



24 July 2015

Mr Sebastian Roberts
General Manager - Networks Branch
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Sebastian

**RESPONSE ON SA POWER NETWORKS' REVISED PROPOSAL:
DEPRECIATION**

CitiPower Pty and Powercor Australia Ltd (the **Businesses**) welcome the opportunity to submit on SA Power Networks revised proposal. SA Power Networks revised its approach to calculating depreciation in response to the AER's preliminary determination on depreciation, which is set out in Attachment 5 – Regulatory depreciation (**Attachment 5**).

The Businesses have already made a submission in response to Attachment 5 in relation to their own regulatory proposals. This submission is equally applicable to the SA Power Networks' revised proposal and therefore we urge the AER to consider the Businesses' submission for SA Power Networks. In summary, our submission:

- includes a report from Incenta (attached) which demonstrates that the WARL formula used by the AER to calculate remaining lives is mathematically incorrect. We also illustrate this using a steady state example (attached);
- concludes that the baseline depreciation method is preferable to the other depreciation methods assessed, if the straight-line method of depreciation is deemed to be appropriate in the long term. The baseline depreciation method is also one of two recommended depreciation methods in the HoustonKemp report for SA Power Networks;
- affirms the administrative burden the baseline method would impose is negligible; and
- affirms the baseline method would not result in volatile prices as illustrated by a price trend model (attached).

If you have any questions, please contact Mark de Villiers on 03 9683 4907 or mdevilliers@powercor.com.au.

Yours sincerely

Brent Cleeve
GENERAL MANAGER REGULATION

REGISTERED OFFICE

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