

# Final Decision

## TasNetworks Electricity Distribution Determination 2024 to 2029

(1 July 2024 to 30 June 2029)

### Attachment 4 Regulatory depreciation

April 2024

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#### **Amendment record**

<b>Version</b>	<b>Date</b>	<b>Pages</b>
1	30 April 2024	9

## List of attachments

This attachment forms part of the AER's final decision on the distribution 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 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 4 – Regulatory depreciation

Attachment 7 – Corporate income tax

Attachment 12 – Customer Service Incentive Scheme

Attachment 13 – Classification of services

Attachment 14 – Control mechanisms

Attachment 16 – Alternative control services

Attachment 18 – Connection policy

Attachment 20 – Metering Services

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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 TasNetworks, we make determinations on the indexation of the regulatory asset base (RAB) and depreciation building blocks for TasNetworks' 2024–29 regulatory control period (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 the regulatory depreciation amount for TasNetworks' distribution network, including the standard asset lives used for forecasting depreciation.

### 4.1 Final decision

Our final decision is to determine a regulatory depreciation amount of \$504.8 million (\$ nominal) for TasNetworks for the 2024–29 period. This amount represents an increase of \$13.8 million (2.8%) to the \$490.9 million (\$ nominal) in TasNetworks' revised proposal.<sup>2</sup> It is \$25.7 million (5.4%) higher than the regulatory depreciation amount determined in our draft decision. This increase compared to our draft decision is primarily driven by a lower RAB indexation amount<sup>3</sup> and a lower straight-line depreciation.<sup>4</sup>

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 TasNetworks' opening RAB as at 1 July 2024 (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 TasNetworks is \$3.7 million lower than its revised proposal.<sup>5</sup>

The indexation on the RAB is impacted by our decision on TasNetworks' opening RAB (Attachment 2), forecast capex (section 2.4 of the Overview to this final decision) and the expected inflation rate (section 2.2 of the Overview). Our final decision indexation on TasNetworks' forecast RAB is \$17.5 million lower than its revised proposal. This is largely due to applying a lower expected inflation rate of 2.66% per annum for this final decision compared with the 2.80% per annum that TasNetworks applied in its revised proposal.

In coming to this final decision on TasNetworks' straight-line depreciation, we accept the revised proposal with respect to the following matters, each of which is consistent with our draft decision:

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<sup>1</sup> NER, cll. 6.12.1 and 6.4.3.

<sup>2</sup> TasNetworks, *Revised regulatory proposal – Distribution – PTRM*, November 2023.

<sup>3</sup> This is due to a lower expected inflation for the 2024–29 period compared to the draft decision.

<sup>4</sup> This is due to a lower straight-line depreciation for existing assets resulting from a lower opening RAB as at 1 July 2024 compared to our draft decision.

<sup>5</sup> This is mainly due to the lower expected inflation applied in our final decision which is used to convert the straight-line depreciation amount from real terms into nominal terms. In real terms, our final decision straight-line depreciation amount is slightly lower compared to the revised proposal driven by slight reduction to opening RAB as at 1 July 2024 for TasNetworks in our final decision.

- the straight-line depreciation method to calculate the regulatory depreciation as set out in our post-tax revenue model (PTRM)
- asset classes and standard asset lives (section 4.1.1)
- the continuation of applying the year-by-year tracking approach to implement straight-line depreciation of TasNetworks' existing assets:
  - TasNetworks' revised proposal adopted all our draft decision modelling input changes in the year-by-year tracking depreciation module used for implementing straight-line depreciation.<sup>6</sup> Our final decision also makes standard input updates to the depreciation module, consistent with our roll forward model (RFM) amendments to the RAB as discussed in Attachment 2.

Table 4.1 sets out our final decision on the forecast regulatory depreciation amount for TasNetworks over the 2024–29 period.

**Table 4.1 AER's final decision on TasNetworks' regulatory depreciation for the 2024–29 period (\$million, nominal)**

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Straight-line depreciation	147.3	158.0	166.8	170.8	175.2	818.1
Less: inflation indexation on opening RAB	59.1	61.1	63.1	64.4	65.7	313.4
<b>Regulatory depreciation</b>	<b>88.2</b>	<b>97.0</b>	<b>103.8</b>	<b>106.3</b>	<b>109.5</b>	<b>504.8</b>

Source: AER analysis.

#### 4.1.1 Standard asset lives

For this final decision, we accept TasNetworks' revised proposed standard asset lives in respect of the forecast capex for the 2024–29 period because they are consistent with our draft decision.

In the draft decision, we accepted TasNetworks' proposed existing asset classes and their standard asset lives, except for the 'Equity raising costs' asset class. We assigned a standard asset life of 36.0 years for the 'Equity raising costs' asset class reflecting the weighted average of the standard asset lives of all depreciable asset classes over the 2024–29 period. We introduced a new asset class for 'Composite poles' and assigned a standard asset life of 80.0 years after our review of TasNetworks' proposed capex for poles.<sup>7</sup>

TasNetworks' revised proposal adopted our draft decision on the standard asset lives for all asset classes.<sup>8</sup>

<sup>6</sup> TasNetworks, *Revised regulatory proposal – Distribution – Depreciation tracking module*, November 2023.

<sup>7</sup> AER, *Draft decision: TasNetworks distribution determination 2024–29 – Attachment 4 – Regulatory depreciation*, September 2023, pp. 10–13.

<sup>8</sup> TasNetworks, *Revised regulatory proposal – Distribution – PTRM*, November 2023.

Table 4.2 sets out our final decision on TasNetworks' standard asset lives for the 2024–29 period. We are satisfied that:<sup>9</sup>

- 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 TasNetworks.

**Table 4.2 AER's final decision on TasNetworks' standard asset lives as at 1 July 2024 (years)**

Asset class	Standard asset life
Overhead subtransmission lines (urban)	50.0
Underground subtransmission lines (urban)	60.0
Urban zone substations	40.0
Rural zone substations	40.0
SCADA	10.0
Distribution switching stations (ground)	40.0
Overhead high voltage lines urban	35.0
Overhead high voltage lines rural	35.0
Voltage regulators on distribution feeders	40.0
Underground high voltage lines	60.0
Underground high voltage lines SWER	60.0
Distribution substations HV (pole)	40.0
Distribution substations HV (ground)	40.0
Distribution substations LV (pole)	40.0
Distribution substations LV (ground)	40.0
Overhead low voltage lines underbuilt urban	35.0
Overhead low voltage lines underbuilt rural	35.0
Overhead low voltage lines urban	35.0
Overhead low voltage lines rural	35.0
Underground low voltage lines	60.0

<sup>9</sup> NER, cl. 6.5.5(b)(1)–(2).

Underground low voltage common trench	60.0
HVST service connections	40.0
HV service connections	40.0
HV metering CA service connections	40.0
HV/LV service connections	40.0
Business LV service connections	35.0
Business LV metering CA service connections	25.0
Domestic LV service connections	35.0
Domestic LV metering CA service connections	20.0
Emergency network spares	n/a
Motor vehicles	6.0
Minor assets	5.0
Non-system property	40.0
Spare parts	n/a
NEM assets	5.0
Business management systems	10.0
Land	n/a
Easements	n/a
Composite poles	80.0
Buildings	40.0
Equity raising costs	36.0

Source: AER analysis.

n/a: not applicable. We have not assigned an asset life to the 'Land' and 'Easements' asset classes because the capex allocated to them are not subject to depreciation. We have also not assigned a standard asset life to the 'Emergency network spares' and 'Spare parts' asset classes because there is no forecast capex allocated to these asset classes for the 2024–29 period.

## 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>10</sup>

<sup>10</sup> AER, *Draft decision: TasNetworks distribution determination 2024–29 – Attachment 4 – Regulatory depreciation*, September 2023, pp. 3–5, 6–8.



## Shortened forms

Term	Definition
AER	Australian Energy Regulator
capex	capital expenditure
NER	National Electricity Rules
PTRM	post-tax revenue model
RAB	regulatory asset base
RFM	roll forward model

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