



FINAL DECISION
AusNet Services
Gas access arrangement
2018 to 2022

Attachment 5 – Regulatory
depreciation

November 2017

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Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
capex	Capital expenditure
NGL	National Gas Law
NGR	National Gas Rules
SCADA	Supervisory control and data acquisition

5 Regulatory depreciation

When determining the total revenue for AusNet, we include an allowance for the depreciation of the projected capital base (otherwise referred to as 'return of capital'). Regulatory depreciation is used to model the nominal asset values over the 2018–22 access arrangement period and the depreciation allowance in the total revenue requirement.¹

5.1 Final decision

Our final decision approves forecast regulatory depreciation of \$185.1 million (\$ nominal) for AusNet over the 2018–22 access arrangement period. This is \$1.5 million (or 0.8 per cent) higher than AusNet's revised proposal of \$183.6 million (\$ nominal). This is because we have:

- Amended AusNet's opening capital base as at 1 January 2018 (attachment 2).
- Updated the value of expected inflation for the 2018–22 access arrangement period.

We therefore do not accept AusNet's revised proposed regulatory depreciation allowance.² Our final decision on AusNet's regulatory depreciation allowance for the 2018–22 access arrangement period is set out in Table 5.1.

Table 5.1 AER's final decision on AusNet's regulatory depreciation allowance for the 2018–22 access arrangement period (\$million, nominal)

	2018	2019	2020	2021	2022	Total
Straight-line depreciation	79.8	70.9	75.5	80.7	86.7	393.8
Less: indexation on capital base	38.3	39.9	41.8	43.5	45.1	208.6
Regulatory depreciation	41.6	31.0	33.8	37.2	41.6	185.1

Source: AER analysis.

In the draft decision, we accepted AusNet's proposed year-by-year tracking real straight-line approach to calculate the regulatory depreciation allowance. However, we identified required changes to certain aspects of the regulatory depreciation allowance, including:

- An adjustment to AusNet's proposed year-by-year tracking depreciation model to account for the forecast depreciation approach applied to rolling forward the capital base over the 2013–17 access arrangement period.

¹ Regulatory depreciation allowance is the net total of the straight-line depreciation (negative) and the annual inflation indexation (positive) on the projected capital base.

² NGR, r. 89(1).

- Adjustments to other components of AusNet's proposal including the expected inflation and forecast capex for the 2018–22 access arrangement period.

AusNet's revised proposal adopted these draft decision amendments.³

Table 5.2 sets out our final decision on the standard asset lives for AusNet over the 2018–22 access arrangement period.

Table 5.2 AER's final decision on AusNet's standard lives (years)

Asset class	Standard asset life
Transmission pipelines	60.0
Distribution pipelines	60.0
Service pipes	60.0
Cathodic protection	60.0
Supply regulators/valve stations	50.0
Meters	15.0
SCADA and remote control	15.0
Buildings	40.0
Other - IT	5.0
Other - non IT	5.0
Equity raising costs	55.3

Source: AER analysis.

5.2 Assessment approach

We set out our approach to the regulatory depreciation allowance in section 5.3 of our draft decision. We have not changed that approach in this final decision.

³ AusNet Services, *Revised Access Arrangement Information - Public*, August 2017, p.3.