



FINAL DECISION
ActewAGL distribution
determination
2015–16 to 2018–19

Attachment 2 – Regulatory
asset base

April 2015

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Note

This attachment forms part of the AER's final decision on ActewAGL's regulatory proposal 2015–19. It should be read with other parts of the final decision.

The final decision includes the following documents:

Overview

Attachment 1 - Annual revenue requirement

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

Attachment 9 - Efficiency benefit sharing scheme

Attachment 10 - Capital expenditure sharing scheme

Attachment 11 - Service target performance incentive scheme

Attachment 12 - Demand management incentive scheme

Attachment 13 - Classification of services

Attachment 14 - Control mechanism

Attachment 15 - Pass through events

Attachment 16 - Alternative control services

Attachment 17 - Negotiated services framework and criteria

Attachment 18 - Connection policy

Attachment 19 - Pricing methodology

Attachment 20 - Analysis of Financial Viability

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Shortened forms

Shortened form	Extended form
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
augex	augmentation expenditure
capex	capital expenditure
CCP	Consumer Challenge Panel
CESS	capital expenditure sharing scheme
CPI	consumer price index
DRP	debt risk premium
DMIA	demand management innovation allowance
DMIS	demand management incentive scheme
distributor	distribution network service provider
DUoS	distribution use of system
EBSS	efficiency benefit sharing scheme
ERP	equity risk premium
Expenditure Assessment Guideline	expenditure forecast assessment Guideline for electricity distribution
F&A	framework and approach
MRP	market risk premium
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NER	national electricity rules
NSP	network service provider
opex	operating expenditure
PPI	partial performance indicators
PTRM	post-tax revenue model
RAB	regulatory asset base
RBA	Reserve Bank of Australia
repex	replacement expenditure
RFM	roll forward model

Shortened form	Extended form
RIN	regulatory information notice
RPP	revenue and pricing principles
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
SLCAPM	Sharpe-Lintner capital asset pricing model
STPIS	service target performance incentive scheme
WACC	weighted average cost of capital

2 Regulatory asset base

We are required to make a decision on ActewAGL's opening regulatory asset bases (RABs) as at 1 July 2014.¹ We use the RAB at the start of each regulatory year to determine the return of capital (regulatory depreciation) and return on capital building block allowances. This attachment presents our final decision on ActewAGL's opening RAB values as at 1 July 2014 and roll forward of the forecast RAB values over the 2014–19 period.

2.1 Final decision

We accept ActewAGL's revised proposed opening RABs as at 1 July 2014 of \$693.5 million and \$154.0 million (\$ nominal) for its distribution and transmission networks respectively. ActewAGL's revised proposal adopted our draft decision adjustment to the opening RABs for the remaining asset life input for the legacy asset class of 'Opening distribution assets'.² The only change to the draft decision was updating 2013–14 estimated capex with actuals consistent with the annual reporting RIN for that year.

We note that ActewAGL's revised proposal referred to our draft decision acceptance of the use of forecast depreciation for establishing the RABs at the commencement of the regulatory control period from 1 July 2019.³ We therefore maintain our draft decision position on this issue for this final decision.

We determine forecast closing RAB values at 30 June 2019 of \$803.8 million and \$194.8 million (\$ nominal) for ActewAGL's distribution and transmission networks respectively. This represents a reduction from ActewAGL's revised proposal of \$27.9 million (or 3.4 per cent) and \$19.0 million (or 8.9 per cent) for its distribution and transmission networks respectively. Our final decision on the forecast closing RABs reflects our adjustments to ActewAGL's forecast capex (attachment 6), forecast regulatory depreciation (attachment 5) and the forecast inflation rate (attachment 3).

Table 2.3 and Table 2.4 set out our final decision on the forecast RAB values over the 2014–19 period for ActewAGL's distribution and transmission networks respectively.

Table 2.1 and Table 2.2 set out our final decision on the roll forward of the RAB values over the 2009–14 regulatory control period for ActewAGL's distribution and transmission networks respectively.

We determine forecast closing RAB values at 30 June 2019 of \$803.8 million and \$194.8 million (\$ nominal) for ActewAGL's distribution and transmission networks respectively. This represents a reduction from ActewAGL's revised proposal of \$27.9

¹ NER, cl. 6.12.1(6), 6.26(b).

² ActewAGL, *Revised regulatory proposal*, January 2015, p. 407.

³ ActewAGL, *Revised regulatory proposal*, January 2015, p. 407.

million (or 3.4 per cent) and \$19.0 million (or 8.9 per cent) for its distribution and transmission networks respectively. Our final decision on the forecast closing RABs reflects our adjustments to ActewAGL's forecast capex (attachment 6), forecast regulatory depreciation (attachment 5) and the forecast inflation rate (attachment 3).

Table 2.3 and Table 2.4 set out our final decision on the forecast RAB values over the 2014–19 period for ActewAGL's distribution and transmission networks respectively.

Table 2.1 AER's final decision on ActewAGL's RAB for the 2009–14 regulatory control period (\$ million, nominal) – distribution

	2009–10	2010–11	2011–12	2012–13	2013–14
Opening RAB	523.3	559.6	603.6	640.9	662.0
Capital expenditure ^a	53.5	57.5	49.2	45.0	64.5
Inflation indexation on opening RAB	9.5	15.9	20.5	11.3	16.2
Less: straight-line depreciation	26.7	29.4	32.3	35.2	38.6
Closing RAB	559.6	603.6	640.9	662.0	704.1
Difference between estimated and actual capex (1 July 2008 to 30 June 2009)					–7.0
Return on difference in 2008–09 capex					–3.6
Opening RAB as at 1 July 2014					693.5

Source: AER analysis.

(a) Net of disposals and capital contributions, and adjusted for CPI.

Table 2.2 AER's final decision on ActewAGL's RAB for the 2009–14 regulatory control period (\$ million, nominal) – transmission

	2009–10	2010–11	2011–12	2012–13	2013–14
Opening RAB	75.4	86.0	99.2	117.4	136.3
Capital expenditure ^a	13.1	15.1	19.9	22.7	20.8
Inflation indexation on opening RAB	3.9	4.4	5.0	5.8	6.8
Less: straight-line depreciation	1.4	2.4	3.4	2.1	3.3
Closing RAB	86.0	99.2	117.4	136.3	153.6
Difference between estimated and actual capex (1 July 2008 to 30 June 2009)					0.2
Return on difference in 2008–09 capex					0.1
Opening RAB as at 1 July 2014					154.0

Source: AER analysis.

(a) Net of disposals and capital contributions, and adjusted for CPI.

Table 2.3 AER's final decision on ActewAGL's RAB for the 2014–19 period (\$ million, nominal) – distribution

	2014–15	2015–16	2016–17	2017–18	2018–19
Opening RAB	693.5	730.5	751.2	769.6	783.7
Capital expenditure ^a	64.5	52.2	50.4	47.6	53.8
Inflation indexation on opening RAB	16.5	17.4	17.9	18.3	18.7
Less: straight-line depreciation	44.1	48.8	49.9	51.9	52.3
Closing RAB	730.5	751.2	769.6	783.7	803.8

Source: AER analysis.

(a) Net of forecast disposals and capital contributions.

Table 2.4 AER's final decision on ActewAGL's RAB for the 2014–19 period (\$ million, nominal) – transmission

	2014–15	2015–16	2016–17	2017–18	2018–19
Opening RAB	154.0	160.9	167.9	182.4	191.7
Capital expenditure ^a	11.2	12.2	19.9	15.1	9.2
Inflation indexation on opening RAB	3.7	3.8	4.0	4.3	4.6
Less: straight-line depreciation	8.0	9.0	9.4	10.2	10.6
Closing RAB	160.9	167.9	182.4	191.7	194.8

Source: AER analysis.

(a) Net of forecast disposals and capital contributions.

2.2 ActewAGL's revised proposal

ActewAGL's revised proposal submitted opening RAB values as at 1 July 2014 of \$693.5 million and \$154.0 million (\$ nominal) for its distribution and transmission RABs respectively. ActewAGL adopted our draft decision adjustments to roll forward the opening RABs from 1 July 2009 to 30 June 2014.⁴ ActewAGL also updated the revised proposed opening RABs to reflect actual capex for 2013–14.

⁴ ActewAGL, *Revised regulatory proposal*, January 2015, p. 407.

ActewAGL's revised proposal submitted forecast closing RABs as at 30 June 2019 of \$831.7 million and \$234.1 million (\$ nominal) for its distribution and transmission networks respectively. These values reflect its revised opening RABs, forecast capex and forecast depreciation (based on forecast capex) over the 2014–19 period. ActewAGL's projected distribution and transmission RABs over the 2014–19 period are respectively shown in Table 2.5 and Table 2.6.

Table 2.5 ActewAGL's proposed RAB for the 2014–19 period (\$ million, nominal) – distribution

	2014–15	2015–16	2016–17	2017–18	2018–19
Opening RAB	693.5	734.0	758.5	782.8	803.9
Capital expenditure ^a	67.3	55.2	55.5	53.9	60.8
Inflation indexation on opening RAB	17.3	18.4	19.0	19.6	20.1
Less: straight-line depreciation	44.1	49.0	50.2	52.4	53.1
Closing RAB	734.0	758.5	782.8	803.9	831.7

Source: ActewAGL, *Regulatory proposal*, January 2015, Attachment H8.

(a) Net of forecast disposals and capital contributions.

Table 2.6 ActewAGL's proposed RAB for the 2014–19 period (\$ million, nominal) – transmission

	2014–15	2015–16	2016–17	2017–18	2018–19
Opening RAB	154.0	161.6	169.2	188.1	207.0
Capital expenditure ^a	11.8	12.6	24.2	24.5	12.7
Inflation indexation on opening RAB	3.9	4.0	4.2	4.7	5.2
Less: straight-line depreciation	8.0	9.0	9.5	10.4	11.1
Closing RAB	161.6	169.2	188.1	207.0	213.8

Source: ActewAGL, *Regulatory proposal*, January 2015, Attachment H9.

(a) Net of forecast disposals and capital contributions.

2.3 AER's assessment approach

We did not change our assessment approach for the RAB from our draft decision. Section 2.3 of our draft decision details that approach.⁵

2.4 Reasons for final decision

⁵ AER, *Draft decision - ActewAGL distribution determination attachment 2 - Regulatory asset base*, November 2014, pp. 11-15.

We accept ActewAGL's revised proposed opening distribution and transmission RABs of \$693.5 million and \$154.0 million (\$ nominal) respectively, as at 1 July 2014.

Based on these approved opening RABs we forecast ActewAGL's closing distribution and transmission RAB values to be \$803.8 million and \$194.8 million (\$ nominal) respectively, as at 30 June 2019. These represent reductions of \$27.9 million or 3.4 per cent and \$19.0 million (\$ nominal) or 8.9 per cent compared to ActewAGL's revised proposal respectively. The reasons for our decision are discussed below.

2.4.1 Opening RAB as at 1 July 2014

We accept ActewAGL's revised proposed opening RAB values of \$693.5 million (\$ nominal) for its distribution network and \$154.0 million (\$ nominal) for its transmission network, as at 1 July 2014.

In the draft decision, we corrected the remaining asset life input of the 'Opening distribution assets' asset class used to roll forward ActewAGL's distribution and transmission RABs over the 2009–14 regulatory control period. We noted the roll forward of ActewAGL's RABs included estimated capex values for 2013–14. We stated we would update the 2013–14 estimated capex values with the actual values for the final decision.

ActewAGL's revised proposal adopted our draft decision adjustments to roll forward the opening RABs from 1 July 2009 to 1 July 2014. ActewAGL also updated the estimated 2013–14 capex adopted in the draft decision to reflect actual capex for that year. We have reconciled the 2013–14 capex in the revised proposal against ActewAGL's audited annual RIN for 2013–14. We therefore accept the actual capex for 2013–14, and the revised proposed opening RABs for ActewAGL's distribution and transmission networks.

2.4.2 Forecast closing RAB as at 30 June 2019

We forecast closing RAB values of \$803.8 million and \$194.8 million by 30 June 2019 for ActewAGL's distribution and transmission networks, respectively.

For ActewAGL's distribution RAB our decision results in a reduction of \$27.9 million (\$ nominal) or 3.4 per cent compared to ActewAGL's revised proposal. This reduction reflects our final decision on the inputs for determining the forecast distribution RAB in the post-tax revenue model (PTRM). To determine ActewAGL's forecast distribution RAB value, we amended the following PTRM inputs:

- We reduced ActewAGL's revised proposed forecast capex allowance by \$24.2 million (\$ nominal) or 8.3 per cent (attachment 6).
- We increased ActewAGL's revised proposed forecast regulatory depreciation allowance by \$3.7 million (\$ nominal) or 2.4 per cent (attachment 5).
- We reduced ActewAGL's revised proposed forecast inflation rate of 2.50 per cent per annum to 2.38 per cent per annum (attachment 3).

For ActewAGL's transmission RAB our decision results in a reduction of \$19.0 million (\$ nominal) or 8.9 per cent compared to ActewAGL's revised proposal. This reduction reflects our final decision on the inputs for determining the forecast transmission RAB in the PTRM. To determine ActewAGL's forecast transmission RAB value, we amended the following PTRM inputs:

- We reduced ActewAGL's revised proposed forecast capex allowance by \$18.2 million (\$ nominal) or 21.2 per cent (attachment 6).
- We increased ActewAGL's revised proposed forecast regulatory depreciation allowance by \$0.8 million or 3.2 per cent (attachment 5).
- We reduced ActewAGL's revised proposed forecast inflation rate of 2.50 per cent per annum to 2.38 per cent per annum (attachment 3).