

Final decision

Transgrid transmission determination
1 July 2023 to 30 June 2028

Attachment 4 – Regulatory depreciation

April 2023

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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 Transgrid, we make determinations on the indexation of the regulatory asset base (RAB) and depreciation building blocks for Transgrid's 2023–28 regulatory control period.¹ 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 Transgrid'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 \$689.6 million (\$ nominal) for Transgrid for the 2023–28 period. This amount represents a decrease of \$7.9 million (1.1%) to the \$697.5 million in Transgrid's revised proposal.² It is \$110.5 million (19.1%) higher than the amount determined in our draft decision. The reasons for the increase compared to our draft decision are due to a higher straight-line depreciation³ and lower RAB indexation amount.⁴

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 Transgrid's opening RAB as at 1 July 2023 (Attachment 2), forecast capital expenditure (capex) (Attachment 5) and asset lives. Our final decision straight-line depreciation for Transgrid is \$57.7 million lower than its revised proposal. This is mainly due to the lower forecast capex approved in our final decision.⁵

The indexation on the RAB is impacted by our decision on Transgrid's opening RAB (Attachment 2), forecast capex (Attachment 5) and the expected inflation rate (Attachment 3). Our final decision indexation on Transgrid's forecast RAB is \$49.8 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 3.00% per annum that Transgrid used in its revised proposal. The lower indexation has partially offset the decrease 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.

¹ NER, cll. 6A 5.4(a)(1) and (3).

² Transgrid, *2023-28 Revised revenue proposal, Post Tax Revenue Model*, December 2022.

³ This is 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.

⁴ This is due to a lower as-incurred opening RAB as at 1 July 2023 and a lower expected inflation compared to our draft decision.

⁵ Based on as-commissioned capex.

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

- Transgrid's straight-line method to calculate the regulatory depreciation as set out in our post-tax revenue model (PTRM)
- Transgrid's asset classes and standard asset lives (discussed in section 4.1.1)
- Transgrid's application of the year-by-year tracking approach to implement straight-line depreciation of existing assets going forward:
 - Our draft decision noted this is a change from the period-by-period approach approved for the 2018–23 period. We considered the year-by-year tracking approach meets the requirements of the National Electricity Rules (NER). The current period-by-period tracking approach already includes some elements of tracking, and the impact of the change to year-by-year tracking is not material.⁶
 - Transgrid's revised proposal adopted all of our draft decision minor 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 2.⁷

Table 0.1 sets out our final decision on the forecast regulatory depreciation amount for Transgrid over the 2023–28 period.

Table 0.1 AER's final decision on Transgrid's regulatory depreciation for the 2023–28 period (\$million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28	Total
Straight-line depreciation	355.7	401.4	446.7	479.0	472.3	2155.1
Less: inflation indexation on opening RAB	257.3	289.6	302.7	306.4	309.4	1465.4
Regulatory depreciation	98.4	111.7	144.0	172.6	162.9	689.6

Source: AER analysis.

4.1.1 Standard asset lives

Our draft decision accepted Transgrid's proposed asset classes and standard asset lives, with the exception of the standard asset lives for the 'Equity raising costs' and new 'Leasehold land and property' and asset classes.⁸ Transgrid's revised proposal adopted our draft decision asset lives for these asset classes.⁹

⁶ AER, *Draft decision: Transgrid transmission determination 2023 to 28, Attachment 4, Regulatory depreciation*, September 2022, p. 7.

⁷ Amendments include updates for actual 2022–23 CPI and rate of return inputs.

⁸ AER, *Draft decision: Transgrid transmission determination 2023 to 28, Attachment 4, Regulatory depreciation*, September 2022, pp. 8–9.

⁹ Transgrid, *2023–28 Revised revenue proposal*, December 2022, p. 123.

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

Table 0.2 sets out these standard asset lives for the 2023–28 period. We are satisfied that:¹⁰

- 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 Transgrid.

Table 0.2 AER's final decision on Transgrid's standard asset lives at 1 July 2023 (years)

Asset class	Standard asset life
Transmission line (2018 onwards)	50.0
Underground cables (2018 onwards)	45.0
Substations (2018 onwards)	40.0
Secondary systems (2018 onwards)	15.0
Communications (short life) (2018 onwards)	10.0
Business IT (2018 onwards)	4.0
Minor plant, motor vehicles & mobile plant (2018 onwards)	8.0
Transmission line life extension (2018-23) ^a	35.0
Land and easements	n/a
Synchronous condensers	40.0
Leasehold land and property	5.0
Buildings – capital works	40.0
In-house software	15.0
Equity raising costs ^b	39.2

Source: AER analysis.

- n/a Not applicable. We have not assigned a standard life to the 'Land and easement' asset class because the assets are not subject to depreciation.
- (a) We have changed this asset class name back to 'Transmission line life extension (2018–23)' consistent with the approved PTRM with the 2018–23 determination.
- (b) For this final decision, the forecast capex determined for Transgrid does not meet a level to trigger any benchmark equity raising costs.

¹⁰ NER, cl. 6A.6.3(b)(1) and (2).

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.¹¹

¹¹ AER, *Draft decision: Transgrid 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
