GOVERNANCE, FORECASTING AND DELIVERABILITY OVERVIEW

UE RIN 24 – PUBLIC

2026–31 REGULATORY PROPOSAL

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1. Overview

As our network continues to evolve and face dynamic challenges, it is more important than ever that our investment approach is governed by a framework that places customer outcomes at the core of the decision-making processes. A well-designed and implemented framework ensures that investments are aligned with customers' needs, priorities and expectations.

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

To date, our investment governance practices have delivered our customers amongst the lowest network charges in the National Electricity Market, while maintaining strong performance in safety, reliability and network utilisation.

This document provides an overview of the investment approach and the governance frameworks we use to deliver safe, reliable and affordable electricity supply to our customers. It outlines the relationship between expenditure forecasting—including for the development of our regulatory proposal—and the day-to-day controls we use for making investment decisions throughout the regulatory period. It also covers the deliverability of our overall works program, now and into the future.

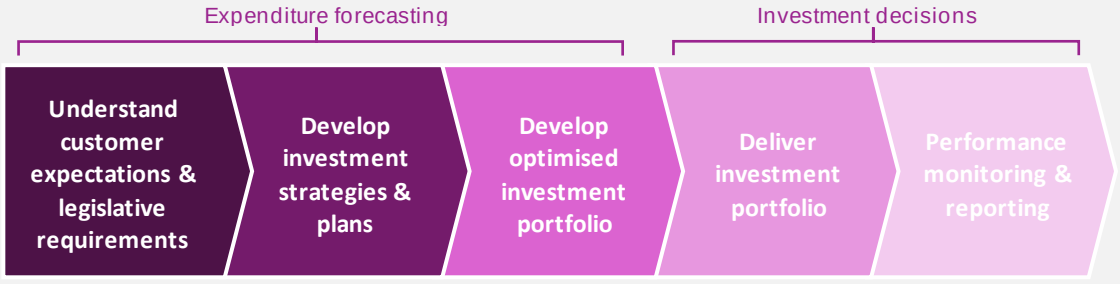
Our investment governance framework

Our investment governance process starts with understanding customer expectations and our regulatory obligations in owning and operating a distribution network. Once these have been established, we develop strategies and conduct analysis to achieve these needs.

The expenditure required to deliver our strategies and plans is then forecast, and optimised by making a distinction between discretionary and non-discretionary investments.

Oversight of the delivery of our optimised portfolio is delivered by various investment committees, with Executive and Board approval required depending on the value of individual projects and their strategic significance.

The performance of our network is also monitored closely to ensure an ongoing feedback loop regarding our service level expectations and/or obligations.



2. Expenditure forecasting

This section provides an overview of the processes involved in developing our expenditure forecasts.

Expenditure forecasting is an important process as it provides an estimate of the financial resources required to efficiently manage and sustain the network services we deliver to customers. It considers factors such as customer demand and service expectations, regulatory obligations, network growth, technological advancements, and asset condition to determine the expenditure needed over time.

Our expenditure forecasts support both longer-term planning (including the development of our regulatory proposals) and our annual budget processes.

2.1 Understanding customer expectations and legislative requirements

The first step in our expenditure forecasting process is understanding the expectations of our customers and the range of regulatory obligations with which we must comply.

2.1.1 Stakeholder engagement

We engage on a range of initiatives to actively listen to our customers' needs and incorporate their input into our daily operations and investment priorities. This engagement covers major projects (e.g. our pole replacement program) and new energy projects (e.g. community battery installations).

There are many ways we engage with our customers, and we have based this on the best practice model of informing, consulting, involving, and collaborating on projects, plans, topics, and issues that could impact customers. This requires more than just informing people about what we are doing—it involves active listening by senior levels within our businesses to the needs and expectations of a broad range of people, to ensure we deliver the right energy solutions while supporting communities and economic growth.

We also undertake more targeted engagement to further enhance our customer engagement efforts during the preparation of our regulatory proposals. This includes tailored approaches and channels for engaging comprehensively with a wide cross-section of our customers, enabling us to listen to their concerns and use these as inputs when developing important, long-term plans and investment forecasts.

Our stakeholder engagement strategy and implementation plans are detailed further in section 2.2.

2.1.2 Regulatory obligations

Compliance with laws and regulations is a fundamental aspect of our expenditure forecasting process. For example, legislative requirements and regulatory obligations include those set out in the following:

- Electricity Safety Act 1998 (the ES Act)
- Electricity Safety (Management) Regulations 2019
- Electricity Safety (General) Regulations 2019
- Electricity Safety (Electric Line Clearance) Regulations 2020
- Electricity Safety (Bushfire Mitigation) Regulations 2023
- Electricity Safety (Bushfire Mitigation Duties) Regulations 2017
- Electricity Safety (Registration and Licensing) Regulations 2020
- Electricity Distribution Code of Practice.

The National Electricity Rules also govern expenditure forecasts for a regulatory period, whereby the capital and operating expenditure objectives require our forecasts to:

- maintain the quality, reliability and security of supply
- maintain the reliability and security of the distribution system
- maintain the safety of the distribution system.

In short, to meet these compliance obligations, we must maintain reliability, minimise safety risk 'as far as practicable' including bushfire danger arising from our network, and reduce the risk of harm to the environment.

Any expenditure required to exceed these requirements (e.g. to improve reliability) is 'self-funded' by the business.

2.2 Developing customer and network strategies and plans

The development of customer and network strategies and plans provides a structured process to ensure we deliver on our customer and regulatory objectives.

2.2.1 Customer and network strategies

Our customer and network strategies are established and maintained as part of our integrated network management system (INMS).

The INMS combines common elements of various management systems to keep them as simple and concise as possible, to avoid repetition and to make it easier for stakeholders to understand. Our INMS covers all aspects of our operations that relate to the asset lifecycle for how we plan, design, construct, operate, maintain and decommission our electricity network.

Examples of these strategies include the following:

- customer strategy: encompasses initiatives aimed at enhancing customer satisfaction. This includes understanding key customer journeys and identifying 'pain points' within these. Our customer strategy has previously led to the establishment of a dedicated customer experience team, improved communications and customer engagement during faults, and more streamlined digital tools
- network investment strategy: outlines our approach to meet network safety, reliability and compliance objectives at least cost while considering future customer needs including the application of a value framework, portfolio governance and individual project governance. It forms the cornerstone of our approach to meet our network objectives, delivering an optimum combination of investments within business constraints
- network safety strategy: outlines our approach to enhancing the safety of the network by identifying potential asset safety risks and implementing controls. It aims to manage how we reduce the risk of harm to persons 'as far as practicable'
- bushfire mitigation strategy: outlines our approach to the management of network fire-safety risks, including measures to reduce the number of network fire risk incidents and their consequence, as well as working with our communities and coordinating with authorities during fire emergencies
- network reliability and resilience strategy: outlines our approach to maintaining the reliability performance of our network, including our response and customer engagement, to key weather events and climate variables of most significance for electricity infrastructure. These variables include wind, extreme temperature, extreme rainfall, flooding, sea level rise and the impact of bushfires

- network environment strategy: outlines our approach to managing the impact of our business on the environment in accordance with legislation and expectations of the community and stakeholders (i.e. to reduce the risk of harm from our activities to human health and the environment).

2.2.2 Customer and network plans

Our customer and network strategies translate into actionable plans that provide specific details, timelines, and responsibilities for effective execution. Examples of these plans include the following:

- asset class plans: these plans focus on assets within the network and outline the actions required for their inspection, maintenance, and replacement. They include plans for poles, pole tops, distribution transformers, cables, overhead lines, zone substation equipment, network communications, switchgear, property and grounds, public lighting, and meters
- line clearance plan: this plan focuses on ensuring the clearance of vegetation around power lines to prevent interference and potential hazards. It includes regular inspections, vegetation trimming or removal, and compliance with regulations and safety standards
- network area plans: these plans focus on growth drivers and network planning needs for different areas to ensure coordination and integration in planning needs across distribution and sub-transmission networks
- network resilience plan: this plan focuses on building resilience within networks to withstand disruptions and recover quickly from incidents such as severe weather events or bushfires. It includes plans for network hardening, redundancy, backup systems, emergency response, and rapid restoration of services.

2.3 Optimising our investment portfolio

Our investment portfolio is a 10-year outlook of the potential investments required to deliver the strategies and plans outlined in section 2.2. The portfolio is developed and optimised through a systematic process outlined in our portfolio governance framework, with costs and benefits determined based on our value framework.

2.3.1 Portfolio governance framework

Our portfolio governance framework documents how we assess and optimise investments. The scope of this framework includes electricity distribution assets installed and operated by our network, IT, fleet and property.

Assessing investments

As a first step, all investments included in our investment portfolio are evaluated by comparing expected benefits against their costs using discounted cashflow analysis. This assessment approach provides a method to consider the value of individual investments in isolation (to ensure their benefits outweigh costs), and to compare investments against each other (to ensure the overall portfolio maximises value).

Investments are also assessed as falling into either of two expenditure categories—non-discretionary or discretionary expenditure:

- non-discretionary investments are investments that we must make (e.g. based on prescriptive legislation)
- discretionary investments include those where the timing, scope and size of investments is not mandated (e.g. increasing network capacity).

As shown in table 2.1, the investment appraisal process differs depending on whether expenditure is discretionary or non-discretionary. Although technically acceptable least-cost solutions are identified for either category, discretionary investments must demonstrate a positive net present value to be considered for the portfolio.

TABLE 2.1 DISCRETIONARY VS NON-DISCRETIONARY INVESTMENTS

INVESTMENT TYPE	PROJECT TYPE	LEVEL OF DISCRETION
Non-discretionary (must-do)	Connect customers on request	20 days to offer and connect upon acceptance of the offer
	Replace on failure	Must do to meet safety obligations
	Heavy fleet	Mandatory obligations to periodically invest in elevated work platforms
	Property	Mandatory obligations to manage asbestos contamination
	Information technology	Mandatory obligations for cyber security, compliance with market operations (e.g. 5-minute settlement), and maintaining currency of existing systems
Non-discretionary (but some capacity to manage timing)	Replace following failed condition inspection (safety-related)	Clear standards driving days/weeks to complete based on severity and consequence
	Safety obligation	As far as practicable risk/spend trade-off to determine timing
	Environmental or legal obligation	Risk/spend trade-off to determine timing
Discretionary	Reliability improvement	Risk/spend trade-off to determine timing
	Replacement or asset improvement (including IT)	Risk/spend trade-off to determine timing
	Increase capacity to meet demand	Risk/spend trade-off to determine timing

Consideration of non-network solutions

Non-network solutions are routinely considered as part of our investment portfolio, and assessed as part of the options analysis for a given project.[1] Our approaches to supporting non-network solutions include the following:

- each year we publish a forecast of network constraints in our distribution planning annual reports
- as required, we seek non-network solutions during the completion of regulatory investment tests for distribution (RIT-Ds) in advance of large network investments.

Additionally, each year we undertake an open tender process seeking potential solutions from third parties to address load capacity limitations on our low-voltage network during peak demand periods. As part of this, in 2023 we partnered with the non-network solution platform, Piclo, to run a trial of their automated 'flexibility' platform and tendering system.

Our current experience with this trial is that, while there are non-network providers keen to participate, the market is currently not mature enough to consistently meet network constraints in most cases at a cost lower than network augmentation. It will take time and regulatory commitment to successfully develop a mature third-party non-network solution market. The experience of the UK's development of their flexibility market over nearly a decade is an example of this. A mature non-network marketplace has the potential to significantly improve network utilisation and lower costs for customers and we are committed to continuing to support the development of maturity here.

Using non-network solutions in practice

In addition to the Piclo trial noted above, the following non-network solutions have commenced, and will continue into the 2026–31 regulatory period:

- Lower Mornington Peninsula demand management program – in 2016, we became the first distributor in Australia to adopt a non-network solution through the RIT-D process. Our demand management program will continue through to 2031 with 10MW of demand response from BESS and diesel generation sources (at a forecast cost of $900,000 per annum)
- Battery energy storage systems (BESS) – this project investigates the technical and commercial feasibility of pole-mounted batteries connecting to the LV network to manage constraints on the distribution network and increase hosting capacity of distributed solar
- Carrum Downs community battery – connecting 100kW/190kWh BESS in the Carrum downs network to reduce peak demand risk at the substation and defer substation upgrades to 2034
- Tariff trials – as set out in our tariff structure statement, these include a daytime saver tariff to encourage demand transfer to 10am-3pm when energy is free, a HV storage tariff which discourages demand from 4-9pm, and a community battery tariff which discourages demand from 4-9pm and rewards exports from 4- 9pm and imports from 10am-3pm
- Flexible export trials – providing customers the ability to export solar electricity from their rooftops above current static limits using dynamic operating envelopes

The ongoing costs of these projects, as relevant, are reflected in our base year, or will be absorbed in future regulatory periods.

[1] Refer, for example, to our demand side engagement strategy and network planning framework: PAL ATT 3.04 - Demand side engagement - Jan2025 – Public; and PAL ATT 3.05 - Network planning framework - Jan2025 - Public.

Optimising investments

The investment portfolio is optimised by selecting the right combination of projects, at the right time, recognising financial and resourcing constraints. This is primarily achieved by moving the timing of discretionary investments being undertaken to maximise the discounted cashflow of the entire portfolio's net present value.

The constraints that apply to the portfolio optimisation process ensure a top-down check on all projects. The constraints typically considered include:

- program deliverability: consideration is given to the deliverability of the work program, including our internal workforce and external resource partners
- regulatory commitments: as part of our regulatory proposal or other stakeholder/government reviews, we may make explicit commitments to deliver specific projects within set timeframes
- customer service levels: an assessment of expected network safety and customer reliability outcomes from the optimised portfolio is undertaken (and where these objectives are not met, changes are made to add investments back into the optimised portfolio)
- financial constraints: annual financial limits are set taking into consideration regulatory allowances (and ex-post review risks), cash-flow and credit metrics.

2.3.2 Value framework

The process for determining the expected benefits of individual investments is detailed in our value framework. This framework allows investments—both network and non-network—to be assessed in a consistent manner based on their financial impacts, risk mitigation and customer value. For example:

- financial risks and benefits – measures the value of energy at risk, and any capital and operating expenditure savings, including reduced asset maintenance and/or capital deferrals
- risk mitigation – measures the benefit of an investment based on the value of risks mitigated, including those related to safety, bushfire, environmental, cyber security and IT reliability
- productivity benefits – measures the expected impact of efficiency improvements and/or reduced headcounts (noting that initiatives that improve productivity are 'self-funded' under the regulatory framework, so are not typically included in our regulatory proposal)
- customer and societal benefits – measures the value our customers place on various service levels.

Development of our customer values

In 2021, we completed a significant body of work with our customers to develop an estimate of the value they place on various services, such as network resilience and enabling solar exports. These values were designed to be additive to other value measures, such as the Australian Energy Regulator's (AER) value of customer reliability (VCR).

We were the first network businesses in Australia to incorporate such values into our internal investment assessment approach. That is, these values are now contributing to the prioritisation of our capital program to support the likelihood that any investments align with our customers' expectations.

At the recommendation of the Customer Advisory Panel (CAP), these values were re-tested and updated in 2023 to ensure they remain reflective of our customer's views. This reflected the view that the economic environment had changed materially, and the question of whether customer's preference had evolved as well (refer to table 2.2 for the current customer values).

TABLE 2.2 CUSTOMER VALUES

VALUE MEASURE	DESCRIPTION
Reliability in worst-served areas	Customer value of enhancing reliability in worst-served areas of our network, based on kWh of avoided outages
Enabling solar exports	Customer value of avoided rooftop solar constraints
Community resilience	Customer value of enhancing community support during long-duration outages caused by extreme weather. This includes emergency response vehicles and community liaison officers
Customer time	Customer value of time saved by customers on a per-minute basis
Battery storage in local community	Customer value of local battery energy storage systems to optimise the use of locally generated clean energy resources

Note: Several of these values have been superseded by comparable AER values, including the value of network resilience, value of emissions reduction, and customer export curtailment value.

3. Investment decisions

This section outlines our investment approval process and governance supporting the efficient delivery of our investment portfolio, and the monitoring of the performance of this portfolio in terms of how well we are meeting our customer expectations and regulatory obligations.

3.1 Delivering our investment portfolio

In the development of our optimised investment portfolio, all projects and programs must have a demonstrated need, and a forecast of benefits and/or costs. Specific project approvals, however, are typically only provided closer to the time of actual investment.

3.1.1 Project approvals

The governance of project approvals is delivered through investment committees comprising both executive and non-executive level staff.

The key committees that support investment approvals are detailed in figure 3.1.

FIGURE 3.1 INVESTMENT COMMITTEES

Notes: (1) Includes CEO, CFO, CIO, other Executive level members, and senior management group representatives
(2) Includes senior management group representatives

The information provided to each committee typically includes the identified need for the project or program, a detailed technical assessment of options and scopes for meeting these needs (including non-network solutions), and a build-up of expected costs and benefits. As individual projects progress through the project approval process, these options, scope, cost and benefits forecasts are updated with more contemporaneous information. Project delivery schedules may also be presented.

This process of continuous refinement through these committees—noting projects that proceed to Board or VPN/UE Investment Committees must have been endorsed by the Network or Non-network Investment Committees—represents a critical control for ensuring least-cost technically acceptable solutions are identified, tested and ultimately delivered in the long-term interests of consumers.

The effectiveness of these processes is reflected in our comparatively low network charges, and our strong benchmarking and service-level performance.

3.2 Performance monitoring and reporting

The ongoing performance of our investment portfolio is also closely monitored on a continuous basis by various committees. These committees are detailed in table 3.1.

TABLE 3.1 PERFORMANCE AND MONITORING COMMITTEES

COMMITTEE	ROLE
Board	• Responsible for overall performance, including approval of annual budgets, business plans, goals, directions, strategic plans and targets • Ensures policies, procedures and systems are in place to manage risk, optimise business performance and maintain high standards of ethical behaviour and legal compliance
Risk Management and Compliance Committee	• Oversees and makes recommendations to the Board on the risk profile of the businesses and ensures that appropriate policies and procedures are adopted for timely, accurate identification, reporting and effective management of the significant risks • Assists the Board with its responsibilities to oversee compliance with relevant obligations
Strategic Program of Work Steering Committee	• Oversees the development and monitoring of key projects aligned with the businesses five strategic pillars • Comprises the full Executive leadership team
Capital and Operating Works Program Steering Committee	• Meets monthly to review expenditure and works program against targets and budgets • Endorses actions to address performance, and where appropriate propose additional or alternate actions
Network Safety and Reliability Steering Committee	• Meets quarterly to review network performance, and identify areas of poor performance • Initiate actions to address issues and track to completion
Integrated Network Management System Steering Governance Committee	• Meets quarterly to review effectiveness of significant changes to network management of asset safety and environmental impacts, and ensure balanced decision-making that optimises safety and reliability, and network asset risks
Bushfire Mitigation Steering Committee	• Meets quarterly to review fire start performance against targets, both overall and by category
IT Portfolio Performance Review	• Meets monthly to discuss insights, improvements or solutions required to address any trends or anomalies implied in the IT portfolio reporting

A common feature of the above committees is that where the investment portfolio is not meeting objectives, such as those related to network safety and reliability, the portfolio is re-optimised to include projects that result in these objectives being met. Ongoing feedback from customers and stakeholders is also considered in the evaluation of performance, creating a feedback-loop into our expenditure forecasting and decision-making processes.

3.2.1 Public reporting of customer commitments

In 2021, we also commenced public reporting on a set of customer commitments to further hold ourselves to account for delivering outcomes that matter to our customers. These commitments were developed through consultation with our customer advisory panel (CAP) and our customers.

Our commitments are tailored to each of our networks to reflect our customers' different needs. Each commitment is measurable, and cover key themes—affordability, reliability, environment, empowering customer choices and safety.

4. Regulatory forecasts and decision making

Our approach to developing investment forecasts for our regulatory proposals is broadly consistent with that used to develop our optimised business-as-usual portfolio. Some differences exist, however, and we discuss these below.

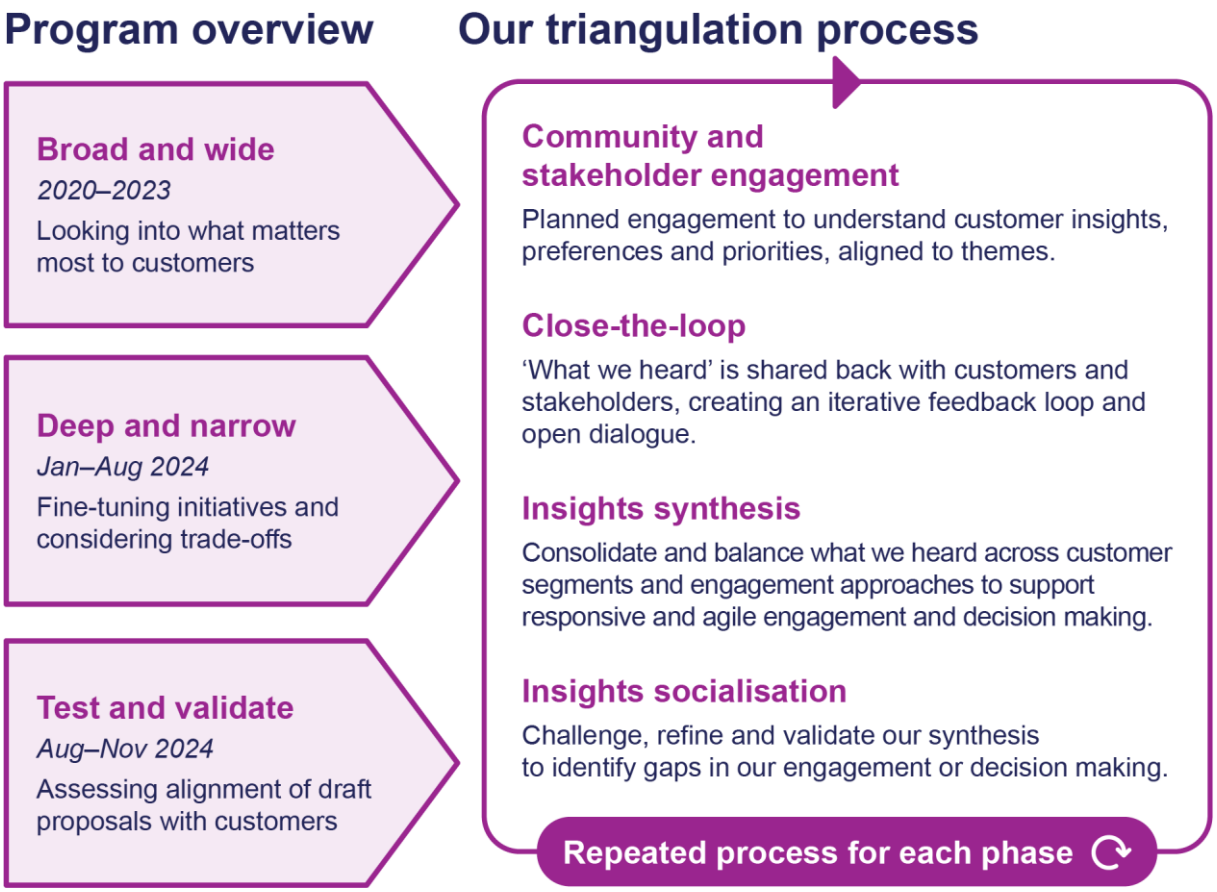
4.1 Stakeholder engagement

Although we constantly seek to better understand and respond to our customer needs in the day-to-day operations of our networks, the stakeholder engagement undertaken during the development of regulatory proposals represents a significant uplift. Our regulatory proposal engagement also includes a greater focus on longer-term customer considerations.

For example, in 2022 we commenced a comprehensive engagement program to shape our regulatory proposal. This program aimed to meet AER expectations, and ensure customer feedback from our broad customer base influenced our current and future operations and service delivery plans.

An overview of our engagement approach is outlined in figure 4.1, and a comprehensive summary of our engagement program and key findings is provided as an attachment to our regulatory proposal.[2]

FIGURE 4.1 OUR APPROACH TO ENGAGEMENT



[2] PAL ATT SE.01 - Stakeholder engagement attachment - Jan2025 - Public

Through our engagement phases, we connected with over 8,715 Victorian customers and stakeholders, including more than 146 different organisations.

4.2 Developing expenditure forecasts

The development of expenditure forecasts for our regulatory proposals occurs through several expenditure iterations that progressively refine our investment portfolio. This is similar in concept to the ongoing refinement of our internal budget forecasting process.

However, for the reasons set out in table 4.1, the type and scope of projects included in our regulatory proposals will differ to our annual budget and planning process.

TABLE 4.1 DIFFERENCES IN EXPENDITURE FORECASTS

DIFFERENCE	DESCRIPTION
Productivity and reliability improvement initiatives	Productivity and reliability improvement initiatives are self-funded under the incentive framework, so any such works are not included in our regulatory proposal forecasts (e.g. benefits for projects in our regulatory proposal are assessed using the VCR)
Best-available information	The development of our regulatory proposal requires investment forecasts for up-to seven years ahead (i.e. early expenditure iterations will occur in 2023, with the last year of our forthcoming period being 2031), whereas our budget and expenditure planning process for business-as-usual activities are revised annually. This means that project scopes and the specific mix of projects forecast at the time of developing our regulatory proposal will change over time due to the inclusion of more contemporaneous information
Portfolio optimisation	Our budget and expenditure planning has regard to our regulatory allowances as part of the portfolio optimisation process. Given our regulatory proposals represent a forecast for future periods (for which an allowance has not yet been determined), greater focus is given to constraints such as the deliverability of our overall portfolio

In respect to the best-available information, table 4.2 sets out the general forecast basis for capital expenditure included our 2026–31 regulatory proposal. These forecasts do not include additional contingency amounts.

More specific information on project costs are included in the respective business cases supporting our regulatory proposal.

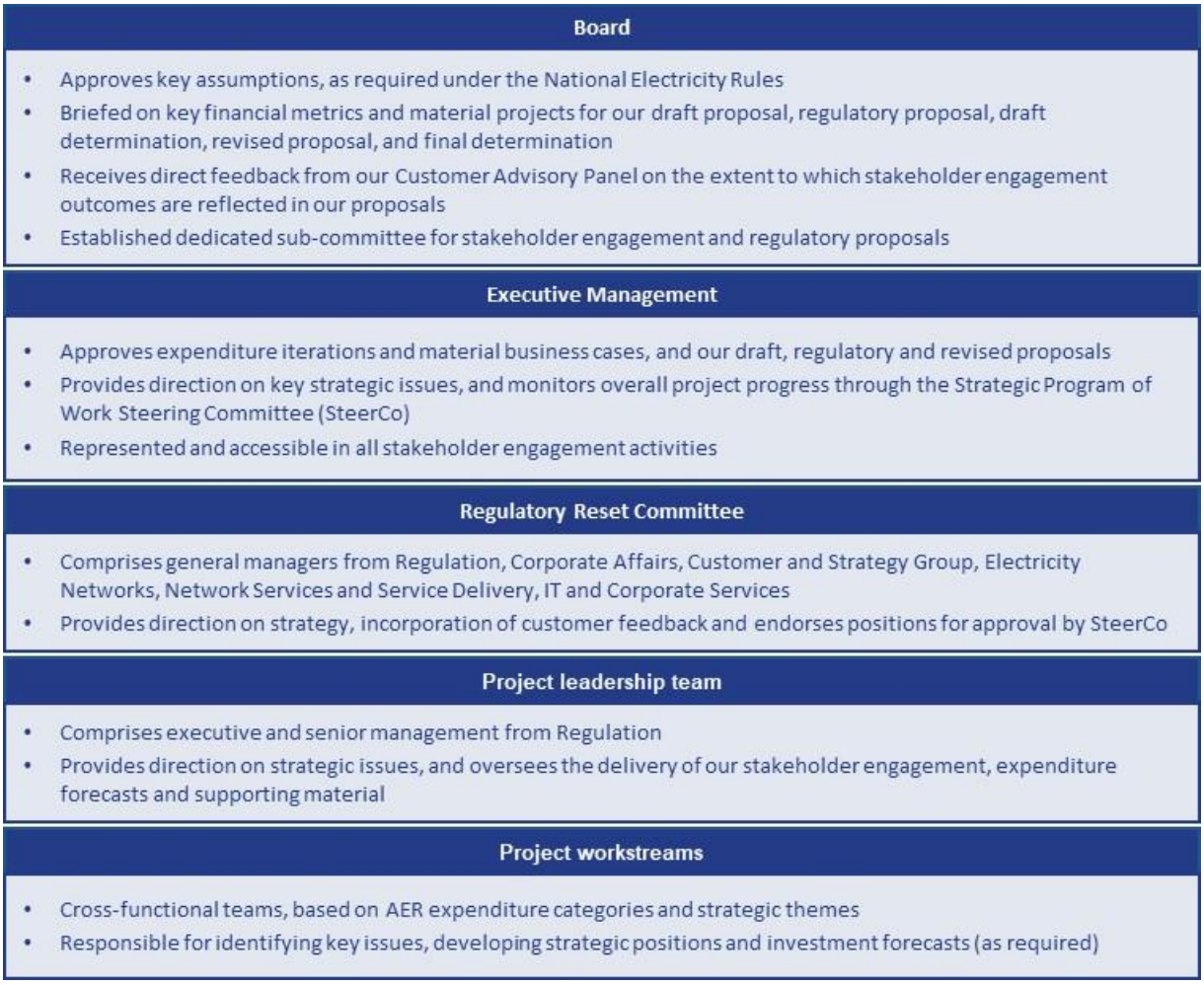
TABLE 4.2 BASIS OF COST ESTIMATES: FORECAST CAPITAL EXPENDITURE

FORECAST	COMPETITIVE TENDER FOR SIMILAR PROJECTS	ESTIMATES FROM CONTRACTORS OR MANUFACTURERS	HISTORICAL COSTS FOR SIMILAR PROJECTS
Major network investments	☑	-	☑
High-volume network investments	-	☑	☑
ICT	-	☑	☑
Non-network	-	☑	☑
Metering	☑	-	☑

4.3 Project approvals

Our annual project and portfolio approval processes are governed by the various committees outlined in section 3.2. Our regulatory proposals are not subject to these same committees, but as outlined in figure 4.2, similar Board and Executive oversight applies.

FIGURE 4.2 REGULATORY RESET GOVERNANCE STRUCTURE



Our regulatory proposal forecasts are also subject to further challenge by independent consumer representatives and regulatory authorities, including to ensure we have understood and properly represented our customers' needs and expectations.

4.3.1 Customer Advisory Panel

The CAP comprises eleven diverse and unbiased members, including an independent Chair and Deputy Chair. A total of 16 formal CAP meetings were held across 2023 and 2024, in addition to fortnightly progress meetings with the Chair and Deputy Chair.

The CAP advised on customer research, participated in specialised stakeholder-led working groups, observed our community engagements, and ensured the diverse and changing needs of our customers were properly understood, balanced and reflected in business plans. The CAP possesses specialist capabilities in consumer advocacy, regulatory strategy, energy markets, energy policy, customer protection, social research and public policy.

Following our draft proposal, the CAP delivered an independent report stating their observations and views on the veracity of our customer engagement, and the extent to which our customers views have been reflected in our expenditure forecasts.

4.3.2 Australian Energy Regulator

Every five-years, the AER undertakes a detailed review of our expenditure forecasts in setting our regulated allowances. The process applies a bottom-up economic and engineering assessment on the

cost of our projects and programs, examining the scope of work that is necessary to meet the safety, quality, security and reliability of supply.

The AER also applies a top-down challenge of our forecast expenditure through benchmarking analysis which assesses our service delivery output against cost inputs, relative to other electricity distribution businesses. This assessment ensures that our investment plans and strategies are well-tested, by requiring us to justify that our investments are prudent and efficient.

4.3.3 Customer Challenge Panel

The Customer Challenge Panel (CCP) is appointed by the AER to advise on whether the long-term interests of consumers are being appropriately considered in our regulatory proposals (and the AER's decision making). The CCP also provides an assessment of our customer engagement, including the extent to which our proposals reflect consumer preferences.

5. Project and program deliverability

While robust governance practices across our planning and investment decisions have been critical to the strong performance of our network, the efficient delivery of our works program has been fundamental to our customers facing amongst the lowest network charges in the National Electricity Market.

For example, we have a strong track record of efficient project delivery, including meeting recent challenges associated with delivering an increasing works program through a global pandemic and energy transformation. We have also delivered complex information technology (IT) projects under strict legislative timelines, such as the Victorian emergency backstop mechanism.

Looking forward, we expect a continued uplift in work volumes in the next and future regulatory periods as we support the energy transition and achievement of net zero targets.

5.1 Resource planning

Our approach to resourcing our overall capital program involves a mix of internal employees and external contractors, but is primarily an outsourced labour model. Internal labour, however, is critical in undertaking for example, resource planning, asset management and network planning functions.

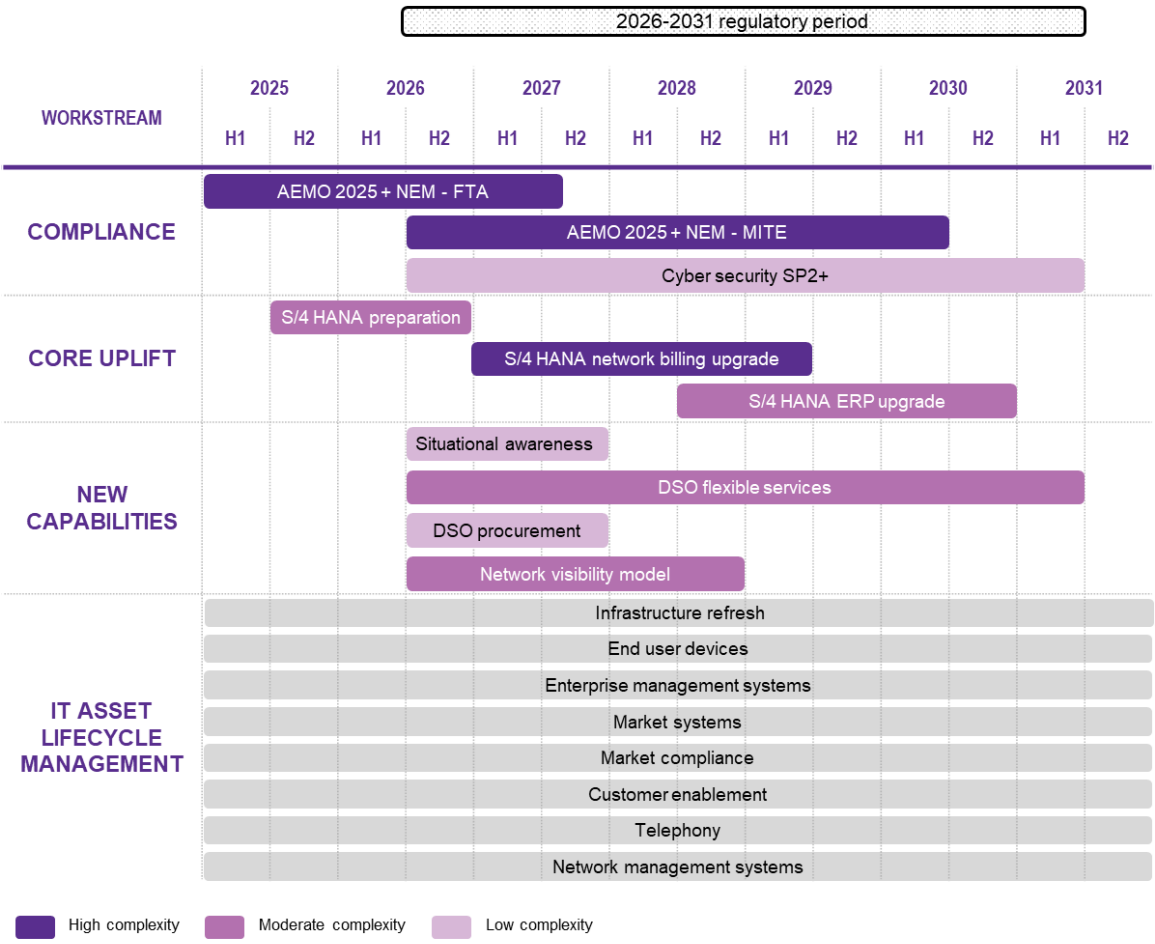
Case study: ICT resource planning

In developing our ICT program of works for the 2026–31 regulatory period we have:

- aligned our investments with externally driven timeframes, including compliance dates (e.g. AEMO NEM reforms) and vendor support roadmaps (e.g. ERP and billing system replacement)
- commenced preparatory activities in the current regulatory period (e.g. ERP and billing system replacement and our flexible trading arrangements) to avoid excessive peaks in workload during the 2026–31 regulatory period
- sequenced our other non-recurrent and recurrent programs around the time-bound projects to efficiently manage interdependencies and levels of complexity.

Our proposed ICT project delivery timeline is set out in figure 5.1. We have separated our ERP and billing system replacement project into three distinct workstreams to demonstrate the timing of each component.

FIGURE 5.1 ICT PROJECT DELIVERY: TIMELINE



5.2 External workforce

The delivery of our network capital program reflects our outsourced operating model, where all capital works are undertaken by independent, third-party service providers following an open, competitive tender. For example, we have a network services agreement with Zinfra to undertake all maintenance and fault responses across our network.

For major projects, we have an approved panel of suppliers who compete for capital works. To ensure we achieve efficient, market-based rates, we package our works program to enable benefits to be obtained through tendering significant sized projects. Projects that are suitable to be tendered as turn-key projects are identified at conception stage, and detailed scopes of works are prepared as the basis for tender documents.

Our IT operating model also leverages the flexibility of the external labour market, where the majority of our labour resources are external. By maintaining a large external workforce we are able to:

- quickly and efficiently scale up or down or workforce to meet workload requirements.
- source technical expertise with the most relevant technical knowledge for a specific project.

Our key delivery partners have been engaged under multi-year contractual agreements, and this provides stable and readily available access to a pool of external resources for the 2026–31 regulatory period.

5.3 Derisking our procurement supply chain

Timely procurement and delivery of materials and equipment to site, particularly long lead time equipment, is also key to the delivery of any network capital program. As observed through the pandemic, these procurement risks have increased significantly.

5.3.1 Our approach to derisking procurement risks

In response to heightened procurement risks, we have evolved our procurement practices to actively manage this environment. Our approach includes:

- multiple suppliers for each material and equipment
- period orders with multi-year contracts
- pricing mechanisms and hedging
- further improvements on longer term forecasting of procurement requirements and stockholding.

Multiple suppliers

Recognising the importance of supply chains to our business, we have taken additional steps to become more resilient to future supply chain disruptions through diversification. That is, we have increased the number suppliers of materials and equipment.

This entails procuring from both Australian and overseas suppliers. We will source from local manufacturers where possible, but also procure from different factories of multi-national suppliers to further increase available options.

Period orders

We maintain schedules of materials and equipment approved for installation on the network. This streamlines purchasing and stockholding processes, as well as the asset lifecycle such as the design, installation and operation of the asset.

Our ability to maintain this schedule of materials and equipment is based on our multi-year procurement contracts with key suppliers (i.e. period order). These contracts will ensure access to material and equipment provision when required. This is particularly crucial for long lead time equipment such as power transformers to ensure timely delivery and for conductors and cables where we expect to see increasing demand from our replacement programs.

Given prevailing inflationary conditions, all our contracts have pricing mechanisms that are reviewed frequently. This provides our suppliers confidence to invest in their operations (including financial viability of our contracts) and improves pricing outcomes.

Pricing mechanisms and hedging

We have utilised contract pricing mechanisms and hedging to de-risk commodity prices and exchange rate volatility. We have worked more closely with suppliers to share commodity and exchange rate risks and also hedge foreign currency where the exchange rate risk is material.

Further improvements

To further mitigate procurement risks, we are exploring improvements and mitigations, including:

- stocking larger quantities than previously to ensure material availability in the face of potential future disruptions
- improving material and equipment demand forecasting, focused on longer lead time equipment such as circuit breakers and power transformers, to link procurement forecasting more closely

with the budget cycle to ensure more efficient and timely procurement and delivery of material and equipment.

5.4 Enabling resources

Our fleet and property resources enable the delivery of our works program. As set out in our regulatory proposal, we have plans in place to ensure these enabling resources grow with our underlying works program requirements.

In the current period, for example, we have completed major depot upgrades that accommodate for future growth. We are also proposing to insource fleet in the 2026–31 regulatory period.

For further information visit:

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