

## 9 Depreciation

### 9.1 Introduction

This chapter outlines Powerlink's proposed return of capital allowance (also referred to as regulatory depreciation) for the 2027-32 regulatory period. Depreciation enables investors to recover the cost of their capital investment over the economic life of the asset.

#### *Key highlights:*

- Our forecast regulatory depreciation for the 2027-32 regulatory period is \$1,094.5 million (\$ nominal).
- In real 2026/27 terms, this is \$1,012.3 million which is \$109.6 million (12%) higher than the current 2022-27 regulatory period.
- We do not propose to apply any depreciation adjustments relating to financeability, as our Revenue Proposal does not include any actionable Integrated System Plan (ISP) projects.
- We continue to apply the year-by-year depreciation tracking approach in forecasting depreciation.
- We propose to maintain the same asset classes and standard asset lives as approved by the AER in its determination for Powerlink's current regulatory period.
- We propose to roll forward our Regulatory Asset Base (RAB) using forecast depreciation to calculate the opening RAB for the subsequent 2032-37 regulatory period.
- We do not propose any accelerated depreciation.

### 9.2 Regulatory requirements

The National Electricity Rules (Rules)<sup>161</sup> require that depreciation schedules use a profile that reflects the nature of each asset class over its economic life.

### 9.3 Depreciation forecast

Under the regulatory framework, regulatory depreciation is calculated as straight-line depreciation less the inflation adjustment on the opening RAB. Straight-line depreciation reduces an asset's value evenly over its useful life. To calculate the value of the opening RAB for any given year, the previous year's RAB must be adjusted for inflation to maintain its real value at the start of the subsequent year<sup>162</sup>. We have sourced the straight-line depreciation forecasts (in \$ nominal) from the Post-Tax Revenue Model for the 2027-32 regulatory period.

Our depreciation forecast for the 2027-32 regulatory period is set out in Table 9.1.

<sup>161</sup> National Electricity Rules, clause 6A.6.3.

<sup>162</sup> National Electricity Rules, Schedule S6A.2, clause 6A.2.4(c)(4).

Table 9.1 - Forecast regulatory depreciation 2027-32 regulatory period (\$million nominal)

	2028	2029	2030	2031	2032	Total
Straight-line depreciation	438.4	419.5	440.8	466.1	494.3	<b>2,259.1</b>
Less inflation adjustment on opening RAB	(216.4)	(224.5)	(233.4)	(240.2)	(250.0)	<b>(1,164.5)</b>
<b>Regulatory depreciation</b>	<b>222.0</b>	<b>194.9</b>	<b>207.4</b>	<b>225.9</b>	<b>244.3</b>	<b>1,094.5</b>

Our forecast regulatory depreciation is \$1,094.5 million (\$ nominal). In real 2026/27 terms, this is \$1,012.3 million which is \$109.6 million (12.1%) higher than the current 2022-27 regulatory period. The increase is primarily driven by growth in our RAB resulting from capital works completed during the current regulatory period.

This forecast reflects the inputs in our Revenue Proposal and will be updated by the AER in its Final Decision to reflect the approved capital expenditures and updated inflation forecast.

## 9.4 Our approach

We have calculated regulatory depreciation as a forecast depreciation less the inflation adjustment to the opening RAB, consistent with the Rules and the Australian Accounting Standards<sup>163</sup>. We use the AER's Post-Tax Revenue Model (PTRM)<sup>164</sup> to calculate the depreciation forecast for new assets from 1 July 2027 and the AER's Roll Forward Model (RFM)<sup>165</sup> and Depreciation Tracking Module (DTM)<sup>166</sup> for existing assets as forecast at 30 June 2027.

The PTRM introduces key changes to align with the Australian Energy Market Commission's (AEMC's) 2024 rule change on accommodating financeability in the regulatory framework<sup>167</sup> and the AER's Financeability Guideline<sup>168</sup>. It allows for accelerated depreciation to address demonstrated financeability issues resulting from the delivery of actionable ISP projects. Our Revenue Proposal does not include any actionable ISP projects and therefore no financeability related depreciation adjustments are proposed for the 2027-32 regulatory period. Powerlink may consider the application of these mechanisms in future regulatory processes should actionable ISP projects be included.

We also assessed the treatment of assets where the expected life has been shortened due to technical or operational reasons that may be eligible for application of accelerated depreciation. However, Powerlink has opted not to apply accelerated depreciation to these assets in the 2027-32 regulatory period to avoid short-term price impacts on customers.

In summary, we do not propose to apply any depreciation adjustments relating to financeability or accelerated depreciation for the 2027-32 regulatory period.

### 9.4.1 Year-by-year depreciation tracking

We continue to use a year-by-year depreciation tracking approach to calculate depreciation. Under this method, new capital expenditure is grouped by asset class, and each asset class is depreciated separately over its approved

<sup>163</sup> Australian Accounting Standard AASB 116 Property, Plant and Equipment.

<sup>164</sup> Electricity Transmission Network Service Provider Post-Tax Revenue Model (version 6), Australian Energy Regulator, March 2025.

<sup>165</sup> Electricity Transmission Network Service Provider Roll Forward Model (version 4.1), Australian Energy Regulator, May 2022.

<sup>166</sup> Electricity Transmission Network Service Provider RFM - Depreciation Tracking Module (version 1), Australian Energy Regulator, April 2020.

<sup>167</sup> National Electricity Amendment (Accommodating financeability in the regulatory framework) Rule 2024, Australian Energy Market Commission, March 2024.

<sup>168</sup> Financeability guideline – Final decision, Australian Energy Regulator, November 2024.

standard life, ensuring that the recovery profile of our costs reflects the economic lives of our assets. We have provided our year-by-year depreciation tracking model with this Revenue Proposal.

#### 9.4.2 Use of forecast depreciation

The AER determined that it will use forecast depreciation to:

- roll forward the RAB for the 2022-27 regulatory period to establish our opening RAB as at 1 July 2027<sup>169</sup>, and
- establish our opening RAB as at 1 July 2032 for commencement of the subsequent 2032-37 regulatory period<sup>170</sup>.

#### 9.5 Asset classes and asset lives

The standard life we propose to apply to each asset class are shown in Table 9.2. We propose to apply the same standard asset lives for the 2027-32 regulatory period as applied in the current 2022-27 regulatory period.

Table 9.2 - Standard asset lives – as at 30 June 2027 (years)

Asset class	Standard life <sup>(1)</sup>
Transmission lines - overhead	50
Transmission lines - underground	45
Transmission lines - refit	30
Substations primary plant	40
Substations secondary systems	15
Communications - other assets	15
Communications - civil works	40
Network switching centres	12
Land	n/a
Easements	n/a
Commercial buildings	40
Computer equipment	5
Office furniture and miscellaneous	7
Office machines	7
Vehicles	7
Moveable plant	7
Insurance spares	n/a
Buildings - capital works	40
In-house software	5

(1) Asset classes with 'n/a' identified for its standard life do not depreciate.

<sup>169</sup> Powerlink 2022-27 Final Decision, Australian Energy Regulator, April 2022, p.38.

<sup>170</sup> Framework and Approach Powerlink transmission determination 2027-32, Australian Energy Regulator, July 2025.