

Draft Decision

Powerlink electricity transmission determination 2027 to 2032

(1 July 2027 to 30 June 2032)

Attachment 1 – Building block approach:
Maximum allowed revenue, Regulatory asset
base, Regulatory depreciation and Corporate
income tax

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1 Building block approach

We determine the transmission network service provider's (TNSP's) annual building block revenue requirement using a building block approach. The efficient costs to be recovered by a TNSP can be thought of as being made up of various building block costs. Our draft decision assesses each of the building block costs and the elements that drive these costs. The building block costs are approved reflecting trade-offs and interactions between the cost elements, service quality and across years.

Table 1.1 shows the building block costs that form the annual building block revenue requirement for each year and where discussion on the elements that drive these costs can be found within this draft decision.

Table 1.1 Building block costs

Building block costs	Attachments where elements are discussed
Return on capital	Building block approach – Regulatory asset base (Attachment 1) Rate of return (Overview) Capital expenditure (Attachment 2)
Regulatory depreciation (return of capital)	Building block approach – Regulatory asset base (Attachment 1) Building block approach – Regulatory depreciation (Attachment 1) Expected inflation rate (Overview) Capital expenditure (Attachment 2)
Operating expenditure	Operating expenditure (Attachment 3)
Estimated cost of corporate income tax	Building block approach – Corporate income tax (Attachment 1)
Other revenue adjustments: - Adjustments for shared assets - Operating efficiency benefits/penalties - Capital efficiency benefits/penalties	Building block approach – Maximum allowed revenue (Attachment 1) Efficiency benefit sharing scheme (Attachment 5) Capital expenditure sharing scheme (Attachment 6)

1.1 Maximum allowed revenue

This section sets out our draft decision on Powerlink’s maximum allowed revenue (MAR) for the provision of prescribed transmission services over the 2027–32 regulatory control period. Specifically, it sets out our draft decision on:¹

- the estimated total revenue cap, which is the sum of the annual expected MAR
- the annual building block revenue requirement
- the annual expected MAR
- the X factors.

We determine Powerlink’s annual building block revenue requirement using the building block approach. We then determine the X factors by smoothing the annual building block revenue requirements over the 2027–32 period. The X factor is used in the CPI–X methodology to determine the annual expected MAR (smoothed).²

1.1.1 Draft decision

We determine a total annual building block revenue requirement of \$5,676.6 million (\$ nominal, unsmoothed) for Powerlink over the 2027–32 period. This amount reflects our draft decision on the various building block costs and represents a reduction of \$25.4 million (0.4%) to Powerlink’s proposed total annual building block of \$5,702.0 million. This reduction is largely driven by a lower return on capital and operating expenditure (opex) building blocks in this draft decision, which have been partially offset by higher regulatory depreciation, cost of corporate income tax and revenue adjustment building blocks.

We determine the annual expected MAR (smoothed) and X factor for each regulatory year of the 2027–32 period by smoothing the annual building block revenue requirement. Our draft decision is to approve an estimated total revenue cap of \$5,694.1 million (\$ nominal) for Powerlink for the 2027–32 period.

At the time of making this draft decision, we have used placeholder values for certain components such as the rate of return and expected inflation. We will make further updates for these values as part of our final decision. It is for this reason that we expect the total revenue cap approved in our final decision to be different to this draft decision.

Table 1.2 sets out our draft decision on Powerlink’s annual building block revenue requirement, annual expected MAR and the estimated total revenue cap, and X factors for the 2027–32 period.

¹ NER, cl. 6A.4.2(a)(1)–(3), 6A.5.3(c) and 6A.6.8.

² NER, cl. 6A.6.8.

Table 1.2 AER’s draft decision on Powerlink’s annual building block revenue requirement, annual expected MAR, estimated total revenue cap and X factors for the 2027–32 period (\$ million, nominal)

	2027–28	2028–29	2029–30	2030–31	2031–32	Total
Return on capital	533.9	539.9	548.2	566.4	590.2	2,778.5
Regulatory depreciation ^a	244.1	212.4	229.3	248.1	265.4	1,199.4
Operating expenditure ^b	312.5	323.6	336.1	349.0	362.0	1,683.3
Revenue adjustments ^c	–58.7	–54.2	–29.7	2.2	26.8	–113.6
Cost of corporate income tax	27.9	23.4	23.9	25.2	28.8	129.1
Annual building block revenue requirement (unsmoothed)	1,059.8	1,045.1	1,107.7	1,190.8	1,273.2	5,676.6
Annual expected MAR (smoothed)	992.0	1,046.0	1,116.2	1,210.1	1,329.8	5,694.1 ^d
X factor^e	n/a^f	–2.92%	–4.16%	–5.83%	–7.26%	n/a

Source: AER analysis.

- (a) Regulatory depreciation is straight-line depreciation net of the inflation indexation on the opening regulatory asset base (RAB).
- (b) Includes debt raising costs.
- (c) Includes revenue adjustments, where applicable, from the efficiency benefit sharing scheme (EBSS) and the capital expenditure sharing scheme (CESS). We have accepted Powerlink’s proposal not to apply the demand management innovation allowance mechanism.
- (d) The estimated total revenue cap is equal to the total annual expected MAR.
- (e) The X factors will be revised to reflect the annual return on debt update. Under the CPI–X framework, the X factor measures the real rate of change in annual expected revenue from one year to the next. A negative X factor represents a real increase in revenue. Conversely, a positive X factor represents a real decrease in revenue.
- (f) Powerlink is not required to apply an X factor for 2027–28 because we set the 2027–28 expected revenue in this decision. The MAR for 2027–28 is 2.5% higher than the approved MAR for 2026–27 in real terms, or 5.0% higher in nominal terms.

1.1.2 Overview of proposal

Powerlink proposed a total (smoothed) revenue cap of \$5,710.2 million (\$ nominal) for the 2027–32 period. Powerlink’s proposal sets out the details of its building block costs, annual building block revenue requirement, annual expected MAR and X factors over the 2027–32 period.³

³ Powerlink, *2027–32 Post-Tax Revenue Model*, January 2026; Powerlink, *2027–32 Revenue Proposal*, January 2026, p 126.

1.1.3 Assessment approach

Appendix A.1 Maximum allowed revenue – assessment approach sets out the building block approach used to determine Powerlink’s annual building block revenue requirement and expected MAR for each year of the 2027–32 period.⁴

1.1.4 Reasons for draft decision

We determine a total annual building block revenue requirement of \$5,676.6 million (\$ nominal, unsmoothed) for Powerlink over the 2027–32 period. This is \$25.4 million (0.4%) lower than Powerlink’s proposal of \$5,702.0 million. This reduction reflects the combined impact of our draft decision on the individual building block costs.

The changes we made to Powerlink’s proposed building blocks, in nominal terms, are:

- A reduction in the return on capital of \$133.4 million or 4.6%, primarily driven by our reduction to Powerlink’s proposed forecast capital expenditure (capex) (Attachment 2). The lower return on capital from forecast capex is partially offset by a higher rate of return and a higher opening RAB as at 1 July 2027 compared with Powerlink’s proposal (section 1.2 and Overview section 2.3).
- An increase in regulatory depreciation of \$104.8 million or 9.6% (section 1.3). This is primarily due to a lower expected inflation rate, which reduces the indexation of the RAB deducted from straight-line depreciation. This increase is partially offset by our reduction to Powerlink’s forecast capex, which reduces straight-line depreciation over the 2027–32 period.⁵
- A reduction in the opex forecast of \$298.1 million or 15.0% (Attachment 3), driven primarily by our use of actual opex in 2023–24 as the base year in our draft decision rather the estimate of 2025–26 opex as proposed by Powerlink.
- An increase in revenue adjustments of \$271.2 million or 70.5% (Attachments 5 and 6). This is mainly driven by our draft decision to determine a total EBSS benefit payment rather than the EBSS penalty in Powerlink’s proposal. This is partially offset by a slight increase in the CESS penalty in our draft decision.
- An increase in the cost of corporate income tax of \$30.1 million or 30.4% (section 1.4). The increase is primarily due to higher regulatory depreciation and lower tax depreciation⁶ (a deductible tax expense) in our draft decision which increases the taxable income.

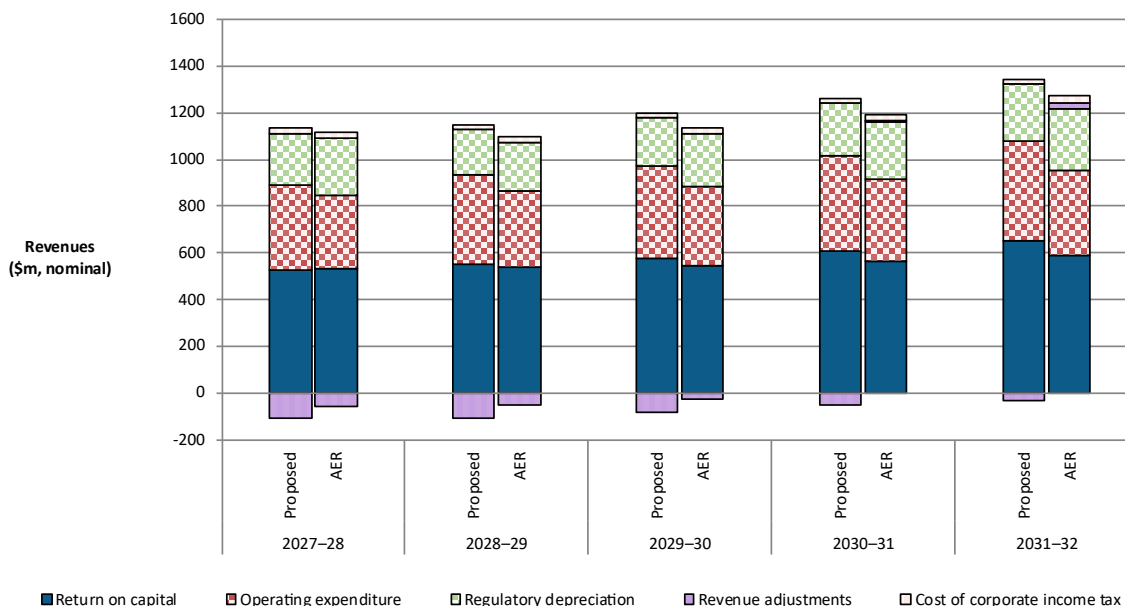
Figure 1.1 compares the building block components that make up Powerlink’s annual building block revenue requirement under our draft decision and Powerlink’s proposal.

⁴ NER, cll. 6A.4.2(a)(2), 6A.6.8(c)(2).

⁵ Regulatory depreciation is straight-line depreciation net of inflation indexation on the opening RAB. A lower indexation amount increases the regulatory depreciation, all else being equal.

⁶ The lower forecast capex and forecast immediate expensing of capex in our draft decision result in a reduction in tax depreciation.

Figure 1.1 AER's draft decision and Powerlink's proposed annual building block revenue requirement for the 2027–32 period (\$ million, nominal)



Source: AER analysis; Powerlink, *2027–32 – Post-Tax Revenue Model*, January 2026.

Note: Revenue adjustments include EBSS and CESS. Opex includes debt raising costs.

1.1.4.1 Annual revenue adjustment process

We use an expected inflation rate in our post-tax revenue model (PTRM) to calculate the expected MAR (as shown in Table 1.2) in nominal dollar terms.⁷ The calculation of the actual MAR will therefore require an adjustment for actual inflation. To this end, the actual MAR from the second year onwards is adjusted for actual inflation. As discussed in the *Rate of return instrument*, the MAR is also subject to adjustment to reflect our update of the TNSP's return on debt annually.⁸ This means the actual MAR from the second year onwards will also be adjusted for revised X factors after the annual return on debt update. The method of this annual revenue adjustment process is set out below.

To enable the formula for the annual revenue adjustment process to operate correctly, we will refer to the expected MAR determined in this decision using the building block costs as the allowed revenue (AR). This is because the expected MAR determined using the building block costs does not incorporate performance incentive scheme revenue adjustments and pass through amounts that may apply to each regulatory year.

We determine Powerlink's AR for the first year of the 2027–32 period in this decision. Powerlink then applies an annual adjustment to determine its AR for each subsequent year, based on the previous year's AR and using the CPI–X methodology.⁹ That is, the AR for

⁷ Excludes performance incentive scheme and pass through amounts that may apply to each regulatory year.

⁸ AER, *Rate of return instrument*, February 2023, cl. 24, Note 29. Our final decision will apply the return on debt calculated in accordance with the new *Rate of return instrument*, which is expected to be published in December 2026. See: <https://www.aer.gov.au/industry/registers/resources/guidelines/rate-return-instrument-2026>.

⁹ In the case of making the annual adjustment for year 2, the previous year's AR would be the same as the approved expected MAR for year 1 as contained in the PTRM.

each subsequent year is determined by adjusting the previous year's AR for actual inflation and the X factor determined after the annual return on debt update:

$$AR_t = AR_{t-1} \times (1 + \Delta CPI) \times (1 - X_t)$$

where:

AR	=	the allowed revenue
t	=	time period/financial year (for $t = 2$ (2028–29), 3 (2029–30), 4 (2030–31), 5 (2031–32))
ΔCPI	=	the annual percentage change in the ABS Consumer price index quarterly all groups, Australia ¹⁰ from December in year $t - 2$ to December in year $t - 1$
X	=	the smoothing factor determined in accordance with the PTRM as approved in the AER's final decision, and annually revised for the return on debt update in accordance with the formula specified in the <i>Rate of return instrument</i> calculated for the relevant year. ¹¹

The MAR used for transmission pricing is determined annually as part of the annual revenue adjustment process in accordance with the NER. The MAR is determined each year by adding to (or deducting from) the allowed revenue:¹²

- the service target performance incentive scheme revenue increment (or revenue decrement)¹³
- any approved pass through amounts not included in allowed revenue¹⁴
- any concessional finance adjustment amounts¹⁵

¹⁰ If the ABS does not or ceases to publish the index, or it is substantially changed, then CPI will mean an index which the AER considers is the best available alternative index.

¹¹ AER, *Rate of Return Instrument*, February 2023, cl. 9. Our final decision will apply the return on debt calculated in accordance with the new *Rate of return instrument*, which is expected to be published in December 2026. See: <https://www.aer.gov.au/industry/registers/resources/guidelines/rate-return-instrument-2026>.

¹² NER, cl. 6A.3.2.

¹³ NER, cl. 6A.7.4.

¹⁴ NER, cll. 6A.7.2 and 6A.7.3.

¹⁵ NER, cl. 6A.7.7.

For Powerlink, the annual MAR is established according to the following formula:

$$\begin{aligned} \text{MAR}_t &= (\text{allowed revenue}) + (\text{performance incentive}) + (\text{pass through}) + \text{concessional finance adjustment} \\ &= \text{AR}_t + \left(\left(\text{AR}_{t-2} \times \frac{1}{2} \right) + \left(\text{AR}_{t-1} \times \frac{1}{2} \right) \right) \times S_{ct} + P_t + \text{CFA}_t \end{aligned}$$

where:

MAR	=	the maximum allowed revenue
AR	=	the allowed revenue
S	=	the percentage revenue increment or decrement determined in accordance with the service target performance incentive scheme
P	=	the pass through amount (positive or negative) that the AER has determined in accordance with clauses 6A.7.2 and 6A.7.3 of the NER
CFA	=	the concessional finance adjustment amount (negative) that the AER has determined in accordance with clauses 6A.3.3 and 6A.7.7 of the NER
t	=	time period/financial year (for $t = 2$ (2028–29), 3 (2029–30), 4 (2030–31), 5 (2031–32))
ct	=	time period/calendar year (for $ct = 2$ (2027), 3 (2028), 4 (2029), 5 (2030)).

Powerlink may also adjust the MAR for under- or over-recovery amounts.¹⁶ That is, if the revenue amounts earned from providing prescribed transmission services in previous regulatory years are higher or lower than the sum of the approved MAR for those years, the difference can be included in the subsequent year's MAR. In the case of an under-recovery, the amount is added to the subsequent year's MAR. In the case of an over-recovery, the amount is subtracted from the subsequent year's MAR.

Table 1.3 sets out the timing of the annual calculation of the AR and performance incentive.

¹⁶ NER, cl. 6A.23.3(e)(5).

Table 1.3 Timing of the calculation of allowed revenues and the performance incentive for Powerlink

<i>t</i>	Allowed revenue (financial year)	<i>ct</i>	Performance incentive (calendar year)
2	1 July 2028 – 30 June 2029	2	1 January 2027 – 31 December 2027
3	1 July 2029 – 30 June 2030	3	1 January 2028 – 31 December 2028
4	1 July 2030 – 30 June 2031	4	1 January 2029 – 31 December 2029
5	1 July 2031 – 30 June 2032	5	1 January 2030 – 31 December 2030

Note: The performance incentive for the period 1 January 2026 to 31 December 2026 is to be applied to the AR determined for 2027–28 (AR₁).

1.1.4.2 X factor, annual expected MAR and estimated total revenue cap

To determine Powerlink’s expected MAR profile over the 2027–32 period, we set the MAR for the first regulatory year, 2027–28, at \$992.0 million (\$ nominal). This is \$67.8 million lower than the annual building block revenue requirement for that year. We then apply expected inflation of 2.45% per annum and a profile of X factors to determine the expected MAR in subsequent years.¹⁷

For this draft decision, we determine X factors for Powerlink as set out in Table 1.4.

Table 1.4 AER’s draft decision X factors for the 2027–32 period

	2027–28	2028–29	2029–30	2030–31	2031–32
AER draft decision X factors ^a	n/a ^b	–2.92%	–4.16%	–5.83%	–7.26%

Source: AER analysis.

(a) A negative X factor represents a real increase in revenue.

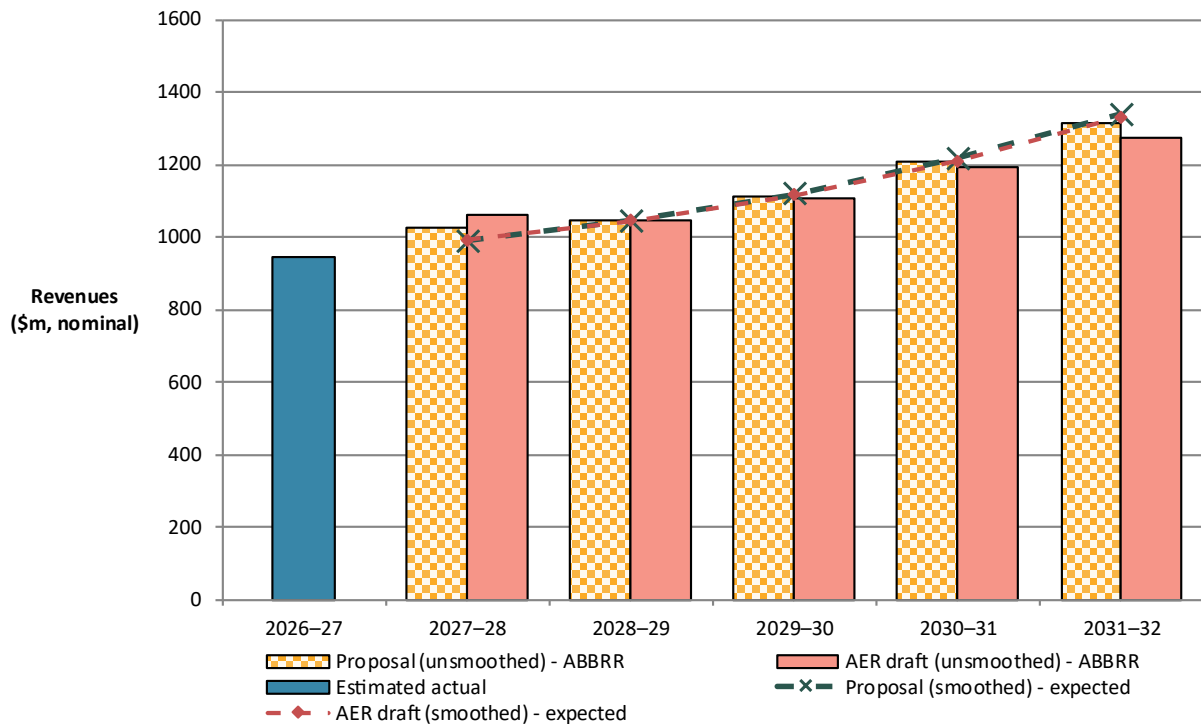
(b) Powerlink is not required to apply an X factor for 2027–28 because we set the 2027–28 expected revenue in this decision. The MAR for 2027–28 is 2.5% higher than the approved MAR for 2026–27 in real terms.

The net present value (NPV) of the annual building block revenue requirements is \$4,679.9 million (\$ nominal) as at 1 July 2027. Applying the CPI–X framework to this NPV, we determine an expected MAR (smoothed) of \$992.0 million in 2027–28 for Powerlink, increasing to \$1,329.8 million (\$ nominal) in 2031–32. This results in an estimated total revenue cap of \$5,694.1 million for Powerlink over the 2027–32 period.

Figure 1.2 shows our draft decision on Powerlink’s annual expected MAR (smoothed revenue) and annual building block revenue requirements (unsmoothed) for the 2027–32 period.

¹⁷ NER, cl. 6A.5.3(c)(3).

Figure 1.2 AER's draft decision and Powerlink's proposed annual building block revenue requirement (\$ million, nominal)



Source: AER analysis; Powerlink, 2027–32 – *Post-Tax Revenue Model*, January 2026.

Note: Annual building block revenue requirement (ABBRR).

The X factors we set minimise, as far as reasonably possible, the variance between the expected MAR (smoothed) and the annual building block revenue requirement (unsmoothed) in the last year of the 2027–32 period.¹⁸ This helps to minimise any potential large revenue variance, and therefore price shocks, at the start of the 2032–37 period. Our standard approach is to keep the divergence between smoothed and unsmoothed revenue in the final year to within $\pm 3\%$, while also aiming for consistent real revenue changes over the regulatory control period. This supports smoother price changes both within the regulatory control period and across regulatory control periods.

For this draft decision, we have approved lower revenues than Powerlink proposed. This is mainly driven by our reductions to forecast capex and opex in our draft decision. However, our draft decision provides for higher revenues than those determined in the 2022–27 determination. In nominal terms, Powerlink's unsmoothed revenue for the first year of the 2027–32 period (2027–28) is 12.1% higher than the approved revenue for the final year of the 2022–27 period (2026–27). It then increases by an average of 4.8% per annum over the remaining 4 years of the 2027–32 period.

While transmission charges account for a relatively small share of the annual electricity bills, we are mindful that the magnitude of the increase in revenue could have a significant impact on network charges for Powerlink's consumers. Our smoothed revenue profile therefore

¹⁸ NER, cl. 6A.6.8(c)(2).

reduces the initial increase and spreads it over the remaining years of the 2027–32 period, in line with the growth in forecast energy.

We have smoothed revenue over the 2027–32 period, resulting in an initial increase of 5.0% (nominal) in 2027–28, followed by larger annual increases each year, with a 9.9% increase in 2031–32. The increase in revenue each year corresponds to the growth in forecast energy to deliver consistent annual increases in the forecast price path over the 2027–32 period. Table 1.5 shows the annual change in our draft decision smoothed revenue (nominal), forecast change in energy delivered, and the corresponding impact on the forecast nominal price path over the 2027–32 period.

Table 1.5 AER’s draft decision changes on smoothed revenue, forecast energy delivered, and price path for the 2027–32 period (nominal)

	2027–28	2028–29	2029–30	2030–31	2031–32
Draft decision smoothed revenue (% change)	+4.97%	+5.44%	+6.71%	+8.42%	+9.89%
Forecast energy ^a (% change)	+0.29%	+0.74%	+1.95%	+3.58%	+4.99%
Nominal price path (% change)	+4.67%	+4.67%	+4.67%	+4.67%	+4.67%

Source: AER analysis.

- (a) Based on operational sent-out forecast data for Queensland in the Australian Energy Market Operator’s (AEMO) 2025 Electricity Statement of Opportunities (ESOO), converted to a transmission-delivered basis; AEMO, *National Electricity and Gas forecasting – 2025 Electricity Statement of Opportunities (ESOO)*, Accessed on 28 August 2026; and Powerlink, *Response to AER information request IR#016 Q8 – General Modelling Clarifications*, 15 May 2026, pp 7–9.

Our draft decision smoothing approach is consistent with Powerlink’s proposed approach, which is supported by its Revenue Proposal Reference Group (RPRG). This approach aims to establish consistent annual increases in the forecast price path (smoothed revenue divided by forecast energy delivered) for the 2027–32 period by amending the smoothed revenue profile to align with the changes in forecast energy delivered.

Powerlink noted that it explored several smoothing approaches with the RPRG who ultimately supported the option of balancing revenue smoothing with the forecast growth in energy delivered over the 2027–32 period to provide consumers with a smoother and more predictable price path.¹⁹ The RPRG’s submission on Powerlink’s revenue proposal acknowledged that this approach back-loads revenue recovery to later years. However, it also noted that given current cost-of-living and business pressures, even modest price relief early in the 2027–32 period would be welcome despite steady increases later.²⁰ Submissions from our Consumer Challenge Panel, sub panel 34 (CCP34) and the Queensland Farmers’ Federation also endorsed the RPRG’s recommendation for a stable price path.²¹

¹⁹ Powerlink, [2027–32 Revenue Proposal](#), January 2026, p 125.

²⁰ RPRG, [Submission – Powerlink 2027–32 electricity transmission revenue proposal](#), May 2026, pp 40–43.

²¹ CCP34, [Submission – Powerlink 2027–32 electricity transmission revenue proposal](#), May 2026, pp 41–43; Queensland Farmers Federation, [Submission – Powerlink 2027–32 electricity transmission revenue proposal](#), May 2026, p 2.

Our draft decision smoothing approach defers more of the revenue recovery to later years of the 2027–32 period, resulting in a 4.4% difference between smoothed and unsmoothed revenue in the final year, which is outside our preferred target range of $\pm 3\%$. Taking into account consumer preferences, we consider it appropriate to relax this target to lessen price increases in the earlier years of the 2027–32 period. This is consistent with some of our previous determinations where we have relaxed the final year target up to $\pm 5\%$ to ease price increases in earlier years.²² However, we consider that relaxing the target to more than 5% could increase the chance of a large revenue variance at the commencement of the 2032–37 period.

We may need to reassess this smoothing approach at the final decision if significant changes to revenue forecasts arise between the draft and final decisions. For example, Powerlink has identified the Gladstone Project as having the potential to materially increase its revenue requirements in the 2027–32 period.²³ Under the current smoothing approach, this could result in even greater revenue recovery in later years, making it more difficult to minimise the final year difference. Therefore, in reaching our final decision, we will need to balance consumer preference for greater price relief in the early years of the period and a generally consistent price path against the need to ensure that revenue increases in later years remain sustainable and do not result in an excessive final year difference.

1.1.4.3 Shared assets

TNSPs, such as Powerlink, may use assets to provide both prescribed transmission services we regulate and unregulated services. For example, Powerlink may lease transmission tower space to third parties for housing telecommunications equipment. These assets are known as shared assets.²⁴ If shared asset revenue is material, 10% of the unregulated revenues earned from those assets is used to reduce the TNSP's revenue for prescribed transmission services.²⁵

Powerlink submitted that its total building block revenue requirement is not subject to a shared asset adjustment because its forecast annual unregulated revenue from shared assets does not exceed the AER's materiality threshold.²⁶

We consider Powerlink's forecast unregulated revenues from shared assets for the 2027–32 period are reasonable, noting that its forecasts are comparable to the 2022–27 period.²⁷

²² AER, *Final Decision – SA Power Networks distribution determination 2025–30, Attachment 1 – Annual revenue requirement*, April 2025, p 8; AER, *Final Decision – TasNetworks Distribution determination 2024–29, Attachment 1 – Annual revenue requirement*, April 2024, pp 5–6; AER, *Final Decision – Endeavour Energy Electricity Distribution Determination 2024–29, Overview*, April 2024, pp 9–10; AER, *Draft Decision – Ausgrid Distribution determination 2024–29, Attachment 1 – Annual revenue requirement*, September 2023, pp 8–9.

²³ Powerlink, *2027–32 – Appendix 10.01 – Pricing Impact Scenarios*, January 2026, p 5.

²⁴ NER, cl. 6A.5.5.

²⁵ The shared asset principles establish that use of share assets should be material before cost reductions are applied. The NER does not define materiality in this context. Our approach to what constitutes a material use of shared assets is that unregulated use of shared assets in a specific regulatory year is material when a service provider's annual average unregulated revenue from shared assets is expected to be greater than 1% of its MAR for that regulatory year; AER, *Shared asset guidelines*, June 2025, p 10.

²⁶ Powerlink, *Powerlink – 2027–32 Revenue Proposal*, January 2026, pp 135–137.

²⁷ AER analysis; Powerlink, *Powerlink 2027–32 – Reset RIN – Workbook 1 – Forecast*, January 2026.

Powerlink's forecast unregulated revenues must be compared to the regulated revenues we determine, rather than those proposed by Powerlink. Our draft decision sets lower expected MARs than Powerlink's proposal. Based on these lower expected MARs, we determine that the materiality threshold is still not met in any year of the 2027–32 period. As such, our draft decision does not apply any shared asset revenue adjustment.²⁸

1.1.4.4 Indicative average transmission charges

Our draft decision on Powerlink's expected MAR ultimately affects the prices consumers pay for electricity. There are several steps required in translating our revenue decision into indicative transmission price impacts.

We regulate Powerlink's prescribed transmission services under a revenue cap form of control. This means our draft decision on Powerlink's expected MAR does not directly translate to price impacts. This is because Powerlink's revenue is fixed under the revenue cap form of control, so changes in the consumption of electricity will affect the prices ultimately charged to consumers.

Powerlink recovers its transmission regulated revenue through transmission charges, set annually in accordance with the pricing methodology approved by us as part of this determination (Attachment 8).

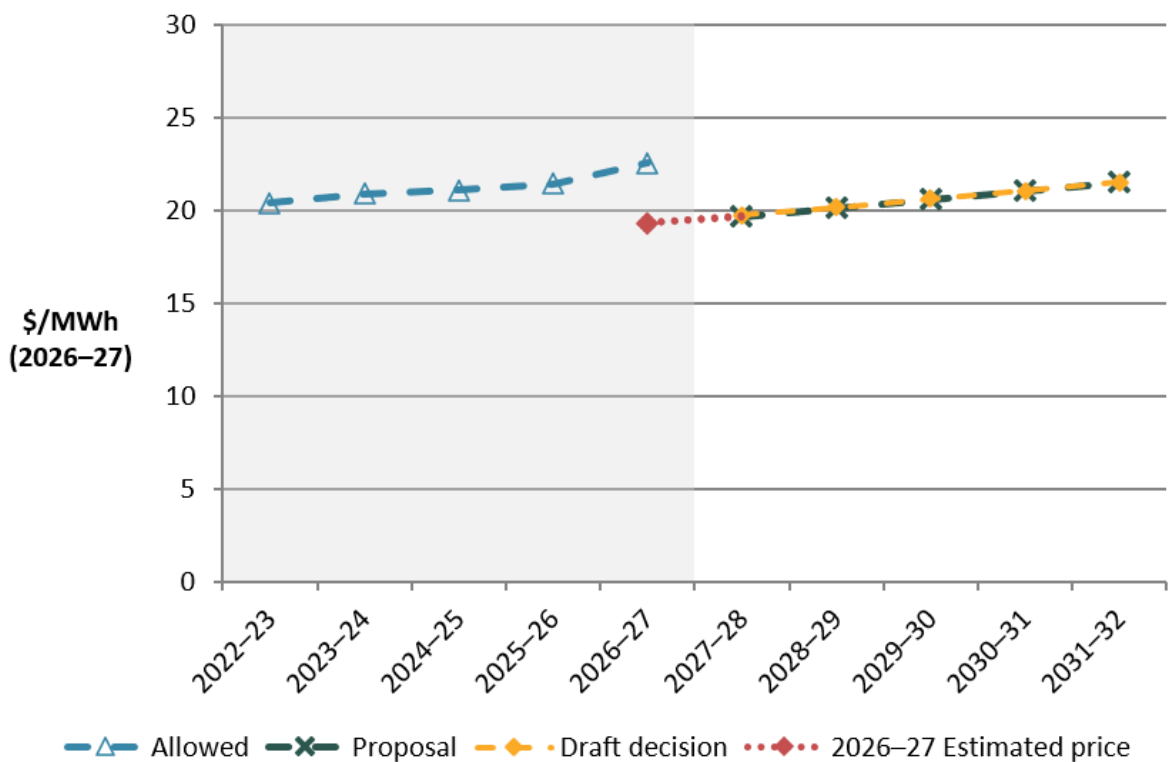
For this draft decision, we have estimated some indicative average transmission price impacts flowing from our determination on the expected MAR for Powerlink over the 2027–32 period. These indicative price impacts assume that actual energy consumption across the 2027–32 period matches forecast energy consumption used for calculating the indicative price path. We have not factored in any changes arising from performance incentive scheme amounts, cost pass throughs or unders/overs reconciliation that usually occur in the annual revenue adjustment process to come up with the total MAR.

Figure 1.3 shows Powerlink's indicative average transmission price path from the 2022–27 period to the 2027–32 period, in real 2026–27 dollar terms, based on the expected MAR under our draft decision and Powerlink's proposal. The indicative price path is estimated using the expected MAR and dividing by forecast energy consumption for each year of the 2027–32 period.²⁹

²⁸ We will reassess the materiality of the forecast shared asset unregulated revenues for our final decision.

²⁹ We updated Powerlink's proposed energy forecast by converting the Queensland operational sent-out energy forecasts from AEMO's 2025 ESOO to a transmission-delivered basis; AEMO, *National Electricity and Gas forecasting - 2025 Electricity Statement of Opportunities (ESOO)*, Accessed on 28 August 2026; and Powerlink, *Response to AER information request IR#016 Q8 – General Modelling Clarifications*, 15 May 2026, pp 7–9.

Figure 1.3 Indicative transmission price path for Powerlink (\$/MWh, 2026–27)



Source: AER analysis.

Notes: The estimated price for 2026–27 is based on the latest forecast of energy delivered, which is higher than the forecast used to calculate the allowed price path in the 2022–27 final decision.

We estimate that our draft decision on Powerlink’s annual expected revenue will result in an increase to average transmission charges of about 2.2% per annum over the 2027–32 period in real 2026–27 dollar terms, which is largely the same as Powerlink’s proposal.³⁰ This estimate will be subject to ongoing revenue adjustments and changes in energy consumption by consumers during the 2027–32 period.

Table 1.6 shows the indicative price path under Powerlink’s proposal and our draft decision, in nominal terms.

³⁰ In nominal terms, we estimate average transmission charges to increase by 4.7% per annum in our draft decision, reflecting an expected inflation rate of 2.45% per annum as determined in this draft decision. Comparatively, in nominal terms, we estimate average transmission charges to increase by 4.8% per annum under Powerlink’s proposal, reflecting an expected inflation rate of 2.60% per annum in its proposal.

Table 1.6 Comparison of price impact of Powerlink’s proposal and the AER’s draft decision (\$ nominal)

	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32
AER draft decision						
Price path (\$/MWh) ^a	19.3 ^b	20.2	21.2	22.1	23.2	24.3
Price path (change %)	–	4.7%	4.7%	4.7%	4.7%	4.7%
Powerlink’s proposal						
Price path (\$/MWh) ^a	19.3 ^b	20.2	21.2	22.2	23.3	24.5
Price path (change %)	–	4.4%	4.9%	4.9%	4.9%	4.9%

Source: AER analysis; Powerlink, *Powerlink – Post-Tax Revenue Model*, January 2026.

- (a) The price path is in nominal terms and is constructed by dividing the nominal expected MAR by forecast energy consumption for each year of the 2027–32 period.
- (b) Our analysis updates Powerlink’s proposed base year (2026–27) MAR and 2027–32 energy delivered forecast to reflect updated data provided by Powerlink in response to information requests. These updates result in changes to Powerlink’s proposed price path: Powerlink, *Response to AER Information Request #032 – Updated 2026/27 MAR Estimate*, July 2026, p 1; and Powerlink, *Response to AER information request IR#016 Q8 – General Modelling Clarifications*, 15 May 2026, pp 7–9.

1.1.4.5 Expected impact of draft decision on electricity bills

The annual electricity bill for customers in Powerlink’s network reflects the combined cost of all the electricity supply chain components—wholesale energy generation, transmission, distribution, metering and retail costs. This draft decision primarily relates to the transmission charges for Powerlink’s prescribed transmission services, which represent on average approximately 7.7% of residential customers’ annual electricity bills and 7.9% of small business customers’ annual electricity bills in Queensland.³¹

Our draft decision does not include indicative bill impacts as material expenditure remains outside the draft decision, including expenditure associated with the Gladstone Project and the system strength contingent project. We also recognise that aspects of the draft decision may change in response to Powerlink’s revised proposal. Accordingly, any indicative bill impacts estimated at this stage could differ substantially from those presented in the final decision.

³¹ AER analysis; Energex, *2026–27 Pricing Proposal Overview*, 30 March 2026; AER, *Final determination – Default market offer 2026–27*, 26 May 2026. These transmission proportions include GST.

1.2 Regulatory asset base

The regulatory asset base (RAB) is the value of the assets used by Powerlink to provide prescribed transmission services.³² Our transmission determination specifies the RAB as at the commencement of the regulatory control period and the appropriate method for the indexation of the RAB.³³ The indexation of the RAB is one of the building blocks that form the annual building block revenue requirement for each year of the 2027–32 period.³⁴ We set the RAB as the foundation for determining a TNSP's revenue requirements and use the opening RAB for each regulatory year to determine the return on capital and return of capital (regulatory depreciation) building blocks.³⁵

This section presents our draft decision on the opening RAB value as at 1 July 2027 for Powerlink and our forecast of its RAB values over the 2027–32 period. It also presents our draft decision for establishing the RAB as at the commencement of the 2032–37 period using depreciation that is based on forecast capex.³⁶

1.2.1 Draft decision

We determine an opening RAB value of \$8,333.9 million (\$ nominal) as at 1 July 2027 for Powerlink. This value is \$11.3 million (or 0.1%) higher than Powerlink's proposed opening RAB of \$8,322.6 million (\$ nominal) as at 1 July 2027.³⁷ This increase is mainly due to our update to the consumer price index (CPI) input for 2025–26 in the roll forward model (RFM) to reflect more recent data.

We have updated the actual CPI for 2025–26 to 3.63%, based on the December quarter 2025 CPI published by the Australian Bureau of Statistics (ABS), which became available after Powerlink submitted its proposal. This compares with the estimated CPI of 3.30% adopted in Powerlink's proposal. As the RAB must be maintained in real dollar terms through indexing for inflation, the amendment to the CPI input increases the opening RAB value as at 1 July 2027 by \$25.9 million (0.3%) compared to Powerlink's proposal, all else being equal.³⁸

We accept Powerlink's proposed method to use the RFM for calculating the opening RAB. However, we have made several input amendments to ensure that the actual capex, actual disposal and final year asset adjustments are entered correctly in our draft decision RFM consistent with their timing, and that only assets used to provide prescribed transmission services remain in the RAB. These input amendments (in addition to the CPI update discussed above) are set out below:

- We amended Powerlink's 2021–25 actual capex and asset disposal inputs in the RFM to reflect the revised regulatory reporting data submitted by Powerlink, which corrected errors in its historical regulatory reporting.

³² NER, cl. 6A.6.1(a).

³³ NER, cll. 6A.4.2(3A) and (4).

³⁴ NER, cll. 6A.5.4(a)(1) and (b)(1).

³⁵ NER, cll. 6A.5.4(a)(2) and (3).

³⁶ NER, cl. 6A.14.1(5E).

³⁷ Powerlink, *2027–32 – Roll-Forward Model*, January 2026.

³⁸ NER, cll. 6A.5.4(b)(1) and 6A.6.1(e)(3).

- We accept Powerlink’s proposal to remove \$60.0 million in overspend of capex associated with the Advanced Energy Management System (AEMS) replacement project. However, we removed this capex in the years it was incurred in the 2022–27 period, rather than through an aggregate amount for disposal in 2024–25. For AEMS project capex incurred before 2021–22, we removed the CPI adjusted amount from the 2021–22 capex inputs in the RFM.
- We accept Powerlink’s proposal to include land and building capex for the Pinkenba site in the RAB. However, we did not accept Powerlink’s approach to add the capex to the closing RAB at 30 June 2027 through a final year asset adjustment. Instead, we added the capex to the 2024–25 actual capex inputs in the RFM, reflecting our recognition of the capex and associated asset providing prescribed services from June 2025, when the site was acquired.
- We accept Powerlink’s proposal to exclude capex from the RAB for assets repurposed to provide non-prescribed transmission services during the 2022–27 period. However, we did not accept Powerlink’s approach of removing the amount through an asset disposal in 2026–27. Instead, we removed the written-down value of these assets through a negative final year asset adjustment to the closing RAB at 30 June 2027.

The net impact of these updates is a reduction of \$14.7 million to the opening RAB value. This partially offsets the increase of \$25.9 million from the update to the 2025–26 CPI input, resulting in a total net increase of \$11.3 million to the opening RAB compared to Powerlink’s proposal.

To determine the opening RAB as at 1 July 2027, we rolled forward the RAB over the 2022–27 period to determine a closing RAB value as at 30 June 2027 in accordance with our RFM.³⁹ This roll forward process includes an adjustment at the end of the 2022–27 period to account for the difference between actual 2021–22 capex and the estimate approved in the 2022–27 determination.⁴⁰ All other adjustments are applied as part of the final year adjustments at 30 June 2027 to establish the opening RAB at 1 July 2027.⁴¹

We will update the RFM for our final decision to reflect actual 2025–26 capex, revised 2026–27 capex estimates and actual CPI for 2026–27. We will also review Powerlink’s assurance reports on its revised 2021–25 regulatory reporting data, which it will submit with its 2025–26 annual information orders (AIO).

Table 1.7 sets out our draft decision on the roll forward of Powerlink’s RAB over the 2022–27 period.

³⁹ AER, *Electricity transmission network service providers: Roll forward model (version 4.1)*, May 2022.

⁴⁰ The end of period adjustment will be positive (negative) if actual capex is higher (lower) than the estimate approved at the 2022–27 determination.

⁴¹ These end of period adjustments are applied at the end of the final year of the roll forward period, which in this case is 30 June 2027. For Powerlink, this includes the removal of assets repurposed in the 2022–27 period to provide non-prescribed services. Our draft decision on final year adjustments is set out in section 1.2.4.1.

Table 1.7 AER’s draft decision on Powerlink’s RAB for the 2022–27 period (\$ million, nominal)

	2022–23	2023–24	2024–25	2025–26 ^a	2026–27 ^b
Opening RAB	7,157.9	7,603.7	7,780.6	7,903.8	8,158.1
Net capex ^c	220.5	235.5	318.9	361.3	388.2
Inflation indexation on opening RAB ^d	560.6	308.1	188.7	286.6	261.1
Less: straight-line depreciation ^e	335.3	366.7	384.4	393.7	404.9
Interim closing RAB	7,603.7	7,780.6	7,903.8	8,158.1	8,402.4
Difference between estimated and actual capex in 2021–22	–	–	–	–	–47.1
Return on difference for 2021–22 capex	–	–	–	–	–18.4
Final year asset adjustments ^f	–	–	–	–	–3.0
Closing RAB as at 30 June 2027	–	–	–	–	8,333.9

Source: AER analysis.

Notes:

- (a) Based on estimated capex provided by Powerlink. We will update the RAB roll forward for actual capex in the final decision.
- (b) Based on estimated capex provided by Powerlink, with amendments. We expect to update the RAB roll forward with a revised capex estimate in the final decision, and true-up the RAB for actual capex at the next revenue determination.
- (c) As-incurred, net of disposals, and adjusted for actual CPI and half-year weighted average cost of capital (WACC).
- (d) We will update the RAB roll forward for actual CPI for 2026–27 in the final decision.
- (e) Adjusted for actual CPI. Based on forecast as-commissioned capex.
- (f) Includes final year asset adjustments for the removal of assets repurposed in the 2022–27 period to provide non-prescribed services.

We determine a forecast closing RAB value as at 30 June 2032 of \$8,381.7 million (\$ nominal) for Powerlink. This is \$1,583.0 million (15.9%) lower than Powerlink’s proposed closing RAB value of \$9,964.8 million (\$ nominal).⁴² This reduction is primarily driven by our draft decision to reduce Powerlink’s proposed forecast capex (Attachment 2). Our draft decisions on the expected inflation rate (Overview section 2.3) also contributes to the reduction, partially offset by our draft decisions on forecast straight-line depreciation (section 1.3) and the opening RAB as at 1 July 2027 (section 1.2.4.1).⁴³

Table 1.8 sets out our draft decision on the forecast RAB values for Powerlink over the 2027–32 period.

⁴² Powerlink, *2027–32 – Post-Tax Revenue Model*, January 2026.

⁴³ Capex enters the RAB net of forecast disposals. It includes equity raising costs (where relevant) and the half-year WACC to account for the timing assumptions in the PTRM. Therefore, our draft decision on the forecast RAB also reflects our amendments to the rate of return for the 2027–32 period (Overview section 2.2).

Table 1.8 AER’s draft decision on Powerlink’s RAB for the 2027–32 period (\$ million, nominal)

	2027–28	2028–29	2029–30	2030–31	2031–32
Opening RAB	8,333.9	8,291.2	8,300.7	8,341.4	8,392.5
Net capex ^a	201.4	221.9	270.1	299.1	254.7
Inflation on opening RAB	204.2	203.1	203.4	204.4	205.6
Less: straight-line depreciation ^b	448.3	415.6	432.7	452.4	471.1
Closing RAB	8,291.2	8,300.7	8,341.4	8,392.5	8,381.7

Source: AER analysis.

- (a) As-incurred, and net of forecast disposals. Consistent with the timing assumptions in the PTRM, the capex includes a half-year WACC to reflect the six-month period before it is added to the RAB.
- (b) Based on as-commissioned capex.

We accept Powerlink’s proposal that the forecast depreciation approach is to be used to establish the opening RAB at the commencement of the 2032–37 period.⁴⁴ We consider this approach is consistent with the capital expenditure incentive objective in that it will provide sufficient incentives for Powerlink to achieve capex efficiency gains over the 2027–32 period. This approach is also consistent with our *Framework and approach* (F&A) paper.⁴⁵

1.2.2 Overview of proposal

Powerlink used our RFM to establish an opening RAB as at 1 July 2027 and our PTRM to roll forward the RAB over the 2027–32 period. It proposed an opening RAB value as at 1 July 2022 of \$7,157.9 million (\$ nominal). Rolling forward this RAB with actual/estimated capex and using depreciation based on forecast capex approved for the 2022–27 period, Powerlink proposed a closing RAB value of \$8,322.6 million (\$ nominal) as at 30 June 2027. Powerlink’s proposal sets out the details of its RAB roll forward over the 2022–27 period.⁴⁶

Powerlink proposed a forecast closing RAB as at 30 June 2032 of \$9,964.8 million (\$ nominal). This value reflects its proposed opening RAB, forecast capex, expected inflation, and depreciation (based on forecast capex) over the 2027–32 period. Powerlink’s proposal sets out the details of its RAB roll forward over the 2027–32 period.⁴⁷

During pre-lodgement engagement, Powerlink notified us regarding a misallocation of capex between its prescribed and non-prescribed transmission services which it had identified through its internal monitoring and analysis of financial data in 2024. It submitted that the misallocation arose because the growth of its non-prescribed services had not been appropriately reflected in the classification of expenditure between prescribed and non-prescribed services. Powerlink adjusted the capex data in its 2024–25 AIO to correct the misallocations in previous years, rather than restating the corrected capex reported for each

⁴⁴ NER, cl. 6A.14.1(5E); Powerlink, *Powerlink – 2027–32 Revenue Proposal*, January 2026, p 117.

⁴⁵ AER, *Final framework and approach for Powerlink transmission determination 2027–32*, July 2025, p 8.

⁴⁶ Powerlink, *Powerlink – 2027–32 Revenue Proposal*, January 2026, p 111.

⁴⁷ Powerlink, *Powerlink – 2027–32 Revenue Proposal*, January 2026, p 112.

year in which the relevant costs were incurred.⁴⁸ In response to our feedback during pre-lodgement engagement, Powerlink agreed to reverse its error correction approach and instead restate past capex and disposals in its proposal RFM based on the correct amounts for each regulatory year, rather than applying all corrections cumulatively in 2024–25.

Powerlink also proposed to remove \$68.5 million (\$ nominal) of capex associated with its AEMS project from the RAB by recognising the amount as an asset disposal in 2024–25.⁴⁹ This included \$8.6 million in non-prescribed capex associated with the AEMS project which was inadvertently reported as prescribed capex in previous years' regulatory reporting data. The remaining \$60.0 million in proposed disposal relates to Powerlink's overspend incurred between 2018–19 and 2023–24 on prescribed capex associated with the AEMS project, which it does not intend to recover from consumers of its prescribed transmission services.⁵⁰

For the 2026–27 final year (end of period) asset adjustments, Powerlink proposed to add \$36.7 million to the opening RAB for land and building assets associated with its Pinkenba site acquisition in June 2025.⁵¹ Powerlink proposed to classify the Pinkenba site as a non-prescribed asset when it was acquired as the site is only expected to support the provision of prescribed transmission services from the commencement of the 2027–32 regulatory control period.

Powerlink also proposed to remove \$2.8 million from its RAB through a disposal in 2026–27 to recognise existing assets that had been repurposed in 2024–25 to provide non-prescribed transmission services.⁵²

1.2.3 Assessment approach

Appendix A.2 Regulatory asset base – assessment approach sets out our assessment approach for the RAB.

1.2.4 Reasons for draft decision

We determine an opening RAB of \$8,333.9 million (\$ nominal) as at 1 July 2027 for Powerlink, an increase of \$11.3 million (0.1%) from its proposed value. We forecast a closing RAB value of \$8,381.7 million by 30 June 2032. This represents a reduction of

⁴⁸ Powerlink, *Response to AER Information Request #001 – FY25 capital expenditure adjustments*, December 2026, p 2–4.

⁴⁹ Powerlink, *Response to AER Information Request #001 – FY25 capital expenditure adjustments*, December 2026, p 5; Powerlink, *2027–32 – Roll-Forward Model*, January 2026.

⁵⁰ Powerlink, *Response to AER Information Request #026 – Attachment 3 – Restatement of Capex – July 2026 – PUBLIC*, July 2026; Powerlink, *Response to AER Information Request #001 – FY25 capital expenditure adjustments*, December 2026, p 5.

⁵¹ The final year asset adjustments section in the RFM is primarily for adjustments at the end of the current regulatory control period. This section is used when the TNSP needs to adjust its closing RAB by removing or adding assets (such as for a change in service classification) in the final year of the regulatory control period.

⁵² Powerlink updated this amount to \$3.0 million in response to our information request after finding an error in its original calculation; Powerlink, *Response to AER Information Request #016 – General Modelling Clarifications – May 2026 – PUBLIC*, May 2026, p. 5; Powerlink, *2027–32 – Roll-Forward Model*, January 2026.

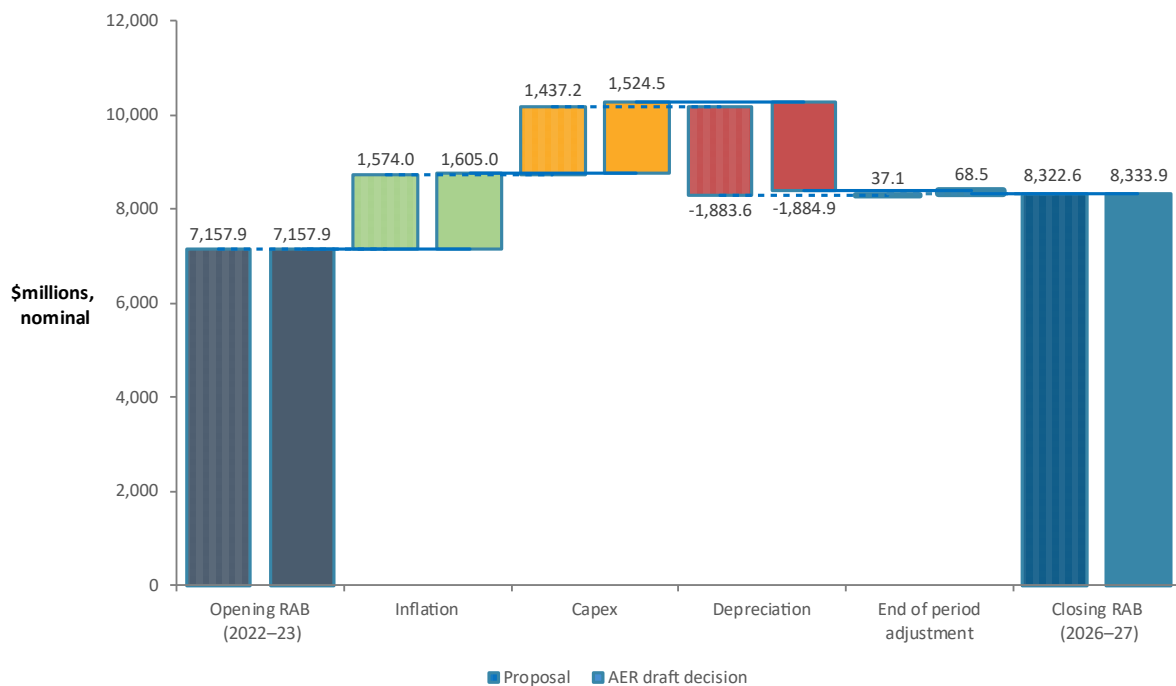
\$1,583.0 million (15.9%) compared with Powerlink’s proposal. The reasons for our draft decision are discussed below.

1.2.4.1 Opening RAB as at 1 July 2027

We determine an opening RAB value of \$8,333.9 million (\$ nominal) as at 1 July 2027, which is \$11.3 million (0.1%) higher than Powerlink’s proposed opening RAB of \$8,322.6 million (\$ nominal).⁵³ This increase is mainly driven by the actual CPI for 2025–26 being higher than Powerlink’s estimate in its proposed RFM, partially offset by other draft decision input amendments we made to the RFM.

Figure 1.4 shows the key drivers of change in Powerlink’s RAB value over the 2022–27 period for this draft decision. The closing RAB value at the end of the 2022–27 period is forecast to be 16.4% higher than the opening RAB at the start of that period, in nominal terms. The new net capex increases the RAB by 21.3%, while inflation indexation increases it by 22.4%. Depreciation, on the other hand, reduces the RAB by 26.3%. End of period adjustments reduce the RAB by 1.0%.

Figure 1.4 Key drivers of changes in the RAB over the 2022–27 period – Powerlink’s proposal compared with the AER’s draft decision (\$ million, nominal)



Source: AER analysis.

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

In the following sections we discuss our assessment of Powerlink’s proposed inputs in the RFM and the ex-post review of 2020–25 capex for RAB roll forward purposes.

⁵³ Powerlink, *Powerlink – 2027–32 Revenue Proposal*, January 2026, p 111.

Key inputs in the RFM

To determine the opening RAB for Powerlink as at 1 July 2027, we have rolled forward the RAB over the 2022–27 period to determine a closing RAB value as at 30 June 2027. In doing so, we reviewed the key inputs of Powerlink’s proposed RFM, such as actual inflation, rate of return, gross capex values, asset disposal values, forecast depreciation, asset lives, and final year asset adjustments.

We found that several of these inputs were generally correct and reconciled with relevant data sources such as ABS data, and the 2022–27 decision models. However, other inputs did not reconcile with the annual regulatory accounts (for 2021–22 to 2023–24) and AIO (for 2024–25).⁵⁴ Therefore, in our draft decision we have amended several of Powerlink’s proposed RFM inputs which we consider require updating with newly available data or require corrections. The amendments to the RFM inputs that affect the opening RAB as at 1 July 2027 are outlined below⁵⁵:

- We updated Powerlink’s estimate of 2025–26 inflation of 3.30% with actual CPI of 3.63%, published by the ABS, which became available after Powerlink submitted its proposal. This value reflects the quarterly CPI series and is calculated using the actual CPI between December 2024 to December 2025. This increases the opening RAB by approximately \$25.9 million, all else being equal.
- We amended Powerlink’s 2021–25 actual capex and asset disposal inputs in the RFM to reflect the revised regulatory reporting data submitted by Powerlink to correct errors in its historical regulatory reporting. This reduces the opening RAB by approximately \$12.8 million, all else being equal.
- We accept Powerlink’s proposal to remove \$60.0 million in overspend related to prescribed capex associated with the AEMS project. However, we removed this capex in the years it was incurred in the 2022–27 period, rather than through an aggregate amount for disposal in 2024–25. For AEMS project capex incurred before 2021–22, we removed the CPI adjusted amount from the 2021–22 capex inputs in the RFM. These amendments reduce the opening RAB by approximately \$6.9 million, all else being equal.
- We accept Powerlink’s proposal to include land and building capex for the Pinkenba site in the RAB. However, we did not accept Powerlink’s approach to add the capex to the closing RAB at 30 June 2027 through a final year asset adjustment. Instead, we added the capex to the 2024–25 actual capex inputs in the RFM, reflecting our recognition of the capex and associated asset providing prescribed services from June 2025, when the site was acquired. This increases the opening RAB by approximately \$5.1 million, all else being equal.
- We accept Powerlink’s proposal to exclude \$2.8 million in capex from the RAB for assets repurposed to provide non-prescribed transmission services during the 2022–27 period. However, we did not accept Powerlink’s approach of removing the amount through an

⁵⁴ At the time of this draft decision, the roll forward of Powerlink’s RAB includes estimated capex values for 2025–26 and 2026–27. We expect to update the 2025–26 estimated capex with actuals in the final decision. We may also update the 2026–27 estimated capex with a revised estimate in the final decision.

⁵⁵ All numbers in this section are in nominal terms.

asset disposal in 2026–27. Instead, we removed the written-down value of these assets through a negative final year asset adjustment to the closing RAB at 30 June 2027. This amendment reduces the opening RAB by a negligible amount, all else being equal.

The total net impact of all these amendments is an increase of \$11.3 million (0.1%) to Powerlink's opening RAB value as at 1 July 2027. Our detailed reasons for the amendments associated with the final four points in the draft decision RFM are discussed below.

Revision of historical regulatory reporting data

Powerlink's proposed inputs for actual capex and disposals in the RFM did not align with the amounts reported in its 2021–22 to 2023–24 regulatory accounts and the 2024–25 AIO. These discrepancies primarily arose because Powerlink had inadvertently included non-prescribed capex in its regulatory accounts for 2021–22 to 2023–24. Further, Powerlink had incorrectly reported actual capex associated with the 'In-house software' and 'Buildings – capital works' asset classes in 2022–23 and 2023–24 in other asset classes. Powerlink adjusted its reporting of actual capex and asset disposal values in the 2024–25 AIO to correct the errors in previous years' (2021–22 to 2023–24) regulatory reporting.

As discussed in section 1.2.2 above, Powerlink notified us during pre-lodgement engagement regarding the misallocation of expenditure in its regulatory reporting. At the time, we advised Powerlink that we were unlikely to accept its adjustments because the data did not reflect the regulatory years in which the relevant capex and asset disposals were incurred or commissioned. This approach distorted the timing of net capex entering the RFM and, consequently, the calculation of the opening RAB. Instead, we considered that the appropriate approach to correcting errors in regulatory reporting was to revise the historical data to restate past capex and disposals based on the correct amounts, rather than applying all corrections cumulatively in future years. This ensures that net capex is rolled into the RAB in the correct years such that the opening RAB appropriately reflects the time value of money.

Powerlink adopted our pre-lodgement feedback and applied our preferred approach in its proposed RFM. Accordingly, the proposed RFM differed from Powerlink's regulatory reporting data, which had not yet been restated to reflect the correct capex and disposal amounts. However, we identified additional issues that required amendment in our draft decision. In particular, Powerlink addressed previously over-reported capex through higher asset disposal values between 2021–22 and 2024–25, rather than by reducing capex in the years in which the expenditure was incurred.⁵⁶ Powerlink's adjustments also did not account for the impact of capitalised movements in provisions on reported capex.

In its response to our information request, Powerlink agreed to further revise its historical regulatory reporting data to address the issues above.⁵⁷ For this draft decision, Powerlink separately provided revised regulatory reporting data for 2021–22 to 2024–25 in response to an information request, and we have used this information to amend the draft decision

⁵⁶ The over-reporting was caused by Powerlink incorrectly apportioning its capex between its regulated and non-regulated business lines for the period between 2021–22 and 2024–25; Powerlink, *Response to AER Information Request #026 – Attachment 3 – Restatement of Capex – July 2026 – PUBLIC*, July 2026

⁵⁷ AER, *Powerlink 2027–32 – Information Request #026 – Restating Ex-Post Capex – 20260610 – [PUBLIC]*, June 2026, pp 1–2.

RFM.⁵⁸ These amendments reduce the opening RAB by approximately \$12.8 million (\$ nominal), all else being equal.

Powerlink has stated that it will provide assurance on the revised regulatory reporting data when it submits the 2025–26 AIO.⁵⁹ For our final decision, we will verify that the amounts used in the revised proposal RFM are consistent with the revised regulatory accounts and AIO.

Removal of AEMS project overspend from the RAB

Powerlink proposed to remove \$60.0 million⁶⁰ (\$ nominal) in overspend incurred between 2018–19 and 2023–24 on prescribed capex associated with the AEMS project from the RAB for the benefit of consumers.⁶¹

While we accept Powerlink's proposal to remove the capex overspend from the RAB, we consider the appropriate treatment in the RFM is to remove the capex from the year in which it was incurred in the RFM. For the capex overspend incurred before the period covered by the RFM (2021–22 to 2026–27), we consider it appropriate to adjust the overspend amount for inflation and remove it from the earliest year available in the RFM, being 2021–22. In its response to our information request, Powerlink raised no concerns with this amendment.⁶²

We consider our draft decision recognises the time value of money when removing the overspend capex from the RAB. These amendments result in an opening RAB as at 1 July 2027 that is approximately \$6.9 million lower than under Powerlink's proposed approach of removing the total overspend as a disposal in 2024–25. Our amendments are based on the revised information Powerlink provided in response to our information requests.⁶³

Treatment of the Pinkenba site acquisition

Powerlink proposed to add \$36.7 million (\$ nominal) to the opening RAB as at 1 July 2027 through a final year asset adjustment in the RFM. Powerlink stated that it will be carrying out demolition and construction activities at its Virginia complex, its headquarters and main operational base, during the 2027–32 period.⁶⁴ Powerlink acquired the 'Pinkenba site' in June 2025 to support operations staff during the redevelopment of the Virginia complex. At

⁵⁸ Powerlink, *Response to AER Information Request #026 – Attachment 3 – Restatement of Capex – July 2026 – PUBLIC*, July 2026.

⁵⁹ Powerlink, *Response to AER Information Request #026 Q1(pt2)–6 – Restatement of Capex – July 2026 – PUBLIC*, July 2026, p 3.

⁶⁰ Powerlink's proposal included a \$68.5 million adjustment to remove AEMS capex from the RAB in 2024–25. Of this amount, \$8.6 million related to non-prescribed AEMS capex that had been incorrectly reported as prescribed capex in earlier regulatory reporting, while the remaining \$60.0 million related to overspending on prescribed AEMS capex; Powerlink, *Response to AER Information Request #026 – Attachment 3 – Restatement of Capex – July 2026 – PUBLIC*, July 2026.

⁶¹ Powerlink, *Response to AER Information Request #001 – FY25 capital expenditure adjustments*, December 2026, p 5.

⁶² Powerlink, *Response to AER Information Request #033 – Follow up on adjustments to RFM*, July 2026, p 2.

⁶³ Powerlink, *Response to AER Information Request #026 Q1(pt3) – Restating Ex-Post Capex*, June 2026, p 2; Powerlink, *Response to AER Information Request #033 – Follow up on adjustments to RFM*, July 2026, p 2.

⁶⁴ Powerlink, *Powerlink 2027–32 Revenue Proposal: Appendix 7.01 Regulatory Asset Base Transfers – PUBLIC*, January 2026, p 1; Powerlink, *Response to AER Information Request #016 – General Modelling Clarifications – May 2026 – PUBLIC*, May 2026, pp 3–4.

the time of purchase, Powerlink stated that it designated these assets as non-prescribed services to ensure that customers would not fund the assets before they began delivering prescribed services.⁶⁵ Therefore, Powerlink proposed to add \$36.7 million to the opening RAB representing the prescribed services portion of land and building assets related to the Pinkenba site from 1 July 2027, as it anticipated that these assets would be providing prescribed services during the 2027–32 period.

As discussed in Attachment 2, we do not accept Powerlink's proposal to recognise the Pinkenba assets as providing prescribed services from 1 July 2027. Instead, our draft decision is to recognise these assets as providing prescribed services from when the site was acquired in 2024–25. This is because we consider that Powerlink's acquisition of the Pinkenba site in June 2025 was a strategic land acquisition with the key intended purpose to use the site to support the provision of prescribed transmission services.

Accordingly, our draft decision removes Powerlink's proposed final year adjustment for Pinkenba assets and instead adds the prescribed services portion of Pinkenba to 2024–25 actual capex in the RFM. In making this amendment, we have used a prescribed services allocation of 74% as provided by Powerlink in response to our information request.⁶⁶ We consider the 2024–25 AIO should be revised by Powerlink to recognise the Pinkenba site acquisition as actual capex.

This amendment increases the opening RAB as at 1 July 2027 by approximately \$5.1 million compared to Powerlink's proposal, all else being equal. This is because the Pinkenba assets are recognised in the RAB from 2024–25 at their acquisition value, rather than being added at 30 June 2027 at a lower depreciated value. The assets also receive approximately two years of inflation indexation before 30 June 2027, further increasing the opening RAB. However, this treatment results in higher actual capex relative to forecast capex in 2024–25 and, consequently, a higher CESS penalty (Attachments 2 and 6).

Treatment of service classification changes

Powerlink proposed to remove \$2.8 million⁶⁷ (\$ nominal) from its RAB through a disposal in 2026–27 to recognise existing assets that had been repurposed to provide non-prescribed transmission services.⁶⁸ The assets were originally capitalised in June 2012 and had previously formed part of Powerlink's prescribed transmission network. Powerlink advised that these assets ceased providing prescribed transmission services in March 2025 and were repurposed to support non-prescribed transmission activities associated with customer connections.⁶⁹ Powerlink stated that it has treated this service classification change as an asset disposal, rather than as a final year adjustment in the RFM, because this was the

⁶⁵ Powerlink, *Powerlink 2027–32 Revenue Proposal: Appendix 7.01 Regulatory Asset Base Transfers – PUBLIC*, January 2026, p 1.

⁶⁶ Powerlink, *Response to AER Information Request #016 – General Modelling Clarifications – May 2026 – PUBLIC*, May 2026, p 4.

⁶⁷ Powerlink updated this amount to \$3.0 million in response to our information request after finding an error in its original calculation; Powerlink, *Response to AER Information Request #016 – General Modelling Clarifications – May 2026 – PUBLIC*, May 2026, p 5.

⁶⁸ Powerlink, *Powerlink – 2027–32 Revenue Proposal*, January 2026, p 112.

⁶⁹ Powerlink, *Response to AER Information Request #016 – General Modelling Clarifications – May 2026 – PUBLIC*, May 2026, p 5.

approach applied at the 2022–27 revenue determination in the RFM for similar repurposed assets in the 2017–22 period.⁷⁰

We consider that a change in service classification, in the absence of proceeds from sale at the time of transfer, should be treated as a final year asset adjustment, rather than an asset disposal. This is consistent with the approach described in the RFM handbook and our recent determinations made since Powerlink's 2022–27 determination.⁷¹ However, we recognise that at the 2022–27 determination we accepted the alternative approach proposed by Powerlink to remove these assets via an asset disposal in 2021–22.⁷² Therefore, our draft decision is to:

- continue to recognise historical assets that changed service classification in the 2017–22 period as an asset disposal in 2021–22 to give effect to our 2022–27 determination and ensure the assets are removed from the RAB in the 2021–22 true-up in the RFM. However, we have updated the proposed disposal amount to remove half-year inflation to bring it to 2021–22 nominal mid-year terms, consistent with the RFM input requirements. Powerlink did not raise any concerns with this adjustment to 2021–22 disposals.⁷³
- reverse Powerlink's proposed disposal in 2026–27 for assets changing service classification to provide non-prescribed services in the 2022–27 period. We instead include a negative final year asset adjustment in the RFM to remove the written-down value of the affected assets from the RAB at 30 June 2027. In its response to our information request, Powerlink did not raise any concerns with this approach.⁷⁴

The amendment to the treatment of service classification changes in the draft decision RFM reduces the opening RAB by a negligible amount compared to Powerlink's proposal.⁷⁵

Ex post review of 2020–25 capex

We consider the extent to which our roll forward of the RAB to 1 July 2027 contributes to the achievement of the capital expenditure incentive objective.⁷⁶ In the 2022–27 transmission determination, we noted that capex for 2020–21 and 2021–22 would form part of the review period for assessing whether past capex should be excluded for inefficiency reasons in this

⁷⁰ AER, *AER – Final decision – Powerlink transmission determination 2022–27 – Roll forward model* – April 2022, April 2022.

⁷¹ AER, *Final decision – Electricity transmission network service providers – Roll forward model handbook*, April 2020, p 22; AER, *Final decision – ElectraNet transmission determination 2023–28, Attachment 2: Regulatory asset base*, April 2023, p 5; AER, *Draft decision – ElectraNet transmission determination 2023–28, Attachment 2: Regulatory asset base*, April 2023, pp 12–13.

⁷² AER, *Final decision – Powerlink transmission determination 2022–27 – Roll forward model*, April 2022; Powerlink, *Response to AER Information Request #002 – RFM Modelling*, March 2021.

⁷³ Powerlink, *Response to AER Information Request #029 – Service Reclassification – July 2026 – PUBLIC*, July 2026, p 3.

⁷⁴ Powerlink, *Response to AER Information Request #029 – Service Reclassification – July 2026 – PUBLIC*, July 2026, p 2; Powerlink, *Response to AER Information Request #033 – Follow up on adjustments to RFM*, July 2026, p 2.

⁷⁵ Reduction of less than \$10,000.

⁷⁶ NER, cll. 6A.14.2(b) and 6A.5A(a).

transmission determination.⁷⁷ The capex for 2022–23 to 2024–25 also forms part of the review period.

Consistent with the requirements of the NER, we have excluded the final 2 years of the 2022–27 period from the review of past capex for this transmission determination.⁷⁸ This approach ensures that actual capex (instead of estimated capex) is available when the review of past capex is undertaken.

As discussed in Attachment 2, Powerlink’s total actual capex incurred from 2020–21 to 2024–25 is above the forecast allowance set in the 2017–22 and 2022–27 determinations. Therefore, the overspending requirement for an efficiency review of past capex has been satisfied.⁷⁹ However, for the reasons discussed in Attachment 2, we consider the capex incurred in those years is consistent with the capex criteria and can therefore be included in the RAB.⁸⁰

Further, for the purposes of this draft decision, we have included estimated capex for 2025–26 and 2026–27 in the RAB roll forward to 1 July 2027. At the next determination, this capex will form part of the review period for assessing whether past capex should be excluded for inefficiency reasons.⁸¹

Our RAB roll forward applies the incentive framework approved in the 2022–27 determination, which included the use of a forecast depreciation approach in combination with the application of the CESS.⁸² We therefore consider that the 2022–27 RAB roll forward results in an opening RAB as at 1 July 2027 that reflects prudent and efficient costs, in accordance with the capex criteria.⁸³

1.2.4.2 Forecast closing RAB as at 30 June 2032

We forecast a closing RAB of \$8,381.7 million (\$ nominal) by 30 June 2032 for Powerlink, which represents a reduction of \$1,583.0 million (15.9%) compared to its proposal of \$9,964.8 million (\$ nominal). This reduction reflects our draft decision on the inputs used to determine the forecast RAB in the PTRM.

The change in the size of the RAB over the 2027–32 period depends on our assessment of key components including forecast depreciation (section 1.3), expected inflation (Overview section 2.3) and forecast capex (Attachment 2). Inflation and capex increase the RAB, while depreciation and disposals reduce it.

⁷⁷ AER, *Draft decision: Powerlink Queensland transmission determination 2022 to 27 – Attachment 2 – Regulatory asset base*, September 2021, p 10.

⁷⁸ NER, cl. S6A.2.2A(a1).

⁷⁹ NER, cl. S6A.2.2A(c).

⁸⁰ NER, cl. S6A.2.2A(f).

⁸¹ Here, 'inefficiency' of past capex refers to three specific assessments (labelled the overspending, margin and capitalisation requirements) detailed in NER, cl. S6.2.2A. The details of our ex-post assessment approach for capex are set out in AER, *Capital expenditure incentive guideline for electricity network service providers*, July 2024, pp 12–19.

⁸² AER, *Draft decision: Powerlink Queensland transmission determination 2022 to 27 – Attachment 2 – Regulatory asset base*, September 2021, p 20.

⁸³ NER, cll. 6A.5A(a), 6A.6.7(c) and 6A.14.2(b).

To determine the forecast RAB value for Powerlink, we amended the following PTRM inputs:

- increased the opening RAB as at 1 July 2027 by \$11.3 million (\$ nominal) or 0.1% (section 1.2.4.1).
- reduced the expected inflation rate from 2.60% per annum to 2.45% per annum over the 2027–32 period (Overview section 2.3), which in turn reduced indexation of the RAB by \$143.9 million (\$ nominal) or 12.4% over the 2027–32 period.⁸⁴
- reduced Powerlink’s proposed forecast capex for the 2027–32 period by \$1,489.5 million (\$ nominal) or 54.4% (Attachment 2).⁸⁵ Forecast net capex is a key driver of RAB growth over the 2027–32 period. We received submissions from the RPRG and CCP34 which highlighted that the significant capex uplift proposed by Powerlink is a key driver of RAB growth and revenue.⁸⁶ Our review of Powerlink’s forecast capex is set out in Attachment 2 of this draft decision.
- reduced forecast straight-line depreciation for the 2027–32 period by \$39.0 million (\$ nominal) or 1.7% (section 1.3).

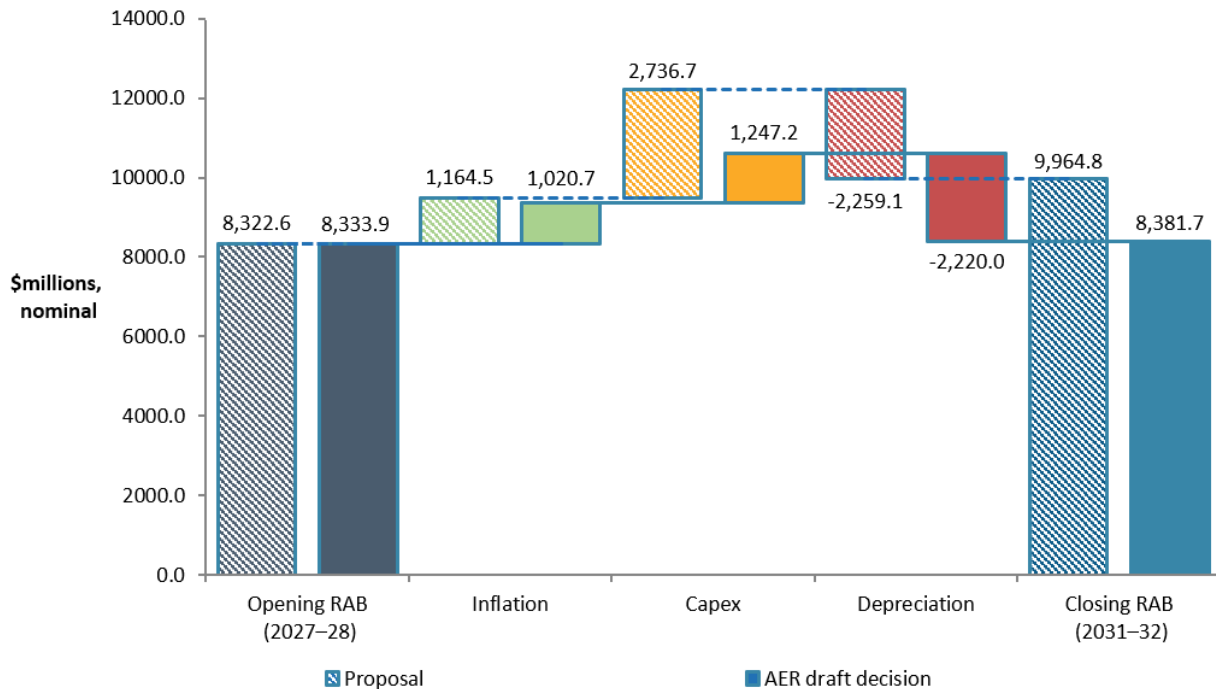
Figure 1.5 shows the key drivers of the change in Powerlink’s RAB over the 2027–32 period for this draft decision. Overall, the closing RAB value at the end of the 2027–32 period is forecast to be 0.6% higher than the opening RAB at the start of that period, in nominal terms. The approved forecast net capex increases the RAB by 15.0%, while expected inflation increases it by 12.2%. Forecast depreciation, on the other hand, reduces the RAB by 26.6%.

⁸⁴ The reduction in the indexation of the RAB is largely due to the lower expected inflation rate and reductions in forecast capex.

⁸⁵ Capex is net of forecast disposals, and inclusive of half-year WACC adjustment.

⁸⁶ RPRG, [Submission – Powerlink 2027–32 electricity transmission revenue proposal](#), May 2026, p 7; CCP34, [Submission – Powerlink 2027–32 electricity transmission revenue proposal](#), May 2026, pp 1, 17.

Figure 1.5 Key drivers of changes in the RAB over the 2027–32 period – Powerlink’s proposal compared with the AER’s draft decision (\$ million, nominal)



Source: AER analysis.

Notes: Capex is net of forecast disposals. It is inclusive of the half-year WACC to account for the timing assumptions in the PTRM.

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

We determine that the depreciation approach to establish Powerlink’s opening RAB at the commencement of the 2032–37 period will be based on the depreciation schedules (straight-line) using forecast capex at the asset class level approved for the 2027–32 period. We consider this approach will provide sufficient incentives for Powerlink to achieve capex efficiency gains over the 2027–32 period.⁸⁷

Powerlink proposed to use the forecast depreciation approach to roll forward its RAB for the commencement of the 2032–37 period.⁸⁸ We note that this approach is consistent with the final F&A.⁸⁹

We have applied forecast depreciation when rolling forward the opening RAB at the commencement of the 2027–32 period (section 1.2.4.1). Applying the same approach for the 2032–37 period therefore maintains consistency with our current approach.

As discussed in Attachment 6, Powerlink is subject to the CESS for the 2022–27 period, and this will continue over the 2027–32 period. We consider that the CESS will provide sufficient incentives for Powerlink to achieve capex efficiency gains over that period. We are satisfied

⁸⁷ NER, cl. 6A.14.1(5E) and S6A.2.2B.

⁸⁸ Powerlink, *Powerlink – 2027–32 Revenue Proposal*, January 2026, p 117.

⁸⁹ AER, *Final framework and approach for Powerlink transmission determination 2027–32*, July 2025, p 8.

that the CESS, together with the use of a forecast depreciation approach and other ex-post capex measures, provides sufficient incentives to achieve the capex incentive objective.⁹⁰

⁹⁰ Our ex-post capex measures are set out in the capex incentives guideline, AER, *Capital expenditure incentive guideline for electricity network service providers*, August 2025, pp 17–22. The guideline also sets out how all our capex incentive measures are consistent with the capex incentive objective.

1.3 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 Powerlink, we make determinations on the indexation of the RAB and depreciation building blocks for Powerlink's 2027–32 period.⁹¹ The regulatory depreciation amount is the net total of the straight-line depreciation less the indexation of the RAB.

This section sets out our draft decision on the regulatory depreciation amount for Powerlink. It also presents our draft decision on the proposed depreciation schedules, including an assessment of the proposed standard asset lives used for calculating straight-line depreciation.

1.3.1 Draft decision

We determine a regulatory depreciation amount of \$1,199.4 million (\$ nominal) for Powerlink for the 2027–32 period. This is \$104.8 million (9.6%) higher than Powerlink's proposed \$1,094.5 million (\$ nominal),⁹² primarily due to our draft decision on a lower expected inflation, which reduces indexation on the RAB, and a higher opening RAB (section 1.2), which slightly increases straight-line depreciation. This is partly offset by our lower forecast capex (Attachment 2), which reduces straight-line depreciation and indexation of the RAB.

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 Powerlink's opening RAB as at 1 July 2027 (section 1.2), forecast capex (Attachment 2) and asset lives (section 1.3.4.2). Our draft decision straight-line depreciation for Powerlink is \$39.0 million (1.7%) lower than its proposal due to lower forecast capex in our draft decision compared to Powerlink's proposal.

The indexation on the RAB is impacted by our decision on Powerlink's opening RAB (section 1.2), forecast capex (Attachment 2) and the expected inflation rate (Overview section 2.3). Our draft decision indexation on Powerlink's forecast RAB is \$143.9 million (12.4%) lower than its proposal. This is largely due to applying a lower expected inflation rate of 2.45% per annum for this draft decision compared with the 2.60% per annum that Powerlink applied in its proposal.

As the reduction in indexation of the RAB exceeds the reduction in straight-line depreciation, regulatory depreciation is higher than Powerlink's proposal.

For our draft decision on Powerlink's regulatory depreciation:

- We accept Powerlink's proposed straight-line depreciation method for calculating the regulatory depreciation amount.

⁹¹ Under cl. 6A.5.4 of the NER, the annual building block revenue requirement for a TNSP for each regulatory year of a regulatory control period must be determined using a building blocks approach, under which one of the building blocks is depreciation for that year. The depreciation for each regulatory year must be calculated in accordance with cl. 6A.6.3 of the NER.

⁹² Powerlink, *2027–32 Revenue Proposal*, January 2026, p 118; Powerlink, *2027–32 – Post-Tax Revenue Model*, January 2026.

- We accept Powerlink's proposal to continue applying the year-by-year tracking approach to calculate straight-line depreciation of its existing assets and forecast capex (section 1.3.4.1). We have updated Powerlink's proposed adjustment to the 2027–32 'Substations secondary systems' asset class in the depreciation tracking module for depreciation deferred from the 2022–27 period. The adjustment has been increased from \$44.0 million to \$54.3 million to reflect the updated rolled-forward value of the deferred depreciation as at 1 July 2027.
- We accept Powerlink's proposal to retain its existing asset classes and standard asset lives for use in the 2027–32 period (section 1.3.4.2).

We also made determinations on other components of Powerlink's proposal that affect forecast regulatory depreciation, including the opening RAB as at 1 July 2027 (section 1.2), expected inflation (Overview section 2.3), and forecast capex (Attachment 2), and their effect on the projected RAB over the 2027–32 period.⁹³

Table 1.9 sets out our draft decision on the annual regulatory depreciation for Powerlink's 2027–32 period.

Table 1.9 AER's draft decision on Powerlink's forecast depreciation for the 2027–32 period (\$ million, nominal)

	2027–28	2028–29	2029–30	2030–31	2031–32	Total
Straight-line depreciation	448.3	415.6	432.7	452.4	471.1	2,220.0
Less: inflation indexation on opening RAB	204.2	203.1	203.4	204.4	205.6	1,020.7
Regulatory depreciation	244.1	212.4	229.3	248.1	265.4	1,199.4

Source: AER analysis.

1.3.2 Overview of proposal

Powerlink proposed a regulatory depreciation amount of \$1,094.5 million (\$ nominal) for the 2027–32 regulatory period.⁹⁴ To calculate this amount, Powerlink proposed to use:⁹⁵

- the straight-line depreciation method employed in the AER's PTRM
- the closing RAB value as at 30 June 2027 derived from the AER's RFM
- its proposed forecast capex for the 2027–32 regulatory period
- an expected inflation rate of 2.60% per annum

⁹³ Capex enters the RAB net of forecast disposals. It includes equity raising costs (where relevant) and a half-year WACC to reflect the timing assumptions in the PTRM. Our draft decision on the RAB (section 1.2) also reflects the updated WACC for the 2027–32 period.

⁹⁴ Powerlink, *2027–32 Revenue Proposal*, January 2026, p 118; Powerlink, *2027–32 – Post-Tax Revenue Model*, January 2026; Powerlink, *2027–32 – Roll-Forward Model*, January 2026; Powerlink, *2027–32 – Depreciation Tracking Module*, January 2026.

⁹⁵ Powerlink, *2027–32 – Post-Tax Revenue Model*, January 2026; Powerlink, *2027–32 – Roll-Forward Model*, January 2026; Powerlink, *2027–32 – Depreciation Tracking Module*, January 2026.

- the AER's year-by-year tracking depreciation module in the RFM to calculate forecast straight-line depreciation of the opening RAB at 1 July 2027
- the same asset classes and standard asset lives for depreciating its forecast capex for the 2027–32 period as those approved in the 2022–27 determination.

Powerlink's proposal sets out the details of its regulatory depreciation forecast for the 2027–32 period.⁹⁶

1.3.3 Assessment approach

Appendix A.3 Regulatory depreciation – assessment approach sets out our assessment approach for regulatory depreciation.

1.3.4 Reasons for draft decision

We accept Powerlink's proposed straight-line depreciation method for calculating regulatory depreciation as set out in the PTRM. However, our draft decision results in a regulatory depreciation amount of \$1,199.4 million (\$ nominal), compared with Powerlink's proposed \$1,094.5 million.

This increase is primarily driven by our draft decision to adopt a lower expected inflation rate of 2.45% per annum for the 2027–32 period compared to Powerlink's proposal of 2.60% (Overview section 2.3), which reduces indexation on the RAB.⁹⁷ Our draft decision on a higher opening RAB at 1 July 2027 (section 1.2) increases straight-line depreciation. This is partly offset by our lower forecast capex (Attachment 2), which reduces straight-line depreciation.⁹⁸ We have also made other amendments to inputs in the year-by year tracking depreciation module, which further affect the regulatory depreciation amount.

In the following sections, we discuss our assessment of Powerlink's proposal to continue using the year-by-year tracking approach and its proposed standard asset lives.

1.3.4.1 Year-by-year tracking approach

Powerlink proposed to continue using the year-by-year tracking approach for calculating the straight-line depreciation of its existing assets, consistent with that approved for the previous determination applying to the 2022–27 period.⁹⁹ We consider that this approach meets the requirements of the NER because it results in depreciation schedules that:¹⁰⁰

- reflect the nature of the assets and their economic lives
- ensure total depreciation (in real terms) equals the initial value of the assets

⁹⁶ Powerlink, *2027–32 Revenue Proposal*, January 2026, p 118.

⁹⁷ Regulatory depreciation is calculated as straight-line depreciation less indexation of the RAB. A lower expected inflation rate reduces indexation of the RAB and therefore increases regulatory depreciation, all else being equal.

⁹⁸ While lower forecast capex reduces both straight-line depreciation and indexation of the RAB over the 2027–32 period, the net impact is a reduction in regulatory depreciation, all else being equal.

⁹⁹ Powerlink, *2027–32 Revenue Proposal*, January 2026, pp 118–119.

¹⁰⁰ NER, cl. 6A.6.3(b).

- allow the economic lives of existing assets to be consistent with those determined on a prospective basis in our 2022–27 transmission determination.

Powerlink used our depreciation module in the RFM to implement year-by-year tracking. We have reviewed its application and updated the relevant inputs to reflect the relevant amendments to the RFM, as discussed in section 1.2.4.1. We have made an additional amendment to the depreciation tracking module to correctly calculate the depreciation on the opening RAB value of the ‘Substations secondary systems’ asset class.

Substations secondary systems 2022–27 asset life extension

In our 2022–27 determination, we accepted Powerlink’s proposed extension of the remaining asset life for the existing value of assets in Powerlink’s ‘Substations secondary systems’ asset class from 4.8 years to 6 years as at 1 July 2022.¹⁰¹ This reduced the straight-line depreciation recovered during the 2022–27 period for this asset class and deferred a portion of depreciation to the 2027–32 period. At the time of the 2022–27 determination, the asset life extension deferred approximately \$44.0 million (\$2021–22) of straight-line depreciation to 2027–28 that would otherwise have been recovered by 30 June 2027.¹⁰²

Powerlink’s 2027–32 proposed depreciation tracking module included an adjustment to recognise this deferred depreciation by adding \$44.0 million to the ‘Substations secondary systems’ asset class in 2027–28. However, we have corrected this adjustment to \$54.3 million to reflect the value of the deferred depreciation in 2026–27 dollar terms as per the PTRM input requirements. The adjustment reflects the roll-forward of the deferred amount to 1 July 2027, which includes the effects of inflation indexation and the rate of return applied over the 2022–27 period. This amendment increases straight-line depreciation in our draft decision relative to Powerlink’s proposal, all else being equal.

1.3.4.2 Standard asset lives

We accept Powerlink’s proposed standard asset lives for all its existing asset classes. Powerlink proposed to retain the same asset classes and standard asset lives approved for the current 2022–27 period and did not propose any new asset classes.¹⁰³ We consider these standard asset lives remain appropriate because they are consistent with our previous determinations and continue to reflect the economic lives of the relevant transmission assets. They are also broadly comparable with the standard asset lives used by other network businesses for similar asset classes.

Our draft decision PTRM sets out Powerlink’s standard asset lives for each asset class used to calculate depreciation over the 2027–32 period.¹⁰⁴ We note that the asset classes assigned a standard asset life of ‘n/a’ (not applicable) are those where allocated capex is either not subject to depreciation or where no forecast capex is allocated.

¹⁰¹ AER, *Draft decision – Powerlink Queensland Transmission Determination 2022 to 2027 Attachment 4 Regulatory depreciation*, September 2021, p 11.

¹⁰² AER, *Final decision – Powerlink transmission determination 2022–27 - Depreciation Tracking Module*, April 2022.

¹⁰³ Powerlink, *2027–32 Revenue Proposal*, January 2026, p 119.

¹⁰⁴ AER, *Draft decision – Powerlink transmission determination 2027–32 – PTRM*, September 2026.

We are satisfied that our draft decision on depreciation conforms with the NER because:¹⁰⁵

- the standard asset lives and depreciation approach lead to depreciation schedules that reflect the nature of the assets over their economic lives
- the sum of the real value of depreciation attributable to the assets is equivalent to the value at which those assets were first included in the RAB
- the asset lives, depreciation methods and depreciation rates underpinning the calculation of depreciation are consistent with those determined for the same assets on a prospective basis.

¹⁰⁵ NER, cll. 6A.6.3(b)(1)–(3).

1.4 Corporate income tax

Our determination of the annual building block revenue requirement includes the estimated cost of corporate income tax for Powerlink's 2027–32 period.¹⁰⁶ Under the post-tax framework, the cost of corporate income tax is calculated as part of the building block assessment using our PTRM. This amount allows Powerlink to recover the costs associated with the estimated corporate income tax payable during the 2027–32 period.

This section presents our assessment of Powerlink's proposed corporate income tax amount over the 2027–32 period. It also presents our draft decision on the key inputs used to calculate that amount, including the opening tax asset base (TAB), forecast immediately expensed capex and standard tax asset lives used to estimate tax depreciation for the purpose of calculating tax expenses.

1.4.1 Draft decision

We determine an estimated cost of corporate income tax amount of \$129.1 million (\$ nominal) for Powerlink over the 2027–32 period. This is \$30.1 million (30.4%) higher than Powerlink's proposed estimated cost of corporate income tax amount of \$99.0 million. The increase is primarily due to higher regulatory depreciation and lower tax depreciation¹⁰⁷ (a deductible tax expense) in our draft decision which increases the taxable income.

Table 1.10 sets out our draft decision on the annual estimated cost of corporate income tax for Powerlink's 2027–32 period.

Table 1.10 AER's draft decision on Powerlink's cost of corporate income tax for the 2027–32 period (\$ million, nominal)

	2027–28	2028–29	2029–30	2030–31	2031–32	Total
Tax payable	65.0	54.4	55.5	58.5	66.9	300.3
Less: value of imputation credits	37.0	31.0	31.6	33.3	38.1	171.1
Net cost of corporate income tax	27.9	23.4	23.9	25.2	28.8	129.1

Source: AER analysis.

For our draft decision on Powerlink's estimated cost of corporate income tax:

- We determine an opening TAB value of \$4,212.4 million (\$ nominal) as at 1 July 2027 for Powerlink. This is \$22.9 million (0.5%) lower than Powerlink's proposed opening TAB of \$4,235.3 million (\$ nominal). This reduction primarily reflects higher actual tax depreciation in our draft decision, resulting from corrections to inputs in Powerlink's proposed depreciation tracking module, as well as our amendments to actual capex, disposal, and final year asset adjustment inputs in the RFM, consistent with our RAB roll forward approach (section 1.4.4.1).

¹⁰⁶ NER, cl. 6A.5.4(a)(4).

¹⁰⁷ The lower forecast capex and forecast immediate expensing of capex in our draft decision result in a reduction in tax depreciation.

- We accept Powerlink's proposed approach to forecasting immediately expensed capex, as it is generally consistent with its 2022–27 determination and based on the actual immediately expensed capex reported for the period 2021–22 to 2024–25. However, we have updated the forecast amount to reflect our draft decision on the total forecast capex. This results in forecast immediately expensed capex of \$220.9 million (\$2026–27) for the 2027–32 period, which is \$130.0 million lower than Powerlink's proposal (section 1.4.4.2).
- We accept Powerlink's proposal to exempt forecast capex associated with buildings (capital works) and in-house software from the diminishing value tax depreciation method. This maintains the approach approved in the 2022–27 determination and so these assets will continue to be depreciated using the straight-line method for tax purposes (section 1.4.4.3).
- We accept Powerlink's proposal to continue using the year-by-year depreciation tracking method, as set out in our depreciation module in the RFM, to calculate forecast tax depreciation of its existing assets (section 1.4.4.4).
- We accept Powerlink's proposed standard tax asset lives for its existing asset classes for the 2027–32 period. The proposed standard tax asset lives are broadly consistent with those prescribed by the Commissioner of Taxation in Australian Taxation Office (ATO) Legislative Instrument 2025/20 and/or are unchanged from those approved for the 2022–27 period (section 1.4.4.5).¹⁰⁸

Our draft decisions on the return on capital (section 1.2, Attachment 2 and Overview section 2.3) and regulatory depreciation (section 1.3) building blocks affect Powerlink's estimated taxable income and therefore the calculation of the estimated cost of corporate income tax.

1.4.2 Overview of proposal

Powerlink proposed an estimated cost of corporate income tax of \$99.0 million (\$ nominal) for the 2027–32 period, calculated using the PTRM¹⁰⁹ and the following inputs:¹¹⁰

- an opening TAB of \$4,235.3 million (\$ nominal) as at 1 July 2027
- an expected statutory income tax rate of 30% per annum
- a value of imputation credits (gamma) of 0.57
- forecast immediately expensed capex of \$350.9 million (\$2026–27)
- tax depreciation of the opening TAB as at 1 July 2027 for each asset class, applying the year-by-year tracking approach calculated in the depreciation module of the RFM, with a commencement date of 2017–18

¹⁰⁸ ATO, *Legislative Instrument LI 2025/20 – Schedule 2–Effective Life Tables A and B*, October 2025.

¹⁰⁹ Our published electricity PTRM applies the diminishing value tax depreciation approach for new assets, except for buildings (capital works) and in-house software. All assets acquired prior to 1 July 2022 will continue to be depreciated using the straight-line depreciation method for regulatory tax purposes, until these assets are fully depreciated. The PTRM also allows for the immediate expensing of certain capital expenditure for tax purposes.

¹¹⁰ Powerlink, *2027–32 – Post-Tax Revenue Model*, January 2026.

- the same standard tax asset lives for tax depreciation purposes of new capex in its existing asset classes for the 2027–32 period as those approved for the 2022–27 determination.

Powerlink's proposal sets out the details of its estimated cost of corporate income tax for the 2027–32 period.¹¹¹

1.4.3 Assessment approach

Appendix A.4 Corporate income tax – assessment approach sets out our assessment approach for the estimated cost of corporate income tax.

1.4.4 Reasons for draft decision

We determine an estimated cost of corporate income tax amount of \$129.1 million (\$ nominal) for Powerlink over the 2027–32 period. This is \$30.1 million (30.4%) higher than Powerlink's proposal of \$99.0 million (\$ nominal). The increase is primarily due to higher regulatory depreciation and lower tax depreciation (a deductible tax expense) in our draft decision which increases the taxable income.

We discuss the reasons for our draft decision in the following sections, including our assessment of:

- the opening TAB as at 1 July 2027
- forecast immediately expensed capex
- assets exempt from the diminishing value method for tax depreciation
- the year-by-year tracking approach for tax depreciation
- the standard tax asset lives used for depreciating forecast capex over the 2027–32 period.

Our draft decisions on Powerlink's return on capital (section 1.2, Attachment 2 and Overview section 2.3) and regulatory depreciation (section 1.3) building blocks also affect the forecast cost of corporate income tax through their effect on Powerlink's estimated taxable income.

1.4.4.1 Opening tax asset base as at 1 July 2027

We accept Powerlink's proposed method to establish the opening TAB as at 1 July 2027. Powerlink's proposed approach is based on the AER's RFM and is consistent with the approach approved for the 2022–27 period.

Based on this approach, we determine Powerlink's opening TAB as at 1 July 2027 to be \$4,212.4 million (\$ nominal). This is \$22.9 million (0.5%) lower than Powerlink's proposed opening TAB of \$4,235.3 million. This reduction primarily reflects higher actual tax depreciation in our draft decision, resulting from corrections to inputs in Powerlink's proposed depreciation tracking module.

¹¹¹ Powerlink, *2027–32 Revenue Proposal*, January 2026, p 116; Powerlink, *2027–32 – Post-Tax Revenue Model*, January 2026.

Powerlink's proposal included \$68.5 million of as-decommissioned asset disposals for the AEMS project in 2024–25 in the depreciation tracking module.¹¹² This reduced the net as-commissioned capex in the depreciation tracking module and, in turn, reduced the amount of actual tax depreciation removed from the proposed opening TAB. In its response to our information request, Powerlink confirmed that the AEMS project adjustment should be applied only to as-incurred capex, consistent with the proposed RFM, because the project has not yet been commissioned.¹¹³ Accordingly, the disposal adjustment should not be included in the depreciation tracking module. Our draft decision therefore removes the AEMS adjustment from the depreciation tracking module. This results in higher net as-commissioned capex and higher actual tax depreciation over the 2022–27 period. As actual tax depreciation is deducted in rolling forward the TAB, the higher tax depreciation in our draft decision results in a lower opening TAB than proposed by Powerlink.

Our amendments to align the TAB roll forward with the RFM changes, discussed in section 1.2.4.1, also impact the opening TAB in our draft decision. These amendments include correcting the 2021–25 actual capex and asset disposal inputs for Powerlink's revised historical regulatory reporting, recognising the Pinkenba site acquisition as actual capex in 2024–25, and removing assets repurposed in 2022–27 to provide non-prescribed services from the opening TAB through a negative final year asset adjustment. In its response to our information request, Powerlink agreed with our approach not to apply a CPI adjustment to the written-down value of the repurposed assets before their removal from the TAB, as the TAB (unlike the RAB) is not subject to CPI indexation.¹¹⁴

We will update the opening TAB as at 1 July 2027 as part of the final decision to reflect actual 2025–26 capex, any revised 2026–27 capex estimates and any associated updates to final year asset adjustments.

Table 1.11 sets out the roll forward of Powerlink's TAB over the 2022–27 period under our draft decision.

¹¹² Powerlink, *2027–32 – Depreciation Tracking Module*, January 2026.

¹¹³ Powerlink, *Response to AER Information Request #016 – General Modelling Clarifications – May 2026 – PUBLIC*, May 2026, p 6.

¹¹⁴ *Response to AER Information Request #033 – Follow up on adjustments to RFM*, July 2026, p 2.

Table 1.11 AER's draft decision on Powerlink's TAB roll forward for the 2022–27 period (\$ million, nominal)

	2022–23	2023–24	2024–25	2025–26 ^a	2026–27 ^a
Opening TAB	4,462.4	4,308.9	4,196.2	4,071.3	4,102.0
Capital expenditure ^b	138.7	178.1	177.1	296.8	414.6
Less: tax depreciation	292.2	290.8	302.0	266.1	302.7
Final year asset adjustment ^c	–	–	–	–	–1.5
Closing TAB	4,308.9	4,196.2	4,071.3	4,102.0	4,212.4

Source: AER analysis.

- (a) Based on estimated capex provided by Powerlink. We will update the TAB roll forward for actual capex for 2025–26 and a revised capex estimate for 2026–27 in the final decision.
- (b) As-commissioned, net of disposals.
- (c) Includes final year asset adjustments for the removal of assets providing non-prescribed services.

1.4.4.2 Forecast immediately expensed capex

We accept Powerlink's proposed approach to forecasting immediately expensed capex for the 2027–32 period. However, we have updated the forecast amount to \$220.9 million (\$2026–27), which is \$130.0 million lower than Powerlink's proposal of \$350.9 million.¹¹⁵ This reflects our draft decision to reduce Powerlink's total forecast capex, as discussed in Attachment 2.

Powerlink's forecast immediately expensed capex comprises expenditure that is expected to be immediately deductible for tax purposes rather than depreciated through the TAB. Consistent with the approach applied in the 2022–27 determination, Powerlink estimated these amounts using an actuals-informed approach based on the nature of the expenditure and its historical treatment for tax purposes. This approach is set out in our final position of the tax review and involves forecasting a certain proportion of capex as immediately expensed.¹¹⁶ Powerlink's proposal calculated a forecast immediately expensed proportion of 13.9% based on the average of actual immediate deductions of capitalised overheads in 2021–22 to 2024–25.¹¹⁷

We consider Powerlink's approach remains appropriate because it is consistent with the approach approved in the 2022–27 determination¹¹⁸ and provides a reasonable estimate of immediately deductible capex that is informed by the actual proportion of capex immediately expensed in recent years. Our draft decision therefore retains Powerlink's proposed

¹¹⁵ Powerlink, *2027–32 – Post-Tax Revenue Model*, January 2026.

¹¹⁶ AER, *Final report, Review of regulatory tax approach*, December 2018, p 66.

¹¹⁷ Powerlink, *2027–32 Revenue Proposal*, January 2026, p 116; AER, *Powerlink 2027–32 Revenue Proposal Appendix 1.04 Regulatory Information Notice (RIN) Compliance Checklist*, January 2026, p 12; *Response to AER Information Request #011 – Question 7 – Immediate Expensing*, July 2026, p 3.

¹¹⁸ *Powerlink transmission determination, final decision, 2022 to 2027*, April 2022, p 60; AER, *Powerlink transmission determination, draft decision, 2022–27, Attachment 7 – Corporate income tax*, September 2021, p 14.

methodology while updating the forecast immediately expensed amount to reflect our draft decision on forecast capex.

In its revised proposal, we expect Powerlink to update the forecast proportion of 13.9% to include actual immediately expensed capex reported in the 2025–26 AIO, together with any consequential changes arising from its revisions to actual 2021–25 capex in its historical regulatory reporting data.

1.4.4.3 Assets exempt from the diminishing value method

The PTRM applies the diminishing value method as the regulatory benchmark for tax depreciation of new capital expenditure. However, as discussed in Appendix A.4 Corporate income tax – assessment approach, some assets are exempt from this method under taxation law, including buildings (capital works), in-house software and equity raising costs.¹¹⁹

Powerlink proposed that its forecast capex associated with buildings (capital works) and in-house software continue to be exempt from the diminishing value method for tax depreciation over the 2027–32 period. For the reasons discussed in Appendix A.4.2 Assessing tax inputs to the PTRM, we accept Powerlink's proposal because this forecast capex satisfies the relevant definitions under tax law.¹²⁰ These assets will therefore continue to be depreciated using the straight-line method for tax purposes, consistent with the approach applied in the 2022–27 determination.

1.4.4.4 Year-by-year tracking approach

We accept Powerlink's proposal to continue using the year-by-year tracking method, as set out in our depreciation module in the RFM, to calculate tax depreciation for its existing assets in the TAB as at 1 July 2027.¹²¹

Powerlink first adopted the year-by-year tracking approach for tax depreciation in the 2022–27 period, replacing the weighted average remaining life approach used in previous determinations. The year-by-year tracking approach calculates tax depreciation separately for capex incurred in each regulatory year and is consistent with the diminishing value tax depreciation method implemented following the AER's 2018 tax review.¹²²

Powerlink has proposed to continue applying the year-by-year tracking approach for calculating its tax depreciation over the 2027–32 period. For this draft decision, we amended some inputs in the depreciation module to align with the RFM input amendments discussed in section 1.3.4.1.

¹¹⁹ Asset classes 47, 48, 49 and 50 in the PTRM provide for this. The benchmark equity raising costs is determined within the PTRM and depreciated using the straight-line tax depreciation method as default.

¹²⁰ ATO, *Taxation Ruling 2016/3*, October 2018; ATO, *Taxation Ruling 97/25*, July 2017; ITAA, section 995-1; ITAA, section 43-20.

¹²¹ Under this approach, the capex for each year of a regulatory control period is depreciated individually for tax purposes. It will result in each tax asset class having an expanding list of sub-assets to reflect the regulatory year in which capital expenditures on those assets occurred.

¹²² AER, *Explanatory statement, Electricity transmission and distribution network service providers, Proposed amendments to the roll forward models (Distribution–version 3) (Transmission–version 4)*, December 2019, pp 18–20.

With these amendments, we are satisfied that the continued application of the year-by-year tracking approach provides an appropriate estimate of tax depreciation for a benchmark efficient service provider, consistent with the requirements of the NER.¹²³

1.4.4.5 Standard tax asset lives

We accept Powerlink's proposed standard tax asset lives for its existing asset classes because they are:

- broadly consistent with the tax asset lives prescribed by the Commissioner of Taxation in ATO Legislative Instrument 2025/20¹²⁴
- the same as the approved standard tax asset lives for the 2022–27 period.

Powerlink has not proposed any changes to its existing asset classes or standard tax asset lives for the 2027–32 period. We consider the proposed standard tax asset lives remain appropriate because they continue to reflect the effective lives of the underlying assets and provide a reasonable basis for estimating tax depreciation. The proposed standard tax asset lives are consistent with the ATO Legislative Instrument 2025/20 and with those previously approved by the AER.¹²⁵

Our draft decision PTRM sets out the standard tax asset lives for each asset class over the 2027–32 period.¹²⁶ Asset classes assigned a standard tax asset life of 'n/a' are either not subject to tax depreciation or have no forecast capex allocated to them.

We are satisfied that the standard tax asset lives are appropriate for the 2027–32 period and provide a reasonable basis for estimating tax depreciation, consistent with the tax expenses used to estimate the annual taxable income of a benchmark efficient service provider.¹²⁷

¹²³ Clause 6A.6.4 of the NER sets out the formula we must apply to estimate the cost of corporate income tax. Under that formula, we must estimate the taxable income of a benchmark efficient entity.

¹²⁴ ATO, *Legislative Instrument LI 2025/20–Schedule 2–Effective Life Tables A and B*, October 2025.

¹²⁵ ATO, *Legislative Instrument LI 2025/20–Schedule 2–Effective Life Tables A and B*, October 2025.

¹²⁶ AER, *PTRM – Draft Decision – Powerlink transmission determination 2027–32*, September 2026.

¹²⁷ NER, cl. 6A.6.4.

A Appendix

A.1 Maximum allowed revenue – assessment approach

The annual building block revenue requirement must be determined using a building block approach.¹²⁸ Therefore, we adopt a building block approach when making our decision on the TNSP's total revenue cap and expected MAR for each regulatory year of the regulatory control period. Under this approach, we determine the value of the building block costs that make up the annual building block revenue requirement for each regulatory year. The annual building block revenue requirement for each year is the sum of the building block costs. These building block costs are set out in section 1.

A.1.1 Calculating the annual building block revenue requirement and expected MAR in the PTRM

The expected MAR is calculated using the PTRM.¹²⁹ The PTRM must be such that the expected MAR for each year of the regulatory control period is equal to the NPV of the annual building block revenue requirement.¹³⁰ The total revenue cap is the sum of the MARs for the period.¹³¹

We developed the PTRM, which brings together the various building block costs and calculates the annual building block revenue requirement for each year of the regulatory control period.¹³² The PTRM also calculates the X factors required under the CPI-X methodology which is used to escalate the expected revenue for each year (other than the first year) of the regulatory control period.¹³³ Using the X factors and annual building block revenue requirement, the annual expected MAR (smoothed) is forecast for each year of the regulatory control period. The TNSP's revenue proposal must be prepared using our PTRM.¹³⁴

The annual building block revenue requirement can be lumpy over the regulatory control 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. Smoothing requires diverting some of the cost recovery to adjacent years within the regulatory control period so that the NPV of the annual expected MAR (smoothed revenues) is equal to the NPV of the annual building block revenue requirement (unsmoothed revenues). That is, a smoothed profile of the expected MAR is determined for the regulatory control period under the CPI-X methodology.

¹²⁸ NER, cl. 6A.5.4.

¹²⁹ NER, cll. 6A.5.1 and 6A.5.3.

¹³⁰ NER, cl. 6A.5.3(c)(1).

¹³¹ NER, cl. 6A.5.3(c)(4).

¹³² NER, cl. 6A.5.

¹³³ NER, cll. 6A.5.3 and 6A.6.8.

¹³⁴ NER, cl. 6A.5.1(a).

The expected MAR for the first year is generally set equal to the annual building block revenue requirement for the first year of the regulatory control period. At times, it may be more appropriate to set the expected MAR for the first year to align with the MAR from the last year of the previous regulatory control period to avoid any large revenue variation between periods (or P_0).¹³⁵

$$MAR_1 = AR_1 \text{ or } MAR_L$$

where:

MAR_1 = the maximum allowed revenue for year 1 of the regulatory control period

AR_1 = the annual building block revenue requirement for year 1 of the regulatory control period

MAR_L ~ the maximum allowed revenue for the last year of the previous regulatory control period.

For a determination, we first calculate the annual building block revenue requirement for each year of the regulatory control period. To do this we consider the various costs facing the TNSP and the trade-offs and interactions between these costs, service quality and across years. This reflects our holistic assessment of the TNSP's proposal.

We understand the trade-offs that occur between building block costs and test the sensitivity of these costs to their various driver elements. These trade-offs are discussed in the interrelationships section of the various attachments to this draft decision and are reflected in the calculations made in the PTRM.¹³⁶ Such understanding allows us to exercise judgement in determining the final inputs into the PTRM and the annual building block revenue requirement that result from this modelling.

Section 1.1.4.1 above discusses the process for adjusting the AR and MAR for each year of the regulatory control period.

A.1.2 Revenue smoothing

In determining the total annual building block revenue requirement for the regulatory control period, we smooth the annual building block revenue requirement for each regulatory year across that period. This step reduces revenue variations between years, and calculates the expected MAR and X factor for each year.¹³⁷ The X factors equalise (in NPV terms) the total

¹³⁵ The MAR for year 1 of the next regulatory control period may include adjustment for the performance incentive that applied during the previous regulatory control period, and under or over recovery adjustments from previous regulatory years.

¹³⁶ There are trade-offs that are not modelled in the PTRM but are reflected in the inputs to the PTRM. For example, service quality is not explicitly modelled in the PTRM, but the trade-offs between service quality and price are reflected in the forecast capex and opex inputs to the model. Other trade-offs are obvious from the calculations in the PTRM. For example, while it may be expected that a lower RAB would also lower revenues, the PTRM shows that this will not occur if the reduction in the RAB is due solely to an increase in the depreciation rate. In such circumstances, revenues increase as the increased depreciation more than offsets the reduction in the return on capital caused by the lower RAB.

¹³⁷ NER, cl. 6A.6.8.

expected revenue cap to be earned by the TNSP with the total annual building block revenue requirement for the regulatory control period.¹³⁸ The X factor profile must also minimise, as far as reasonably possible, the variance between the expected MAR and annual building block revenue requirement for the last regulatory year of the period.¹³⁹ By minimising this divergence, it helps to manage the prospect of a significant revenue change (and consequently prices) between the last year of the regulatory control period, and first year of the following regulatory control period. We consider a divergence of up to 3% between the expected MAR and annual building block revenue requirement for the last year of the regulatory control period is reasonable, if this can promote smoother price changes across the regulatory control periods.

A.1.3 Shared assets

TNSPs may use assets to provide both prescribed transmission services we regulate and unregulated services, for example by renting out the transmission tower space for housing of third-party equipment. These assets are called ‘shared assets’.¹⁴⁰ If the revenue from shared assets is material, 10% of the unregulated revenues that a TNSP earns from shared assets will be used to reduce the TNSP’s revenue for prescribed transmission services.¹⁴¹

The shared asset principles establish that use of shared assets should be material before cost reductions are applied.¹⁴² The NER does not define materiality in this context. Our approach to what constitutes a material use of shared assets is that unregulated use of shared assets in a specific regulatory year is material when a TNSP’s annual average unregulated revenue from shared assets is expected to be greater than 1% of its MAR for that regulatory year.¹⁴³

A.2 Regulatory asset base – assessment approach

We roll forward the TNSP’s RAB over the current regulatory control period to arrive at an opening RAB value at the start of the next regulatory control period. This value must be adjusted for any differences between estimated and actual capex, including the return on that difference.¹⁴⁴ It may also be adjusted to reflect any changes in the use of the assets, with only assets used to provide prescribed transmission services to be included in the RAB.¹⁴⁵

A.2.1 Rolling forward the RAB in the RFM

To determine the opening RAB at the start of the next regulatory control period, we developed an asset base RFM that a TNSP must use in preparing its revenue proposal.¹⁴⁶

¹³⁸ NER, cl. 6A.6.8(c)(1). The X factors represent the real revenue path over the regulatory control period under the CPI–X framework.

¹³⁹ NER, cl. 6A.6.8(c)(2).

¹⁴⁰ NER, cl. 6A.5.5.

¹⁴¹ AER, *Shared asset guidelines*, June 2025, Appendix A, p. 17.

¹⁴² NER, cl. 6A.5.5(c)(3).

¹⁴³ AER, *Shared asset guidelines*, June 2025, Appendix A, p. 7.

¹⁴⁴ NER, cl. S6A.2.1(f)(3).

¹⁴⁵ NER, cll. S6A.2.1(f)(6)–(8) and S6A.2.3.

¹⁴⁶ NER, cll. 6A.6.1(b), 6A.6.1(e) and S6A.1.3(5); AER, *Electricity transmission network service providers: Roll forward model version 4.1*, May 2022.

We use the RFM to roll forward the TNSP's RAB from the beginning of the final year of the previous regulatory control period¹⁴⁷, through the current regulatory control period, to the beginning of the next regulatory control period.

The roll forward for each year of the above periods occurs by:

- adding actual inflation (indexation) adjustment to the opening RAB for the relevant year. This adjustment is consistent with the inflation factors used in the annual indexation of the maximum allowed revenue.¹⁴⁸
- adding actual or estimated capex to the RAB for the relevant year.¹⁴⁹ We review a TNSP's past capex and may exclude past capex from being rolled into the RAB where total capex exceeds the regulatory allowance.¹⁵⁰ The details of our assessment approach for capex overspending are set out in the *Capital expenditure incentive guideline*.¹⁵¹ We note that our review of past capex does not include the last two years of the current regulatory control period—these will instead be reviewed at the next revenue determination.¹⁵² We check actual capex amounts against audited annual regulatory accounts or AIO data and generally accept the capex reported in those sources in rolling forward the RAB.¹⁵³ However, there may be instances where adjustments are required to the annual regulatory accounts or AIO data.¹⁵⁴
- subtracting depreciation from the RAB for the relevant year, calculated in accordance with the transmission determination for the TNSP.¹⁵⁵ Depreciation based on forecast or actual capex can be used to roll forward the RAB.¹⁵⁶ Our default approach is to use depreciation based on forecast capex for rolling forward the TNSP's RAB over the regulatory control period.¹⁵⁷
- subtracting any gross proceeds for asset disposals for the relevant year from capex to be added to the RAB.¹⁵⁸ We check these amounts against audited regulatory accounts or AIO data.

¹⁴⁷ NER, cl. S6A.2.1(f)(3).

¹⁴⁸ NER, cl. 6A.6.1(e)(3).

¹⁴⁹ NER, cl. S6A.2.1(f)(4).

¹⁵⁰ NER, cl. S6A.2.2A. Under the NER, cl. S6A.2.2A(b), the exclusion of inefficient capex could only come from three areas: overspend in capex, margin paid to third party and capitalisation of opex as defined in cl. S6A.2.2A (c), (d) and (e) of the NER.

¹⁵¹ AER, *Capital expenditure incentive guideline for electricity network service providers*, August 2025, pp. 10–22.

¹⁵² NER, cl. S6A.2.2A(a1). The 2-year lag ensures that actual capex (instead of estimated capex) is available when the review of past capex commences.

¹⁵³ We will update any estimated capex with actual capex at the time of the next transmission determination.

¹⁵⁴ For example, we make adjustment for movements in capitalised provisions if the actual capex amounts reported in the regulatory accounts or AIO include capitalised provisions.

¹⁵⁵ NER, cl. S6A.2.1(f)(5).

¹⁵⁶ NER, cl. 6A.14.1(5E).

¹⁵⁷ The use of forecast depreciation must be consistent with the depreciation approach established in the TNSP's determination.

¹⁵⁸ NER, cl. S6A.2.1(f)(6).

These annual adjustments give the closing RAB for a regulatory, which then becomes the opening RAB for the following regulatory year. Through this process the RFM rolls forward the RAB to the end of the current regulatory control period. The PTRM, which is used to calculate the annual building block revenue requirement for the next regulatory control period, generally adopts the same RAB roll forward approach as the RFM. However, in the PTRM, the annual adjustments to the RAB are based on forecasts, rather than actual amounts.¹⁵⁹

A.2.2 Depreciation approach in the RAB roll forward

The opening RAB for the subsequent regulatory control period can be determined using depreciation based either on forecast or actual capex incurred during the next regulatory control period.¹⁶⁰ To roll forward the RAB using depreciation based on forecast capex, we would use the forecast depreciation contained in the PTRM for the next regulatory control period, adjusted for actual inflation. If the approach to roll forward the RAB using depreciation based on actual capex was adopted, we would recalculate the depreciation based on actual capex commissioned during the next regulatory control period.

Our decision on whether to use actual or forecast depreciation must be consistent with the capex incentive objective.¹⁶¹ This objective is to ensure that increases to the RAB through capex only occur where that capex reasonably reflects the capex criteria.¹⁶² In deciding between actual and forecast depreciation, we have regard to:¹⁶³

- the incentives the service provider has to undertake efficient capex
- substitution possibilities between assets with different lives and the relative benefits of each
- the extent of overspending and inefficient overspending relative to the allowed forecast
- the capex incentive guideline
- the capex factors.

A.2.3 Interrelationships

The RAB is an input into the determination of the return on capital and depreciation (return of capital) building block amounts.¹⁶⁴ Factors that influence the RAB will therefore flow through to these building block components and the annual revenue requirement. Other things being equal, a higher RAB increases both the return on capital and depreciation amounts.

The RAB is determined by various factors, including:

¹⁵⁹ NER, cl. S6A.2.4(c).

¹⁶⁰ NER, cl. S6A.2.2B(a).

¹⁶¹ NER, cl. S6A.2.2B(b).

¹⁶² NER, cl. 6A.5A(a).

¹⁶³ NER, cl. S6A.2.2B(b) and (c).

¹⁶⁴ The size of the RAB also impacts the benchmark debt raising cost allowance. However, this amount is usually relatively small and therefore not a significant determinant of revenues overall. It should be noted that the return on capital is calculated based on the RAB measured on an as-incurred basis while depreciation (return of capital) is calculated based on the RAB measured on an as-commissioned basis.

- the opening RAB (meaning the value of existing asset at the beginning of the regulatory control period)
- net capex¹⁶⁵
- depreciation
- indexation adjustment – so the RAB is presented in nominal terms, consistent with the rate of return.

The opening RAB at the start of a regulatory control period depends on the value of existing assets and will depend on actual net capex, actual inflation outcomes and depreciation in the past.

The RAB when projected to the end of the period increases due to both forecast new capex and the indexation adjustment. The size of the indexation adjustment depends on expected inflation (which also affects the nominal rate of return or WACC) and the size of the RAB at the start of each regulatory year.

Depreciation reduces the RAB. The depreciation amount depends on the size of the opening RAB, the forecast net capex and depreciation schedules applied to the assets. By convention, the indexation adjustment is also offset against depreciation to prevent double counting of inflation in the RAB and WACC, which are both presented in nominal terms. This reduces the regulatory depreciation building block that feeds into the annual revenue requirement.

We maintain the RAB in real terms by indexing for inflation.¹⁶⁶ A nominal rate of return (WACC) is multiplied by the opening RAB to produce the return on capital building block.¹⁶⁷ To prevent the double counting of inflation through the nominal WACC and indexed RAB,¹⁶⁸ the regulatory depreciation building block has an offsetting reduction for indexation of the RAB.¹⁶⁹ Indexation of the RAB and the offsetting adjustment made to depreciation results in smoother revenue recovery profile over the life of an asset than if the RAB was un-indexed. If the RAB was un-indexed, there would be no need for an offsetting adjustment to the depreciation calculation of total revenue. This alternative approach provides for overall revenues being higher early in the asset's life (as a result of more depreciation being returned to the TNSP) and lower in the future—producing a steeper downward sloping profile

¹⁶⁵ Net capex is gross capex less disposals. The rate of return or WACC also influences the size of the capex. This is because the capex is not depreciated in the year it is first commissioned, but added to the RAB at the end of the year. Instead, the capex amount is escalated by half-year WACC to arrive at an end of year value. It then begins depreciating the following year.

¹⁶⁶ NER, cl 6A.5.4(b)(1) and 6A.6.1(e)(3).

¹⁶⁷ NER, cl. 6A.6.2; AER, *Rate of return instrument*, cl. 1, 3, 36(c), February 2023. Our final decision will apply the nominal rate of return calculated in accordance with the new *Rate of return instrument*, which is expected to be published in December 2026. See: <https://www.aer.gov.au/industry/registers/resources/guidelines/rate-return-instrument-2026>.

¹⁶⁸ NER, cl. 6A.5.4(b)(1)(ii).

¹⁶⁹ If the asset lives are extremely long, such that the RAB depreciation rate is lower than the inflation rate, then negative regulatory depreciation can emerge. The indexation adjustment is greater than the RAB depreciation in such circumstances. Please also refer to Appendix 0 for further explanation of the offsetting adjustment to the depreciation.

of total revenue.¹⁷⁰ The implications of an un-indexed RAB are discussed further in Appendix A.3 Regulatory depreciation – assessment approach.

A 10% increase in the opening RAB at the start of the regulatory control period generally causes unsmoothed revenues (\$ nominal) to increase by about 4% to 8%. However, the impact on revenues of the annual change in RAB depends on the source of the RAB change, as some drivers affect more than one building block cost.¹⁷¹

A.3 Regulatory depreciation – assessment approach

We must determine the regulatory depreciation amount as part of determining a TNSP's annual building block revenue requirement.¹⁷² The calculation of depreciation in each year is governed by the value of assets included in the RAB at the beginning of the regulatory year, and by the depreciation schedules.¹⁷³

A.3.1 Calculating depreciation in the PTRM

Our standard approach to calculating depreciation is to employ the straight-line method set out in the PTRM. Regulatory practice has been to assign a standard asset life to each category of assets that represents the economic or technical life of the asset or asset class.¹⁷⁴ We must consider whether the proposed depreciation schedules conform to the following key requirements:

- the schedules must depreciate using a profile that reflects the nature of the assets or category of assets over the economic life of that asset or category of assets¹⁷⁵ (apart from in certain specified circumstances)¹⁷⁶
- the sum of the real value of the depreciation that is attributable to any asset or category of assets must be equivalent to the value at which that asset or category of assets was first included in the RAB for the relevant transmission system¹⁷⁷
- the economic life of the assets, and the depreciation methods and rates underpinning the calculation of depreciation for a regulatory control period must be consistent with

¹⁷⁰ A change of approach from an indexed RAB to an un-indexed RAB would result in an initial step change increase in revenues to preserve net NPV neutrality.

¹⁷¹ If capex causes the RAB increase, return on capital, depreciation, and debt raising costs all increase too. If a reduction in depreciation causes the RAB increase, revenue could increase or decrease. In this case, the higher return on capital is offset (perhaps more than offset) by the reduction in depreciation allowance. Inflation naturally increases the RAB in nominal terms.

¹⁷² NER, cll. 6A.5.4(a)(3) and 6A.5.4(b)(3).

¹⁷³ NER, cl. 6A.6.3(a).

¹⁷⁴ This is the standard practice for the AER, as well as other jurisdictional regulators. See for example, IPART, Cost building block model template, 20 June 2014, Table 1; ERAWA, *Final Decision on Proposed Revisions to the Access Arrangement for the Western Power Network, Appendix 2: Target Revenue Calculation (Revenue Model)*, September 2012; AER, *Final decision: Electricity transmission network service providers – Post-tax revenue model handbook*, March 2025, p. 15.

¹⁷⁵ NER, cl. 6A.6.3(b)(1).

¹⁷⁶ NER, cll. 6A.6.3(b)(1) and 6A.6.3(c).

¹⁷⁷ NER, cl. 6A.6.3(b)(2).

those determined for the same assets on a prospective basis in the transmission determination for that period.¹⁷⁸

To the extent that a TNSP's revenue proposal does not conform with the above requirements, we must determine the depreciation schedules for calculating the depreciation for each regulatory year.¹⁷⁹

A.3.2 Assessing the depreciation inputs to the PTRM

The regulatory depreciation amount is an output of the PTRM. We therefore assess the TNSP's proposed regulatory depreciation amount by analysing the proposed inputs to the PTRM for calculating that amount. The key inputs include:

- the opening RAB at the start of the regulatory control period
- the forecast net capex in the next regulatory control period¹⁸⁰
- the expected inflation rate for the next regulatory control period
- the standard asset life for each asset class—used for calculating the depreciation of new assets associated with forecast net capex in the next regulatory control period
- the depreciation of existing assets in the opening RAB at the start of the regulatory control period—calculated in a separate year-by-year tracking depreciation module.

Our draft decision on the TNSP's regulatory depreciation amount reflects our determinations on the opening RAB, forecast capex and expected inflation rate (the first three building block components in the above list).¹⁸¹ Our determinations on these components of the TNSP's proposal are discussed in section 1.2, Attachment 2 and Overview section 2.2, respectively.

In this attachment, we assess the TNSP's proposed standard asset lives against:

- the approved standard asset lives in the transmission determination for the current regulatory control period
- the standard asset lives of comparable asset classes approved in our recent transmission determinations for other service providers
- the appropriate economic lives of the assets.

Our regulatory models (RFM and PTRM) provide for 2 approaches for calculating the straight-line depreciation of existing assets:

- The 'weighted average remaining lives' (WARL) approach: This approach calculates the remaining asset life for an asset class by weighting together its remaining asset life at the beginning of the regulatory control period with the new capex added to the asset class during that period. The residual asset values are used as weights to calculate the

¹⁷⁸ NER, cl. 6A.6.3(b)(3).

¹⁷⁹ NER, cl. 6A.6.3(a)(2)(ii).

¹⁸⁰ Capex enters the RAB net of forecast disposals. It includes equity raising costs (where relevant) and is adjusted for half-year WACC to account for the timing assumptions in the PTRM. Our draft decision on the RAB (section 0) also reflects our updates to the WACC for the 2027–32 period.

¹⁸¹ Our final decision will update the opening RAB as at 1 July 2027 for revised estimates of actual capex and inflation.

remaining asset life at the end of that period. The WARL for the asset classes are calculated in our RFM and are inputs to the PTRM. We consider this approach meets the requirements for determining depreciation under the NER.

- The ‘year-by-year tracking’ approach: Under this approach, the capex (in addition to grouping assets by type via asset classes) for each year of the regulatory control period is depreciated separately and tracked on a year-by-year basis over the assigned standard life for the asset class. This approach does not require the assessment of the remaining asset life at each five-yearly regulatory determination. We consider this approach also meets the requirements for determining depreciation under the NER. Our depreciation tracking module in the RFM conducts the detailed calculations required under this approach. The output of this module is then recorded in the PTRM.

A.3.3 Interrelationships

The regulatory depreciation amount is a building block component of the annual building block revenue requirement.¹⁸² Higher (or quicker) depreciation leads to higher revenues over the regulatory control period. It also causes the RAB to reduce more quickly (excluding the impact of further capex). This reduces the return on capital amount, although this impact is usually smaller than the increased depreciation amount in the short to medium term.¹⁸³

Ultimately, however, a TNSP can only recover the capex that it incurs on assets once. The depreciation amount reflects how quickly the RAB is being recovered, and it is based on the asset lives used in the depreciation calculation. It also depends on the level of the opening RAB and the forecast capex. Any increase in these factors also increases the depreciation amount.

The RAB has to be maintained in real terms, meaning the RAB must be indexed for expected inflation.¹⁸⁴ The return on capital building block has to be calculated using a nominal rate of return applied to the opening RAB.¹⁸⁵ As noted in section 1.1, the total annual building block revenue requirement is calculated by adding up the return on capital, depreciation, opex, tax and revenue adjustments building blocks. Because inflation on the RAB is accounted for in both the return on capital—based on a nominal rate—and the depreciation calculations—based on an indexed RAB—an adjustment must be made to the revenue requirement to prevent compensating twice for inflation.

To avoid this double compensation, we make an adjustment by subtracting the annual indexation gain on the RAB from the calculation of total revenue. Our standard approach is to subtract the indexation of the opening RAB—the opening RAB multiplied by the expected inflation for the year—from the RAB depreciation. The net result of this calculation is referred

¹⁸² The PTRM distinguishes between straight-line depreciation and regulatory depreciation, where regulatory depreciation is the straight-line depreciation less the indexation adjustment.

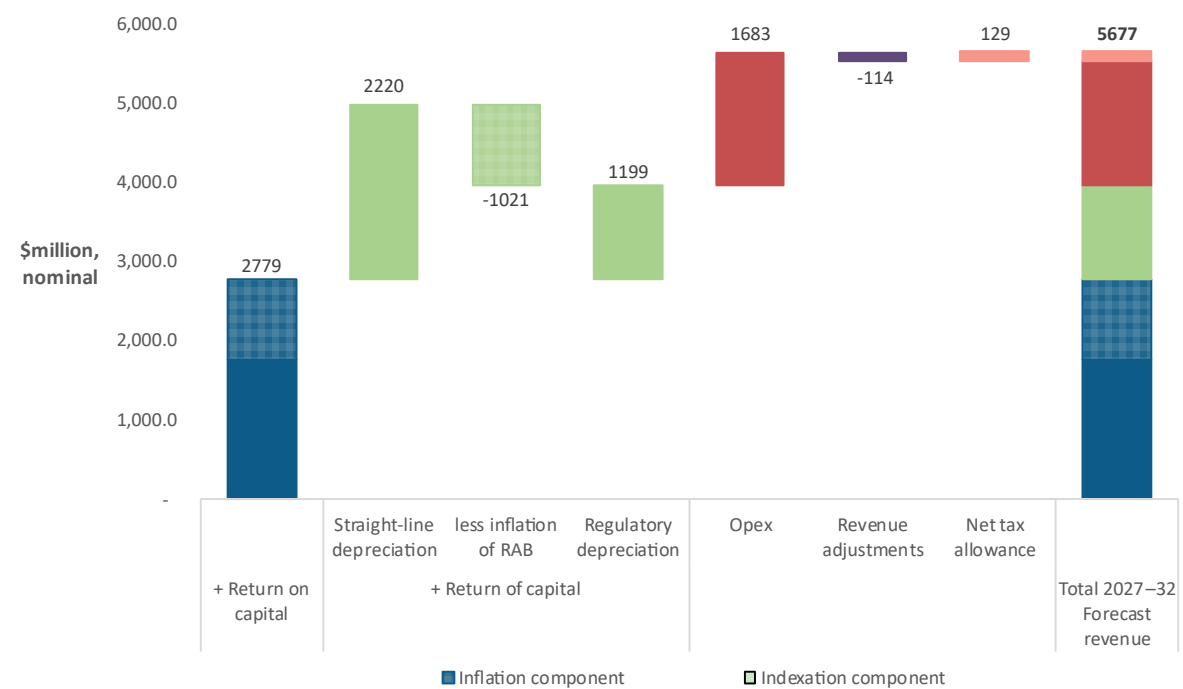
¹⁸³ This is generally the case because the reduction in the RAB amount feeds into the higher depreciation building block, whereas the reduced return on capital building block is proportionate to the lower RAB multiplied by the WACC.

¹⁸⁴ NER, cl. 6A.2.4(c)(4).

¹⁸⁵ AER, *Rate of return instrument*, cl. 1, 3, 36(c), February 2023. Our final decision will apply the nominal rate of return calculated in accordance with the new *Rate of return instrument*, which is expected to be published in December 2026. See: <https://www.aer.gov.au/industry/registers/resources/guidelines/rate-return-instrument-2026>.

to as regulatory depreciation.¹⁸⁶ Regulatory depreciation is the amount used in the building block calculation of total revenue to ensure that the revenue equation is consistent with the use of a RAB, which is indexed for inflation annually. Figure A1 shows where the inflation components are included in the building block costs.

Figure A1 Inflation components in revenue building block – example



Source: AER analysis.

This approach produces the same total revenue requirement and RAB as if a real rate of return had been used in combination with an indexed RAB. Under an alternative approach where a nominal rate of return was used in combination with an un-indexed (historical cost) RAB, no adjustment to the depreciation calculation of total revenue would be required. This alternative approach produces a different time path of total revenue compared to our standard approach. In particular, overall revenues would be higher early in the asset's life (as a result of more depreciation being returned to the TNSP) and lower in the future—producing a steeper downward sloping profile of total revenue.¹⁸⁷ Under both approaches, the total revenues being recovered are in present value neutral terms—that is, returning the initial cost of the RAB.

¹⁸⁶ If the asset lives are extremely long, such that the RAB depreciation rate is lower than the inflation rate, then negative regulatory depreciation can emerge. The indexation adjustment is greater than the straight-line depreciation in such circumstances.

¹⁸⁷ A change of approach from an indexed RAB to an un-indexed RAB would result in an initial step change increase in revenues to preserve net NPV neutrality.

Figure A2 shows the recovery of revenue under both approaches using a simplified example.¹⁸⁸ Indexation of the RAB and the offsetting adjustment made to depreciation results in a smoother revenue recovery profile over the life of an asset than if the RAB was un-indexed. The indexation of the RAB also reduces prices shocks when the asset is replaced at the end of its life.¹⁸⁹

Figure A2 Revenue path example – indexed vs un-indexed RAB (\$ nominal)

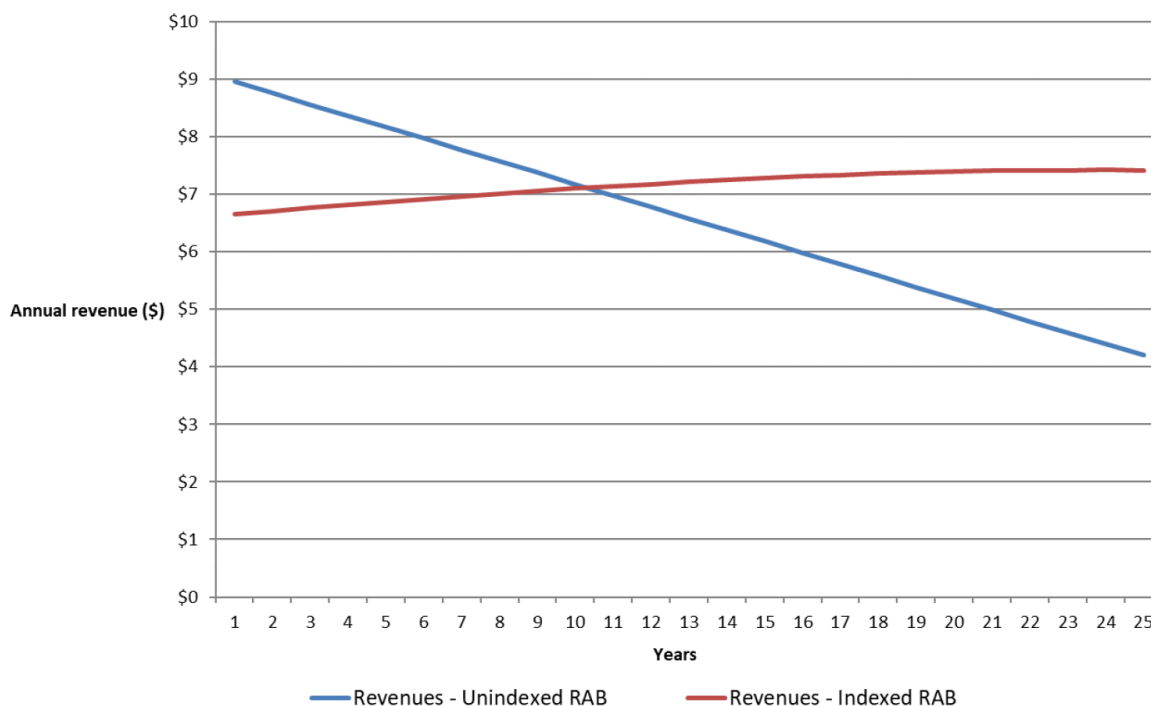


Figure 1.5 in section 1.2 shows the relative size of the inflation indexation and straight-line depreciation, and their impact on the RAB. A 10% increase in the straight-line depreciation generally causes unsmoothed revenues (\$ nominal) to increase by about 3% to 6%.

A.4 Corporate income tax – assessment approach

We make an estimate of the taxable income for each regulatory year as part of our determination of the annual building block revenue requirement for the TNSP's regulatory control period.¹⁹⁰ Our estimate is the taxable income that a benchmark efficient entity would earn for providing prescribed transmission services if it operated the TNSP's business, which is determined in accordance with the PTRM.

¹⁸⁸ The example is based on the initial cost of an asset of \$100, a standard economic life of 25 years, a real WACC of 2.50%, expected inflation of 2.40% and nominal WACC of 4.96%. Other building block components such as opex, tax and capex are ignored for simplicity as they would affect both approaches equally.

¹⁸⁹ In year 26, the revenues in the example for the un-indexed approach would jump from about \$4 to \$9, assuming the asset is replaced by an asset of roughly similar replacement cost as the initial asset. In contrast, in the same circumstances, the indexed approach would see revenues stay at roughly \$7.

¹⁹⁰ Clause 6A.6.4 of the NER sets out the formula we must use to estimate corporate income tax.

A.4.1 Calculating estimated cost of corporate income tax in the PTRM

Our standard approach for calculating the TNSP's estimated cost of corporate income tax is set out in our PTRM and involves the following steps:¹⁹¹

1. We estimate the annual assessable income (taxable revenue) that would be earned by benchmark efficient entity operating the TNSP's business. This is the approved forecast revenues for the TNSP that we determined using the building block approach.¹⁹²
2. We then estimate the benchmark tax expenses such as opex, interest expense and tax depreciation in the following ways:
 - operating expense is set equal to the opex building block¹⁹³
 - interest expense is a function of the size of the RAB, the benchmark gearing assumption (60%) and the regulated cost of debt
 - tax depreciation expense is calculated using a separate value for the TAB, and standard and/or remaining tax asset lives for taxation purposes. Previously, the PTRM applied the straight-line method for calculating tax depreciation for all assets. Consistent with the findings of the 2018 tax review,¹⁹⁴ the PTRM applies the straight-line tax depreciation method for existing assets and the diminishing value tax depreciation method¹⁹⁵ for all assets acquired after implementation of the tax review findings except for in-house software, buildings (capital works) and equity raising costs. The expenditure for these assets is to be depreciated using the straight-line method under the tax law. The PTRM also accounts for the value of certain forecast capex to be immediately expensed when estimating the benchmark tax expense. The value of immediately expensed capex is deducted from the net capex being depreciated for tax purposes for the year in which it is forecast to be commissioned.¹⁹⁶ The immediately expensed amount is then included in the total tax depreciation amount for the relevant year.

There may be other revenue adjustments, but the assessment of whether they should give rise to a tax payable occurs on a case-by-case basis.

¹⁹¹ The PTRM must specify the manner in which the estimated cost of corporate income tax is to be calculated: NER, cl. 6A.5.3(b)(4).

¹⁹² The total revenue for tax purposes is the sum of the building blocks including return on capital, return of capital, operating expenditure and cost of corporate taxation. It may also include other revenue adjustments, but the assessment of whether they should give rise to a tax payable will occur on a case-by-case basis.

¹⁹³ Our assessment approach for the opex building block is discussed in Attachment 3 of the draft decision.

¹⁹⁴ AER, *Final report, Review of regulatory tax approach*, December 2018.

¹⁹⁵ For more explanation of how we calculate depreciation using the diminishing value method, please see: AER, *Transmission PTRM handbook*, March 2025, pp 22–23.

¹⁹⁶ That is, the net capex to be added to the TAB for tax depreciation purposes is the amount of gross capex, less disposals, less the immediately expensed capex.

3. We estimate the annual taxable income that would be earned by a benchmark efficient entity operating the TNSP's business by subtracting the benchmark estimates of tax expenses (step 2) from the approved forecast revenues for the TNSP (step 1).
4. We apply the statutory income tax rate to the estimated annual taxable income (after adjustment for any tax loss carried forward) to arrive at a notional amount of tax payable.
5. We deduct the expected value for the utilisation of imputation credits (gamma) by investors from the notional amount of tax payable. The tax payable net of the expected value of imputation credits represents the estimated cost of corporate income tax and is included as a separate building block in determining the TNSP's annual building block revenue requirement.

A.4.2 Assessing tax inputs to the PTRM

The estimated cost of corporate income tax is an output of the PTRM. We therefore assess the TNSP's proposed cost of corporate income tax by analysing the proposed inputs to the PTRM for calculating that cost. Our assessment approach for each of the tax inputs required in the PTRM are discussed in turn below:

- **The opening TAB value as at the commencement of the next regulatory control period:** We consider that the roll forward of the opening TAB should be based on the approved opening TAB at the start of the current regulatory control period and the TNSP's actual/estimated capex incurred during the current regulatory period, and the actual capex incurred in the final year of the previous regulatory control period.¹⁹⁷ The roll forward of the opening TAB for the current regulatory control period is calculated in our RFM, which relies on the depreciation module.

The opening TAB value at the start of the next regulatory control period is used to estimate forecast tax depreciation for that period, including new assets to be added to the TAB over this period. We will continue to apply the straight-line method of tax depreciation for existing assets in the opening TAB prior to the implementation of the 2018 tax review findings. However, for all assets added to the TAB after this implementation (with some exceptions discussed further below), we will apply the diminishing value method of tax depreciation.

- **The standard tax asset life for each asset class:** Our assessment of a TNSP's proposed standard tax asset life is generally guided by the effective life of depreciating assets determined by the Commissioner of Taxation. We consider that the standard tax asset lives for the majority of the TNSP's asset classes should be consistent with the ATO Legislative Instrument 2025/20 regarding the effective life of depreciating assets where possible.¹⁹⁸

As discussed above, the PTRM applies the diminishing value tax depreciation method for all new assets except for in-house software, buildings (capital works) and equity raising costs. It provides designated asset classes for these assets to be depreciated

¹⁹⁷ The tax depreciation is therefore recalculated based on actual capex. The same tax depreciation approach of using actual capex applies to the roll forward of the TAB at the next revenue determination.

¹⁹⁸ ATO, *Legislative Instrument LI 2025/20–Schedule 2–Effective Life Tables A and B*, October 2025.

using the straight-line method for tax purposes.¹⁹⁹ We note that the tax effective lives for in-house software, buildings (capital works) and equity raising costs are not covered under the ATO Legislative instrument 2025/20. Therefore, our assessment of the standard tax asset lives for these asset classes are guided by the *Income Tax Assessment Act 1997* (ITAA). Specifically, we consider that the standard tax asset life should be:

- 40 years for buildings. This is consistent with the number of years required to completely depreciate capital works assets such as buildings for tax purposes when applying sections 43-15, 43-140 and 43-210 of the ITAA.
- 5 years for in-house software. This is consistent with subsection 40-95(7) of the ITAA.
- 5 years for equity raising costs. This is consistent with section 40-880 of the ITAA.
- **The income tax rate:** The statutory income tax rate is 30% per annum for businesses of the size we regulate.
- **The value of gamma:** The gamma input is set out in the 2022 *Rate of Return Instrument*, which requires us to use a gamma value of 0.57.²⁰⁰ Our final decision will apply the gamma input as set out in the 2026 *Rate of Return Instrument*.²⁰¹
- **The size and treatment of any tax losses as at the commencement of the next regulatory control period:** Where a business has tax losses under our benchmark approach, we require the provision of this value to determine the appropriate estimated taxable income for a regulatory control period. If there is an amount of tax losses accumulated, the forecast taxable income for the regulatory control period will be reduced by this amount.
- **Forecast immediately expensed capex:** The PTRM requires a forecast for immediately deductible capex to be provided for each regulatory year of the next regulatory control period. Our assessment of forecast immediately expensed capex will be guided by the TNSP's actual immediately expensed capex from the previous regulatory control period.²⁰² We collect actual data relating to this expenditure in our annual information orders to further inform our decision on the amount of forecast immediately expensed capex in future regulatory determinations. Benchmarking may also be considered going forward.²⁰³
- **Diminishing value multiplier:** The PTRM applies the diminishing value method of tax depreciation and provides an input section for the 'diminishing value multiplier' to be recorded for each year of the regulatory control period. We note that currently the diminishing value multiplier is set at 200% by the ATO.

¹⁹⁹ Our assessment approach on new assets to be exempted from the diminishing value method is discussed in detail below.

²⁰⁰ AER, *Rate of Return Instrument*, February 2023, p 9.

²⁰¹ The new *Rate of Return Instrument* is expected to be published in December 2026. See: <https://www.aer.gov.au/industry/registers/resources/guidelines/rate-return-instrument-2026>

²⁰² In the tax review final report, we labelled our approach to determining the amount of capex that is to be immediately expensed as an 'actuals informed approach'. AER, *Final Report, Review of regulatory tax approach*, December 2018, p 66.

²⁰³ AER, *Final report, Review of regulatory tax approach*, December 2018, pp 66–67.

- **New assets to be exempted from the diminishing value method:** The PTRM applies the diminishing value method for tax depreciation purposes to all new depreciable assets except for certain assets. It provides for asset classes 47 to 50 to be depreciated using the straight-line method for tax purposes instead of the diminishing value method. These asset classes are to contain new assets associated with in-house software, buildings (capital works) and equity raising costs.

We consider that the benchmark equity raising costs should not be depreciated using the diminishing value method. We note that section 40-880 of the ITAA and the ATO's taxation ruling 2011/6²⁰⁴ require that businesses claim deductions on equity raising costs in equal proportions over a 5-year period. Therefore, in the PTRM, we apply the straight-line method for calculating the tax depreciation for equity raising costs, consistent with the ITAA and ATO's requirements.²⁰⁵ Further, the TNSP may propose capex associated with buildings and in-house software be exempted from the diminishing value method of tax depreciation in the PTRM if the proposal satisfies the following requirements:

- **Buildings:** We consider that capex for buildings may be exempted from the diminishing value method in the PTRM, consistent with sections 43-15, 43-140 and 43-210 of the ITAA. However, such capex must be consistent with the definition of a capital work under section 43-20 of the ITAA and in ATO taxation ruling 97/25.²⁰⁶ We note that this includes new buildings and structural improvements to existing buildings.²⁰⁷ However, capex on separate assets within a building such as air-conditioning units, transformers and converters are not consistent with the definition of a capital work, and therefore are required to be depreciated using the diminishing value method in the PTRM.
- **In-house software:** We consider that capex for in-house software may be exempted from the diminishing value method in the PTRM, consistent with section 40-72 of the ITAA. However, such capex must be consistent with the definition of in-house software under section 995-1 of the ITAA and in ATO taxation ruling 2016/3.²⁰⁸ We note that this includes computer software, or the right to use computer software that the TNSP acquires, develops or has someone else develop for the TNSP's business use.²⁰⁹ However, capex associated with other IT assets such as computer hardware is not consistent with the definition of in-house software and is therefore required to be depreciated using the diminishing value method in the PTRM.

A.4.3 Interrelationships

The cost of corporate tax income building block feeds directly into the annual building block revenue requirement. This amount is determined by five factors:

- pre-tax revenues

²⁰⁴ ATO, *Taxation Ruling 2011/6*, July 2016.

²⁰⁵ The benchmark cost for equity raising costs is determined within the PTRM.

²⁰⁶ ATO, *Taxation Ruling 97/25*, July 2017.

²⁰⁷ ITAA, section 43-20.

²⁰⁸ ATO, *Taxation Ruling 2016/3*, October 2018.

²⁰⁹ ITAA, section 995-1.

- tax expense (including tax depreciation)
- the corporate tax rate
- any tax losses carried forward
- gamma — the expected proportion of company tax that is returned to investors through the utilisation of imputation credits—which is offset against the corporate income tax payable.

Of these factors, the corporate tax rate is set externally by the Australian Government. The higher the tax rate, the higher the required tax payable.

The pre-tax revenues depend on all the building block components. Any factor that affects revenue will therefore affect pre-tax revenues. Higher pre-tax revenues can increase the tax payable.²¹⁰ Depending on the source of the revenue increase, the tax increase may be equal to or less than proportional to the company tax rate.²¹¹

The tax expenses (or deductions) depend on various building block components and their size. Some components give rise to tax expenses, such as opex, interest payments and tax depreciation of assets. However, others do not, such as increases in return on equity. Higher tax expenses offset revenues as deductions in the tax calculation and therefore reduce the cost of corporate income tax (all things being equal). Tax expenses include:

- Interest on debt – because interest is a tax offset. The size of this offset depends on the ratio of debt to equity and therefore the proportion of the RAB funded through debt. It also depends on the allowed return on debt and the size of the RAB.
- General expenses – these expenses generally will match the opex forecast including any revenue adjustments, but the assessment of whether they should be treated as a tax expense occurs on a case-by-case basis.
- Tax depreciation – a separate TAB is maintained for the TNSP reflecting tax rules. This TAB is affected by many of the same factors as the RAB, such as capex, although unlike the RAB value it is maintained at its historical cost with no indexation. The TAB is also affected by the depreciation rate/method and asset lives assigned for tax depreciation purposes.

A business that has tax expenses which are greater than its taxable revenue in a period would not be subject to pay tax and instead will generate a tax loss. A tax loss can be carried forward to offset against tax payable in the future.

²¹⁰ The PTRM recognises the iterative relationship between revenue and the cost of corporate income tax. Higher revenue increases taxable income and therefore the corporate income tax building block. Recovering that additional tax cost then increases required revenue, which can lead to a further, smaller increase in the tax building block. The PTRM therefore repeats the calculation until revenue and the cost of corporate income tax stabilise.

²¹¹ For example, higher opex increases the revenue requirement but is also deductible in calculating taxable income, so it has no net impact on the cost of corporate income tax. In contrast, a higher return on equity increases taxable income without an offsetting tax deduction, and therefore increases tax payable in proportion to the corporate tax rate.

For a business that does not have tax losses, a 10% increase to the cost of corporate income tax amount generally causes unsmoothed revenues (\$ nominal) to increase by up to 1%.

Glossary

Term	Definition
ABS	Australian Bureau of Statistics
ABBRR	Annual Building Block Revenue Requirement
AEMS	Advanced Energy Management System
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AIO	annual information order
AR	allowed revenue
ATO	Australian Taxation Office
capex	capital expenditure
CCP34	Consumer Challenge Panel, sub panel 34
CESS	capital expenditure sharing scheme
CFA	Concessional Finance Adjustment
CPI	consumer price index
DMO	Default Market Offer
EBSS	efficiency benefit sharing scheme
ESOO	Electricity statement of opportunities
F&A	Framework and approach
gamma	Imputation credits
GST	Goods and Services Tax
ITAA	<i>Income Tax Assessment Act 1997</i>
MAR	maximum allowed revenue
NER	national electricity rules
NPV	net present value
opex	operating expenditure
PTRM	post-tax revenue model
RAB	regulatory asset base
RFM	roll forward model
RPRG	Revenue Proposal Reference Group

TAB	tax asset base
TNSP	transmission network service provider
WACC	weighted average cost of capital
WARL	weighted average remaining lives