

Final Decision

TasNetworks

Electricity Transmission

Determination 2024 to 2029

(1 July 2024 to 30 June 2029)

Attachment 2

Regulatory asset base

April 2024

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List of attachments

This attachment forms part of the AER's final decision on the transmission determination that will apply to TasNetworks 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 – Maximum allowed revenue

Attachment 2 – Regulatory asset base

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 7 – Corporate income tax

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2 Regulatory asset base

Our transmission determination includes TasNetworks' opening regulatory asset base (RAB) value as at 1 July 2024 and the projected RAB value for the 2024–29 regulatory control period (period).¹ The value of the RAB substantially impacts TasNetworks' 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 transmission determination.² This final decision sets out:

- the opening RAB value as at 1 July 2024
- the forecast closing RAB value as at 30 June 2029
- that depreciation based on forecast capital expenditure (capex) is to be used for establishing the RAB as at the commencement of the 2029–34 period.³

2.1 Final decision

2.1.1 Opening RAB as at 1 July 2024

Our final decision is to determine an opening RAB value of \$1,667.1 million (\$ nominal) as at 1 July 2024 for TasNetworks. This amount is \$2.4 million (0.1%) lower than TasNetworks' revised proposed opening RAB value of \$1,669.6 million (\$ nominal) as at 1 July 2024.⁴ This decrease is mainly due to our decision to remove an additional \$1.6 million assets from TasNetworks' RAB which are no longer providing prescribed connection services compared to the revised proposal. We have also updated the roll forward model (RFM) for actual consumer price index (CPI) for 2023–24 which also contributed to the lower opening RAB value. This final decision is \$2.0 million (0.1%) higher than our draft decision value for TasNetworks' opening RAB of \$1,665.1 million (\$ nominal).⁵

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 National Electricity Rules (NER), cl.6A.14.1(5D).

² 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.

³ NER, cl. 6A.14.1(5E).

⁴ TasNetworks, *2024–29 Revised Regulatory Proposal*, November 2023, p. 28.

⁵ This is mainly driven by the 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 value as at 1 July 2024 by about \$11.5 million compared to the draft decision, all else being equal. This increase is partially offset by the final year adjustment amount of –\$8.5 million due to change in service classification approved in this final decision which was not included in the draft decision.

determination.⁶ 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 2024.⁷

Table 2.1 sets out our final decision on the roll forward of TasNetworks' RAB for the 2019–24 period.

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

| | 2019–20 | 2020–21 | 2021–22 | 2022–23 | 2023–24 ^a |
|--|---------|---------|---------|---------|----------------------|
| Opening RAB | 1,445.3 | 1,472.1 | 1,472.6 | 1,510.5 | 1,625.0 |
| Net capex ^b | 51.5 | 45.6 | 46.8 | 59.2 | 72.6 |
| Indexation on opening RAB | 26.6 | 12.7 | 51.5 | 118.3 | 65.8 |
| Less: straight-line depreciation ^c | 51.2 | 57.8 | 60.4 | 63.0 | 71.7 |
| Interim closing RAB | 1,472.1 | 1,472.6 | 1,510.5 | 1,625.0 | 1,691.7 |
| Difference between estimated and actual capex in 2018–19 | - | - | - | - | -11.8 |
| Return on difference for 2018–19 capex | - | - | - | - | -4.3 |
| Final year asset adjustment ^d | - | - | - | - | -8.5 |
| Closing RAB as at 30 June 2024 | - | - | - | - | 1,667.1 |

Source: AER analysis.

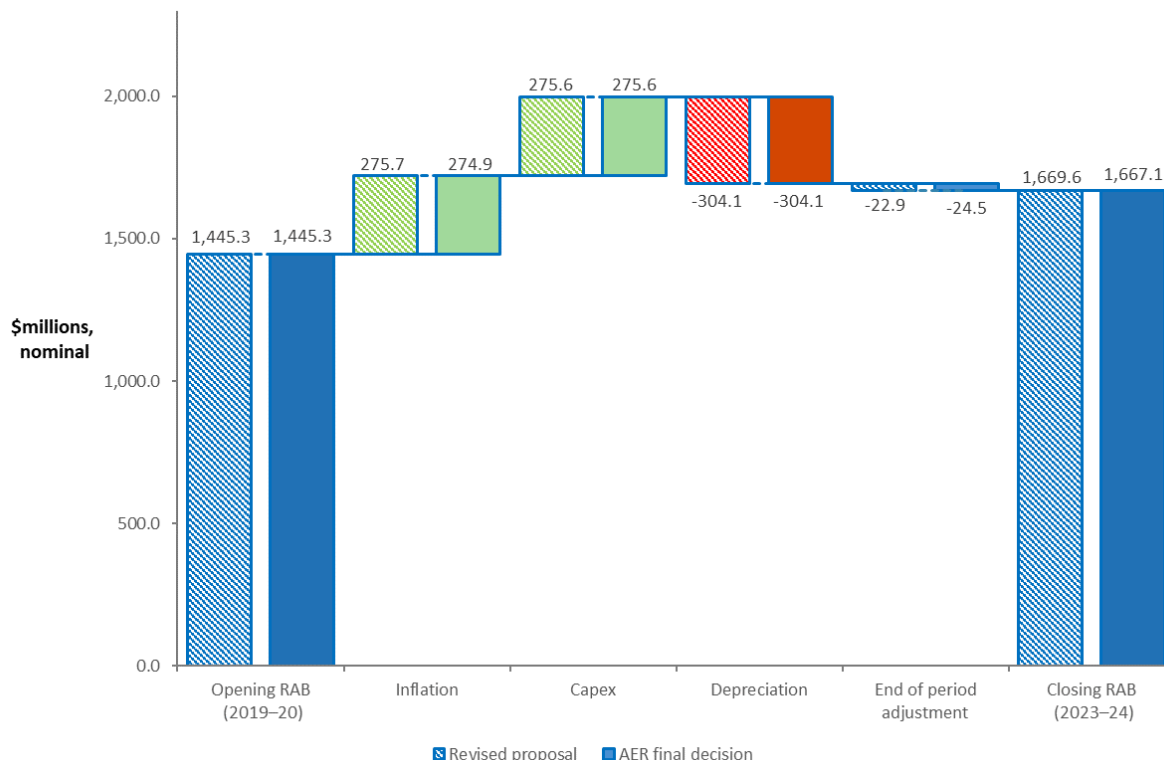
- (a) Based on estimated capex provided by TasNetworks. We will true-up the RAB for actual capex at the next transmission determination.
- (b) As-incurred, net of disposals, and adjusted for actual CPI and half-year weighted average cost of capital (WACC).
- (c) Based on forecast as-commissioned capex and adjusted for actual CPI.
- (d) Reflects removal of the residual value as at 30 June 2024 from the RAB for assets that will no longer be providing prescribed transmission services.

Figure 2.1 shows the key drivers of change in TasNetworks' RAB value over the 2019–24 period for this final decision. Overall, the closing RAB value at the end of the 2019–24 period is 15.4% higher than the opening RAB value at the start of that period, in nominal terms. New capex increases the RAB value by 19.1%, while inflation indexation increases it by 19.0%. Depreciation and end of period adjustments, on the other hand, reduce the RAB value by 21.0% and 1.7% respectively.

⁶ 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).

⁷ 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 TasNetworks, this includes removal of assets which are no longer providing prescribed transmission services from its RAB. This adjustment was not included in TasNetworks' initial proposal submitted in January 2023. In our final decision, we have determined a higher amount to be removed from the RAB compared to TasNetworks' proposed amount.

Figure 2.1 Key drivers of change in the RAB over the 2019–24 period – TasNetworks’ revised proposal compared with the AER’s final decision (\$ 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 TasNetworks’ proposed opening RAB value as at 1 July 2024 by \$93.6 million (5.3%). This reduction was largely due to the corrections and updates we made to TasNetworks’ proposed inputs in the RFM:⁸

- We have corrected several input errors associated with 2014–19 period to be consistent with the values approved in the 2014–19 transmission determination.
- We corrected the actual capex values for 2019–20 and asset disposal values for 2018–19 to 2023–24 to be consistent with TasNetworks’ annual regulatory accounts.
- We updated CPI inputs for 2022–23 and 2023–24 to reflect more up-to-date values.
- We updated the nominal vanilla weighted average cost of capital (WACC) for 2023–24, equity raising costs and the forecast straight-line depreciation inputs to be consistent with the values in our 2023–24 return on debt updated post-tax revenue model (PTRM).

⁸ AER, *Draft decision: TasNetworks transmission determination 2024–29 – Attachment 2 – Regulatory asset base*, September 2023, pp. 11–13.

We noted the roll forward of TasNetworks' RAB included estimated capex for 2022–23 and 2023–24, and estimated inflation for 2023–24, because actual values were not yet available at the time of the draft decision.⁹

In its revised proposal, TasNetworks adopted all of our draft decision changes. In addition, it has updated the estimated capex for 2022–23 with actuals and revised the 2023–24 capex estimates with latest figures.

We have checked the actual capex for 2022–23 in TasNetworks' revised proposed RFM and are satisfied it reconciles with the values presented in TasNetworks' annual regulatory accounts for that year. We accept TasNetworks' revision to the 2023–24 net capex estimates of \$72.6 million (\$ nominal) for this final decision.¹⁰ This amount is \$16.3 million (28.9%) higher than what we approved in our draft decision, reflecting more recent data. We note that the financial impact of any difference between actual and estimated capex for 2023–24 will be accounted for at the next transmission determination.

We received no submissions on our approach to calculating the opening RAB. Our final decision also updates the 2023–24 estimated inflation input in the RFM with actual CPI of 4.05% based on the December 2023 CPI from Australian Bureau of Statistics (ABS), which became available after TasNetworks submitted its revised proposal.

Change in service classification of assets

Over time, the use of TasNetworks' network can change and the classification of its assets may also change accordingly. In these circumstances, we amend the RAB to reflect the changing circumstances of the assets.

In its revised proposal, TasNetworks proposed to remove \$6.9 million (\$ nominal) of its assets from the closing RAB as at 30 June 2024. It stated that the service classification of these assets will be changed from providing prescribed connection services to negotiated services at the start of the 2024–29 period. This adjustment to the RAB was inadvertently not included in its initial proposal submitted in January 2023.¹¹

We agree with TasNetworks' proposal to remove these assets from its RAB because they are no longer providing prescribed connection services.¹² However, we consider that TasNetworks' proposed \$6.9 million underestimated the residual value of these assets as at 30 June 2024. This is because TasNetworks' calculation of the residual value omitted CPI indexation on these assets over time. For this reason, we increased the amount to be removed from TasNetworks' RAB to \$8.5 million after accounting for CPI indexation.

⁹ AER, *Draft decision: TasNetworks transmission determination 2024–29 – Attachment 2 – Regulatory asset base*, September 2023, pp. 2–3.

¹⁰ This amount is net of disposals, and includes a half-year WACC allowance to compensate for the six-month period before capex is added to the RAB. It reflects the updated actual inflation rate for 2023–24 in our final decision.

¹¹ TasNetworks, *2024–29 Revised Regulatory Proposal*, November 2024, p. 27.

¹² NER, cl. 11.6.11(d).

TasNetworks agreed with our recalculated amount in its response to our information request.¹³

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.¹⁴ The review period of past capex for this transmission determination is over 2017–18 to 2021–22. 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.¹⁵

For this final decision, we have included TasNetworks’ actual capex for 2022–23 and estimated capex for 2023–24 in the RAB roll forward to 1 July 2024. At the next transmission 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.¹⁶ Our RAB roll forward applies the incentive framework approved in the previous transmission determination, which included the use of a forecast depreciation approach in combination with the application of the capital expenditure sharing scheme (CESS).¹⁷ 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.¹⁸

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.

For this final decision, we determine a forecast closing RAB value at 30 June 2029 of \$1,863.0 million (\$ nominal) for TasNetworks. This is \$14.9 million (0.8%) lower than TasNetworks’ revised proposal of \$1,878.0 million (\$ nominal). This is mainly due to a lower expected inflation rate applied in our final decision compared to TasNetworks’ revised proposal (section 2.2 of the Overview). Our final decision on the forecast closing RAB also reflects the amended opening RAB as at 1 July 2024, and our final decisions on forecast depreciation (Attachment 4) and forecast capex (Attachment 5).¹⁹

¹³ TasNetworks, *Email response to AER information request #53 – Final year adjustment and t-1 revenue*, dated 9 April 2024.

¹⁴ NER, cll. 6.12.2(b) and 6.4A(a).

¹⁵ NER, cl. S6.2.1(f); AER, *Draft decision: TasNetworks transmission determination 2024–29 – Attachment 2 – Regulatory asset base*, September 2023, p. 13.

¹⁶ Here, ‘inefficiency’ of past capex refers to three specific assessments (labelled the overspending, margin and capitalisation requirements) detailed in NER, cl. S6A.2.2A(b). The details of our ex post assessment approach are set out in AER, *Capital expenditure incentive guideline for electricity network service providers*, April 2023, pp. 12–21.

¹⁷ AER, *Final decision: TasNetworks transmission Determination 2019–24, Attachment 2 – Regulatory asset base*, April 2019, p. 7.

¹⁸ NER, cll. 6A.5A(a), 6A.6.7(c) and 6A.14.2(b).

¹⁹ 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).

Table 2.2 sets out our final decision on the forecast RAB for TasNetworks over the 2024–29 period.

Table 2.2 AER’s final decision on TasNetworks’ RAB for the 2024–29 period (\$ million, nominal)

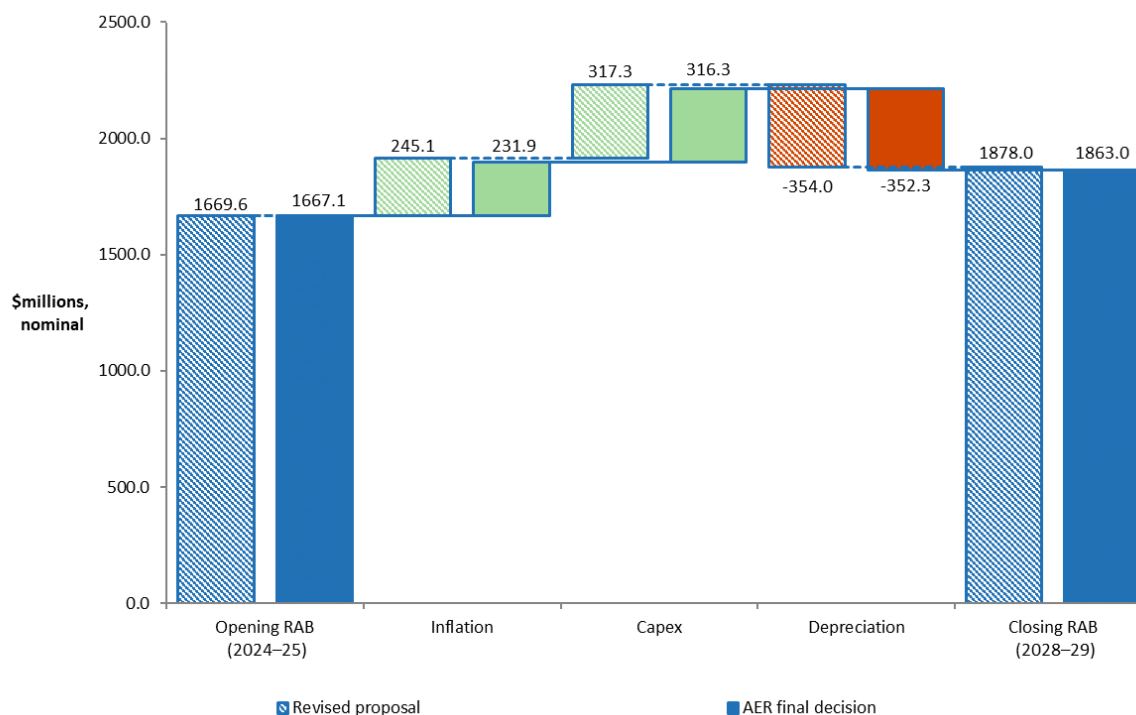
| | 2024–25 | 2025–26 | 2026–27 | 2027–28 | 2028–29 |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Opening RAB | 1,667.1 | 1,696.2 | 1,745.6 | 1,783.9 | 1,826.1 |
| Net capex ^a | 54.3 | 72.6 | 64.6 | 65.1 | 59.8 |
| Indexation on opening RAB | 44.3 | 45.1 | 46.4 | 47.4 | 48.6 |
| Less: straight-line depreciation | 69.6 | 68.2 | 72.7 | 70.4 | 71.4 |
| Closing RAB | 1,696.2 | 1,745.6 | 1,783.9 | 1,826.1 | 1,863.0 |

Source: AER analysis.

- (a) As-incurred, and net of forecast disposals. 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.
- (b) Based on as-commissioned capex.

Figure 2.2 shows the key drivers of change in TasNetworks’ RAB value over the 2024–29 period for this final decision. Overall, the closing RAB value at the end of the 2024–29 period is forecast to be 11.7% higher than the opening RAB value at the start of that period, in nominal terms. The approved forecast net capex increases the RAB value by 19.0%, while expected inflation increases it by 13.9%. Forecast depreciation, on the other hand, reduces the RAB value by 21.1%.

Figure 2.2 Key drivers of changes in the RAB over the 2024–29 period – TasNetworks’ revised proposal compared with the AER’s final decision (\$ million, nominal)



Source: AER analysis.

Note: Capex is net of forecast disposals. 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 confirm our position to approve TasNetworks’ revised proposed forecast net capex of \$287.8 million (\$2023–24)²⁰ for the 2024–29 period as we are satisfied that this amount reasonably reflects the capex criteria. This is consistent with our draft decision, which was adopted by TasNetworks in its revised proposal. Refer to section 2.4 of the Overview to this final decision for the discussion on forecast capex.

2.1.1 Application of depreciation approach in RAB roll forward for the next transmission determination

When we roll forward TasNetworks’ RAB for the 2024–29 period at the next transmission determination, we must adjust for depreciation. For this final decision, we determine that the depreciation approach to be applied to establish TasNetworks’ opening RAB 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.²¹ This approach is consistent with our draft decision. Further, this approach is consistent with our

²⁰ This amount is net of forecast disposals and excludes the half-year WACC adjustment.

²¹ NER, cl. 6A.14.1(5E) and S6A.2.2B.

Framework and approach.²² TasNetworks 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 TasNetworks for the 2024–29 period. We consider that the CESS will provide sufficient incentives for TasNetworks 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.²³

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.²⁴

²² AER, *Framework and approach for TasNetworks for the 2024–29 regulatory control period*, July 2022, p. 56.

²³ 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.

²⁴ AER, *Draft decision: TasNetworks transmission determination 2024–29 – Attachment 2 – Regulatory asset base*, September 2023, pp. 6–10.

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 |
