Attachment 9.16

Capital Expenditure

Response to AER Draft Decision

January 2023

Contents

1 Capital Expenditure

We are investing $434 million in our Victoria and Albury networks in the next AA period. The capex we incur is required to ensure gas is supplied in a safe and reliable manner and to support ongoing network growth and customer service.

1.1 Overview

This attachment sets out our revised Final Plan capital expenditure (capex) proposal for the Victoria and Albury gas distribution networks over the next (2023/24 to 2027/28) Access Arrangement (AA) period in response to the AER's Draft Decision. In the next AA period we propose to invest $434 million, which is unchanged from the AER's Draft Decision and our Final Plan Gas Substitution Roadmap (GSR) Response.

The AER's Draft Decision approved our GSR Response capex forecast of $434 million in the next AA period.

As part of its review of our capex, the AER produced its own alternative forecast. Although the AER's forecast did not include some of the items we proposed, the forecast was not materially different in quantum to our own, and therefore the Draft Decision was to accept our proposed capex forecast.

In particular, the AER's alternative capex forecast in its Draft Decision:

- Accepted our proposed $30 million on mains replacement which is substantially below mains replacement expenditure in the current AA period due to the completion of the low pressure mains replacement program;
- Accepted $166 million in growth capex to connect new customers to the network which is lower than in the current AA period factoring in the impact to new connection numbers following the GSR;
- Accepted capex of $40 million for the replacement of meters, in line with the age of the meter fleet;
- Accepted $60 million for augmentation projects to ensure safe and reliable supply of gas is maintained for Melbourne's growth corridors in our network; but
- Did not agree with our proposed $5 million for cyber security, reducing the proposed IT capex to $70 million; and
- Did not agree with our proposed hydrogen readiness capex of $10 million, reducing the proposed capex for other assets to $27 million.

We are pleased that the AER accepted our forecast capex for the next AA period, however we provide further clarification on the importance of our cyber security capex program. All other aspects of our revised Final Plan capex remain unchanged. More detail on this is provided at 1.4.1 below.

We have updated our forecast of capex for the current AA period to $630 million, reflecting lower actual spend for 2022 and lower inflation when converting to 2022/23 dollars for comparison to proposed spend in the next AA period. We also discuss our forecast actual capex for the six month extension period January to June 2023. More detail on this is provided at 1.4.2 below.

The sections below discuss the AER's Draft Decision and our revised Final Plan on capex in more detail.

All numbers quoted throughout our revised Final Plan are dollars 2022/23, unless otherwise labelled.

1.2 Customer and stakeholder feedback

In preparing our revised Final Plan we have continued to engage with stakeholders, including through our Reference Groups and consideration of public submissions to the AER on our Final Plan and GSR

Response. We have also reengaged with end use customers to update them on changes since our series of customer workshops completed in March 2022.

A summary of customer and stakeholder feedback is provided in Table 1.1 below.

Table 1.1: Summary of relevant customer and stakeholder insights

What we heard	Our response
Public submissions on our Final Plan and GSR Response	
On capex generally: • EUAA did not want to see large levels of capex with 30 to 50 year asset lives that will soon be subjected to accelerated depreciation.1 • Friends of the Earth Melbourne reject proposals for capital expenditure that involves new assets being created, preparing for hydrogen blending or for asset replacement.[2] • Origin state that a pragmatic forecasting approach has been adopted where associated policy has yet to be fully articulated. It was also stated that sufficient flexibility in the regulatory process is required to adapt to the changing policy environment.[3] • TRAC Partners suggest the distribution businesses do not appear to have given any consideration to how practices may change from a 'business as usual' approach to capex investments to an approach which might reduce capex levels at a time where there is uncertainty around the future of gas and the economic life of networks.[4]	The majority of our investment reflects the continuation of existing programs that we undertake to ensure strong safety and reliability of our network and compliance with our obligations. In our GSR Response, we reduced forecast growth, augmentation, service replacement and meter replacement capex to reflect lower forecast new connections and higher forecast existing customer disconnections in line with the Victorian government's proposed new policy measures. The capex in our revised Final Plan balances the feedback we received from our customers and stakeholders, and ensures our networks can continue to deliver strong safety, reliability and customer experience. Overall, our revised capex is $196 million (or 31%) lower than the capex incurred in the current AA period.

[1] EUAA, Submission to Victorian Gas Access Arrangement Proposal 2023-28, September 2022, p 6 (EUAA Submission).
[2] Friends of the Earth Melbourne, Distributor's gas access arrangement proposals 2023-2028 From Ausnet and AGIG (owners of AGN and Multinet), September 2022, p 1 (FoE Melbourne Submission).
[3] Origin Energy, Submission to Victorian gas access arrangement proposals, September 2022, p 2-3 (Origin Submission).
[4] TRAC Partners for BSL, Response to Vic DBs' 2023-28 Access Arrangement Proposals, September 2022, p 40 (TRAC for BSL Submission).

What we heard	Our response
On growth capex: • EnergyAustralia acknowledged reductions were made to capital expenditure in customer growth, aligning with the GSR forecasts however, there was very little capex reduction to account for existing customers that are expected to reduce their gas consumption.[5] • EUAA support the reduced capex proposed in the addendum given the uncertainty of demand forecasts.[6] • Friends of the Earth Melbourne refuse capital expenditure that attracts new customers and retains existing customers on the network.[7] • Origin have stated the AER need to be cognisant of the uncertain future facing the gas sector and the potential asset stranding risk associated with forecasting growth capex.[8] • TRAC Partners expect more information to be provided to substantiate the key reasons for the higher unit rates, in particular why the unit rates are higher in new developments and why the unit contractor rates for new mains capex are higher than the rates for mains replacement.[9]	We have maintained our approach to forecasting growth capex in our revised Final Plan based on our forecast of relevant unit rates (see Attachment 9.6 to our Final Plan) and our GSR Response customer numbers, both of which were approved by the AER in its Draft Decision.
On IT: • BSL are not supportive of IT expenditure to service customers through a Digital Customer Services program.[10] • TRAC Partners state that it is important the AER undertake a review into the forecast spend on cyber security in light of new requirements and increasing threats. It is also stated in their submission that deferring the expenditure on digital metering and digital customer experience needs to be considered with the uncertainty of the future of gas and offsetting impacts on customers where possible.[11]	We have accepted the AER's approval of our overall capex, but have provided some comments on our proposed cyber security program which the AER did not include in its alternative estimate (see 1.4.1 below). On digital customer services, we note this was strongly supported by customers, is a relatively small level of investment and will ensure we continue to deliver on the expectations of the around 700,000 customers who will still be using our gas distribution services at the end of the next AA period.

[5] EnergyAustralia, Gas Access Arrangement proposals 2023-28 for AusNet, Multinet and AGIG – 1 July 2022, September 2022, p 2 (EnergyAustralia Submission).
[6] EUAA Submission, p 7
[7] FoE Melbourne Submission, p 2
[8] Origin Submission, p 3
[9] TRAC Partners, p 42
[10] BSL Submission, p 23
[11] TRAC for BSL Submission, p 46

What we heard	Our response
On meter replacement: • BSL note that networks should quantify the opportunity to avoid replacement with new meters through the re-use of meters removed from houses that disconnect from the network.[12]	As is current practice, we will continue to look to refurbish and reuse removed meters where it is cost efficient to do so. We would comment that the refurbishment of domestic meters is not a guaranteed service in coming years as the economic viability of the service being maintained relies on sufficient volumes of meters being available for refurbishment across all distribution businesses each year. This also impacts the cost competitiveness of the service compared to the purchase of new meters, therefore we cannot be confident of the ongoing availability of the refurbishment service for domestic meters over the next AA period. We expect we will still refurbish much of our replaced commercial and industrial meters in the next AA period. Where removed meters cannot be refurbished, they are scrapped and recycled.
On augmentation • BSL have acknowledged the adjustments made to the augmentation forecast in response to the GSR, but given the stranding risk, low cost, flexible solutions should be explored such as 'demand management' to avoid augmentation.[13] • TRAC partners state that the AER needs to be satisfied with the augmentation forecasts proposed and they best represent estimates arrived on a reasonable basis. TRAC Partners are not convinced with the forecast proposal due to the fact that a simplified approach to assess the impacts of the GSR is different to the approach used in the initial proposal. They also add that the augmentation proposal is based on demand forecasts which themselves are not the best estimates.[14]	We scaled back our proposed augmentation in the next AA period in our GSR Response in line with revised forecasts of new customer connections and existing customer disconnections. We will continue to incorporate the most up to date information on network flows and forecast customer growth across our networks to ensure we undertake the least cost augmentation required to meet our obligations to maintain minimum network pressures and maintain reliable gas supply for our customers.

[12] BSL Submission, p 21
[13] BSL Submission, p 21
[14] TRAC for BSL Submission, p 45

What we heard	Our response
On hydrogen adaptation (other assets): • BSL do not support the proposal of any hydrogen adaptation of the network as broadscale infrastructure investment is premature, where there is no clear understanding of the development of hydrogen production in Australia and the full costs associated with blending is still unknown.[15] • EnergyAustralia believe hydrogen and renewable gas is a viable alternative to carbon intensive natural gas, especially in industries where electrification is not economical, however, there is no need, desire or latent industry that requires distribution networks to supply hydrogen. The 'no regrets' expenditure, resulting in increased cost for customers, may become regretful as the energy transition is forecasted to major impacts on customer's bills.[16] • Origin support expenditure to facilitate hydrogen readiness where appropriate to the extent that the legislation supports hydrogen blending.[17] • TRAC Partners state customers today should not have to pay for the cost of exploring alternatives to natural gas as it would be intergenerationally inequitable especially when the current economic climate makes electrification more cost efficient, even with the cost of switching and augmenting the electricity network.[18] • Victorian Community Organisations believe that expenditure to accommodate a hydrogen blend should not be accommodated as it is in opposition to the opportunity to electrify residential loads.[19]	We have accepted the AER's approval of our overall capex. We accept there are different views across stakeholders on the future of gas. As a prudent asset manager, we will continue to manage the safety and integrity of our network. This includes monitoring developments in the renewable gas future and responding accordingly.

1.3 AER Draft Decision

1.3.1 Forecast capex in the next AA period

The AER's Draft Decision approved conforming net capex for the next AA period of $434 million, which is the same as what we proposed in our GSR Response capex.

In coming to this decision, the AER developed its own alternative forecast. Although the AER's alternative forecast did not include some of the items we proposed, the forecast was not materially different in quantum from our own, and therefore the Draft Decision approved our proposed forecast.

[15] BSL Submission, p 18-19
[16] Energy Australia Submission, p 1-2
[17] Origin Submission, p 3
[18] TRAC for BSL Submission, p 43
[19] Victorian Community Organisations, Submission to gas distributors' initial proposals: 2023–2028 Access Arrangements, September 2022, p 4 (Victorian Community Organisations Submission).

The AER’s alternative estimate, which was not materially different from our own, did not include:

- Proposed expenditure on hydrogen readiness ($10 million); or
- Cyber security uplift ($5.3 million).

The AER's Draft Decision in respect of our capex forecast over the next AA period is summarised in Table 1.2 below.

Table 1.2: Summary of the AER’s Draft decision on capital expenditure

	AER Draft Decision	AER Comments
Mains Replacement	Accept	The AER approved our proposed mains replacement program.
Growth Assets	Accept	The AER approved our proposed capex for new connections.
IT	Modify	The AER approved the majority of our proposed IT capex, however did not include our proposed cybersecurity uplift capex in its alternative forecast.
Meter Replacement	Accept	The AER approved our proposed meter replacement program.
Augmentation	Accept	The AER approved our proposed augmentation program.
Telemetry	Accept	The AER approved our proposed telemetry program.
Other assets	Modify	The AER approved the majority of our proposed other assets capex, however did not include our proposed hydrogen adaptation capex in its alternative forecast.
Escalation	Accept	The AER approved our proposed capex escalation.
Overheads	Accept	The AER approved our proposed capitalised overheads.
Overall Capex	**Accept**	The AER approved the total capex proposal for AGN as conforming capex after assessing the forecast capex with the AER alternative capex considering the available evidence, engineering advice from external consultants and stakeholder submissions.

Note: In this ‘traffic light’ table, green shading represents the AER’s acceptance of our GSR Response, orange represents the AER’s modification of our GSR Response and red shading represents the AER’s rejection of our GSR Response.

The following sections outline the reasons for the AER’s Draft Decision on each category of proposed capital expenditure in the next AA period.

Mains replacement

The AER’s Draft Decision accepted our proposed mains replacement ($30 million) as it is necessary to maintain and improve the safety and to maintain the integrity of services. In coming to this decision, the AER notes we presented risk assessments and option analyses to support our program which demonstrated optimal replacement benefit in terms of leak reduction per mains renewal length.[20]

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[20] AER Draft Decision Capex, p 21.

Growth Assets

The AER is satisfied our growth capex forecast of $166 million is conforming capex. The AER accept that policies flowing from the GSR are likely to lead to a reduction in new connections, particularly as the AA period progresses and consider the volume adjustment we proposed to be reasonable and proportionate noting there remains considerable uncertainty about the likely impact of these changes.[21]

On unit rates, the AER has accepted our forecast unit rates for new connections considering current costs are competitively tendered contractor costs and reflective of most recent contracted rates.[22]

IT

The AER's Draft Decision accepted the majority of our proposed IT spend as prudent and efficient. However, the AER did not include the $5 million for cybersecurity uplift in its alternative capex forecast. This is because the AER considers there is currently no obligation for us to achieve the capabilities of a Maturity Indicator Level 3 (MIL-3)/Security Protection Level (SP 3) for our gas distribution business and therefore consider that our proposal is higher than the efficient investment required to meet the likely security capabilities under the Act.[23]

Meter Replacement

The AER's Draft Decision accepted our proposed meter replacement capex. The AER was satisfied we are following good industry practice in our replacement of meters and that unit rates reflect historical costs.[24]

Augmentation

The AER's Draft Decision accepted our proposed augmentation capex. Being a significant step-up from the current AA period, augmentation was an area of focus for the AER's assessment and the AER engaged an independent expert, Zincara to provide advice on our augmentation proposal.

Zincara's advice concluded the high pressure augmentation projects and regulator capacity upgrade projects we put forward are necessary to address integrity and safety risks to the network, are prudent and the costs are likely to be efficient as they reflect competitive tendering processes and recent actual costs.[25]

On the Pipeline upgrade project – Dandenong Crib Point pipeline duplication, Zincara considered that on the balance of risks (given the large number of customers supplied by the pipeline, any increased load from customer growth or weather events presents the risk of sizable supply interruptions with a large number of customers impacted and potentially for extended periods of time) it is prudent to complete the pipeline duplication project in the next AA period. Zincara also advised that the detailed information put forward in support of the costs of the program, and methodology applied to determine those costs, appeared sound.[26]

Telemetry

The AER accepted our proposed telemetry capex stating the program is supported by risk assessments and cost build ups which it considers to be reasonable.[27]

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[21] AER, Attachment 5: Capital expenditure | Draft decision – Australian Gas Networks (VIC & Albury) Access Arrangement 2023–28, p 9 (AER Draft Decision Capex).
[22] AER Draft Decision Capex, p 10.
[23] AER Draft Decision Capex, p 13.
[24] AER Draft Decision Capex, p 14.
[25] AER Draft Decision Capex, p 19.
[26] AER Draft Decision Capex, p 20.
[27] AER Draft Decision Capex, p 22.

Other Assets

The AER accepted the majority of our proposed capex on other assets. However, the AER's alternative forecast did not include our proposed hydrogen readiness program.

The AER notes expenditure on hydrogen readiness is relatively new in the context of natural gas distribution networks. Where the National Gas Law (NGL) has currently defined natural gas as being a hydrocarbon predominately consisting of methane, expenditure to allow for the safe distribution of hydrogen has not previously been capable of being conforming capex, and therefore not capable of approval in an AA. Once proposed amendments to the Law change the definition of natural gas to include hydrogen, expenditure on hydrogen related assets could be approved in an AA where such expenditure meets the new capex criteria.[28]

The AER also refers to the Australian Energy Market Commission's (AEMC) 2022 review into including hydrogen in the regulatory framework. The AEMC draws a distinction between investments in hydrogen readiness that have been mandated and are voluntary. It is the AEMC's view that a safety case is not sufficient to justify expenditure on hydrogen readiness where a service provider has voluntarily decided to introduce hydrogen into its network. Rather, the expenditure would need to pass a positive economic benefits test to be conforming capex.[29]

1.3.2 Capex in the current AA period

The AER has accepted our proposed $680.7 million capex for the current AA period as conforming capex, which is higher than the benchmark of $655.1 million primarily due to higher than forecast spend on mains replacement. The AER scrutinised our reasons for the areas of overspend stating,

> "the framework allows regulated businesses to reprioritise capex to achieve prudent and efficient outcomes, such as response to COVID and safety priorities. We accept AGN's acceleration of its mains replacement program. We note the overall overspend is modest."[30]

1.4 Our revised Final Plan

1.4.1 Forecast capex in the next AA period

Our revised Final Plan forecast capex for the next AA period is $434 million, which is unchanged from the AER's Draft Decision and our GSR Response. This reflects that we have accepted the AER Draft Decision capex amount.

A summary of our response to the AER's Draft Decision is provided in Table 1.3 below.

[28] AER Draft Decision Capex, p 16.
[29] AER Draft Decision Capex, p 17.
[30] AER Draft Decision Capex, p 7.

Table 1.3: Summary of our response to the AER's Draft decision on capital expenditure

<table>
<tr><th></th><th>AER Draft Decision</th><th>Our Response</th><th>Our comment</th></tr>
<tr><td>Mains Replacement</td><td>Accept</td><td>Accept</td><td rowspan="10">We welcome the AER's acceptance of our capex forecast in its Draft Decision.

We have accepted this decision, and as such, included the same capex forecast in our revised Final Plan.

While updates to our demand forecast lead to a small increase in forecast growth capex, we have determined this increase is not material to our total capex proposal.

• We add some further comments below on our proposed cyber security capex.</td></tr>
<tr><td>Growth Assets</td><td>Accept</td><td>Accept</td></tr>
<tr><td>IT</td><td>Modify</td><td>Accept</td></tr>
<tr><td>Meter Replacement</td><td>Accept</td><td>Accept</td></tr>
<tr><td>Augmentation</td><td>Accept</td><td>Accept</td></tr>
<tr><td>Telemetry</td><td>Accept</td><td>Accept</td></tr>
<tr><td>Other assets</td><td>Modify</td><td>Accept</td></tr>
<tr><td>Escalation</td><td>Accept</td><td>Accept</td></tr>
<tr><td>Overheads</td><td>Accept</td><td>Accept</td></tr>
<tr><td>Overall Capex</td><td>Accept</td><td>Accept</td></tr>
</table>

Note: In this 'traffic light' table, green shading represents the AER's acceptance of our GSR Response, orange represents the AER's modification of our GSR Response and red shading represents the AER's rejection of our GSR Response.

The following sections provide more detail on our response to the AER's Draft Decision in our revised Final Plan.

Growth Assets

We accept the AER's decision to accept our proposed growth capex of $166 million. Throughout the AA submission process, we have mirrored the number of new connections with our demand forecast. In our revised Final Plan, we have updated our demand forecast, including for more recent Housing Industry Association forecasts (see Attachment 13.6), which results in an update to the number of new connections we will see over the next AA period.

Using the new information, there will be approximately 3,900 new connections leading to a $10 million increase in capex. After reviewing the impact the update has on our growth assets capex plan, and consistent with the approach followed by the AER in its Draft Decision, we have decided that the increase is not material to our total expenditure proposal and therefore we do not propose any change to the AER's Draft Decision.

Cyber Security

While we have accepted the AER's Draft Decision to accept our total proposed capex, we make the following observations in response to the AER's decision to not include our proposed cyber security capex in the AER's alternative capex forecast.

As critical infrastructure owners, it is imperative that we continually take steps to increase our monitoring of threats and our cyber security capabilities, keeping pace with the external environment and reducing the impacts cyber attacks may have on our customers, assets and business. Therefore, we are planning to proceed with a cyber security improvement program.

The Security Legislation Amendment (Critical Infrastructure Protection) Act 2022 and draft risk management program rules require our risk management program to comply with at least Security Profile 1 of the Australian Energy Sector Cyber Security Framework (AESCSF). However, our own risk assessment has determined MIL-3/SP3 as the required target state because:

- Cyber threats have heightened globally with high profile data breaches in recent months in Australia, highlighting the damage that can be caused by malicious cyber actors, as well as the cost to organisations in the wake of these incidents, which are expected to lead to regulatory reforms that include significantly increased penalties and enforcement measures for non-compliance; [31]
- Cyber security is our highest ranked strategic risk under our corporate risk management framework and our shareholders expect us to take all prudent actions to mitigate this risk;
- For our business a cyber incident resulting in a data breach could also amount to a breach of our FIRB data conditions (e.g. relating to access to customer or personal (including employee) information), with serious criminal and civil penalties applicable for breaches of the conditions under the Foreign Acquisitions and Takeovers Act 1975 (Cth);
- The cyber security regulatory compliance obligations aim to ensure a responsible entity:

  takes a holistic and proactive approach toward identifying, preventing and mitigating risks from all hazards; and

  seeks to minimise or eliminate material risk where it is reasonably able to do so, in order to secure its critical infrastructure asset; [32]
- We are reasonably able to minimise or eliminate material risk by targeting Security Profile 3, in line with the program we have developed, which is suggested as the required maturity level under the AESCSF for high criticality businesses like our Victoria and Albury distribution business (which is classified as high criticality under the gas criticality assessment tool[33]);
- In order to take a holistic approach toward identifying, preventing and mitigating risks from all hazards, all AGIG businesses must participate in our cyber security risk management program as cyber capabilities that are established are only as effective as the lowest capability exhibited across the whole environment;
- There will be further uplift to cyber security regulatory compliance obligations over the next AA period. The AESCSF was updated in 2022 to align with international standards and respond to the cyber threat landscape. AESCSF Version 2 is expected to be published in early 2023 and we understand this update includes additional requirements compared to previous versions; and
- A portion of the activities in the program are required to maintain and replace existing cyber investments. The total cost of maintenance activities over the next AA period is $2.4 million opex (an

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[31] Johnson Winter Slattery, Privacy and cyber security imperatives – reactions to and lessons from the Optus data breach, October 2022, accessible at https://jws.com.au/en/insights/articles/2022-articles/privacy-and-cyber-security-imperatives.

[32] Cyber and Infrastructure Security Centre, Risk Management Program Factsheet, August 2022, p 2, available at https://www.cisc.gov.au/critical-infrastructure-centre-subsite/Files/cisc-factsheet-risk-management-program.pdf.

[33] We submitted our 2022 Criticality Assessment to the AER in September in response to a formal information request. The AESCSF gas criticality assessment tool (G-CAT) can be found here: https://aemo.com.au/-/media/files/initiatives/cyber-security/aescsf/aescsf-gas-criticality-assessment-tool-g-cat.pdf?la=en

uplift of $2.0 million compared to the current AA period) and $0.1 million capex. The maintenance activities include:

4 FTE in our AGIG cyber team;

Annual security testing and awareness programs;

Running our Security Operations Centre;

Ongoing licensing costs; and

Refresh of our Identity Access Management, Privileged Access Management and Vulnerability Management solutions.

Further our program reflects good industry practice, independent advice from Ernst & Young and efficient costs which have been allocated across our AGIG businesses in accordance with our allocation methodology (see our IT Business Cases provided in Attachment 9.14 to our Final Plan).

1.4.2 Capex in the current AA period

We have updated net capex in the current AA period with draft actual capex for the 2022 year in our revised Final Plan. We note the final position for 2022 will be submitted in the 2022 Annual RIN which is due to the AER 1 May 2023.

In our revised Final Plan, we have included $630 million capex in the current AA period to be rolled in the regulatory asset base (RAB). This is $50 million or 7.4% below the $681 million included in our GSR Response and the AER's Draft Decision. The drivers of this reduction are:

- A change in application of the CPI between June 2021 to June 2023 following discussions with the AER which impacts the value expressed in 2022/23 dollars for comparison to forecast capex in the next AA period (-$23 million); and
- Lower draft actual capex in 2022 (-$27 million).

We have also updated our forecast capex for the six month extension period 1 January to 30 June 2023. Overall, the updates to 2022 and January to June 2023 capex result in:

- A lower penalty under the Contingent Capital Expenditure Sharing Scheme (CESS); and
- A slightly lower opening RAB for the next AA period.

The following sections provide more detail on the update to capex in the current AA period, including drivers for the lower spend by capex category. The carryovers under the CESS are discussed in Attachment 12.2 Response on Incentives.

Table 1.4 below shows updated five year capex for the current AA period compared to the forecast submitted in our Final Plan.

Table 1.4: Comparison of our revisions to capex for the current AA period with the Final Plan ($ million, 2022/23)

	Final Plan	Final Plan (CPI update)*	Revised Final Plan	Our Comment
Mains replacement	264.6	255.8	239.1	Draft actual capex in 2022 is $17 million below our Final Plan forecast due to ongoing Covid impacts to resources working on our mains replacement program which sees some of the final low pressure mains replacement work packages rescheduled to be completed in the first six months of 2023.
Growth assets	231.6	223.8	215.5	Draft actual capex in 2022 is $8 million below our Final Plan forecast due to ongoing supply shortages impacting the residential building and construction sector which has seen a slowdown in new connections compared to earlier years in the period.
IT	50.6	48.9	46.9	Draft actual capex in 2022 is slightly below our Final Plan forecast with some spend on the OneERP, GIS and Mobility projects carrying over into the first six months of 2023.
Meter replacement	35.1	33.9	34.2	Draft actual capex in 2022 is consistent with our Final Plan forecast.
Augmentation	15.0	14.5	7.7	Draft actual capex in 2022 is below our Final Plan forecast as a result of the reclassification of project spend on city gates and regulator capacity upgrades from mains augmentation to other assets.
Telemetry	2.0	1.9	1.9	Draft actual capex in 2022 is consistent with our Final Plan forecast.
Other assets	25.0	24.2	30.9	Draft actual capex in 2022 is above our Final Plan forecast as a result of the reclassification of project spend on city gates and regulator capacity upgrades from mains augmentation to other assets.
Overheads	56.9	55.0	54.2	Draft actual capex in 2022 is consistent with our Final Plan forecast.
Total	**680.7**	**657.9**	**630.3**	

*We note that when escalating current period capex into 2022/23 dollars we have incorporated a change to the application of CPI between June 2021 and June 2023 in line with discussions with the AER following submission of our Final Plan. This change reduces the current period capex as quoted in 2022/23 dollars (actual nominal values for the years 2018 – 2021 have not changed) by $22.8 million compared to the values quoted in our Final Plan.

Mains Replacement

Draft actual capex on mains replacement in 2022 is $17 million lower than we forecast in our Final Plan. Our mains replacement program continues to be affected by Covid impacts to resources. To ensure we could complete the low pressure mains replacement in the Melbourne CBD, which has been our highest priority in the current AA period, a number of low pressure mains replacement work packages in the inner north have been rescheduled to be completed in the first six months of 2023. This will complete the low pressure mains replacement program for AGN by the beginning of the next AA period.

Over the 18 month period from January 2022 to June 2023, the forecast mains replacement capex is consistent with the values included in our Final Plan.

Growth Assets

Draft actual capex on growth assets in 2022 is $8 million lower than we forecast in our Final Plan. New connections continue to be affected by ongoing supply shortages impacting the residential building and construction sector which has seen a slowdown in new connections compared to earlier years in the period.

This has seen some new estate projects delayed from 2022 into the first six months of 2023, as well as lower new connections forecast in the first six months of 2023 compared to our Final Plan as we are yet to see signs of supply shortages being resolved and new housing construction picking back up.

Over the 18 months January 2022 to June 2023, forecast new connections capex has reduced by a total of $21 million compared to the values included in our Final Plan.

Augmentation

Draft actual capex on augmentation in 2022 is $7 million lower than we forecast in our Final Plan. This is primarily due to most of the expenditure on city gates and regulator capacity upgrades being reclassified from main augmentation to other assets.

This same reclassification also has an impact on forecast capex in the first six months of 2023.

Other Assets

Similarly, draft actual capex on other assets in 2022 is $7 million higher than we forecast in our Final Plan. This is primarily due to most of the expenditure on city gates and regulator capacity upgrades being reclassified from main augmentation to other assets.

This same reclassification also has an impact on forecast capex in the first six months of 2023.

1.5 Summary

We have accepted the AER’s Draft Decision which accepted our GSR Response capex forecast of $434 million for the next AA period. Our capex forecast in our revised Final Plan remains unchanged from the AER’s Draft Decision and our GSR Response. We have also provided further comments on the need for us to incur cyber security capex in the next AA period.

We have also updated our current period capex with actual expenditure of $630 million which includes an adjustment to the applied CPI along with variations from forecast, primarily in our mains replacement and growth assets.