FINAL DECISION
ElectraNet transmission determination
2018 to 2023

Attachment 5 – Regulatory depreciation

April 2018

Note

This attachment forms part of the AER's final decision on ElectraNet's transmission determination for 2018–23. It should be read with all other parts of the final decision.

The final decision includes the following documents:

Overview

ElectraNet transmission determination 2018–23

Attachment 1 – Maximum allowed revenue

Attachment 2 – Regulatory asset base

Attachment 5 – Regulatory depreciation

Attachment 6 – Capital expenditure

Attachment 8 – Corporate income tax

Attachment A – Negotiating framework

Attachment B – Pricing methodology

Contents

Shortened forms

Shortened form	Extended form
AARR	aggregate annual revenue requirement
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ASRR	annual service revenue requirement
augex	augmentation expenditure
capex	capital expenditure
CCP	Consumer Challenge Panel
CESS	capital expenditure sharing scheme
CPI	consumer price index
DMIA	demand management innovation allowance
DRP	debt risk premium
EBSS	efficiency benefit sharing scheme
ERP	equity risk premium
MAR	maximum allowed revenue
MRP	market risk premium
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NER	national electricity rules
NSP	network service provider
NTSC	negotiated transmission service criteria
opex	operating expenditure
PPI	partial performance indicators
PTRM	post-tax revenue model
RAB	regulatory asset base
RBA	Reserve Bank of Australia
repex	replacement expenditure
RFM	roll forward model
RIN	regulatory information notice

Shortened form	Extended form
RPP	revenue and pricing principles
SLCAPM	Sharpe-Lintner capital asset pricing model
STPIS	service target performance incentive scheme
TNSP	transmission network service provider
TUoS	transmission use of system
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 ElectraNet, we make determinations on the indexation of the RAB and depreciation building blocks for ElectraNet's 2018–23 regulatory control period.[1] The regulatory depreciation allowance is the net total of the straight-line depreciation less the inflation indexation adjustment of the RAB.

5.1 Final decision

Our final decision is to determine a regulatory depreciation allowance of $319.8 million ($ nominal) for ElectraNet over the 2018–23 regulatory control period. This amount represents an increase of $4.5 million (or 1.4 per cent)[2] on the $315.4 million ($ nominal) in ElectraNet's revised proposal.[3] It represents an increase of $5.5 million or 1.7 per cent from the $314.6 million ($ nominal) in our draft decision.

For this final decision, we accept ElectraNet's revised proposal on the straight-line depreciation method and the standard asset lives used to calculate the regulatory depreciation allowance. However, we have made determinations on other components of ElectraNet's revised proposal, which affects the RAB and in turn impacts the forecast regulatory depreciation allowance. The increase to the regulatory depreciation allowance from the revised proposal reflects our adjustments to the opening RAB as at 1 July 2018 (attachment 2), expected inflation rate (section 2.2 of the Overview) and forecast capital expenditure (attachment 6).

Table 5-1 sets out our final decision on the forecast regulatory depreciation allowance for ElectraNet over the 2018–23 regulatory control period.

Table 5-1   AER's final decision on ElectraNet's forecast regulatory depreciation for the 2018–23 regulatory control period ($million, nominal)

	2018–19	2019–20	2020–21	2021–22	2022–23	Total
Straight-line depreciation	107.0	127.9	133.7	139.8	137.3	645.7
Less: inflation indexation on opening RAB	62.7	64.1	65.2	66.4	67.4	325.9
Regulatory depreciation	**44.2**	**63.8**	**68.5**	**73.3**	**69.9**	**319.8**

Source: AER analysis.

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[1]   NER, cl. 6A 5.4 (a)(1) and (3).

[2]   The higher regulatory depreciation allowance is mainly driven by the lower indexation of the RAB, which in turn is driven by a lower inflation forecast approved in our final decision compared to ElectraNet's revised proposal.

[3]   ElectraNet, *Revised Revenue proposal 2018–23, attachment ENET0114 - Post Tax Revenue Model - Public,* December 2017.

In the draft decision, we accepted ElectraNet's proposed asset classes and its straight-line depreciation method used to calculate the regulatory depreciation allowance. We accepted ElectraNet's proposal to implement the straight-line depreciation method using the 'year-by-year tracking' approach. We also accepted ElectraNet's proposed standard asset lives for its existing asset classes as they were consistent with those approved in the 2013–18 transmission determination and comparable to the standard asset lives used for other regulated transmission network service providers.

Our draft decision did not accept ElectraNet's proposed standard asset life of 27 years for the 'Transmission lines – life extension' asset class. Instead, we determined a standard asset life of 48.1 years, which reflected the weighted average of the technical lives of the assets used for the forecast transmission line life extension works for the 2018–23 regulatory control period.[4] ElectraNet's revised proposal adopted our draft decision on the standard asset life but proposed to rename the asset class to 'Transmission line refit - 2018–23'.[5] We accept this name label as it provides clarity that the line refit capex allocated to this asset class is for the 2018–23 regulatory control period. We also accept that any remaining projects undertaken in the 2013–18 regulatory control period with line refit capex should continue to be allocated to the existing asset class of 'Transmission line refit - insulator replacement 2013–18', which was approved in the previous transmission determination.

Our draft decision also did not accept the proposed standard asset life for the 'Synchronous condensers' asset class. This is because the assets to be allocated to this class relate to contingent projects. ElectraNet's revenues from these projects are not affected by this final decision as such projects do not earn a return unless the AER is satisfied that they are triggered and amends the revenue determination. We will determine an asset life for this asset class once the contingent project trigger for this project is met.[6] ElectraNet's revised proposal adopted our draft decision on this matter.

Table 5-2 sets out our final decision on the standard asset lives for ElectraNet over the 2018–23 regulatory control period. We are satisfied the approved standard asset lives would lead to a depreciation schedule that reflects the nature of the assets over the economic lives of the asset classes. Further, the sum of the real value of the depreciation attributable to the assets would be equivalent to the value at which the assets were first included in the RAB for ElectraNet.[7]

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[4]   Please refer to section 5.4.3.1 of attachment 5 of our draft decision for detailed reasons.
[5]   ElectraNet, *Revised regulatory proposal*, December 2017, p. 44.
[6]   Approval will occur in accordance with the contingent project provisions in the NER, in particular, cl. 6A.8.2.
[7]   NER, cll. 6A 6.3(b)(1)–(2).

Table 5-2   AER's final decision on ElectraNet's standard asset lives (years)

	Standard asset life
Commercial buildings	30
Communications - civil	55
Communications - other	15
Computers, software, and office machines	4
Easement	n/a
Land	n/a
Network switching centres	5
Office furniture, movable plant, and misc	10
Refurbishment	10
Substation primary plant	44.8
Substation demountable buildings	15
Substation establishment	55
Substation fences	35
Substation secondary systems - electromechanical	27
Substation secondary systems - electronic	15
Transmission lines - overhead	55
Transmission lines - underground	40
Accelerated depreciation	5
Refurbishment projects 2008-2013	12.5
Equity raising cost - 2003 Opening RAB and 2003-08 capex	43
Equity raising cost 2013-2018	43
Transmission line refit - insulators replacement 2013-18	27
Communications - other (post 2018)	10
Transmission line refit - 2018-23	48.1

Source: AER analysis.

n/a: not applicable. We have not assigned a standard asset life to some asset classes because the assets allocated to those asset classes are not subject to depreciation.

5.2 Assessment approach

We did not change our assessment approach for the regulatory depreciation from our draft decision. Attachment 5 section 5.3 of our draft decision details that approach.