DRAFT DECISION

Jemena
Distribution Determination
2021 to 2026

Attachment 4
Regulatory depreciation

September 2020

AUSTRALIAN ENERGY REGULATOR

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Tel: 1300 585 165
Email: VIC2021-26@aer.gov.au

Note

This attachment forms part of the AER's draft decision on the distribution determination that will apply to Jemena for the 2021–26 regulatory control period. It should be read with all other parts of the draft decision.

The draft decision includes the following attachments:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

Attachment 11 – Demand management incentive scheme and demand management innovation allowance mechanism

Attachment 12 – Not applicable for this distributor

Attachment 13 – Classification of services

Attachment 14 – Control mechanisms

Attachment 15 – Pass through events

Attachment 16 – Alternative control services

Attachment 17 – Negotiated services framework and criteria

Attachment 18 – Connection policy

Attachment 19 – Tariff structure statement

Attachment A – Victorian f-factor incentive scheme

Contents

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 Jemena, we make determinations on the indexation of the regulatory asset base (RAB) and depreciation building blocks for Jemena's 2021–26 regulatory control period.[1] The regulatory depreciation amount is the net total of the straight-line depreciation less the indexation of the RAB.

This attachment sets out our draft decision on Jemena's regulatory depreciation amount. It also presents our draft decision on the proposed depreciation schedules, including an assessment of the proposed standard asset lives used for forecasting depreciation.

4.1 Draft decision

We determine a regulatory depreciation amount of $274.1 million ($ nominal) for Jemena for the 2021–26 regulatory control period. Jemena proposed a regulatory depreciation amount of $279.0 million ($ nominal).[2] Our decision represents a decrease of $4.9 million or 1.7 per cent on the proposed amount.

For our draft decision on Jemena's regulatory depreciation:

- We accept Jemena's proposed asset classes, its straight-line depreciation method, and the standard asset lives (with the exception of the 'Non network - other' and 'Equity raising costs' asset classes) used to calculate the regulatory depreciation amount.
- We accept the continuation of Jemena's year-by-year tracking approach to calculate straight-line depreciation of existing assets. However, we identified and corrected a few minor errors in Jemena's application of the year-by-year tracking approach in its depreciation model.
- We made determinations on other components of Jemena's proposal which affect the forecast regulatory depreciation—for example, the opening RAB at 1 July 2021 (attachment 2), expected inflation (attachment 3), and forecast capital expenditure (capex) (attachment 5) including its effect on the projected RAB over the 2021–26 regulatory control period.[3]

Table 4.1 sets out our draft decision on the annual regulatory depreciation amount for Jemena's 2021–26 regulatory control period.

---

1 NER, cll. 6.12.1, 6.4.3.

2 Jemena, 2021–26 Regulatory Proposal – *Attachment 07-15 SCS PTRM FY22–26,* January 2020.

3 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. Our draft decision on the RAB (attachment 2) also reflects our updates to the WACC for the 2021–26 regulatory control period.

Table 4.1 AER's draft decision on Jemena's forecast depreciation for the 2021–26 regulatory control period ($ million, nominal)

	2021–22	2022–23	2023–24	2024–25	2025–26	Total
Straight-line depreciation	83.2	90.9	95.9	101.5	105.2	476.7
Less: inflation indexation on opening RAB	36.2	38.5	40.9	42.8	44.2	202.6
Regulatory depreciation	**47.0**	**52.4**	**54.9**	**58.7**	**61.1**	**274.1**

Source: AER analysis.

4.2 Jemena's proposal

For the 2021–26 regulatory control period, Jemena proposed total forecast regulatory depreciation of $279.0 million ($ nominal). To calculate the depreciation amount, Jemena proposed to use:[4]

- the straight-line depreciation method employed in the AER's post-tax revenue model (PTRM)
- the closing RAB value at 30 June 2021 derived from the AER's roll forward model (RFM)
- proposed forecast capex for the 2021–26 regulatory control period
- an expected inflation rate of 2.37 per cent per annum for the 2021–26 regulatory control period
- the year-by-year tracking depreciation model, which implements the straight-line method to calculate the forecast depreciation (over the 2021–26 regulatory control period) of the opening RAB at 1 July 2021
- the asset classes and standard asset lives for depreciating new assets associated with forecast capex for the 2021–26 regulatory control period, which are largely consistent with those approved in the 2016–20 distribution determination. It proposed changes to the standard asset lives for the 'Non network - IT' and 'Non network - other' asset classes.
- two new asset classes in the PTRM for 'Buildings (SL tax depn)' and 'In house software (SL tax depn)' that were created for straight-line tax depreciation purposes arising from the AER's 2018 tax review (see attachment 7).

Table 4.2 sets out Jemena's proposed depreciation amount for the 2021–26 regulatory control period.

[4] Jemena, 2021–26 Regulatory Proposal –*Attachment 07-15 SCS PTRM FY22-26*; Jemena; Jemena, 2021–26 Regulatory Proposal –*Attachment 07-17 SCS RFM CY16-HY21*, January 2020.

Table 4.2 Jemena's proposed forecast depreciation for the 2021–26 regulatory control period ($ million, nominal)

	2021–22	2022–23	2023–24	2024–25	2025–26	Total
Straight-line depreciation	83.7	92.4	97.8	103.9	108.0	485.8
Less: inflation indexation on opening RAB	36.7	39.3	41.9	43.8	45.1	206.8
Regulatory depreciation	**47.0**	**53.0**	**55.9**	**60.2**	**62.9**	**279.0**

Source: Jemena, Jemena, 2021–26 Regulatory Proposal –*Attachment 07-15 SCS PTRM FY22–26,* January 2020.

4.3 Assessment approach

We determine the regulatory depreciation amount using the PTRM as part of a service provider's annual revenue requirement.[5] Where the year-by-year tracking approach has been adopted, a separate depreciation model is also used for existing assets and feeds into the PTRM. The calculation of depreciation in each year is governed by the value of assets included in the RAB at the beginning of the regulatory year, and by the depreciation schedules.[6]

Our standard approach to calculating depreciation is to employ the straight-line method set out in the PTRM. We consider the straight-line method satisfies the National Electricity Rules (NER) requirements in clause 6.5.5(b) as it provides an expenditure profile that reflects the nature of assets over their economic life.[7]

Once the method is set, regulatory practice has been to assign a standard asset life to each category of assets that represents the economic or technical life of the asset or asset class. We must consider whether the proposed depreciation schedules conform to the following key requirements:

- the schedules depreciate using a profile that reflects the nature of the assets or category of assets over the economic life of that asset or category of assets[8]
- the sum of the real value of the depreciation that is attributable to any asset or category of assets must be equivalent to the value at which that asset or category of assets was first included in the RAB for the relevant distribution system.[9]

If a service provider's building block proposal does not comply with the above requirements, then we must determine the depreciation schedules for the purpose of calculating the depreciation for each regulatory year.[10]

---

5 NER, cll. 6.4.3(a)(3) and (b)(3).
6 NER, cl. 6.5.5(a).
7 NER, cl. 6.5.5(b)(1).
8 NER, cl. 6.5.5(b)(1).
9 NER, cl. 6.5.5(b)(2).
10 NER, cl. 6.5.5(a)(2)(ii).

The regulatory depreciation amount is an output of the PTRM. We therefore assessed Jemena's proposed regulatory depreciation amount by analysing the proposed inputs to the PTRM for calculating that amount. The key inputs include:

- the opening RAB at 1 July 2021
- the forecast net capex in the 2021–26 regulatory control period[11]
- the expected inflation rate for the above period
- the standard asset life for each asset class—used for calculating the depreciation of new assets associated with forecast net capex in the above period
- the depreciation associated with the opening RAB as at 1 July 2021—calculated in a separate year-by-year tracking depreciation model.

Our draft decision on Jemena's regulatory depreciation amount reflects our determinations on the opening RAB at 1 July 2021, expected inflation, and forecast capex (the first three building block components in the above list).[12] Our determinations on these components of the service provider's proposal are discussed in attachments 2, 3 and 5 respectively.

In this attachment, we assess Jemena's proposed standard asset lives against:

- the approved standard asset lives in the distribution determination for the 2016–20 regulatory control period
- the standard asset lives of comparable asset classes approved in our recent distribution determinations for other service providers
- the appropriate economic lives of the assets.

Our standard approach for depreciating a service provider's existing assets in the PTRM uses the remaining asset lives at the start of a regulatory control period as determined in the RFM. However, for the 2016–20 regulatory control period, Jemena adopted an approach where (in addition to grouping assets by type via asset classes) it tracks the asset classes on a year-by-year basis to implement straight-line depreciation—known as the year-by-year tracking approach. In our distribution determination for Jemana's 2016–20 regulatory control period, we approved the year-by-year tracking approach and determined that it met the depreciation provisions of the NER. We reaffirm this decision for the 2021–26 regulatory control period, as discussed in section 4.4.1.

---

[11] 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. Our draft decision on the RAB (attachment 2) also reflects our updates to the WACC for the 2021–26 regulatory control period.

[12] Our final decision will update the opening RAB as at 1 July 2021 for revised estimates of actual capex and inflation.

4.3.1 Interrelationships

The regulatory depreciation amount is a building block component of the annual revenue requirement.[13] Higher (or quicker) depreciation leads to higher revenues over the regulatory control period. It also causes the RAB to reduce more quickly (excluding the impact of further capex). This reduces the return on capital amount, although this impact is usually smaller than the increased depreciation amount in the short to medium term.[14]

Ultimately, however, a service provider can only recover the capex that it incurred on assets once. The depreciation amount reflects how quickly the RAB is being recovered, and it is based on the remaining and standard asset lives used in the depreciation calculation. It also depends on the level of the opening RAB and the forecast capex, with any increase in these factors also increasing the depreciation amount.

The RAB has to be maintained in real terms, meaning the RAB must be indexed for expected inflation.[15] The return on capital building block has to be calculated using a nominal rate of return (WACC) applied to the opening RAB.[16] As noted in attachment 1, the total annual revenue requirement is calculated by adding up the return on capital, depreciation, operating expenditure, tax and revenue adjustments building blocks. Because inflation on the RAB is accounted for in both the return on capital—based on a nominal rate—and the depreciation calculations—based on an indexed RAB—an adjustment must be made to the revenue requirement to prevent compensating twice for inflation.

To avoid this double compensation, we make an adjustment by subtracting the annual indexation gain on the RAB from the calculation of total revenue.[17] Our standard approach is to subtract the indexation of the opening RAB—the opening RAB multiplied by the expected inflation for the year—from the RAB depreciation. The net result of this calculation is referred to as regulatory depreciation.[18] Regulatory depreciation is the amount used in the building block calculation of total revenue to ensure that the revenue equation is consistent with the use of a RAB, which is indexed for inflation annually.

---

13 The PTRM distinguishes between straight-line depreciation and regulatory depreciation, the difference being that regulatory depreciation is the straight-line depreciation minus the indexation adjustment.

14 This is generally the case because the reduction in the RAB amount feeds into the higher depreciation building block, whereas the reduced return on capital building block is proportionate to the lower RAB multiplied by the WACC.

15 NER, cl. 6.5.1(e)(3).

16 AER, *Rate of return instrument*, cl. 1, cl. 3(a), cl. 36(c), December 2018.

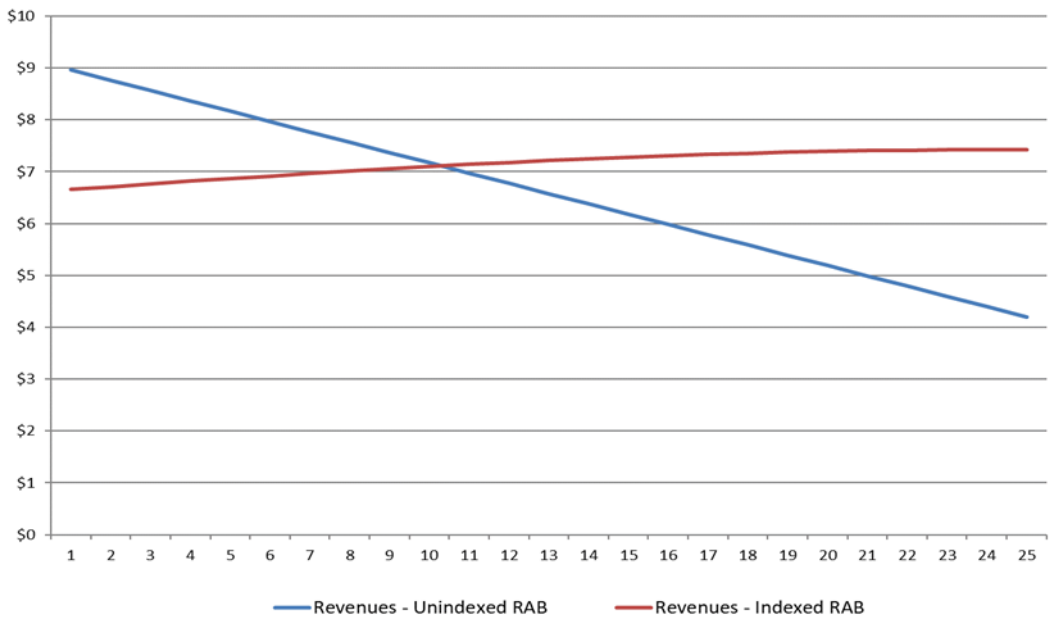
17 NER, cl. 6.4.3(b)(1)(ii).

18 If the asset lives are extremely long, such that the RAB depreciation rate is lower than the inflation rate, then negative regulatory depreciation can emerge. The indexation adjustment is greater than the RAB depreciation in such circumstances.

This approach produces the same total revenue requirement and RAB as if a real rate of return had been used in combination with an indexed RAB. Under an alternative approach where a nominal rate of return was used in combination with an un-indexed (historical cost) RAB, no adjustment to the depreciation calculation of total revenue would be required. This alternative approach produces a different time path of total revenue compared to our standard approach. In particular, overall revenues would be higher early in the asset's life (as a result of more depreciation being returned to the service provider) and lower in the future—producing a steeper downward sloping profile of total revenue.[19] Under both approaches, the total revenues being recovered are in present value neutral terms—that is, returning the initial cost of the RAB.

Figure 4.1 shows the recovery of revenue under both approaches using a simplified example.[20] Indexation of the RAB and the offsetting adjustment made to depreciation results in smoother revenue recovery profile over the life of an asset than if the RAB was un-indexed. The indexation of the RAB also reduces price shocks when the asset is replaced at the end of its life.[21]

Figure 4.1 Revenue path example – indexed vs un-indexed RAB ($ nominal)



19 A change of approach from an indexed RAB to an un-indexed RAB would result in an initial step change increase in revenues to preserve NPV neutrality.

20 The example is based on the initial cost of an asset of $100, a standard economic life of 25 years, a real WACC of 2.5%, expected inflation of 2.4% and nominal WACC of 4.96%. Other building block components such as opex, tax and capex are ignored for simplicity as they would affect both approaches equally.

21 In year 26 the revenues in the example for the un-indexed approach would jump from about $4 to $9, assuming the asset is replaced by an asset of roughly similar replacement cost as the initial asset. In contrast, in the same circumstances, the indexed approach would see revenues stay at roughly $7.

Source: AER analysis.

Figure 2.1 (in attachment 2) shows the relative size of the inflation and straight-line depreciation and their impact on the RAB based on Jemena's proposal. A 10 per cent increase in the straight-line depreciation causes revenues to increase by about 3.9 per cent.[22]

4.4 Reasons for draft decision

We accept Jemena's proposed straight-line depreciation method for calculating the regulatory depreciation amount as set out in the PTRM and the year-by-year tracking approach to implement this method, subject to correcting some minor errors. We also accept the proposed asset classes and standard asset lives (with the exception of the 'Non network - other' and 'Equity raising costs' asset classes).

However, we reduced Jemena's proposed forecast regulatory depreciation by $4.9 million (or 1.7 per cent) to $274.1 million ($ nominal). This amendment reflects our changes to the standard asset lives for the 'Non network - other' and 'Equity raising costs' asset classes. It also reflects our determinations regarding other components of Jemena's regulatory proposal that affect the forecast regulatory depreciation—the opening RAB at 1 July 2021 (attachment 2), expected inflation over the 2021–26 regulatory control period (attachment 3) and forecast capital expenditure (attachment 5) including its effect on the projected RAB over the 2021–26 regulatory control period.[23]

Our assessment of Jemena's continuation of the year-by-year tracking depreciation approach and its proposed standard asset lives are discussed in turn in the following subsections.

4.4.1 Year-by-year tracking approach

From the beginning of the 2016–20 regulatory control period, Jemena has implemented the straight-line method for the calculation of its forecast regulatory depreciation using the year-by-year tracking approach. We accepted this approach in our 2016–20 distribution determination. Jemena's proposal is to continue using the year-by-year tracking approach for calculating depreciation of its existing assets.

We accept that Jemena's proposed year-by-year tracking approach meets the requirements of the NER in that it will result in depreciation schedules that:

- reflect the nature of the assets and their economic life[24]

---

22 We have analysed the sensitivity of straight-line depreciation relative to total revenue based on input data provided in Jemena's proposal PTRM.

23 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. Our draft decision on the RAB (attachment 2) also reflects our updates to the WACC for the 2021–26 regulatory control period.

24 NER, cl. 6.5.5(b)(1).

- ensure that total depreciation (in real terms) equals the initial value of the assets[25]
- allows the economic lives of existing assets to be consistent with those determined on a prospective basis in our 2016–2020 distribution determination.[26]

Jemena prepared a separate depreciation model to implement year-by-year tracking.[27] It builds on the depreciation model used for the 2016–20 distribution determination and accounts for the additional half year in 2021.[28] We have reviewed Jemena's year-by-year tracking depreciation model and updated it with the latest CPI and WACC estimates for 2021 in the depreciation model, which were not available at the time of the proposal.

We also corrected some minor errors in the depreciation model, which Jemena agreed with.[29] These errors only had a small impact on the depreciation amount for the 2021–26 regulatory control period.[30]

4.4.2 Standard asset lives

We accept Jemena's proposed standard asset lives, with the exception of the standard asset life for the 'Non network - other' and 'Equity raising costs' asset classes. We have calculated the standard asset life of equity raising costs by taking the weighted average of the standard asset lives of total forecast capex for each asset class over the 2021–26 regulatory control period. We also accept the introduction of two new asset classes arising from the 2018 tax review (attachment 7).

Jemena proposed the same standard asset lives for its existing asset classes in respect of the forecast capex to be incurred in the 2021–26 regulatory control period, except for the following asset classes: 'Non network - IT', 'Non network - other' and 'Equity raising costs'.

We accept the unchanged standard asset lives as they are consistent with those approved for the 2016–20 regulatory control period and are largely comparable with the standard asset lives approved in our recent determinations for other distributors.[31]

---

25 NER, cl. 6.5.5(b)(2).

26 NER, cl. 6.5.5(b)(3).

27 Jemena, 2021–26 Regulatory Proposal –*Attachment 07-18 SCS Depreciation Model CY16-HY21*, January 2020.

28 For the 2026 reset, Jemena will be required to use the AER's recently developed depreciation tracking model published with the RFM (version 3). Due to timing issues, that was not possible for this reset.

29 Jemena, *Response to AER information request #008*, 24 April 2020.

30 The error corrections relate to: adjusting the standard asset life for equity raising costs to be consistent with the life approved for the 2016–20 regulatory control period; and revising some 2021 half year adjustments to achieve consistency with the RFM for the 2016–21 period.

31 AER, *Final decision: TasNetworks distribution determination 2019 to 2024*, *attachment 4*, April 2019, pp. 9–10; AER, *Final decision: Evoenergy distribution determination 2019 to 2024*, *attachment 4*, April 2019, p. 9; AER, *Final decision: Essential Energy distribution determination 2019 to 2024*, *attachment 4*, April 2019, p. 8; AER, *Final decision: Ausgrid distribution determination 2019 to 2024*, *attachment 4*, April 2019, p. 9; AER, *Final decision: Endeavour Energy distribution determination 2019 to 2024*, *attachment 4*, April 2019, p. 10; AER, *Final decision: Power and Water Corporation distribution determination 2019 to 2024*, *attachment 4*, April 2019, pp. 8–9.

We also accept Jemena's proposed reduction of the standard asset life for the 'Non network - IT' to 5 years from 5.2 years. We consider this change to be appropriate because it reflects the economic life of the mix of assets in the class and still comparable with other Victorian distributors' standard life for this asset class.

Jemena proposed reducing the standard life for the 'Non network - other' asset class to 5 years from 24.2 years. It submitted that this reduction reflected the change in the mix of assets included in the forecast capex for this asset class, mainly due to the reallocation of buildings capex to a separate asset class as discussed further below.[32] We consider that for this case where the mix of capex has significantly changed, it is appropriate to amend the standard asset life.

We requested further information from Jemena regarding this proposed reduction and in its response Jemena described its calculation approach, which included:

- disaggregating the asset class into its underlying components—vehicles and general equipment
- using the proposed forecast capex and the standard life of each asset component to calculate a weighted average standard life for the 'Non network - other' asset class.[33]

We consider using the forecast capex and underlying standard lives of the asset components is an appropriate method to amend the standard life for the 2021–26 regulatory control period. Although the proposed forecast capex for this asset class has been amended slightly for this draft decision, the relative capex proportions for the underlying components—vehicles and general equipment—has not changed from the proposal. Further, we have identified some adjustments in the calculation by Jemena that are unnecessary. Based on our analysis of the composition of the forecast capex allocated to the 'Non network - other' asset class, we consider a new standard asset life of 10.5 years to be appropriate. Jemena has agreed with this amendment.[34]

The standard asset life for the 'Equity raising costs' asset class needs to be reviewed each regulatory control period. We consider the standard asset life for this asset class should reflect the lives of the mix of assets making up the approved forecast net capex, because the equity raising cost benchmark is associated with that forecast.[35] Jemena applied this approach in its proposal. However, because we have determined a different amount of forecast capex for this draft decision, we have had to recalculate the standard asset life for this asset class. We therefore updated the standard asset

---

32 Jemena, *Response to AER information request #008*, 24 April 2020.

33 The capex amounts reflect those in Jemena's proposed capex model while the standard lives are consistent with those in the 2016–20 final decision capex model, which were used to set the current approved standard asset life of 24.2 years.

34 Jemena, *Response to AER information request #008A*, 01 June 2020.

35 For this reason, we used forecast net capex as the weights to establish the weighted average standard asset life for amortising equity raising costs.

life to 42.1 years for amortising the $3.8 million in equity raising costs determined in this draft decision.

In order to implement the changes arising from the tax review, Jemena allocated a certain proportion of its forecast capex related to buildings and IT assets for the 2021–26 regulatory control period into two new asset classes. The two new asset classes are:[36]

- 'Buildings - capital works'
- 'In-house software'.

Discussed further in attachment 7, the tax review acknowledged different methods of calculation of tax depreciation for different asset classes, which resulted in the addition of these asset classes to the PTRM and a reallocation of forecast capex to these asset classes. For each asset class a standard asset life has been proposed that is consistent with the standard asset lives determined for these asset classes in recent AER decisions.[37] Therefore, for the 'Buildings - capital works' asset class we accept assigning a standard asset life of 40 years, while for 'In-house software' we accept assigning a standard asset life of 5 years.

The Victorian Community Organisations submitted that the Victorian distributors apply different depreciation schedules with asset lives that also differ from replacement expenditure (repex) assessments. The submission advocated applying a standard depreciation schedule across the Victorian distributors.[38] We encourage consistency in asset lives for similar assets. However, differences can appear to emerge when assets are aggregated into asset classes. The depreciation schedules have evolved over time. In certain aspects they are a carryover from the previous jurisdictional arrangements in Victoria. In this regard, a key feature of the Victorian distributors' depreciation schedules is that they are based on relatively few asset classes. This means that there can be a greater variety of assets in an asset class with otherwise similar names. Where this is the case, differences in the asset lives stem purely from the mix of assets that are expected to make up that asset class. For example, the 'Non-network – IT' asset class may encompass short lived standard IT assets (e.g. office computers and general word processing software), as well as more specialised IT assets (e.g. data servers and storage system). We consider it is reasonable that these assets may have different useful lives. Similarly, the repex assessments look at assets in more detail than the broader depreciation assessment. We consider the depreciation schedules across the Victorian distributors are comparable to each other

---

[36] We relabelled this asset class from 'Buildings (SL tax depn)' as proposed by Jemena to 'Buildings - capital works' to be clear that only capital works can be included in this asset class and for consistency with other businesses. We also relabelled Jemena's proposed 'In house software (SL tax depn)' asset class to 'In-house software' to be consistent with other businesses.

[37] AER, *Energex - Final decision - PTRM*, May 2020. AER, *Ergon Energy - Final decision - PTRM*, May 2020. AER, *SA Power Networks - Final decision - PTRM*, May 2020.

[38] VCO, *2021–26 Victorian EDPR: Joint submission from Victorian community organisations – summary document*, May 2020, p. 11.

and to the repex assessment when these differences are recognised. We have also discussed this matter in our previous Victorian distributor decisions.[39]

Table 4.3 sets out our draft decision on Jemena's standard asset lives for the 2021–26 regulatory control period. We are satisfied the approved standard asset lives would lead to a depreciation schedule that reflects the nature of the assets over the economic lives of the asset classes. Further, 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 Jemena.[40]

Table 4.3 AER's draft decision on Jemena's standard asset lives for the 2021–26 regulatory control period (years)

Asset class	Standard asset life
Subtransmission	53.4
Distribution system assets	49.5
SCADA/Network control	10.0
Non-network - IT	5.0
Non-network - other	10.5
Land	n/a
Buildings - capital works[a]	40.0
In-house software[a]	5.0
Equity raising costs	42.1

Source: AER analysis.

(a) New asset classes were created for the PTRM version 4 in order to separate components of buildings and IT related assets that must be depreciated using the straight-line method for tax purposes. Refer to attachment 7 (corporate income tax) for more detail.

n/a not applicable. We have not assigned a standard asset life to the 'Land' asset class because the assets allocated to it are non-depreciating assets.

[39] See for example: AER, *Final Decision: AusNet Services distribution determination 2016 to 2020, Attachment 5 – Regulatory depreciation*, May 2016, pp. 9−10.

[40] NER, cll. 6.5.5(b)(1)–(2).

Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
capex	capital expenditure
CPI	consumer price index
NER	National Electricity Rules
PTRM	post-tax revenue model
RAB	regulatory asset base
repex	replacement expenditure
RFM	roll forward model
WACC	weighted average cost of capital