PROPERTY, FLEET AND OTHER NON-NETWORK

PROPERTY RECURRENT EXPENDITURE

PAL BUS 8.04 – PUBLIC
2026–31 REGULATORY PROPOSAL

Table of contents

1.   Overview

Our recurrent property expenditure relates to non-network property assets, which are assets that are not integrated or imbedded in the primary distribution network. This includes depots, zone substation control room buildings, and supporting infrastructure, such as security fencing and surveillance assets.

Ultimately, our property management strategy aims to ensure buildings and supporting infrastructure remain fit for purpose through prudent upgrades and interventions. Increasingly, there is also a need to respond to external factors such as persistent and growing security risk, as well as evolving expectations to promote environmental sustainability.

This business case comprises three core components of our property recurrent expenditure, including:

- physical security—addresses security vulnerabilities through a targeted program focused on high security fencing of critical assets, and building access control systems (BACS) integration

- building upgrades—works required to maintain the condition and safety of our facilities as well as accessibility upgrades to ensure consistent access of our buildings across our network

- environmental sustainability—addresses the increasing need to reduce emissions in accordance with customer expectation, achieved through targeted depot and control room investments such as installing solar panels, battery storage, and EV charging infrastructure.

Three options were explored, with the preferred option being to maintain property recurrency with additional targeted upgrades. A summary of the costs associated with this option are set out in table 1.

TABLE 1   SUMMARY OF PREFERRED OPTION ($M, 2026)

OPTION THREE	FY27	FY28	FY29	FY30	FY31	TOTAL
Maintain property recurrency with targeted upgrades	8.9	10.2	14.6	10.3	6.7	50.7

2. Identified need

Our property portfolio (including depots, zone substation control room buildings, and supporting infrastructure) plays an important role in ensuring efficient, safe, affordable, and reliable network operations. Our property management strategy aims to ensure they remain fit for purpose, including safety, security, and sustainability considerations.

There is an increasing need to respond to rising security risks. During the current regulatory period, our current security program has become increasingly unfit for purpose, due to the growing rates of theft and break-in attempts across our network, resulting in increased reactive costs to respond and rectify these incidents, as well as increased safety risks to our staff, network reliability, and the communities we serve.

Many of our buildings, including depots and zone substation control rooms were built over 50 years ago, and are showing significant signs of deterioration, resulting in increasing safety, financial, and network risk. There is also an increasing need to efficiently reduce our emissions in line with government targets and customer expectations, while balancing these outcomes with affordability.

The identified need is to ensure our properties remain fit for purpose to support the secure, safe, efficient, and sustainable delivery of our services over the 2026–31 regulatory period.

Physical security risks are increasing, requiring enhanced high security upgrades

Cooper theft of distribution network assets is increasing (as shown in figure 1) with theft being targeted at facilities and locations storing assets containing copper such as public lighting (pole-to-pit), pole earths, distribution substations, kiosks, zone substations and depots. Unauthorised access to our assets for the purposes of copper theft has become a growing concern, due to its impact on our infrastructure and public safety. Many incidents result in service disruption to our customers and present safety hazards to the community and our staff, as well those interfering with our assets.

There are a number of zone substations and distribution kiosks that do not currently have adequate security fences installed. Both zone substations and distribution kiosks are at high risk of potential theft as there are various high-values assets which both contain copper. There have been numerous incidents of theft and unauthorised entry to these sites. This has led to customer outage impacts and increased costs due to incident inspection, site damage rectification, asset replacement, and associated resourcing impacts.

Further, distribution kiosks are decentralised assets and as such, present unique challenges and risks regarding mitigating unauthorised entry. This is due to the positioning and locations of the kiosks that range from urban locations such as residential suburbs, commercial estates, and remote rural and bushland settings. Previously, break-in attempts have resulted in outage impacts, which has required that generators be deployed to temporarily restore supply, until the kiosk has been reinstated. These necessary reactive measures present an additional cost to network operations and customer reliability.

FIGURE 1   COPPER THEFT INCIDENTS

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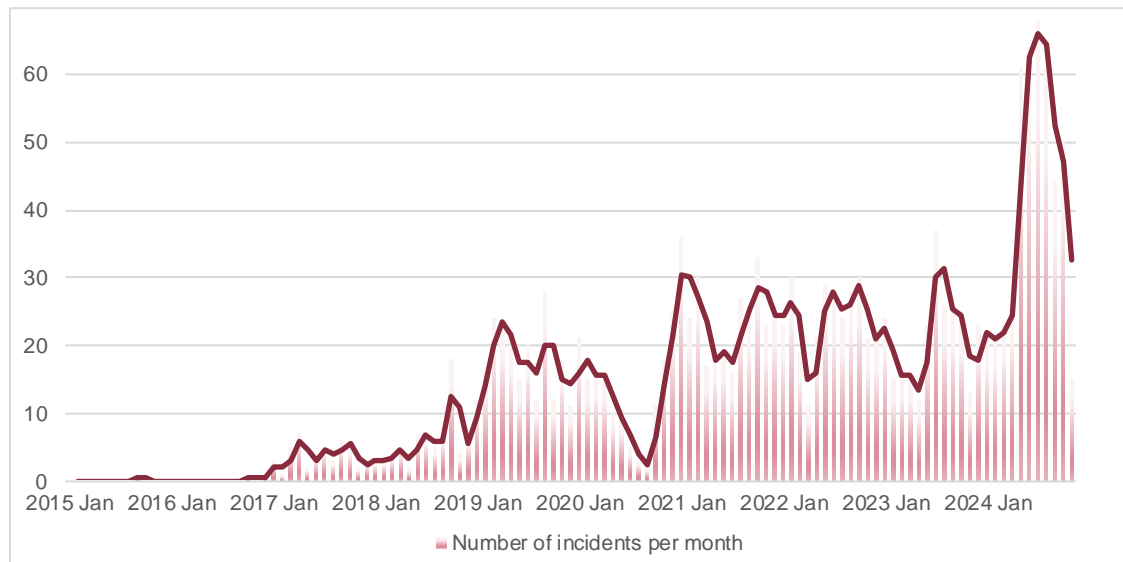
Note: the above data reflects combined Powercor and CitiPower incidents of copper theft

Zone substation control rooms are aging and therefore have increasing safety and financial risk

There are a portion of zone substation control rooms which have significantly aged infrastructure which result in significant occupational health and safety (OH&S) and network reliability risks. These buildings are particularly vulnerable to extreme weather events, due to their deteriorated condition. Moreover, the prevalence of asbestos compounds health and safety risks to our employees and the community. There is also an increased risk of high-cost reactive replacement. For example, extreme weather events may result in control rooms becoming damaged beyond repair and entirely unfit for use, including increased risks of asset failure and associated network outages.

Our depots require accessibility upgrades to allow for consistency across our property portfolio

There is a subset of our depots which require upgrades to enable accessibility. The Building Code of Australia and the National Construction Code provide the minimum necessary requirements for safety, health, amenity and sustainability in the design and construction of new buildings, and when construction works are undertaken in existing buildings.

Buildings are required to be compliant with the prevailing codes at the time of construction and where new works are undertaken on an existing building, there is a requirement to bring the building up to current codes. While our current buildings are not technically non-compliant given their time of construction, it is best practice to ensure accessibility standards across a portfolio are consistent, in order to ensure a safe, accessible, and inclusive working environment for all our staff and visitors.

We must evolve our business practices gradually to enable decarbonisation of operations

Environmental sustainability is of increasing importance to our customers, stakeholders, and communities. The regulatory and policy landscape is significantly different to our previous regulatory reset, with net zero emissions and renewable energy targets now in place by state and federal governments.

Moreover, these commitments align with our customers' expectation, which were made clear throughout our extensive broad and wide customer engagement program. Our grassroots engagement found a strong expectation from customers that we decarbonise our own operations and enable customers to decarbonise their homes and businesses. However, there was prevailing feedback that outcomes must be balanced with costs, particularly given cost-of-living pressures.

We have a demonstrated committed to reducing our carbon emissions and ensuring that we operate sustainably to protect and respect the environments and communities in which we are operate. To date, we have made significant investments across our network to efficiently reduce emissions—and are on track to reach our 2030 targets of 30% emissions reduction below 2019 levels ahead of time. Throughout the current regulatory period we have invested in hybrid passenger vehicles, initiated a pilot EV uptake program, installed solar panels at most depots, and have begun pilot battery energy storage installation at depots.

3. Options analysis

To address the identified need, we considered three options. Table 2 provides a summary of these options, with further detail in our attached model.[1] Option three is our preferred option as it materially reduces property security and safety risks, with moderate additional cost, relative to option two. Moreover, option three addresses the growing sustainability requirements and expectations of our customers, stakeholders, and the recently amended national electricity objective.

TABLE 2   SUMMARY OF OPTIONS ($M, 2026)

OPTION		COST
1	do not maintain property recurrency	-
2	maintain property recurrency	38.2
3	maintain property recurrency with targeted upgrades	50.7

3.1   Option one: do not maintain property recurrency

Under option one, we will not maintain our properties recurrency. This option will put our customers' energy supply security at risk and will materially increase the risk of the potential for harm to our staff and members of the public by not upgrading security, safety and suitable measures. More specially, this option will:

- reduce our ability to protect staff and the wider community and detect against unauthorised intrusions, increasing the likelihood of a major security incident at our facilities

- increase the likelihood of a major physical security incident, which may result in the failure to deliver a safe and dependable supply of electricity, breaching of section 6.5.6(a)(iii) of the Rules

- increase costs and risks associated with responding to and remediating physical security breaches, including those resulting from personnel and public injuries

- increase safety risks, due to deteriorating and aged building which are accessed by staff as well as located within communities

- reduce our capacity to meet stakeholder and customer expectations to reduce emissions.

3.2   Option two: maintain property recurrency

Option two is to maintain property recurrency. These works include improvements to the security of our critical assets, improvements in building accessibility and the first tranche of a long-term program to replace ageing zone substation buildings across multiple regulatory periods. Following strong

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[1]   PAL MOD 8.04 - Property recurrent - Jan2025 - Public and PAL MOD 7.19 - Facilities security cost - Jan2025 - Public

customer engagement feedback, an environmental sustainability program was also included. A summary of these costs is in table 3.

TABLE 3   OPTION TWO COSTS ($M, 2026)

COMPONENT	COST
Physical security	14.5
Building upgrades	20.5
Environmental sustainability	3.2
Total	**38.2**

This option includes expenditure in three key categories including physical security, building upgrades and environmental sustainability improvements. This is summarised below.

Physical security

The instances of security breaches, including attempted break-ins and copper theft, continue to rise. In accordance with industry best practice, option two includes:

- high security fencing at five priority zone substation sites

- kiosk fencing across 75 priority distribution substation sites which support critical telecommunications infrastructure

- maintenance of BACS infrastructure which includes the replacement of existing aged CCTV and associated technology integration of security controls

Building upgrades

Our building compliance program includes works to ensure our buildings are secure, compliant, safe, and accessible. We propose to refurbish 15 aged zone substation control room buildings (typically built in the 1960s) to ensure safety and reliability of supply, as well as a no-regrets program to rebuild an additional five buildings.

Further, we have engaged an external contractor to audit select depots for accessibility compliance, as a representative sample of other impacted depots. Option two includes targeted accessibility upgrades at a select number of high priority depots.

Sustainability

Our customer engagement program evidenced that customers place value on reductions in emissions, however, there is a trade-off between sustainability and affordability. Option two includes a limited sustainability increase, focused on:

- rooftop solar at select remaining depots and select zone substation control room sites. The installation of solar at critical zone substation control rooms has been determined in accordance with our security of critical infrastructure (SOCI) review to reduce the load on station supply to power air conditioning and other ancillary services

- battery storage at depots and select priority one SOCI zone substation control room sites to increase the value and utilisation of existing and proposed rooftop solar investments. Priority one SOCI sites have been selected for battery storage to provide power redundancy for CCTV.

The investments proposed in option two will result in several benefits, including:

- enhanced security of critical kiosks and zone substations via physical barriers, leading to a decreased likelihood of theft incidents, customer reliability impact, safety incidents, and damage to essential assets

- maintained surveillance capability through the replacement of existing BACS infrastructure

- critical interventions including both replacement and refurbishment of aged zone substation control rooms, decreasing worker safety risk and network reliability risks associated with aged and deteriorating zone substation control rooms

- building accessibility across high priority depots only

- modest upgrades to improve building sustainability to continue our emission reduction goals

However, option two does not meet the following identified needs:

- adequately address the increased security risk resulting from the increased incidents of theft and unauthorised entry of buildings and assets across our network. This presents a risk to the safety of our staff, communities, as well as network reliability, due to associated increased outage risks

- ensure safe, accessible, and inclusive working environments across all depots

- facilitate emissions reduction via our proposed fleet electrification investment.

3.3 Option three: maintain property recurrency with targeted upgrades

Option three is to maintain property recurrency, with targeted proactive upgrades to facilities security, accessibility and sustainability. A summary of the costs is in table 4.

TABLE 4   OPTION THREE COSTS ($M, 2026)

COMPONENT	COST
Physical security	16.7
Building upgrades	25.9
Environmental sustainability	8.1
Total	**50.7**

Option three includes all initiatives within option two, as well as targeted enhancements, including:

- facilities security improvements, including the expansion of our existing CCTV and BACS integration programs, and security monitoring drones providing surveillance of assets across our network

- building accessibility improvements across all depots that are presently non-compliant with current building codes

- installation of EV charging infrastructure at select depots.

Option three assessment

The investments proposed in option three will result in all benefits outlined in option two. Additionally, option three will result in the following benefits that option two does not address:

- ensuring that our security program remains fit for purpose, and capable of responding to the rising risks resulting from increased incidents of theft and unauthorised entry of buildings and assets across our network. This will be achieved by:

    ○ enhanced surveillance capability through the expansion of our existing CCTV and BACS integration programs, which will provide the flexibility necessary to provide real-time video monitoring and situational awareness, leading to both increasing deterrence and detection of security incidents

    ○ the installation of autonomous drones, which will provide enhanced surveillance and monitoring of assets including depots, storage facilities and construction sites which can be in either urban or rural locations

- enabling consistent building accessibility across all depots that are presently non-compliant with the current building accessibility standards. This will ensure safe, accessible, and inclusive working environments for staff and visitors across all depots, as opposed to only addressing the highest priority sites

- supporting our proposed fleet electrification investment and enable associated emissions reduction benefits through the installation of EV charging infrastructure at select depots. [2]

We therefore assess that option three responds to all identified needs outlined above.

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[2] PAL MOD 8.05 - Fleet - Jan2025 - Public

4. Recommendation

Option three is the preferred option with the greatest benefit of risk reduction, addressing all identified needs. While this option incurs additional cost, relative to option two (maintain property recurrency), it includes critical investment to address the increased security risks experienced during the current regulatory period. Moreover, option three will ensure consistent accessibility across all depots, in alignment with current building codes.

Our recommended option also includes a balance of cost with value and is aligned with our customers' evolving expectation for businesses to decarbonise. It also ensures accessibility is consistent across our whole business, which is best practice for our staff.

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