Final Decision

Ergon Energy Electricity Distribution Determination 2025 to 2030

(1 July 2025 to 30 June 2030)

Attachment 2
Regulatory asset base

April 2025

AUSTRALIAN ENERGY REGULATOR

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1	30 April 2025	9

List of attachments

This attachment forms part of the Australian Energy Regulator’s (AER's) final decision on the distribution determination that will apply to Ergon Energy for the 2025–30 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. Where an attachment has not been prepared, our draft decision reasons form part of this final decision. The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision.

The final decision includes the following attachments:

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

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2 Regulatory asset base

Our distribution determination includes Ergon Energy's opening regulatory asset base (RAB) value as at 1 July 2025 and the projected RAB value for the 2025–30 regulatory control period (period).[1] The value of the RAB substantially impacts Ergon Energy'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.[2] This final decision sets out:

- the opening RAB value as at 1 July 2025
- the forecast closing RAB value as at 30 June 2030
- that depreciation based on forecast capital expenditure (capex) is to be used for establishing the RAB as at the commencement of the 2030–35 period.[3]

2.1 Final decision

2.1.1 Opening RAB as at 1 July 2025

Our final decision is to determine an opening RAB value of $15,766.3 million ($ nominal) as at 1 July 2025 for Ergon Energy. This amount is $88.0 million (0.6%) lower than Ergon Energy's revised proposed opening RAB of $15,854.3 million ($ nominal) as at 1 July 2025.[4] It reflects our update to the roll forward model (RFM) for actual consumer price index (CPI) for 2024–25 which was lower than the estimate used in the revised proposal. This final decision is $200.2 million (1.3%) higher than our draft decision amount for Ergon Energy's opening RAB of $15,566.1 million ($ nominal).[5]

To determine the opening RAB as at 1 July 2025, we have rolled forward the RAB over the 2020–25 period to determine a closing RAB value at 30 June 2025 in accordance with our RFM.[6] This roll forward process includes an adjustment at the end of the 2020–25 period to account for the difference between actual 2019–20 capex and the estimate approved in the 2020–25 determination.[7] Our final decision also reflects updated 2024–25 forecast

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

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. 6.12.1(18).

4 Ergon Energy, *8.01 - SCS - Roll Forward Model,* November 2024.

5 This increase is mainly driven by the updates to the capex for 2023–24 to reflect actual values and an updated capex estimate for 2024–25, which resulted in an increase to the opening RAB value by $282.3 million (1.8%) compared to the draft decision, all else being equal. Updates for 2024–25 inflation decrease the opening RAB value by $81.8 million (0.5%).

6 AER, *Electricity distribution network service providers: Roll forward model (version 3.1)*, May 2022.

7 The end of period adjustment will be positive (negative) if actual capex is higher (lower) than the estimate approved at the 2020–25 determination. See NER, cl. S6.2.1(e)(3).

depreciation due to our decision on Ergon Energy's cost pass through applications for Tropical Cyclone Jasper and Tropical Cyclone Kirrily.[8]

Table 2.1 sets out our final decision on the roll forward of Ergon Energy's RAB over the 2020–25 period.

Table 2.1 AER's final decision on Ergon Energy's RAB for the 2020–25 period ($ million, nominal)

	2020–21	2021–22	2022–23	2023–24	2024–25[a]
Opening RAB	11,533.8	11,755.1	12,308.1	13,549.3	14,624.8
Net capex[b]	570.8	609.0	771.6	1,065.5	1,252.5
Inflation on opening RAB	99.3	411.2	963.9	549.0	354.6
Less: straight-line depreciation[c]	448.7	467.3	494.3	539.0	575.3
Interim closing RAB	11,755.1	12,308.1	13,549.3	14,624.8	15,656.5
Difference between estimated and actual capex in 2019–20	-	-	-	-	92.0
Return on difference for 2019–20 capex	-	-	-	-	31.5
Ex-post adjustment for 2018–19 excluded capex[d]	-	-	-	-	–50.1
Return on adjustment for 2018–19 excluded capex	-	-	-	-	–17.2
Final year asset adjustment[e]	-	-	-	-	53.7
Closing RAB as at 30 June 2025	-	-	-	-	**15,766.3**

Source: AER analysis.

(a) Based on estimated capex provided by Ergon Energy. We will true-up the RAB for the actual capex at the next distribution determination.

(b) Net of ex post capex reductions, 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) In our RFM, in accounting for reductions to capex from an ex post review, we make a specific final year asset adjustment for the capex in year 't-2' (the second last year of the previous regulatory control period) which in this case is 2018–19. This is required because of the manner in which the RAB was rolled forward to 1 July 2020 in the 2020-25 determination. In the other years of the ex post review period (2019–23) we reduce the actual capex inputs as required to reflect prudent and efficient capex and so do not require a specific final year asset adjustment.

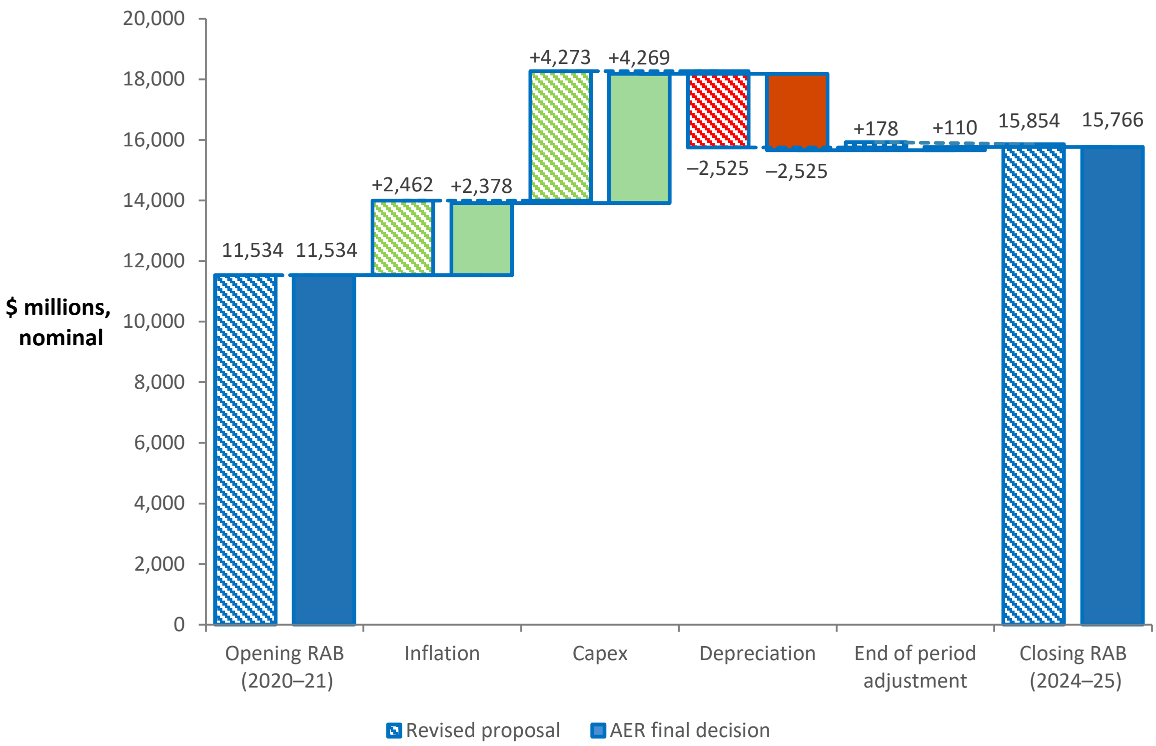
(e) Includes the addition of capitalised leases as at 30 June 2025.

Figure 2.1 shows the key drivers of the change in Ergon Energy's RAB over the 2020–25 period for this final decision. Overall, the closing RAB value at the end of the 2020–25 period

[8] AER, *Final decision – Ergon Energy cost pass through application – Tropical Cyclone Jasper*, April 2025; and AER, *Final decision – Ergon Energy cost pass through application – Tropical Cyclone Kirrily*, April 2025. This update reduces the opening RAB by $0.04 million.

is estimated to be 36.7% higher than the opening RAB at the start of that period, in nominal terms. The new net capex increases the RAB by 37.0%, while inflation indexation increases it by 20.6%. Depreciation, on the other hand, reduces the RAB by 21.9%. End of period adjustments increase the RAB by 1.0%.

Figure 2.1 Key drivers of changes in the RAB over the 2020–25 period – Ergon Energy's 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 Ergon Energy's proposed opening RAB value as at 1 July 2025 by $686.9 million (4.2%). This reduction was largely due to our decision to exclude a portion of capex from the RAB roll-forward as a result of our ex post review of 2018–23 capex. We also amended the following inputs in the RFM for determining the opening RAB value:[9]

- We updated the CPI inputs for 2023–24 and 2024–25 to reflect more up-to-date values.
- We updated the nominal vanilla WACC for 2024–25, equity raising costs and the forecast straight-line depreciation inputs to be consistent with the values in our 2024–25 return on debt updated post-tax revenue model (PTRM).
- We increased capitalised lease costs being rolled into the RAB at the end of the 2020–25 period to reflect the updated WACC values.

9 AER, *Draft decision: Ergon Energy distribution determination 2025–30 – Attachment 2 – Regulatory asset base*, September 2024, pp. 1–2.

- We updated the capex amounts for 2020–23 for the 'IT systems' and 'In-house software' asset classes to reflect the corrected CPI adjusted forecast capex for these asset classes in recognition of Ergon Energy's proposal to self-fund the overspend of its forecasted capex relating to these asset classes.[10]
- We made other minor modelling input updates to correct capex inputs.

We also noted in the draft decision that the roll forward of Ergon Energy's RAB included estimated capex for 2023–24 and 2024–25, and estimated inflation for 2024–25, because the actual values for these inputs were not yet available at the time.[11]

In its revised proposal, Ergon Energy adopted all of our draft decision changes. In addition, Ergon Energy updated the following inputs in its revised proposed RFM:[12]

- the estimated capex for 2023–24 with actuals
- the estimated capex for 2024–25 with revised estimates.

For this final decision, we have checked the actual capex for 2023–24 in Ergon Energy's revised proposed RFM. We are satisfied that these capex inputs reconcile with the values presented in Ergon Energy's annual reporting Regulatory Information Notice (RIN) for 2023−24.

We also accept Ergon Energy's revised 2024–25 net capex estimates of $1,252.5 million ($ nominal) for this final decision.[13] This is $203.1 million (19.4%) higher than the amount included in our draft decision RFM. This increase is mainly due to Ergon Energy's revised gross capex estimates for this year, which is 24.0% higher than the estimated value at the time of its initial proposal. In response to our information request, Ergon Energy noted there were several reasons for this higher estimated gross capex.[14] The main driver of this increase is the higher estimated replacement capex associated with an increase in planned asset replacement activities. Additionally, the higher estimated gross capex is due to a change in its treatment of capital contributions to ensure consistency with the approach applied in the 2020–25 period. While we accept Ergon Energy's revised 2024–25 capex estimates for the final decision, we note that the financial impact of any difference between actual and estimated capex for 2024–25 will be accounted for at the next distribution determination for the 2030–35 period.

We received no submissions on our approach to calculating the opening RAB. Our position in the final decision is limited to updates for more recent data in the RFM. This includes updating the 2024–25 estimated inflation input of 3.00% with actual CPI of 2.42% based on

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10 AER, *Draft decision: Ergon Energy distribution determination 2025–30 – Attachment 2 – Regulatory asset base*, September 2024, p. 13; Ergon Energy, *Regulatory Proposal 2025–30*, January 2024, p. 61.

11 AER, *Draft decision: Ergon Energy distribution determination 2025–30 – Attachment 2 – Regulatory asset base*, September 2024, pp. 1, 3.

12 Ergon Energy, *8.01 - SCS - Roll Forward Model,* November 2024.

13 This amount is net of disposals and capital contributions, 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 2024–25 in our final decision.

14 Ergon Energy, *Response to information request 074 – Q3–4,* January 2025.

the December 2024 CPI from the Australian Bureau of Statistics, which became available after Ergon Energy submitted its revised proposal.

2.1.2 Ex post review of 2018–23 capex

We also consider the extent to which our roll forward of the RAB to 1 July 2025 contributes to the achievement of the capex incentive objective.[15] The review period of past capex for this distribution determination is over 2018–19 to 2022–23.[16] As discussed in the draft decision, the overspending requirement for an efficiency review of past capex is satisfied.[17] As also discussed in the draft decision, we consider that a portion of the capex incurred in those years was not consistent with the capex criteria and therefore we excluded $504.1 million ($ nominal) from the RAB.[18] In its revised proposal, Ergon Energy accepted our draft decision on the outcome of the 2018–23 ex-post review.[19]

For this final decision, we have included Ergon Energy's actual capex for 2023–24 and estimated capex for 2024–25 in the RAB roll forward to 1 July 2025. At the next distribution determination, the actual capex for 2023–24 and 2024–25 will form part of the review period for whether past capex should be excluded for inefficiency reasons.[20] Our RAB roll forward applies the incentive framework approved in a previous distribution determination, which included the use of a forecast depreciation approach in combination with the application of the capital expenditure sharing scheme (CESS).[21] As such, we consider that the 2020–25 RAB roll forward contributes to an opening RAB (as at 1 July 2025) that includes capex that reflects prudent and efficient costs, in accordance with the capex criteria.[22]

2.1.3 Forecast closing RAB as at 30 June 2030

Once we have determined the opening RAB value as at 1 July 2025, 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 2025–30 period.[23]

For this final decision, we determine a forecast closing RAB value as at 30 June 2030 of $19,315.4 million ($ nominal) for Ergon Energy. This is $863.9 million (4.3%) lower than Ergon Energy's revised proposal of $20,179.3 million ($ nominal).[24] This reduction is mainly due to our final decision on forecast capex (Attachment 5). Our final decisions on the

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15 NER, cll. 6.12.2(b) and 6.4A(a).

16 NER, cl. S6.2.2A(a1).

17 NER, cl. S6.2.2A(c).

18 NER, cl. S6.2.2A(f); AER, *Draft decision: Ergon Energy distribution determination 2025–30 – Attachment 2 – Regulatory asset base*, September 2024, pp. 14–15. This amount is calculated based on Ergon Energy's resubmitted RINs for 2020–21, 2021–22 and 2022–23, as we reflected in our draft decision.

19 Ergon Energy, *2025–30 Revised regulatory proposal,* November 2024, pp. 14, 64.

20 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*, April 2023, pp. 12–19.

21 AER, *Final decision: Ergon Energy distribution determination 2020–25 - Attachment 2 - Regulatory Asset Base*, June 2020, p. 10.

22 NER, cll. 6.4A(a), 6.5.7(a), 6.5.7(c) and 6.12.2(b).

23 NER, cl. S6.2.3.

24 Ergon Energy, *8.01 - SCS - Roll Forward Model,* November 2024.

opening RAB as at 1 July 2025 (discussed in this attachment), the expected inflation rate (section 2.2 of the Overview) and forecast depreciation (Attachment 4) also affect the forecast closing RAB value as at 30 June 2030.[25]

Table 2.2 sets out our final decision on the forecast RAB values for Ergon Energy over the 2025–30 period.

Table 2.2 AER's final decision on Ergon Energy's RAB for the 2025–30 period ($ million, nominal)

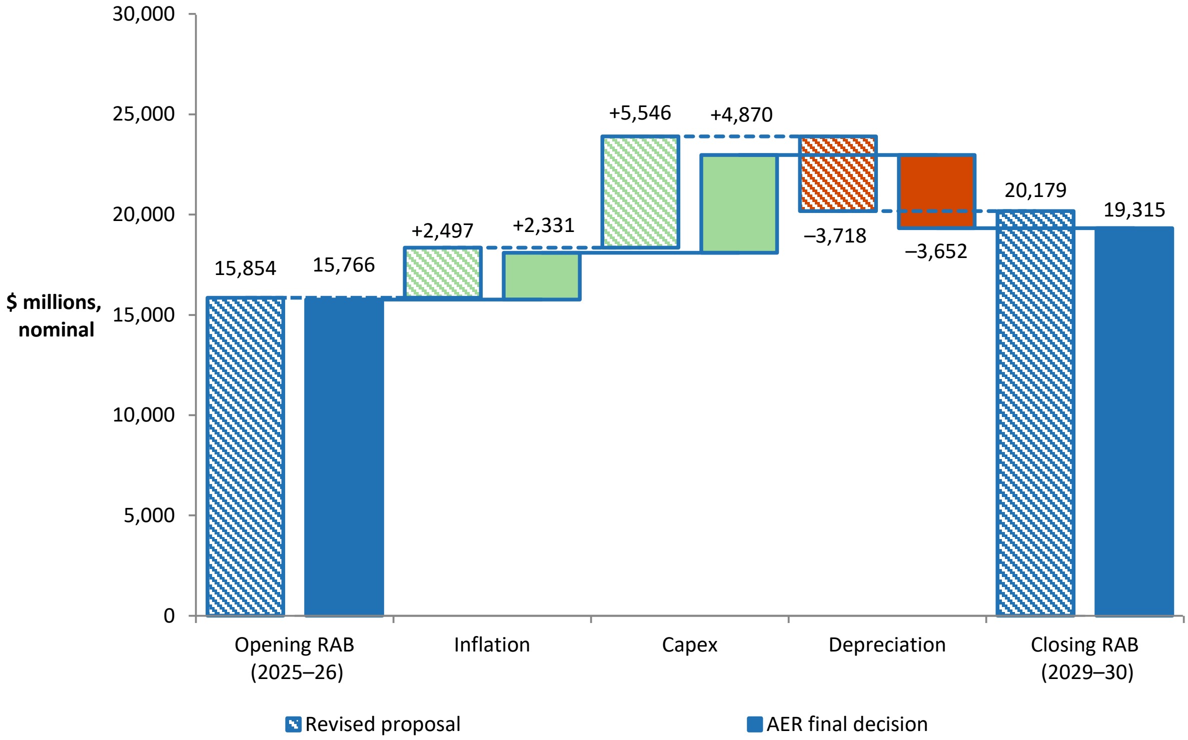
	2025–26	2026–27	2027–28	2028–29	2029–30
Opening RAB	15,766.3	16,446.3	17,130.3	17,822.9	18,534.7
Net capex[a]	889.0	920.4	960.6	1,007.9	1,092.5
Inflation on opening RAB	428.8	447.3	465.9	484.7	504.1
Less: straight-line depreciation	637.8	683.7	733.8	780.9	815.8
Closing RAB	**16,446.3**	**17,130.3**	**17,822.9**	**18,534.7**	**19,315.4**

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 2.2 shows the key drivers of the change in Ergon Energy's RAB over the 2025–30 period for this final decision. Overall, the closing RAB value at the end of the 2025–30 period is forecast to be 22.5% higher than the opening RAB at the start of that period, in nominal terms. The approved forecast net capex increases the RAB by 30.9%, while expected inflation increases it by 14.8%. Forecast depreciation, on the other hand, reduces the RAB by 23.2%.

[25] Capex enters the RAB net of forecast disposals and capital contributions. 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 2025–30 period (section 2.2 of the Overview).

Figure 2.2 Key drivers of changes in the RAB over the 2025–30 period – Ergon Energy's revised proposal compared with the AER's final decision ($ 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 $4,410.7 million ($2024–25) forecast net capex for Ergon Energy over the 2025–30 period.[26] This amount is 12.0% lower than Ergon Energy's revised proposal of $5,011.4 million. We are satisfied that this reduced amount reasonably reflects the capex criteria. Refer to section 2.4 of the Overview to this final decision and 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 Ergon Energy's RAB for the 2025–30 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 Ergon Energy's opening RAB at the commencement of the 2030–35 period will be based on the depreciation schedules (straight-line) using forecast capex at the asset class level approved for the 2025–30 period.[27] This

26 This amount is net of forecast disposals and capital contributions, and excludes the half-year WACC adjustment.

27 NER, cl. 6.12.1(18).

approach is consistent with our draft decision.[28] Further, this approach is consistent with our *Framework and approach*.[29] Ergon Energy'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 Ergon Energy for the 2025–30 period. We consider that the CESS will provide sufficient incentives for Ergon Energy 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.[30]

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.[31]

[28] AER, *Draft decision: Ergon Energy distribution determination 2025–30 – Attachment 2 – Regulatory asset base*, September 2023, pp. 17–18.

[29] AER, *Framework and approach papers – Ergon Energy and Energex 2025–30*, July 2023, p. 21.

[30] 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.

[31] AER, *Draft decision: Ergon Energy distribution determination 2025–30 – Attachment 2 – Regulatory asset base*, September 2023, pp. 6–11.

Shortened forms

Term	Definition
AER	Australian Energy Regulator
capex	capital expenditure
CESS	capital expenditure sharing scheme
CPI	Consumer Price Index
depreciation	return of capital
NER	National Electricity Rules
period	regulatory control period
PTRM	post-tax revenue model
RAB	regulatory asset base
RFM	roll forward model
RIN	Regulatory Information Notice
WACC	weighted average cost of capital