



**DRAFT DECISION**  
**ActewAGL Distribution**  
**Access Arrangement**  
**2016 to 2021**

**Attachment 5 – Regulatory**  
**depreciation**

November 2015

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Inquiries about this publication should be addressed to:

Australian Energy Regulator  
GPO Box 520  
Melbourne Vic 3001

Tel: (03) 9290 1444

Fax: (03) 9290 1457

Email: [AERInquiry@aer.gov.au](mailto:AERInquiry@aer.gov.au)

## Note

This attachment forms part of the AER's draft decision on ActewAGL Distribution's access arrangement for 2016–21. It should be read with all other parts of the draft decision.

The draft decision includes the following documents:

Overview

Attachment 1 - Services covered by the access arrangement

Attachment 2 - Capital base

Attachment 3 - Rate of return

Attachment 4 - Value of imputation credits

Attachment 5 - Regulatory depreciation

Attachment 6 - Capital expenditure

Attachment 7 - Operating expenditure

Attachment 8 - Corporate income tax

Attachment 9 - Efficiency carryover mechanism

Attachment 10 - Reference tariff setting

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# Shortened forms

Shortened form	Extended form
AA	Access Arrangement
AAI	Access Arrangement Information
AER	Australian Energy Regulator
ASA	Asset Services Agreement
ATO	Australian Tax Office
capex	capital expenditure
CAPM	capital asset pricing model
CCP	Consumer Challenge Panel
CESS	Capital Expenditure Sharing Scheme
CMF	construction management fee
CPI	consumer price index
DAMS	Distribution Asset Management Services
DRP	debt risk premium
EBSS	Efficiency Benefit Sharing Scheme
EIL	Energy Industry Levy
ERP	equity risk premium
Expenditure Guideline	Expenditure Forecast Assessment Guideline
gamma	Value of Imputation Credits
GSL	Guaranteed Service Level
GTA	gas transport services agreement
ICRC	Independent Competition and Regulatory Commission
MRP	market risk premium
NECF	National Energy Customer Framework
NERL	National Energy Retail Law
NERR	National Energy Retail Rules
NGL	national gas law
NGO	national gas objective
NGR	national gas rules
NPV	net present value
opex	operating expenditure

Shortened form	Extended form
PFP	partial factor productivity
PPI	partial performance indicators
PTRM	post-tax revenue model
RBA	Reserve Bank of Australia
RFM	roll forward model
RIN	regulatory information notice
RoLR	retailer of last resort
RSA	Reference Service Agreement
RPP	revenue and pricing principles
SLCAPM	Sharpe-Lintner capital asset pricing model
STTM	Short Term Trading Market
TAB	Tax asset base
UAFG	Unaccounted for gas
UNFT	Utilities Network Facilities Tax
WACC	weighted average cost of capital
WPI	Wage Price Index

## 5 Regulatory depreciation

When determining the total revenue for ActewAGL, we must decide on the depreciation for the projected capital base (otherwise referred to as 'return of capital').<sup>1</sup> Regulatory depreciation is used to model the nominal asset values over the 2016–21 access arrangement period and the depreciation allowance in the total revenue requirement.<sup>2</sup> As discussed in the overview, we decided to apply a reconciliation (or 'true-up') of ActewAGL's revenue for the 2015–16 interval of delay. Consequently, we must also determine a regulatory depreciation allowance for 2015–16.

This attachment outlines our draft decision on ActewAGL's annual regulatory depreciation allowance for 2015–16 and the 2016–21 access arrangement period. Our consideration of specific matters that affect the estimate of regulatory depreciation is also outlined in this attachment. These include:

- the standard asset lives for depreciating new assets associated with forecast capex<sup>3</sup>
- the remaining asset lives for depreciating existing assets in the opening capital base.<sup>4</sup>

### 5.1 Draft decision

We approve ActewAGL's proposal to use the real straight-line method to calculate the regulatory depreciation allowance. However, we do not approve ActewAGL's proposed regulatory depreciation allowance of \$33.9 million (\$nominal) for 2015–16 and the 2016–21 access arrangement period.<sup>5</sup> This is mainly because of our decision to not depreciate forecast land and easement capex (discussed in section 5.4.2.1) and also our amendments to other components of ActewAGL's proposal. Discussed in other attachments, these determinations include the forecast capex (attachment 6) and the projected opening capital base (attachment 2).

We approve ActewAGL's proposed standard asset lives assigned to each of its asset classes for 2015–16 and the 2016–21 access arrangement period. This is because they are consistent with the approved standard asset lives for the 2010–15 access arrangement period. Also, they are broadly comparable with the standard asset lives

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<sup>1</sup> NGR, r. 76(b).

<sup>2</sup> Regulatory depreciation allowance is the net total of the straight-line depreciation (negative) and the annual inflation indexation (positive) on the projected capital base.

<sup>3</sup> The term 'standard asset life' is also referred to as 'standard economic life', 'asset life', 'economic asset life' or (in ActewAGL's proposal) 'standard life'.

<sup>4</sup> The term 'remaining asset life' is also referred to as 'remaining economic life' or (in ActewAGL's proposal) 'remaining life'.

<sup>5</sup> This reflects the total of the depreciation allowance for 2015–16 and the 2016–21 access arrangement period. The proposed depreciation allowance for 2015–16 is \$3.7 million and the \$30.3 million for 2016–21 access arrangement period.

approved in our recent determinations for other gas distribution service providers.<sup>6</sup> In addition to the proposed asset classes, we created a 'Land and easement' asset class for ActewAGL's forecast land capex in 2015–16 and the 2016–21 access arrangement period. We have not applied a standard asset life to this new asset class because land assets (and related purchases) do not depreciate.

We accept ActewAGL's proposed weighted average method to calculate the remaining asset lives as at 1 July 2015.<sup>7</sup> We also accept the proposed remaining asset lives as at 1 July 2015.

Our draft decision on ActewAGL's regulatory depreciation allowance is \$32.9 million (\$nominal) in total for 2015–16 and the 2016–21 access arrangement period as set out in Table 5.1.

**Table 5.1 AER's draft decision on ActewAGL's regulatory depreciation allowance for 2015–16 and the 2016–21 access arrangement period (\$million, nominal)**

	2015–16	2016–17	2017–18	2018–19	2019–20	2020–21	Total
Straight-line depreciation	12.2	13.4	14.5	15.6	16.7	17.7	90.1
Less: indexation on capital base	8.5	9.1	9.5	9.8	10.1	10.3	57.2
<b>Regulatory depreciation</b>	<b>3.7</b>	<b>4.3</b>	<b>5.0</b>	<b>5.8</b>	<b>6.6</b>	<b>7.5</b>	<b>32.9</b>

Source: AER analysis.

## 5.2 ActewAGL's proposal

As discussed in the overview, we decided to apply a reconciliation of ActewAGL's 2015–16 revenue. Therefore, we have assessed the depreciation schedule as set out in the PTRM submitted by ActewAGL which contains the proposed approach for the reconciliation of revenue for the 2015–16 interval of delay.

ActewAGL used the AER's post-tax revenue model (PTRM) to calculate the forecast depreciation for 2015–16 and the 2016–21 access arrangement period. It proposed to apply the same standard asset lives as those approved by the AER over the 2010–15 access arrangement period. It also proposed to use the weighted average approach as

<sup>6</sup> AER, *Draft decision: AusNet (SP AusNet) arrangement proposal 2013–17 Part2: Attachments*, September 2012, p. 134; AER, *Draft decision: Multinet Gas arrangement proposal 2013–17*, September 2012, p. 126; AER, *Draft decision: Jemena Gas Network (NSW) access arrangement 2015–20: Attachment 5*, June 2015, p. 10.

<sup>7</sup> At the time of this draft decision, the remaining asset lives as at 1 July 2015 reflect estimated capex value for 2014–15. We will update the 2014–15 estimated capex value for the final decision with the actual value. Therefore we will recalculate ActewAGL's remaining asset lives as at 1 July 2015 using the method approved in this draft decision to reflect the actual 2014–15 capex for the final decision.



set out in the AER’s roll forward model (RFM) to determine the remaining asset life of the capital base at the start of 2015–16 and the 2016–21 access arrangement period.<sup>8</sup>

ActewAGL’s proposed regulatory depreciation for 2015–16 and the 2016–21 access arrangement period is set out in Table 5.2. Its proposed standard asset lives and remaining asset lives at 1 July 2015 is set out in Table 5.3.

**Table 5.2 ActewAGL’s proposed regulatory depreciation for 2015–16 and the 2016–21 access arrangement period (\$million, nominal)**

	2015–16	2016–17	2017–18	2018–19	2019–20	2020–21	Total
Straight-line depreciation	12.3	13.7	15.0	16.5	18.1	19.4	95.1
Less: indexation on capital base	8.6	9.4	9.9	10.5	11.1	11.6	61.1
<b>Regulatory depreciation</b>	<b>3.7</b>	<b>4.3</b>	<b>5.1</b>	<b>6.0</b>	<b>7.0</b>	<b>7.9</b>	<b>33.9</b>

Source: ActewAGL, *Proposed PTRM (alternative approach)*, June 2015.

Note: Numbers may not add due to rounding differences.

**Table 5.3 ActewAGL’s proposed standard asset lives and remaining asset lives at 1 July 2015 (years)**

	Standard asset life	Remaining asset life
HP mains	80	64.1
HP services	50	27.5
MP mains	50	27.4
MP services	50	37.5
TRS & DRS — valves & regulators	15	11.6
Contract meters	15	12.8
Tariff meters	15	11.0
Regulatory costs	5	1.0
IT system	5	5.4

Source: ActewAGL, *Proposed PTRM (alternative approach)*, June 2015.

### 5.3 AER’s assessment approach

In its access arrangement proposal, ActewAGL must provide a forecast of depreciation for the 2016–21 access arrangement period, including a demonstration of how the

<sup>8</sup> ActewAGL, *Access arrangement information for the 2016–21 ACT, Queenbeyan and Palerang access arrangement: Attachment 7 Capital base*, June 2015, p. 10.

forecast is derived on the basis of the proposed depreciation method.<sup>9</sup> As discussed in the overview, we decided to apply a reconciliation of ActewAGL's 2015–16 revenue. Consequently, we must also determine a regulatory depreciation allowance for 2015–16. ActewAGL has included in its proposal a PTRM containing its proposed approach for the reconciliation of revenue for the 2015–16 interval of delay, which sets out the depreciation values and method for 2015–16 and the 2016–21 access arrangement period. We are satisfied with the proposed approach and have adopted the same approach for assessing the depreciation schedule for 2015–16 as for the 2016–21 access arrangement period.

The depreciation schedule sets out the basis on which the pipeline assets constituting the capital base are to be depreciated for the purpose of determining a reference tariff. The depreciation schedule may consist of a number of separate schedules, each relating to a particular asset or class of asset.<sup>10</sup> In making a decision on the proposed depreciation schedule, we assess the compliance of the proposed depreciation schedule with the depreciation criteria set out in the NGR.<sup>11</sup> We must also take into account the NGO and the revenue and pricing principles.<sup>12</sup>

Our discretion under the depreciation criteria is limited.<sup>13</sup> The depreciation criteria state that the depreciation schedule should be designed:

- so that reference tariffs will vary, over time, in a way that promotes efficient growth in the market for reference services<sup>14</sup>
- so that each asset or group of assets is depreciated over the economic life of that asset or group of assets<sup>15</sup>
- so as to allow, as far as reasonably practicable, for adjustment reflecting changes in the expected economic life of a particular asset, or a particular group of assets<sup>16</sup>
- so that (subject to the rules about capital redundancy), an asset is depreciated only once<sup>17</sup>

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<sup>9</sup> NGR, r. 72(1)(c)(ii).

<sup>10</sup> NGR, rr. 88(1), 88(2).

<sup>11</sup> NGR, r. 89.

<sup>12</sup> NGL, s 28; NGR, r. 100(1). The NGO is set out in NGL, s. 23. The revenue and pricing principles are set out in NGL, s. 24.

<sup>13</sup> NGR, rr. 40(2), 89(3). The example provided in r. 40(2) states: The AER has limited discretion under r. 89. Rule 89 governs the design of a depreciation schedule. In dealing with a full access arrangement submitted for its approval, the AER cannot, in its draft decision, insist on change to an aspect of a depreciation schedule governed by r. 89 unless the AER considers the change is necessary to correct non-compliance with a provision of the Law or an inconsistency between the depreciation schedule and the applicable criteria. Even though the AER might consider change desirable to achieve more complete conformity between the depreciation schedule and the principles and objectives of the Law, it would not be entitled to give effect to that view in the decision making process.

<sup>14</sup> NGR, r. 89(1)(a).

<sup>15</sup> NGR, r. 89(1)(b).

<sup>16</sup> NGR, r. 89(1)(c).

<sup>17</sup> NGR, r. 89(1)(d).

- so as to allow for the service provider's reasonable needs for cash flow to meet financing, non-capital and other costs.<sup>18</sup>

The depreciation criteria also state that to comply with the rule regarding efficient growth in the market for reference services, a substantial amount of depreciation may be deferred.<sup>19</sup>

The regulatory depreciation allowance is the net total of the real straight-line depreciation (negative) and the annual inflation indexation (positive) on the projected capital base. Our standard approach is to employ a straight-line method for calculating depreciation. We consider that the straight-line method satisfies the NGR's depreciation criteria.<sup>20</sup> This is because the straight-line method smooths changes in the reference tariffs, promotes efficient growth of the market, allows assets to be depreciated only once and over its economic life, and allows for a service provider's reasonable needs for cash flow.

In assessing ActewAGL's proposed regulatory depreciation allowance, we have analysed ActewAGL's proposed inputs to the PTRM<sup>21</sup> for calculating depreciation for 2015–16 and the 2016–21 access arrangement period. These inputs include:

- the opening capital base as at 1 July 2015
- the forecast net capex in 2015–16 and the 2016–21 access arrangement period
- the forecast inflation rate for 2015–16 and the 2016–21 access arrangement period
- the standard asset life for each asset class—used for calculating the depreciation of new assets associated with forecast net capex in 2015–16 and the 2016–21 access arrangement period
- the remaining asset life for each asset class—used for calculating the depreciation of existing assets associated with the opening capital base as at 1 July 2015.

Our determinations affecting the first three inputs in the above list are discussed elsewhere: opening capital base (attachment 2), forecast net capex (attachment 6) and forecast inflation (attachment 3). Our decision on the required amendments to ActewAGL's proposed regulatory depreciation allowance reflects our determinations on these building block components. Our assessment approach on the remaining two inputs in the above list is set out below.

In general, we consider that consistency in the standard asset life for each asset class across access arrangement periods will allow reference tariffs to vary smoothly over time. This will promote efficient growth in the market for reference services.<sup>22</sup> Our

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<sup>18</sup> NGR, r. 89(1)(e).

<sup>19</sup> NGR, r. 89(2).

<sup>20</sup> NGR, r. 89.

<sup>21</sup> We have used the PTRM submitted by ActewAGL for the reconciliation of revenue for the 2015–16 interval of delay.

<sup>22</sup> NGR, r. 89(1)(a).

standard method for determining the remaining asset lives is the weighted average method.<sup>23</sup> The weighted average method rolls forward the remaining asset life for an asset class from the beginning of the earlier access arrangement period. This approach reflects the mix of assets within that asset class, when they were acquired over that period (or if they were existing assets at the beginning), and the remaining value of those assets (used as a weight) at the end of the period.<sup>24</sup> A submission by Jemena expressed concerns with the AER's weighted average approach used to calculate the remaining asset lives.<sup>25</sup> We acknowledge that there may be alternative approaches for calculating remaining asset lives. We will assess the outcomes of other proposed approaches against the outcomes of this standard approach.

### 5.3.1 Interrelationships

The regulatory depreciation allowance is a building block component of the annual building block revenue requirement.<sup>26</sup> Higher (or quicker) depreciation leads to higher revenues over the access arrangement period. It also causes the capital base to reduce more quickly (assuming no further capex). This reduces the return on capital allowance, although this impact is usually secondary to the increased depreciation allowance.

Ultimately, however, a service provider can only recover the capex it has incurred on assets once. The depreciation allowance therefore reflects how quickly the capital base is being recovered and is based on the remaining and standard asset lives used in the depreciation calculation.

The depreciation allowance also depends on the level of the opening capital base and the forecast capex. Any increase in these factors also increases the depreciation allowance.

To prevent double counting of inflation through the rate of return and capital base, the regulatory depreciation allowance also has an offsetting reduction for indexation of the capital base.<sup>27</sup> Factors that affect forecast inflation and/or the size of the capital base will therefore affect the size of this indexation adjustment.

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<sup>23</sup> We consider this depreciation method to be a generally superior approach. The reasons are outlined in our decision on the roll forward model for electricity transmission network service providers. See AER, *Explanatory statement, Proposed amendment, Electricity transmission network service providers, Roll forward model*, August 2010, pp. 5–6.

<sup>24</sup> See AER, *Final decision - amended transmission roll forward model*, December 2010, pp. 5–6 for further explanation.

<sup>25</sup> Jemena Electricity Networks (Vic) Ltd, *Submission on recent proposals made by SAPN, AGN, AAD, Energex and Ergon Energy*, July 2015.

<sup>26</sup> Under our standard approach, the distinction is made between straight-line depreciation and regulatory depreciation. The difference being that regulatory depreciation is the straight-line depreciation minus the indexation adjustment.

<sup>27</sup> If the economic lives are extremely long, such that the straight-line depreciation rate is lower than the inflation rate, then negative regulatory depreciation can emerge. The indexation adjustment is greater than the straight-line depreciation in such circumstances.

The relative size of the inflation and straight-line depreciation and their impact on the capital base using ActewAGL's proposal is shown in attachment 2. A ten per cent increase in the straight-line depreciation causes revenues to increase by about 3 per cent.

## 5.4 Reasons for draft decision

We approve ActewAGL's proposed method to calculate the regulatory depreciation allowance which is the straight-line depreciation less the annual inflation indexation on the projected capital base. However, we do not approve ActewAGL's proposed regulatory depreciation allowance of \$33.9 million (\$nominal) for 2015–16 and the 2016–21 access arrangement period. Our draft decision on ActewAGL's regulatory depreciation allowance is \$32.9 million (\$nominal) over 2015–16 and the 2016–21 access arrangement period,<sup>28</sup> a reduction of \$1.1 million (\$nominal) or 3.2 per cent compared to the proposed amount. This reduction is made because of our decision to not depreciate forecast land and easement capex, and also the changes made to other components of the proposal.

We accept ActewAGL's proposed standard asset lives for its asset classes. In addition to the proposed asset classes, we created a 'Land and easement' asset class for ActewAGL's forecast land capex in 2015–16 and the 2016–21 access arrangement period. We have not applied a standard asset life to this new asset class. This is because land assets (and related purchases) do not depreciate.

We accept ActewAGL's proposed weighted average method to calculate the remaining asset lives as at 1 July 2015.<sup>29</sup> We also accept the proposed remaining asset lives as at 1 July 2015 because we have accepted the inputs used to calculate the remaining asset lives in the proposed RFM.

Our determinations on other components of ActewAGL's proposal also affect the calculation of the regulatory depreciation allowance.<sup>30</sup> These include:

- a reduction to ActewAGL's forecast net capex of \$42.2 million (\$2014–15) or 28.9 per cent. Our detailed assessment of the proposed forecast capex allowance is set out in capex attachment 6.
- a reduction to the opening capital base as at 1 July 2015 of \$0.4 million (\$nominal) or 0.1 per cent. Our detailed assessment of the proposed opening capital base is set out in capital base attachment 2.

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<sup>28</sup> This reflects the total of the depreciation allowance for 2015–16 and the 2016–21 access arrangement period. The depreciation allowance for 2015–16 is \$3.7 million and the \$29.1 million for 2016–21 access arrangement period.

<sup>29</sup> At the time of this draft decision, the remaining asset lives as at 1 July 2015 reflect estimated capex value for 2014–15. We will update the 2014–15 estimated capex value for the final decision with the actual value. Therefore, we will recalculate ActewAGL's remaining asset lives as at 1 July 2015 using the method approved in this draft decision to reflect the actual 2014–15 capex for the final decision.

<sup>30</sup> NGR, rr. 88–90.

- an update to the forecast inflation proposed by ActewAGL for 2015–16 and the 2016–21 access arrangement period. Our assessment of ActewAGL’s proposed forecast inflation is set out in rate of return attachment 3.

Table 5.4 sets out our draft decision on the standard and remaining asset lives as at 1 July 2015 for ActewAGL.

**Table 5.4 AER's draft decision on ActewAGL’s standard and remaining asset lives as at 1 July 2015 (years)**

	Standard asset life	Remaining asset life
HP mains	80	64.1
HP services	50	27.5
MP mains	50	27.4
MP services	50	37.5
TRS & DRS — valves & regulators	15	11.6
Contract meters	15	12.8
Tariff meters	15	11.0
Regulatory costs	5	1.0
IT system	5	5.4
Land and easement	n/a	n/a

Source: AER analysis.

### 5.4.1 Regulatory depreciation method

We are required to assess ActewAGL’s proposed depreciation schedule against the depreciation criteria as set out in rule 89 of the NGR. We accept ActewAGL’s proposed method to calculate the regulatory depreciation allowance which is the straight-line depreciation amount less the annual inflation indexation on the projected capital base. ActewAGL’s proposal adopted our PTRM for calculating the total revenue requirement and is therefore consistent with our standard approach for calculating regulatory depreciation as discussed in section 5.3. We therefore accept ActewAGL’s proposal because we are satisfied that the proposed depreciation method complies with the depreciation criteria.<sup>31</sup>

In proposing the regulatory depreciation method, ActewAGL made its proposed regulatory depreciation approach contingent on meeting certain BBB to BBB+ credit

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<sup>31</sup> NGR, r. 89.

metrics.<sup>32</sup> ActewAGL submitted that it must be allowed sufficient cash flow to maintain the benchmark BBB+ credit rating that is assumed by the AER when setting the rate of return. ActewAGL stated that it reserves its right to amend its depreciation schedule should its proposed methodology to estimate the rate of return be changed by the AER.<sup>33</sup>

We do not accept ActewAGL's contingent proposal to adjust its depreciation schedule in response to a financeability assessment.<sup>34</sup> We consider that ActewAGL's contingent proposal appears to be incomplete and not fully specified. It is unclear how exactly ActewAGL proposes to assess its financeability, or exactly what adjustment would be made to its depreciation schedules if this assessment indicated that there was a financeability problem. ActewAGL has not demonstrated why an adjustment to depreciation is the appropriate response to financeability concerns, if they were established. ActewAGL's proposal submitted that it is the rate of return that is its core concern.<sup>35</sup> It is unclear why the depreciation building block, which is estimated accurately according to ActewAGL's own proposal, should be adjusted in response. We note that a submission from Alternative Technology Association stated that it does not agree with ActewAGL's proposal to increase its depreciation if the AER determines a lower rate of return.<sup>36</sup> For all these reasons, we do not accept ActewAGL's contingent proposal.

Also, we note under this draft decision, the reduced tariffs in 2016–17 are a result of lower costs (including lower cost of capital and lower capital base). For the remaining years of the 2016–21 access arrangement the draft decision provides for a stable tariff path as shown in figure 6 of the overview. Therefore, we are satisfied that the proposed regulatory depreciation approach allows reference tariffs to vary, over time, in a way that promotes efficient growth in the market for reference services.<sup>37</sup>

For the reasons discussed above, we are satisfied that the proposed regulatory depreciation approach complies with the NGR's depreciation criteria.<sup>38</sup> We will use the same regulatory depreciation approach as accepted in this draft decision for the final decision, but with updated inputs for calculating the regulatory depreciation allowance such as the opening capital base (attachment 2) and remaining asset lives (section 5.4.2).

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<sup>32</sup> ActewAGL specifically mentioned the credit metric *Funds From Operations (FFO) to Debt*, which is a financial ratio used by credit rating agencies.

<sup>33</sup> ActewAGL, *Access arrangement information for the 2016–21 ACT, Queenbeyan and Palerang access arrangement: Attachment 8 Rate of return, gamma and inflation*, June 2015, pp. 6–7.

<sup>34</sup> We have addressed a similar contingent proposal in our draft decision for Australian Gas Networks. See AER, *Draft decision, Australian Gas Networks Access Arrangement 2016 to 2021*, November 2015, pp. 5–13 to 5–16 (Attachment 5 – Regulatory depreciation).

<sup>35</sup> ActewAGL, *Access arrangement information for the 2016–21 ACT, Queenbeyan and Palerang access arrangement: Attachment 8 Rate of return, gamma and inflation*, June 2015, pp. 6–7.

<sup>36</sup> Alternative Technology Association, *Submission on ActewAGL access arrangement proposal 2016–21*, August 2015, pp. 10–11.

<sup>37</sup> NGR, r. 89(1)(a).

<sup>38</sup> NGR, r. 89.

## 5.4.2 Asset lives

The straight-line depreciation component of regulatory depreciation is calculated by dividing the asset value for each asset class by its standard asset life (for new assets) or remaining asset life (for existing assets). Our draft decision on ActewAGL's standard and remaining asset lives follows.

### 5.4.2.1 Standard asset life

We accept ActewAGL's proposed standard asset lives for its existing asset classes, because they are:

- consistent with our approved standard asset lives for the 2010–15 access arrangement period
- comparable with the standard asset lives approved in our recent determinations for other gas distribution service providers.<sup>39</sup>

We are satisfied the proposed standard asset lives reflect the requirements of rule 89(1) of the NGR.

In addition to the proposed asset classes, we created a 'Land and easement' asset class for ActewAGL's forecast land capex in 2015–16 and the 2016–21 access arrangement period. We have not applied a standard asset life to this new asset class. 'Land and easement' was not a separate asset class in ActewAGL's proposal. We consider that a separate asset class for land and easement forecast capex is necessary due to their unique depreciation requirement. Land assets (and related purchases) do not depreciate and therefore should not have a standard asset life for depreciation purposes. This approach is consistent with Australian accounting standards and the ATO's treatment for such assets.<sup>40</sup> We have also consistently treated land and easement as non-depreciating assets for other regulated businesses. For modelling purposes, we have assigned the standard asset life input of "n/a" in the PTRM for the 'Land and easement' asset class.

Table 5.4 sets out our draft decision on the standard asset lives for ActewAGL over 2015–16 and the 2016–21 access arrangement period.

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<sup>39</sup> AER, *Draft decision: Envestra (Victoria) access arrangement proposal 2013–17 Part 2: Attachments*, September 2012, p. 158; AER, *Draft decision: AusNet (SP AusNet) arrangement proposal 2013–17 Part 2: Attachments*, September 2012, p. 134; AER, *Draft decision: Multinet Gas arrangement proposal 2013–17*, September 2012, p. 126; AER, *Draft decision: Jemena Gas Network (NSW) access arrangement 2015–20: Attachment 5*, June 2015, p. 10.

<sup>40</sup> Australian accounting standard board, *Accounting standard AASB1021: Depreciation*, August 1997, pp. 10–11; ATO, *Guide to depreciating assets 2011*, 2011, p. 3.



### 5.4.2.2 Remaining asset lives

We accept ActewAGL's proposed weighted average method to calculate the remaining asset lives as at 1 July 2015.<sup>41</sup> The proposed method is consistent with our preferred approach as discussed in section 5.3. We also accept the proposed remaining asset lives as at 1 July 2015 because we accepted the inputs used to calculate the remaining asset lives in the proposed RFM. Table 5.4 sets out our draft decision on the remaining asset lives as at 1 July 2015 for ActewAGL.

## 5.5 Revisions

We require the following revisions to make the access arrangement proposal acceptable:

**Revision 5.1** Make all necessary amendments to reflect this draft decision on the proposed forecast regulatory depreciation allowance for 2015–16 and the 2016–21 access arrangement period, as set out in Table 5.1.

**Revision 5.2** Make all necessary amendments to reflect this draft decision on the standard asset lives and remaining asset lives as at 1 July 2015, as set out in Table 5.4.

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<sup>41</sup> At the time of this draft decision, the remaining asset lives as at 1 July 2015 reflect estimated capex value for 2014–15. We will update the 2014–15 estimated capex value for the final decision with the actual value. Therefore we will recalculate ActewAGL's remaining asset lives as at 1 July 2015 using the method approved in this draft decision to reflect the actual 2014–15 capex for the final decision.