Appendix B

Supporting Information 4.3 Capital Expenditure AA Period Variances

Responses to the 2026-31 Reset RIN for AGN (SA) – February 2025

July 2025

PUBLIC

Australian Gas Networks

Contents

1. Document Overview

1.1 Purpose of this document

This document has been prepared to respond the following clause in the Regulatory Information Notice (RIN):

4.3 Capital expenditure

4.3.1 For total *capital expenditure* expected to be incurred in the current *access arrangement period*, provide:

(a) a comparison of the total expenditure, disaggregated by expenditure category or driver, to the total *forecast capex* allowed for the current *access arrangement period*;

(b) an explanation of the drivers of differences noted in response to paragraph 4.3.1(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 *access arrangement period* and included in *forecast capex* for the forthcoming *access arrangement period*, and the rationale for the deferral.

4.3.2 For *forecast capex* for the forthcoming *access arrangement period*, provide:

(a) a comparison of the total forecast expenditure by category or driver to the total capital expenditure expected to be incurred in the current access arrangement period;

(b) an explanation of the drivers of differences noted in response to paragraph 4.3.2(a), for example the impact of expected efficiency gains, major new projects, project deferrals or rescoping, changing regulatory obligations, asset age, or other factors.

NOTES:

1. The drivers and categories referred to in paragraphs 4.3.1(a) and 4.3.2(a) must reflect the *capital expenditure* drivers or categories used by AGN (SA) in its *access arrangement proposal* RIN response and/or *capex* model.

2. The total *capital expenditure* expected to be incurred in the current *access arrangement period* will be comprised of actual *capital expenditure* for the years where this data is available and planned *capital expenditure* for the remaining years of the current *access arrangement period*.

1.2 Financial disclosure

All financial figures quoted within this document - unless otherwise specifically stated - have the following characteristics:

- Capital expenditure figures are presented net of capital contributions;
- All years are denoted in Financial Year format (July to June);
- Consistent with AGN SA Reset Workbook 2 – Historical, capital expenditure for the current access arrangement (AA) period (2021-2026) is shown in nominal dollars;
- Capital expenditure for the next AA period (2026-2031) is expressed in real June 2026 dollars, in line with the dollar expression in AGN SA Reset Workbook 1 – Forecast
- Total values shown in tables and referred to in the text of this document may not reconcile due to rounding.

2. Requirement 4.3.1 Variations between the current AA capital expenditure (capex) forecast and the approved capex

Table 1: Capex by Driver (Net of Capital Contributions) – Actual Compared to Benchmark [Nominal $m]

Variance [$Nominal $m]	2021-22	2022-23	2023-24	2024-25	2025-26	Total	%
E5. Connections	-$4.59	-$0.51	$0.08	-$2.42	$0.25	-$7.19	-6%
E2. Mains replacement	-$14.56	-$14.17	-$17.94	$11.31	-$21.81	-$57.17	-22%
E3. Mains augmentation	-$5.21	-$5.70	$1.70	$3.35	$3.42	-$2.44	-22%
E6. Telemetry	-$0.26	$0.09	-$0.21	$0.02	$0.14	-$0.23	-11%
E4. Meter replacement	$0.33	-$0.12	-$2.68	$0.49	$0.10	-$1.87	-9%
E12. ICT	-$0.57	-$6.47	-$4.55	$2.23	-$0.23	-$9.6	-21%
E10. Capitalised network overheads	-$0.68	-$1.36	-$0.11	-$0.13	$0.02	-$2.26	-4%
E10. Capitalised corporate overheads	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	N/A
E13. Other Capex	$3.11	-$1.21	$1.06	-$2.49	$0.86	$1.35	2%
Total	**-$22.43**	**-$29.46**	**-$22.64**	**$12.37**	**-$17.25**	**-$79.42**	**-14%**
Total Ex OH	**-$21.75**	**-$28.09**	**-$22.53**	**$12.50**	**-$17.28**	**-$77.15**	**-15%**

Actuals [$Nominal $m]	2021-22	2022-23	2023-24	2024-25	2025-26	Total
E5. Connections	$21.41	$24.36	$25.07	$24.05	$28.27	$123.15
E2. Mains replacement	$36.10	$40.46	$37.62	$66.74	$24.65	$205.56
E3. Mains augmentation	$0.00	$0.36	$1.70	$3.35	$3.42	$8.83
E6. Telemetry	$0.27	$0.48	$0.20	$0.40	$0.46	$1.80
E4. Meter replacement	$3.59	$3.29	$2.44	$4.85	$5.38	$19.54
E12. ICT	$8.96	$5.43	$2.77	$10.87	$7.60	$35.63
E10. Capitalised network overheads	$9.24	$9.41	$10.92	$11.27	$11.63	$52.47
E10. Capitalised corporate overheads	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
E13. Other Capex	$9.75	$9.14	$12.64	$12.14	$15.05	$58.72
Total	**$89.32**	**$92.93**	**$93.35**	**$133.67**	**$96.44**	**$505.72**
Total Ex OH	**$80.08**	**$83.52**	**$82.43**	**$122.40**	**$84.81**	**$453.25**

Benchmark [$Nominal $m]	2021-22	2022-23	2023-24	2024-25	2025-26	Total
E5. Connections	$26.00	$24.87	$24.99	$26.47	$28.01	$130.34
E2. Mains replacement	$50.66	$54.63	$55.55	$55.43	$46.46	$262.73
E3. Mains augmentation	$5.21	$6.06	$0.00	$0.00	$0.00	$11.28
E6. Telemetry	$0.53	$0.39	$0.41	$0.38	$0.32	$2.03
E4. Meter replacement	$3.25	$3.41	$5.12	$4.36	$5.28	$21.42
E12. ICT	$9.53	$11.90	$7.32	$8.65	$7.83	$45.23
E10. Capitalised network overheads	$9.92	$10.77	$11.03	$11.40	$11.60	$54.73
E10. Capitalised corporate overheads	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
E13. Other Capex	$6.63	$10.35	$11.58	$14.63	$14.19	$57.38
Total	**$111.75**	**$122.39**	**$115.99**	**$121.31**	**$113.69**	**$585.14**
Total Ex OH	**$101.83**	**$111.62**	**$104.96**	**$109.91**	**$102.09**	**$530.40**

** Positive variations signify overspending.

2.1 Current AA variance by capex driver

E5. Connections

New connections expenditure is 6% below benchmark.

Overall, residential connection numbers are forecast to be down on benchmark over the current AA period.

While residential connection numbers are forecast to be down overall, we are forecasting higher than benchmark numbers of new home residential connections as a result of COVID stimulus in the 21/22 financial year which resulted in materially higher connections in 22/23 financial year and 23/24 financial year years with a lag from approval to connection due to labour and material shortages at that time. New home residential connection numbers are forecast to decline by the end of 25/26 financial year, in line with HIA reporting and lower penetration rates for gas connections. However, by the end of the current access arrangement (AA) new home residential connection numbers are forecast to be above the benchmark.

The higher than benchmark new home residential connections numbers have been offset by lower existing home (electricity to gas conversions) and high-density development connection numbers and the deferral of the Concordia development originally forecast to have supply mains completed in the 21/22.

Commercial and industrial connections numbers are forecast to be materially under benchmark reflecting the drop in economic activity over the COVID period and include the deferral of the Kingsford regional industrial estate forecast in the 21/22 financial year in the AA benchmark.

Offsetting the overall drop in domestic and commercial connection numbers have been materially higher than benchmark unit rates for growth connections, driven by higher actual costs currently experienced during a period of elevated inflation, a depreciating Australian dollar and global supply disruptions as well as intense competition for resources due to major infrastructure projects like SA Water's $3.3B capital plan and the $14B North-South Corridor project which have been putting pressure on costs.

E3. Mains Augmentation

Mains augmentation expenditure is forecast to be 22% below benchmark.

In the South, a lower cost solution was implemented to augment supply to Seaford and Aldinga. Further augmentation of the trunk is now planned for the next AA period.

Northern Metro HP Main and Gawler Gate Station is on track. By the end of current AA, we will complete the Gawler gate station, addressing a critical network constraint in the rapidly growing northern suburbs of Adelaide. It enables the network to support major new residential and commercial developments in Springwood, Roseworthy, and Concordia, while preventing pressure drops in sensitive areas such as Willaston. This augmentation safeguards supply to around 3,200 existing customers, maintains network integrity, and ensures the system is well-positioned to support growth without risking substandard pressures or supply disruptions.

E2. Mains Replacement

Mains replacement expenditure is forecast to be 25% below benchmark.

By the end of the current period, we will have addressed 704 km of mains compared to the 770 km allowed for in the benchmark. This completes the LP block mains replacement program that has been

our focus over the last four Access Arrangement periods. The 66 km variance is due to the volume of LP block and Class 575, which was overstated by 64 km and 2 km respectively.

It was determined that the most cost effective and prudent strategy for 20 km of HDPE 575 in Port Pirie was camera inspection and reinforcement instead of more expensive direct replacement.

Conversely, we will have resolved more multi user sites, through a combination of replacement and surveying, beyond the original forecast scope of 457 to almost 800.

Ultimately by the end of the current AA period we will have removed all low pressure cast iron (CI) and unprotected steel (UPS) from our network and replaced them with fully fused polyethylene (PE) pipe. We have also removed all vintage thin-walled high density polyethylene class 250 (HDPE 250) pipe.

Contributing to the underspend are lower than benchmark forecast rates for LP block, Class 575 mains and the North Adelaide program, with the majority of the outperformance on rates in the early stage of the program, but with costs going up consistently over the life of the program due to labour shortages, stricter rules re traffic control, resurfacing and profiling obligation.

Offsetting this has been significant increases in the cost of replacement of multi-unit sites with increased costs due to our approach to prioritise high risk multi-user sites during the current period and the associated complexity and relocation requirements of non-compliant meters, and with typically larger number of customers per site.

AGN has been able to generally reduce rates from those forecast in the benchmark, by its procurement strategy which includes rigorous supplier evaluation, risk management, and the integration of digital tools to enhance forecasting and project planning to minimize risk from the contractor's perspective when tendering for mains replacement packages. In addition there are significant lead times between work being tendered and being carried out reducing exposure to some of the higher contractor prices currently being experienced.

This strategic alignment enables AGN to maintain service reliability and safety standards without passing excessive costs onto consumers.

E6. Telemetry

Telemetry expenditure is forecast to be 11% below benchmark.

We have replaced obsolete SCADA equipment to ensure ongoing network reliability and avoid system failures, replacing 3G modems in response to the planned shutdown of the 3G network, ensuring continued data communication capability across the SCADA system.

We've also expanded SCADA-based pressure monitoring across the South Australian gas distribution network to enhance safety, reliability, and operational efficiency. This included upgrading pressure monitoring at transmission pressure District Regulator Stations (DRSs) and installing remote monitoring at key fringe sites in areas of expected demand growth or elevated pressure drop risk. Some of these sites will be completed towards the end of the AA once the mains replacement programs in those areas are completed.

E4. Meter Replacement

Meter replacement expenditure is forecast to be 9% below benchmark.

The underspend primarily stems from lower domestic meter change volumes, forecast to be 15% below benchmark. This reduction is largely due to field life extension testing, which has extended meter life, consequently lowering required replacement volumes.

Meter change unit rates have also been trending below benchmark, however they have begun to increase from 2022/23 with suppliers no longer offering cheaper refurbished meters requiring the use of new meters which are more expensive. This increase has been partially offset by savings achieved from insourcing meter fitting from 2023/24.

E12. Information and Communication Technology (ICT)

In the current AA period, we forecast an investment of $36 million ($nominal) in IT capex, which is around $9 million (21%) below the approved allowance of $45 million. This lower-than-benchmark expenditure is due to:

- Minor upgrades of GIS and CC&B (versus the major upgrades that were forecast) and deferral of enterprise asset management (EAM) and Middleware upgrades (-$4 million);
- Not implementing the AIPM tool at this time as we were able to address current business requirements in this area through smaller works delivered under Mobility (Power Apps) and Business Intelligence (Power BI) (-$3 million);
- An upgrade of Salesforce Mobility was not required in the period, and we have seen slower than expected roll out of additional mobility (-$5 million);
- Minimising additional investment in the Business Intelligence platform ahead of Transition (-$1 million);
- Taking a national approach to digital customer experience initiatives, and therefore seeking input and ensuring needs of Victorian customers considered before moving ahead with Customer Relationship Management (CRM) and website initiatives (-$1 million);
- Partially offset by, higher spend on the AGIG IT Strategy & Roadmap (+$5 million), made up of:
    - Less overall spend on the OneERP program made up of higher than forecast costs to deliver the first phase to replace the Business One system with SAP S/4HANA and new staged timing and approach for Phases 2 and 3 of the program compared to forecast (-$1 million);
    - Additional spend required to Uplift Cyber Security Technology & Capabilities in line with key gaps and risks identified against the Australian Energy Sector Cyber Security Framework (AESCSF) (+$4 million); and
    - New Human Capital Management program (+$2 million); and
    - An increase in the number of end user devices corresponding with uplift in devices per employee as well as employee growth, and the need to refresh network and currency and data centre equipment to proactively deal with end of life and manage risk (+$1 million).

By the end of the current AA period, we will have:

- Completed GIS consolidation, and a subsequent minor upgrade of the GIS solution;
- Completed minor upgrades of our national EAM and customer billing systems;
- Upgraded other IT systems including Historian, Before You Dig Australia, Webmethods and Biztalk;
- Completed the Mobility Integration project for works planning and scheduling and rolled out process automation initiatives and additional mobility applications e.g. mobile maps;
- ongoing system enhancements to meet changing regulatory (i.e. Life Support B2B) and business needs (i.e. implementation of changes to contracts and procurement business processes);

- delivered a CRM solution for our Priority Services Program and upgraded and replatformed of our customer website;
- completed Phase 1 of the OneERP program establishing a functional, fully supported, industry-standard system, including required upgrades to linked systems such as travel and expense management;
- well underway on Phase 2 of the OneERP program, which for AGN has included subsequent upgrade of the OneERP solution and move to SAP's platform as a service to maintain support and deliver future cost avoidance, as well as improved access to new releases and platform support;
- transitioned our IT managed service providers and uplifted our IT operating model;
- replaced legacy payroll and related systems and manual processes with a modern, fit-for-purpose Human Capital Management solution that brings together training, performance and goals, employee central, payroll, recruitment and onboarding, succession and development, compensation management and offboarding;
- established and delivered key foundational initiatives of our Cyber Security program in line with gaps and risks identified against the AESCSF including:
  - implementation of Identity and Access Management (IAM), Privileged Accounts Management (PAM), Managed Detection and Response (MDR), SIEM/SOAR and Vulnerability Management Solutions;
  - internal capability development – building a Cyber Security and Risk team to deliver cyber security operations, compliance and projects delivery capabilities;
  - development of our third-party risk management framework; and
  - data privacy and security capability development.

E10. Capitalised network overheads

Capitalised network overheads are forecast to be 4% below the benchmark, primarily reflecting the lower overall capex, which is expected to be 14% below the approved allowance. Approximately 70% of capitalised network overheads are fixed, while the remaining 30% vary with the scale of capex spend. As a result, the reduced level of capex investment has contributed to the lower capitalised network overheads.

E13. Other

Other capex is overall broadly in line with the approved benchmark.

Pipeline modifications for In-line inspection ILI (SA205) is forecast to be under benchmark due to a reduction in scope. This underspend has allowed for replacement of the M53 and M21 transmission pipelines with a new M188 transmission main. The replacement of these Pipelines was originally approved for the 16/17-20/21 AA, but due to the complexity design and extended procurement lead times, its delivery was delayed until the first half of the current AA. There was also slight overspend on DCVG dig ups and repairs for transmission pipelines.

HDPE camera inspection and reinforcement outstanding from the last AA was completed in the current period, in addition to the volumes approved in the current AA. The increased volume and higher rates have contributed to the overspend.

Other small CP projects are projected to be slightly underspend due to preferable rates and efficiencies in delivery.

3. Requirement 4.3.2 Variations between the next AA capex forecast and the current AA capex forecast

Table 2: Capex Variance by Driver (Net of Contributions) – Current vs. Next AA Forecast [real, $m June 2026]

Variance [$m 2025/26]	Total Variance	Variance %
E5. Connections	$21.45	16%
E2. Mains replacement	-$138.56	-62%
E3. Mains augmentation	-$3.68	-37%
E6. Telemetry	$1.86	95%
E4. Meter replacement	$17.25	82%
E12. ICT	$53.48	138%
E10. Capitalised network overheads	-$34.27	-60%
E10. Capitalised corporate overheads	$0.00	N/A
E13. Other Capex	$37.07	59%
Total	**-$45.42**	**-8%**

Next AA Capex Forecast [$m 2025/26]	2026-27	2027-28	2028-29	2029-30	2030-31	Total
E5. Connections	$30.06	$35.10	$30.95	$30.28	$28.59	$154.97
E2. Mains replacement	$16.61	$16.74	$17.09	$17.27	$17.22	$84.93
E3. Mains augmentation	$0.00	$3.98	$0.00	$2.40	$0.00	$6.38
E6. Telemetry	$1.22	$0.69	$0.65	$0.62	$0.63	$3.81
E4. Meter replacement	$8.26	$6.92	$6.64	$7.85	$8.70	$38.36
E12. ICT	$11.75	$38.00	$12.06	$21.56	$8.97	$92.34
E10. Capitalised network overheads	$4.41	$4.87	$4.39	$4.59	$4.33	$22.59
E10. Capitalised corporate overheads	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
E13. Other Capex	$20.54	$19.88	$19.70	$20.91	$18.57	$99.60
Total	**$92.84**	**$126.18**	**$91.48**	**$105.47**	**$87.00**	**$502.97**
Total Ex OH	**$88.43**	**$121.30**	**$87.09**	**$100.88**	**$82.67**	**$480.38**

Current AA Capex Forecast [$m 2025/26l]	2021-22	2022-23	2023-24	2024-25	2025-26	Total
E5. Connections	$25.72	$27.13	$26.84	$25.14	$28.69	$133.52
E2. Mains replacement	$43.36	$45.07	$40.27	$69.77	$25.01	$223.49
E3. Mains augmentation	$0.01	$0.42	$2.67	$3.50	$3.47	$10.06
E6. Telemetry	$0.33	$0.54	$0.21	$0.42	$0.46	$1.95
E4. Meter replacement	$4.31	$3.67	$2.61	$5.07	$5.46	$21.11
E12. ICT	$10.77	$6.05	$2.97	$11.37	$7.71	$38.86
E10. Capitalised network overheads	$11.10	$10.48	$11.69	$11.78	$11.80	$56.86
E10. Capitalised corporate overheads	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
E13. Other Capex	$11.71	$10.17	$12.68	$12.69	$15.28	$62.53
Total	**$107.30**	**$103.53**	**$99.94**	**$139.73**	**$97.88**	**$548.39**
Total Ex OH	**$96.20**	**$93.05**	**$88.25**	**$127.95**	**$86.08**	**$491.53**

** Positive variations signify overspending.

3.1 Next AA variance by capex driver

E5. Connections

Connections expenditure is forecast to be 16% higher in the next AA period.

Residential connection numbers are forecast to be 7% lower than the current AA period and commercial connection numbers 4% lower in line with HIA forecasts, with lower penetration rates and electricity to gas conversions expected in the next AA period when compared with the current period.

This is offset by a forecast increase in the average cost of connecting residential and commercial customers.

These increases are largely driven by forecast higher costs due to the outcome of the recent mains and services retender which will see average rates across mains and services forecast to increase by 18-20% for new and existing homes services, and between 7-12% for new and existing mains reflecting recent cost pressures in infrastructure activity. Also impacting costs are the introduction of the National Training Framework for Temporary Traffic Management (TTM), introduced in SA on 1 February 2024. This will require certified third-party providers by February 2026. This change will make it unreasonable for contractors to continue using internal traffic control, adding an estimated 20% to some unit costs.

In addition, the Concordia supply mains has been deferred from the current AA period and is forecast to commence in financial year 2029/30 at a cost of approximately $5 million.

E3. Mains Augmentation

Mains augmentation expenditure is forecast to be 37% lower in the next AA period.

Augmentation expenditure in the next AA is forecast to be lower than in the current AA, as we will have completed the Gawler gate station and addressed the most critical capacity constraints in the northern network (Gawler/Willaston). This foundational work supports future growth and reduces the need for similarly large follow-up investments. The proposed augmentation in the next AA—4.0 km of DN180 PE main in Angle Vale—follows the commissioning of the Gawler gate station in 2025, supporting ongoing load growth and targeting incremental, rather than critical, capacity needs by building on the upgraded infrastructure.

E2. Mains Replacement

Mains replacement expenditure is forecast to be 62% lower in the next AA period.

By the end of the current AA period, we will have removed all the cast iron, unprotected steel and other identified highest risk low and medium pressure mains from our network, with over 700km of mains forecast to be removed by the end of the current AA as discussed above. The program will continue as a small scale targeted, proactive replacement program with a $132 million reduction in expenditure compared to the current AA period forecast as a result.

E6. Telemetry

Telemetry expenditure is forecast to be 95% higher in the next AA period.

The increased expenditure is due to a planned proactive replacement of supervisory control and data acquisition (SCADA) equipment once it becomes technically obsolete, aligned with the support lifecycle provided by the original equipment manufacturer (OEM). Over the next

regulatory period (2026–31), we plan to replace 60 Remote Terminal Units (RTUs) based on assessed risk. These replacements are expected to incur higher costs, as the manufacturer has indicated that certain RTU models will transition from 'limited support' to 'retired' status—meaning parts, repairs, and security updates will no longer be available.

Additionally, we plan to establish a suitable 24/7 monitoring facility and round-the-clock supervision. Currently, AGN SA networks lack dedicated round-the-clock oversight—monitoring occurs only during business hours, with after-hours coverage relying on an on-call rotation using text messaging and responding only to critical SCADA alarms.

E4. Meter Replacement

Meter replacement expenditure is forecast to be 82% higher in the next AA period.

Driving this is an increase in the forecast volumes to be replaced. We forecast to replace approximately 119,000 meters over the next AA period. This is a 49% increase on the estimated 80,000 periodic meter changes forecast to be completed in the current AA period.

The increase relative to the current AA period reflects that considerably lower than normal volumes of meter changes were undertaken in the current AA period due to field life extension testing which resulted in a 3-year period of reduced meter change volumes in the current AA period.

Contributing higher forecast expenditure are higher forecast meter costs, with suppliers ceasing to offer lower cost refurbished meters during the current AA period, with the full impact of this change to be felt in the next AA period. In addition we forecast an average increase of 14% in the cost of new domestic meters at the end of the current meter supply contract in June 2026 based on the outcome of the recent mains and services tenders discussed above.

The forecast for the next AA period also includes a forecast amount of $2.4 million to install digital meters to enhance metering performance and efficiency, as well as for installation in unsafe or inaccessible properties to ensure compliance with our obligation to read meters every 12 months.

E12. ICT

IT Capex in the next AA period is forecast to be $92 million (real $ June 2026, with labour cost escalation applied). This is $53 million higher than the expected actual expenditure of $39 million ($Jun 2026) to be spent in the current AA period.

The higher forecast for the next AA period is driven by the one-off APA IT Transition program (+$62 million) and reductions across other programs (-$9 million).

Table 3 summarises the forecast IT investment for the next AA period by business case, and a comparison of the forecast total investment to be undertaken by the equivalent programs in the current AA period (July 2021 to June 2026).

Table 3: IT program of work by business case $'000 June 2026 CAPEX

IT program of work	2026/27	2027/28	2028/29	2029/30	2030/31	Total next AA period	Total current AA period
IT Operational Applications (SA217)	4,693	1,873	2,944	4,749	6,161	**20,420**	20,322[1]
IT Corporate Applications (SA238)	1,626	771	1,086	893	616	**4,994**	9,817[2]
IT Sustaining Infrastructure (SA239)	1,170	584	531	679	429	**3,393**	4,025[3]
Cyber Security (SA240)	1,103	318	19	-	56	**1,496**	4,694[4]
APA IT Transition (SA241)	3,153	34,448	7,484	15,239	1,708	**62,033**	-
Total	**11,746**	**37,995**	**12,064**	**21,560**	**8,971**	**92,336**	**38,857**

[1] Includes SA117 Applications Renewal, SA58 GIS Upgrade, SA59 Mobility Integration, SA60 Business Intelligence and Life support data solution

[2] Includes SA137 Digital Customer Experience and a portion of SA138 AGIG IT Strategy & Roadmap

[3] Includes SA139 IT Infrastructure and a portion of SA138 AGIG IT Strategy & Roadmap

[4] Includes a portion of SA138 AGIG IT Strategy & Roadmap

The IT program of work for the next AA period is discussed further by the supporting business cases.

E10. Capitalised network overheads

In the next AA period, we propose to adopt an overhead capitalisation approach consistent with that approved for AGN Victoria. Under this approach, overheads related to operations, maintenance, and corporate support functions will be expensed rather than capitalised, as these are operating costs not directly attributable to specific capital projects but are essential to supporting overall operations.

However, we will continue to capitalise costs associated with network planning, technical assurance, and engineering activities that directly support the delivery of our capital program. These costs will be applied as capital overheads across the program.

E13. Other

The forecast for other assets in the upcoming AA period is 59% higher than in the current period.

This increase is primarily driven by the following program initiatives:

We are enhancing our corrosion management program. This involves continuing core practices while introducing targeted proactive measures to address aging steel assets and emerging risks. Key initiatives include replacing aging cathodic protection (CP) systems, increasing external inspections (e.g., ECDAs and DCVG surveys), remediating coatings, and resolving stray current issues, particularly those near rail systems and customer premises. This program is designed for efficient delivery over a 5-10 year horizon, ensuring network integrity and preventing gas escapes in high-density areas.

We're expanding our TP modification and inline inspection program to deliver five campaigns over the next period. Instead of a sequential, project-by-project approach, we're proposing a rolling delivery model. This shift will optimize resources, reduce costs, and minimize risk. This

approach is informed by valuable lessons learned from the current period, where we modified one pipeline for inspection.

We propose increasing our valve replacement rate to eight valves per year. This uplift is crucial for two reasons: to match the expected failure rate and to start clearing the existing backlog of 38 inoperable valves. Our historical replacement rate of four to five valves annually hasn't been sufficient, leading to this backlog. The proposed rate will allow us to eliminate the backlog over a 10-year period.

Our plan includes significant investment in addressing overpressure risks at District Regulator Stations (DRS) across our transmission pressure (TP) and central CBD distribution pressure (DP) facilities. Unlike the current AA, which focused on modifying existing DRS, the next AA will prioritize the complete replacement of six critical TP DRS that are unable to be taken offline. Furthermore, an additional six TP DRS and four high-risk CBD DP DRS will be upgraded through in-situ modifications. These crucial upgrades are designed to enhance safety by removing the potential for human error, provide greater operational flexibility by allowing indefinite bypass usage, and ensure all facilities meet the latest industry standards.

We are adapting our gas distribution network to enable the delivery of renewable gases, including up to 20% hydrogen blends. This is essential to support Australia's transition to a low-carbon energy future. To achieve this, we propose a phased and targeted program at strategic locations over 10 years, with $8 million capex estimated over the next AA period including replacing incompatible components, enhancing operational safety through materials testing, welding procedures and improving data systems for accurate billing.

As to the non-distribution plant and equipment, we will replace our aging SELMA gas leak detection vehicle with a modern Picarro system in the next regulatory period. Picarro offers broader gas detection, advanced analytics, and leak volume data, enabling more effective leak surveys, better risk insights, and improved targeting of mains and service replacements.