The purpose of this information sheet is to provide a high-level overview of the methodology for forecasting capital expenditure.

What is Capital Expenditure?

Powerlink's capital expenditure (capex) consists of investment in new assets that increase network capability or capacity, reinvestment in existing assets that are reaching the end of their serviceable life, and investment on other supporting assets.

Capital Expenditure Categories

Load-driven (network) – to comply with mandated reliability obligations as electricity demand grows and/or to deliver net benefits to the market.

Non load-driven (network) – associated with the reinvestment in assets to maintain the required capacity or capability of the network or investment to meet the need for system services such as system strength.

Non-network – comprising mostly business information technology and support for assets required in the normal day-to-day course of business, e.g. vehicles.

Forecasting Methodology

Powerlink will apply a hybrid approach to determine its total forecast capital expenditure, which consists of a mix of both top-down and bottom-up forecasting methods. We used a similar hybrid approach in our previous Revenue Proposal for the current period.

For our 2027-32 Revenue Proposal we are targeting to have a bottom-up forecast supported by project-specific documentation for at least 80% of the total forecast capital expenditure. Depending on the type of project and its stage of development, this may include asset condition assessment reports, applicable asset strategies, project scopes, project estimates, network planning assessments and risk-cost quantification. For lower dollar value replacement capex projects our forecasting approach will use a bottom-up view of project needs developed using asset-specific health indices.

Some categories of non-network capex will be forecast using a top-down methodology, whereby the future requirements are based upon a trend of historical expenditure. This will include adjustments to historical capex, where appropriate, to remove specific expenditure that does not represent an ongoing trend.

This hybrid approach provides the required information for the AER to apply its preferred assessment approach, per the Expenditure Forecast Assessment (EFA) Guideline, and will be prepared in accordance with the National Electricity Rules.

Irrespective of the forecasting methodology used in the Revenue Proposal, detailed analysis and justification is developed to support each investment approval, and where relevant the Regulatory Investment Test for Transmission is conducted, as part of business as usual once these investment needs are confirmed.

Project Development

Powerlink's forecasting approach is tailored across three stages of development:

- *Assets under construction* – projects that have already received full financial approval consistent with Powerlink's corporate governance framework.
- *Confirmed investment need* – projects that are not yet approved but the need for investment has been confirmed and options are being assessed in preparation for seeking project approval.
- *Future investment needs* – investment needs that are not yet confirmed or ready to seek project approval but are expected to be required in the future.

Contingent Projects

Projects where the timing of the need is uncertain and the scale of investment is significant are not included in the ex-ante capital expenditure allowance. These may include projects identified in AEMO's Integrated System Plan as well as some augmentations and reinvestment projects.

We will use a bottom-up approach to identify such potential investments, detailing the triggers for which they would be required and providing an indicative cost of each investment. Any contingent project included in the Revenue Proposal would be subject to detailed justification processes, including a Regulatory Investment Test for Transmission where relevant and formal assessment by the AER, prior to it being commenced.

For more information about Powerlink's expenditure forecasting methodologies, (including operating expenditure), refer to Powerlink's *2027-32 Revenue Proposal Expenditure Forecasting Methodology*.