FINAL DECISION
Directlink transmission determination
2015−16 to 2019−20

Attachment 2 − Regulatory asset base

April 2015

AUSTRALIAN ENERGY REGULATOR

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Note

This attachment forms part of the AER's final decision on Directlink's revenue proposal 2015–20. It should be read with other parts of the final decision.

The final 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

Attachment 9 – efficiency benefit sharing scheme

Attachment 10 – capital expenditure sharing scheme

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Attachment 12 – pricing methodology and negotiated services

Attachment 13 – pass through events

Contents

Shortened forms

Shortened form	Extended form
AARR	aggregate annual revenue requirement
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ASRR	annual service revenue requirement
augex	augmentation expenditure
capex	capital expenditure
CCP	Consumer Challenge Panel
CESS	capital expenditure sharing scheme
CPI	consumer price index
DRP	debt risk premium
EBSS	efficiency benefit sharing scheme
ERP	equity risk premium
MAR	maximum allowed revenue
MRP	market risk premium
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NER	national electricity rules
NSP	network service provider

Shortened form	Extended form
NTSC	negotiated transmission service criteria
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
RIN	regulatory information notice
RPP	revenue and pricing principles
SLCAPM	Sharpe-Lintner capital asset pricing model
STPIS	service target performance incentive scheme
TNSP	transmission network service provider
TUoS	transmission use of system
WACC	weighted average cost of capital

2 Regulatory asset base

The regulatory asset base (RAB) is the value of assets used by Directlink to provide prescribed transmission services.[1] These include transmission lines, converter stations and easements. 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 2015–20 regulatory control 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 final decision on the opening RAB value as at 1 July 2015 for Directlink. It also presents our forecast RAB values for Directlink over the 2015–20 regulatory control period.

2.1 Final decision

We determine an opening RAB value of $129.4 million as at 1 July 2015 for Directlink.[5] This value is $1.5 million (or 1.2 per cent) lower than Directlink's value of $131.0 million in its revised proposal. This is because we have updated the RAB roll forward for the recent availability of the 2014–15 actual inflation input.

We do not accept Directlink's revised proposed forecast closing RAB as at 30 June 2020 of $163.1 million. We instead determine the forecast closing RAB to be $148.6 million ($ nominal). This is $14.5 million (or 8.9 per cent) lower than Directlink's revised proposal. Our final decision on the forecast closing RAB reflects our adjustments to Directlink's opening RAB as at 1 July 2015, forecast capex (attachment 6) and forecast regulatory depreciation (attachment 5).

We note that Directlink's revised proposal adopted our draft decision on the use of forecast depreciation for establishing the RAB at the commencement of the regulatory control period from 1 July 2020.[6] We therefore maintain our draft decision position on this issue for this final decision.

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1 NER, cl. 6A.6.1.

2 NER, cl. 6A.4.2(3A) and (4).

3 NER, cl. 6A.5.4(a)(1) and (b)(1).

4 NER, cl. 6A.5.4(a)(2) and (3).

5 This RAB value is based on as-incurred capex.

6 Directlink, *Revised revenue proposal*, January 2015, p. 46.

Table 2-1 and Table 2-2 set out our final decision on the roll forward of the RAB values for Directlink's 2005–15 regulatory control period and forecast RAB values for Directlink's 2015–20 regulatory control period respectively.

Table 2-1 AER's final decision on Directlink's RAB for the 2005–15 regulatory control period ($ million, nominal)

	2005–06	2006–07	2007–08	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15[a]
Opening RAB	116.7	119.2	119.7	121.5	121.1	121.1	123.7	123.7	123.7	127.1
Capital expenditure[b]	2.1	0.9	–	–	–	2.2	1.7	0.7	3.7	4.6
CPI indexation on opening RAB	3.5	2.9	5.1	3.0	3.5	4.0	2.0	3.1	3.6	1.7
Straight-line depreciation[c]	–3.1	–3.2	–3.3	–3.4	–3.5	–3.6	–3.7	–3.8	–3.9	–4.0
Closing RAB	119.2	119.7	121.5	121.1	121.1	123.7	123.7	123.7	127.1	129.4
Opening RAB as at 1 July 2015										**129.4**

Source: AER analysis.

(a) Based on revised estimated capex and actual inflation. We will update for actual capex at the next reset.

(b) As incurred, net of disposals, and adjusted for actual CPI.

(c) Based on forecast depreciation and adjusted for actual CPI.

Table 2-2 AER's final decision on Directlink's RAB for the 2015–20 regulatory control period ($ million, nominal)

	2015–16	2016–17	2017–18	2018–19	2019–20
Opening RAB	129.4	135.1	134.9	134.8	135.5
Capital expenditure[a]	7.3	1.7	2.1	3.0	15.8
Inflation indexation on opening RAB	3.3	3.4	3.4	3.4	3.5
Straight-line depreciation	–5.0	–5.4	–5.6	–5.8	–6.1
Closing RAB	135.1	134.9	134.8	135.5	148.6

Source: AER analysis.

(a) As incurred, and net of disposals. In accordance with the timing assumptions of the 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.

2.2 Directlink's revised proposal

Directlink's revised proposal adopted our draft decision changes to its opening RAB value as at 1 July 2015.[7] Its revised proposed opening RAB was $131.0 million ($ nominal) as at 1 July 2015. As Directlink has updated the roll forward model (RFM) with actual capex for 2013–14 and a revised estimate of capex for 2014–15, the opening RAB in its revised proposal is slightly higher than the draft decision.

In its revised proposal, Directlink proposed a closing RAB of $163.1 million ($ nominal) as at 30 June 2020. This reflects Directlink's revised proposed forecast capex and depreciation over the 2015–20 regulatory control period.[8] Table 2-3 and Table 2-4 present Directlink's revised proposed roll forward of the RAB during the 2005–15 regulatory control period and the 2015–20 regulatory control period, respectively.

Directlink's revised proposal adopted our draft decision to use the forecast depreciation approach for establishing the RAB at the commencement of the regulatory control period from 1 July 2020.[9]

Table 2-3 Directlink's revised proposed RAB for the 2005–15 regulatory control period ($ million, nominal)

	2005–06	2006–07	2007–08	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15
Opening RAB	116.7	119.2	119.7	121.5	121.1	121.1	123.7	123.7	123.7	127.1
Capital expenditure[a]	2.1	0.9	0.0	0.0	0.0	2.2	1.7	0.7	3.7	4.6
CPI indexation on opening RAB	3.5	2.9	5.1	3.0	3.5	4.0	2.0	3.1	3.6	3.2
Straight-line depreciation[b]	–3.1	–3.2	–3.3	–3.4	–3.5	–3.6	–3.7	–3.8	–3.9	–4.0
Closing RAB	119.2	119.7	121.5	121.1	121.1	123.7	123.7	123.7	127.1	131.0
Opening RAB as at 1 July 2015										**131.0**

Source: Directlink, *Revised revenue proposal*, January 2015, p. 10

(a) As incurred, net of disposals, and adjusted for actual CPI.

(b) Based on forecast depreciation and adjusted for actual CPI.

[7] Directlink, *Revised revenue proposal*, January 2015, p. 9.

[8] Directlink, *Revised revenue proposal*, January 2015, p.48.

[9] Directlink, *Revised revenue proposal*, January 2015, p. 46.

Table 2-4 Directlink's revised proposed RAB for the 2015–20 regulatory control period ($ million, nominal)

	2015–16	2016–17	2017–18	2018–19	2019–20
Opening RAB	131.0	141.6	143.6	145.3	147.8
Capital expenditure[a]	12.3	4.0	4.0	5.0	18.1
Inflation indexation on opening RAB	3.3	3.6	3.7	3.7	3.8
Straight-line depreciation	–5.0	–5.6	–5.9	–6.2	–6.6
Closing RAB	141.5	143.6	145.3	147.8	163.1

Source: Directlink, *Revised revenue proposal*, January 2015, p. 48

(a) As incurred, and net of disposals.

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.

2.4 Reasons for final decision

We determine Directlink's revised proposed opening RAB value at 1 July 2015 to be $129.4 million. This value is $1.5 million (or 1.2 per cent) lower than Directlink's revised proposal value. This difference is due to our update of the input for 2014–15 actual inflation in the RAB roll forward.

We do not accept Directlink's projected closing RAB at the end of the 2015–20 regulatory control period. Instead, we determine a forecast closing RAB value of $148.6 million, a reduction of $14.5 million (or 8.8 per cent). The reasons for the reduction are our adjustments to Directlink's opening RAB as at 1 July 2015 (section 2.4.1), forecast capex (attachment 6) and forecast depreciation (attachment 5).

2.4.1 Opening RAB at 1 July 2015

We determine Directlink's opening RAB value as at 1 July 2015 to be $129.4 million ($ nominal). This value is $1.5 million (1.2 per cent) lower than Directlink's value of $131.0 million ($ nominal) in its revised proposal. This is because we updated the inflation input for 2014–15 using the actual March 2015 consumer price index (CPI) published by the Australian Bureau of Statistics.[10]

In the draft decision, we did not accept Directlink's proposed opening RAB value because we corrected two inputs to the RFM. We noted the roll forward of Directlink's RAB included estimated capex values for 2013–14 and 2014–15. We stated we would update the 2013–14 estimated capex values with the actual values for the final decision and may also update the 2014–15 capex values with revised estimates from Directlink.

In its revised proposal, Directlink adopted our draft decision input changes. Directlink also updated the RAB roll forward with actual capex for 2013–14 and a revised estimate of capex for 2014–15 in its revised RFM.[11]

We accept Directlink's actual capex for 2013–14. The amount has been checked against Directlink's regulatory accounts for that year. We also accept Directlink's revision to the capex estimate for 2014–15 of $4.6 million. This amount is higher than in the initial proposal but reflects firmer data with the passage of time and therefore is the best forecast available. We note that the financial impact of any difference between actual and estimated capex for 2014–15 will be accounted for at the next reset.[12]

2.4.2 Forecast closing RAB at 30 June 2020

We determine Directlink's forecast closing RAB to be $148.6 million by 30 June 2020. This represents a reduction to Directlink's revised proposal of $14.5 million (or 8.8 per cent). This reduction reflects our final decision on the inputs for determining the forecast RAB in the post-tax revenue model (PTRM). To determine the forecast RAB value for Directlink, we amended the following PTRM inputs:

- We reduced Directlink's proposed opening RAB as at 1 July 2015 by $1.5 million or 1.2 per cent (section 2.4.1).
- We reduced Directlink's revised proposed forecast capex for the 2015–20 regulatory control period by $13.6 million ($ nominal) or 31.3 per cent (attachment 6).
- We reduced Directlink's revised proposed forecast regulatory depreciation allowance by $0.5 million or 5.5 per cent (attachment 5).

10 The March quarter CPI is used as a proxy for the June financial year in the 2005–15 regulatory control period. As discussed in attachment 1, the December quarter CPI will be used as a proxy for the June financial year for the 2015–20 regulatory control period.

11 Directlink, *Revised revenue proposal*, January 2015, p. 9.

12 NER, cl. S6A.2.1(f)(3).