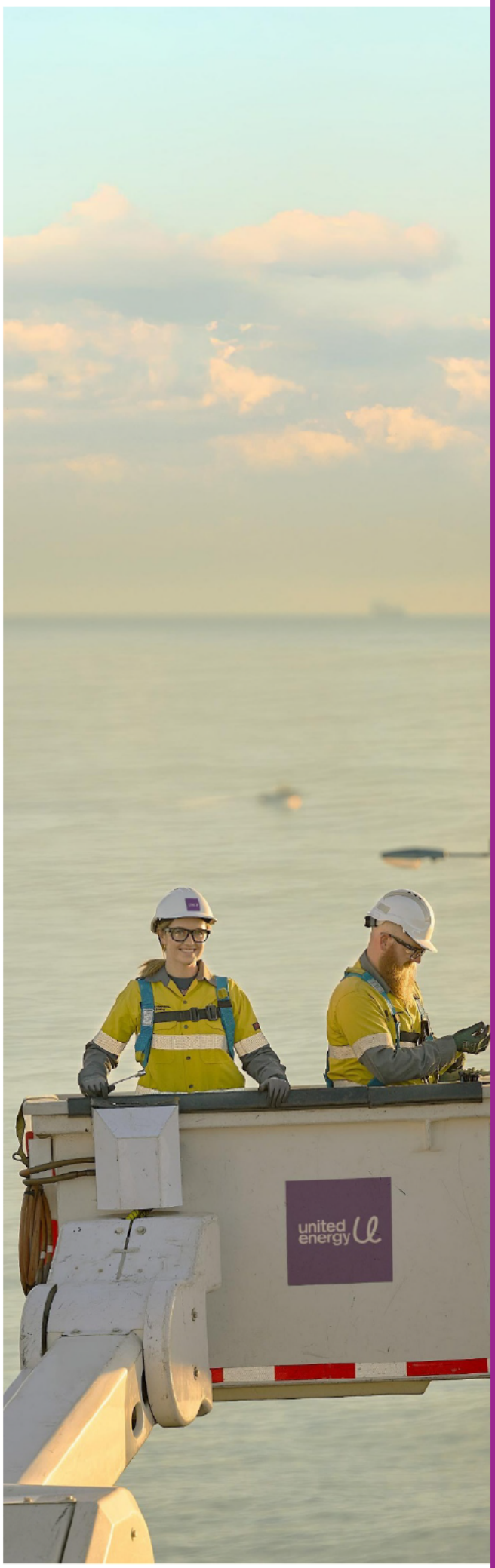

PROPERTY, FLEET AND OTHER NON-NETWORK

FLEET

UE BUS 8.03 – PUBLIC
2026–31 REGULATORY PROPOSAL

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1. Overview

Our vehicle fleet is critical to enabling network operations and service delivery to ensure a safe, efficient, and reliable supply of electricity.

Our network currently operates under an outsourced field service delivery model. As part of this outsourced model, ownership of fleet is split between United Energy and the incumbent third-party service provider. During the current regulatory period, we have increased the insourced proportion of our fleet stock from approximately 40 to 50 per cent.

Our 2026–31 fleet forecast represents a step-up on current period expenditure, predominately driven by the proposed further insourcing of our fleet. Insourcing the remaining fleet we do not own is a 'no regrets' investment that will lower long-term fleet costs for our customers.

For example, customers will incur costs irrespective of the ownership model, either directly through our fleet allowance or embedded in contract rates. However, insourced ownership will provide long-term benefits by reducing barriers to entry for potential new service delivery partners or providing greater flexibility to transition to a fully insourced delivery model. Both options introduce competitive tension with our incumbent service provider and therefore will increase future negotiating power on contract negotiations that will benefit our customers in future periods.

In addition to our proposed insourcing, we worked with our stakeholders on determining the optimal level of vehicle electrification, as well as considering the Victorian Government's Zero Emissions Vehicle Roadmap.[1] Our fleet forecast includes modest additional capital expenditure for fleet electrification, with a focus on light vehicle hybrid vehicle replacement to promote emissions reduction without compromising affordability or operational requirements, in line with our customers' preferences of balancing sustainability outcomes with affordability.

A summary of these costs, including a negative operating expenditure step change associated with electrifying our fleet, is set out in table 1.

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

OPTION THREE	FY27	FY28	FY29	FY30	FY31	TOTAL
Capital expenditure	9.0	11.1	6.4	8.7	27.2	62.4
Operating expenditure	-	(0.03)	(0.04)	(0.05)	(0.06)	(0.19)

[1] More information can be found at: https://www.energy.vic.gov.au/renewable-energy/zero-emission-vehicles

2. Identified need

Our vehicle fleet is critical to enabling network operations and service delivery to ensure a safe, efficient, and reliable supply of electricity. Fleet helps us to serve our communities by ensuring field workers are equipped with the tools and transportation necessary to effectively respond to outages, fix faults, maintain our network and connect new customers. Our vehicles are also a key factor in the health and safety for our workers and communities.

We are experiencing significant change as a network operating in a transforming sector. We face affordability pressures given the cost-of-living challenges, increasing complexity in maintaining customer reliability through the energy transition, growing resilience risk, and an evolving expectation to ensure we are managing our operations more sustainability.

In response to these changes, we are exploring ways to adapt our services to align with customer expectations. The identified need, therefore, is to manage our fleet to reduce costs to customers in the long term, while not comprising on the outcomes customers have told us they care about today.

2.1.1 Fleet delivery must evolve to ensure long term affordability outcomes

Our network must continuously evolve to ensure we are providing services at the lowest cost possible for customers today and in the future.

Our network currently operates under an outsourced field service delivery model. As part of this outsourced model, ownership of fleet is split between United Energy and the incumbent third-party service provider.

Under this model, we are likely to see increasing costs as contracts are renewed. This reflects the limited competitive tension that exists, for example, due to existing barriers to entry for new service partners (e.g. given the significant fleet requirements to service a network of our size).

2.1.2 Our current operational delivery model may not be fit-for-purpose over the long term

With extreme weather events increasing in frequency and severity, network resilience has emerged as a high priority risk to distribution networks, as widespread and long duration outages are becoming more commonplace. It is therefore increasingly of critical importance that we are adequately equipped with enhanced capabilities to respond to such events.

The Victorian Government recently commissioned an independent review of network businesses operational response to the prolonged power outages resulting from major storms on 13 February 2024.[2] A key finding of the review is that ‘outsourced field services require greater integration, visibility and control to effectively traverse organisational boundaries’ compared to insourced operating models. The review considered that all distribution businesses ‘ensure they have appropriate systems, processes and escalation models, technologies for scale and prolonged power outage events.’

In line with the review’s recommendation, we have reviewed our current field service delivery model and identified insourcing of fleet as a potential prudent and efficient opportunity to build in flexibility and enhance network outage response capabilities, to ensure we are prepared to effectively respond to increasing network resilience risks. Moreover, insourcing our fleet would enable a long-term shift to an insourced delivery model.

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[2] More information can be found at: https://www.energy.vic.gov.au/about-energy/safety/network-outage-review

2.1.3 Promoting efficient emissions reduction

Throughout our engagement program, our customers have repeatedly expressed their preference for us to enable a shift to a more decarbonised future, as well as to reduce our own emissions. However, our customers noted the trade-off between reducing emissions and increasing concerns for cost-of-living pressures and energy affordability. Notwithstanding current affordability concerns, our consultation process also found that in general, stakeholders expressed preference for a longer-term view of issues and investments, rather than focussing only on the immediate regulatory period.

Further, 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, and the National Electricity Objective (NEO) having been amended to include emissions reduction as a core objective.

There is a need to consider evolving our fleet management practices to optimise the shift to lower emissions vehicles. We must efficiently reduce our fleet emissions in line with the amended NEO, government targets, and customer expectations, while balancing these outcomes with affordability.

3. Options analysis

Three options were explored to meet the identified need.

Table 2 provides a summary of these options, with further detail in our attached fleet model.[3] Option three is our preferred option as it reduces fleet costs over the long-term and efficiently reduces fleet associated emissions.

TABLE 2 SUMMARY OF COSTS ($M, 2026)

	OPTION	COST
1	Maintain status quo: do not insource or further electrify fleet	20.4
2	Insource fleet	61.6
3	Insource fleet and efficient electrification	62.4

Capital expenditure forecasting approach

For each fleet option, we have conducted a bottom-up build of our 2026–31 fleet forecast based on our vehicle replacement policy by vehicle asset category.

Replacement of each individual vehicle is governed by our business' vehicle lifecycle management policy, wherein fleet are replaced based on asset life, usage (kilometres travelled), and condition. This approach ensures that we maintain an efficient and fit-for-purpose fleet, which is critical to supporting the efficient, affordable, safe, and reliable delivery of electricity to our customers.

A summary of our fleet lifecycle management policy can be found in appendix A.

3.1 Option one: maintain status quo

The base case option involves business-as-usual capital investment. This means we continue to replace our internally owned fleet in line with our fleet lifecycle management policy based on age, usage (kilometres), and condition. This option will maintain the current combined insourced and outsourced fleet delivery model, as well as our current ratio of internal combustion engine and low emissions vehicles.

Table 3 outlines the costs for option one. While option one presents the lowest upfront capital expenditure, it limits our ability to minimise cost over the long-term as well as manage our fleet portfolio more sustainably (in line with the NEO, our customers' evolving expectations and the Victorian Government's legislated emissions reduction commitments).

[3] UE MOD 8.03 - Fleet - Jan2025 - Public

TABLE 3 OPTION ONE ($M, 2026)

OPTION ONE	FY27	FY28	FY29	FY30	FY31	TOTAL
Maintain status quo	5.4	6.4	3.4	2.8	2.4	20.4

3.2 Option two: insource fleet

Option two is to gradually insource our fleet throughout the 2026–31 regulatory period, with full insourcing of fleet achieved in 2030–31. Table 4 outlines the costs for option two.

TABLE 4 OPTION TWO ($M, 2026)

OPTION TWO	FY27	FY28	FY29	FY30	FY31	TOTAL
Insource fleet	8.7	11.1	6.3	8.5	27.0	61.6

This option includes additional capital expenditure, beyond our base case, in order to support the strategic opportunity to promote customer affordability in long term.

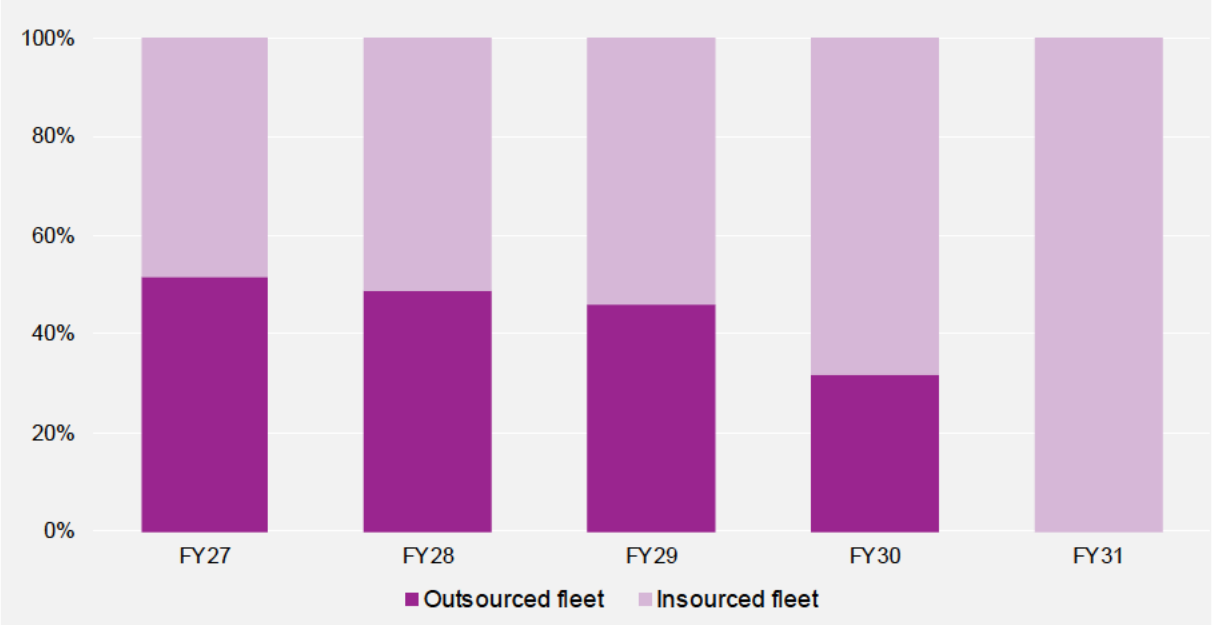
The benefits of option two relative to our base case include:

- reducing fleet costs over the long term given our ability to access a lower cost of capital, which can be then passed on to customers (see Appendix B)
- increasing protection against potential future contract rate increases, through increasing our bargaining power
- reducing barriers to entry for new market participants in the market for third-party service provision, thus increasing competitive market tension
- providing the optionality for our network (as an outsourced field delivery service) to prepare for a more fulsome insource of network operations over the long term, such as to deliver better services to our customers (such as during extreme weather events).

Figure 1 presents the proposed year-on-year insourcing rates, as we transition from an approximately equal ratio of insourced and outsourced vehicles to an entirely insourced fleet. The percentage of insourcing in each year is determined based on procurement and deliverability considerations and fleet replacement cycles.

This option, however, does not address the identified need to manage our fleet portfolio more sustainability through increasing the uptake of hybrid and electric vehicles.

FIGURE 1 PROPOSED YEAR-ON-YEAR FLEET INSOURCING RATES (%)



3.3 Option three: insource fleet and efficient electrification

Option three includes both full insourcing and partial electrification our fleet. This option, therefore, has modest additional incremental capital expenditure relative to option two due to the higher costs of lower emissions vehicle alternatives. However, the additional capital expenditure is traded off with a negative operating expenditure step change.

Our proposed fleet electrification represents efficient investment, balancing sustainability and affordability, in line with customer and stakeholder expectations, the NEO, and government targets.

Our fleet emissions reduction assessment approach incorporates the AER's recently published VER to assess the optimal uptake of low emissions vehicles. Our approach evaluates the total cost of ownership of vehicle electrification, including a negative operating expenditure step-change due to reduced operating costs of hybrid and electric vehicles. This represents an optimised uptake rate of low and zero emissions vehicles, maximising economic efficiency and emissions reduction. Further details can be found in our attached fleet NPV model.[4]

Table 5 presents both the capital costs for option three and the corresponding negative operating expenditure step change. This option addresses all identified needs captured in option two, as well as delivering a reduction of 2,532 tonnes of carbon emissions over the lifetime of the vehicles purchased during the 2026–31 regulatory period, which is well aligned to stakeholder expectations.

TABLE 5 OPTION THREE ($M, 2026)

OPTION THREE	FY27	FY28	FY29	FY30	FY31	TOTAL
Insource fleet and electrify	9.0	11.1	6.4	8.7	27.2	62.4
Opex step change	-	(0.03)	(0.04)	(0.05)	(0.06)	(0.19)

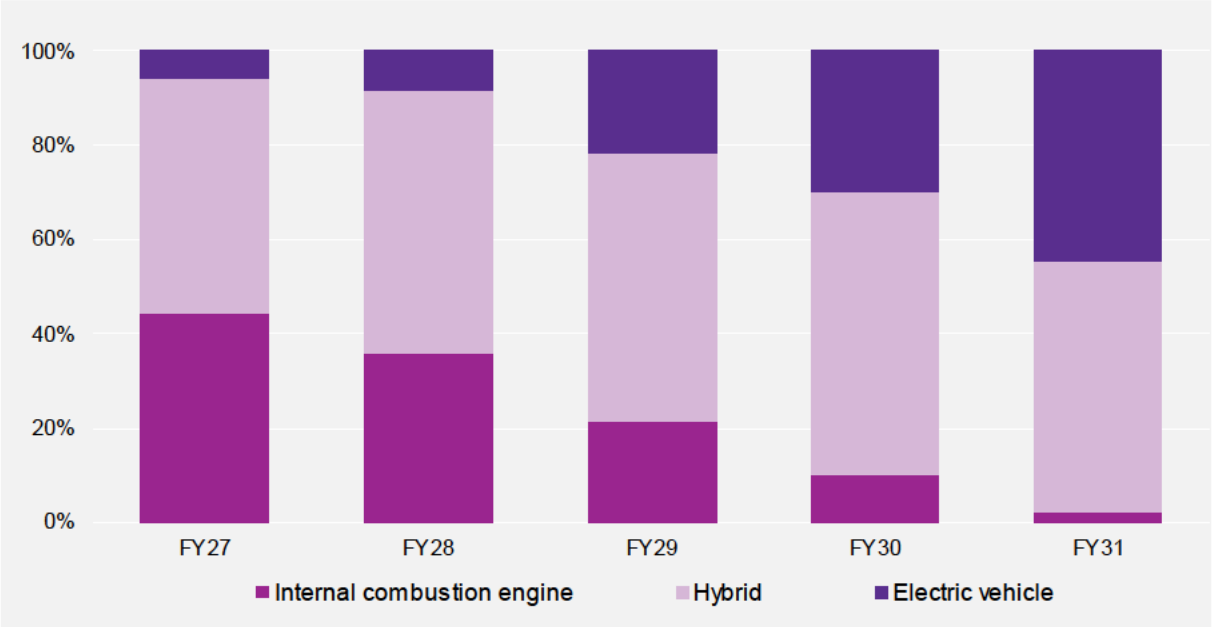
[4] UE MOD 8.03 - Fleet - Jan2025 - Public

Figure 2 presents our hybrid and EV uptake rate over the 2026–31 regulatory period.

It is imperative that we electrify our fleet prudently, given both market maturity considerations and the change management required for field workers. Given this, our low and zero emissions vehicle uptake is focussed on light passenger fleet which have well developed markets and present low operational risk. We are proposing modest trials in heavy vehicle emissions reduction through our targeted innovation fund allowance.[5]

As shown below, we propose to gradually increase the uptake rate of EVs throughout the 2026– 31 regulatory period. This approach ensures an optimal balance is struck between operational viability and emissions reduction and is aligned with the Victorian Government's Zero Emissions Vehicle Roadmap.[6]

FIGURE 2 PASSENGER CAR HYBRID AND EV UPTAKE (%)



5 For more information, please refer to: UE BUS 10.01 - Innovation allowance - Jan2025 – Public

6 Victoria's Zero Emissions Vehicle Roadmap, Department of Land Water Energy and Planning (2021)

4. Recommended option

Option three is the preferred option, which includes fleet insourcing and a modest electrification of fleet. While this option presents the highest capital investment, it addresses all identified needs and will result in lower customer costs in the long term.

Our recommended option maximises economic efficiency—balancing customer affordability and sustainability outcomes, as well as enabling the flexibility required to ensure our operational service delivery model is fit for purpose and well-equipped to respond to evolving customer needs, particularly those resulting from increased electrification and resilience risks.

A Summary of fleet replacement policy

We take a prudent approach to vehicle asset management, including consideration of multiple options, including:

- replacement
- service and maintenance
- electrical testing checks and rebuilds (elevated work platforms).

Our asset management approach is aligned with industry-standard best-practice, and consistent with vehicle compliance standards. A summary of our fleet lifecycle management policy is outlined below.

TABLE 6 FLEET LIFECYCLE MANAGEMENT POLICY

VEHICLE	REPLACEMENT APPROACH
Light passenger	Replaced every four years or 150,000 kilometres, whichever is achieved first
Light commercial	Replaced every five years or 150,000 kilometres, whichever is achieved first
Elevated work platform (LCV)	Typical life of ten years, after which they much either undergo an extensive rebuilding process or be replaced with new units of similar specification
Elevated work platform	Rebuilt at ten years (if deemed to be in adequate condition for safe rebuild). Must be replaced prior to the regulatory 15-year build time
Heavy commercial vehicles	Typically replaced or rebuild between nine and ten years, depending on the specific vehicle type. For example, large task trucks require compliance driven refit at ten years, if deemed to be in adequate condition. Crane borers are rebuilt at ten years and replaced after 15 years
First responder vehicles	Replaced every nine to ten years
Trailers	Typical replacement cycle of ten to 15 years
Forklifts	Typically replaced at 4,000 hours or five years, whichever is achieved first

B Insourcing methodology assumptions

[redacted]

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