

AusNet Electricity Services Pty Ltd

Electricity Distribution Price Review 2022-26

Appendix 9E

Lease Accounting Treatment

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9 Lease Accounting Treatment

9.1 Introduction and Overview

This document sets out AusNet Services' leasing cost allocation from a regulatory perspective in the current period and our forecast of capitalised leases in the 2022-26 regulatory period.

AusNet Services' has historically treated its property and motor vehicle lease expenses as Opex by recording the annual lease payments on a straight-line basis, in accordance with the lease term.

Australian Accounting Standard AASB 16 Leases was recently introduced and is applicable to annual reporting periods beginning on or after 1 January 2019. The effect of this change is that, from 1 April 2019, i.e., the start of AusNet Services' financial reporting year, the full amount of an lease, where AusNet Services is the lessee, must be capitalised up-front when it is first entered into, or renewed, and amortised over its lease term. From a cashflow perspective there's no change however within the income statement we expect to see rental expenses replaced with interest and depreciation expenses.

From 1 April 2019 AusNet Services has commenced recognising the present value of the remaining lease payments of all existing lease arrangements as an asset for the 'right to use' the leased asset while also recognising a liability to make lease payments for the same amount over the same period. These assets recorded in our financial asset register have been assigned useful lives equivalent to the underlying lease terms.

Consistent with the approach taken in the statutory accounts, AusNet Services' intends to apply this approach in its forthcoming CY2019 Distribution regulatory accounts. Accordingly, this regulatory proposal treats all existing leasing arrangements as capital expenditure from 1 April 2019. The required adjustments to our base year Opex together with the expected capitalised lease amounts forming part of the 1 July 2021 opening RAB are presented in the following sections.

9.2 Capitalisation of Leases

To facilitate the change in accounting treatment as prescribed under AASB16, our 2022-26 Proposal Opex models for Standard Control Services (SCS) and Alternative Control Services (ACS) Metering (attached with this regulatory proposal) both make an adjustment to remove these leases from our 2022-26 Opex forecasts.

These adjustments are made in the 2018 base year Opex as shown in Table 9-1 below.

Table 9-1: Lease adjustment – Operating expenditure (\$m, real \$2018)

Service Classification	2018
Standard Control Services	-\$4.36
ACS Metering	-\$1.07

Source: AusNet Services

The adjustment to Opex includes the 2018 direct lease costs.

From CY2019 onwards, AusNet Services' SCS buildings and property leases and ACS Wimax comms tower site leases are treated as Capex in our Regulatory Determination Reset RIN and regulatory models, as per the forecasts outlined in the below sections, and consistent with the change in accounting treatment.

AusNet Services also has some motor vehicle leases (including forklifts) which have historically been reported as Opex in both the statutory accounts and our historical RINs. AusNet Services has recently purchased its own fleet of motor vehicles in 2018 (which were added to the RAB) and does not intend to renew most of the existing leases. Therefore, we have not proposed to capitalise leases associated with motor vehicles as part of this regulatory proposal. Further, motor vehicle purchases are anticipated in the next regulatory period as part of an on-going replacement program. Refer to Chapter 9 – Capital Expenditure for further details on this proposal.

9.3 SCS Property Lease forecasts

AusNet Services will capitalise its SCS buildings and property leases on 1 April 2019 which incorporates 17 existing leases for regional depots, office buildings and parking, zone substation land, easements and storage facilities.

Table 9-2 below contains the SCS capitalised lease amounts starting from 1 April 2019 through to June 2026.

Table 9-2: SCS Buildings and Property leases – Capital Expenditure (\$m real \$2018)

	CY19	CY20	Jan-Jun'21	2021-22	2022-23	2023-24	2024-25	2025-26
Leases Capitalised	\$31.7	\$0.3	\$0.2	\$1.2	-	-	\$4.6	-
Average RAB lives	10.2	19.5	8.0	23.7	-	-	5.0	-

Source: AusNet Services SCS Proposal Capex Model (2022-26), Proposal RFM and PTRM models

9.4 ACS Metering Wimax Lease forecasts

AusNet Services will capitalise its ACS Wimax tower site leases on 1 April 2019.

Table 9-3 below contains the capitalised lease amounts starting from 1 April 2019 through to June 2026.

Table 9-3: ACS Metering Wimax Tower site leases – Capital Expenditure (\$m real \$2018)

	CY19	CY20	Jan-Jun'21	2021-22	2022-23	2023-24	2024-25	2025-26
Leases Capitalised	\$5.8	\$0.1	-	\$0.04	-	-	\$0.07	\$0.09
Average RAB lives	9.0	5.0	-	5.0	-	-	5.0	5.0

Source: AusNet Services ACS Metering Proposal RFM and PTRM models