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20 December 2017

Ms Sarah Brightwell  
Power & Water Corporation  
GPO Box 4150  
Darwin NT 0800

Dear Ms Brightwell

**Re: Electricity Distribution and Transmission Assets  
Regulatory Asset Lives**

#### **A. Scope**

We have been instructed that the scope of this review is as follows:

- a) Review the spreadsheet *'PWC-TAB Mapping and Standard Life Validation – V5 – DRAFT – 3 October 2017.xlsb 1*;
- b) Review the default tax lives used for each regulatory asset class shown in Table 2 (column H)
- c) Review the exceptions to those defaults for selected PWC tax register asset descriptions show in Table 1 (column E).
- d) We have been asked to confirm that the asset lives allocated to these assets are in accordance with the Australian Taxation Office's determination of effective lives for tax depreciation purposes as per Australian Taxation Office Taxation Ruling - TR 2017/2.

#### **B. Opinion & Conclusions**

- a) The Final Asset Lives derived from ATO TR 2017/2 are set out in the spreadsheet *'PWC-TAB Mapping and Standard Life Validation – v7 – FINAL – 20 December 2017.xlsx*.
- b) Our clearance relates to the asset lives set out in the *Tab 'ATO Lives v6', 'Column C'*. We confirm that the Final Asset Lives as per Column C have, subject to the reservations noted below, been sourced from ATO TR 2017/2 - Income Tax: effective life of depreciating assets (applicable from 1 July 2017).

- c) Our reservations relate to the deficiencies with the ATO's methodology of determination of effective lives for assets in the Electricity Distribution and Transmission Industry Classification, namely:
- (i) ATO TR 2017/2 does not necessarily contain an effective life determination for every type of asset which may arise (eg there is no specific asset classification for Distribution Switchgear, and these assets have been accorded the same asset life as Substations).
  - (ii) ATO TR 2017/2 has a specific industry classification for Electricity Distribution and Transmission Assets, however, these lives were last updated by the ATO for this industry classification in 2002 and do not take account of technological developments (eg the introduction of Smart Meters).
  - (iii) Where assets are not listed in the Electricity Distribution and Transmission Industry Sector of TR 2017/2, effective lives have been adopted from other industry classifications, or the general classifications in the ruling, and consequently the use of the assets may differ to that assumed in the ruling.

However, notwithstanding the weaknesses in the ATO approach to determination of effective lives in this industry sector, we consider that as reasonably as possible, the asset lives adopted in *'PWC-TAB Mapping and Standard Life Validation – v7 – FINAL – 20 December 2017.xlsx'* have been sourced from ATO TR 2017/2.

## Description of Review

In conducting our review we have considered the following.

- (i) We have reviewed several iterations of *'PWC-TAB Mapping and Standard Life Validation – V5 – DRAFT – 3 October 2017.xlsb 1'* which has been updated for our comments and are reflected in the Final Version - *'PWC-TAB Mapping and Standard Life Validation – v7 – FINAL – 20 December 2017.xlsx'*.
- (ii) The order of preference for allocation of effective lives selected from ATO TR 2017/2 is as follows:
  - a. If the asset type is located in a specific industry category - it is selected from Table A;
  - b. If the asset type is not located in the specific industry category – it is searched via this link - <https://www.ato.gov.au/Calculators-and-tools/Host/?anchor=DCA&anchor=DCA#DCA/questions/assets>
  - c. The asset may then be located in either Table A or Table B (but may appear in another industry category).
  - d. Engineering staff from PWC have reviewed the classification of items included in the general category of Plant & Equipment, and applied lives sourced from TR 2017/2 to those assets.

Yours faithfully



**Hayne & Co Pty Limited**  
**Per: Catherine A Hayne**  
**Director**