Framework and Approach

Powerlink transmission determination 2027–32

July 2025

AUSTRALIAN ENERGY REGULATOR

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1 Framework and Approach

The Australian Energy Regulator (AER) exists 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. The regulatory framework governing electricity transmission and distribution networks is the National Electricity Law and Rules (NEL and NER). Our work is guided by the National Electricity Objective (NEO).

A regulated network business must periodically apply to us for a determination of the revenue it can recover from consumers using its network. The Queensland electricity transmission network service provider Powerlink Queensland (Powerlink) is due to submit its next revenue proposal on 31 January 2026, for the period 1 July 2027 to 30 June 2032 (2027–32 regulatory control period).

The first step in our process to determine efficient prices for electricity transmission service is to publish a Framework and Approach paper (F&A). The F&A sets our approach to key elements of the upcoming determination and facilitates early public consultation on these before businesses prepare and submit their revenue proposal. These elements include:

- Which incentive schemes will apply, for example, to service quality, improvements in network reliability or capital and operating expenditure.[1] The purpose of incentive schemes is to encourage network service providers to manage their business in a safe, reliable manner that serves the long-term interests of consumers. The schemes provide network service providers with incentives to only incur efficient costs and to meet or exceed service quality targets.
- Our approach to setting efficient expenditure allowances[2] and depreciation for the establishment of the opening regulatory asset base for the upcoming regulatory control period[3].

The F&A that has applied to Powerlink transmission in the current (2022–27) regulatory control period was published in July 2020. Since then, we have seen significant transition in the energy market and the rules, schemes and guidelines under which we regulate electricity networks. In December 2024, we therefore confirmed that we would review and replace the F&A for Powerlink.

In April 2025, we released a Preliminary F&A for the 2022–27 period and called for submissions. We received submissions from Powerlink and Rainforest Reserves Australia. These submissions, which are available on our website are discussed in the sections below.

1 NER, cl. 6A.10.1A(b)(1), (2), (3), (4) and (7)

2 NER, cl. 6A.10.1A(b)(5)

3 NER, cl. 6A.10.1A(b)(6)

1.1 Next steps

The table below provides an indicative timeframe for the remaining stages of our transmission determination for Powerlink. These are subject to change.

Table 1 Indicative timeline for Powerlink electricity transmission determination

Milestone	Indicative date
Powerlink submits revenue proposal	31 January 2026
AER publishes issues paper and holds public forum	March 2026/April 2026
Submissions on revenue proposal close	May 2026
AER to publish draft transmission determination	September 2026
AER to hold predetermination conference	October 2026
Powerlink to submit revised revenue proposal to AER	December 2026
Submissions on revised revenue proposal and draft decision close	January 2027
AER to publish transmission determination for regulatory control period	April 2027

2 Incentive schemes

Our F&A for Powerlink must set out our proposed approach to the application of incentive schemes in the 2027–32 period.

Since we published the F&A for the current 2022–27 period, we have completed reviews of a number of incentive schemes. This allows the application of revised schemes as part of our 2027–32 determination. We propose to apply the following incentive schemes in our transmission determination for Powerlink in the 2027–32 period:

- Efficiency benefit sharing scheme (EBSS),[4] subject to the considerations set out below, which provides a continuous incentive to pursue efficiency improvements in operating expenditure (opex) and provide for a fair sharing of these between the business and network users. Consumers benefit from improved efficiencies through lower opex in regulated revenues for future periods.
- Capital expenditure sharing scheme (CESS),[5] which incentivises efficient capital expenditure (capex) throughout the period by rewarding efficiency gains and penalising efficiency losses, each measured by reference to the difference between forecast and actual capex. Consumers benefit from improved efficiencies through a lower RAB, which is reflected in regulated revenues for future periods.
- Service target performance incentive scheme (STPIS).[6] This balances incentives to reduce expenditure with the need to maintain or improve service quality, by providing financial incentives to maintain and improve service performance where consumers are willing to pay for these improvements.
- Demand management incentive allowance mechanism (DMIAM)[7] for transmission, which encourages transmission businesses to expand and share their knowledge and understanding of innovative demand management projects that may reduce long term network costs and, consequently, lower prices for consumers.

These schemes work together within a revenue determination to provide incentives for network service providers to invest efficiently and operate in the long-term interests of consumers.

2.1 Efficiency benefit sharing scheme

On 30 April 2023, we published a final decision on our review of incentive schemes, including the EBSS.[8] That review concluded that revisions to the EBSS were not necessary. Given this, and consistent with our general approach, we intend to apply the EBSS to Powerlink in the 2027−32 regulatory control period if we are satisfied the scheme will fairly share

4 NER, cl. 6A.10.1(b)(2)

5 NER, cl. 6A.10.1(b)(3)

6 NER, cl. 6A.10.1(b)(1)

7 AER, *Demand management innovation allowance mechanism - Transmission*, May 2021.

8 AER, *Final decision - Review of incentive schemes for networks*, 28 April 2023.

efficiency gains and losses between the business and consumers.[9] This will occur only if the opex forecast for the following period is based on Powerlink's revealed costs.

In its submission, Powerlink noted it has 'consistently applied revealed cost forecasting for operating expenditure when preparing' revenue proposals and 'does not anticipate a significant change' to its approach.[10]

Our transmission determination for Powerlink for the 2027−32 regulatory control period will specify if and how we will apply the EBSS.

2.2 Capital expenditure sharing scheme

On 30 April 2023, we published a final decision on our review of incentive schemes, including the CESS.[11] Our review of incentive schemes resulted in changes to the sharing ratios of the CESS, adopting a tiered approach:

- 30 per cent sharing ratio for any underspend up to 10 per cent of the forecast capital expenditure allowance,
- 20 per cent sharing ratio for any underspend over 10 per cent, and
- 30 per cent sharing ratio for any overspend.

We anticipate that a further updated version of the CESS will apply for the 2027–32 regulatory control period. In August 2024, the Australian Energy Market Commission (AEMC) published an amending rule for Managing ISP project uncertainty through targeted ex post reviews.[12] On 21 February 2025, we commenced a review of the Capital Expenditure Incentive Guideline in light of the AEMC rule change.[13]

We released the draft Capital Expenditure Incentive Guideline on 16 May 2025. We will release our final updated Capital Expenditure Incentive Guideline by September 2025.

In its submission Powerlink noted its support for the application of the updated CESS for the 2027−32 regulatory period and reiterated its position that the AER should 'adjust the CESS penalty for actionable ISP projects where the expenditure is efficient and extend this to all prescribed capital expenditure'. We note that Powerlink's position regarding amendments to the CESS will be considered as part of the AER's review of the Capital Expenditure Incentive Guideline.

Powerlink's submission contends that the AER 'must apply discretion' in determining any net carryover amounts from the current regulatory period to the upcoming 2027–32 regulatory period.[14] In its submission, Powerlink points to cl. 6A.6.5A(e) as requiring the AER to have regard to circumstances of the Transmission Network Service Provider (TNSP). We consider that, under cl. 6A.6.5A(e), we are required to take into account the circumstances of the TNSP when deciding whether to apply a CESS, and about the nature and details of any

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9 NER, cl. 6a.6.5(a)

10 Powerlink, *Submission on the 2027–32 Framework and approach – Preliminary position paper,* May 2025

11 AER, *Final decision - Review of incentive schemes for networks*, 28 April 2023.

12 AEMC, *Managing ISP project uncertainty through targeted ex post reviews: Final determination*, 1 August 2024.

13 AER, *Capital Expenditure Incentive Guideline Review - Consultation Paper*, 21 February 2025.

14 Powerlink, *Submission on the 2027–32 Framework and approach – Preliminary position paper,* May 2025.

CESS, for the relevant regulatory control period. Having decided to apply the CESS, cl. 6A.6.5A(e) does not require the AER to have subsequent regard to the circumstances of the TNSP during the relevant regulatory control period, including when determining any carryover amounts arising from the CESS in that period that are to be carried into the upcoming regulatory control period.

Our final decision is that the CESS will apply to Powerlink for 2027–32 regulatory period including the version of the CESS that will be set out in the updated Capital Expenditure Incentive Guideline.

2.3 Service target performance incentive scheme

We propose to apply the transmission STPIS to Powerlink for the 2027–32 regulatory period. We note for the current 2022–27 regulatory control period, version 5 of the STPIS applies to Powerlink.

In December 2023 we published an issues paper to commence our review of version 5 of the transmission STPIS. We published proposed amendments and an accompanying explanatory statement for consultation in November 2024.[15] We recently completed our review of all components of the STPIS, with version 6 of the STPIS coming into effect from 17 April 2025.[16]

The amendments to the STPIS set out in version 6 are as follows:

- **Market impact component (MIC)** – Suspend the application of the MIC. The AER will explore developing an effective alternative by establishing a working group including Australian Energy Market Operator and key stakeholders.
- **Network capability component (NCC)** – We have streamlined the application of the NCC, to:
  - Remove the Network Capability Incentive Action Plan and link the NCC to a TNSP's Transmission Annual Planning Report
  - Better align incentive payments with revenue reductions.
- **Service component** – Remove rounding from the loss of supply frequency parameter so that targets can be fractions of an event.

A detailed explanation of the reasons for our final positions can be found in our explanatory statement.

In its submission, Powerlink noted its support for the application of the latest version of STPIS for the upcoming regulatory period.

Our final decision is to apply the updated version of the transmission STPIS (version 6) for the 2027–32 regulatory control period.

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15 AER, *Review of electricity transmission service standards incentive schemes - Proposed Amendments*, 6 November 2024.

16 AER, *Electricity Transmission Service Target Performance Incentive Scheme Version 6*, 17 April 2025.

2.4 Demand management incentive allowance mechanism

On 27 May 2021, we published the DMIAM for electricity transmission networks.[17] A DMIAM for transmission encourages transmission businesses to expand and share their knowledge of innovative demand management projects that may reduce long term network costs and, consequently, lower prices for consumers.

We did not apply the DMIAM to Powerlink for the 2022–27 regulatory control period.[18]

In its submission, Powerlink noted it would engage further on this issue with the AER and its customers and 'investigate where there is an appetite from customers and a need for Powerlink to pursue the mechanism.'[19]

As such we propose to apply the DMIAM to Powerlink for the 2027–32 regulatory control period pending the outcome of Powerlink's customer engagement.

2.5 Small-scale incentive scheme

The NER provide that we may develop small-scale incentive schemes (SSIS).[20] We note in its submission, Powerlink expressed their support for our preliminary approach to not apply an SSIS to Powerlink's 2027–32 regulatory proposal.[21]

As such, our final decision is to not apply the SSIS to Powerlink for the 2027–32 regulatory control period.

17 AER, *Demand management innovation allowance mechanism - Transmission*, May 2021.

18 AER, Powerlink 2022–27 - Final Decision, 29 April 2022, p. 34, p 67.

19 Powerlink, *Submission on the 2027–32 Framework and approach – Preliminary position paper*, May 2025.

20 NER, cl. 6A.7.5.

21 Powerlink, *Submission on the 2027–32 Framework and approach – Preliminary position paper*, May 2025.

3 Expenditure forecast assessment guideline

Our F&A for Powerlink sets out our proposed approach to the application of our Expenditure Forecast Assessment Guideline (the EFA guideline) for the 2027–32 regulatory control period.[22]

The EFA guideline contains a suite of assessment/analytical tools and techniques to assist our review of the expenditure forecasts that transmission businesses include in their regulatory proposals. We intend to have regard to the assessment tools set out in the guideline. The tool kit includes:

- models for assessing proposed replacement and augmentation capex
- benchmarking (including broad economic techniques and more specific analysis of expenditure categories)
- methodology, governance and policy reviews
- predictive modelling and trend analysis
- cost benefit analysis and detailed project reviews.[23]

We exercise judgement to determine the extent to which we use a particular technique to assess a regulatory proposal. We use the techniques we consider appropriate depending on the specific circumstances of the determination. The EFA guideline is flexible and recognises that we may employ a range of different estimating techniques to assess an expenditure forecast.

We applied the EFA guideline in our assessment of Powerlink proposal for the current, 2022–27 period. On 16 October 2024, we released an update to the EFA guidelines for Transmission and Distribution, to accommodate the addition of the emissions reduction objective to the national energy objectives. Our final decision is that we will apply the updated EFA guideline in our assessment of Powerlink's proposal for the 2027–32 regulatory control period.

The incorporation of an emissions reduction element into the NEO[24] will impact the framework and guidelines we use to assess regulatory proposals. This is something that we, and transmission businesses, will need to take into account as we progress through the 2027–32 determinations.

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22 AER, *Expenditure forecast assessment guideline*, 29 November 2013 (updated 16 October 2024).

23 AER, *Explanatory statement - expenditure forecast assessment guideline*, 29 November 2013.

24 AER, *Guidance on amended National Energy Objectives*, 28 September 2023.

4 Depreciation to establish the opening RAB

Our F&A for Powerlink must set out whether depreciation for establishing the opening RAB for the 2032–37 regulatory control period, commencing 1 July 2032, is to be based on actual or forecast capital expenditure.

As part of the roll forward methodology, when the RAB is updated from forecast capex to actual capex at the end of a regulatory control period, it is also adjusted for depreciation. The depreciation we use to roll forward the RAB can be based on either:

- the actual as-commissioned capex during the regulatory control period (actual depreciation). We roll forward the RAB based on actual capex less the depreciation on the actual capex; or
- the forecast as-commissioned capex approved for the regulatory control period (forecast depreciation). We roll forward the RAB based on actual capex less the depreciation on the forecast capex approved for the regulatory control period.

Powerlink is currently subject to the CESS. As set out in section 2.1 above, we propose to continue to apply the CESS in the 2027–32 period. We are satisfied that the incentive provided by the application of the CESS, in combination with the use of forecast depreciation and our other ex-post capex measures, will be sufficient to achieve the capex incentive objective. Our final position is therefore to continue to use the forecast depreciation approach to establish the RAB at the commencement of the 2032–37 regulatory control period for Powerlink.[25]

[25] NER, cl. 6A.10.1A(b)(6).

Glossary

Term	Definition
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
capex	capital expenditure
CESS	capital expenditure sharing scheme
DMIAM	demand management innovation allowance mechanism
EBSS	efficiency benefit sharing scheme
EFA	expenditure forecast assessment guideline
F&A	framework and approach paper
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
RAB	regulatory asset base
STPIS	service target performance incentive scheme
SSIS	small scale investment scheme
TNSP	transmission network service provider