EXPENDITURE TRANSPARENCY

RESET RIN 4.4.4 AND 4.4.5

CP RIN 11 – PUBLIC
2026–31 REGULATORY PROPOSAL

1. About this document

The information provided in this document supports the information provided in Part B of our regulatory proposal. Please refer to Part B of the regulatory proposal for further details.

This document addresses the ‘Transparency’ requirements in sections 4.4.4 and 4.4.5 of the Reset Regulatory Information Notice. Specifically:

- section 4.4.4 of the AER's reset RIN requires that we provide the following for total capital expenditure expected to be incurred in the current regulatory period:
  - (a) a comparison of the total expenditure by category, disaggregated by expenditure category or driver, to the total forecast capex allowed for the current regulatory period;
  - (b) an explanation of the drivers of differences noted in response to section 4.4.4 (a), for example the impact of efficiency gains, major new projects, project deferrals or rescoping, changing regulatory obligations, asset age, or other factors;
  - (c) a list of projects deferred in the current regulatory control period and included in the forecast capex for the forthcoming regulatory control period, and the rationale for the deferral
- section 4.4.5 of the AER's reset RIN requires that we provide the following for forecast capex for the forthcoming regulatory control period:
  - (a) a comparison of the total forecast expenditure by category or driver to the total capital expenditure expected to be incurred in the current regulatory control period;
  - (b) an explanation of the drivers of differences noted in response to section 4.4.5 (a), for example the impact of expected efficiency gains, major new projects, project deferrals or rescoping, changing regulatory obligations, asset age, or other factors.

2. Transparency requirements

Today, our customers experience some of the highest performance standards in the National Electricity Market (NEM), in terms of reliability and price. As outlined in part B of our regulatory proposal, we provide a consistent, dependable and affordable service every day:

- we are the most reliable distribution network in Australia; our customers experience less minutes off supply than any other network, with just 21 minutes off supply on average in 2024
- our customers face the lowest network charges in Victoria and second-lowest nationally
- the value of our regulated asset base (RAB) is low relative to the volume of energy we deliver, meaning we are delivering more value for customers with less infrastructure.

This performance is supported by our investment governance framework that encompasses a set of principles, guidelines and controls that support planning, forecasting, decision-making, risk management and performance evaluation. This framework covers both our capital and operational expenditure related to our network assets, as well as non-network investments that support the operation of our network.

2.1 Comparison and explanation of total current period expenditure by category compared to allowance

Our net capital expenditure in the current regulatory period will be lower than the AER's allowance by $55 million, or 8 per cent. The principal drivers have been:

- augmentation:
  - Melbourne's journey through the pandemic, in particular, was more challenging than elsewhere in Australia. Peak demand and consumption in the CBD and inner-city fell by 20–30% during lockdowns, and the uncertainty around when business and community activity would return deferred some major augmentation works. This impacted our modernisation program, and our Tavistock Place supply upgrade following lower localised connections post-COVID
  - augmentation activity was also below that forecast due to more efficient management of customer energy resources (CER) driven by the stronger than expected performance of our dynamic voltage management system and other low cost interventions like our industry-leading work to identify and address incorrect customer solar settings with solar manufacturers
  - further drivers of our augmentation underspend included lower than expected costs for the Russell Place supply offload due to the limited extent of required structural works.
- replacement:
  - additional replacement expenditure was incurred due to input cost inflation for both high-volume asset replacement works and larger projects on zone substations. These rising input costs arose during the pandemic, and have not abated
  - our ability to manage these price impacts was also limited by market factors, including that suppliers were only offering ultra short-term contracts due to the underlying uncertainty. This was compounded in our pole replacement program, where we have mandated delivery volumes and targets as directed and required by Energy Safe Victoria

- ◦ our replacement spend also reflected longer-term trends of increasing asset replacements of high-volume distribution assets, reflective of the characteristics of the underlying asset populations, and high-cost underground cable works.
- connections – despite an initial dip due to the pandemic, we experienced a significant rebound in connections activity in later years of the regulatory period.

Other expenditure categories are anticipated to fall close to the expenditure allowance provided in the final determination and/or are of small impact to the overall spend.

TABLE 1 ACTUAL EXPENDITURE VS AER ALLOWANCE: 2021–26 ($M, 2026)

CATEGORY	ACTUALS	ALLOWANCE	CHANGE ($)	CHANGE (%)
Augmentation	108	166	-57	-35%
Replacement	204	155	50	32%
Connections: net	157	148	9	6%
- *connections (gross)*	576	465	112	24%
- *contributions*	-419	-316	-103	33%
ICT	110	101	8	8%
Fleet	13	5	8	152%
Property	20	19	1	6%
Other non-network	6	1	5	328%
Overheads	138	119	19	16%
Net capex (before disposals)	756	714	42	6%
Less disposals	-99	-3	-97	3671%
Net capex (after disposals)	**657**	**712**	**-55**	**-8%**

Note: Totals may not add due to rounding

Our deferred projects

Our capital expenditure forecasts for the 2026–31 regulatory period include the following material projects that have been deferred from the 2021–26 regulatory period:

- offload projects from our Collingwood and West Brunswick zone substations will commence in the current regulatory period, but carry over into the 2026–31 regulatory period. The timing of these projects were temporarily delayed due to the uncertainty associated with the pandemic
- our SAP S/4 HANA upgrade was deferred in the current regulatory period as the vendor provided extended support for our existing system.

However, given the low materiality of our underspend, we do not consider these deferrals warrant any consideration of adjustments to our capital expenditure sharing scheme revenue.

2.2 Comparison and explanation of total current period expenditure by category compared to forecast

The way our customers are using electricity is rapidly changing. With growing electrification, continued uptake of consumer energy resources (CER) and increasing frequency and severity of extreme weather, we are more dependent on a safe, reliable and resilient electricity supply than ever before.

This transformation of electricity needs is occurring at the same time as more typical network drivers, like population growth, asset risk, safety and regulatory compliance. The prevailing economic environment is also changing, with rising input costs challenging affordability and what customers value from their network.

Given the scale and scope of these changes, our energy system in the future will need to function very differently to the energy system we see today. Consistent with this, we forecast a total capital expenditure requirement of $1.2 billion, or a 85 percent increase on our anticipated expenditure in the 2021–26 regulatory period.

At a category level, the need for additional expenditure reflects the convergence of multiple challenges and opportunities facing our network including:

- augmentation – the electrification of transport and gas, customer growth and CER integration are driving augmentation, including our customer-driven electrification program, the continued modernisation of the Brunswick supply area and broader supply upgrades. Our augmentation spend also includes works related to maintaining our CBD security of supply obligations, and externally driven asset relocations
- replacement – uplifts have been forecast in asset replacement to manage increases in observed defects and risk in categories such as underground cable, distribution switchgear and zone substation transformers
- connections – increased investment to support customer growth fuelled by population growth, changes in planning laws, electrification and data centre connections
- ICT – the need for non-recurrent investment in our IT infrastructure, including cyber security, upgrading our enterprise resource planning and billing system, CER integration and new regulatory obligations associated with the post 2025 NEM market reforms
- property, fleet and other network – re-development of our Burnley depot to maintain customer response times and support our increasing works program. Further property related investments are required to refurbish our head office, and to establish a new training facility to meet the needs of a growing workforce.

Table 2 outlines our forecast capital expenditure by expenditure category, relative to our expected actual spend over the 2021-2026 regulatory period.

TABLE 2 ACTUAL EXPENDITURE: 2021–26 VS FORECAST: 2026–31 ($M, 2026)

CATEGORY	ACTUALS	FORECAST	CHANGE ($)	CHANGE (%)
Augmentation	108	215	107	98%
Replacement	204	354	150	73%
Connections: net	157	237	80	51%
- *connections (gross)*	576	846	270	47%
- *contributions*	-419	-609	-190	45%
ICT	110	137	27	24%
Fleet	13	21	8	67%
Property	20	84	65	328%
Other non-network	6	7	1	12%
Overheads	138	162	24	17%
Net capex (before disposals)	756	1,217	461	61%
Less disposals	-99	-1	98	-99%
Net capex (after disposals)	**657**	**1,216**	**559**	**85%**

Note: Totals may not add due to rounding

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