

Final Decision

Directlink Electricity Transmission Determination 2025 to 2030 (1 July 2025 to 30 June 2030)

Attachment 4 Regulatory depreciation

April 2025

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Amendment record

Version	Date	Pages
1	30 April 2025	5

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

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4 Regulatory depreciation

Regulatory depreciation is the amount provided so capital investors recover their investment over the economic life of the asset (return of capital). In deciding whether to approve the depreciation schedules submitted by Directlink we make determinations on the indexation of the regulatory asset base (RAB) and depreciation building blocks for Directlink's 2025–30 regulatory control period (period).¹ The regulatory depreciation amount is the net total of the straight-line depreciation less the inflation indexation adjustment of the RAB.

This attachment sets out our final decision on Directlink's regulatory depreciation amount, including the standard and remaining asset lives used for forecasting depreciation.

4.1 Final decision

Our final decision is to determine a regulatory depreciation amount of \$35.2 million (\$ nominal) for Directlink for the 2025–30 period. This amount represents a reduction of \$0.3 million (0.7%) to the \$35.5 million (\$ nominal) in Directlink's revised proposal.² It is \$0.7 million (2.1%) higher than the regulatory depreciation amount determined in our draft decision. This increase compared to our draft decision is primarily driven by a lower RAB indexation amount³, partially offset by a lower straight-line depreciation amount.⁴

The regulatory depreciation amount is the net total of the straight-line depreciation, less the inflation indexation of the RAB. The straight-line depreciation is impacted by our decision on Directlink's opening RAB as at 1 July 2025 (Attachment 2), forecast capital expenditure (capex) (Attachment 5) and asset lives. Our final decision straight-line depreciation for Directlink is \$1.6 million lower than its revised proposal.⁵

The indexation on the RAB is impacted by our decision on Directlink's opening RAB (Attachment 2), forecast capex (section 2.4 of the Overview to this final decision) and the expected inflation rate (section 2.2 of the Overview to this final decision). Our final decision indexation on Directlink's forecast RAB is \$1.4 million lower than its revised proposal. This is largely due to applying a lower expected inflation rate of 2.72% per annum for this final decision compared with the 2.80% per annum that Directlink applied in its revised proposal. The lower indexation has more than offset the decrease in straight-line depreciation (since indexation is deducted from the straight-line depreciation), which has resulted in a higher regulatory depreciation amount compared to the revised proposal.

In coming to this final decision on Directlink's straight-line depreciation, we accept the revised proposal with respect to the following matters, each of which is consistent with our draft decision:

¹ NER, cll. 6A.5.4(a)(1) and (3).

² Directlink, *Directlink - Attachment 05 - PTRM - 021224 - Public*, December 2024.

³ This is due to a lower expected inflation for the 2025–30 period compared to the draft decision.

⁴ This is due to our final decision to approve a lower opening RAB as at 1 July 2025 compared to our draft decision.

⁵ This is mainly due to the lower expected inflation applied in our final decision which is used to convert the straight-line depreciation amount from real terms into nominal terms. In real terms, our final decision straight-line depreciation amount is slightly lower compared to the revised proposal driven by a slight decrease to the opening RAB value as at 1 July 2025 for Directlink in our final decision.

- the straight-line depreciation method used to calculate the regulatory depreciation as set out in our post-tax revenue model (PTRM)
- asset classes and standard asset lives (section 4.1.1)
- the approach to setting remaining asset lives as at 1 July 2025 for depreciating all its existing assets (section 4.4.1).
 - we accept the approach of assigning a remaining asset life (as at 1 July 2025) of 16.2 years for most of Directlink’s depreciable asset classes, which is the remaining technical life of Directlink. For the ‘Transmission determination costs’ asset class we apply the weighted average remaining life (WARL) method proposed by Directlink to calculate the remaining asset life as at 1 July 2025. In accepting the WARL approach, we updated the remaining asset life to reflect adjustments we made in our roll forward model (RFM) amendments to the RAB as discussed in section 4.4.1 and Attachment 2.

Table 4.1 sets out our final decision on the forecast regulatory depreciation amount for Directlink over the 2025–30 period.

Table 4.1 AER’s final decision on Directlink’s regulatory depreciation for the 2025–30 period (\$ million, nominal)

	2025–26	2026–27	2027–28	2028–29	2029–30	Total
Straight-line depreciation	10.1	11.0	11.5	12.1	12.5	57.1
Less: inflation indexation on opening RAB	4.4	4.5	4.5	4.3	4.2	21.9
Regulatory Depreciation	5.7	6.4	7.1	7.7	8.3	35.2

Source: AER analysis.

4.1.1 Standard and remaining asset lives

For this final decision, we accept Directlink’s revised proposal approach for setting its remaining asset lives as at 1 July 2025, because it is consistent with our draft decision. We also accept Directlink’s revised proposed standard asset lives for depreciating the forecast capex for the 2025–30 period because they are consistent with our draft decision.

In the draft decision, we accepted Directlink’s proposal to assign a remaining asset life (as at 1 July 2025) of 16.2 years for most of its depreciable asset classes, which is the remaining technical life of Directlink.⁶ For the ‘Transmission Determination Costs’ asset class⁷, we

⁶ In general, the remaining asset life of an asset class should reflect the technical life of the assets in that asset class. However, unlike other TNSPs, Directlink is an interconnector with a finite life and its assets will have no useful life when it ceases to operate. Therefore, Directlink’s entire asset base should be fully depreciated by 2041–42.

AER, *Draft Decision: Directlink transmission determination 2025–30 – Attachment 4 – Regulatory depreciation*, September 2024, p. 8.

⁷ This asset class is used to account for costs incurred by Directlink associated with the transmission determination process.

accepted Directlink’s proposed approach to calculate the remaining asset life as at 1 July 2025 using our WARL approach in the RFM.⁸

Our draft decision also accepted Directlink’s proposal to align the standard asset lives for most of its depreciable asset classes with Directlink’s remaining technical life of 16.2 years for the purpose of depreciating new capex over the 2025–30 period. For the ‘Transmission Determination Costs’ asset class we accepted Directlink’s proposed standard asset life of 5 years, consistent with the life approved in the 2020–25 transmission determination.

Directlink’s revised proposal adopted our draft decision on the standard asset lives and the approach for setting the remaining asset lives for all asset classes.⁹

For this final decision, we have updated the remaining asset life for the ‘Transmission determination costs’ asset class using the WARL method in our RFM. This update reflects adjustments we made to the revised proposal RFM for updated 2023–24 capex and an amendment to the inputs in the ‘RAB remaining lives’ worksheet.¹⁰ Directlink agreed with this amendment in its response to our information request.¹¹ For this final decision, for the ‘Transmission determination costs’ asset class, we therefore calculate a remaining asset life as at 1 July 2025 of 4 years.

Table 4.2 sets out our final decision on Directlink’s standard and remaining asset lives for the 2025–30 period. We are satisfied that:¹²

- the standard asset lives and depreciation approach more broadly would lead to a depreciation schedule that reflects the nature of the assets over the economic lives of the asset classes, and
- the sum of the real value of the depreciation attributable to the assets is equivalent to the value at which the assets were first included in the RAB for Directlink.

⁸ AER, *Draft Decision: Directlink transmission determination 2025–30 – Attachment 4 – Regulatory depreciation*, September 2024, p. 9.

⁹ Directlink, *Directlink - Attachment 05 - PTRM - 021224 – Public*, December 2024.

¹⁰ This final decision amendment for calculating the remaining lives was to correct changed inputs for the 2015–16 RAB values and 2015–19 capex that we had made in our draft decision.

¹¹ Directlink, *Response to AER IR#007*, 13 January 2025.

¹² NER, cll. 6A.6.3(b)(1)–(2).

Table 4.2 AER’s final decision on Directlink’s standard asset lives and remaining asset lives as at 1 July 2025 (years)

	Remaining asset life	Standard asset life
Transmission assets	16.2	16.2
Transmission Determination Costs	4	5
Easements	16.2	16.2
Land	n/a	n/a
Buildings	16.2	16.2
Equity raising costs ^a	n/a	n/a

Source: AER analysis.

n/a: not applicable. We have not assigned an asset life to the ‘Land’ asset class because the capex allocated to it is not subject to depreciation.

(a) For this final decision, the forecast capex determined for Directlink does not meet a level to trigger any benchmark equity raising costs and is therefore not assigned a standard asset life.

4.2 Assessment approach

We did not change our assessment approach for regulatory depreciation from our draft decision. Attachment 4 (section 4.3) of our draft decision details that approach.¹³

¹³ AER, *Draft Decision: Directlink transmission determination 2025–30 – Attachment 4 – Regulatory depreciation*, December 2024, pp. 3–7.

Shortened forms

Term	Definition
AER	Australian Energy Regulator
capex	capital expenditure
ERAWA	Economic Regulation Authority Western Australia
IPART	Independent Pricing and Regulatory Tribunal
NER	national electricity rules
NPV	net present value
opex	operating expenditure
PTRM	post-tax revenue model
RAB	regulatory asset base
RFM	roll forward model
TNSP	transmission network service provider
WACC	weighted average cost of capital
WARL	weighted average remaining lives