



Economic Regulation Authority

Final decision on proposed revisions to the access arrangement for the Western Power Network 2022/23 – 2026/27

Attachment 2: Regulated asset base

31 March 2023

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Note

This attachment forms part of the ERA's final decision on proposed revisions to the access arrangement for the Western Power Network for the fifth access arrangement period. It should be read with all other parts of the final decision.

The final decision includes the following attachments:

Final decision on proposed revisions to the access arrangement for the Western Power Network 2022/23-2026/27 - Decision Overview

Attachment 1 – Price control and target revenue

Attachment 2 – Regulated asset base (this document)

Attachment 3A – AA4 capital expenditure

Attachment 3B – AA5 capital expenditure

Attachment 4 – Depreciation

Attachment 5 – Return on regulated asset base

Attachment 6 – Operating expenditure

Attachment 7 – Other components of target revenue

Attachment 8 – Services

Attachment 9 – Service standard benchmarks and adjustment mechanism

Attachment 10 – Expenditure incentives and other adjustment mechanisms

Attachment 11 – Network tariffs

Attachment 12 – Policies and contracts

1. Summary

This attachment deals with the:

- opening regulated asset base for AA5
- forecast regulated asset base for AA5.

The draft decision required Western Power to:

- Amend the opening regulated asset base to reflect capital expenditure reported in the annual regulatory accounts and 2021/22 actual capital expenditure.
- Amend the forecast regulated asset base to reflect the ERA's decision on forecast capital expenditure forecast depreciation.

In its revised proposal, Western Power:

- Updated AA4 expenditure as required in the draft decision but there were errors in its calculation of the opening regulated asset base.¹
- Proposed higher forecast capital expenditure and consequently a higher forecast regulated asset base.

Summary of final decision on the regulated asset base

- Errors in the opening regulated asset base must be corrected.
- The forecast regulated asset base must be amended to reflect the ERA's final decision on the opening regulated asset base, forecast capital expenditure (Attachment 3B) and forecast depreciation (Attachment 4).

The ERA's final decision on the opening regulated asset base and forecast regulated asset base compared with Western Power's initial proposal, the draft decision and Western Power's revised proposal is set out in the tables below.

Table 1: Final decision - opening regulated asset base (real \$ million June 2022)

	2017/18	2018/19	2019/20	2020/21	2021/22
Final decision					
Opening asset base	10,142.3	10,124.6	10,180.8	10,435.7	10,614.8
Capital expenditure	416.1	513.6	730.2	643.4	637.5
Depreciation	(418.8)	(446.0)	(457.8)	(453.9)	(449.4)
Accelerated depreciation	(4.4)	(6.9)	(4.4)	0.0	0.0
Disposal/redundant asset	(10.6)	(4.6)	(13.2)	(10.4)	(17.1)
Closing asset base	10,124.6	10,180.8	10,435.7	10,614.8	10,785.8

¹ The revenue model submitted with Western Power's revised proposal on 14 November 2022 contained errors that resulted in an understatement of the opening capital base. Western Power submitted a corrected model on 18 January 2023.

	2017/18	2018/19	2019/20	2020/21	2021/22
Revised proposal					
Opening asset base	10,145.1	10,127.4	10,183.4	10,437.6	10,616.1
Capital expenditure	416.1	513.6	730.2	643.4	637.5
Depreciation	(418.8)	(446.1)	(458.5)	(454.5)	(449.5)
Accelerated depreciation	(4.4)	(6.9)	(4.4)	0.0	0.0
Disposal/redundant asset	(10.6)	(4.6)	(13.2)	(10.4)	(17.1)
Closing asset base	10,127.4	10,183.4	10,437.6	10,616.1	10,787.0
Draft decision					
Opening asset base	10,145.1	10,127.4	10,183.1	10,437.3	10,615.8
Capital expenditure	416.1	513.1	729.6	642.7	701.1
Depreciation	(418.8)	(446.0)	(457.8)	(453.9)	(449.4)
Accelerated depreciation	(4.4)	(6.9)	(4.4)	(0.0)	(0.0)
Disposal/redundant asset	(10.6)	(4.6)	(13.2)	(10.4)	(10.2)
Closing asset base	10,127.4	10,183.1	10,437.3	10,615.8	10,857.2
Western Power proposal					
Opening asset base	9,734.0	9,773.6	9,824.2	10,066.2	10,210.0
Capital expenditure	456.0	490.0	698.2	590.1	701.1
Depreciation	(401.8)	(428.0)	(439.2)	(436.4)	(431.3)
Accelerated depreciation	(4.4)	(6.9)	(4.4)	(0.0)	(0.0)
Disposal/redundant asset	(10.2)	(4.5)	(12.6)	(9.9)	(10.2)
Closing asset base	9,773.6	9,824.2	10,066.2	10,210.0	10,469.5

Source: ERA and Western Power target revenue models

Table 2: Final decision forecast regulated asset base (real \$ million June 2022)

	2022/23	2023/24	2024/25	2025/26	2026/27
Final decision					
Opening asset base	10,785.8	11,080.5	11,405.1	11,718.1	11,966.3
Capital expenditure	749.2	801.4	816.5	783.8	744.9
Depreciation	(454.5)	(476.8)	(503.5)	(535.6)	(562.7)
Closing asset base	11,080.5	11,405.1	11,718.1	11,966.3	12,148.4
Western Power revised proposal					
Opening asset base	10,787.0	11,110.5	11,487.2	11,869.6	12,180.0
Capital expenditure	776.8	855.5	890.9	854.3	832.8
Depreciation	(453.3)	(478.9)	(508.6)	(543.9)	(574.0)
Closing asset base	11,110.5	11,487.2	11,869.6	12,180.0	12,438.8

	2022/23	2023/24	2024/25	2025/26	2026/27
Draft decision					
Opening asset base	10,857.2	11,155.9	11,462.0	11,744.9	11,936.4
Capital expenditure	745.7	770.2	777.7	714.0	704.5
Depreciation	(446.9)	(464.1)	(494.8)	(522.5)	(543.2)
Closing asset base	11,155.9	11,462.0	11,744.9	11,936.4	12,097.8
Western Power proposal					
Opening asset base	10,469.5	10,904.3	11,348.8	11,752.1	12,061.1
Capital expenditure	869.7	900.2	903.8	841.6	825.8
Depreciation	(435.0)	(455.8)	(500.5)	(532.6)	(572.6)
Closing asset base	10,904.3	11,348.8	11,752.1	12,061.1	12,314.3

Source: ERA and Western Power target revenue models

The reasons for the ERA's final decision and details of required amendments are set out in this attachment.

2. Regulated asset base

The regulated asset base is the value ascribed to the network assets used to provide covered services.

The regulated asset base for the covered network must be determined at the start of each access arrangement period. A forecast regulated asset base for the access arrangement period is used to determine the depreciation and return on the regulated asset base for inclusion in the target revenue.

An extract of the Access Code provisions relevant to the regulated asset base is included in Appendix 1.

2.1 Western Power's initial proposal

Consistent with the current access arrangement, Western Power specified regulated asset base values separately for the transmission and distribution networks.

The regulated asset base values for the transmission and distribution networks were calculated by Western Power for the beginning of the AA5 period using a roll-forward method that involves commencing with the opening value at the beginning of the AA4 period and:

- Adding the actual values of capital expenditure (new facilities investment) during the AA4 period that Western Power considers meet the requirements of the new facilities investment test under section 6.52 of the Access Code (excluding gifted assets and capital expenditure which is funded by customers via capital contributions).²
- Deducting values of redundant assets and disposals.
- Deducting values of depreciation as allowed for in target revenue for AA4.
- Escalating for inflation to express in dollar values at June 2022 prices.

Western Power's initial calculated values of the regulated asset base for the transmission and distribution networks at the commencement of AA5 are set out in Table 3 and Table 4 (below).

Table 3 Western Power's initial proposed regulated asset base at 30 June 2022 for the transmission network (real \$ million June 2022)

	2017/18	2018/19	2019/20	2020/21	2021/22	Total
Opening asset base	3,396.8	3,345.3	3,315.2	3,412.7	3,420.5	3,396.8
New facilities investment	77.3	100.3	243.1	158.0	198.2	776.9
Asset disposals	(8.6)	(3.8)	(12.0)	(8.3)	(8.5)	(41.2)
Depreciation	(120.2)	(126.6)	(133.5)	(141.9)	(145.0)	(667.3)
Closing asset base	3,345.3	3,315.2	3,412.7	3,420.5	3,465.2	3,465.2

Source: Western Power regulated revenue model

² Capital expenditure is added to the regulated capital base on an "as incurred" basis rather than an "as commissioned" basis.

Table 4 Western Power's initial proposed regulated asset base at 30 June 2022 for the distribution network (real \$ million June 2022)

	2017/18	2018/19	2019/20	2020/21	2021/22	Total
Opening asset base	6,337.2	6,428.3	6,509.1	6,653.5	6,789.4	6,337.2
New facilities investment	378.7	389.6	455.1	432.1	502.9	2,158.4
Asset disposals	(1.5)	(0.6)	(0.6)	(1.6)	(1.7)	(6.1)
Depreciation	(281.6)	(301.4)	(305.7)	(294.5)	(286.3)	(1,469.5)
Accelerated depreciation	(4.4)	(6.9)	(4.4)	0.0	0.0	(15.6)
Closing asset base	6,428.3	6,509.1	6,653.5	6,789.4	7,004.3	7,004.3

Source: Western Power regulated revenue model

For the purposes of determining target revenue for the AA5 period, Western Power forecast values of the regulated asset base for the transmission and distribution networks for each year of AA5.

Western Power's initial forecast values of the regulated asset base for the transmission and distribution networks for each year of AA5 are set out in Table 5 and Table 6.

Table 5 Western Power's initial proposed forecast regulated asset base for the transmission network (real \$ million June 2022)

	2022/23	2023/24	2024/25	2025/26	2026/27	Total
Opening asset base	3,465.2	3,547.7	3,632.3	3,694.6	3,713.8	3,465.2
New facilities investment	229.3	249.8	237.9	203.8	195.0	1,115.8
Depreciation	(146.7)	(165.2)	(175.5)	(184.7)	(192.9)	(865.0)
Closing asset base	3,547.7	3,632.3	3,694.6	3,713.8	3,715.9	3,715.9

Source: Western Power regulated revenue model

Table 6 Western Power's initial proposed forecast regulated asset base for the distribution network (real \$ million June 2022)

	2022/23	2023/24	2024/25	2025/26	2026/27	Total
Opening asset base	7,004.3	7,356.6	7,716.5	8,057.4	8,347.3	7,004.3
New facilities investment	640.5	650.5	665.9	637.8	630.8	3,225.5
Depreciation	(288.2)	(290.6)	(324.9)	(347.9)	(379.7)	(1,631.3)
Closing asset base	7,356.6	7,716.5	8,057.4	8,347.3	8,598.4	8,598.4

Source: Western Power regulated revenue model

2.2 Submissions on initial proposal

Submissions on matters relevant to the regulated asset base were received from the Australian Energy Council, Alinta, Synergy and the WA Expert Consumer Panel.

Synergy queried whether any of the obsolete, decommissioned, retired or redundant assets identified in Western Power's proposal should be treated as redundant capital under section 6.61 of the Access Code. Synergy specifically repeated statements made throughout Western Powers AA5 proposal that indicated its intention to invest in replacing poor condition, obsolete and decommissioned assets.

The WA Expert Consumer Panel was similarly concerned that the transition to a modular grid might result in the regulated asset base being higher than it should be. The residual values of assets that were removed from service such as meters being replaced by new AMI meters and distribution lines being replaced by SPS and microgrids were identified as examples of where this might be an issue.

The Australian Energy Council, Synergy and Alinta proposed constraining the value of the regulated asset base to the value derived using the depreciated optimised replacement cost (DORC) method. They considered that the implementation of new technologies as part of Western Power's transformation to a modular grid was likely to render some of the assets included in the existing regulated asset base redundant. They considered that retention of those assets in the regulated asset base results in inefficient investment signals for Western Power and results in the allocation of stranded asset risk to network users.

2.3 Draft decision

The ERA considered whether Western Power's calculation of the regulated asset base for the transmission and distribution networks is consistent with the requirements of the Access Code. These considerations are documented below in the following order:

- The general method applied in calculating the regulated asset base (see below).
- Verification that stated capital expenditure during AA4 actually occurred (see Attachment 3A).
- Determination of the regulated asset base at the commencement of AA4, taking into account:
 - An assessment of actual capital expenditure in AA4 against the test in section 6.51A of the Access Code (see Attachment 3A).
 - Depreciation (see Attachment 4).
 - Redundant assets (see below).
- An assessment of forecast capital expenditure for AA5 against the test in section 6.51A of the Access Code (see Attachment 3B).
- Forecast depreciation calculations and asset lives (see Attachment 4).

As described above, Western Power calculated the capital base for each of the transmission and distribution networks using a roll-forward method. This method has been used in each Access Arrangement since AA2 and is consistent with the method described in the note to section 6.48 of the Access Code.

The roll-forward method is generally used by utility regulators throughout Australia and is the method mandated for electricity transmission and distribution networks in the National Electricity Market under chapters 6A and 6 of the National Electricity Rules.

The ERA considered that the roll-forward method used by Western Power to establish the opening capital base and forecast capital base for AA5 was consistent with the Access Code objective.

The ERA did not consider implementing an updated valuation of the regulated asset base based on the depreciated optimised replacement cost was appropriate. The Access Code includes provisions for removing redundant assets from the regulated asset base. These can be utilised, if necessary, in the event that new technologies implemented as part of Western Power's transformation to a modular grid render any of the assets included in the existing regulated asset base redundant as raised in stakeholder submissions.

The ERA's draft decision calculated values of the regulated asset base for the transmission and distribution networks at the commencement of AA5 are set out in Table 7 and Table 8 (below).

Table 7 Draft decision regulated asset base at 30 June 2022 for the transmission network (real \$ million June 2022)

	2017/18	2018/19	2019/20	2020/21	2021/22	Total
Opening asset base	3,540.1	3,468.7	3,435.5	3,541.8	3,554.5	3,540.1
New facilities investment	62.9	102.9	258.5	168.7	198.2	791.2
Asset disposals	(9.0)	(4.0)	(12.5)	(8.7)	(8.5)	(42.7)
Depreciation	(125.3)	(132.0)	(139.7)	(147.3)	(151.2)	(695.5)
Closing asset base	3,468.7	3,435.5	3,541.8	3,554.5	3,593.0	3,593.0

Source: ERA target revenue model

Table 8 Draft decision regulated asset base at 30 June 2022 for the distribution network (real \$ million June 2022)

	2017/18	2018/19	2019/20	2020/21	2021/22	Total
Opening asset base	6,605.1	6,658.8	6,747.5	6,895.5	7,061.3	6,605.1
New facilities investment	353.2	410.3	471.0	474.0	502.9	2,211.4
Asset disposals	(1.6)	(0.6)	(0.7)	(1.7)	(1.7)	(6.3)
Depreciation	(293.5)	(313.9)	(318.1)	(306.5)	(298.3)	(1,530.3)
Accelerated depreciation	(4.4)	(6.9)	(4.4)	0.0	0.0	(15.7)
Closing asset base	6,658.8	6,747.5	6,895.5	7,061.3	7,264.2	7,264.2

Source: ERA target revenue model

Draft decision required amendment 1

The opening regulated asset base must be amended to reflect capital expenditure reported in the annual regulatory accounts and 2021/22 actual capital expenditure.

The ERA's draft decision on forecast values of the regulated asset base for the transmission and distribution networks for each year of AA5 is set out in Table 9 and Table 10.

Table 9 Draft decision forecast regulated asset base for the transmission network (real \$ million June 2022)

	2022/23	2023/24	2024/25	2025/26	2026/27	Total
Opening asset base	3,593.0	3,656.1	3,717.6	3,762.5	3,752.4	3,593.0
New facilities investment	214.6	233.7	227.8	182.2	171.4	1,029.7
Depreciation	(151.5)	(172.2)	(182.8)	(192.3)	(197.6)	(896.4)
Closing asset base	3,656.1	3,717.6	3,762.5	3,752.4	3,726.2	3,726.2

Source: ERA target revenue model

Table 10 Draft decision proposed forecast regulated asset base for the distribution network (real \$ million June 2022)

	2022/23	2023/24	2024/25	2025/26	2026/27	Total
Opening asset base	7,264.2	7,499.9	7,744.4	7,982.4	8,184.0	7,264.2
New facilities investment	531.1	536.4	549.9	531.9	533.1	2,682.4
Depreciation	(295.5)	(291.9)	(311.9)	(330.2)	(345.5)	(1,575.0)
Closing asset base	7,499.9	7,744.4	7,982.4	8,184.0	8,371.6	8,371.6

Source: ERA target revenue model

Draft decision required amendment 2

The forecast regulated asset base must be amended to reflect the ERA's decision on forecast capital expenditure (Attachment 3B) and forecast depreciation (Attachment 4).

2.4 Western Power's revised proposal

In its revised proposal, Western Power has:

- Amended the opening regulated asset base to reflect capital expenditure reported in the annual regulatory accounts and 2021/22 actual capital expenditure.
- Proposed higher forecast capital expenditure which has increased the forecast regulated asset base compared to the draft decision.

Western Power's calculated values of the capital base for the transmission and distribution networks at the commencement of AA5 are set out in Table 11 and Table 12 below.

Table 11 Western Power's corrected revised proposed regulated asset base at 30 June 2022 for the transmission network (real \$ million June 2022)

	2017/18	2018/19	2019/20	2020/21	2021/22	Total
Opening asset base	3,540.1	3,468.7	3,439.8	3,541.9	3,554.6	3,540.1
New facilities investment	62.9	107.0	254.3	168.7	180.9	773.8
Asset disposals	(9.0)	(4.0)	(12.5)	(8.7)	(16.8)	(51.0)
Depreciation	(125.3)	(132.0)	(139.7)	(147.3)	(151.1)	(695.4)
Closing asset base	3,468.7	3,439.8	3,541.9	3,554.6	3,567.6	3,567.6

Source: Western Power regulated revenue model

Table 12 Western Power's corrected revised proposed regulated asset base at 30 June 2022 for the distribution network (real \$ million June 2022)

	2017/18	2018/19	2019/20	2020/21	2021/22	Total
Opening asset base	6,605.1	6,658.8	6,743.7	6,895.7	7,061.6	6,605.1
New facilities investment	353.2	406.6	475.9	474.7	456.6	2,167.0
Asset disposals	(1.6)	(0.6)	(0.7)	(1.7)	(0.2)	(4.8)
Depreciation	(293.5)	(314.1)	(318.8)	(307.1)	(298.4)	(1,531.9)
Accelerated depreciation	(4.4)	(6.9)	(4.4)	0.0	0.0	(15.7)
Closing asset base	6,658.8	6,743.7	6,895.7	7,061.6	7,219.6	7,219.6

Source: Western Power regulated revenue model

2.5 Submissions on the revised proposal and draft decision

Synergy's submission includes points relevant to the opening and forecast regulated asset base. Synergy:

- Notes Western Power updated the opening regulated asset base in its revised proposal and that it was lower than Western Power's initial proposal.
- Queries whether Western Power's proposed modular grid strategy is a major augmentation proposal and whether it, or other aspects of Western Power's proposal, should be assessed against the requirements of chapter 9 of the Access Code in relation to major augmentations.

2.6 Considerations of the ERA

The revenue model submitted with Western Power's revised proposal on 14 November contained errors that resulted in the opening capital base being understated. The ERA has recalculated the opening regulated asset base to correct the errors and ensure capital expenditure is consistent with actual expenditure reported in the regulatory accounts during AA4.

The ERA's final decision calculation of values of the regulated asset base for the transmission and distribution networks at the commencement of AA5 are set out in Table 13 and Table 14 below.

Table 13 Final decision regulated asset base at 30 June 2022 for the transmission network (real \$ million June 2022)

	2017/18	2018/19	2019/20	2020/21	2021/22	Total
Opening asset value	3,537.3	3,465.8	3,436.9	3,539.0	3,551.6	3,537.3
New facilities investment	62.9	107.0	254.3	168.7	180.9	773.8
Asset disposals	(9.0)	(4.0)	(12.5)	(8.7)	(16.8)	(51.0)
Depreciation	(125.3)	(132.0)	(139.7)	(147.3)	(151.2)	(695.5)
Closing asset base	3,465.8	3,436.9	3,539.0	3,551.6	3,564.5	3,564.5

Source: ERA target revenue model

Table 14 Final decision regulated asset base at 30 June 2022 for the distribution network (real \$ million June 2022)

	2017/18	2018/19	2019/20	2020/21	2021/22	Total
Opening asset value	6,605.1	6,658.8	6,743.9	6,896.7	7,063.1	6,605.1
New facilities investment	353.2	406.6	475.9	474.7	456.6	2,167.0
Asset disposals	(1.6)	(0.6)	(0.7)	(1.7)	(0.2)	(4.8)
Depreciation	(293.5)	(313.9)	(318.1)	(306.5)	(298.3)	(1,530.3)
Accelerated depreciation	(4.4)	(6.9)	(4.4)	0.0	0.0	(15.7)
Closing asset base	6,658.8	6,743.9	6,896.7	7,063.1	7,221.2	7,221.2

Source: ERA target revenue model

Required Amendment 1

The opening regulated asset base must be amended to reflect the ERA's final decision.

Synergy queried whether any of Western Power's forecast expenditure is a major augmentation and would be subject to the Regulatory Test under chapter 9 of the Access Code.

The Access Code defines "augmentation" as an increase in the capability of the regulated network to provide regulated services. Major augmentations are currently defined as augmentations greater than \$41.2 million in the transmission network and greater than \$13.7 million in the distribution network. Before committing to a major augmentation, the service provider must meet the "regulatory test".

The requirements of the regulatory test are set out in Chapter 9 of the Access Code. Essentially the regulatory test ensures that the proposed major augmentation has been properly assessed to determine whether it maximises the net benefit to those who generate

transport and consume electricity in the regulated network, having regard to all reasonable alternative options, including the likelihood of each alternative option proceeding.

Western Power's initial proposal did not identify significant specific augmentations to the transmission or distribution network. In its revised proposal, Western Power sought expenditure for specific new transmission expansion projects and additional expenditure for increasing capacity in some parts of the distribution network. The proposed increases to the distribution network were not separately identified by project. As set out in Attachment 3B, the ERA has reduced the expenditure sought by Western Power for expansions to the distribution network.

The ERA expects that Western Power will submit a regulatory test application, or a request for a waiver of the regulatory test, if and when needed before committing to any network augmentation that exceeds the major augmentation threshold. The Access Code includes anti-avoidance provisions if the service provider seeks to avoid or frustrate the objective of the regulatory test. This includes provisions for the ERA to deem any two or more augmentations to constitute a single augmentation.

Section 9.5 of the Access Code defines "committed" as being when the service provider intending to undertake a major augmentation begins to put its intention into effect by doing an act which is more than merely preparatory to undertaking the augmentation including by:

- Making a substantial financial commitment in respect of the major augmentation such as committing to:
 - A significant obligation which is legally binding
 - An obligation which would have significant commercial repercussions if cancelled, discontinued or dishonoured.
- Commencing, or procuring the commencement of, construction of the major augmentation.

Section 9.6 of the Access Code states that a service provider will not be considered to have "committed" to undertaking a major augmentation merely because it has:

- Undertaken preparatory system or other studies in respect of the major augmentation.
- Engaged in preparatory planning, design or costing activities in respect of the major augmentation.
- Obtained an approval in respect of the major augmentation unless it results in a significant obligation which is legally binding or would have significant commercial repercussions if cancelled, discontinued or dishonoured.

Section 9.23 of the Access Code sets out circumstances for where the regulatory test can be expedited, modified or waived. This includes:

- There are no, or it is unlikely that there are any, viable alternative options to the proposed major augmentation.
- The nature of the proposed major augmentation is such that significant advance planning is required and no alternative options exist.
- The nature of the proposed major augmentation, or part of it, is such that it should be submitted to AEMO.

- The nature of the funding of the proposed major augmentation means that the proposed major augmentation will not cause a net cost to those who generate, transport and consume electricity in the regulated network.

Major augmentations that are identified as “priority projects” in the Whole of System Plan (WOSP) required under the Wholesale Electricity Market Rules are not subject to the regulatory test.

If Western Power submits a regulatory test application, or an application for a waiver of the regulatory test, the ERA must publish its determination within 45 business days after receiving the application if it consults the public. If the ERA does not consult the public, it must publish its determination within 25 business days after receiving the application.

The ERA has amended Western Power’s revised proposed forecast capital expenditure (Attachment 3B) and depreciation (Attachment 4) in this final decision. Consequently, the forecast regulated asset base must also be adjusted.

The ERA’s final decision on forecast values of the regulated asset base for the transmission and distribution networks for each year of AA5 are set out in Table 15 and Table 16.

Table 15 Final decision forecast regulated asset base for the transmission network (real \$ million June 2022)

	2022/23	2023/24	2024/25	2025/26	2026/27	Total
Opening asset value	3,564.5	3,601.4	3,643.1	3,671.1	3,690.5	3,564.5
New facilities investment	188.0	213.5	206.9	204.1	153.5	966.0
Depreciation	(151.2)	(171.8)	(178.9)	(184.8)	(187.7)	(874.4)
Closing asset base	3,601.4	3,643.1	3,671.1	3,690.5	3,656.3	3,656.3

Source: ERA target revenue model

Table 16 Final decision forecast regulated asset base for the distribution network (real \$ million June 2022)

	2022/23	2023/24	2024/25	2025/26	2026/27	Total
Opening asset value	7,221.2	7,479.1	7,762.0	8,047.0	8,275.8	7,221.2
New facilities investment	561.2	587.9	609.6	579.6	591.4	2,929.7
Depreciation	(303.3)	(305.0)	(324.6)	(350.9)	(375.0)	(1,658.8)
Closing asset base	7,479.1	7,762.0	8,047.0	8,275.8	8,492.2	8,492.2

Source: ERA target revenue model

Required Amendment 2

The forecast regulated asset base must be amended to reflect the ERA’s final decision on the opening regulated asset base, forecast capital expenditure (Attachment 3B) and forecast depreciation (Attachment 4).

Appendix 1 Code Extract – Regulated asset base

Under section 6.44 of the Access Code, the capital base for the covered network must be determined at the start of each access arrangement period.

Section 6.48 sets out the requirements for the capital base at the start of any access arrangement period, other than the first access arrangement period:

- 6.48 For the start of each *access arrangement period* other than the *first access arrangement period*, the *capital base* for a *covered network* must be determined in a manner which is consistent with the *Code objective*.

{Note: A number of options are available in relation to the determination of the *capital base* at the start of an *access arrangement period*, including:

rolling forward the *capital base* from the previous *access arrangement period* applying benchmark indexation such as the *consumer price index* or an asset specific index, plus *new facilities investment* incurred during the previous *access arrangement period*, less depreciation and *redundant capital* etc; and

valuation or revaluation of the *capital base* using an appropriate methodology such as the Depreciated Optimised Replacement Cost or Optimised Deprival Value methodology.}

The capital base must not include forecast new facilities investment.

- 6.49 Subject to section 6.50, the *capital base* for a *covered network* must not include any amount in respect of *forecast new facilities investment*.

- 6.50 For the start of each *access arrangement period*, the *capital base* for a *covered network* may include *forecast new facilities investment* which:

- (a) has not yet occurred but is forecast to occur before the access arrangement start date; and
- (b) at the time of inclusion is reasonably expected to satisfy the test in section 6.51A when made.³⁸⁰

{Note: Forecast new facilities investment in a proposed access arrangement may actually have occurred by the time of the access arrangement start date. Under section 6.50, such new facilities investment may be included in the capital base for a covered network.}

Section 6.51 of the Access Code provides for the target revenue for an access arrangement period to include forecast capital costs that are reasonably expected to satisfy the new facilities investment test.

- 6.51 For the purposes of section 6.4(a)(i) and subject to section 6.49, the forward-looking and efficient costs of providing *covered services* may include costs in relation to *forecast new facilities investment* for the *access arrangement period* which at the time of inclusion is reasonably expected to satisfy the test in section 6.51A when the *forecast new facilities investment* is forecast to be made.

Section 6.51A of the Access Code provides that new facilities investment may be added to the capital base if it passes certain tests:

- 6.51A New facilities investment may be added to the capital base if:

- (a) it satisfies the new facilities investment test; or
- (b) the Authority otherwise approves it being added to the capital base if:
 - (i) it has been, or is expected to be, the subject of a contribution; and

- (ii) it meets the requirements of section 6.52(a); and
- (iii) the access arrangement contains a mechanism designed to ensure that there is no double recovery of costs as a result of the addition.

Sections 6.61 to 6.63 of the Access Code provide for an amount to be subtracted from the capital base in respect of redundant network assets:

Redundant capital

6.61 Subject to section 6.62, the Authority may in relation to a determination under section 6.44(a) require an amount (“redundant capital”) to be removed from the capital base to the extent (if any) necessary to ensure that the network assets which have ceased to contribute in any material way to the provision of covered services are not included in the capital base.

6.62 Before requiring a removal under section 6.61, the Authority must have regard to:

- (a) whether the service provider was efficiently minimising costs when it developed, constructed or acquired the network assets; and
 - (b) the uncertainty such a removal may cause and the effect which any such uncertainty may have on the service provider, users and applicants; and
 - (c) whether the cause of the network assets ceasing to contribute in any material way to the provision of covered services was the application of a written law or a statutory instrument; and
 - (d) whether the service provider was compelled to develop, construct or acquire the network assets:
 - (i) by an award by the arbitrator; or
 - (ii) Because of the application of a written law or a statutory instrument;
- and
- (e) whether the depreciation of the network assets should be accelerated instead of or in addition to a redundant capital amount being removed from the capital base under section 6.61.

6.63 If the Authority requires a removal under section 6.61, then when making other determinations under this Chapter 6 the Authority may have regard to the removal.

{Examples of such other determinations include approving a weighted average cost of capital and assessing the economic life of assets.}