Draft decision

TasNetworks transmission determination

2015-16 to 2018-19

Attachment 2: Regulatory asset base

November 2014

AUSTRALIAN ENERGY REGULATOR

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Note

This attachment forms part of the AER's draft decision on the transmission determination for TasNetworks' 2015–19 regulatory control period. It should be read in conjunction with other parts of the draft decision.

The draft decision includes the following documents:

Overview

Attachment 1 – maximum allowed revenue

Attachment 2 – regulatory asset 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

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Attachment 11 – service target performance incentive scheme

Attachment 12 – pricing methodology

Attachment 13 – pass through events

Attachment 14 – negotiated services

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Shortened forms

Shortened form	Extended form
AARR	aggregate annual revenue requirement
AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ARPC	Australian Reinsurance Pool Corporation
ASRR	aggregate service revenue requirement
ASX	Australian Stock Exchange
ATO	Australian Tax Office
augex	augmentation expenditure
Benchmarking report	AER, *Electricity transmission network service providers annual benchmarking report*, November 2014
capex	capital expenditure
capex incentive guideline	AER, *Capital Expenditure Incentive Guideline for Electricity Network Service Providers*, November 2013
CCP	Consumer Challenge Panel
CEG	Competition Economics Group
CESS	capital expenditure sharing scheme
CPI	consumer price index
DAE	Deloitte Access Economic
DRP	debt risk premium
EBA	enterprise bargaining agreement

Shortened form	Extended form
EBSS	efficiency benefit sharing scheme
EGWWS	electricity, gas, water and waste services
EMCa	Energy Market Consulting associates
ERA	Economic Regulation Authority of Western Australia
ERP	equity risk premium
EUAA	Energy Users Association of Australia
Guideline	AER, *Expenditure forecast assessment guideline for electricity transmission*, November 2013
JGN	Jemena Gas Networks
MAR	maximum allowed revenue
MEU	Major Energy Users
MJA	Marsden Jacob Associates
MRP	market risk premium
MTFP	multilateral total factor productivity
MW	megawatts
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NER	national electricity rules
NERA	NERA Economic Consulting
NSP	network service provider
NTNDP	National Transmission Network Development Plan
NTSC	negotiated transmission service criteria

Shortened form	Extended form
NSW	New South Wales
opex	operating expenditure
PFP	partial factor producitvity
PPI	partial performance indicators
PPI	producer price index
PTRM	post-tax revenue model
QCA	Queensland Competition Authority
RAB	regulatory asset base
RBA	Reserve Bank of Australia
repex	replacement expenditure
RFM	roll forward model
RIN	regulatory information notice
RPP	revenue and pricing principles
SFG	SFG Consulting
SLCAPM	Sharpe-Lintner capital asset pricing model
STPIS	service target performance incentive scheme
TFP	total factor productivity
TNSP	transmission network service provider
TSBC	Tasmanian Small Business Council
TUoS	transmission use of system
version one of the EBSS	AER, *Electricity transmission network service providers: Efficiency benefit sharing scheme*, September 2007
version two of the EBSS	AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013

Shortened form	Extended form
WACC	weighted average cost of capital
WPI	wage price index

2 Regulatory asset base

The regulatory asset base (RAB) is the value of assets used by TasNetworks to provide prescribed transmission services.[1] The AER's revenue determination is to specify the RAB as at the commencement of the regulatory control period and the appropriate method for the indexation of the RAB.[2] The indexation of the RAB is one of the building blocks that form the annual building block revenue requirement for each year of the 2014–19 period.[3] We set the RAB as the foundation for determining a TNSP's revenue requirements, and use the opening RAB for each regulatory year to determine the return on capital and return of capital (regulatory depreciation) building block allowances.[4]

This attachment presents our draft decision on the opening RAB value as at 1 July 2014 for TasNetworks. It also presents our forecast RAB values for TasNetworks over the 2014–19 period.

2.1 Draft decision

We do not accept TasNetworks' proposed opening RAB of $1412.9 million as at 1 July 2014.[5] We have instead determined an opening RAB value of $1412.2 million as at 1 July 2014 for TasNetworks. This is because we amended its proposed actual capex values for 2008 to 2014 to reverse the movements in provisions. This amendment reduced TasNetworks' proposed opening RAB as at 1 July 2014 by $0.7 million (or 0.05 per cent).

We determine a forecast closing RAB value at 30 June 2019 of $1566.9 million ($ nominal). This is $37.0 million (or 2.3 per cent) lower than the amount of $1603.9 million ($ nominal) proposed by TasNetworks. Our draft decision on the forecast closing RAB reflects the amended opening RAB as at 1 July 2014, and our draft decision on forecast capex (attachment 6) and forecast regulatory depreciation (attachment 5).

We determine that the forecast depreciation approach is to be used to establish the RAB at the commencement of the regulatory control period from 1 July 2019 for TasNetworks.[6] This will apply to both the transitional (2014–15) and subsequent (2015–19) regulatory control periods. We consider this approach will provide sufficient incentives for TasNetworks to achieve capex efficiency gains over those periods. TasNetworks is not currently subject to a capital expenditure sharing scheme (CESS) but we will apply the CESS to TasNetworks' subsequent regulatory control period.

1 NER, clause 6A.6.1.
2 NER, clause 6A.4.2(3A) and (4).
3 NER, clause 6A.5.4(a)(1) and (b)(1).
4 NER, clause 6A.5.4(a)(2) and (3).
5 This RAB value is based on as-incurred capex.
6 NER, clause S6A.2.2B(a).

Table 2-1 and Table 2-2 set out our draft decision on the roll forward of the RAB values for TasNetworks' 2009–14 regulatory control period and forecast RAB values for TasNetworks' 2014–19 period, respectively.

Table 2-1 AER's draft decision on TasNetworks' RAB for the 2009–14 regulatory control period ($ million, nominal)

	2009–10	2010–11	2011–12	2012–13	2013–14[a]
Opening RAB	951.4	1 068.4	1 170.7	1 270.5	1 335.0
Capital expenditure[b]	139.3	121.0	131.0	89.0	82.6
CPI indexation on opening RAB	27.5	35.6	18.6	31.8	39.1
Straight-line depreciation[c]	–49.8	–54.4	–49.7	–56.3	–62.4
Closing RAB	1 068.4	1 170.7	1 270.5	1 335.0	1 394.4
Difference between estimated and actual capex (1 July 2008 to 30 June 2009)					–12.5
Return on difference for 2008–09 capex					–7.8
Difference between estimated and actual assets under construction as at 30 June 2009					24.1
Return on difference (assets under construction as at 30 June 2009)					15.1
Assets removed from prescribed services					–1.1
Opening RAB as at 1 July 2014					**1 412.2**

Source: AER analysis.
(a) Based on estimated capex. We will update the RAB roll forward for actual capex in the final decision.
(b) As incurred, net of disposals, and adjusted for actual CPI.
(c) Adjusted for actual CPI. Based on as-commissioned capex.

Table 2-2 AER's draft decision on TasNetworks' RAB for the 2014–19 period ($ million, nominal)

	2014–15	2015–16	2016–17	2017–18	2018–19
Opening RAB	1412.2	1447.3	1495.0	1528.5	1553.8
Capital expenditure[a]	53.0	69.2	58.0	50.2	39.3
Inflation indexation on opening RAB	35.3	36.2	37.4	38.2	38.8
Straight-line depreciation[b]	–53.2	–57.6	–62.0	–63.1	–65.0
Closing RAB	1447.3	1495.0	1528.5	1553.8	1566.9

Source: AER analysis.
(a) As incurred, and net of disposals. In accordance with the timing assumptions of the post-tax revenue model (PTRM), the capex includes a half-WACC allowance to compensate for the six month period before capex is added to the RAB for revenue modelling.

(b) Based on as-commissioned capex.

2.2 TasNetworks' proposal

TasNetworks used the AER's roll forward model (RFM) to establish its proposed opening RAB value of $1412.9 million ($ nominal) as at 1 July 2014.[7] It proposed a closing RAB of $1603.9 million ($ nominal) at 30 June 2019, which reflects its proposed forecast capex, inflation and depreciation over the 2014–19 period.[8]

Table 2-3 and

Table 2-4 present TasNetworks' proposed roll forward of the RAB during the 2009–14 regulatory control period and the 2014–19 period, respectively. The RAB roll forward for the 2009–14 regulatory control period uses depreciation based on actual capex. The projected RAB roll forward for the 2014–19 period uses depreciation based on forecast capex.

Table 2-3 TasNetworks' proposed RAB for the 2009–14 regulatory control period ($ million, nominal)

	2009–10	2010–11	2011–12	2012–13	2013–14
Opening RAB	951.4	1 068.6	1 170.9	1 271.0	1 335.5
Capital expenditure[a]	139.5	121.1	131.2	89.0	82.7
CPI indexation on opening RAB	27.5	35.6	18.6	31.8	39.1
Straight-line depreciation[b]	–49.8	–54.4	–49.7	–56.3	–62.4
Closing RAB	1 068.6	1 170.9	1 271.0	1 335.5	1 394.9
Difference between estimated and actual capex (1 July 2008 to 30 June 2009)					–12.4
Return on difference for 2008–09 capex					–7.8
Difference between estimated and actual assets under construction as at 30 June 2009					24.1
Return on difference (assets under construction as at 30 June 2009)					15.1
Assets removed from prescribed services					–1.1
Opening RAB as at 1 July 2014					**1 412.9**

Source: TasNetworks, *Roll forward model*, May 2014.
(a) As incurred, net of disposals, and adjusted for actual CPI.
(b) Adjusted for actual CPI. Based on as-commissioned capex.

7 This RAB value is based on as-incurred capex.
8 TasNetworks, *Revenue proposal*, pp.100–101.

Table 2-4 TasNetworks' proposed RAB for the 2014–19 period ($ million, nominal)

	2014–15	2015–16	2016–17	2017–18	2018–19
Opening RAB	1 412.9	1 448.9	1 498.9	1 540.9	1 577.0
Capital expenditure[a]	53.6	71.2	66.1	60.8	52.5
Inflation indexation on opening RAB	35.7	36.6	37.8	38.9	39.8
Straight-line depreciation[b]	–53.3	–57.7	–62.0	–63.6	–65.5
Closing RAB	1 448.9	1 498.9	1 540.9	1 577.0	1 603.9

Source: TasNetworks *Post-tax revenue model*, May 2014.
(a) As incurred, and net of disposals.
(b) Based on as-commissioned capex.

2.3 AER's assessment approach

In order to determine the RAB value for a regulatory control period, the opening value of the RAB in the previous period is adjusted by various amounts to calculate the opening RAB for the following period.[9] The RAB value must be adjusted for any differences in the forecast and actual capex and disposals.[10] It may be adjusted to also reflect any changes in the use of the assets, because the RAB must include only assets used to provide prescribed transmission services.[11]

To determine the opening RAB for a transmission determination, we developed an asset base RFM in accordance with the requirements of the National Electricity Rules (NER).[12] A TNSP must use our RFM in preparing its revenue proposal. The RFM rolls forward the TNSP's RAB from the beginning of the final year of the previous regulatory control period, through the current regulatory control period, to the beginning of the next regulatory control period. The five regulatory years between 2014–19 are split into two regulatory control periods (a transitional regulatory control period of 2014–15 and then a subsequent regulatory control period of 2015–19). However, the NER expressly provides that when we determine the opening value of the RAB for this five year period we should do so as if the two periods were combined.[13] The roll forward occurs for each regulatory year by:

- Adding an inflation (indexation) adjustment for the relevant year. This adjustment must be consistent with the inflation factor used in the annual indexation of the maximum allowed revenue (MAR).[14]
- Adding actual or estimated capex for the relevant year.[15] The NER allows us to review a TNSP's past capex and exclude inefficient past capex from being rolled into the RAB.[16] We note that under the transitional rules, the review of past capex does not apply to TasNetworks' current and

9 NER, clause S6A.2.1(f).
10 NER, clause S6A(2.1(f)(3) and (6).
11 NER, clause S6A.2.1(f)(8) and S6A.2.3.
12 NER, clause 6A.6.1(b) and (e).
13 NER, clause 11.58.4(c)(4)–(6) and (f).
14 NER, clause 6A.6.1(e)(3).
15 NER, clause S6A.2.1(f)(4).
16 NER, S6A.2.2A.

transitional regulatory control periods.[17] Therefore, for the purposes of this draft decision, we will add TasNetworks' actual or estimated capex in the current regulatory control period to the RAB. We check actual capex amounts against the TNSP's audited regulatory accounts data. We will update any estimated capex with actual capex at the time of the next reset (in the case of TasNetworks this is not required for the final year of the current regulatory control period because of the timing of this determination due to the transitional rules).

- Subtracting depreciation for the relevant year, calculated in accordance with the rates and methodologies allowed (if any) in the transmission determination for the TNSP's current regulatory control period.[18] Depreciation based on forecast or actual capex can be used to roll forward the RAB.[19] By default the RFM applies the depreciation approach based on actual capex, although this can be modified to apply a depreciation approach based on forecast if necessary. For this determination, we use depreciation based on actual capex for rolling forward the RAB for TasNetworks' current regulatory control period.[20]

- Subtracting any disposals for the relevant year, by way of netting from capex to be added to the RAB.[21] We check these amounts against audited regulatory accounts data.

These annual adjustments give the closing RAB for a particular regulatory year, which then becomes the opening RAB for the subsequent regulatory year. Through this process, the RFM rolls forward the RAB to the end of the current regulatory control period. The post-tax revenue model (PTRM) for the next regulatory control period generally adopts the same roll forward approach for establishing the forecast RAB, although the adjustments to the RAB are based on forecasts rather than actual amounts.

We are also required to decide whether depreciation for establishing the TNSP's RAB as at the commencement of the following regulatory control period is to be based on actual or forecast capex.[22] Our decision on whether to use actual or forecast depreciation must be consistent with the capex incentive objective.[23] We must have regard to:[24]

- any other incentives the TNSP has to undertake efficient capex
- substitution possibilities between assets with different lives
- the extent of overspending and inefficient overspending relative to the allowed forecast
- the capex incentive guideline
- the capital expenditure factors.

2.3.1 Interrelationships

The RAB is an input into the determination of the return on capital and depreciation (return of capital) allowances.[25] Factors that influence the RAB will therefore flow through to these building block

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17 NER, clause 11.58.5 and 11.63.
18 NER, clause S6A.2.1(f)(5).
19 NER, clause 6A 4.2(a1).
20 The use of actual depreciation is consistent with the depreciation approach established in the 2009 transmission determination for TasNetworks, which reflected the rules at the time.
21 NER, clause S6A.2.1(f)(6).
22 NER, clause S6A.2.2B(a).
23 NER, clause S6A.2.2B(b).
24 NER, clause S6A.2.2B(c).
25 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.

components and the annual building block revenue requirement. Other things being equal, a higher RAB increases both the return on capital and depreciation allowances.

The RAB is determined by various factors, including;

- the opening RAB (meaning the value of existing assets at the beginning of the regulatory control period)
- net capex[26]
- depreciation
- indexation adjustment – so the RAB is presented in nominal terms, consistent with the rate of return.

The opening RAB depends on the value of existing assets and will depend on actual net capex, actual inflation outcomes and depreciation in the past.

The RAB, when projected to the end of the regulatory control period, increases due to both forecast new capex and the indexation adjustment. The size of the indexation adjustment depends on expected inflation (which also affects the nominal rate of return or WACC) and the size of the RAB at the start of each year.

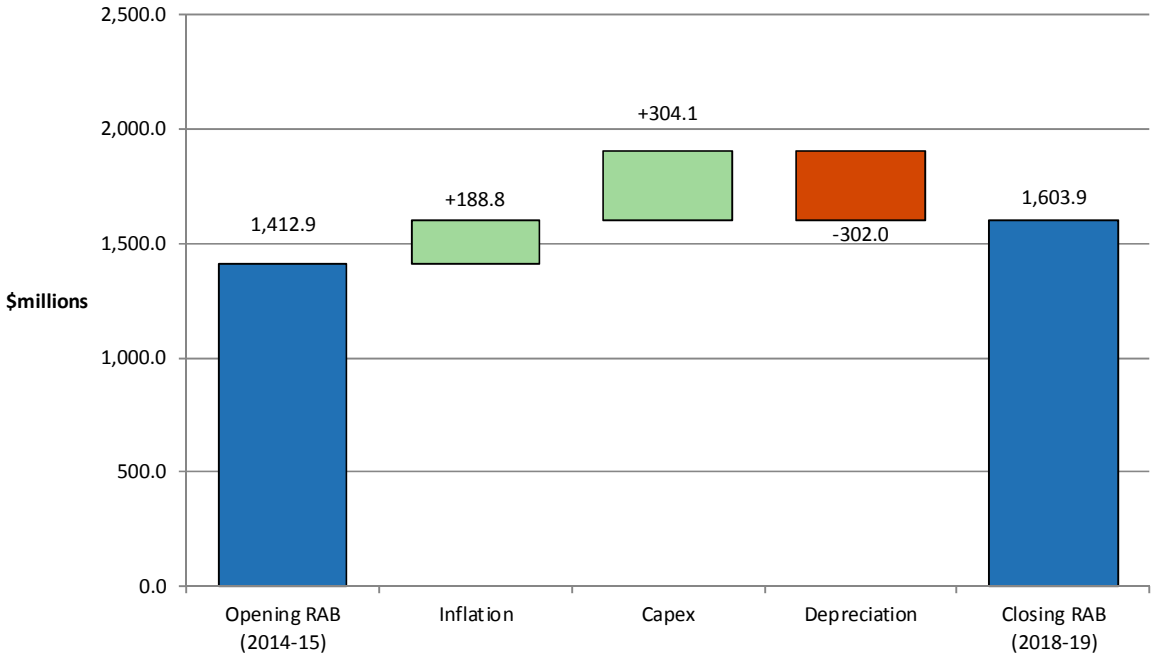
Depreciation reduces the RAB. The depreciation allowance depends on the size of the opening RAB and the forecast net capex. By convention, the indexation adjustment is also offset against depreciation to prevent double counting of inflation in the RAB and WACC, which are both presented in nominal terms. This reduces the depreciation building block that feeds into the annual building block revenue requirement.

Figure 2-1 shows the key drivers of the change in the RAB over the 2014–19 period as proposed by TasNetworks. Overall, the closing RAB at the end of the 2014–19 period would be 14 per cent higher than the opening RAB at the start of that period based on the proposal, in nominal terms. The proposed forecast net capex increases the RAB by about 22 per cent, while forecast inflation increases it by about 13 per cent. Forecast depreciation, on the other hand, reduces the RAB by about 21 per cent.

The RAB would largely stay constant in real terms over the 2014–19 regulatory control period based on TasNetworks' proposal. We consider the depreciation amount to be generally reasonable and satisfy the requirements of the NER in terms of the assigned asset lives, as discussed in attachment 5. The depreciation amount also largely depends on the opening RAB (which in turn depends on capex in the past). Figure 2-1 shows forecast net capex is the largest driver of the increase in the RAB and we have considered whether it is appropriate that the forecast capex matches depreciation as TasNetworks has proposed. Refer to attachment 6 for the discussion on forecast capex.

[26] The rate of return or WACC also influences the size of the capex. This is because capex is not depreciated in the year it is first incurred, but added to the RAB at the end of the year. Instead, the capex amount is escalated by half a WACC to arrive at an end of year value. It then begins depreciating the following year.

Figure 2-1 Key drivers of changes in the RAB ($ million, nominal)



A ten per cent increase in the opening RAB causes revenues to increase by about 6.9 per cent. However, the impact on revenues of the annual change in RAB depends on the source of the RAB change, as some drivers affect more than one building block cost.[27]

2.4 Reasons for draft decision

We do not accept TasNetworks' proposed opening RAB value of $1412.9 million as at 1 July 2014. This is because we amended its proposed actual capex values for 2008 to 2014 to reverse the movements in provisions before they are rolled into the RAB. This results in a small reduction to the proposed opening RAB value.

We also do not accept TasNetworks' projected closing RAB at the end of the 2014–19 period and have reduced it by $37.0 million (or 2.3 per cent). The reasons for the reduction are our adjustments to its opening RAB as at 1 July 2014 (section 2.4.1), forecast capex (attachment 6) and forecast depreciation (attachment 5).

2.4.1 Opening RAB at 1 July 2014

We do not accept TasNetworks' proposed opening RAB value as at 1 July 2014 of $1412.9 million and reduced it by $0.7 million (or 0.05 per cent). We therefore determine an opening RAB value of $1412.2 million as at 1 July 2014 for TasNetworks. This is because we have adjusted TasNetworks' actual capex for 2008–09 to 2013–14 for movements in provisions.[28]

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[27] If capex causes the RAB increase, return on capital, depreciation, and debt raising costs all increase too. If a reduction in depreciation causes the RAB increase, revenue could increase or decrease. In this case, the higher return on capital is offset (perhaps more than offset) by the reduction in depreciation allowance. Inflation naturally increases the RAB in nominal terms. However, the real impact from changing the inflation forecast is inconsequential as revenues are updated annually by actual inflation and the X factor, which is generally unaffected by the assumed forecast inflation rate.

[28] At the time of this draft decision, the roll forward of TasNetworks' RAB includes estimated capex values for 2013–14. We will update the 2013–14 estimated capex values with the actual values for the final decision.

TasNetworks' proposed actual capex for 2008–09 to 2013–14[29] included capitalised provisions. Provisions are expenditures that TasNetworks anticipate but have not yet paid (incurred). Examples of provisions include environmental provisions, superannuation and other employment entitlements such as annual leave and long service leave. The NER requires a TNSP's opening RAB value to be increased by the amount of all capex incurred during its current regulatory control period.[30] We considered this matter in detail in our transmission determination for ElectraNet.[31] Consistent with that determination, we consider that a TNSP should not treat capitalised provisions as capex incurred when rolling forward its RAB, because a TNSP has not yet paid out (incurred) the expenses to which the provisions relate. In forming this view, we have taken account of the following findings on provisions:

- the *Income Tax Assessment Act 1997* (ITAA97) provides that provisions such as long service leave, annual leave, sick leave and other leave are not subject to a tax deduction until the employer pays out those provisions to the employee to whom the leave relates.[32] Provisions for employee leave are not 'incurred', therefore, until they are paid out to the individual employees.
- the High Court decision in *Nilsen Development Laboratories Pty Ltd and Others v Federal Commissioner of Taxation* (*Nilsen*) confirmed provisions for long service leave and annual leave are not incurred until the employee takes the leave.[33]

We therefore adjusted TasNetworks' actual capex for 2008–09 to 2013–14[34] in the RFM to reverse the movements in provisions during its 2009–14 regulatory control period. To do so, we subtracted the accrued provisions (an increase in the provisions account) from the actual capex for a particular year, and added back any cash paid out for provisions (a decrease in the provisions accounts) for that year.

We accept TasNetworks' proposal to remove $1.1 million ($ nominal) of assets from its RAB. These assets are removed from TasNetworks' opening RAB because they are no longer providing prescribed transmission services from 1 July 2014.[35]

We note Hydro Tasmania's submission questioned whether TasNetworks' expenditure on the optical fibre ground wire project in the 2009–14 regulatory control period should be included in the RAB.[36] TasNetworks stated that this project contributes to the provision of prescribed services by providing lightning protection and communications functionality to support operation of the transmission system.[37] We accept TasNetwork's explanation that the portion of the cost of this project related to prescribed services has been properly allocated in accordance with its approved cost allocation method. Therefore, we are satisfied that the expenditure is appropriate for inclusion in the RAB.

We also reviewed other key inputs into Transend's proposed RFM, such as CPI, rate of return, asset lives and disposal values. We found these were correct and they reconcile with relevant data sources such as ABS data, regulatory accounts and the 2009 decision models.

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29 The 2013–14 capex inputs are estimates.
30 NER, clause S6A.2.1(f)(1).
31 AER, *Final decision: ElectraNet transmission determination 2013–14 to 2017–18, April 2013*, pp. 138–142
32 *Income Tax Assessment Act 1997*, section 26-10.
33 *Nilsen Development Laboratories Pty Ltd and Others v Federal Commissioner of Taxation (1981) 33 ALR 161 at 165–6.*
34 The 2013–14 capex inputs are estimates.
35 NER, clause S6A.2.3.
36 Hydro Tasmania, *Submission to Tasmanian transmission revenue proposal*, 8 August 2014, p. 4.
37 TasNetworks, *Submission in response to TasNetworks' transmission revenue proposal*, 18 September 2014, p. 7.

2.4.2 Forecast closing RAB at 30 June 2019

We forecast a closing RAB value of $1566.9 million by 30 June 2019 for TasNetworks, which represents a reduction of $37.0 million (or 2.3 per cent) reduction to TasNetworks' proposal. This reduction reflects our draft decision on the inputs for determining the forecast RAB in the PTRM. To determine the forecast RAB value for TasNetworks, we amended the following PTRM inputs:

- We reduced TasNetworks' proposed opening RAB as at 1 July 2014 by $0.7 million or 0.05 per cent (section 2.4.1).
- We reduced TasNetworks' proposed forecast capex for the 2014–19 period by $34.4 million ($ nominal) or 11.3 per cent (attachment 6).
- We increased TasNetworks' proposed forecast regulatory depreciation allowance by $1.9 million ($ nominal) or 1.7 per cent (attachment 5).

2.4.3 Application of depreciation approach in RAB roll forward for next reset

Consistent with our *Framework and approach* paper,[38] we determine that the forecast depreciation approach is to be used to establish the RAB at the commencement of TasNetworks' regulatory control period from 1 July 2019. This approach will apply to both the transitional and subsequent regulatory control periods for TasNetworks.[39] We consider this approach will provide sufficient incentives for TasNetworks to achieve capex efficiency gains over the relevant regulatory control periods.

We had regard to the relevant factors in the NER in developing the approach to choosing the depreciation approach set out in our capex incentives guideline.[40] Our approach is to apply forecast depreciation except where:

- there is no CESS in place and therefore the power of the capex incentive may need to be strengthened, or
- a TNSP's past capex performance demonstrates evidence of persistent overspending or inefficiency, thus requiring a higher powered incentive.

In making our decision on whether to use actual depreciation in either of these circumstances we have considered:

- the substitutability between capex and opex and the balance of incentives between these
- the balance of incentives with service outcomes
- the substitutability of assets of different asset lives.

We have chosen forecast depreciation because, in combination with the CESS, it will provide a 30 per cent reward for capex underspends and 30 per cent penalty for capex overspends, which is consistent for all asset classes. In developing our capex incentives guideline, we considered this to be a sufficient incentive for a TNSP to achieve efficiency gains over the regulatory control period in most circumstances.

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38 AER, *Framework and approach paper Transend—Transitional regulatory control period 1 July 2014 to 30 June 2015; Subsequent regulatory control period commencing 1 July 2015*, January 2014, pp. 28–29.

39 The transitional regulatory control period for TasNetworks is 2014–15. TasNetworks' subsequent regulatory control period is from 2015–16 to 2018–19.

40 AER, *Capital expenditure incentive guideline for electricity network service providers*, November 2013. pp. 12–13.

As discussed in attachment 10, TasNetworks is not currently subject to a CESS but we will apply the CESS to TasNetworks' subsequent (2015–19) regulatory control period. The CESS does not apply to TasNetworks for the 2014–15 transitional regulatory control period.[41] We consider the incentive provided by the application of the CESS in combination with the use of forecast depreciation and our other ex post capex measures are sufficient to achieve the capex incentive objective.[42]

[41] NER, cl 11.58.3(a)(2).

[42] Our ex post capex measures are set out in the capex incentives guideline: AER, *Capex incentives guideline*, November 2013, pp. 13–19, 20–21. The guideline also sets out how all our capex incentive measures are consistent with the capex incentive objective.