

Final Decision

Ausgrid Electricity Distribution Determination 2024 to 2029 (1 July 2024 to 30 June 2029)

Attachment 2 Regulatory asset base

April 2024

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AER reference: AER212493

Amendment record

Version	Date	Pages
1	30 April 2024	16

List of attachments

This attachment forms part of the AER's final decision on the distribution determination that will apply to Ausgrid for the 2024–29 period. 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 documents:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 12 – Customer service incentive scheme

Attachment 13 – Classification of services

Attachment 14 – Control mechanisms

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2 Regulatory asset base

Our distribution determination includes Ausgrid’s opening regulatory asset base (RAB) values as at 1 July 2024 and the projected RAB values for the 2024–29 regulatory control period (period) for its distribution and transmission (dual function assets)¹ networks.² The value of the RAB substantially impacts Ausgrid’s revenue requirement, and the price consumers ultimately pay. Other things being equal, a higher RAB would increase both the return on capital and return of capital (depreciation) components of the distribution determination.³ This final decision sets out:

- the opening RAB values as at 1 July 2024
- the forecast closing RAB values as at 30 June 2029
- that depreciation based on forecast capital expenditure (capex) is to be used for establishing the RABs as at the commencement of the 2029–34 period.⁴

2.1 Final decision

2.1.1 Opening RAB values as at 1 July 2024

Our final decision is to determine opening RAB values of \$16,035.8 million and \$2,496.4 million (\$ nominal) as at 1 July 2024 for Ausgrid’s distribution and transmission networks, respectively. These values are \$7.5 million (0.05%) and \$1.2 million (0.05%) lower than Ausgrid’s revised proposed opening RAB values of \$16,043.2 million and \$2,497.5 million (\$ nominal) as at 1 July 2024.⁵ These decreases are primarily due to our updates to the roll forward models (RFM) for actual consumer price index (CPI) for 2023–24. This final decision is \$108.8 million (0.7%) and \$9.6 million (0.4%) higher than our draft decision opening RAB values of \$15,926.9 million and \$2,486.7 million (\$ nominal) for Ausgrid’s distribution and transmission networks, respectively.⁶

To determine the opening RAB value as at 1 July 2024, we have rolled forward the RAB over the 2019–24 period to arrive at a closing RAB value at 30 June 2024 in accordance with our RFM. This roll forward includes an adjustment at the end of the 2019–24 period to account for the difference between actual 2018–19 capex and the estimate approved in the 2019–24

¹ Ausgrid’s dual function assets are high voltage assets which support the broader NSW/ACT transmission network owned and operated by Transgrid. The AER has decided to continue applying transmission pricing to these assets. See: AER, *Framework and approach: Ausgrid, Endeavour Energy and Essential Energy (New South Wales), Regulatory control period commencing 1 July 2024*, July 2022, p. 54.

² National Electricity Rules (NER), cl. 6.12.1(6).

³ The size of the RAB also impacts the benchmark debt raising cost allowance. However, this amount is usually relatively small and therefore not a significant determinant of revenues overall.

⁴ NER, cl. 6.12.1(18).

⁵ Ausgrid, *Att. 4.1 – 2024–29 Proposed revenue*, November 2023, p. 9.

⁶ This is mainly driven by updates to the capex for 2022–23 (to reflect actual values) and the capex for 2023–24 (to reflect more up-to-date estimated values). The net impact of these updates is an increase to the opening RAB values as at 1 July 2024 by about \$116.0 million and \$11.1 million for Ausgrid’s distribution and transmission networks respectively compared to the draft decision, all else being equal. However, this increase is partially offset by other updates made to the final decision opening RAB values as at 1 July 2024.

determination.⁷ All other adjustments are applied as part of the final year adjustments at 30 June 2024 to establish the opening RAB value at 1 July 2024.⁸

Table 2.1 and Table 2.2 set out our final decision on the roll forward of Ausgrid's RABs for the 2019–24 period for its distribution and transmission networks, respectively.

Table 2.1 AER's final decision on Ausgrid's RAB for the 2019–24 period – distribution (\$ million, nominal)

	2019–20	2020–21	2021–22	2022–23	2023–24 ^a
Opening RAB	13,779.4	14,105.0	14,093.1	14,230.0	15,397.3
Net capex ^b	497.3	328.6	133.5	580.8	718.1
Indexation on opening RAB	253.6	121.4	493.0	1,114.5	623.9
Less: straight-line depreciation ^c	425.3	461.8	489.6	528.0	562.5
Interim closing RAB	14,105.0	14,093.1	14,230.0	15,397.3	16,176.9
Difference between estimated and actual capex in 2018–19	-	-	-	-	55.6
Return on difference for 2018–19 capex	-	-	-	-	20.6
Final year adjustment ^d	-	-	-	-	-217.4
Closing RAB as at 30 June 2024	-	-	-	-	16,035.8

Source: AER analysis.

- (a) Based on estimated capex provided by Ausgrid. We will true-up the RAB for actual capex at the next distribution determination.
- (b) Net of disposals and capital contributions, and adjusted for actual CPI and half-year weighted average cost of capital (WACC).
- (c) Adjusted for actual CPI. Based on forecast capex.
- (d) Reflects capitalised lease costs for existing leases and dual function asset re-classification adjustments as at 30 June 2024.

⁷ The end of period adjustment will be positive (negative) if actual capex is higher (lower) than the estimate approved at the 2019–24 determination. See NER, cl. S6.2.1(e)(3).

⁸ These end of period adjustments are applied at the end of the final year of the roll forward period which in this case is 30 June 2024. For Ausgrid, this includes adjustments for capitalised leases (for distribution only) and the reallocation of various assets between its distribution and transmission RAB to reflect changes in assets that meet the definition of a dual function asset. These adjustments were accepted in our draft decision with a few input updates and amendments. Ausgrid's revised proposal adopted the changes we made in the draft decision with minor updates to the dual function asset reallocation amounts to reflect its revised proposed opening RAB as at 1 July 2024. Similarly, our final decision also makes minor updates to the dual function asset reallocation amounts.

Table 2.2 AER’s final decision on Ausgrid’s RAB for the 2019–24 period – transmission (\$ million, nominal)

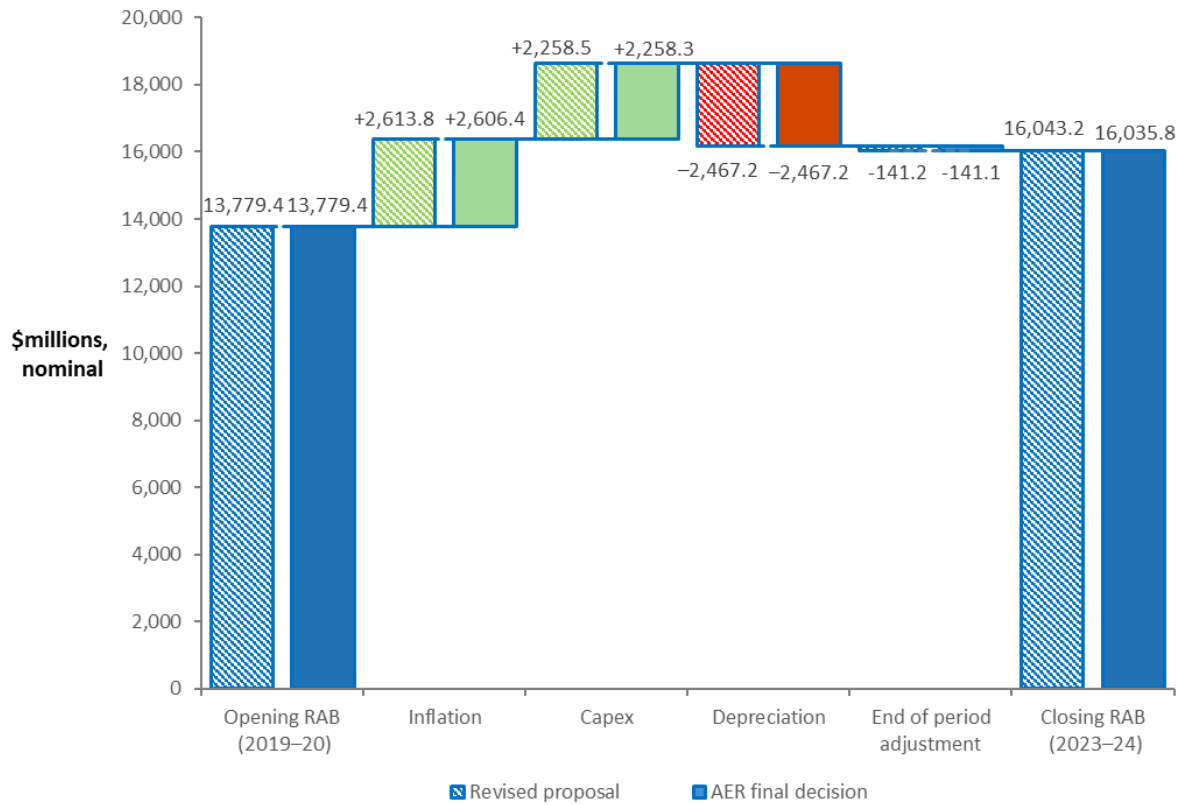
	2019–20	2020–21	2021–22	2022–23	2023–24 ^a
Opening RAB	1,901.7	1,944.2	1,949.2	1,992.5	2,166.6
Net capex ^b	63.1	48.8	39.6	87.7	78.2
Indexation on opening RAB	35.0	16.7	68.2	156.0	87.8
Less: straight-line depreciation ^c	55.6	60.5	64.5	69.6	75.1
Interim closing RAB	1,944.2	1,949.2	1,992.5	2,166.6	2,257.5
Difference between estimated and actual capex in 2018–19	-	-	-	-	15.5
Return on difference for 2018–19 capex	-	-	-	-	5.8
Final year adjustment ^d	-	-	-	-	217.6
Closing RAB as at 30 June 2024	-	-	-	-	2,496.4

Source: AER analysis.

- (a) Based on estimated capex provided by Ausgrid. We will true-up the RAB for actual capex at the next distribution determination.
- (b) Net of disposals and capital contributions, and adjusted for actual CPI and half-year weighted average cost of capital (WACC).
- (c) Adjusted for actual CPI. Based on forecast capex.
- (d) Reflects dual function asset re-classification adjustments as at 30 June 2024.

Figure 2.1 and Figure 2.2 show the key drivers of the change in Ausgrid’s distribution and transmission RAB values over the 2019–24 period for this final decision, respectively. Overall, the closing RAB values at the end of the 2019–24 period are 16% higher for its distribution network and 31% higher for its transmission network than the respective opening RAB values at the start of that period, in nominal terms. New capex increases Ausgrid’s distribution and transmission RAB values by 16% and 17% respectively, while inflation indexation increases both distribution and transmission RAB values by 19%. Depreciation, on the other hand, reduces the distribution and transmission RAB values by 18% and 17%, respectively. End of period adjustments reduce the distribution RAB by 1%, but increases the transmission RAB by 13%.

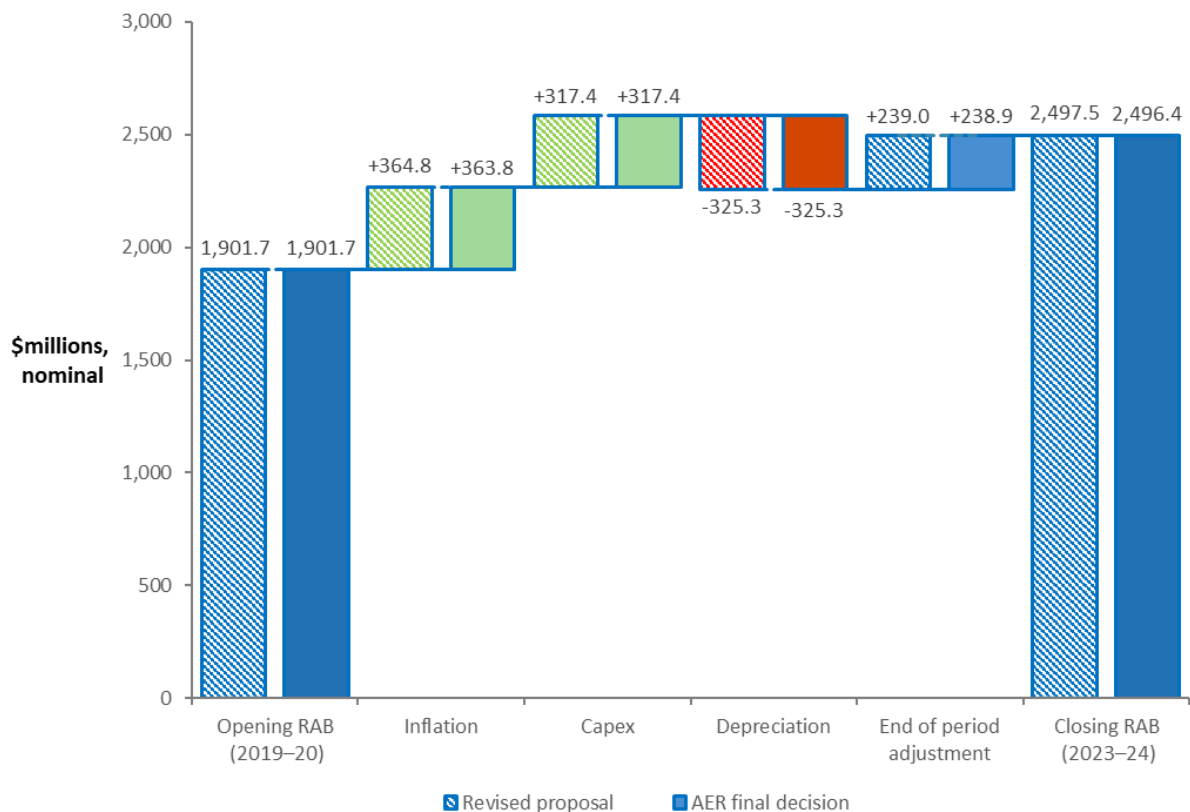
Figure 2.1 Key drivers of change in the RAB over the 2019–24 period—Ausgrid’s revised proposal compared with the AER’s final decision – distribution (\$ million, nominal)



Source: AER analysis.

Note: Capex is net of disposals and capital contributions. It is inclusive of the half-year WACC to account for the timing assumptions in the RFM.

Figure 2.2 Key drivers of change in the RAB over the 2019–24 period—Ausgrid’s revised proposal compared with the AER’s final decision – transmission (\$ million, nominal)



Source: AER analysis.

Note: Capex is net of disposals and capital contributions. It is inclusive of the half-year WACC to account for the timing assumptions in the RFM.

In the draft decision, we reduced Ausgrid’s proposed opening RAB values as at 1 July 2024 by \$117.9 million (0.7%) and \$14.3 million (0.6%) for its distribution and transmission networks, respectively. These reductions were largely due to the updates we made to the CPI inputs for 2022–23 and 2023–24 in the RFMs to reflect more up-to-date values. We also amended the following inputs which also affected the opening RAB values:⁹

- updated the nominal vanilla weighted average cost of capital (WACC) for 2023–24 to be consistent with the values in our 2023–24 return on debt updated post-tax revenue model (PTRM)
- removed expenditures related to capitalised leases for 2019–20 distribution capex and 2021–22 distribution and transmission capex to reflect our approach to address mid-period changes in accounting standards.¹⁰ In turn, we amended the final year asset adjustments associated with capitalised lease costs rolled into the distribution and transmission RABs as at 30 June 2024.

⁹ AER, *Draft decision: Ausgrid distribution determination 2024–29 – Attachment 2 – Regulatory asset base*, September 2023, pp. 1–2.

¹⁰ Our draft decision approach was to only begin treating forecast costs related to leases as capex from the start of the 2024–29 period.

- updated the estimated asset disposal values for 2022–23 to reflect our acceptance of Ausgrid’s treatment of asset disposals for its proposed ‘Property sales strategy to help with affordability’ program¹¹
- updated the final year asset adjustment values for various distribution and transmission asset classes associated with Ausgrid’s proposal to reallocate some portion of its distribution assets to its transmission RAB, to reflect changes in those assets that meet the definition of a dual function asset in accordance with the National Electricity Rules (NER).¹²

We noted the roll forward of Ausgrid’s RABs included estimated capex for 2022–23 and 2023–24, and estimated inflation for 2023–24, because the actual values for these inputs were not yet available at the time of the draft decision.¹³

In its revised proposal, Ausgrid adopted all of our draft decision changes. However, Ausgrid made a minor modelling update to the final year asset adjustment values for various distribution and transmission asset classes associated with assets being reclassified as dual function assets to reflect its revised proposed opening RAB values as at 1 July 2024.¹⁴ This is because the reallocation amounts for the affected asset classes are calculated as an apportionment of its respective opening RAB values. Similarly, our final decision updated the dual function asset reallocation amounts to reflect the opening RAB values approved in this final decision.

In addition, Ausgrid has updated the estimated capex for 2022–23 with actuals and revised the capex estimates for 2023–24 with latest figures. We have checked the actual capex amounts for 2022–23 in Ausgrid’s revised proposed RFMs and are satisfied they reconcile with the values presented in Ausgrid’s annual reporting Regulatory Information Notice (RIN) for that year. For this final decision, we accept Ausgrid’s revised 2023–24 net capex estimates of \$718.1 million and \$78.2 million (\$ nominal) for its distribution and transmission networks, respectively.¹⁵ These amounts are \$56.5 million (8.5%) higher and \$10.1 million (11.4%) lower than what we approved in our draft decision for its distribution and transmission networks respectively, reflecting more recent data. We note that the financial

¹¹ Our draft decision also updated the final year asset adjustment reallocation of a negative residual closing RAB amount associated with these disposals to reflect our draft decision distribution and transmission closing RABs as at 30 June 2024. The negative RAB was reallocated from the existing ‘Land (non-system)’ asset class to a new ‘Land (non-system) depreciation’ asset class for reverse depreciation purposes. This is a RAB reallocation and does not affect the total value of the opening RAB as at 1 July 2024. Ausgrid’s revised proposal updated the negative final year residual reallocation amount to reflect its revised proposed opening RAB as at 1 July 2024. Similarly, our final decision also makes the same minor update accordingly.

¹² NER, cl. 6.24.2. This reallocation does not affect Ausgrid’s total combined distribution and transmission opening RAB values as at 1 July 2024.

¹³ AER, *Draft decision: Ausgrid distribution determination 2024–29 – Attachment 2 – Regulatory asset base*, September 2023, pp. 1–3.

¹⁴ Ausgrid’s revised proposal also amended our draft decisions remaining asset lives associated with these dual function asset reallocation amounts to reflect the weighted average remaining asset lives as at 2023–24. Our draft decision was incorrectly referencing the remaining asset lives as at 2018–19. Our final decision accepts Ausgrid’s revised proposal amendments and makes a further minor update to the remaining asset lives to reflect the final decision opening RAB as at 2023–24.

¹⁵ These amounts are net of disposals and capital contributions, and include a half-year WACC allowance to compensate for the six-month period before capex is added to the RAB. They reflect the updated actual inflation rate for 2023–24 in our final decision.

impact of any difference between actual and estimated capex for 2023–24 will be accounted for at the next distribution determination.

We received no submissions on our approach to calculating the opening RAB. Our position in the final decision is limited to minor updates for dual function asset reallocation amounts and for more recent data in the RFM. This includes updating the 2023–24 estimated inflation input with actual CPI of 4.05% based on the December 2023 CPI from the Australian Bureau of Statistics (ABS), which became available after Ausgrid submitted its revised proposal.

2.1.2 Ex post review of 2017–22 capex

We also consider the extent to which our roll forward of the RAB to 1 July 2024 contributes to the achievement of the capex incentive objective.¹⁶ The review period of past capex for this distribution determination is over 2017–18 to 2021–22.¹⁷ As discussed in the draft decision, we consider that the capex incurred in those years are consistent with the capex criteria and can therefore be included in the RAB.¹⁸

For this final decision, we have included Ausgrid's actual capex for 2022–23 and estimated capex for 2023–24 in the RAB roll forward to 1 July 2024. At the next distribution determination, the actual capex for 2022–23 and 2023–24 will form part of the review period for whether past capex should be excluded for inefficiency reasons.¹⁹ Our RAB roll forward applies the incentive framework approved in the previous distribution determination, which included the use of a forecast depreciation approach in combination with the application of the capital expenditure sharing scheme (CESS).²⁰ As such, we consider that the 2019–24 RAB roll forward contributes to an opening RAB (as at 1 July 2024) that includes capex that reflects prudent and efficient costs, in accordance with the capex criteria.²¹

2.1.3 Forecast closing RAB as at 30 June 2029

Once we have determined the opening RAB value as at 1 July 2024, we roll forward that value by adding forecast capex and inflation, and reducing it by depreciation to arrive at a forecast closing value for the RAB as at the end of the 2024–29 period.²²

For this final decision, we determine forecast closing RAB values as at 30 June 2029 of \$18,257.7 million and \$2,663.3 million (\$ nominal) for Ausgrid's distribution and transmission networks, respectively. They are \$433.3 million (2.3%) and \$194.7 million (6.8%) lower than Ausgrid's revised proposed closing RAB values of \$18,691.0 million and \$2,858.0 million (\$ nominal) for its distribution and transmission networks, respectively. These reductions are

¹⁶ NER, cl. 6.12.2(b) and 6.4A(a).

¹⁷ NER, cl. S6.2.2.A(a1).

¹⁸ NER, cl. S6.2.1(f); AER, *Draft decision: Ausgrid distribution determination 2024–29 – Attachment 2 – Regulatory asset base*, September 2023, pp. 21–22.

¹⁹ Here, 'inefficiency' of past capex refers to three specific assessments (labelled the overspending, margin and capitalisation requirements) detailed in NER, cl. S6.2.2A. The details of our ex-post assessment approach for capex are set out in AER, *Capital expenditure incentive guideline for electricity network service providers*, April 2023, pp. 12–20.

²⁰ AER, *Final decision: Ausgrid distribution determination 2019–24 – Attachment 2 – Regulatory asset base*, April 2019, p. 12.

²¹ NER, cl. 6.4A(a), 6.5.7(a), 6.5.7(c) and 6.12.2(b).

²² NER, cl. S6.2.3.

mainly due to a lower expected inflation rate applied in our final decision compared to Ausgrid’s revised proposal (section 2.2 of the Overview to this final decision) and reductions we made to Ausgrid’s revised proposed forecast capex (Attachment 5). They also reflect our final decision on a lower opening RAB value as at 1 July 2024 and our final decision on forecast depreciation (Attachment 4).²³

Table 2.3 and Table 2.4 set out our final decision on the forecast RAB values for Ausgrid over the 2024–29 period for its distribution and transmission networks respectively.

Table 2.3 AER’s final decision on Ausgrid’s RAB for the 2024–29 period – distribution (\$ million, nominal)

	2024–25	2025–26	2026–27	2027–28	2028–29
Opening RAB	16,035.8	16,551.1	17,004.0	17,456.1	17,857.0
Net capex ^a	613.7	578.2	607.5	575.6	552.4
Indexation on opening RAB	426.5	440.2	452.3	464.3	475.0
Less: straight-line depreciation	524.9	565.5	607.7	639.0	626.6
Closing RAB	16,551.1	17,004.0	17,456.1	17,857.0	18,257.7

Source: AER analysis.

(a) Net of forecast disposals and capital contributions. In accordance with the timing assumptions of the PTRM, the capex includes a half-year WACC allowance to compensate for the six-month period before capex is added to the RAB for revenue modelling.

Table 2.4 AER’s final decision on Ausgrid’s RAB for the 2024–29 period – transmission (\$ million, nominal)

	2024–25	2025–26	2026–27	2027–28	2028–29
Opening RAB	2,496.4	2,544.2	2,573.1	2,598.9	2,634.5
Net capex ^a	56.1	40.8	41.9	52.7	46.5
Indexation on opening RAB	66.4	67.7	68.4	69.1	70.1
Less: straight-line depreciation	74.7	79.6	84.5	86.2	87.8
Closing RAB	2,544.2	2,573.1	2,598.9	2,634.5	2,663.3

Source: AER analysis.

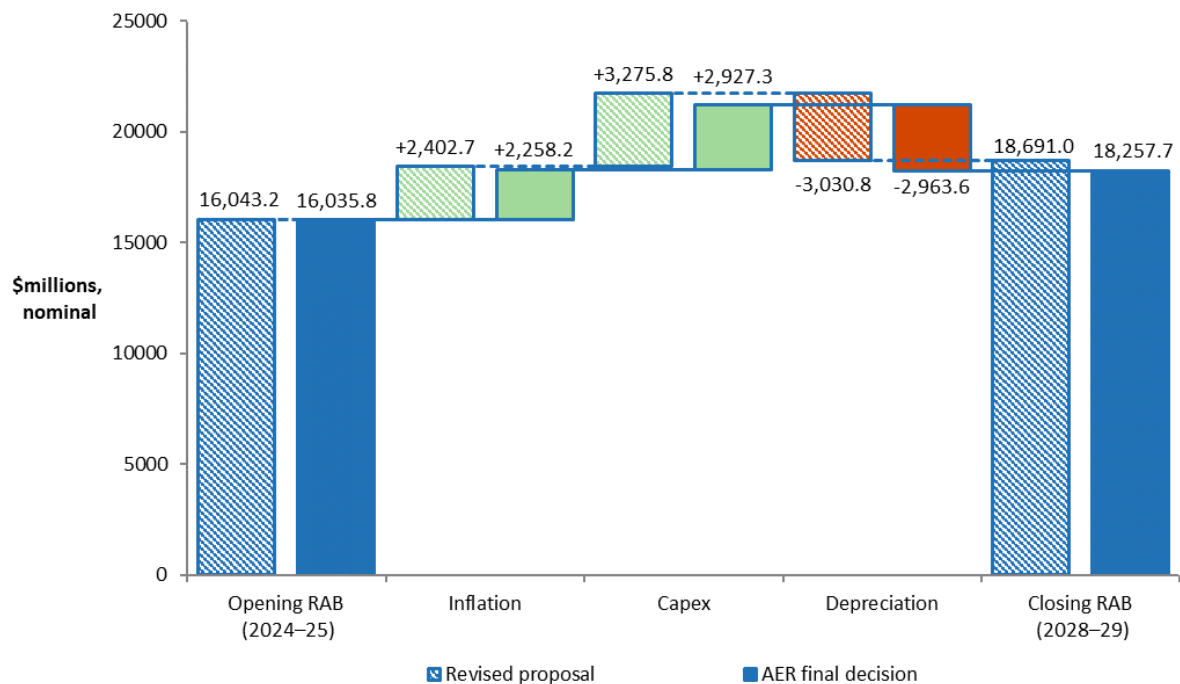
(a) Net of forecast disposals and capital contributions. In accordance with the timing assumptions of the PTRM, the capex includes a half-year WACC allowance to compensate for the six-month period before capex is added to the RAB for revenue modelling.

Figure 2.3 and Figure 2.4 show the key drivers of change in Ausgrid’s distribution and transmission RAB values over the 2024–29 period for this final decision, respectively. Overall, the closing RAB values at the end of the 2024–29 period are forecast to be 13.9%

²³ Capex enters the RAB net of forecast disposals. It includes equity raising costs (where relevant) and the half-year WACC to account for the timing assumptions in the PTRM. Therefore, our final decision on the forecast RAB also reflects our amendments to the rate of return for the 2024–29 period (section 2.2 of the Overview to this final decision).

and 6.7% higher than the opening RAB values at the start of that period for Ausgrid’s distribution and transmission networks respectively, in nominal terms. The approved forecast net capex increases its distribution and transmission RAB values by 18% and 10%, respectively. Expected inflation increases the RAB value by 14% for both its distribution network transmission network. Forecast depreciation, on the other hand, reduces its distribution and transmission RAB values by 18% and 17% respectively.

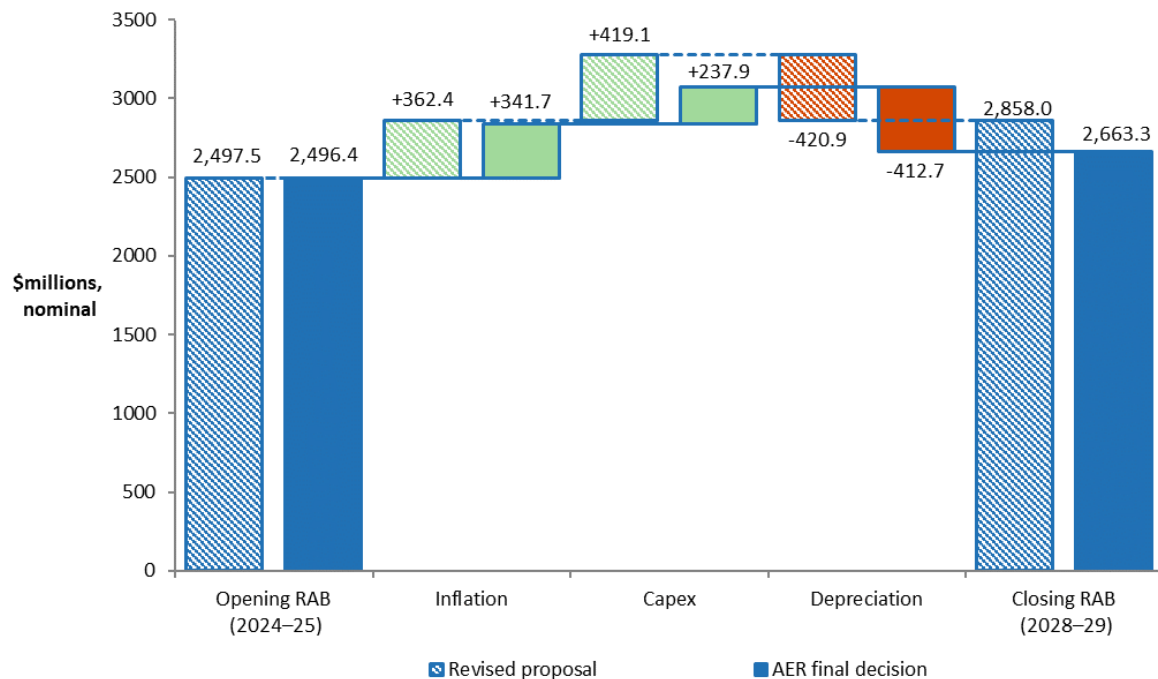
Figure 2.3 Key drivers of change in the RAB over the 2024–29 period – Ausgrid’s revised proposal compared with the AER’s final decision – distribution (\$ million, nominal)



Source: AER analysis.

Note: Capex is net of forecast disposals and capital contributions. It is inclusive of the half-year WACC to account for the timing assumptions in the PTRM.

Figure 2.4 Key drivers of change in the RAB over the 2024–29 period – Ausgrid’s revised proposal compared with the AER’s final decision – transmission (\$ million, nominal)



Source: AER analysis.

Note: Capex is net of forecast disposals and capital contributions. It is inclusive of the half-year WACC to account for the timing assumptions in the PTRM.

Forecast net capex is a significant driver of the increase in the RAB. In our final decision, we approve \$2,666.1 million and \$216.6 million (\$2023–24) forecast net capex for Ausgrid’s distribution and transmission networks over the 2024–29 period, respectively.²⁴ These amounts are 10.4% and 41.9% lower than Ausgrid’s revised proposal of \$2,974.7 million and \$372.8 million for its distribution and transmission networks, respectively. We are satisfied that the reduced amounts reasonably reflect the capex criteria. Refer to Attachment 5 for the discussion on forecast capex.

2.1.4 Application of depreciation approach in RAB roll forward for the next distribution determination

When we roll forward Ausgrid’s RABs for the 2024–29 period at the next distribution determination, we must adjust for depreciation. For this final decision, we determine that the depreciation approach to be applied to establish Ausgrid’s opening RABs at the commencement of the 2029–34 period will be based on the depreciation schedules (straight-line) using forecast capex at the asset class level approved for the 2024–29 period.²⁵ This approach is consistent with our draft decision. Further, this approach is consistent with our

²⁴ These amounts are net of disposals and capital contributions, and exclude the half-year WACC adjustment.

²⁵ NER, cl. 6.12.1(18).

Framework and approach.²⁶ Ausgrid’s revised proposal did not raise any issues with this approach.

As discussed in section 3 of the Overview to this final decision, we will also apply the CESS to Ausgrid for the 2024–29 period. We consider that the CESS will provide sufficient incentives for Ausgrid to achieve capex efficiency gains over that period. We are satisfied that the use of a forecast depreciation approach in combination with the application of the CESS and our other ex post capex measures are sufficient to achieve the capex incentive objective.²⁷

2.2 Assessment approach

We did not change our assessment approach for the RAB from our draft decision. Attachment 2 (section 2.3) of our draft decision details that approach.²⁸

²⁶ AER, *Framework and approach: Ausgrid, Endeavour Energy and Essential Energy (New South Wales), Regulatory control period commencing 1 July 2024*, July 2022, p. 53.

²⁷ Our ex-post capex measures are set out in the capital expenditure incentive guideline. This guideline also sets out how all our capex incentive measures are consistent with the capex incentive objective. AER, *Capital expenditure incentive guideline for electricity network service providers*, April 2023, pp. 12–21.

²⁸ AER, *Draft decision: Ausgrid distribution determination 2024–29 – Attachment 2 – Regulatory asset base*, September 2023, pp. 9–15.

Shortened forms

Term	Definition
ABS	Australian Bureau of Statistics
AER	Australian Energy Regulator
capex	capital expenditure
CESS	capital expenditure sharing scheme
CPI	consumer price index
NER	National Electricity Rules
PTRM	post-tax revenue model
RAB	regulatory asset base
RFM	roll forward model
RIN	regulatory information notice
WACC	weighted average cost of capital
