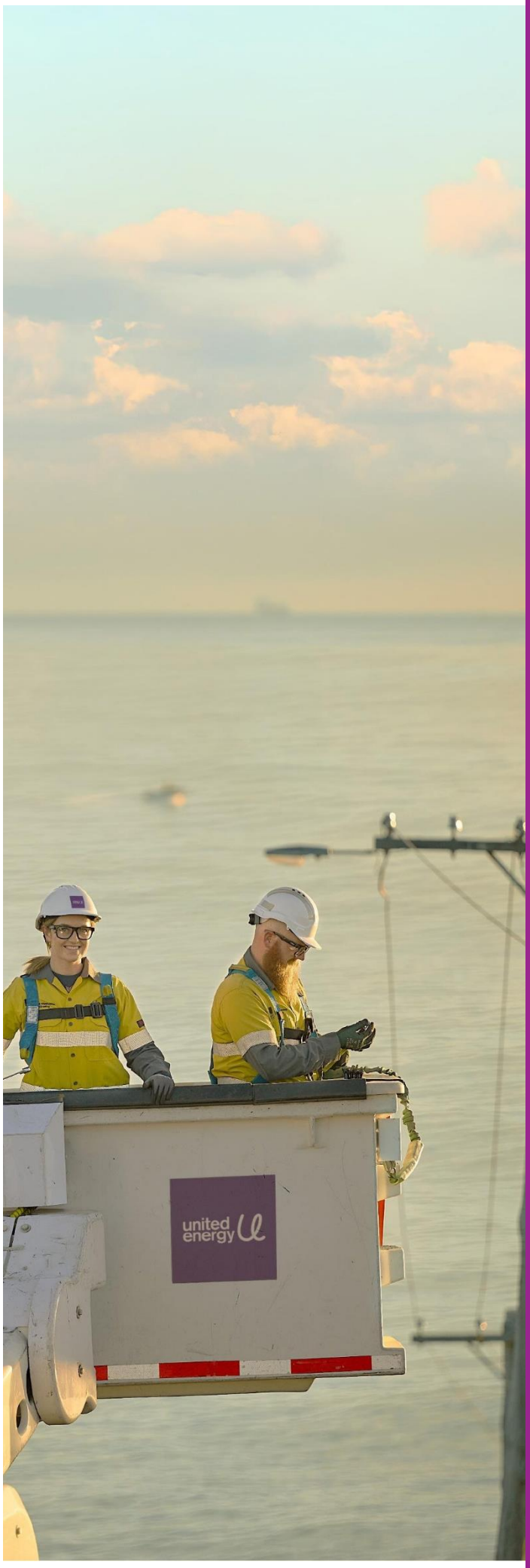

EXPENDITURE TRANSPARENCY

UE 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, price and network utilisation. As outlined in part B of our regulatory proposal, providing a safe, reliable, and resilient electricity supply is more important than ever before, and we are delivering this so our customers can have confidence in their electricity system to fully electrify their homes and lifestyles—for example:

- our network has benefited from sustained investment over multiple regulatory periods, with numerous zone substations having been upgraded or refurbished across a 15-year period. This has supported high levels of reliability, with our distribution network the second most reliable in Australia (i.e. our customers experience an average of just 33 minutes off supply per annum, which is almost 90 minutes lower than the National Electricity Market (NEM) average)
- our customers face the second lowest network charges in Victoria, and third lowest in Australia
- our network utilisation is greater than any other urban network, and around 13 percentage points above the overall National Electricity Market (NEM) average, reflecting the benefits of our many technology-focused solutions.

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 exceed the AER's allowance by $11 million, or 1 per cent. The principal drivers have been:

- augmentation:
    - augmentation activity was 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 partially deferred works in the Doncaster area due to the impact of increased costs on revised benefits analysis, and more general impacts associated with the pandemic, including the significant demand uncertainty and supply chain disruptions that impacted project timelines.
- replacement
    - we will materially exceed our regulatory allowance for replacement activities, particularly for poles and pole-top structures. This reflects rising input costs from the

pandemic and ongoing global supply chain pressures, although our existing delivery contract with our primary service provider muted some of these cost impacts

    - input cost inflation also impacts larger projects on zone substations, both from a materials and labour perspective. These costs have not abated

- net connections – our underspend in net connections is driven by the higher expected recovery of customer contributions relative to the allowance due to differences in the mix of actual connection works
- ICT – overspends are driven by additional spending on AEMO NEM reforms and our advanced distribution management system (ADMS), which are partially offset by the deferral of our enterprise resource planning (ERP) replacement project
- property – overspends in property occurred following the compulsory acquisition of our Burwood depot by the Suburban Rail Authority. We were subsequently required to construct a new Glen Waverley depot. The compulsory acquisition also impacted disposals.

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	106	133	-27	-21%
Replacement	430	383	48	12%
Connections: net	58	140	-82	-59%
- *connections (gross)*	370	347	23	7%
- *contributions*	-312	-207	-105	51%
ICT	262	232	31	13%
Fleet	23	15	8	54%
Property	156	79	77	97%
Other non-network	1	5	-4	-81%
Overheads	174	117	57	49%
Net capex (before disposals)	1,210	1,104	106	10%
Less disposals	-100	-5	-95	1795%
Net capex (after disposals)	**1,110**	**1,099**	**11**	**1%**

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:

- 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 we have not underspent our allowance, 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 $1.4 billion, or a 26 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 – given our high network utilisation, electrification of transport and gas, customer growth and CER integration are driving augmentation. Although we have been a leader in utilising non-network solutions to manage steady growth, ongoing electrification will result in the construction of a new 66kV sub-transmission line in the lower Mornington Peninsula (following successful deferral in previous regulatory periods using non-network solutions)
- replacement – uplifts are required in asset replacement to manage forecast deteriorating condition and increasing risk to our network assets, particularly our high-volume distribution assets. We are forecasting lower need to undertake zone substation works following sustained investment over multiple recent regulatory periods
- resilience – new investments are required to strengthen our network and communities against increasing frequency and severity of extreme weather. Our resilience proposal implements the recommendations of two separate reviews undertaken by the Victorian Government over the current regulatory period
- net connections – additional expenditure to support population growth, changes in planning laws and electrification

- ICT – non-recurrent investments in IT infrastructure, including cyber-security, upgrading our enterprise resource planning and billing system, CER integration, and additional regulatory compliance associated with post-2025 NEM market reforms
- non-network spend – a significant reduction in property expenditure due to the inclusion (and completion) of depot relocations over 2021–26 with no further depot upgrades required, and an uplift in fleet as we insource ownership to deliver benefits to our customers.

Table 2 outlines our forecast capital expenditure by expenditure category, relative to our expected actual spend over the 2021-26 regulatory period.

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

CATEGORY	ACTUALS	FORECAST	CHANGE ($)	CHANGE (%)
Augmentation	106	153	47	45%
Replacement	430	525	95	22%
Resilience	-	31	31	0%
Connections: net	58	97	39	68%
- *connections (gross)*	370	424	54	15%
- *contributions*	-312	-327	-15	5%
ICT	262	324	62	24%
Fleet	23	64	42	183%
Property	156	18	-138	-89%
Other non-network	1	1	0	7%
Overheads	174	187	13	8%
Net capex (before disposals)	1,210	1,401	191	16%
Less disposals	-100	-2	98	-98%
Net capex (after disposals)	**1,110**	**1,399**	**289**	**26%**

Note: Totals may not add due to rounding

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