

# Final Decision

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

### Overview

April 2025

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### Amendment record

Version	Date	Pages
1	30 April 2025	27

# List of attachments

This Overview 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

# Executive summary

The Australian Energy Regulator (AER) is responsible for the economic regulation of electricity distribution and transmission systems in all states and territories except Western Australia.

We exist to ensure energy consumers are better off, now and in the future. Consumers are at the heart of our work, and we focus on ensuring a secure, reliable, and affordable energy future for Australia as we transition to net zero emissions.

A regulated network business must periodically apply to us to determine the maximum allowed revenue it can recover from consumers for using its network. On 31 January 2024, we received revenue proposals from SA Power Networks, Ergon Energy, Energex and Directlink for the period 1 July 2025 to 30 June 2030 (2025–30 period).

This final decision relates to Directlink. Each constituent component of our determination is set out in section 5. The final decision will be implemented from 1 July 2025 and reflected in 2025–26 prices.

This document is also our transmission determination for Directlink for the regulatory control period 1 July 2025 to 30 June 2030.

## The regulatory framework guides our decisions in the long term interests of consumers

The National Electricity Law (NEL) and National Electricity Rules (NER) provide the regulatory framework under which we determine the revenue requirement for distribution and transmission businesses.

The NEL requires that we exercise our economic regulatory functions in a manner that promotes efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers. We make these decisions having regard to price, quality, safety, reliability and security of electricity supply, and targets to reduce emissions. This is referred to as the National Electricity Objective or the NEO.<sup>1</sup> We have also issued guidance about an interim value of emissions reduction,<sup>2</sup> which we must comply with in considering or applying the NEO.<sup>3</sup>

The central component of Directlink's proposal is the maximum allowed revenue for the provision of prescribed transmission services over the 2025–30 period. We have assessed this by considering the constituent components of Directlink's proposal, including capital expenditure (capex), operating expenditure (opex) and the transmission pricing policy to ensure it complies with the NER.

We have substituted alternative forecasts where we assess Directlink's proposal does not meet certain criteria in the NER. In other instances, we have substituted alternative forecasts

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<sup>1</sup> The full statement of the NEO is at Section 7 of the NEL.

<sup>2</sup> AER, *Valuing emissions reduction, Final guidance and explanatory statement*, May 2024.

<sup>3</sup> NEL, schedule 2, clause 42.

to update for input assumptions such as for inflation. We have made our final decision such that we achieve the NEO, in the long term interests of consumers.

Our final decision provides Directlink with an allowed revenue in which it can recover over 2025–30. Directlink must decide how best to use this revenue in providing transmission services that fulfill its obligations. Our regulatory framework includes incentive mechanisms that are designed to encourage Directlink to operate efficiently and prudently in the long term interests of electricity consumers.

## **We are focused on efficient investment to deliver a safe and reliable network that meets consumer needs**

Our final decisions for the 2025–30 resets have been made against the backdrop of rising network expenditure. Our performance report shows that actual capex for electricity networks across the NEM increased by 19.7% in real terms in 2023.<sup>4</sup>

While Directlink is only a small part of the transmission network, and expenditure is contained due the network nearing the end of its economic life, future transmission projects identified by the Australian Energy Market Operator (AEMO) in the Integrated System Plan (ISP), means that transmission-related capex is likely to increase across the NEM in future years. The increase in proposed capital expenditure has also been driven by factors such as increased input costs, managing changes in electricity demand, extreme weather events and the risks of cyber-related activity.

A higher interest rate and inflationary environment has also contributed to higher network costs. Compared with when we made our determination for Directlink 5 years ago, the cost of capital has increased from 4.53% to 6.12% and expected inflation has increased from 2.27% to 2.72%. These economy-wide factors are key inputs in this regulatory determination.

In assessing proposals by network businesses, we continue to seek the balance of affordability, with efficient and prudent investment required to support the energy transition, and to address important emerging issues such as network cybersecurity and climate resilience.

We also expect electricity network businesses to submit proposals that clearly demonstrate how they plan to meet the challenges of a higher cost environment over the regulatory period in a way that achieves an affordable, stable, secure and reliable supply of energy in the long term interest of consumers. We want to see network businesses utilising the revenue determination process to propose incentive structures and efficient and prudent expenditure that achieves the NEO.

Consumer needs should be a key focus of regulatory proposals. Network businesses should engage collaboratively with consumers on key aspects of the proposal that will affect consumers, including capex and opex. To assist, we introduced the Better Resets Handbook in 2021 (the Handbook), to further guide businesses to engage and design proposals that meet consumer needs through the energy transition.<sup>5</sup>

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<sup>4</sup> AER, [2024 Electricity and gas networks performance report](#), September 2024, p. 5.

<sup>5</sup> AER, [Better Resets Handbook – towards consumer-centric network proposals](#), December 2021.

We note that Directlink re-engaged with stakeholders to review the areas of contention between Directlink’s initial proposal and our draft decision, to gather feedback on these areas, and to inform the development of their Revised Revenue Proposal.

## Our final decision on Directlink’s revised proposal

Our final decision is that Directlink can recover \$127.5 million (\$ nominal, smoothed) from consumers over the 2025–30 period. This is \$0.3 million (0.2%) lower than Directlink’s revised proposal, and \$3.7 million (3.0%) more than our draft decision.

The reduction in overall revenue in this final decision compared to Directlink’s revised proposal is mainly driven by our decision to reduce the forecast capital expenditure (capex). This reduction is partly offset by a higher forecast rate of return.

For illustrative purposes, we estimate that the total revenue from this final decision would result in an average increase of \$0.3 per annum to the transmission component of an average electricity bill for residential customers in NSW over the 2025–30 period. For small business customers, the impact would be an average increase of \$0.7 per annum.

Directlink’s final decision maximum allowed revenue is driven by the forecast return on capital, followed by operating expenditure and regulatory depreciation.

Our final decision is that we are not satisfied that Directlink’s proposed total forecast capex of \$31.5 million (\$2024–25) reasonably reflects prudent and efficient costs to meet the capex objectives. Our substitute forecast is \$20.2 million, which is 36.0% below Directlink’s forecast. This \$11.3 million reduction in capex is driven by our alternative forecast for Directlink’s spares management program. We are satisfied that our alternative forecast will provide for a prudent and efficient service provider in Directlink’s circumstances to meet the capex objectives, including to maintain the safety and reliability of its network.

Our final decision is to accept Directlink’s revised proposal total opex forecast of \$34.2 million<sup>6</sup> (\$2024–25)<sup>7</sup>, including debt raising costs, for the 2025–30 period, as it is not materially different to our alternative estimate of total forecast opex of \$33.4 million (–2.3% lower).

As per the previous two regulatory periods, Directlink sought to align the economic lives of its assets with the remaining technical life, estimated to be 2041–42, to address stranded asset risk. This approach results in Directlink recovering its return of capital from consumers at a faster rate and is one of the key drivers of the increase in required revenue.

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%) compared to Directlink’s revised proposal.<sup>8</sup> It is \$0.7 million (2.1%) higher than the regulatory depreciation amount determined in our draft decision. This increase

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<sup>6</sup> Directlink, *Attachment 09 – Forecast Opex model*, December 2024

<sup>7</sup> All dollar amounts in this attachment reflect \$2024–25 terms, unless otherwise indicated

<sup>8</sup> Directlink, *Directlink - Attachment 05 - PTRM - 021224 - Public*, December 2024.

compared to our draft decision is primarily driven by a lower RAB indexation amount<sup>9</sup>, partially offset by a lower straight-line depreciation amount.<sup>10</sup>

In this Overview and the accompanying detailed attachments, we have set out the assessment approaches applied, and enquiries made as part of our review, which have enabled us to arrive at this final decision.

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<sup>9</sup> This is due to a lower expected inflation for the 2025–30 period compared to the draft decision.

<sup>10</sup> This is due to our final decision to approve a lower opening RAB as at 1 July 2025 compared to the draft decision.

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# 1 Our final decision

Our final decision allows Directlink to recover a total revenue of \$127.5 million (\$ nominal, smoothed) from its consumers from 1 July 2025 to 30 June 2030.

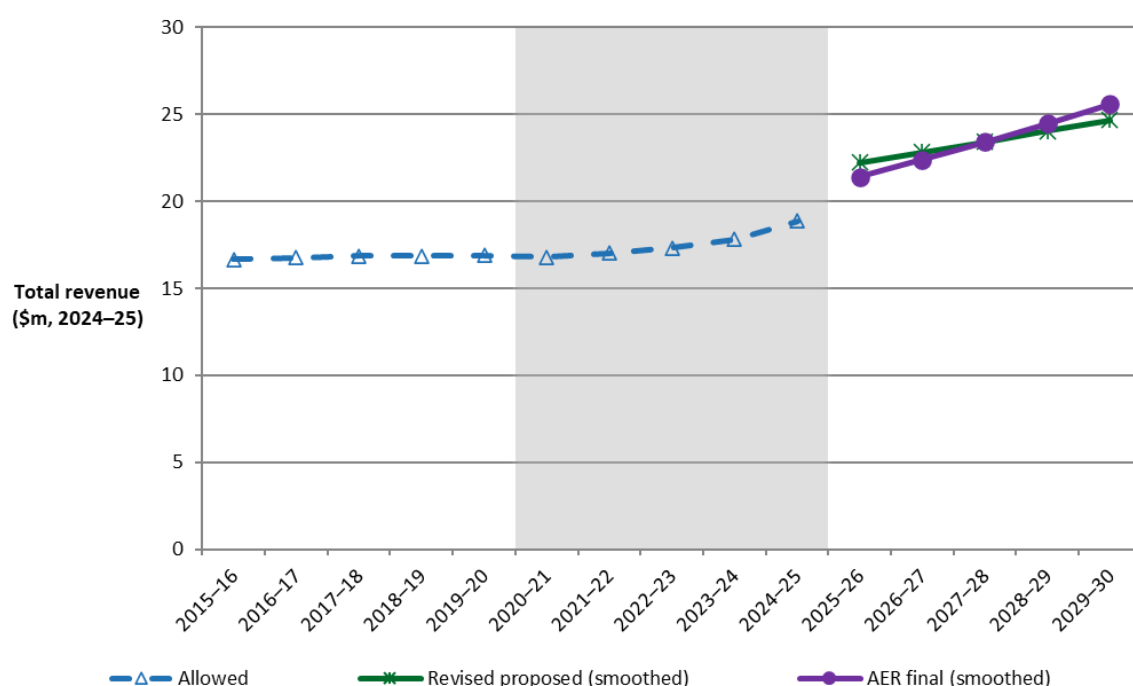
Our final decision total revenue is \$49.0 million more than Directlink’s allowed revenue in the 2020–25 period in nominal terms. In the sections below we briefly outline what is driving Directlink’s revenue, and the key differences between our final decision revenue compared to the \$123.8 million in our draft decision, and the \$127.8 million in Directlink’s revised proposal.

## 1.1 What is driving revenue?

Revenue is driven by changes in real costs and inflation. In this section we use ‘real’ values that have been adjusted for the impact of inflation to compare revenue from one period to the next on a like-for-like basis.

In real terms, this final decision would allow Directlink to recover \$117.3 million (\$2024–25, smoothed) over the 2025–30 period. This is 33.5% higher than our decision for the current (2020–25) period. Changes in Directlink’s revenue over time are shown in Figure 1.

**Figure 1** Changes in regulated revenue over time (\$ million, 2024–25)

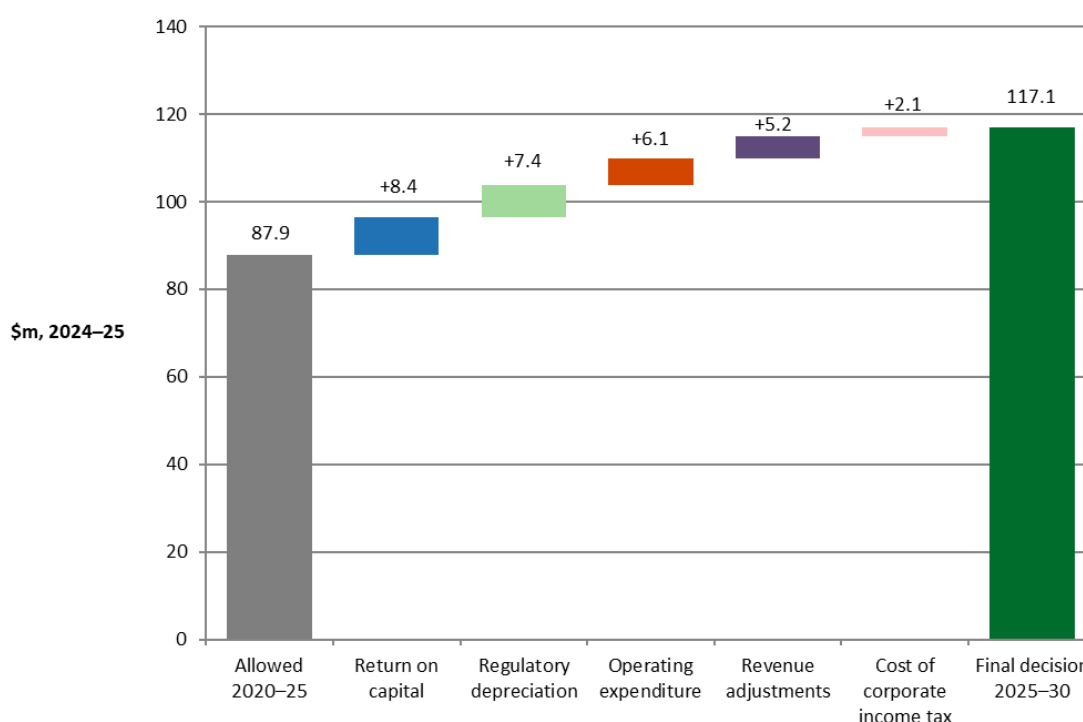


Source: AER analysis.

In real terms, this final decision would allow Directlink to recover a total building block revenue of \$117.1 million (\$2024–25, unsmoothed) over the 2025–30 period. Figure 2 highlights the key drivers of the change between the revenue approved for Directlink for the 2020–25 period and in this final decision for the 2025–30 period. It shows that our final decision provides for increases in revenue for:

- return on capital, which is \$8.4 million (22.4%) higher than the 2020–25 period, driven by an increase in the real RAB due to a higher rate of return being applied in the 2025–30 period in accordance with the *2022 Rate of Return Instrument*.
- return of capital (regulatory depreciation), which is \$7.4 million (29.5%) higher than the 2020–25 period, driven by continuing the approach of shortening the asset lives to coincide with when Directlink is expected to cease operation in 2041–42.
- opex, which is \$6.1 million (21.8%) higher than the forecast we approved for the 2020–25 period, driven by higher actual opex in the base year and insurance premium costs.
- cost of corporate income tax, which is \$2.1 million (233.6%) higher than the 2020–25 period, primarily due to a higher return on equity determined in this final decision compared to 2020–25 period.
- revenue adjustments, which are \$5.2 million higher than the 2020–25 period due to the capital expenditure sharing scheme (CESS) and efficiency benefit sharing scheme (EBSS) rewards determined in this final decision compared to the penalties in the 2020–25 period.

**Figure 2** Changes in total revenue between 2020–25 period and 2025–30 period (\$ million, 2024–25, unsmoothed)



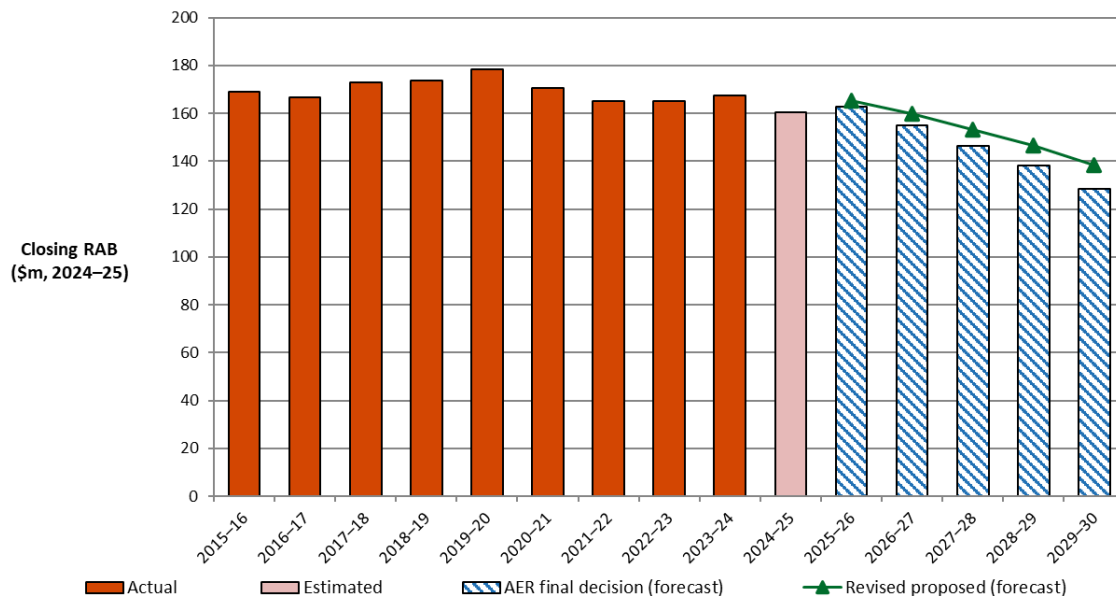
Source: AER analysis.

Note: The total allowed revenue for the 2020–25 period and all building block components have been converted to 2024–25 dollar terms using a lagged consumer price index (CPI).

Figure 3 shows the value of Directlink’s RAB over time. After a RAB reduction of 9.6% in real terms over the 2020–25 period, our final decision results in a forecast reduction of the RAB by \$32.1 million (\$2024–25) or 20.0% over the 2025–30 period. This reduction is mainly driven by lower forecast capex and higher forecast straight-line depreciation over the 2025–30 period compared to the 2020–25 period. We expect Directlink’s RAB to be fully

recovered by 2041–42 (except for the non-depreciable assets such as land), when Directlink is expected to cease operation.

**Figure 3 Directlink’s RAB value over time (\$ million, 2024–25)**



Source: AER analysis.

## 1.2 Key differences between our final decision and Directlink’s revised proposal

Directlink’s revised proposal accepted some of the changes we made in our draft decision on forecast opex and capex. Our final decision accepted some aspects of Directlink’s revised proposal, including its total forecast opex. However, we did not accept Directlink’s revised proposed forecast capex in full.

We also made updates in our final decision to reflect movements in some market variables, such as expected inflation and rate of return, which become available after Directlink submitted its revised proposal.

Our final decision determines a total unsmoothed revenue that is \$0.2 million (0.1%) (\$2024–25) lower than Directlink’s revised proposal. This is primarily due to our final decision on:

- a lower return on capital, driven primarily by the lower forecast capex determined in the final decision. This reduction is partly offset by the higher rate of return determined in the final decision
- a lower regulatory depreciation, driven primarily by the lower forecast capex which reduced the forecast straight-line depreciation. This reduction is partly offset by the lower expected inflation.

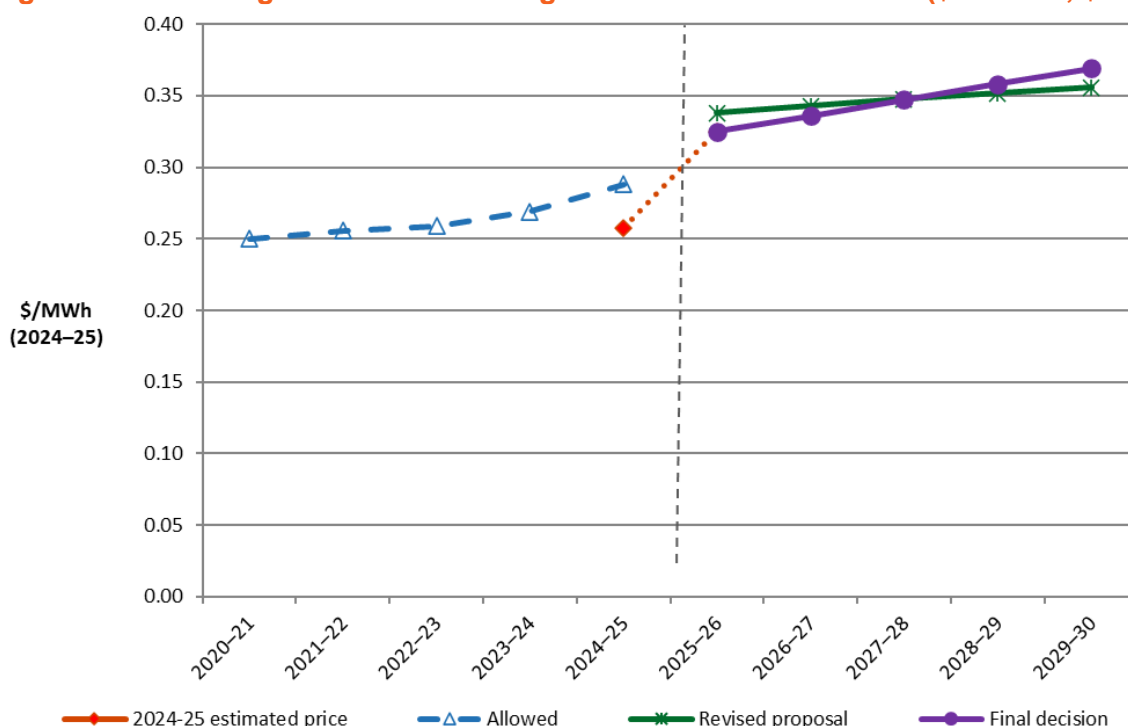
The reduction we made to Directlink’s total revenue is partially offset by our final decision on a higher cost of corporate income tax amount. This increase is primarily due to our final decision on a lower tax depreciation amount, driven by the reduction to forecast capex. Tax depreciation is a component of tax expense. A lower tax depreciation amount increases the estimated taxable income for Directlink and thereby increases the estimated cost of corporate income tax.

## 1.3 Expected impact of our final decision on electricity bills

Directlink's revenue is recovered from NSW customers through Transgrid which is the main transmission network service provider (TNSP) for the NSW and the ACT region. This revenue does not directly translate to changes in annual electricity bills, principally because Directlink is a small component of the broader transmission network that serves NSW and the ACT.

For illustrative purposes only, we estimate the impact of this final decision would be a total increase to the indicative transmission charges of around 43.2% in real terms by 2029–30 compared to 2024–25, or an average increase of 7.5% per annum.<sup>11</sup> Figure 4 compares this indicative price path for the 2025–30 period to the 2020–25 period.

**Figure 4** Change in indicative charges for 2020–25 to 2025–30 (\$2024–25, \$/MWh)



Source: AER analysis.

Notes: The indicative transmission charges are calculated by taking Directlink's annual expected MAR determined in this final decision and dividing it by the actual and forecast annual energy delivered in NSW/ACT as published by the Australian Energy Market Operator (AEMO). It reflects that Directlink contributes only to a small part of Transgrid's transmission network services.

<sup>11</sup> The indicative transmission charges presented in this final decision are higher compared to the draft decision because we have updated the forecast energy delivered in NSW in this final decision which is lower compared to the draft decision. Also, the higher indicative transmission charges are driven by the higher revenues determined in the final decision compared to the draft decision. In the final decision, the annual energy delivered is forecast to increase by 1.1% per annum, compared to 2.7% at the time of the draft decision. In the final decision, the annual forecast revenue will increase in real terms by 8.7%, compared to the 7.1% increase in the draft decision.

### 1.3.1 Potential bill impact

Transmission charges make up around 6% of a typical total electricity retail bill in NSW and Directlink's revenue accounts for approximately 1.9% of total NSW transmission revenues. Therefore, Directlink's revenue would be expected to account for 0.1% of the total electricity retail bill in NSW. Other components of the electricity supply chain also contribute to the prices ultimately paid by consumers. These are the cost of purchasing energy from the wholesale market, distribution network charges, environmental scheme costs and the costs and margins applied by electricity retailers.<sup>12</sup> These sit outside the decision we are making here and will also continue to change throughout the period.

In nominal terms, which include the impact of expected inflation, the impact of this final decision would be an increase to Directlink's transmission distribution component of customers' energy bills. For illustrative purposes only, we estimate the impact of our final decision on the average annual electricity bill for a customer in NSW, as it is today, would be:

- an increase of about \$1 (0.1%) by 2029–30, or an average of \$0.3 per annum for a residential customer
- an increase of about \$4 (0.1%) by 2029–30, or an average of \$1 per annum for a small business customer.<sup>13</sup>

Our final decision on Directlink's annual expected maximum allowed revenue (MAR) forms a small component of the broader transmission network charges for NSW and the ACT for the next 5 years. Transgrid is the main transmission network service provider in this region. Therefore, our 2023–28 transmission determination on Transgrid's expected MAR is the principal determinant of the transmission network charges.

Over the 2025–30 period there are several additional mechanisms under the NER that may operate to increase or decrease Directlink's revenue requirement. This includes cost pass through events approved in this decision (section 4). The triggers we have set out for these events in this decision will, if met, allow Directlink to apply for additional revenue throughout the period, at which point proposed costs will be subject to further consultation and assessment.

## 1.4 Directlink's consumer engagement

Consumer engagement during the regulatory process is an important way to provide us with supporting evidence that proposals have been aligned with consumer interests and expectations. We introduced guidance on our expectations for consumer engagement to network businesses in the Better Resets Handbook (the Handbook) in December 2021.

It is the responsibility of network businesses to ensure that consumer views are considered and represented in their regulatory proposal. Often consensus is not possible, in which case the views of the differing groups and how the network sought to make its decision should be

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<sup>12</sup> AEMC, *Data Portal*, [Trends in NSW supply chain components](#), 2023/24.

<sup>13</sup> Our estimated bill impact is based on the typical annual electricity usage of 4,357 kWh and 10,000 kWh for residential and small business customers in NSW, respectively; AER, *Revised final determination – Default Market Offer Prices 2024–25*, June 2024, p. 6.

reflected in its proposal. Our role is to consider the consumer engagement process and the stakeholder submissions when making our decisions.

### 1.4.1 Directlink’s engagement

At the draft decision we concluded that Directlink’s consumer engagement was short and targeted, generally meeting the expectations set out in our Better Reset Handbook, especially given the network’s size and the projected bill impacts for consumers.<sup>14</sup>

Following our draft decision, Directlink re-engaged with stakeholders to review the key outcomes and gather feedback on priority areas to inform the development of their Revised Revenue Proposal.<sup>15</sup>

Directlink engaged well with a small but diverse group of stakeholders for the initial and revised proposals.

We received one submission from the Energy Users’ Association of Australia (EUAA). The EUAA observed:

*Subsequent to the publication of the Draft Decision, APA’s consumer engagement continued at a high standard in line with expectations in the Better Resets Handbook; we also commend APA for the readability and clarity of both the engagement materials and the Revised Proposal.*<sup>16</sup>

The EUAA supports our draft decision to exclude Directlink’s proposed end-of-life costs and apprentice step change from opex. They noted that Directlink has accepted our decision on end-of-life costs and expressed interest in engaging with Directlink on the best way of recovering those costs that is equitable to current and future consumers.<sup>17</sup> In relation to the apprentice step change, the EUAA remains of the view that these costs are a normal part of ongoing business and do not meet the criteria required for a step change.<sup>18</sup>

We have considered the feedback from EUAA, and the feedback made by stakeholders in Directlink’s meeting with stakeholders in its revised proposal.

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<sup>14</sup> AER, [Draft Decision - Overview - Directlink - 2025-30 Transmission revenue proposal](#), September 2024, p. 6.

<sup>15</sup> Directlink, [Revised Proposal Document](#), December 2024, p. 11.

<sup>16</sup> EUAA, [Submission on Directlink’s revised proposal and draft decision 2025-30](#), January 2025, p. 1.

<sup>17</sup> EUAA, [Submission on Directlink’s revised proposal and draft decision 2025-30](#), January 2025, p. 1.

<sup>18</sup> EUAA, [Submission on Directlink’s revised proposal and draft decision 2025-30](#), January 2025, p. 1.

## 2 Key components of our final decision on revenue

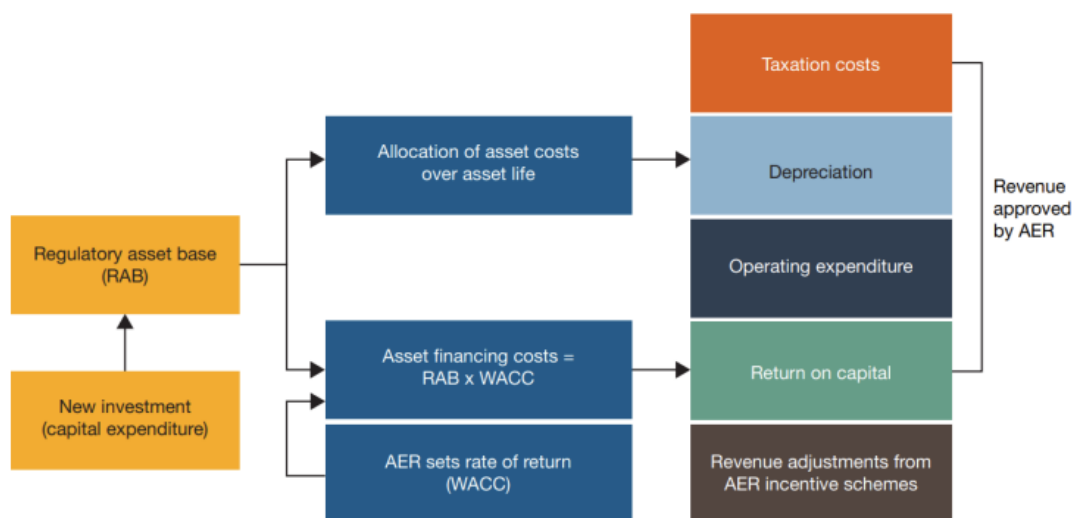
### Building block approach

The foundation of our regulatory approach is a benchmark incentive framework to setting maximum revenues: once regulated revenues are set for a 5-year period, a network that keeps its actual costs below the regulatory forecast of costs retains part of the benefit. This provides an incentive for service providers to become more efficient over time. It delivers benefits to consumers as efficient costs are revealed and drive lower cost benchmarks in subsequent regulatory periods. By only allowing efficient costs in our approved revenues, we promote delivery of the NEO and ensure consumers pay no more than necessary for the safe and reliable delivery of electricity.

Directlink’s proposed revenue reflects its forecast of the efficient cost of providing transmission network services over the 2025–30 period. Its proposal, and our assessment of it under the NEL and NER, are based on a ‘building block’ approach which looks at five cost components (see Figure 5):

- return on the RAB – or return on capital, to compensate investors for the opportunity cost of funds invested in this business
- depreciation of the RAB – or return of capital, to return the initial investment cost to investors over time
- forecast opex – the operating, maintenance and other non-capital expenses, incurred in the provision of network services
- revenue increments/decrements – resulting from the application of incentive schemes, such as the EBSS and capital expenditure sharing scheme (CESS)
- estimated cost of corporate income tax.

**Figure 5 The building block model to forecast network revenue**



Source: AER.

## Revenue smoothing

Our final decision includes a determination of Directlink’s annual revenue requirement (unsmoothed revenue) and annual MAR (smoothed revenue) across the 2025–30 period. The smoothed revenues we set in this final decision are the amounts that Directlink will target for its annual pricing purposes and recover from its customers for the provision of prescribed transmission services for each year of the 2025–30 period.<sup>19</sup>

The annual revenue requirement is the sum of the various building block costs for each year of the regulatory control period, which can be lumpy over the period. To minimise price shocks, revenues are smoothed within a regulatory control period while maintaining the principle of cost recovery under the building block approach. As such, revenue smoothing requires diverting some of the cost recovery to adjacent years within the regulatory control period.

For this final decision, we approved lower revenues than those in Directlink’s revised proposal. We have smoothed the MARs over the 2025–30 period for Directlink, which results in an initial increase of 30.2% (nominal) in 2025–26, followed by average annual increases of 7.4% during the remaining 4 years of the 2025–30 period (2026–27 to 2029–30).

## 2.1 Regulatory asset base

The RAB accounts for the value of regulated assets over time. To set the value of the RAB for a new regulatory period, we take the opening value of the RAB from the end of the last period and roll it forward year by year by indexing it for inflation, adding new capex and subtracting depreciation and other possible factors (such as disposals). This gives us a closing value for the RAB at the end of each year of the regulatory period. The value of the RAB is used to determine the return on capital and regulatory depreciation building blocks. It substantially impacts Directlink’s revenue, and the price consumers ultimately pay. Other things being equal, a higher RAB would increase both the return on capital and regulatory depreciation components of the revenue determination.

For this final decision, we have determined an opening RAB value of \$160.5 million (\$ nominal) as at 1 July 2025. This value is \$0.3 million (0.2%) lower than Directlink’s revised proposed opening RAB value of \$160.8 million. This reduction is largely due to the updates we made to the consumer price index (CPI) input for 2024–25 to reflect the actual outcome in the roll forward model (RFM). Figure 6 shows the key drivers of change in Directlink’s RAB over the 2020–25 period compared to its revised proposal.

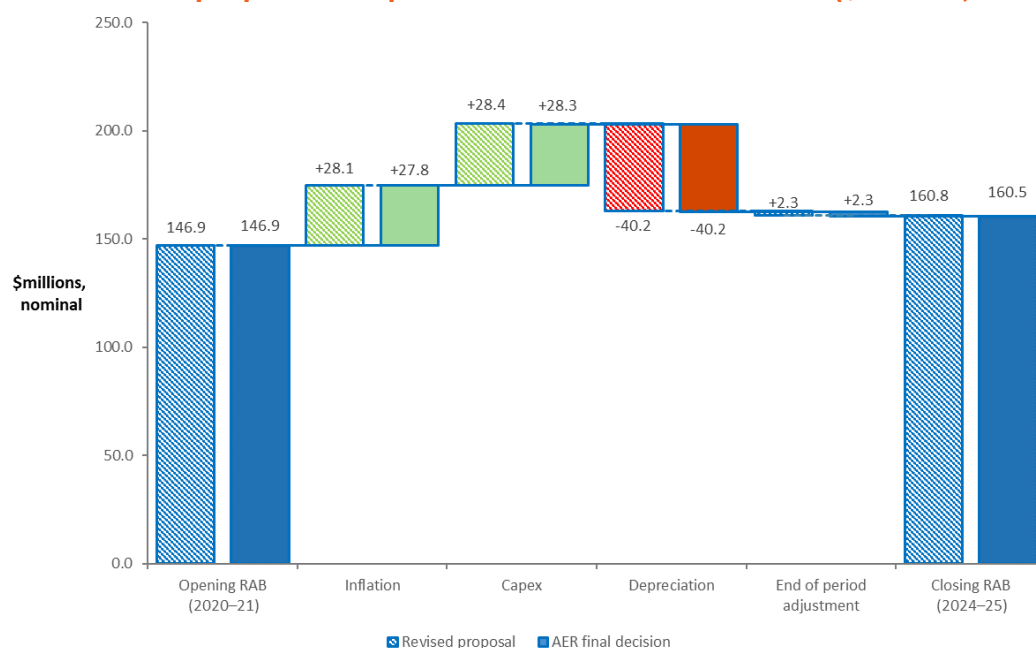
Figure 7 likewise shows the key drivers of change in Directlink’s RAB over the 2025–30 period compared to its revised proposal. Our final decision projects a reduction of \$13.6 million (8.5%) to the RAB by the end of the 2025–30 period compared to the \$1.4 million (0.8%) reduction in Directlink’s revised proposal. We have determined a projected closing RAB of \$146.8 million (\$ nominal) as at 30 June 2030, which is \$12.6 million (7.9%) lower than Directlink’s revised proposal of \$159.4 million. This lower

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<sup>19</sup> Our final decision expected revenues have not factored in any changes arising from incentive scheme amounts, cost pass throughs or unders/overs reconciliation that usually occur in the annual pricing process to come up with the total allowed revenue.

value is mainly due to our final decision on a lower forecast capex (discussed in Attachment 5). The reasons for our decision on Directlink's RAB are discussed in Attachment 2.

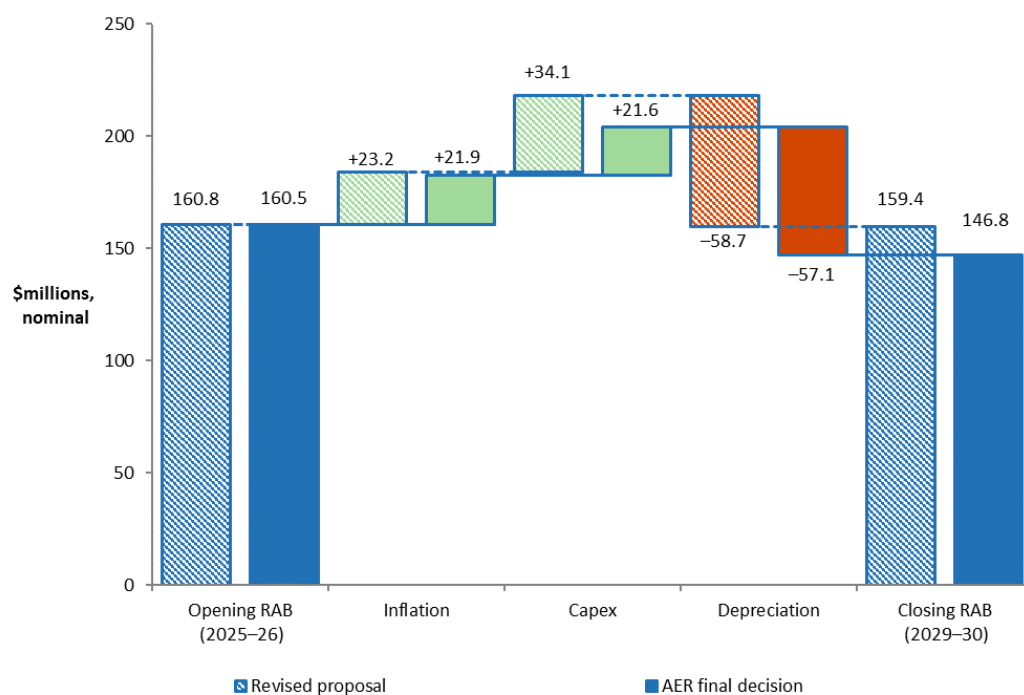
**Figure 6** Key drivers of change in the RAB over the 2020–25 period – revised proposal compared with AER's final decision (\$ million, nominal)



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.

**Figure 7** Key drivers of change in the RAB over the 2025–30 period – revised proposal compared with 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 PTRM.

## 2.2 Rate of return and value of imputation credits

The AER's 2022 Rate of Return Instrument (RORI) sets out the approach we will use to estimate the return on debt, the return on equity and the overall rate of return.<sup>20</sup>

The return each business is to receive on its RAB, known as the 'return on capital', is a key driver of proposed revenues. We calculate the regulated return on capital by applying a rate of return to the value of the RAB.

We estimate the rate of return by combining the returns of two sources of funds for investment: equity and debt. The allowed rate of return provides the business with a return on capital to service the interest rate on its loans and give a return on equity to investors.

The estimate of the rate of return is important for promoting efficient prices in the long term interests of consumers. If the rate of return is set too low, the network business may not be able to attract sufficient funds to be able to make the required investments in the network and reliability may decline. Conversely, if the rate of return is set too high, the network business may seek to spend too much and consumers will pay inefficiently high tariffs.

We are required by national energy laws and rules to apply the RORI to estimate an allowed rate of return. For this final decision, we have applied the 2022 RORI.<sup>21</sup>

Directlink's revised proposal adopted the 2022 RORI.<sup>22</sup> Our final decision rate of return of 6.12% (nominal vanilla) is higher than the 6.01% placeholder in the revised proposal, principally due to an increase in interest rates.

Our calculated rate of return in Table 1 applies to the first regulatory year of the 2025–30 period. A different rate of return may apply for the remaining years of the period. This is because we will update the return on debt component of the rate of return each year, in accordance with the 2022 RORI, to use a 10-year trailing average portfolio return on debt that is rolled-forward each year. Hence, only 10% of the return on debt is calculated from the most recent averaging period, with 90% from prior periods.

Our final decision includes maintaining the risk free rate<sup>23</sup> and debt averaging periods<sup>24</sup> set out in our draft decision, as they satisfy the requirements of the 2022 RORI.<sup>25</sup>

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<sup>20</sup> AER, *Rate of Return Instrument (Version 1.2)*, March 2024.

<sup>21</sup> AER, *Rate of Return Instrument (Version 1.2)*, March 2024.

<sup>22</sup> Directlink, *Directlink – Revised Proposal Document - 031224*, December 2024, p. 35.

<sup>23</sup> AER - *Draft Decision Appendix A - CONFIDENTIAL Appendix to Attachment 3 - Rate of return - Directlink – 2025-30 Transmission revenue proposal*, September 2024, p. 1.

<sup>24</sup> AER - *Draft Decision Appendix A - CONFIDENTIAL Appendix to Attachment 3 - Rate of return - Directlink – 2025-30 Transmission revenue proposal*, September 2024, p. 2.

<sup>25</sup> AER, *Rate of return Instrument (version 1.2)*, March 2024, cll 7–8, 23–25.

**Table 1**      **Final decision on Directlink's rate of return (nominal)**

	AER's draft decision (2025–30)	Directlink's revised proposal (2025–30)	AER's final decision (2025–30)	Allowed return over the regulatory control period
Nominal risk-free rate	4.35%	4.35%	4.61% <sup>a</sup>	
Market risk premium	6.20%	6.20%	6.20%	
Equity beta	0.6	0.6	0.6	
Return on equity (nominal post-tax)	8.07%	8.07%	8.33%	Constant (%)
Return on debt (nominal pre-tax)	4.63%	4.63%	4.64% <sup>b</sup>	Updated annually
Gearing	60%	60%	60%	Constant (60%)
Nominal vanilla WACC	6.01%	6.01%	6.12% <sup>c</sup>	Updated annually for return on debt
Expected inflation	2.85%	2.80%	2.72%	Constant (%)

Source: AER analysis; AER, *Draft Decision Attachment 3 - Rate of return - Directlink - 2025-30 Transmission revenue proposal*, September 2024, p. 2; Directlink, *Directlink - Attachment 05 – PRTM - 021224*, December 2024.

- (a) Calculated using Directlink's risk-free rate averaging period of 20 business days from 1 November 2024 to 28 November 2024.
- (b) Calculated using Directlink's actual nominated return on debt averaging period.
- (c) Applied to the first year of the 2025–30 regulatory control period.

## Debt and equity raising costs

In addition to compensating for the required rate of return on debt and equity, we provide an allowance for the transaction costs associated with raising debt and equity. We include debt raising costs in the opex forecast because these are regular and ongoing costs which are likely to be incurred each time service providers refinance their debt. On the other hand, we include equity raising costs in the capex forecast because these costs are only incurred once and would be associated with funding the particular capital investments. Our approach to forecasting debt and equity raising costs is set out in more detail in our draft decision.<sup>26</sup> Directlink has proposed to use our approach to estimate debt and equity raising costs.<sup>27</sup>

Our final decision accepts Directlink's proposed opex including debt raising costs, as set out in section 2.5 in the Overview.

We have updated our estimate for the 2025–30 period based on the benchmark approach using updated inputs. This results in zero equity raising costs.

<sup>26</sup> AER, *Draft Decision - Attachment 3 - Rate of return - Directlink – 2025-30 Transmission revenue proposal*, September 2024, pp. 4-6.

<sup>27</sup> Directlink, *Directlink - Attachment 05 – PRTM - 021224*, December 2024.

## Imputation credits

Our final decision applies a value of imputation credits (gamma) of 0.57, as set out in the 2022 RORI.<sup>28</sup> Directlink’s revised proposal also adopted this value.<sup>29</sup>

## Expected inflation

As set out in Table 2, our estimate of expected inflation is 2.72%. It is an estimate of the average annual rate of inflation expected over a five-year period based on the outcome of our 2020 inflation review.<sup>30</sup> Directlink’s revised proposal also adopted our approach.<sup>31</sup>

**Table 2** Final decision on Directlink’s forecast inflation (%)

	Year 1	Year 2	Year 3	Year 4	Year 5	Geometric average
Expected inflation	3.20%	2.70%	2.63%	2.57%	2.50%	2.72%

Source: AER Analysis; RBA, *Statement on Monetary Policy*, February 2025, Table 3.1: Detailed Forecast Table. See <https://www.rba.gov.au/publications/smp/2025/feb/outlook.html#table31>.

Our final decision uses the Reserve Bank of Australia’s (RBA) February 2025 Statement on Monetary Policy (SMP) which contains a consumer price index (CPI) forecast for the years ending June 2026 and June 2027. This means the first two years of the 2025–30 period are based on RBA forecasts and, thereafter, a linear glide path from year three to the mid-point of the RBA’s inflation target band of 2.5% in year five.

Figure 8 isolates the impact of expected inflation from other parts of our final decision to illustrate its effect on the return on capital and regulatory depreciation building blocks, and the total revenue allowance. Other elements held constant, lower inflation reduces the return on capital but increases regulatory depreciation.

<sup>28</sup> AER, *Rate of return Instrument (version 1.2)*, March 2024, cl. 27.

<sup>29</sup> Directlink, *Directlink - Attachment 05 – PRTM - 021224*, December 2024.

<sup>30</sup> AER, *Final position - Regulatory treatment of inflation*, December 2020.

<sup>31</sup> Directlink, *Directlink – Revised Proposal Document - 031224*, December 2024, p. 35.

**Figure 8** Inflation components in final decision revenue building blocks (\$ million, nominal)



Source: AER analysis.

## 2.3 Regulatory depreciation (return of capital)

Depreciation is a method used in our decision to allocate the cost of an asset over its useful life. It is the amount provided so capital investors recover their investment over the economic life of the asset (otherwise referred to as ‘return of capital’). When determining total revenue, we include an amount for the depreciation of the projected RAB. The regulatory depreciation amount is the net total of the straight-line depreciation less the indexation of the RAB.

Our final decision determines a regulatory depreciation amount of \$35.2 million (\$ nominal) for the 2025–30 period. This is a reduction of \$0.3 million (0.7%) from Directlink’s revised proposal of \$35.5 million.

This reduction is primarily due to our final decision on a lower straight-line depreciation for the 2025–30 period compared to Directlink’s revised proposal. This is driven by our final decision on a lower opening RAB as at 1 July 2025 (Attachment 2) and a lower forecast capex (Attachment 5). This reduction is partially offset by our final decision on a lower expected inflation rate for the 2025–30 period, which affects the projected RAB over this period. The lower expected inflation rate applied in this final decision reduces the indexation of the RAB that is offset against straight-line depreciation in determining regulatory depreciation. The reasons for our decision are discussed in Attachment 4.

## 2.4 Capital expenditure

Our final decision is to not accept Directlink’s forecast of \$31.5 million for the 2025–30 regulatory period. Our alternative forecast is \$20.2 million, which is 34.9% lower than Directlink’s forecast. Table 3 sets out our final decision for Directlink.

**Table 3** Directlink’s revised capex proposal and AER’s final decision (\$ million, \$2024–25)

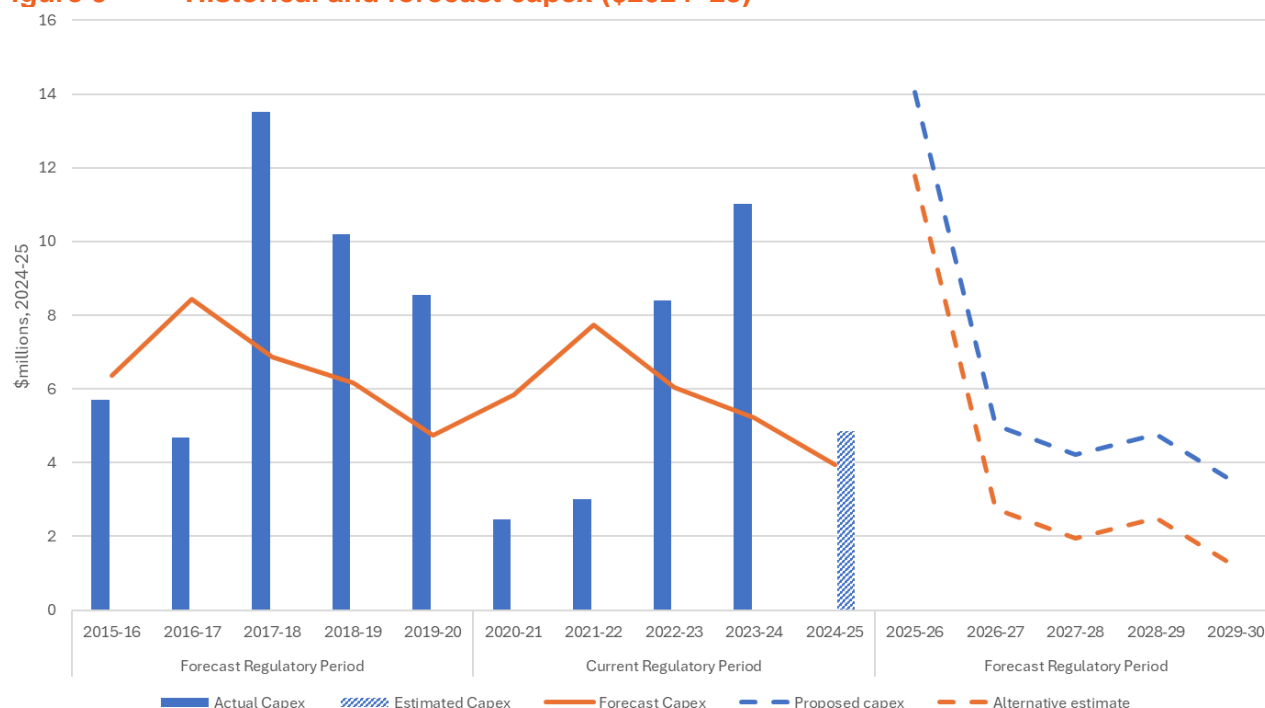
Program	Revised Proposal	Alternative estimate	Difference (\$)	Difference (%)
Safety and Protection	4.9	4.9	0	0.0%
Major Maintenance	6.5	6.5	0	0.0%
Asset Monitoring	1.2	1.2	0	0.0%
Spares Management	12.9	1.5	-11.3	88.1%
IGBTs	6.0	6.0	0	0.0%
<b>Total Capital Expenditure</b>	<b>31.5</b>	<b>20.2</b>	<b>-11.3</b>	<b>34.9%</b>

Source: Directlink, *Attachment 08 - Forecast Capital Expenditure model*, December 2024; AER analysis.

Note: Numbers may not add up to total due to rounding.

Figure 9 depicts Directlink’s historical capex trend, its proposed revised forecast for the 2025–30 regulatory period, and our final decision.

**Figure 9** Historical and forecast capex (\$2024–25)



Source: Directlink, *Attachment 4-1 – Directlink – Forecast CAPEX*, December 2019, Directlink, *Attachment 08 - Forecast Capital Expenditure model*, December 2024; AER analysis.

We are satisfied that our alternative forecast of total capex of \$20.2 million is sufficient to provide for a prudent and efficient service provider in Directlink’s circumstances to meet the capital expenditure objectives. In its revised proposal, Directlink accepted most of our draft decision, with the exception of its spares management program.

In making our final decision, we assessed the information before us, including the new and additional information provided by Directlink. For its spares management proposal, Directlink provided its modelling and further justification to explain how it came to its revised forecast for the program. After assessing the submitted material, we have come to an alternate forecast of \$1.5 million, which is 88.1% lower than its revised forecast of \$12.9 million. Our analysis found that Directlink had overstated underlying assumptions in its model, leading to the procurement of more spares than we consider reasonable to maintain its network. The details on our decision can be found in attachment 5.

## 2.5 Operating expenditure

Our final decision is to accept Directlink’s revised proposal total opex forecast of \$34.2 million<sup>32</sup> (\$2024-25), including debt raising costs, for the 2025–30 period, as it is not materially different to our alternative estimate of total forecast opex of \$33.4 million (–2.3% lower). Therefore, we consider that Directlink’s revised proposal total opex forecast reasonably reflects the opex criteria, having regard to the opex factors.

Directlink’s final decision total opex forecast is:

- \$0.7 million or 2.0% higher than our draft decision<sup>33</sup>
- \$5.1 million or 17.5% higher than the opex forecast we approved in our final decision for the 2020–25 regulatory control period
- \$2.3 million or 7.3% higher than Directlink’s actual (and estimated) opex in the 2020–25 regulatory control period
- \$5.3 million or 13.4% lower than Directlink’s initial proposal.

Figure 10 compares our alternative estimate of opex to Directlink’s revised proposal for the next regulatory control period. We also show the forecasts we approved for the last two regulatory control periods and Directlink’s actual and estimated opex over these periods.

Table 4 sets out Directlink’s revised proposal opex, our alternative estimate for the final decision and the differences between these forecasts.

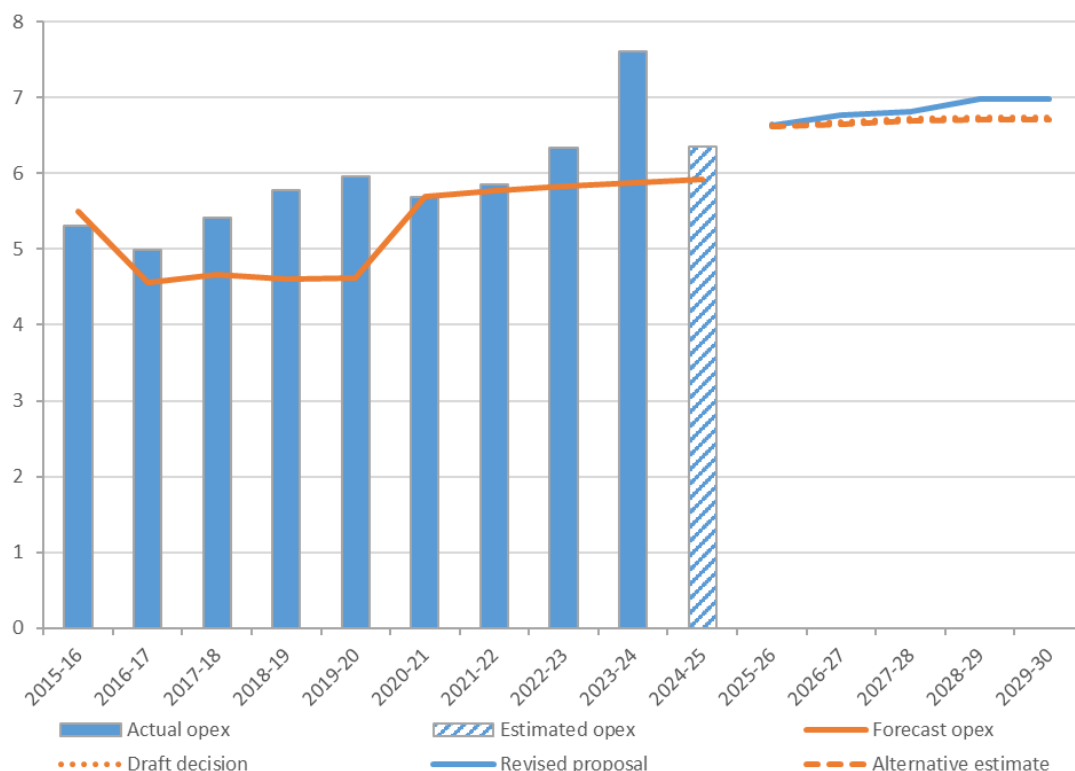
Our slightly lower alternative estimate of total opex for Directlink is due to:

- removal of Directlink’s proposed trainee step change (–\$0.4 million)
- removal of Directlink’s proposed transmission costs step change (–\$0.3 million)

More detail about our final opex expenditure decision can be found in attachment 6.

<sup>32</sup> Directlink, *Attachment 09 – Forecast Opex model*, December 2024

<sup>33</sup> AER, *Draft Decision Attachment 6 – Operating expenditure – Directlink – 2025-30 Transmission revenue proposal*, September 2024, pg. 1.

**Figure 10 Historical and forecast opex (\$2024–25)**

Source: Directlink, 2019-20 - Annual Regulatory Accounts - RIN Response - Consolidated, 20 October 2020; Directlink, 2022-23 - Regulatory Accounts - RIN Response - Consolidated, 12 October 2023; 2023-24 - Regulatory Accounts - RIN Response - Consolidated, 24 October 2024; Directlink, Attachment 09 - Forecast Opex model, December 2024; AER analysis.

**Table 4 Directlink's revised opex proposal and our final decision (\$ million, 2024–25)**

	Revised Proposal	Alternative estimate	Difference (\$)	Difference (%)
<b>Based on reported opex</b>	<b>31.7</b>	<b>31.7</b>	–	–0.1
<b>Efficiency adjustment</b>	–	–	–	–
<b>Base year non-recurrent efficiency gains</b>	–	–	–	–
<b>SOCI Adjustment</b>	<b>0.7</b>	<b>0.7</b>	–	–
<b>Total base year adjustments</b>	<b>0.7</b>	<b>0.7</b>	–	–
<b>2022–23 to 2024–25 increment</b>	<b>0.4</b>	<b>0.4</b>	–	–
<b>Remove category specific forecasts</b>	<b>–5.3</b>	<b>–5.3</b>	–	–
Trend: Output growth	–	–	–	–
Trend: Price growth	0.7	0.7	–0.0	–0.0
Trend: Productivity growth	–0.5	–0.5	0.0	0.0
<b>Total trend</b>	<b>0.2</b>	<b>0.2</b>	<b>–0.0</b>	<b>–0.0</b>
Apprenticeship program	0.4	–	–0.4	–1.3
Transmission determination	0.3	–	–0.3	–0.8
<b>Total step changes</b>	<b>0.7</b>	–	<b>–0.7</b>	<b>–2.1</b>
Category specific forecasts	5.3	5.3	–	–

	Revised Proposal	Alternative estimate	Difference (\$)	Difference (%)
<b>Total opex, excluding debt raising costs</b>	<b>33.7</b>	<b>32.9</b>	<b>–0.8</b>	<b>–2.2</b>
Debt raising costs	0.5	0.5	–	–
<b>Total opex (including DRC)</b>	<b>34.2</b>	<b>33.4</b>	<b>–0.8</b>	<b>–2.3</b>

Source: Directlink, *Attachment 09 - Forecast Opex model*, December 2024; AER analysis.

Note: Numbers may not add up to total due to rounding. Differences of '0.0' and '–0.0' represent small variances and '–' represents zero.

## 2.6 Corporate income tax

Our determination of the total revenue requirement includes the estimated cost of corporate income tax for 2025–30 period. Under the post-tax framework, this amount is calculated as part of the building blocks assessment using our post-tax revenue model (PTRM).

Our final decision determines an estimated cost of corporate income tax amount of \$3.2 million (\$ nominal) for Directlink over the 2025–30 period. This is an increase of \$0.3 million (12.0%) from Directlink's revised proposal of \$2.9 million.

This increase is primarily due to our final decision on a lower tax depreciation amount, driven by the reduction to forecast capex. Tax depreciation is a component of tax expense. A lower tax depreciation increases the estimated taxable income for Directlink and thereby increases the estimated cost of corporate income tax. The reasons for our decision are discussed in Attachment 7.

## 2.7 Pricing methodology

The role of Directlink's pricing methodology is to answer the question 'who should pay how much'<sup>34</sup> in order for Directlink to recover its costs. Directlink's pricing methodology provides a 'formula, process or approach'<sup>35</sup> that when applied:

- allocates the aggregate annual revenue requirement to the categories of prescribed transmission services that a transmission business provides and to the connection points of network users<sup>36</sup>
- determines the structure of prices that a transmission business may charge for each category of prescribed transmission services.<sup>37</sup>

Directlink's revised pricing methodology included updates to address system strength pricing, as we required in our draft decision.<sup>38</sup> Our final decision is therefore to approve Directlink's revised pricing methodology with minor amendments that Directlink has agreed to which are

<sup>34</sup> AEMC, Rule determination: National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006 No. 22, 21 December 2006, p. 1.

<sup>35</sup> NER, cl. 6A.24.1(b).

<sup>36</sup> NER, cl. 6A.24.1(b)(1).

<sup>37</sup> NER, cl. 6A.24.1(b)(4).

<sup>38</sup> AER, *Draft Decision Attachment 12 - Transmission Pricing methodology - Directlink - 2025-30 Transmission revenue proposal*, September 2024, p.1.

editorial in nature, including updated references to the NER.<sup>39</sup> For other aspects of Directlink’s pricing methodology, Attachment 12 of our draft decision contains our detailed assessment.<sup>40</sup>

We have published with this final decision the pricing methodology that will apply to Directlink for the period of this determination.<sup>41</sup>

## 2.8 Revenue adjustments

Our calculation of Directlink’s total revenue includes adjustments for incentive schemes that applied in its determination for the current period, such as under the EBSS and CESS. These mechanisms provide a continuous incentive for Directlink to pursue efficiency improvements in opex and capex, and a fair sharing of these between Directlink and its users. Our final decision includes:

- EBSS carryover amounts totalling \$0.6 million (\$2024–25) from the application of the EBSS in the 2020–25 regulatory period. This is \$0.001 million (\$2024–25) lower than Directlink’s revised proposed carryover amounts. The driver of this difference is that we have updated for the latest inflation forecasts, based on the 18 February 2025 *Statement of Monetary Policy* from the Reserve Bank of Australia.
- CESS – a revenue adjustment of \$0.89 million (\$2024–25) under the CESS. This is \$0.003 million (\$2024–25) lower than Directlink’s revised proposal because we have used the most recent data and adjustments for the 2019–20 carryover true-up.

The combined effect of these revenue adjustments is a \$1.5 million (\$2024–25) revenue adjustment building block in this final decision, a slight increase (\$2,000) compared to Directlink’s revised proposal.

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<sup>39</sup> Directlink, *Response to information request IR#008 - Transmission Pricing methodology*, 30 January 2025, Public; Directlink, *Attachment 04 - Amended Pricing methodology*, Public, April 2025.

<sup>40</sup> In table 12.3 of our draft decision, we stated that section 2.1(i) (among others) of Directlink’s proposed pricing methodology complies with the requirement for separate prices for each category of prescribed transmission services. The equivalent section in the revised pricing methodology guidelines is section 2.1(m) due to Directlink including additional sections in its revised pricing methodology to address our draft decision.

<sup>41</sup> AER, *Directlink 2025-30 - Final decision - Approved Pricing Methodology*, April 2025.

### 3 Incentive schemes

Incentive schemes are a component of incentive-based regulation and complement our approach to assessing efficient costs. They provide important balancing incentives under network determinations, encouraging businesses to pursue expenditure efficiencies while maintaining the reliability and overall performance of the network. Our final decision is that the following incentive schemes will continue to apply to Directlink in the 2025–30 period.

#### 3.1 Efficiency Benefit Sharing Scheme

The efficiency benefit sharing scheme (EBSS) is intended to provide a continuous incentive for service providers to pursue efficiency improvements in operating expenditure (opex) and provide for a fair sharing of these between transmission businesses and network users. Consumers benefit from improved efficiencies through lower regulated prices.

Our final decision is to include EBSS carryover amounts totalling -\$0.6 million (\$2024–25) from the application of the EBSS in the 2020–25 period. This is in line with Directlink’s revised proposal, which accepted our draft decision on this matter<sup>42</sup>. We have updated our EBSS model to reflect the latest available data for inflation, which results in only minor differences from Directlink’s revised proposal. We set out our final decision below in Table 5.

**Table 5 Final decision on Directlink’s carryover amounts (\$million, 2024–25)**

	2025-26	2026-27	2027-28	2028-29	2029-30
Directlink’s revised proposal	0.2	-0.3	-0.5	-	-0.0
AER’s final decision	0.2	-0.3	-0.5	-	-0.0

Note: Numbers may not add up due to rounding

Source: Directlink, *Revised Proposal Document*, December 2024, pp. 38 – 39.

#### 3.2 Capital Expenditure Sharing Scheme

The CESS mechanism was updated in July 2024. The changes to the CESS only apply to its application in the 2026–31 period and onwards.<sup>43</sup>

Our final decision is to apply a CESS revenue adjustment (increment) of \$0.89 million for the CESS. This is from the application of the CESS in the 2020–25 period and the corresponding CESS carryover true-up for 2019–20. Our final decision on the revenue impact of the application of the CESS in the 2020–25 period and the corresponding CESS carryover true-up 2019–20 is summarised in Table 6.

<sup>42</sup> Directlink, *Revised Proposal Document*, December 2024, pp. 38 – 39.

<sup>43</sup> That is, for CESS revenue increments based on spending in the 2020–25 regulatory period, will follow this guideline: AER, AER capital expenditure incentive guideline - November 2013, November 2013. However, in applying the CESS in the 2025–30 period, we refer to this guideline: AER, AER - Final decision - Capital expenditure incentive guideline - 28 April 2023, April 2023.

**Table 6 CESS revenue increments in 2025–30 (\$ million, 2025–30)**

Revenue Adjustments	2025–26	2026–27	2027–28	2028–29	2029–30	Total
CESS revenue increments as per NER 6.4.3(a)(5)	0.02	0.02	0.02	0.02	0.02	0.1
CESS carryover true-up 2019–20	0.16	0.16	0.16	0.16	0.16	0.78
AER final decision CESS	0.18	0.18	0.18	0.18	0.18	0.89

Note: Numbers may not sum due to rounding.

Source: AER analysis; Directlink, *Directlink – Attachment 11 – CESS model- 021224 – Public*, December 2024.

Directlink’s revised proposal adjusted its actual/estimate capex for the current regulatory period, resulting in an increase in CESS benefit of \$0.55 million.<sup>44</sup> This adjustment has reduced the overspend from our draft decision and resulted in a CESS total increment of \$0.89 million. The reasoning for our final decision is consistent with our draft decision.

In its revised proposal, Directlink also accepted our decision not to exclude its insulated gate bipolar transistors obsolescence project from the CESS model.<sup>45</sup>

### 3.3 Service Target Performance Incentive Scheme

The service target performance incentive scheme (STPIS) provides incentives to transmission network service providers to improve or maintain a high level of service for the benefit of participants in the National Electricity Market and end users of electricity. The STPIS comprises the Market Impact Component (MIC), Network Capability Component (NCC) and the service component (SC).

We recently completed our review of all components of the STPIS, with version 6 of the STPIS coming into effect from 17 April 2025<sup>46</sup>. Under version 6 of the STPIS we have:<sup>47</sup>

- suspended the MIC
- amended the NCC
- amended the loss of supply event frequency parameter of the SC.

Under version 5 of the STPIS, the MIC, parameter 1 (Unplanned outage circuit event rate) and parameter 4 (Proper operation of equipment) of the SC applied to Directlink. The NCC did not apply to Directlink and will not apply under version 6 either.<sup>48</sup>

<sup>44</sup> Directlink, *Directlink – Attachment 11 – CESS model- 021224 – Public*, December 2024.

<sup>45</sup> Directlink, *Directlink – Revised Proposal Document*, December 2024, p. 39.

<sup>46</sup> [AER - Electricity Transmission Service Target Performance Incentive Scheme Version 6 - April 2025](#)

<sup>47</sup> [AER - Explanatory Statement to the Electricity Transmission Service Target Performance Incentive Scheme Version 6 - April 2025](#)

<sup>48</sup> STPIS Version 6, clause 2.2(d)

In our draft decision we noted that our review of the STPIS was on foot and therefore our draft decision was to apply version 5 to Directlink for the 2025-30 period regulatory period, consistent with our Framework and Approach paper. We also noted that our final decision may be different, pending the outcomes of the STPIS review.<sup>49</sup>

We received no stakeholder submissions on the STPIS.

In its revised proposal Directlink acknowledged that the AER would consider the outcomes of the STPIS review in our final decision, and requested the AER to consider Directlink’s ability to incorporate a transition to any revised requirements by 1 July 2025.<sup>50</sup> Directlink also agreed with our MIC and SC calculations in our draft decision.

Our final decision is to apply version 6 of the STPIS to Directlink for the 2025-30 regulatory control period. The only change for Directlink from version 5 of the STPIS is that the MIC is suspended.

The service component<sup>51</sup> parameter cap, floor and targets of the STPIS that will apply to the 2025–30 period are shown in Table 7.

**Table 7**      **Final decision – Service Component caps, floors and target for 2025-30<sup>52</sup>**

Parameter	Floor	Target	Cap
<b>Unplanned outage circuit event rate (percentage)</b>			
Circuit event rate – fault	1144%	567%	195%
Circuit event rate – forced	100%	33%	2%
<b>Proper operation of equipment (number of events)</b>			
Failure of protection system	3	1	0

Source: AER analysis.

## 3.4 Demand Management Innovation Allowance Mechanism

Our final decision is that the Demand Management Innovation Allowance Mechanism (DMIAM) will not apply to Directlink. As stated in our draft decision, there would be limited utility to energy users were Directlink to invest in researching demand management opportunities through the DMIAM under the current framework.

<sup>49</sup> AER, Attachment 10 – Service target performance incentive scheme | Draft decision - Directlink transmission determination 2025–30, p. 1

<sup>50</sup> Directlink *Interconnector 2025–2030 Revised Revenue Proposal*, December 2024, p. 40.

<sup>51</sup> The AER have amended the STPIS to suspend the MIC.

<sup>52</sup> AER - Directlink 2025-30 Final Decision - STPIS Model - April 2025.xlsx

## 4 Cost pass throughs

Directlink’s revised proposal accepted our draft decision in relation to cost pass throughs and the proposed definitions of nominated pass through events.<sup>53</sup>

There are four nominated pass through events that will apply to Directlink for the 2025–30 period:

- Insurance coverage event
- Insurer credit risk event
- Natural disaster event
- Terrorism event

The definitions for these events can be found in our draft decision.<sup>54</sup>

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<sup>53</sup> Directlink, *Revised Proposal Document*, December 2024, p. 42.

<sup>54</sup> AER, *Draft Decision Attachment 13 – Pass through events – Directlink – 2025-30 Transmission revenue proposal*, September 2024.

## 5 Constituent decisions

Our final decision on Directlink’s transmission determination for the 2025–30 regulatory control period includes the following constituent components:<sup>55</sup>

Constituent component
In accordance with clause 6A.14.1(1)(i) of the NER, the AER’s final decision is not to approve the total revenue cap set out in Directlink’s building block proposal. Our final decision on Directlink’s total revenue cap is \$127.5 million (\$ nominal, smoothed) for the 2025–30 regulatory control period. The reasons for our final decision are set out in Attachment 1 of this final decision.
In accordance with clause 6A.14.1(1)(ii) of the NER, the AER’s final decision is not to approve the maximum allowed revenue (MAR) for each regulatory year of the 2025–30 regulatory control period set out in Directlink’s building block proposal. Our decision on Directlink’s MAR for each year of the 2025–30 regulatory control period is set out in Attachment 1 of this final decision.
In accordance with clause 6A.14.1(1)(iii) of the NER, the AER’s final decision is to apply Version 6 of the Service target performance incentive scheme (STPIS) to Directlink for the 2025–30 regulatory control period. The service target parameter cap, floor and targets of the STPIS that are approved by the AER are set out in section 3.3 of this Overview.
In accordance with clause 6A.14.1(1)(iv) of the NER, the AER’s final decision on the values that are to be attributed to the parameters for the efficiency benefit sharing scheme (EBSS) that will apply to Directlink in respect of the 2025–30 regulatory control period are set out in section 3.1 of this Overview.
In accordance with clause 6A.14.1(1)(v) of the NER, the AER’s final decision is to approve the commencement and length of the regulatory control period as Directlink proposed in its revenue proposal. The regulatory control period will commence on 1 July 2025 and the length of this period is five years, expiring on 30 June 2030.
In accordance with clause 6A.14.1(2)(ii) of the NER and acting in accordance with clause 6A.6.7(d), the AER’s final decision is to not accept Directlink’s proposed total net forecast capital expenditure of \$31.5 million (\$2024–25) for the 2025–30 regulatory control period. Our final decision therefore includes an alternative estimate of \$20.2 million (\$2024–25). The reasons for our final decision are set out in Attachment 5 of this final decision.
In accordance with clause 6A.14.1(3)(i) of the NER and acting in accordance with clause 6A.6.6(c), the AER’s final decision is to accept Directlink’s proposed total forecast

<sup>55</sup> NEL, s. 16(1)(c).

Constituent component
operating expenditure inclusive of debt raising costs of \$34.2 million (\$2024–25). The reasons for our final decision are set out in Attachment 6 of this final decision.
Directlink did not propose any contingent projects and therefore the AER has not made a decision under clause 6A.14.1(4) of the NER.
In accordance with clause 6A.14.1(5A) of the NER, the AER's final decision is that the capital expenditure sharing scheme (CESS) as set out in the 2023 Capital Expenditure Incentives Guideline will apply to Directlink in the 2025–30 regulatory control period. Our CESS determination for the 2025–30 regulatory period is an increment of \$0.89 million. The reasons for our final decision are set out in section 3.2 of this Overview and Attachment 9 of our draft decision..
In accordance with clause 6A.14.1(5A) of the NER, the AER's final decision is that the Demand Management Innovation Allowance Mechanism (DMIAM) for electricity transmission networks will not apply to Directlink in the 2025–30 regulatory control period.
In accordance with clause 6A.14.1(5B) of the NER, the AER's final decision is that the allowed rate of return for the 2025–26 regulatory year is 6.12% (nominal vanilla), as set out in section 2.2 of this Overview. As set out in section 2.2 of this Overview, the rate of return for the remaining regulatory years of the 2025–30 period will be updated annually because our final decision is to apply a trailing average portfolio approach to estimating debt which incorporates annual updating of the allowed return on debt.
In accordance with clause 6A.14.1(5C) of the NER, the AER's final decision is that the value of allowed imputation credits is 0.57. Our final decision is set out in section 2.2 of this Overview.
In accordance with clause 6A.14.1(5D) of the NER, the AER's final decision, in accordance with clause 6A.6.1 and schedule 6A.2, is that the opening regulatory asset base (RAB) as at the commencement of the 2025–30 regulatory control period, being 1 July 2025, is \$160.5 million (\$ nominal). The reasons for our final decision are set out in Attachment 2 of this final decision.
In accordance with clause 6A.14.1(5E) of the NER, the AER's final decision is that the depreciation approach to be used to establish the RAB at the commencement of Directlink's regulatory control period as at 1 July 2030 is to be based on forecast capex (forecast depreciation). The reasons for our final decision are set out in Attachment 2 of this final decision.
In accordance with clause 6A.14.1(8) of the NER, the AER's final decision is to approve Directlink's revised pricing methodology for the 2025–30 regulatory control period with minor amendments. The reasons for our final decision are set out in section 2.7 of this Overview.

## Constituent component

In accordance with clause 6A.14.1(9) of the NER, the AER's final decision is to apply the following nominated pass through events to Directlink for the 2025–30 regulatory control period in accordance with clause 6A.6.9:

- Insurance coverage event
- Insurer's credit risk event
- Terrorism event
- Natural disaster event

The definitions of these events and the reasons for our final decision are set out in Attachment 13 of our draft decision.

## 6 List of submissions

We received one submission in response to our draft decision and Directlink’s 2025–30 revised proposal. The stakeholder is listed below.<sup>56</sup>

Submission from
Energy Users’ Association of Australia (EUAA)

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<sup>56</sup> Submission is available on the AER website at <https://www.aer.gov.au/industry/registers/determinations/directlink-determination-2025-30/consultation-submissions-draft-decision-and-revised-proposal>

## Shortened forms

Terms	Definition
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Capex	Capital expenditure
CESS	Capital expenditure sharing scheme
DMIAM	Demand Management Innovation Allowance Mechanism
EBSS	Efficiency benefit sharing scheme
EUAA	Energy Users' Association of Australia
ISP	Integrated System Plan
MAR	Maximum allowed revenue
MIC	Market Impact Component
NCC	Network Capability Component
NEL	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
opex	Operating expenditure
PTRM	Post-tax revenue model
RAB	Regulatory asset base
RFM	Roll forward model
SC	Service component
STPIS	Service target performance incentive scheme
TNSP	Transmission Network Service Provider