Final Decision

Directlink Electricity Transmission Determination 2025 to 2030

(1 July 2025 to 30 June 2030)

Attachment 2
Regulatory asset base

April 2025

AUSTRALIAN
ENERGY
REGULATOR

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AER reference: AER213705

Amendment record

Version	Date	Pages
1	30 April 2025	8

List of attachments

This attachment forms part of the Australian Energy Regulator’s (AER's) final decision on the transmission determination that will apply to Directlink for the 2025–30 period. It should be read with all other parts of the final decision.

As a number of issues were settled at the draft decision stage or required only minor updates, we have not prepared all attachments. Where an attachment has not been prepared, our draft decision reasons form part of this final decision. The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision.

The final decision includes the following attachments:

Overview

Attachment 1 – Maximum allowed revenue

Attachment 2 – Regulatory asset base

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Contents

2 Regulatory asset base

Our transmission determination includes Directlink's opening regulatory asset base (RAB) value as at 1 July 2025 and the projected RAB value for the 2025–30 regulatory control period (period).[1] The value of the RAB substantially impacts Directlink's revenue requirement, and the price consumers ultimately pay. Other things being equal, a higher RAB would increase both the return on capital and return of capital (depreciation) components of the transmission determination.[2] This final decision sets out:

- the opening RAB value as at 1 July 2025
- the forecast closing RAB value as at 30 June 2030
- that depreciation based on forecast capital expenditure (capex) is to be used for establishing the RAB as at the commencement of the 2030–35 period.[3]

2.1 Final decision

2.1.1 Open RAB as at 1 July 2025

Our final decision is to determine an opening RAB value of $160.5 million ($ nominal) as at 1 July 2025 for Directlink. This amount is $0.3 million (0.2%) lower than Directlink's revised proposed opening RAB value of $160.8 million ($ nominal) as at 1 July 2025.[4] It reflects our update to the roll forward model (RFM) for actual consumer price index (CPI) for 2024–25. This final decision is $2.7 million (1.6%) lower than our draft decision value for Directlink's opening RAB of $163.1 million ($ nominal).[5]

To determine the opening RAB value as at 1 July 2025, we have rolled forward the RAB over the 2020–25 period to arrive at a closing RAB value at 30 June 2025 in accordance with our RFM.[6] This roll forward includes an adjustment at the end of the 2020–25 period to account for the difference between actual 2019–20 capex and the estimate approved in the 2020–25 determination.[7]

Table 2.1 sets out our final decision on the roll forward of Directlink's RAB over the 2020–25 period.

1 National Electricity Rules (NER), cl. 6A.14.1(5D).

2 The size of the RAB also impacts the benchmark debt raising cost allowance. However, this amount is usually relatively small and therefore not a significant determinant of revenues overall.

3 NER, cl. 6A.14.1(5E).

4 Directlink, *Attachment 07 - RFM - 021224 – Public*, December 2024.

5 This reduction is mainly driven by updates to the estimated 2023–24 capex to reflect actual values, which has resulted in a reduction to the opening RAB value by about $1.7 million (1.0%) compared to the draft decision, all else being equal. In addition, the update for the actual CPI of 2.42% for 2024–25 in this final decision compared to 3.00% in the draft decision, also reduces the opening RAB by around $1.0 million (0.6%).

6 AER, *Electricity transmission network service providers: Roll forward model (version 4.1)*, May 2022.

7 The end of period adjustment will be positive (negative) if actual capex is higher (lower) than the estimate approved at the 2020–25 determination. See NER, cl. S6A.2.1(f)(3).

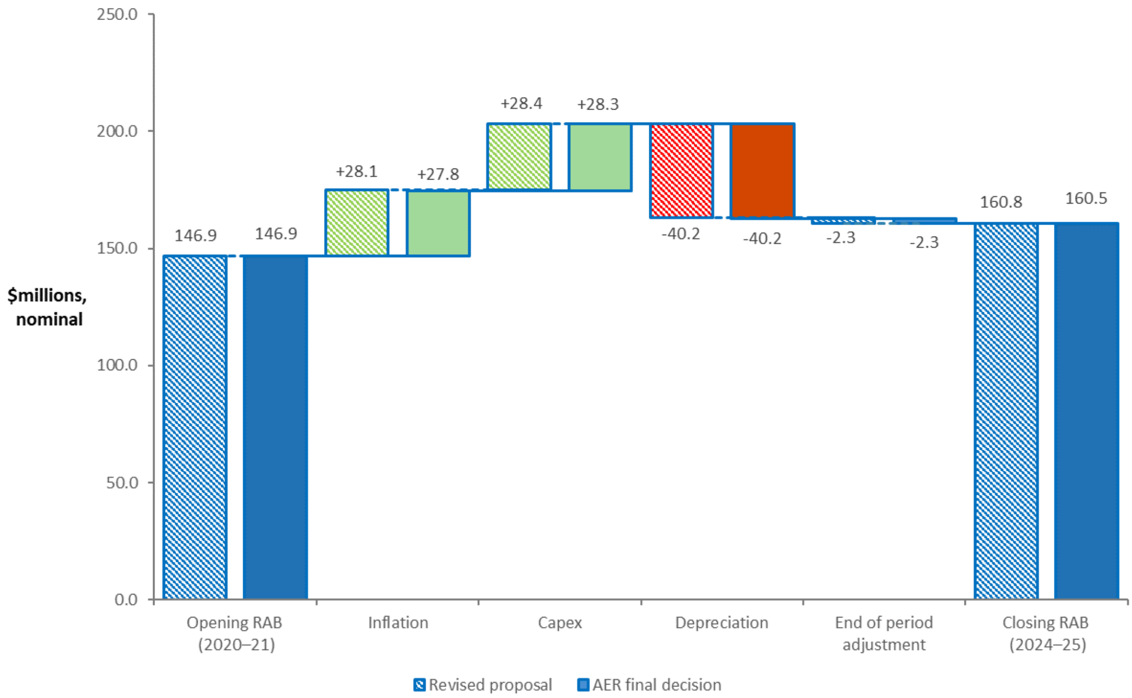
Table 2.1 AER's final decision on Directlink's RAB for the 2020–25 period ($ million, nominal)

	2020–21	2021–22	2022–23	2023–24	2024–25[a]
Opening RAB	146.9	143.3	143.6	155.0	163.3
Net capex[b]	2.1	2.6	7.9	10.8	4.9
Inflation on opening RAB	1.3	5.0	11.3	6.3	4.0
Less: straight-line depreciation[c]	7.0	7.3	7.8	8.8	9.4
Interim closing RAB	143.3	143.6	155.0	163.3	162.7
Difference between estimated and actual capex in 2019–20	-	-	-	-	–1.7
Return on difference for 2019–20 capex	-	-	-	-	–0.6
Closing RAB as at 30 June 2025	-	-	-	-	**160.5**

Source: AER analysis.
(a) Based on estimated capex provided by Directlink. We will true-up the RAB for actual capex at the next transmission determination.
(b) As-incurred, net of disposals and adjusted for actual CPI and half-year weighted average cost of capital (WACC).
(c) Adjusted for actual CPI. Based on forecast as-commissioned capex.

Figure 2.1 shows the key drivers of change in Directlink's RAB value over the 2020–25 period for this final decision. Overall, the closing RAB value at the end of the 2020–25 period is estimated to be 9.3% higher than the opening RAB at the start of that period, in nominal terms. The new net capex increases the RAB by 19%, while inflation indexation increases it by 19%. Depreciation, on the other hand, reduces the RAB value by 27%. End of period adjustments reduce the RAB by 2%. The final year 2024–25 estimate will be subject to a true-up adjustment to account for actual capex values at the next transmission determination for 2030–35.

Figure 2.1 Key drivers of change in the RAB over the 2020–25 period — Directlink's revised proposal compared with the AER's final decision ($ million, nominal)



Source: AER analysis.
Note: Capex is net of disposals. It is inclusive of the half-year WACC to account for the timing assumptions in the RFM.

In the draft decision, we reduced Directlink's proposed opening RAB value as at 1 July 2025 by $1.3 million (0.8%). This reduction was largely due to the updates we made to the CPI inputs for 2023–24 and 2024–25 in the RFM to reflect more up-to-date values. We also amended the following inputs in the RFM for determining the opening RAB value:[8]

- We updated the nominal vanilla WACC for 2024–25 and forecast straight-line depreciation inputs to reflect the 2024–25 return on debt update in the post-tax revenue model (PTRM) for the 2020–25 period.
- We updated 2019–20 and 2022–23 capex inputs for the 'Transmission assets' and 'Easements' asset classes to be consistent with the audited annual regulatory accounts for these years.

We also noted in the draft decision that the roll forward of Directlink's RAB included estimated capex for 2023–24 and 2024–25, and estimated inflation for 2024–25, because the actual values for these inputs were not yet available at the time.[9]

8 AER, *Draft decision: Directlink transmission determination 2025–30 – Attachment 2 – Regulatory asset base*, September 2024, pp. 1–2.

9 AER, *Draft decision: Directlink transmission determination 2025–30 – Attachment 2 – Regulatory asset base*, September 2024, pp. 1 and 3.

In its revised proposal, Directlink adopted all changes made in our draft decision. In addition, Directlink updated the following inputs in its revised proposal RFM:[10]

- the estimated capex for 2023–24 with actuals
- the estimated inflation input for 2024–25 reflecting the Reserve Bank of Australia's November 2024 *Statement on Monetary Policy*.

For this final decision, we have checked the actual capex inputs for 2023–24 in Directlink's revised proposed RFM. We are satisfied that these capex inputs reconcile with the values presented in Directlink's audited annual regulatory accounts for 2023–24.

We also accept the 2024–25 net capex estimates of $4.9 million ($ nominal) for this final decision.[11] This is $0.01 million (0.3%) lower than the amount included in our draft decision RFM. Directlink did not provide updated 2024–25 capex estimates in its revised proposal. The difference between our final decision and draft decision is due to updates to the actual inflation for 2024–25.[12] We note that the financial impact of any difference between actual and estimated capex for 2024–25 will be accounted for at the next transmission determination for the 2030–35 period.

We received no submissions on our approach to calculating the opening RAB. Our position in the final decision is limited to updates for more recent data in the RFM. This includes updating the 2024–25 estimated inflation input of 2.60% with actual CPI of 2.42% based on the December 2024 CPI from the Australian Bureau of Statistics, which became available after Directlink submitted its revised proposal.

2.1.2 Ex post review of 2018–23 capex

We consider the extent to which our roll forward of the RAB to 1 July 2025 contributes to the achievement of the capex incentive objective.[13] The review period of past capex for this transmission determination is over 2018–19 to 2022–23.[14] As discussed in the draft decision, Directlink's total capex incurred from 2018-19 to 2022-23 is below the forecast allowance set at the previous relevant transmission determinations and, therefore, the overspending requirement for an efficiency review of past capex is not satisfied.[15]

For this final decision, we have included Directlink's actual capex for 2023–24 and estimated capex for 2024–25 in the RAB roll forward to 1 July 2025. At the next transmission determination, the actual capex for 2023–24 and 2024–25 will form part of the review period

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10 Directlink, *Attachment 07 - RFM - 021224 – Public*, December 2024.

11 This amount is net of disposals and includes a half-year WACC allowance to compensate for the six-month period before capex is added to the RAB. It reflects the updated actual inflation rate for 2024–25 in our final decision.

12 In real terms, the estimated capex amount for 2024–25 in Directlink's revised proposed RFM is the same as our draft decision and its initial proposal.

13 NER, cll. 6A.14.2(b) and 6A.5A(a).

14 NER, cl. S6A.2.2A(a1).

15 NER, cl. S6A.2.2A(c); AER, *Draft decision: Directlink transmission determination 2025–30 – Attachment 2 – Regulatory asset base*, September 2024, pp. 12-13.

for whether past capex should be excluded for inefficiency reasons.[16] Our RAB roll forward applies the incentive framework approved in the previous transmission determination, which included the use of a forecast depreciation approach in combination with the application of the capital expenditure sharing scheme (CESS).[17] As such, we consider that the 2020–25 RAB roll forward contributes to an opening RAB (as at 1 July 2025) that includes capex that reflects prudent and efficient costs, in accordance with the capex criteria.[18]

2.1.3 Forecast closing RAB as at 30 June 2030

Once we have determined the opening RAB value as at 1 July 2025, we roll forward that value by adding forecast capex and inflation, and reducing it by depreciation to arrive at a forecast closing value for the RAB as at the end of the 2025–30 period.[19]

For this final decision, we determine a forecast closing RAB value at 30 June 2030 of $146.8 million ($ nominal) for Directlink. This is $12.6 million (7.9%) lower than Directlink's revised proposal of $159.4 million ($ nominal). This is mainly due to a lower forecast capex (attachment 5) and lower expected inflation rate applied in our final decision compared to Directlink's revised proposal (section 2.2 of the Overview to this final decision). Our final decision on the forecast closing RAB also reflects the amended opening RAB as at 1 July 2025, and our final decisions on forecast depreciation (Attachment 4).[20]

Table 2.2 sets out our final decision on the forecast RAB for Directlink over the 2025–30 period.

Table 2.2 AER's final decision on Directlink's RAB for the 2025–30 period ($ million, nominal)

	2025–26	2026–27	2027–28	2028–29	2029–30
Opening RAB	160.5	167.1	163.6	158.7	153.8
Net capex[a]	12.3	3.0	2.1	2.8	1.4
Inflation on opening RAB	4.4	4.5	4.5	4.3	4.2
Less: straight-line depreciation	10.1	11.0	11.5	12.1	12.5
Closing RAB	**167.1**	**163.6**	**158.7**	**153.8**	**146.8**

Source: AER analysis.

16 Here, 'inefficiency' of past capex refers to three specific assessments (labelled the overspending, margin and capitalisation requirements) detailed in NER, cl. S6A.2.2A(b). The details of our ex post assessment approach are set out in AER, *Capital expenditure incentive guideline for electricity network service providers*, April 2023, pp. 13–21.

17 AER, Final decision, *Directlink transmission Determination 2020–25, Attachment 2 – Regulatory asset base*, June 2020, p. 8.

18 NER, cll. 6A.5A(a), 6A.6.7(c) and 6A.14.2(b).

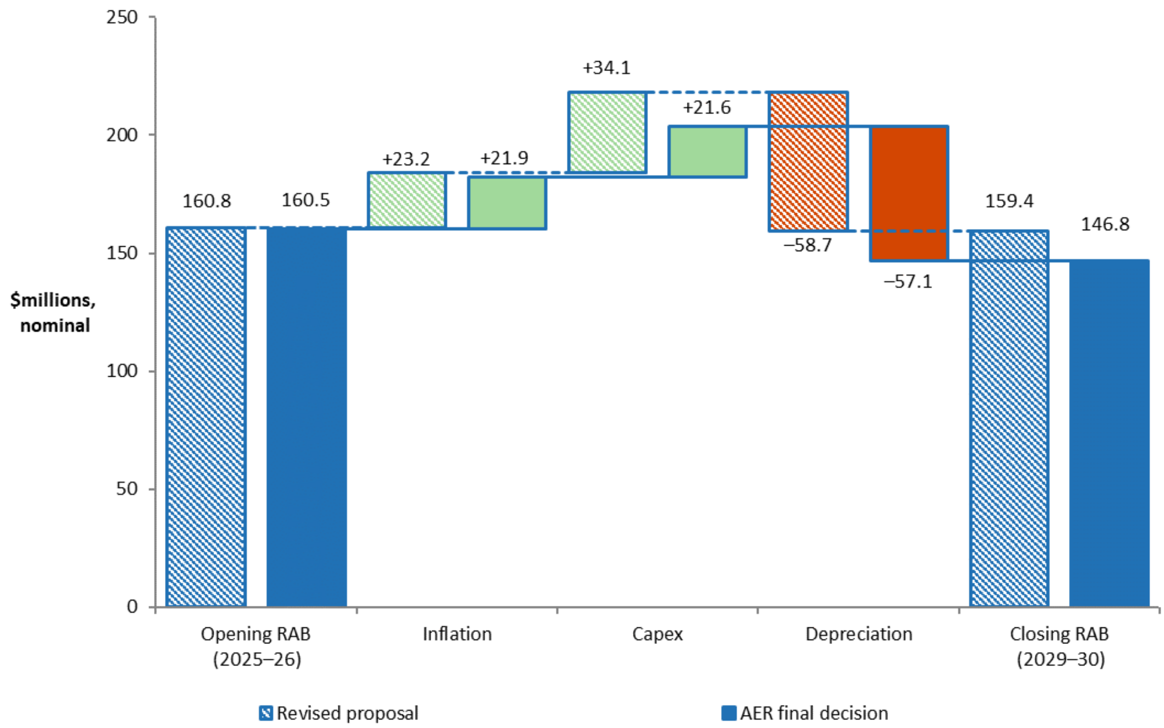
19 NER, cl. S6A.2.4.

20 Capex enters the RAB net of forecast disposals. It includes equity raising costs (where relevant) and the half-year WACC to account for the timing assumptions in the PTRM. Therefore, our final decision on the forecast RAB also reflects our amendments to the rate of return for the 2025–30 period (attachment 5).

(a) Net of forecast disposals. In accordance with the timing assumptions of the PTRM, the capex includes a half-year WACC allowance to compensate for the six-month period before capex is added to the RAB for revenue modelling.

Figure 2.2 shows the key drivers of change in Directlink's RAB value over the 2025–30 period for this final decision. Overall, the closing RAB value at the end of the 2025–30 period is forecast to be 8.5% lower than the opening RAB value at the start of that period, in nominal terms. The approved forecast net capex increases the RAB value by 13.5%, while expected inflation increases it by 13.6%. Forecast depreciation, on the other hand, reduces the RAB value by 35.6%.

Figure 2.2 Key drivers of changes in the RAB over the 2025–30 period — Directlink's revised proposal compared with the AER's final decision ($ million, nominal)



Source: AER analysis.
Note: Capex is net of disposals. It is inclusive of the half-year WACC to account for the timing assumptions in the RFM.

Forecast net capex is a significant driver of the increase in the RAB. In our final decision, we approve $20.2 million[21] ($2024–25) forecast net capex for Directlink over the 2025–30 period. This amount is 36.0% lower than Directlink's revised proposal of $31.5 million. We are satisfied this reduced amount reasonably reflects the capex criteria. Refer to section 5.3 of attachment 5 to this final decision for the discussion on forecast capex.

21 Capex is net of forecast disposals and excludes the half-year WACC adjustment.

2.1.4 Application of depreciation approach in RAB roll forward for the next transmission determination

When we roll forward Directlink's RAB for the 2025–30 period at the next transmission determination, we must adjust for depreciation. For this final decision, we determine that the depreciation approach to be applied to establish Directlink's opening RAB at the commencement of the 2030–35 period will be based on the depreciation schedules (straight-line) using forecast capex at the asset class level approved for the 2025–30 period.[22] This approach is consistent with our draft decision.[23] Further, this approach is consistent with our *Framework and approach*.[24] Directlink's revised proposal did not raise any issues with this approach.

As discussed in section 3 of the Overview to this final decision, we will also apply the CESS to Directlink for the 2025–30 period. We consider that the CESS will provide sufficient incentives for Directlink to achieve capex efficiency gains over that period. We are satisfied that the use of a forecast depreciation approach in combination with the application of the CESS and our other ex post capex measures are sufficient to achieve the capex incentive objective.[25]

2.2 Assessment approach

We did not change our assessment approach for the RAB from our draft decision. Attachment 2 (section 2.3) of our draft decision details that approach.[26]

22 NER, cll. 6A.14.1(5E) and S6A.2.2B.

23 AER*, Draft decision: Directlink transmission determination 2025–30 – Attachment 2 – Regulatory asset base*, September 2024, pp. 14 and 15.

24 AER, *Framework and approach – Directlink regulatory control period commencing 1 July 2025*, July 2023, p. 9.

25 Our ex-post capex measures are set out in the capital expenditure incentive guideline. This guideline also sets out how all our capex incentive measures are consistent with the capex incentive objective; AER, *Capital expenditure incentive guideline for electricity network service providers*, April 2023, pp. 12–21.

26 AER*, Draft decision: Directlink transmission determination 2025–30 – Attachment 2 – Regulatory asset base*, September 2024, pp. 6–10.

Shortened forms

Term	Definition
AER	Australian Energy Regulator
capex	capital expenditure
CESS	capital expenditure sharing scheme
CPI	Consumer Price Index
NER	National Electricity Rules
PTRM	post-tax revenue model
RAB	regulatory asset base
RFM	roll forward model
WACC	weighted average cost of capital