6 Escalation Rates

6.1 Introduction

This chapter explains how Powerlink has determined escalation rates for internal labour, external labour and materials. We have used these escalation rates as an input to forecast our operating and capital expenditure.

Key highlights:

- We sought independent advice from Oxford Economics Australia (OEA) on wage growth forecasts.
- Real labour price growth has been calculated using a simple average of the OEA forecasts and alternative forecasts sourced from Deloitte Access Economics (DAE) advice on other revenue determination processes.
- As inputs to forecast our capital and operating expenditure, we have used:
    - an average annual growth rate of 1.1% for internal labour costs and 1.1% for external labour costs over the 2027-32 regulatory period, and
    - an annual increase in the costs of materials based on the Consumer Price Index. This results in a zero real increase.

6.2 Regulatory requirements

The National Electricity Rules (Rules)[134] require our operating and capital expenditure forecasts to reasonably reflect prudent and efficient costs with a realistic expectation of demand and cost inputs required to achieve the operating and capital expenditure objectives.

6.3 Cost escalation

We have adopted real input cost changes, which excludes inflation, for internal labour, external labour and materials as presented in Table 6.1.

Table 6.1 - Real input price growth (% per annum) (Source: OEA, DAE)

	2026	2027	2028	2029	2030	2031	2032
Internal Labour	1.7	1.2	1.0	1.0	1.3	1.2	1.1
External Labour	0.4	0.7	0.9	1.1	1.3	1.1	1.0
Materials	-	-	-	-	-	-	-

[134] National Electricity Rules, clauses 6A.6.6 and 6A.6.7.

6.4 Cost escalation approach

A summary of the approach used to determine our cost escalation forecasts is provided in Table 6.2.

Table 6.2 - Approach used to forecast cost escalation

Escalation factor	Basis of forecast
Internal Labour	Simple average of the following two forecasts over the 2027-32 regulatory period: • OEA - Electricity, Gas, Water and Wastewater (EGWWS) Wage Price Index (WPI) forecast for Queensland, and • DAE Utilities WPI forecast for Queensland
External Labour	Simple average of the following two forecasts over the 2027-32 regulatory period: • OEA Construction WPI forecast for Australia, and • DAE All Industries WPI forecast for Australia
Materials	Consumer Price Index (CPI) – assumed forecast of 2.6%

Further detail on each approach is provided below.

6.4.1 Real labour price growth

Real labour price growth is based on a simple average of two independent forecasts: a forecast prepared for Powerlink by OEA and an alternative forecast being the most relevant DAE forecast prepared for the AER. This is consistent with the Australian Energy Regulator's (AER) approach[135] in recent regulatory determinations.

Our real labour price growth forecast is shown in Table 6.3.

Table 6.3 - Real labour cost escalators (% per annum) (Source: OEA, DAE)

	2026	2027	2028	2029	2030	2031	2032
Internal labour							
OEA EGWWS WPI - Qld	2.8	1.2	1.3	1.4	1.6	1.6	1.3
DAE Utilities WPI - Qld	0.6	1.1	0.7	0.6	0.9	0.8	0.8
Average	**1.7**	**1.2**	**1.0**	**1.0**	**1.3**	**1.2**	**1.1**
External labour							
OEA Construction WPI – Aus	0.4	0.7	1.0	1.3	1.5	1.2	0.9
DAE All Industries – Aus	0.4	0.7	0.7	0.9	1.0	1.0	1.0
Average	**0.4**	**0.7**	**0.9**	**1.1**	**1.3**	**1.1**	**1.0**

We provide more information on the specific forecasts used in preparing our Revenue Proposal, together with the source and rationale for selecting the alternative forecast, in the following sections.

[135] Final Decision, Energex Distribution Determination 2025-2030: Attachment 6 Operating Expenditure, Australian Energy Regulator, April 2025, p.25. Note: this approach was also applied to Final Decisions published in 2025 for Ergon Energy and Jemena Gas Networks, previous Powerlink determinations, and recent Draft Decisions in respect to Victorian DNSPs.

6.4.1.1 Oxford Economics Australia forecast

We engaged OEA to provide an independent expert opinion on WPI forecasts specific to Queensland's business environment and economic outlook. OEA is a leading provider of industry research, analysis and forecasting services. OEA's wage growth forecasts for Queensland and nationally leverage their knowledge of the Australian economy and industrial sectors, to link labour market conditions to overarching macroeconomic and regional drivers.

OEA provided WPI forecasts over the seven-year period from 2025/26 to 2031/32. This captures the last two years of our current 2022-27 regulatory period and the five years of the 2027-32 regulatory period. Separate forecasts were prepared for internal and external labour. This reflects the use of our own workforce and external contractors to deliver our operational and capital works:

- internal labour price growth - Electricity, Gas, Water and Wastewater (EGWWS) sector specific to Queensland has been used, and
- external labour price growth - Construction sector for Australia has been used, recognising that the labour market accessed by contractors is not constrained to Queensland.

The advice from OEA is that over the forecast period, the Queensland EGWWS WPI average growth in nominal terms of 4.0% per annum (applied to internal labour) is expected to remain higher than the Australian EGWWS WPI average of 3.8% per annum. In its report, OEA forecast utilities wages to increase by more than the national (All Industries) average over the forecast period due, in summary, to the following factors:

- *the electricity, gas and water sector is a largely capital-intensive industry whose employees have higher skill, productivity and commensurately higher wage levels than most other sectors*
- *… outcomes for collective agreements, which cover 62% of the workforce, remain above the wage increases for the national 'all industry' average …*
- *increases in individual agreements … are expected to remain elevated as the labour market remains tight …*
- *demand for skilled labour will remain high and strengthen with the sustained increases in overall construction activity and high levels of utilities investment from FY25 to FY32…*[136]

In addition, OEA noted that the national (All Industries) average tends to be dragged lower by some of its constituent groups (retail, trade, hospitality, etc.). OEA's report is provided in Appendix 5.01.

6.4.1.2 Alternative forecast

We anticipate that the AER will engage its own consultant to provide an alternative WPI forecast for its Draft Decision, which will be updated for its Final Decision.

For the alternative forecast in our Revenue Proposal, we have used the DAE Labour Price Growth Forecasts report used by the AER in its Final Decision for Ergon's 2025-30 revenue determination[137]. As this includes forecast WPI to 2029/30, we have applied a trend to the forecast to derive wage growth for the two final years of our 2027-32 regulatory period.

We consider this to be an appropriate approach to estimating wage growth as it provides a reasonable placeholder for the alternative forecast while recognising the specific demand in Queensland.

[136] Labour Cost Escalation Forecasts to 2031/32 – Final Report for Powerlink, Oxford Economics Australia, October 2025, pages 3-4.
[137] Labour price growth forecasts, Deloitte Access Economics, March 2025.

6.4.2 Real materials price growth

As discussed earlier in our Revenue Proposal, there have been significant materials price increases over the 2022-27 regulatory period, far beyond the level of CPI (refer Chapter 2 Operating Environment). Although there are still many unknowns in the global economic environment, along with the broader rate of global and local inflation, the rate of price growth appears to be moderating back towards long-term growth in line with CPI. To be clear, there is no indication that materials prices will decline in real terms to their previous levels.

While noting there are substantial on-going risks as global demand for major plant items and materials remains high, we propose a real price growth of zero for materials in our expenditure forecasts for the 2027-32 regulatory period. This reflects the expectation that materials costs will revert to increases that broadly align with CPI.

For our 2027-32 Revenue Proposal, we have applied a CPI forecast of 2.6% for real materials price growth, based on the Reserve Bank of Australia's November 2025 *Statement of Monetary Policy*[138] (refer Chapter 8 Rate of Return, Taxation and Inflation).

6.4.3 Interaction with expenditure incentive schemes

The incentive-based economic regulatory framework in Australia is designed such that a regulated network business reveals its efficient costs to provide prescribed transmission services. The Capital Expenditure Incentive Scheme (CESS) and the Efficiency Benefit Sharing Scheme (EBSS) are designed to balance the incentives faced by a network business to undertake efficient expenditure over time. They are based on allowing a network business to retain benefits from spending less than the efficient expenditure allowances, while penalising it for spending more than the efficient allowances.

Powerlink forecasts it will incur substantial penalties under both the CESS and the EBSS from the 2022-27 regulatory period, largely due to significant increases in the real prices of labour and materials above inflation that were outside of Powerlink's control. These labour and materials increases have been substantially greater than the forecast escalation rates allowed for within our 2022-27 revenue determination that determined the efficient expenditure allowances.

Consistent with the incentive-based framework, this Revenue Proposal adopts the current revealed prices for labour and materials as the basis for our capital and operating expenditure forecasts. We then apply our proposed cost escalation approach for both labour and materials to forecast these prices during the 2027-32 regulatory period as described above. Our proposed cost escalation approach is consistent with that adopted by the AER in recent revenue determinations.

[138] Statement on Monetary Policy – November 2025, Reserve Bank of Australia, November 2025.