

# Final decision

Murraylink transmission determination  
1 July 2023 to 30 June 2028

Attachment 4 – Regulatory depreciation

April 2023

© Commonwealth of Australia 2023

This work is copyright. In addition to any use permitted under the *Copyright Act 1968* all material contained within this work is provided under a Creative Commons Attributions 3.0 Australia licence with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright but which may be part of or contained within this publication.

The details of the relevant licence conditions are available on the Creative Commons website as is the full legal code for the CC BY 3.0 AU licence.

Inquiries about this publication should be addressed to:

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

AER reference: 202186

#### **Amendment record**

<b>Version</b>	<b>Date</b>	<b>Pages</b>
1	28 April 2023	7

## Contents

<b>4</b>	<b>Regulatory depreciation</b> .....	<b>4</b>
4.1	Final decision.....	4
4.2	Assessment approach .....	6
	<b>Glossary</b> .....	<b>7</b>

## 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 Murraylink, we make determinations on the indexation of the regulatory asset base (RAB) and depreciation building blocks for Murraylink'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 Murraylink's regulatory depreciation amount, including the asset lives used for forecasting depreciation.

### 4.1 Final decision

Our final decision is to determine a regulatory depreciation amount of \$25.7 million (\$ nominal) for Murraylink for the 2023–28 period. This amount represents an increase of \$2.1 million (or 8.9%) to the \$23.6 million (\$ nominal) in Murraylink's revised proposal.<sup>2</sup> It is \$0.6 million (or 2.6%) higher than the regulatory depreciation amount determined in the draft decision. The key reason for the increase compared to our draft decision is the lower expected inflation rate that resulted from our updated calculation in the post-tax revenue model (PTRM).

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 Murraylink'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 Murraylink is \$2.1 million lower than its revised proposal. This is mainly due to the lower forecast capex in our final decision.<sup>3</sup>

The indexation on the RAB is impacted by our decision on Murraylink'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 Murraylink's forecast RAB is \$4.2 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 3.50% per annum that Murraylink used 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.

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

- Murraylink's straight-line method to calculate the regulatory depreciation as set out in our PTRM.

---

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

<sup>2</sup> Murraylink, *2023-28 Transmission determination – revised proposal*, December 2022, p. 9.

<sup>3</sup> Based on the as-commissioned capex.

- Murraylink’s weighted average method to determine remaining asset lives as at 1 July 2023 derived from the RFM to calculate the forecast depreciation of existing assets for the 2023–28 period. In accepting this method, we have updated the remaining asset lives to reflect our adjustments to the final decision RFM (discussed in section 4.1.1).
- Murraylink’s asset classes and standard asset lives (also discussed in section 4.1.1).

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

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

	2023-24	2024–25	2025–26	2026–27	2027–28	Total
Straight-line depreciation	7.2	7.9	9.4	10.0	10.1	44.6
Less: inflation indexation on opening RAB	3.8	3.8	3.9	3.8	3.6	18.9
<b>Regulatory depreciation</b>	<b>3.4</b>	<b>4.1</b>	<b>5.6</b>	<b>6.2</b>	<b>6.5</b>	<b>25.7</b>

Source: AER analysis.

#### 4.1.1 Standard and remaining asset lives

In the draft decision, we largely accepted Murraylink’s proposal with some required amendments:

- We accepted Murraylink’s proposed asset classes and standard asset lives.
- We accepted Murraylink’s proposed renaming of 5 of its existing asset classes from those approved in the 2018–23 determination.
- We amended Murraylink’s depreciation of its regulatory reset costs to 5 years instead of 3 years.<sup>4</sup>
- In accepting the weighted average method, we updated Murraylink’s remaining asset lives based on some capex input amendments. We noted that we would recalculate Murraylink’s remaining asset lives as at 1 July 2023 to reflect revised capex inputs for the final decision.

Murraylink’s revised proposal adopted our draft decision amendments.<sup>5</sup>

For this final decision, we accept Murraylink’s revised proposed standard asset lives in respect of the forecast capex for the 2023–28. We have also updated Murraylink’s remaining asset lives used for depreciating its existing assets at 1 July 2023 to reflect our adjustments to the RFM (Attachment 2).

<sup>4</sup> AER, *Draft decision: Murraylink transmission determination 2023 to 28, Attachment 4, Regulatory depreciation*, September 2022, pp. 2 and 8.

<sup>5</sup> Murraylink, *Attachment 5 - Murraylink - PTRM Revised Proposal - 221202 - Public*, December 2022.

Table 4.2 sets out our final decision on Murraylink’s standard and remaining asset lives for the 2023–28 period. We are satisfied that:<sup>6</sup>

- the 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 Murraylink.

**Table 4.2 AER’s final decision on Murraylink’s standard and remaining asset lives as at 1 July 2023 (years)**

Asset class	Standard asset life	Remaining asset life as at 1 July 2023
Switchyard	40.0	22.2
Transmission cable	40.0	20.3
Easements	n/a	n/a
Control systems	15.0	11.6
Ancillary asset - 30 years	30.0	24.0
Ancillary asset - 7 years	7.0	5.0
Other operating assets	5.0	4.3
Non ancillary asset	3.0	3.0

Source: AER analysis.

n/a: Not applicable. We have not assigned a standard asset life to the 'Easements' asset class because the assets are not subject to depreciation.

## 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>7</sup>

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

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

# Glossary

Shortened form	Extended form
AER	Australian Energy Regulator
Capex	Capital expenditure
NER	National Electricity Rules
PTRM	Post-tax revenue model
RAB	Regulatory asset base
RFM	Roll forward model

---