] Powercor adopted the methodology approved in the preliminary decision for depreciating existing assets. To calculate the depreciation allowance, Powercor's revised proposal used:

- the straight-line depreciation method, consistent with that employed in our post-tax revenue model (PTRM)
- a revised closing RAB value at 31 December 2015 derived from the revised proposal roll forward model (RFM)
- the 'year-by-year' tracking approach approved in the preliminary decision to calculate the depreciation on the opening RAB. Under this approach:
    - assets in existence at 1 January 2011 are depreciated by asset class using straight-line depreciation with the remaining lives determined in the 2010 final decision; and
    - capex in each year of the 2011 to 2015 period is grouped by asset class and separately depreciated over their standard lives as approved in the 2010 final decision.
- standard asset lives approved in the preliminary decision for depreciating new assets associated with forecast capex for the 2016–20 regulatory control period, except for the 'VBRC' asset class[5]
- the expected inflation rate as approved in the preliminary decision

[4] To accurately reflect the depreciation proposed by Powercor, the revised proposal depreciation amounts presented in this attachment are calculated using the rate of return from the revised proposal. These amounts are different from the amounts set out on page 246 of Powercor's revised proposal which are calculated using the rate of return from our preliminary decision. See Powercor, *Revised regulatory proposal*, 6 January 2016, pp. 10, 246 and attachment 1.10 (*PAL PUBLIC RRP MOD 1.10 PAL 2016-20 PTRM.xlsm*) and Powercor, *Letter re: Impact of rate of return on allowed revenues*, 20 January 2016.

[5] VBRC is the short form for Victorian bushfire royal commission.

- the revised proposed forecast capex for the 2016–20 regulatory control period, including some reallocation of VBRC assets to other asset classes.

Table 5.2 sets out Powercor's revised proposed depreciation allowance for the 2016–20 regulatory control period.

**Table 5.2 Powercor's revised proposed depreciation allowance for the 2016–20 regulatory control period ($ million, nominal)**

| | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|---|---|
| Straight-line depreciation | 186.9 | 183.1 | 200.1 | 218.3 | 230.0 | 1018.4 |
| *Less:* inflation indexation on opening RAB | 83.9 | 90.9 | 98.4 | 105.6 | 112.6 | 491.5 |
| **Regulatory depreciation** | **102.9** | **92.2** | **101.7** | **112.7** | **117.4** | **526.9** |

Source: To accurately reflect the depreciation proposed by Powercor, the revised proposal regulatory depreciation amount presented in the table are calculated using the rate of return from the revised proposal. These amounts are different from the amounts set out on page 246 of Powercor's revised proposal which are calculated using the rate of return from the preliminary decision.
Powercor, *Revised regulatory proposal*, 6 January 2016, pp. 10 and 246 and attachment 1.10 (*PAL PUBLIC RRP MOD 1.10 PAL 2016-20 PTRM.xlsm*).
Powercor, *Letter re: Impact of rate of return on allowed revenues*, 20 January 2016.

## 5.3 Assessment approach

We have not changed our assessment approach for the regulatory depreciation allowance from our preliminary decision. Section 5.3 of our preliminary decision details that approach.[6]

## 5.4 Reasons for final decision

We determine a regulatory depreciation allowance of $558.7 million ($ nominal) for Powercor over the 2016–20 regulatory control period. In determining this allowance, we accept Powercor's revised proposed standard asset lives and its use of the year-by-year tracking approach to determine its straight-line depreciation of assets.

However, we increased Powercor's revised proposed regulatory depreciation allowance by $31.8 million (or 6.0 per cent). This amendment reflects our determinations regarding other components of Powercor's revised proposal—for example, the opening RAB at 1 January 2016 (attachment 2), expected inflation

[6] AER, *Preliminary decision – Powercor determination 2016 to 2020*, *Attachment 5 – Regulatory depreciation*, October 2015, pp. 8–10.

(attachment 3),[7] and forecast capex (attachment 6)[8]—affecting the forecast regulatory depreciation allowance.

### 5.4.1 Standard asset lives

Consistent with our preliminary decision, we accept Powercor's proposed standard asset lives for its existing asset classes.[9] We are satisfied these proposed standard asset lives reflect the nature of the assets and their economic lives.[10] These lives are consistent with the approved standard asset lives for the 2011–15 regulatory control period. Consistent with our preliminary decision, we accept Powercor's revised proposal for the 'Land' asset class to not be assigned a standard asset life as land assets do not depreciate. We also accept Powercor's revised proposal to assign a standard asset life of 25.6 years to the 'VBRC' asset class.[11]

The Victorian Bushfire Royal Commission (VBRC) was established to investigate the causes and impact of the major bushfires in Victoria in 2009. The VBRC made a number of recommendations on bushfire mitigation initiatives related to the state's electricity distribution infrastructure.[12] The 'VBRC' asset class already contains capex arising from these VBRC recommendations, incurred during the 2011–15 regulatory control period.[13] The standard asset life set in this decision will apply to new VBRC-related capex for the 2016–20 regulatory control period.[14]

In our preliminary decision, we did not accept Powercor's proposed standard asset life for the 'VBRC' asset class of 26.5 years and instead determined the standard asset life for that class to be 51 years.[15] This is equivalent to the standard asset life of the 'Distribution system assets' class. We considered that:

- The assets in both classes are broadly equivalent.

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7 Our final decision approves a lower expected inflation rate compared to Powercor's revised proposal. This results in a smaller inflation on opening RAB component being removed from straight-line depreciation, and therefore higher regulatory depreciation over the 2016–20 regulatory control period, all things being equal.

8 Our final decision approves a lower forecast capex allowance compared to Powercor's revised proposal. This means lower regulatory depreciation for the assets forecast to be added to the RAB over the 2016–20 regulatory control period, all things being equal.

9 Powercor, *Revised regulatory proposal*, 6 January 2016, p. 245.

10 As such, these standard asset lives contribute to depreciation schedules that meet clause 6.5.5(b)(1) of the NER.

11 Powercor, *Revised regulatory proposal*, 6 January 2016, p. 243.

12 There are several steps in this process. Powercor details its plans for bushfire risk mitigation in its Electricity Safety Management Scheme (ESMS), which also includes a specific Bushfire Management Plan (BMP). Powercor must submit the ESMS and BMP to Energy Safe Victoria (ESV), which is the independent technical regulator created by the Victorian Government under the Energy Safe Victoria Act 2005. The ESV assesses Powercor's ESMS and BMP with regard to the VBRC recommendations, in accordance with the Electricity Safety Act 1998. Once approved, the ESV also monitors Powercor's ongoing adherence to those plans.

13 The opening value of Powercor's 'VBRC' asset class was $103.2 million ($ nominal) as at 1 January 2016.

14 As noted in our preliminary decision, we do not consider that we can retrospectively alter the standard asset life applied to the 'VBRC' asset class prior to 2016. AER, *Preliminary decision – Powercor determination 2016 to 2020*, *Attachment 5 – Regulatory depreciation,* October 2015, pp. 12, 17.

15 AER, *Preliminary decision – Powercor determination 2016 to 2020*, *Attachment 5 – Regulatory depreciation*, October 2015, pp. 8–10.

- Had the assets been installed in the normal course of managing the network, they would have been assigned to the ‘Distribution system assets’ class with a standard asset life of 51 years.
- There may be instances where new assets will not reach their usual standard asset life, and instead will be limited to the remaining asset life of older assets they are co-located with. However, consistent with our position in earlier regulatory decisions, we expect these to be the exception and to be supported by detailed justification on a case-by-case basis. Powercor had not provided any such evidence.

Powercor's revised proposal partially adopted our preliminary decision on the standard asset life for the 'VBRC' asset class. Powercor divided the assets into two groups,[16] reallocating approximately 55 per cent of the preliminary decision VBRC-related capex to the 'Distribution system assets' class.[17] Powercor considered that these components of VBRC capex would not have reduced lives but would be consistent with the standard asset life of 51 years for that class.

The remaining 45 per cent of VBRC capex was associated with assets such as armour rods, vibration dampers and spacers.[18] Powercor's revised proposal kept these assets in the 'VBRC' asset class and assigned them a standard asset life of 25.6 years.[19] This was the standard asset life set for the 'VBRC' asset class when it was first established in our 2012 decision on a pass through application by Powercor.[20] At the time of the 2012 pass through decision, 25.6 years was the weighted average remaining life of all assets in Powercor's 'Distribution system assets' class.[21]

We have reviewed the material put forward and are satisfied with Powercor's revised approach.[22] The capex now allocated to the 'VBRC' asset class will include only the component assets fitted to larger main assets such as existing power lines and poles.

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16 There was a third group, SCADA associated with REFCLs, which was moved to the 'SCADA/Network control' asset class with a standard asset life of 13 years. However, the value of these assets was immaterial (less than 0.1 per cent of the 'VBRC' asset class in the preliminary decision).

17 The reallocation described here relates only to VBRC-related capex proposed for the 2016–20 regulatory control period. It does not imply reallocation of past VBRC-related capex already in the RAB, or changes to the remaining life of these assets. However, later in this chapter we discuss Powercor's proposal to accelerate the depreciation of 'Old SWER ACRs', which are assets currently in the 'Distribution system assets' class that will be replaced in response to VBRC recommendations.

18 These assets align with the existing assets included in the 'VBRC' asset class. Powercor, *Pass through application: Response to 2009 Victorian Bushfire Royal Commission as included in revised ESMS of 10 August 2011*, 12 December 2011, p. 4.

19 Powercor, *Revised regulatory proposal*, 6 January 2016, p. 243.

20 AER, *Final decision, Powercor cost pass through application of 13 December 2011 for costs arising from the Victorian Bushfire Royal Commission*, 7 March 2012.

21 Powercor, *Pass through application: Response to 2009 Victorian Bushfire Royal Commission as included in revised ESMS of 10 August 2011*, 12 December 2011, p. 4.

22 This includes further material submitted by Powercor in response to our request for detailed justification of the VBRC standard asset lives. See Powercor, *Response to AER information request Powercor #035, VBRC asset reallocation and standard lives* [email to AER], 9 February 2016.

The newer component assets will be replaced at the same time as these main assets are replaced, and this will limit their economic life. The proposed standard asset life, 25.6 years, is a reasonable proxy for the remaining life of these older, existing assets.[23]

Our decision to accept this approach—assigning new assets the remaining life of older assets they are co-located with—reflects the specific circumstances of capex arising from the VBRC recommendations. Consistent with our preliminary decision, we required detailed justification from Powercor before allowing this exception to our general practice.

We received one submission from the CCP on the preliminary decision, raising concerns about the variation in standard asset lives applied to similar asset classes across the Victorian service providers. The CCP submitted the variation is greater than that needed to reflect the specific nature of each network.[24] It also noted that there are elements of the assets that are not impacted by any different environments—such as office costs, IT, SCADA and vehicles—and therefore are not exposed to different standard asset lives.

We agree that the same assets types should have the same standard asset life applied barring any environmental factors that may impact on the useful life of the asset. However, each asset class used in the PTRM is not for a single asset type, but covers a group of assets. For example, the 'Distribution system assets' asset class may include assets such as concrete, wooden, and steel poles, surge diverters and zone substation batteries. Likewise, the 'Non-network general asset – IT' asset class may encompass short lived standard IT assets (e.g. office computers and general word processing software), as well as more specialised IT assets (e.g. data servers and storage system). We consider it is reasonable that these assets may have different useful lives. The standard asset life of each asset class should represent the average standard asset life of the capex allocated to that asset class. As the overall make-up of assets entering a certain asset class may differ by business, we consider it reasonable for there to be variation in the average standard asset life applied across businesses. For this reason, we note that this is particularly the case for broader asset classes such as 'Non-network general assets – other' which the CCP submitted has significant variation in standard asset life across Victorian service providers.[25]

We also note that Powercor's proposed standard asset lives for its existing asset classes have not changed from those determined in previous regulatory control

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[23] Powercor initially proposed a standard asset life of 26.5 years because it was the proposed weighted average remaining asset life for its 'Distribution system assets' class as at the beginning of the regulatory period (1 January 2016). However, the change to year-by-year tracking means that weighted average remaining lives are no longer explicitly calculated. Further, it is desirable to preserve consistency with capex already added to the 'VBRC' asset class as a result of the 2012 Powercor pass through decision.

[24] CCP3, *Response to AER Preliminary Decisions made by the AER in response to proposals from Victorian electricity distribution network service providers for a revenue reset for the 2016–2020 regulatory period*, 25 February 2016, pp. 68–70.

[25] The 'Non-network general assets – other' asset class may include any non-network assets that do not fit in the IT category. This may include vehicles (heavy or light), furniture, general office equipment, as well as property assets.

periods. We are satisfied that the standard asset lives reflect the nature of the assets over the economic lives of the asset classes.[26]

Table 5.3 sets out our final decision on Powercor's standard asset lives for the 2016–20 regulatory control period.

### Table 5.3 AER's final decision on Powercor's standard asset lives at 1 January 2016 (years)

| Asset class | Standard asset life |
|---|---|
| Subtransmission | 50.0 |
| Distribution system assets | 51.0 |
| Standard metering | n/a[a] |
| Public lighting | n/a[a] |
| SCADA/Network control | 13.0 |
| Non-network general assets - IT | 6.0 |
| Non-network general assets - other | 15.0 |
| VBRC | 25.6 |
| Supervisory cables | n/a[a] |
| Old SWER ACRs | n/a[a] |
| Land | n/a |
| Equity raising costs | 42.8 |

Source: AER analysis.
n/a: not applicable.
(a) This asset class is no longer used as no further capex in this category is being added over the 2016–20 regulatory control period.

## 5.4.2 Remaining asset lives

We accept Powercor's revised proposal to use the year-by-year tracking approach to determine depreciation on the opening RAB as at 1 January 2016. This approach is consistent with our preliminary decision.

Our preliminary decision used the year-by-year tracking approach to determine depreciation of existing assets in place of remaining asset lives calculated using an average depreciation approach initially proposed by Powercor. The year-by-year

[26] NER, cl. 6.5.5(b)(1).

tracking approach is also consistent with Powercor's consultant report submitted subsequent to its initial proposal.[27] Under this approach:

- assets in existence at 1 January 2011 are depreciated by asset class using straight-line depreciation with the remaining lives determined in the 2010 final decision; and
- capex in each year of the 2011 to 2015 period is grouped by asset classes and separately depreciated over their standard lives as approved in the 2010 final decision.

Each asset class will have an expanding list of sub-classes to reflect every regulatory year in which capital expenditure on those assets was incurred.[28] This extra data helps track remaining asset values, lives and associated depreciation. The year-by-year tracking approach is more disaggregated, compared with other approaches, and involves multiple depreciation calculations within each asset class, separately tracking capex by the regulatory year it was incurred. For this reason, it does not combine capex incurred during 2011 to 2015 with existing assets in 2011, and so does not require average remaining asset lives to be estimated at 1 January 2016.

We consider that this approach meets the requirements of the NER in that it produces depreciation schedules that align with the economic life of the assets.[29] However, we maintain our preference for the weighted average remaining life (WARL) approach to determining remaining asset lives. We consider the use of WARL also meets the requirements of the NER and avoids the additional complexity inherent in year-by-year tracking, which brings with it additional administration costs and increased risk of error.[30] It also promotes smoother revenues where revenues depend less on when individual capex occurs.

We noted in the preliminary decision that we made some modifications to calculating the WARL to account for the use of forecast depreciation in our revised transmission RFM template.[31] Powercor may have interpreted this comment to imply we will require the use of WARL and some other form of depreciation to roll forward Powercor's RAB in the future. This is not the case. The depreciation used to roll forward the RAB over the 2016–20 regulatory control period will be the forecast real straight-line depreciation approved in this determination,[32] and where the analysis is presented in nominal terms we would apply actual inflation. This is consistent with the approach Powercor

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27 Incenta, *Calculation of depreciation – review of the AER's approximate calculation: CitiPower, Powercor and Jemena Electricity Networks*, July 2015.

28 Powercor prepared a model ('PAL PUBLIC RRP MOD 1.11 PAL 2016-20 Depreciation.xlsx') where the separate calculations of depreciation occur. The output from this model is used as an input to the PTRM depreciation calculations.

29 NER, cl. 6.5.5(b)(1).

30 AER, *Preliminary decision – Powercor determination 2016 to 2020, Attachment 5 – Regulatory depreciation*, October 2015, pp. 16–17.

31 AER, *Preliminary decision – Powercor determination 2016 to 2020, Attachment 5 – Regulatory depreciation*, October 2015, p. 20.

32 That is, the forecast depreciation amounts set out in the final decision PTRM.

described in its revised proposal for how the RAB would be rolled forward for the commencement of the 2021–25 regulatory control period.[33]

In its submission to the preliminary decision, the CCP raised concerns about the increased depreciation resulting from the move to a year-by-year tracking approach. The CCP submitted that this is due to the year-by-year tracking approach being 'backdated' to 2011 and reflects the under-recovery of depreciation over the 2011–15 regulatory control period where depreciation was based on a different approach. It recommended that the change to year-by-year tracking should only be implemented for future capex.

We are satisfied that beginning the year-by-year tracking of depreciation from 2011 is a continuation of the approach applied in the PTRM to forecast depreciation at the 2010 determination. Therefore, we do not consider it results in an under-recovery in depreciation over that period which will be recovered from future customers. At the 2010 determination, the depreciation allowance was calculated using remaining asset lives at 1 January 2011 to depreciate the opening RAB, and standard asset lives to depreciate forecast capex over the 2011–15 regulatory control period. This is the standard approach to calculating depreciation. The year-by-year tracking approach uses the remaining and standard asset lives determined at the 2010 determination to calculate depreciation over the 2011–15 regulatory control period, but updates for actual capex—as is done in the RFM—and continues the tracking into the 2016–20 regulatory control period.[34]

The advantage of the year-by-year tracking approach is that it preserves the annual capex information over multiple regulatory control periods rather than combining it together with existing assets at each reset for depreciation purposes. This means that estimating the average remaining life of the combined assets is not required at each reset. This is because the asset lives determined in previous decisions are maintained and applied to the relevant year of capex. The only determination is on the standard asset lives to apply to forecast capex for subsequent regulatory control periods.

In the preliminary decision for Powercor we rejected its proposal to use the average depreciation approach to determine remaining asset lives. In the short run, year-by-year tracking will lead to a depreciation allowance that is roughly comparable in aggregate to that initially proposed by Powercor. In the long run, however, the depreciation allowance will be lower under the year-by-year tracking approach. The average depreciation approach would have locked in relatively lower remaining asset lives for all existing (pre 2011) and new assets (capex 2011–15).[35] The year-by-year tracking approach will result in new assets (capex from 2011 onwards) being

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[33] Powercor, *Revised regulatory proposal*, January 2016, p. 244 *and PAL PUBLIC RRP MOD 1.12 PAL 2016-20 illustration of RAB roll forward.xlsx*.

[34] Our expectation is that once the year-by-year tracking approach is adopted, it will need to be maintained into the future to prevent any further issues associated with switching depreciation approaches.

[35] There is also a ratcheting effect at each reset where the opening RAB and capex are combined and depreciated using a single remaining life at each reset.

depreciated over their standard asset lives without adjustment. The assets in existence in 2011 will be depreciated by the remaining asset life approved in the last determination. Each year the accuracy of the remaining asset lives in total will improve under year-by-year tracking as the assets acquired prior to 2011 make up a smaller proportion of the RAB. Delaying the start of year-by-year tracking delays the benefits of such an approach being realised and does not reduce the amount of depreciation recovered in the short run if the depreciation is still calculated using the average depreciation approach as Powercor initially proposed.

Powercor's revised proposal also noted our acceptance of its approach to accelerating the depreciation of two specific types of assets.[36] Consistent with the preliminary decision, the residual value of the existing assets will be transferred from the existing 'Distribution system assets' class to new dedicated asset classes:

- 'Old SWER ACRs' (single wire earth return automatic circuit reclosers), with a remaining asset life of five years.[37]
- 'Supervisory cables', with a remaining asset life of one year.[38]

[36] Accelerated depreciation does not change the total amount received in depreciation (return of capital), though it does change the timing of that receipt and the consequential return on capital.

[37] The VBRC recommended that certain high bushfire risk assets be replaced to manage the risk of future bushfires. The replacement of old SWER ACRs with newer equipment will reduce the likelihood that electrical faults may start fires, particularly on high fire risk days.

[38] The supervisory cables perform two roles within the network, carrying protection signalling and general data between zone substations. Powercor stated that these low-bandwidth copper cables had already been replaced with a mix of new communications architecture (optical fibre and wireless equipment) supporting modern communication protocols.