

## 6 REGULATORY DEPRECIATION

The allowance for the regulatory depreciation of TasWater's assets used to provide regulated water and sewerage services is a major component of TasWater's NAR, accounting for around 25 per cent.

The regulatory depreciation allowance is designed to enable TasWater to recover the cost of investing in assets over the economic life of those assets. The value of the regulatory depreciation allowance is based on:

- the depreciation method used;
- the economic lives of the new assets TasWater uses to provide regulated services;
- the depreciation rates calculated during the third regulatory period and proposed by TasWater for the fourth regulatory period ; and
- the value of the assets that make up TasWater's RABs.<sup>69</sup>

TasWater's Asset Register is the primary source of information about the value of its assets, their respective useful lives and, therefore the applicable depreciation rates.

This chapter sets out the Regulator's assessment of TasWater's proposed regulatory depreciation allowances and its decisions based on that assessment.

### 6.1 Regulator's decisions

The Regulator has made the following decisions:

1. Set the regulatory depreciation allowance at a total of \$455.8 million for the fourth regulatory period as set out in in Table 6.6.
2. Accept TasWater's proposed regulatory depreciation with respect to its new assets for the PSP3 extension year, 2021-22 and use a depreciation rate of 1.94 per cent for existing assets.<sup>70</sup>
3. Accept the asset lives TasWater's proposes using for its new assets to calculate regulatory depreciation for the fourth regulatory period.
4. Accept TasWater's proposed weighted average depreciation rate for existing assets of 2.28 per cent for the fourth regulatory period.
5. Accept TasWater's reasons for revising regulatory depreciation with respect to its new assets and its existing assets for the years from 2018-19 to 2020-21.
6. Require TasWater to develop an asset register on an appropriate software platform that is suitable for regulatory pricing purposes.
7. Require TasWater to continue to not claim regulatory depreciation on capex until the asset is commissioned for projects that started after 1 July 2018.

<sup>69</sup> See Chapter 2 of this Report for details of TasWater's RAB.

<sup>70</sup> Calculated as the average of the depreciation rates for existing assets for 2018-19 (1.95%), 2019-20 (1.94%) and 2020-21 (1.93%)

8. Conduct an inquiry under section 12(j) of the *Water and Sewerage Industry Act 2008* into alternative approaches to calculating regulatory depreciation for new assets.

## 6.2 Differences between the Regulator's decisions in the Draft and Final Report

The decisions of the Regulator, as above, that have changed between the publication of the draft and this Final Report are set out below.

### 6.2.1 Changes to draft decisions in the Regulator's Draft Report

The Regulator has modified the draft decision set out in the Draft Report as follows:

- Remove the adjustment to existing asset depreciation and reduce TasWater's proposed regulatory depreciation allowances for the fourth regulatory period and approve a regulatory depreciation allowance of \$455.81 million for the fourth regulatory period. More details on this decision are provided in section 6.7.1.3 of this Report.

### 6.2.2 New decisions not in the Regulator's Draft Report

There were no new decisions made with respect to regulatory depreciation.

## 6.3 Depreciation method

As set out in the Draft Report, the Regulator was satisfied that TasWater had used a value-weighted average asset life approach in calculating regulatory depreciation for existing assets. This approach was used in previous investigations by the Regulator due to uncertainty about the acquisition dates and condition of the assets transferred from the former council owners to the previous regional corporations and subsequently TasWater<sup>71</sup> and referred to as existing assets.

The Regulator was also satisfied that TasWater had used a straight line approach in calculating regulatory depreciation for new assets i.e. assets other than those classified as existing assets. Under this approach, the value of each asset is returned to TasWater evenly each year over each asset's economic life. That is, the value of an asset is divided by its economic life in years to determine the annual allowance for depreciation for that asset.

As approved by the Regulator in 2018<sup>72</sup>, TasWater applied the straight line depreciation approach to each of its new assets and summed the individual values to provide an annual total for regulatory depreciation for new assets.

However, given the growing number of new assets TasWater has and the issues identified in Section 6.4 of this Report with respect to TasWater's Asset Register, the Regulator is concerned about the ongoing suitability of using a line-by-line approach for calculating depreciation on new assets.

In the Draft Report, the Regulator stated that it intended conducting an inquiry, under Section 12(j) of the *Water and Sewerage Industry Act 2008*, into approaches to calculating regulatory depreciation including, but not limited to, reviewing whether the current line-by-line approach is the most appropriate method.

<sup>71</sup> Tasmanian Economic Regulator, *2018 Price Determination Investigation Final Report*, page 158.

<sup>72</sup> *Ibid*, page 159.

### 6.3.1 Regulator's decision

The Regulator did not receive any submissions on this issue and has accepted TasWater's approaches to calculating depreciation on its existing assets and new assets.

The Regulator also decided to retain its draft decision to review TasWater's approaches to calculating regulatory depreciation and will conduct an inquiry during the fourth regulatory period to assess these approaches.

## 6.4 TasWater's Asset Register

TasWater's Asset Register in relation to its existing and new assets is contained within an Excel workbook. Data from the Register is pasted into TasWater's Financial Model. TasWater provided the Regulator with a copy of its Register on 23 July 2021.

However, due to the size of the workbook in the Register (around 280 000 rows) and the fact that it contained a large number of complicated formulae, the Regulator was unable to open and analyse the data contained in the Register. Despite extensive liaison between the Regulator and TasWater from late July 2021 onwards, the Regulator did not receive a copy of the Register that it could open until mid-September 2021.

When the Regulator was able to open the Register, it was unable to manipulate and interrogate the data contained within the Register. The Regulator has therefore been unable to adequately verify the accuracy of the information contained in the Register.

The shortcomings identified with TasWater's Register have severely limited the Regulator's ability to analyse TasWater's proposed regulatory depreciation.

In relation to TasWater's Register, CCGUS recommended:

...that the Regulator work with TasWater to develop a regulatory asset base for pricing purposes, which is based on a physical asset register system such as MAXIMO. While the financial asset register should align with the physical asset register, the amalgamation of local council into three corporatised entities and now into a single corporate entity, means that the physical asset register is likely inaccurate, and will not be able to inform TasWater of asset condition, asset age and the myriad of other benefits that flow from an accurate and well performing physical asset register.<sup>73</sup>

In the Draft Report the Regulator accepted CCGUS' recommendations and stated that, during the fourth regulatory period, it intended requiring TasWater to transition its Register to a different software platform.<sup>74</sup>

### 6.4.1 Submissions on the Regulator's Draft Report

In its submission, TasWater supported the Regulator's draft decision to require it to explore options with regards to providing the Regulator with an Asset Register for regulatory purposes.

<sup>73</sup> CCGUS' Draft Report, page 91.

<sup>74</sup> In its draft report, CCGUS identified Maximo as a potential solution from the perspective of making the Register more accessible, less prone to error and manipulation, and allowing asset age and condition information to be recorded, potentially improving the quality of information used for regulatory pricing purposes.

## 6.4.2 Regulator's conclusions

As specified in the Draft Report, the Regulator will require TasWater to develop and maintain an asset register that is suitable for regulatory pricing purposes. The Regulator concurs with TasWater that this should occur after the conduct of the inquiry into approaches to calculating regulatory depreciation.

## 6.5 Asset lives and rates of depreciation

The accuracy of the asset lives the Regulator uses to calculate TasWater's regulatory depreciation allowance is important. If the asset lives accepted by the Regulator are too short, the regulatory depreciation allowance, and therefore TasWater's NAR, and prices charged to today's customers will be too high. The prices future customers face will, in turn, be too low as, effectively the future prices will not include depreciation for assets that are still being used and are within their economic lives.

Furthermore, a higher depreciation allowance results in a larger reduction in the value of these assets within the relevant RAB. While this provides some offsetting benefits to today's customers, as the return on assets is lower, the accumulate benefits of a lower than otherwise RAB are greater for future customers.

Equally, if the asset lives accepted by the Regulator are too long, the prices faced by today's customers would be too low and the prices for future customers would be too high as they would include depreciation for assets for which the economic life has expired and which may no longer be used.

With regards to existing assets, the depreciation allowance is calculated using a depreciation rate applied to the RAB for existing assets. The depreciation rate is the inverse of the weighted average of the useful life of existing assets.

TasWater proposed a depreciation rate for its existing assets of 2.28 per cent for each year of the fourth regulatory period, which equates to an average useful life of 43.9 years. Due to the issues set out in Section 6.4, the Regulator was unable to confirm the basis or accuracy of this rate. In preparing this Report, the Regulator noted that this is a higher rate than the rates approved for the third regulatory period of 1.95 per cent, 1.94 per cent and 1.93 per cent for 2018-19, 2019-20 and 2020-21 respectively.

Consistent with the decision in the Draft Report, and with no additional evidence to support a different rate, the Regulator has decided to accept TasWater's proposed regulatory depreciation rate of 2.28 per cent for existing assets for the fourth regulatory period.

With respect to TasWater's new assets, the Regulator noted in its Draft Report that the asset lives of these assets had been set at between four and 90 years as shown in Table 6.1.

The Regulator also noted in the Draft Report that the asset lives TasWater had used for its new assets are generally shorter than for similar assets of water utilities in other jurisdictions. For example:

- TasWater assigns mechanical assets an asset life of between 8 and 25 years depending on the asset type; this compares to 25 years for Hunter Water and between 25 and 35 years for Sydney Water.<sup>75</sup>
- TasWater has set the asset life for pipework as 80 years whereas SA Water adopts a useful life of between 103 and 107 years for these assets.<sup>76</sup>
- The asset lives for TasWater's civil assets has been set at up to 90 years whereas Sydney Water's has set the asset lives for civil assets at 140 years.

<sup>75</sup> IPART, Review of prices for Hunter Water Corporation from 1 July 2020 (draft report), March 2020.

<sup>76</sup> ESCOSA, SA Water Regulatory Determination 2020 (Final Determination: Statement of Reasons), June 2020.

Table 6.1 TasWater's asset lives schedule

MASTER ASSET LIVES TABLE		
Asset Type	Asset sub-type	Asset sub-type typical life
	Concrete	90
	Steel tanks	80
	Road pavement	40
	Structural steel	60
Civil Assets	Sand filter media	10
	Trickling filter media	10
	Buildings	40
	Sludge lagoon lining	20
	Pipework	80
	Pumps	25
	Motors/ Gearbox	15
	Blowers / air compressors	20
Mechanical	Diffusers	8
	Belt press	15
	UV systems	25
	Mixers	25
	Valves	25
	Switchboards	20
	Circuit breakers	20
Electrical	Generators	10
	VFD	15
	Telemetry	10
	SCADA System	10
	PLCs	10
	Instruments	10
Process Control	Flow meters	20
	Actuators	10
	Package dosing station	10
	Analysers	7
Fleet	Cars	4
Preliminaries	Various	N/A
Non-infrastructure	Various	N/A
No new infrastructure	E.g. Maintenance, Investigation	N/A

Source: Information supplied by TasWater.

The comparison in Table 6.2 below, is based on the information in TasWater's Financial Model relating to water assets, and shows that, on an annual average basis, the depreciation rates for new assets are between 20 and 30 per cent higher than the rate for existing water assets, even though the asset values for existing assets and new assets are similar. This indicates that the asset lives for TasWater's new water assets are significantly shorter than the asset lives of TasWater's existing assets.

The Regulator also understands that TasWater uses the same asset lives and, therefore, the same depreciation rates, for tax, accounting, insurance and regulatory purposes.

CCGUS came to a similar conclusion and stated that:

“... the use of Australian Taxation Office (ATO) asset lives has a tendency to allow shorter lives which allows ‘accelerated depreciation’ where the tax life is less than the asset’s useful life. This has the effect of increasing depreciation allowances and reducing overall tax paid. It also provides an incentive for any business to continue to invest in the latest technology, which usually has the advantage of increasing the productivity of any business.

From a regulatory point of view, the use of an asset life which is less than its useful life, has the effect of increasing depreciation in the regulatory RAB, which in turn flows to a slightly higher cost to recover from customers. This is not an optimal outcome (where it is shown to occur) as it decreases the efficiency of the regulated industry sector under analysis.”<sup>77</sup>

and

... TasWater is using financial asset lives from its financial asset register to undertake its regulatory pricing analysis. The preferred approach is to use the physical asset register.<sup>78</sup>

**Table 6.2 Comparison of TasWater’s average depreciation rates for existing and new assets**

Description	2022-23	2023-24	2024-25	2025-26
Closing RAB - Existing Water Assets ('000s)	1 177 770	1 168 534	1 164 486	1 163 254
Depreciation ('000s)	27 480	27 352	27 178	27 151
Average depreciation rate (%)	2.33	2.34	2.33	2.33
Closing RAB - New Water Assets ('000s)	997 425	1 093 146	1 188 980	1 266 369
Depreciation ('000s)	30 283	33 251	34 930	36 343
Average depreciation rate (%)	3.04	3.04	2.94	2.87

While the Regulator agrees with CCGUS’ conclusions, there was insufficient time before the start of the fourth regulatory period for TasWater to review and potentially change the useful lives of its new assets. In the Draft Report, the Regulator intended accepting the asset useful lives TasWater’s proposed using to calculate regulatory depreciation for the fourth regulatory period.

However, as set out in the Draft Report, in addition to the Regulator’s intentions with respect to TasWater’s asset register and as part of the intended inquiry under section 12(j) of the *Water and Sewerage Industry Act 2008*, the Regulator also intended to review the basis for TasWater’s asset lives assumptions.

The Regulator has retained the decision from the Draft Report such that the depreciation inquiry to be conducted during the fourth regulatory period will include a review of the basis for TasWater’s asset lives assumptions.

If the inquiry reveals that TasWater’s asset lives for the fourth regulatory period were too high, or too low, and this has had a material impact on prices over that period, the Regulator will consider whether an adjustment to the regulatory depreciation allowance would be appropriate.

<sup>77</sup> CCGUS’ Draft Report, page 90.

<sup>78</sup> Ibid, page 90.

## 6.6 Variances between TasWater's Financial Model and other information provided by TasWater

In the Draft Report, the Regulator found that for each of the 2018-19, 2019-20 and 2020-21 financial years, the regulatory depreciation values for both existing and new assets in TasWater's Financial Model for the fourth regulatory period differed from the values TasWater submitted, and the Regulator approved, for the third regulatory period.

These differences resulted in TasWater's regulated revenue requirement for the third regulatory period being around \$4 million higher than it would have been otherwise. a relatively lower inflation adjustment and a relatively lower return on capital on a during the third regulatory period as TasWater applied a lower than maximum price increase in 2018-19 (4.16 per cent compared to the Regulator's determination of a 4.6 per cent price increase) followed by two years of price freezes and the application of a 3.5 per cent price cap in 2021-2.

Corrections to the third regulatory period differences, discussed above, flow on to the fourth regulatory period as the relatively lower regulatory depreciation for the previous regulatory period leads to the RAB being higher and TasWater therefore receiving a relatively higher return for the fourth regulatory period. TasWater's RAB and return on assets are discussed further in chapters 2 and 7 respectively of this Draft Report.

As explained in the Draft Report, TasWater provided the following reasons for the values for the third regulatory period being changed:

1. The Financial Model prepared for the PSP3 investigation was created by Jacobs as part of the third regulatory period investigation. Prior to the fourth regulatory period investigation, TasWater could not locate, or obtain from Jacobs, a copy of the financial model that correlated to the final third regulatory period numbers. For the proposed PSP, an earlier version of the financial model that closely reconciled to the final third regulatory period numbers was used as the starting point, and the 2018-19 opening balance from the RAB used to roll forward the asset base.
2. Depreciation had been incorrectly calculated using the diminishing value method in Jacobs' model for the third regulatory period, rather than the required straight line method.
3. Depreciation had been incorrectly calculated on disposed assets in the Jacobs model.
4. New asset costs had been incorrectly allocated to existing assets in the Jacobs model. In its proposed PSP for the fourth regulatory period, these costs have been reallocated to new assets.

The Regulator also found that the 30 June 2018 closing balance for new water and sewerage assets of \$659.15 million in Table 10.2 of the 2018 Investigation Final Report differs from the 1 July 2018 opening balance in TasWater's Asset Register Summary (\$533.54 million). TasWater advised that the \$125.62 million difference was due to the above reasons. The Regulator considers this explanation to be reasonable noting, in particular, the incorrect allocation of new asset costs to existing asset costs (point 4. above) although the Regulator notes that TasWater did not disclose, and the Regulator has been unable to ascertain, the magnitude of this cost misallocation.

In the Draft Report, the Regulator also stated that it intended accepting TasWater's explanation of the reasons for the changes and also intended accepting the revised regulatory depreciation values for both existing and new assets as set out in TasWater's Financial Model for the fourth regulatory period and as shown in Table 6.3.

Table 6.3 Regulatory depreciation allowances for the third regulatory period (excluding the extension year, 2021-22) as stated by TasWater in its proposed PSP for the fourth regulatory period (\$'000s, nominal)

	2018-19	2019-20	2020-21
<b>New Assets</b>			
<i>Third regulatory period</i> <sup>Note 1</sup>			
Water	16 692	18 551	20 190
Sewerage	19 596	21 778	23 702
	36 288	40 329	43 892
<i>Fourth regulatory period</i> <sup>Note 2</sup>			
Water	12 523	18 410	24 996
Sewerage	10 657	15 200	19 154
	23 180	33 611	44 150
<i>Difference</i>			
Water	-4 169	-141	4 806
Sewerage	-8 939	-6 578	-4 548
	-13 108	-6 718	258
<b>Existing Assets</b>			
<i>Third regulatory period</i> <sup>Note 1</sup>			
Water	28 010	28 473	28 945
Sewerage	25 814	24 946	26 668
	53 845	53 377	55 613
<i>Fourth regulatory period</i> <sup>Note 2</sup>			
Water	28 704	28 431	28 165
Sewerage	25 141	24 946	24 738
	53 845	53 377	52 903
<i>Difference</i>			
Water	694	-42	-780
Sewerage	-673	-1 292	-1 930
	21	-1 334	-2 710

## Notes:

1. Tasmanian Economic Regulator, 2018 Water and Sewerage Investigation Final Report, (May 2018), Tables 8.8 and 8.9.
2. TasWater's proposed PSP, Table 8.10.

## 6.7 Depreciation on TasWater's capex projects commencing before and from 1 July 2018

The Regulator's decision as part of the 2018 investigation to not allow regulatory depreciation on capex for projects starting from 1 July 2018 until the asset is commissioned was intended to incentivise TasWater to complete projects in a timely manner. It is unclear from TasWater's proposed PSP and supporting information what impact this decision has had on improving project delivery.

For the Draft Report, the Regulator reviewed TasWater's PSP3 and proposed PSP submissions, including supporting documentation, and TasWater's website, to attempt to verify the start date for the 51 projects TasWater stated, in its proposed PSP, had commenced prior to 1 July 2018. For most projects, there were inconsistencies between information sources, or no supporting evidence was available. Further, it became apparent to the Regulator that the scope of a number of the listed projects had changed significantly from when those projects had commenced, according to TasWater. For example,

the original Bryn Estyn water treatment plant major upgrade was expected to cost \$108m<sup>79</sup>; the upgrade is now expected to cost around \$298m.<sup>80</sup>

A number of the projects identified by TasWater as commencing on or after 1 July 2018 also have completion dates beyond 30 June 2026 meaning that regulatory depreciation will not be calculated until the project has been completed and commissioned and therefore will not affect costs and, in turn, prices for the fourth regulatory period.

The Regulator did not provide criteria or guidance on when a project is considered to have started in its *2018 Water and Sewerage Price Determination Final Report* (2018 Investigation Final Report), or in its PSP Guideline for this price investigation.

This has led to TasWater using multiple start date indicators, including where expenditure was recorded on a project in TasWater's finance system before 30 June 2018 or a detailed business case or approval to investigate the project was approved on or before 30 June 2018. The Regulator has therefore experienced difficulties in verifying project start dates.

Given the difficulty involved in determining whether a project has commenced before 1 July 2018, the Regulator noted in the Draft Report that it did not intend taking any further action to verify project start dates.

For projects that TasWater reports as starting after 1 July 2018, the Regulator did, however, require TasWater to continue to claim regulatory depreciation on capex only once the asset is commissioned and is in use.

For this Report, the Regulator has maintained the decisions set out in the Draft Report with respect to regulatory depreciation for capex projects commencing before and from 1 July 2018.

## 6.8 Impact of global adjustments to capex on regulatory depreciation

In its Draft Report, the Regulator stated that it intended reducing TasWater's proposed capex by five per cent for the fourth regulatory period. These adjustments have a flow-on effect on regulatory depreciation.

The intended capex adjustments resulted in reductions in TasWater's proposed capex of \$11.3 million, \$11.7 million, \$11.4 million and \$11.0 million in 2022-23, 2023-24, 2024-25 and 2025-26 respectively. The impact on TasWater's new assets regulatory depreciation allowances is set out in Table 6.4.

Table 6.4 Draft Report - Impact of the Regulator's global adjustments to TasWater's proposed capex on regulatory depreciation for new assets for the fourth regulatory period (\$'000s)

	2022-23	2023-24	2024-25	2025-26
Regulator's reductions	360	770	1 178	1 686

### 6.8.1.1 Submissions on Draft Report

In its submission TasWater referred to the impact on regulatory depreciation of the Regulator's intended global capex adjustment:

*If the TER decides to maintain its proposed reduction in total capex, TasWater notes that this reduction is likely to relate to projects that are forecast to commence during the period and therefore will have little, if any, regulatory depreciation included in the forecast for the PSP4 period. Unless*

<sup>79</sup> Tasmanian Economic Regulator, *2018 Water and Sewerage Price Determination Investigation Final Report*, page 109.

<sup>80</sup> CCGUS' Draft Report, page 112.

*specific projects are removed from the capex forecast and the associated regulatory depreciation can be clearly identified, TasWater proposes that the regulatory depreciation for new assets be included in full as proposed in its draft proposal.*<sup>81</sup>

### 6.8.1.2 Regulator's decision

As set out in section 4.10.4.3 of this Report, the Regulator has decided to maintain its draft decision to reduce TasWater's proposed capex by five per cent for the fourth regulatory period.

The Regulator notes the issues TasWater has raised about the flow-on effect of the global capex adjustment on regulatory depreciation and the likelihood that the capex adjustment will relate to projects that may not be completed and commissioned during the fourth regulatory period

The global adjustment does not apply to specific projects but applies instead to aggregate capex which includes projects started in previous regulatory periods. The capex reduction is in response to concerns that not all the proposed capex will be incurred over the fourth regulatory period as some projects may not be completed and therefore the depreciation allowance should be correspondingly lower. The Regulator considers that the reductions specified in Table 6.6 are appropriate and will be included in the regulatory depreciation allowance.

## 6.9 Variances between TasWater's Asset Register and Financial Model

For the Draft Report, the Regulator's review revealed several instances where the regulatory depreciation values in TasWater's Asset Register with respect to existing assets were different from the figures in TasWater's Financial Model for the fourth regulatory period.

In its Draft Report, as the Regulator was unable to ascertain which figures were correct, the Regulator stated that it intended accepting the lower values from the two sources, as set out in Table 6.5.

Table 6.5 Regulator's Draft Report - Variations between TasWater's Asset Register and proposed PSP - draft regulatory depreciation allowance for existing assets for the fourth regulatory period (\$'000s)

	2022-23	2023-24	2024-25	2025-26
Water	27 480	27 351	27 178	27 151
Sewerage	24 203	24 062	24 110	23 730
Proposed PSP	51 683	51 413	51 288	50 881
Asset Register	48 048	47 398	46 891	46 522
Reduction in regulatory depreciation	-3 635	-4 015	-4 397	-4 359

### 6.9.1.1 Submissions on Draft Report

In its submission TasWater noted that:

"... the regulatory depreciation values in worksheet '1&2 - Asset Imports' of its Asset Register were calculated on a line-by-line approach and were not intended to be used in the estimate of regulatory depreciation for pricing purposes. The weighted average approach was used to calculate regulatory depreciation on existing assets in the 'RAB Rollforward' sheet of the Financial Model. These values were included in TasWater's proposed NAR estimates. As the TER has accepted the opening RAB values in FY2018/19, and that it accepts the weighted average

<sup>81</sup> TasWater's submission on the Regulator's Draft Report, pages 15-16.

approach, the values calculated in the 'RAB Rollforward sheet' of the Financial Model should be used as the basis for regulatory depreciation for existing assets."<sup>82</sup>

### 6.9.1.2 Regulator's analysis

Based on the additional information provided by TasWater, the Regulator has further analysed TasWater's Asset Register and has been able to reconcile the depreciation figures between the Asset Register and the Financial Model for depreciation starting before 1 July 2009 and depreciation starting after 1 July 2011. However, these figures are hard coded from the Asset Register into the Financial Model and the same issues arise as the Regulator encountered when preparing its Draft Report, namely that the Regulator was unable to interrogate the data contained in the Asset Register to assess its accuracy.

There remains, however, a discrepancy between the two sources of data as the Asset Register does not contain any entries for depreciation on assets starting after 1 July 2009 and up to 1 July 2011 whereas the Financial Model does. This appears to be the reason why the two data sources don't reconcile although the Regulator cannot be certain of this conclusion.

### 6.9.1.3 Regulator's decision

As there is no other data to verify TasWater's proposed regulatory depreciation, the Regulator considers it has little option but to accept the figures set out in TasWater's Financial Model with the exception of:

- escalation values: the Regulator has used escalation values which have been updated to reflect actual and forecast inflation as set out in the Executive Summary and Chapter 5; and
- depreciation rates: the Regulator has used:
  - rates determined during the Regulator's previous investigation for the 2018-19, 2019-20 and 2020-21 financial years (the third regulatory period); and
  - for the extension year (2021-22), an average of the rates determined for the third regulatory period.

The Regulator expects that these and other issues relating to TasWater's treatment of regulatory depreciation will be addressed and resolved during the course of the Regulator's inquiry into regulatory depreciation during the fourth regulatory period.

Table 6.6 shows TasWater's depreciation values as provided in its Financial Model and the Regulator's final depreciation values that will be used in calculating the NAR. The differences in the values are due to:

- different inflation rates as explained above;
- different depreciation rates for the third regulatory period. TasWater used 2.28 per cent for the period from 1 July 2018 to 30 June 2026. However, the applicable rates for the third regulatory period are 1.95, 1.94 and 1.93 per cent respectively with the Regulator using an average of these values, 1.94 per cent, for the extension year (2021-2022); and
- the global capex adjustment as discussed in section 6.8.

<sup>82</sup> TasWater's submission on the Regulator's Draft Report, page 15.

Table 6.6 TasWater's proposed values and the Regulator's final values for the annual regulatory depreciation allowance in the NAR (\$'000s nominal)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Total (2022-23 to 2025-26)
<b>TasWater's proposed depreciation values (Financial Model)</b>									
Depreciation - existing	53 844	53 376	52 902	52 125	<b>51 683</b>	<b>51 414</b>	<b>51 289</b>	<b>50 881</b>	
Depreciation - new	23 180	33 611	44 150	47 826	<b>51 078</b>	<b>57 414</b>	<b>63 948</b>	<b>73 940</b>	
	<b>77 024</b>	<b>86 987</b>	<b>97 052</b>	<b>99 951</b>	<b>102 761</b>	<b>108 828</b>	<b>115 237</b>	<b>124 821</b>	
<b>Regulator's final depreciation values</b>									
Depreciation - existing	45 749	44 409	44 976	46 580	<b>53 491</b>	<b>52 192</b>	<b>52 995</b>	<b>54 744</b>	
Depreciation - new	23 180	33 611	44 150	47 826	<b>50 717</b>	<b>56 644</b>	<b>62 770</b>	<b>72 254</b>	
	<b>68 929</b>	<b>78 020</b>	<b>89 126</b>	<b>94 406</b>	<b>104 208</b>	<b>108 836</b>	<b>115 765</b>	<b>126 998</b>	<b>455 807</b>
<b>Adjustments</b>									
Depreciation - existing					1 808	778	1 706	3 863	<b>8 155</b>
Depreciation - new					- 361	- 770	-1 178	-1 686	<b>-3 995</b>
					<b>1 447</b>	<b>8</b>	<b>528</b>	<b>2 177</b>	<b>4 160</b>