8 Rate of Return, Taxation and Inflation

8.1 Introduction

This chapter outlines Powerlink's approach to estimating the rate of return (RoR), also referred to as the Weighted Average Cost of Capital (WACC), taxation and inflation for the 2027-32 regulatory period.

Key highlights:

- We estimate a RoR of 6.29% for the first year of the 2027-32 regulatory period (2027/28), calculated using the Australian Energy Regulator's (AER's) binding 2022 Rate of Return Instrument (RoRI).
    - The final RoR will be updated by the AER in its Final Decision using market data and the 2026 RoRI, expected to be finalised in December 2026.
- The RoR reflects a significant shift in the interest rate environment since our previous revenue determination in April 2022, with increases in the risk-free rate and the cost of debt.
- Our taxation allowance is estimated using the AER's Post-Tax Revenue Model (PTRM)[151], applying a corporate tax rate of 30% and a gamma value of 0.57, consistent with the 2022 RoRI.
- Our forecast inflation is 2.60%, calculated using the methodology set out in the PTRM. The AER will update the inflation forecast in its Final Decision on Powerlink's Revenue Proposal for the 2027-32 regulatory period to reflect the latest available forecasts published by the Reserve Bank of Australia (RBA).

8.2 Regulatory requirements

Under the National Electricity Rules (Rules)[152], the return on capital allowance is calculated by multiplying the allowed RoR by the opening value of our Regulatory Asset Base (RAB) for each year of the regulatory period.

The RoR[153] must be determined in accordance with the current RoRI published by the AER[154]. These calculations are included in the RoR Model submitted as part of this Revenue Proposal[155].

For inflation, the Rules[156] require the AER to specify in the PTRM a methodology that is likely to result in the best estimate of expected inflation.

The Rules[157] also require that our corporate tax allowance be calculated by applying the expected statutory income tax rate to the estimated taxable income for each year of the regulatory period, less the value of imputation credits (gamma).

8.3 Rate of return

8.3.1 Overview

Our estimated RoR for the 2027-32 regulatory period is shown in Table 8.1.

[151] Electricity Transmission Network Service Provider Post-Tax Revenue Model (version 6), Australian Energy Regulator, March 2025.
[152] National Electricity Rules, clause 6A.6.2.
[153] National Electricity Rules, Chapter 10, definition of *allowed rate of return*.
[154] Rate of Return Instrument (version 1.2), Australian Energy Regulator, March 2024.
[155] National Electricity Rules, Schedule 6A.1, clause S6A.1.3(4A)
[156] National Electricity Rules, clause 6A.5.3(b)(1).
[157] National Electricity Rules, clause 6A.6.4.

Table 8.1 - Rate of Return 2027-32

	2028	2029	2030	2031	2032
Return on equity (nominal, post-tax)	8.39%	8.39%	8.39%	8.39%	8.39%
Return on debt (nominal, pre-tax)	4.89%	5.01%	5.12%	5.38%	5.73%
Gearing	60.00%	60.00%	60.00%	60.00%	60.00%
WACC (nominal, vanilla)(1)	**6.29%**	**6.37%**	**6.43%**	**6.58%**	**6.80%**

(1) Nominal vanilla WACC is the weighted average of the post-tax nominal return on equity and pre-tax nominal return on debt.

8.3.2 Our approach

The RoR has been calculated in accordance with the 2022 RoRI. The RoR will be updated in the AER's Final Decision in line with the nominated averaging periods and the 2026 RoRI, which it anticipates finalising in December 2026. Nominated averaging periods have been provided to the AER on a confidential basis in Appendix 8.01 Nominated Averaging Periods.

8.3.2.1 Return on equity

Applying the 2022 RoRI, we estimate a return on equity of 8.39% for the 2027-32 regulatory period. The risk-free rate is based on a 20-business-day averaging period ending 17 December 2025[158]. This is a placeholder estimate, with the final return to be determined in accordance with the 2026 RoRI and the actual risk-free rate in line with our nominated averaging period. The parameter values are presented in Table 8.2.

Table 8.2 - Return on equity

Parameter	Estimate
Risk-free rate	4.67%
Equity beta	0.60
Market risk premium	6.20%
Return on equity	**8.39%**

8.3.2.2 Return on debt

Applying the 2022 RoRI, our indicative return on debt for the first year of the 2027-32 regulatory period (2027/28) is 4.89%. Under the AER's trailing average approach, the AER will update our return on debt annually throughout the regulatory period to reflect prevailing rates at that time. For our Revenue Proposal, we have adopted an averaging period of the 20 business days to 28 November 2025.

This results in the following estimates in Table 8.3.

Table 8.3 - Return on debt 2027-32

	2028	2029	2030	2031	2032
Return on debt (nominal, pre-tax)	4.89%	5.01%	5.12%	5.38%	5.73%

[158] The risk-free rate is the simple average of the daily 10-year yield to maturity for a Commonwealth Government Security, converted into an effective annual rate, for each specific business day over the averaging period.

8.4 Taxation

Our taxation forecast for the 2027-32 regulatory period is presented in Table 8.4.

Table 8.4 - Taxation ($million nominal)

	2028	2029	2030	2031	2032	Total
Corporate tax	53.6	48.6	41.7	44.3	42.0	**230.2**
Value of imputation credits	(30.6)	(27.7)	(23.8)	(25.2)	(24.0)	**(131.2)**
Taxation	**23.1**	**20.9**	**17.9**	**19.0**	**18.1**	**99.0**

We have estimated our taxation allowance using the PTRM and the 2022 RoRI, applying:

- a statutory tax rate of 30% per year, and
- a gamma value of 0.57 to estimate the value of imputation credits.

Our approach to the immediate expensing of capital expenditure and tax depreciation is consistent with our 2023-27 Revenue Proposal, which the AER accepted in its Final Decision to our 2022-27 revenue determination. This approach is in line with the AER's 2018 Regulatory Tax Review.

8.4.1 Immediate expensing of capital expenditure

Our forecast of immediately deductible capital expenditure is based on the average of actual immediate deductions of capitalised overheads in previous years. We confirm that our current tax policy will remain unchanged for the 2027-32 regulatory period.

8.4.2 Diminishing value depreciation

We continue to apply the diminishing value (DV) method for tax depreciation for all new capital expenditure, except for buildings and in-house software, which continue to be depreciated using the straight-line method, consistent with the *Income Tax Assessment Act 1997* (ITAA).

8.5 Forecast inflation

We calculated expected inflation using the AER's methodology set out in the PTRM. Expected inflation is calculated as the geometric average of inflation rates over the 2027-32 regulatory period based on the Reserve Bank of Australia (RBA) forecasts and a glide path to the midpoint of the RBA's target inflation band (2.5%) in the fifth year. We have used the RBA's *Statement of Monetary Policy* in November 2025[160] to derive a placeholder estimate of 2.60% for this Revenue Proposal.

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