Mount Barker Substation

Attachment 2

Regulatory Asset Base

Revenue Proposal 2023-24 to 2027-28

31 JANUARY 2022

ElectraNet

Company Information

ElectraNet Pty Ltd (ElectraNet) is the principal electricity transmission network service provider (TNSP) in South Australia.

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Note

This attachment forms part of our Revenue Proposal for the 2023-24 to 2027-28 regulatory period. It should be read in conjunction with the other parts of the Revenue Proposal.

Our Revenue Proposal comprises the overview and attachments listed below, and the supporting documents that are listed in Attachment 14:

- Revenue Proposal Overview
- Attachment 1 – Maximum allowed revenue
- Attachment 2 – Regulatory asset base (this document)
- Attachment 3 – Rate of return
- Attachment 4 – Regulatory depreciation
- Attachment 5 – Capital expenditure
- Attachment 6 – Operating expenditure
- Attachment 7 – Corporate income tax
- Attachment 8 – Efficiency benefit sharing scheme
- Attachment 9 – Capital expenditure sharing scheme
- Attachment 10 – Service target performance incentive scheme
- Attachment 11 – Pricing methodology
- Attachment 12 – Pass through events
- Attachment 13 – Demand Management Innovation Allowance
- Attachment 14 – List of supporting documents

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2. Regulatory Asset Base

2.1 Key points

- The value of our Regulatory Asset Base (RAB) is a key input to our revenue requirement.
- We have adopted the accepted approach to calculate the value of our RAB using the AER's Roll Forward Model (RFM)[1] in accordance with the Rules.
- As a result of changes to connection agreements, some assets that previously benefited from the grandfathering provisions under clause 11.6.11 of the Rules, no longer do. These assets will be removed from the RAB from 1 July 2023.
- Our RAB is forecast to decline in real terms over the coming regulatory period based on the reduced size of the capital program.

2.2 Introduction

This Attachment presents information relating to our RAB, which is calculated using the AER's RFM in accordance with the Rules requirements.

The Attachment is structured as follows:

- Section 2.3 explains how the roll forward methodology was used to establish the opening RAB as of 1 July 2023, including the removal of assets that previously benefited from grandfathering provisions.
- Section 0 presents our forecast of the opening RAB and the closing RAB for each year of the forthcoming regulatory period.

2.3 Opening RAB as of 1 July 2023

2.3.1 Summary of RAB calculation

Our opening RAB has been calculated using the AER's RFM. Table 2.1 below shows that it was calculated by:

- adding incurred capital expenditure for each year of the regulatory control period up to 30 June 2021, net of asset disposals;
- adding forecast incurred annual capital expenditure up to 30 June 2023, net of asset disposals;
- deducting depreciation on a straight line basis and applying the year-by-year tracking approach;
- removing connection assets that previously benefitted from the grandfathering provisions under clause 11.6.11 of the Rules, but are now classified as negotiated transmission services following changes to the connection agreements; and
- adjusting for actual and forecast inflation.

1 AER Version 4, April 2020.

The opening RAB calculation also includes an adjustment to account for any difference between the estimated and actual net capital expenditure during the last year of the previous regulatory period (2017-18).

The rate of return is applied to this difference so that both we and our customers are unaffected by any difference between the estimated and actual capital expenditure in that year.

Table 2.1: Derivation of opening RAB ($m nominal)

	2018-19	2019-20	2020-21	2021-22	2022-23
Opening RAB	2560.2	2659.2	2763.6	2872.8	3237.4
Nominal Net Capital Expenditure	159.8	181.9	216.6	434.9	405.2
Straight line depreciation	-106.4	-126.5	-131.2	-140.6	-137.6
Deduct previously ‘grandfathered’ connection assets (clause 11.6.11)					-12.7
Inflation adjustment	45.7	48.9	23.8	70.4	79.3
Closing RAB	2659.2	2763.6	2872.8	3237.4	3571.6
Adjust for difference in 2017-18 actual capital expenditure (and disposals)					17.3
Adjust for return on difference in 2017-18 actual capital expenditure (and disposals)					4.8
Opening RAB at 1 July 2023					3593.7

A completed RAB Roll Forward Model accompanies this Revenue Proposal.

2.3.2 Removal of grandfathered assets

During the current regulatory period, several customer connection substations were altered to facilitate a change of service, being the connection of solar PV generators by the transmission network user. The changed services required the alteration of the associated transmission connection agreement at the request of the customer.

At each of these substations, the relevant assets are either *existing assets* or *replacement assets*, as defined in clause 11.6.11(a) of the Rules. That is each asset was either in the RAB on 9 February 2006 or was a replacement of such an asset after 9 February 2006.

Where these assets were replaced after 9 February 2006, the replacement was undertaken as a result of the age and condition of the assets, and not at the request of the customer.

None of the *existing* or *replacement assets* that are identified as wholly and exclusively providing a connection service have had their costs treated as directly attributable to or incurred in providing

TUOS services. Accordingly, the identified assets are *eligible assets* for the purposes of clause 11.6.11(a) of the Rules.

At the date of this Revenue Proposal, the *eligible assets* no longer satisfy the definition of prescribed connection service in clause 11.6.11(a). This is due to the connection agreements at these substations being altered at the request of the transmission network user to facilitate the connection of generation.

The connection service at the identified substations will remain a prescribed service until the start of the next regulatory control period on 1 July 2023, from which time it will become a negotiated transmission service.

Consistent with clause 11.6.11(b) of the Rules at the commencement of the next regulatory period:

- the connection services at the identified substations will be reallocated to negotiated transmission services;
- the *eligible assets* previously providing the prescribed connection service no longer will be *eligible assets*;
- the value of the *eligible assets* which previously provided the prescribed connection service will be removed from the RAB, and
- the RAB value of those assets will be reflected in the negotiated connection charges of the relevant transmission network user.

Table 2.2 below provides an anonymised summary of the connection points that no longer benefit from the grandfathering provisions and the value of the affected assets, which will be removed from the opening RAB.

Table 2.2: Removal of grandfathered assets at connection points ($m nominal)[2]

Connection point	Existing or replacement substation	Altered service at customer request	Value ($m at 30 June 2021)[a]
Connection point A	Yes	Yes	1.4
Connection point B	Yes	Yes	1.4
Connection point C	Yes	Yes	3.7
Connection point D	Yes	Yes	2.9
Connection point E	Yes	Yes	3.1
Connection point F	Yes	Yes	0.4
Total			**13.0**

[a] this value is larger than the corresponding value in Table 2.1 due to forecast depreciation between 30 June 2021 and 30 June 2023

2 The figures presented in this Attachment are expressed in end of year ($ June) terms.

2.4 Forecast RAB for the forthcoming regulatory period

Table 2.3 below presents the values and inputs used to derive the RAB for each year of the forthcoming regulatory control period. It shows that the forecast RAB was calculated by:

- adding forecast capital expenditure to be incurred for each year of the regulatory control period up to 30 June 2028, net of forecast asset disposals;
- deducting depreciation on a straight line basis following the requirements of the Rules and applying the accepted year-by-year tracking approach[3]; and
- adjusting for forecast inflation.

Table 2.3: Asset base roll-forward from 1 July 2023 to 30 June 2028 ($m nominal)[4]

Regulatory Asset Base	2023-24	2024-25	2025-26	2026-27	2027-28
Opening RAB	3593.7	3691.2	3781.4	3859.1	3925.8
Net capital expenditure	157.3	164.7	152.0	147.2	130.8
Straight line depreciation	-146.2	-163.0	-165.0	-173.1	-171.6
Inflation adjustment on RAB	86.2	88.6	90.8	92.6	94.2
Closing RAB	3691.2	3781.4	3859.1	3925.8	3979.2

In accordance with clause S6A.2.1(f)(4) of the Rules, only actual and estimated capital expenditure properly allocated to the provision of prescribed transmission services in accordance with our approved Cost Allocation Methodology[5] net of forecast asset disposals has been included in the RAB.

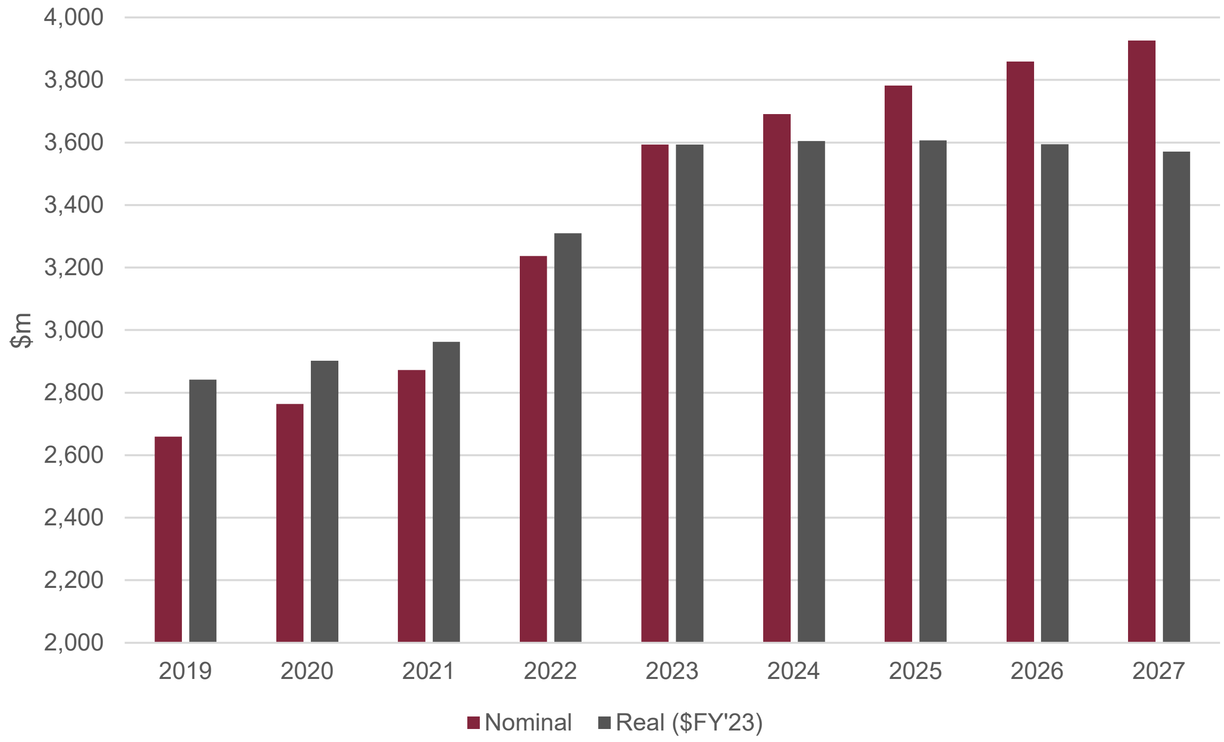
The forecast movement in the RAB to the end of the coming period is shown in Figure 2.1 below. Following the increase in the RAB in the current regulatory period due to the ISP projects and other investments currently being completed, the RAB is projected to decline in real terms over the forthcoming regulatory period based on the reduced level of capital expenditure.

3 We have also written down the residual value of assets to be removed from service in the coming regulatory period, consistent with accepted practice.

4 The figures presented in this Attachment are expressed in end of year ($ June) terms.

5 Available at www.electranet.com.au/wp-content/uploads/resource/2016/06/20081508-Report-Cost-Allocation-Methodology.pdf.

Figure 2-1: Closing RAB Outlook 2018-19 to 2027-28



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