AusNet

Transmission Revenue Reset Proposal 2027–2032

31 October 2025

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Acknowledgement of Country

AusNet acknowledges Aboriginal and Torres Strait Islander people as the Traditional Custodians of the lands on which we live and work. We pay our respects to Elders past and present, and celebrate their continuing connection to Country.

About the artist

As part of our reconciliation action plan we have commissioned an artwork by the artist Bitja (also known as Dixon Patten). A proud descendant of the Gunnai, Gunditjmara, Dhudhuroa, and Yorta Yorta tribes, with blood ties to Wiradjuri, Yuin, Wemba Wemba, Wadi Wadi, Monaro and Djab Wurrung, Bitja is deeply connected to his roots.

The artwork honours the strength in being part of a community, it honours our commonality as humans, but honours our diversity also and by having different views and experiences.

See AusNet's Reflect Reconciliation Action Plan

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Foreword

Maintaining the reliability and safety of Victoria's transmission network is essential to the state's energy transition. This proposal sets out AusNet's plan for the 2027–2032 regulatory period to replace ageing assets that have served Victorians well for more than six decades, ensuring the network remains dependable, efficient and secure for the long term.

For nearly thirty years, AusNet has delivered one of Australia's lowest-cost transmission networks. Prices today remain lower in real terms than at privatisation in 1996. That outcome reflects disciplined stewardship of assets built largely in the 1960s and 1970s. Many of those assets are now approaching end-of-life, and renewal is unavoidable if we are to maintain the safety and reliability Victorians expect.

Our proposal includes a $2.4 billion capital program to replace critical ageing equipment across the 500 kV backbone and associated terminal stations. These works are essential, not optional, to sustain reliable electricity supply. We have applied rigorous cost–benefit analysis and independent assurance to confirm prudence and efficiency, balancing safety, reliability, environmental impact and affordability.

I acknowledge this proposal represents a significant increase in expenditure relative to the current period. We have not sought to lift reliability standards or expand service levels beyond what customers value. The investment is targeted at maintaining today's performance in a system that is becoming more complex to operate. Every material element has been stress-tested through engagement with our Transmission Stakeholder Advisory Panel (TSAP) and wider stakeholders to achieve the best balance between cost, risk and long-term value.

This reset coincides with major new transmission augmentation planned by VicGrid and the Australian Energy Market Operator (AEMO) under the Victorian Transmission Plan and Integrated System Plan. Those projects will build the network of the future; our program preserves the network we depend upon today. We have worked closely with VicGrid and AEMO to remove overlaps and align timing so that customers pay only once for essential works. A strong, well-maintained backbone is the foundation that allows new transmission infrastructure to operate effectively and deliver its intended benefits.

We are also conscious of affordability pressures for households and businesses. We have reduced the total capital program by around $450 million from our July 2025 draft, deferred discretionary works, and included a contingent project mechanism to protect customers from paying upfront for projects that may not proceed.

Deliverability has been a central design principle. The combination of replacement, augmentation and connection activity across Victoria will stretch available resources. AusNet is acting early, building delivery partnerships, strengthening workforce capability, and sequencing projects, so that this essential work can be completed safely and efficiently.

Our role as custodian of Victoria's transmission network carries enduring responsibility. This proposal represents our commitment to uphold that responsibility with integrity, transparency and discipline, keeping the lights on for seven million Victorians, supporting the clean-energy transition, and delivering long-term value for customers and communities.

David Smales

Chief Executive Officer, AusNet

Customer benefits

Reliability

Maintain current service levels in a more difficult operating environment "keeping the lights on"

Resilience

Strengthen critical assets to reduce the risk of blackouts in an extreme weather event

Safety

Continue to keep our crews and communities safe by replacing assets with a high risk of failure

Market impact

Maintain Victoria's access to the lowest cost generation

Environment

Continue to minimise our impact on the environment and fulfil our environmental duties

1 Introduction

We own and operate the majority of the electricity transmission network in Victoria, transporting electricity from large coal, gas and renewable generators across Victoria, interstate, and to terminal stations that supply large customers and the distribution networks. These distribution networks deliver electricity to households and businesses. All distribution customers are also transmission network customers.

The services provided by the transmission network are monopoly services, as it is not commercially viable or practical to build competing networks. For this reason, the Australian Energy Regulatory (AER) decides how much revenue we should earn to provide these services.

Every five years, the AER sets our revenue and prices. The current five-year period expires at the end of March 2027. The process for setting revenue and prices begins with us submitting a proposal to the AER. This includes details of our spending plans, which are designed to maintain the reliability and safety of the network in a prudent and efficient manner. The AER reviews this proposal and our customers, their representative and other interested parties are also invited to comment.

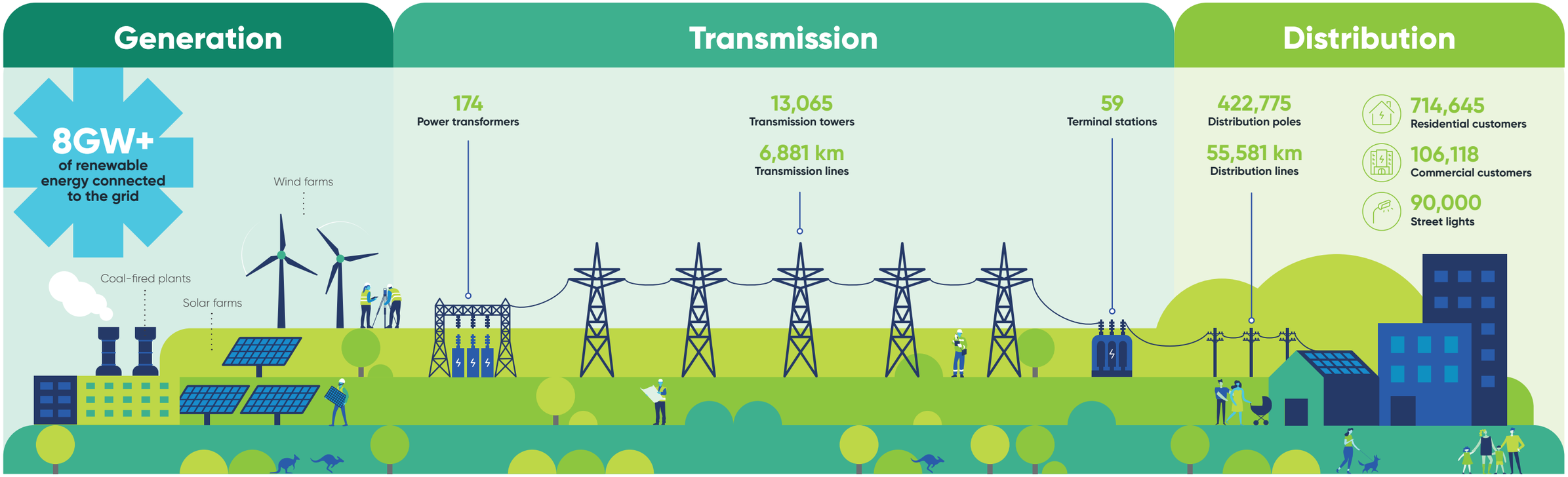
Unlike in other states, our transmission business does not plan for growth. Instead, the Australian Energy Market Operator (AEMO) and the Distribution Businesses (Powercor, CitiPower, United Energy and Jemena) currently plan all growth on the Victorian network. From 1 November 2025, VicGrid is expected to take over planning responsibilities from AEMO. We are responsible for maintaining the reliability and safety of the existing network. Therefore, this proposal relates only to the expenditure and revenues required to maintain the existing network.

This overview document forms part of our proposal. Its purpose is to summarise our proposal in a way that stakeholders will find helpful and informative. It explains how we engaged with customers and stakeholders in developing our proposal, including the establishment of our Transmission Stakeholder Advisory Panel (TSAP).

We also invite further comment and input throughout the AER's review process. For more information on our engagement activities and how to provide feedback, visit **our Community Hub website**.

2 Our customers and the network

2.1 Our role in the energy supply chain



▲ **Figure 1:** Our transmission network ecosystem

Source: AusNet

We own and operate 99% of Victoria's electricity transmission network delivering power to more than 7 million Victorians.

Our high-voltage transmission lines – ranging from 220,000 volts (220kV) to 500,000 volts (500kV) – transport electricity from generation sources, such as power stations and renewable energy facilities, to areas of high demand. At terminal stations, the voltage is stepped down before being distributed to homes and businesses by the five local distribution companies: AusNet Distribution, CitiPower, Powercor, United Energy and Jemena.

Three key customer groups interact directly with the transmission network:

Generators depend on the transmission network to deliver electricity to the wholesale market. We provide the infrastructure that connects each generator to the grid.

Directly connected customers are large industrial users—such as Alcoa's aluminium smelter in Portland—that receive electricity at very high voltages directly from the transmission network. Smaller customers, connected via the distribution network, pay transmission charges through their electricity bills.

Victorian distribution companies pay for the infrastructure that links their networks to the shared transmission system.

Our network also plays a vital role in supporting the broader National Electricity Market by connecting Victoria to New South Wales, South Australia and Tasmania.

These interconnections allow states to share electricity and support each other during times of need, making transmission networks both providers and customers of one another.

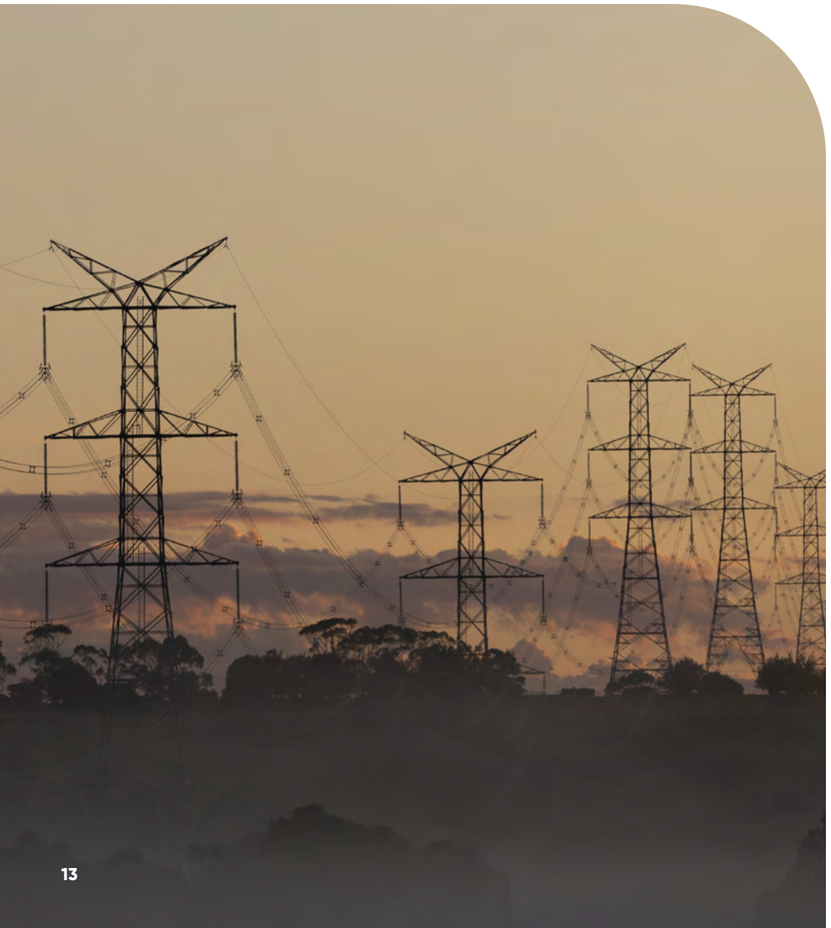
▲ **Figure 2:** Location of our network in the National Electricity Market

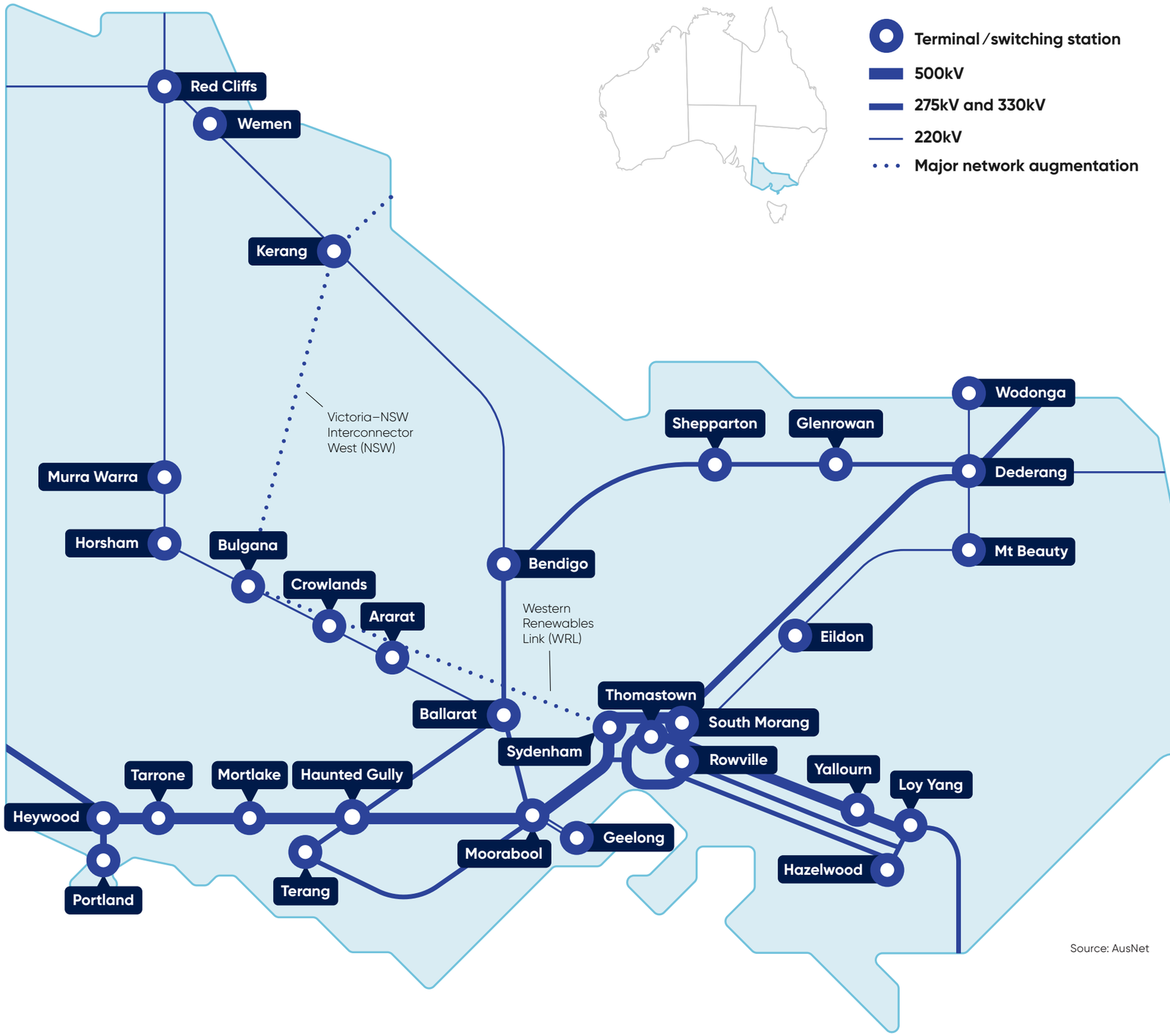
2.2 Our geographic coverage

Our electricity transmission network includes more than 6,600 kilometres of transmission lines.

The strong backbone of the Victorian transmission network runs from the Latrobe Valley to Melbourne then west to Geelong and the Portland aluminium smelter. From this backbone, the network is interconnected with Tasmania, South Australia and New South Wales (and indirectly with Queensland). Interconnection allows each state's energy system to support other states, making the overall national energy grid stronger. Smaller transmission lines take power to regional towns like Ballarat, Bendigo, Shepparton and Red Cliffs near Mildura.

As both the state and the transmission network evolve and to keep pace with the energy transition, new transmission towers and lines will need to be built in areas more suitable for renewable generation. This augmentation work is being planned by VicGrid through the Victorian Transmission Plan (see Section 4 for details).





Source: AusNet

▲ **Figure 3:** The Victorian electricity transmission network

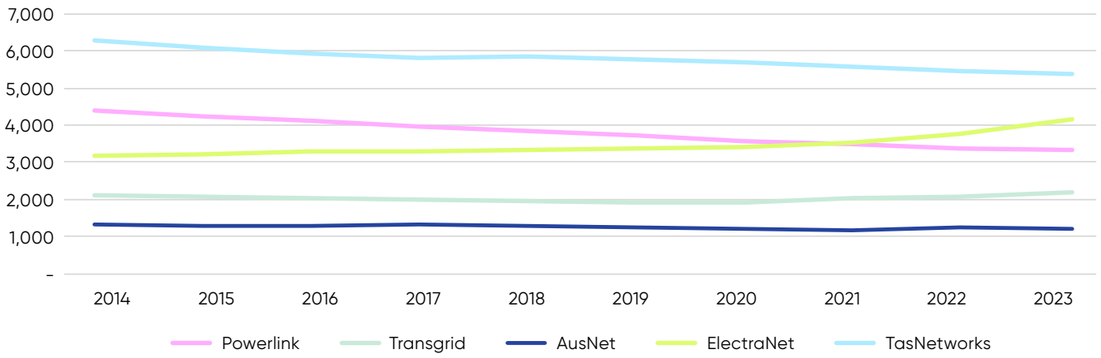
2.3 Our network performance

Our transmission network has carefully managed costs and contributed to lower costs for customers, while maintaining reliability and balancing service levels and affordability.

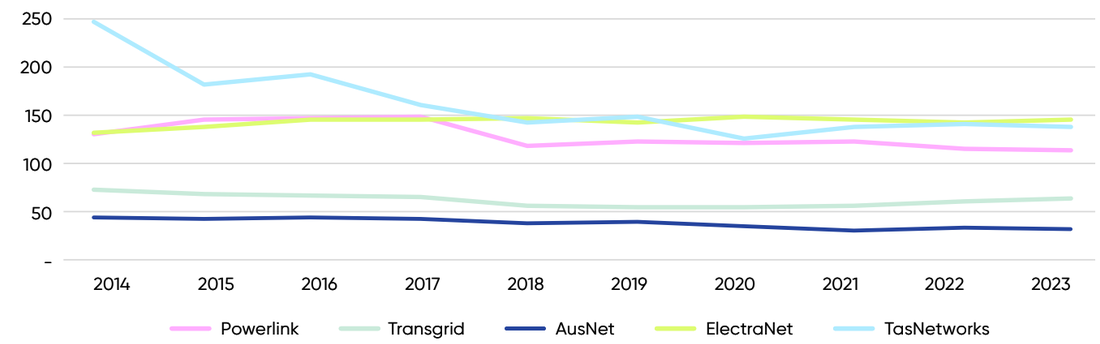
2.3.1 Cost performance

We consistently:

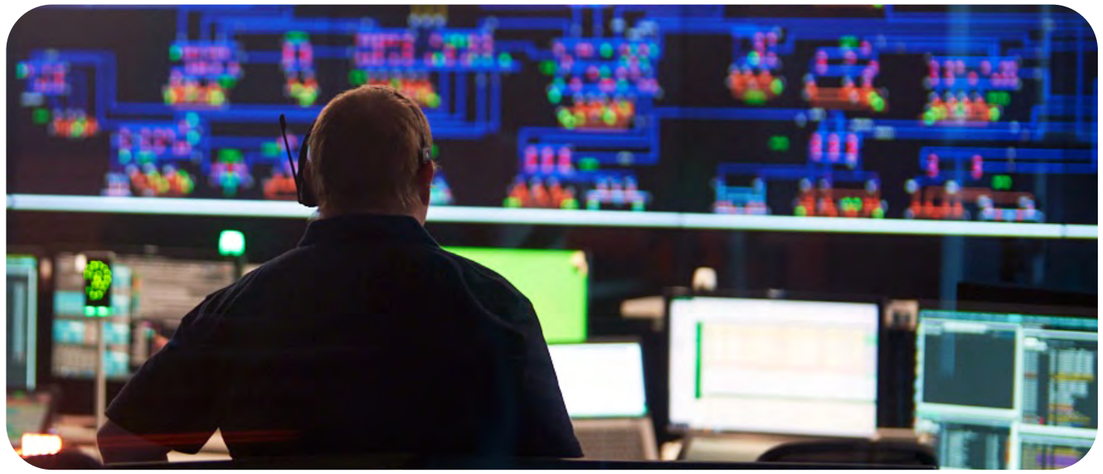
- achieved one of the highest levels of cost efficiently amongst our peer Transmission Network Service Providers (TNSPs)
- maintained the lowest Regulated Asset Base (RAB) per customer – the RAB measures the value of all our assets, adjusted for depreciation. A lower RAB per customer means fewer assets are needed to serve each network user, meaning more efficiency
- maintained the lowest operating expenditure (Opex) per customer. Opex refers to the day-to-day costs of doing business and maintaining the network - this does not include replacement projects, which are considered capital expenditure. A lower Opex per customer means less spend is needed to serve each network user, meaning more efficiency.



▲ **Figure 4:** Regulated Asset Base (RAB) per customer – the lower the RAB per customer, the more efficient the network ($, real $2023)



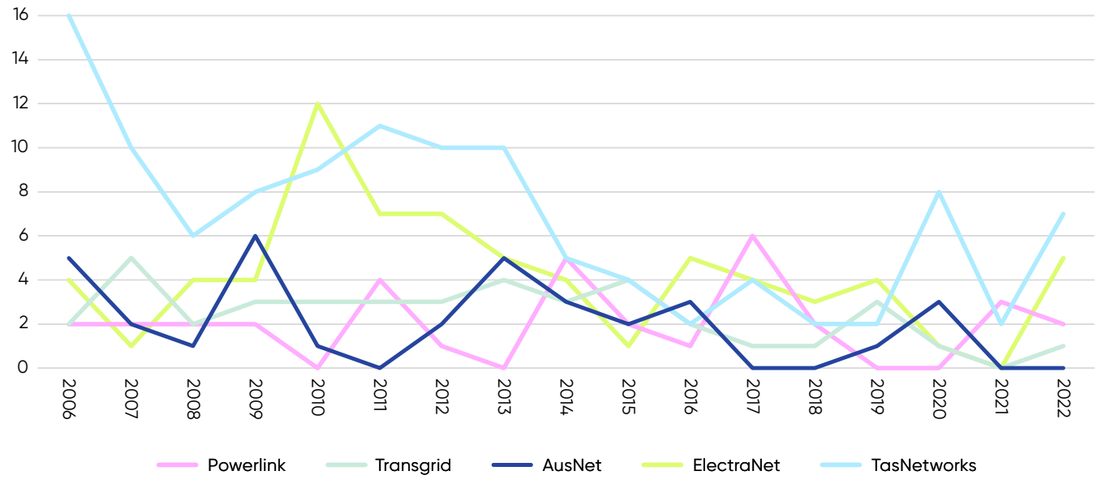
▲ **Figure 5:** Operating Expenditure (Opex) per customer – the lower the Opex per customer, the more efficient the network ($, real $2023)



2.3.2 Reliability performance

A reliable Victorian transmission network is critically important and we are committed to maintaining our strong historical performance. Loss of supply events, caused by unplanned outages, are rare and typically occur only a few times each year. Since 2017, with the exception of 2020, we have consistently met or exceeded the AER's targets for loss of supply events. Notably, in 2017, 2018, 2021 and 2022, we experienced no loss of supply events, demonstrating a very good level of performance for our customers. The reliability of the Victorian transmission network also compares favourably against interstate transmission networks.

Our reliability performance is strong compared to our peers. This is especially important given our position in the centre of the National Electricity Market (NEM), with critical connection points into Tasmania, South Australia and New South Wales. Degrading reliability of the Victorian network impacts the reliability and resilience of our neighbours' energy networks.



▲ **Figure 6:** Reliability of NEM transmission networks, measured by loss of supply events. The fewer events, the better the network's performance.

3 Customer input

3.1 Engagement with stakeholders and consumers

Ongoing and productive engagement with customer representatives and stakeholders has been a critical part of our planning process. They challenged our thinking and helped shape a proposal that reflects what matters most to Victorians. We began this process with a sound understanding of customer needs and expectations, built through our ongoing engagement activities and internal and external research.

Our engagement program was built collaboratively with customer advocates and stakeholders to reflect how they wanted to work with us in the planning process. Many of our stakeholders are time-poor or only interested in particular topics.

We believe our engagement approach met or exceeded the requirements set out in the AER's Better Resets Handbook. We demonstrated sincere, inclusive and accountable engagement - engaging with our transmission customers and stakeholders in a way that is appropriate for the subject matter and decisions that need to be made. The engagement program has directly shaped our proposal, including:

- prioritising and deferring key Capex projects
- including landholder experience and digital capability step changes
- removing insurance and network operations step changes
- the overarching proposal case of maintaining reliability and partially addressing emerging reliability and landholder experience challenges, while keeping costs down for customers.

3.1.1 Our engagement approach

We co-designed our engagement approach with customer advocates and stakeholders. Throughout our 2027–2032 TRR engagement process, we remained flexible, transparent and responsive to our operating context and stakeholder feedback. This led to several updates to our engagement approach and contributed to the development of our proposal.

The key components of our engagement approach were:

- **Transmission Stakeholder Advisory Panel (TSAP):** A refreshed panel of 12 independent and professional customer advocates played a central role in shaping our proposal by providing expert advice, challenging assumptions, and influencing key decisions - including expenditure priorities and contingent project triggers. The TSAP was involved in every stage of planning, reviewed detailed information and provided feedback on technical and economic matters. Their influence is evident in over 65 actions taken to respond to their focus on balancing cost, reliability and future readiness.
- **Deep dive workshops:** We held targeted deep dives on complex and emerging issues, such as landholder experience, generator connections, resilience and the Victorian Transmission Plan. These workshops with the TSAP and other stakeholders helped us refine our investment plans and select preferred options, such as strengthening towers and replacing ageing transformers.
- **Draft proposal engagement:** We published our draft proposal in July 2025 and engaged with stakeholders through briefings, webinars, social media and direct outreach. This stage was particularly valuable for our stakeholders who preferred to be engaged later in the process, aligning with their preference for lighter-touch involvement in transmission planning. Feedback from these activities helped us finalise our public draft proposal.
- **Supporting engagement and research:** We considered insights from our energy sentiments tracker, customer satisfaction program, Customer Consultative Committee and the price review processes running across all five Victorian electricity distribution networks. We also considered feedback from directly connected customers, commercial and industrial users, government, developers and other stakeholders in our day-to-day operations planning and delivering transmission infrastructure across Victoria.

Our engagement was designed to be sincere, inclusive and accountable. We published materials, shared sensitive information to support informed participation and equipped our panel with the tools needed to participate meaningfully. We are confident that we have met or exceeded all requirements in the AER's Better Resets Handbook and our engagement has helped design a proposal that reflects the long-term interests of our customers and stakeholders.

3.2 How our proposal responds to stakeholder and customer feedback

Throughout the engagement process, we received feedback from stakeholders and customers about many aspects of our proposal. We responded to all feedback and made notable changes in response.

▼ **Table 1:** Responding to feedback

We recognise the cost is high but consider the balance is right

Stakeholders unanimously noted both the high cost of the proposal and the high costs of underinvesting for customers. The tension between these costs and what balance reflects customers' long-term interests was debated extensively through the engagement process by our TSAP. It is clear stakeholders are more concerned about the collective future cost of transmission networks than the details or cost of any specific component/s of this proposal.

We have been laser-focused on spending efficiently in our proposal and found opportunities to lower costs while maintaining value for customers. We have fully reflected the TSAP's advice on the composition of the Capex proposal and projects prioritised, made contingent or deferred. Further cost reductions may be possible through descoping (i.e. not completing) work or delaying work (i.e. starting later than economically justified). However, the feedback we received from the TSAP and distribution networks indicates low appetite for these options.

A more detailed list of measures taken to keep costs and risk down for customers are outlined in section 5.2.

Safety and reliability are critical and there is very low appetite for more outages

Stakeholders universally agreed that reliability and safety need to be maintained, but it is prudent not to seek improvements given the trajectory of our component of the transmission charge and the bundle of transmission costs. There was very low to no appetite for customers wearing higher outage risk (i.e. service degradations), which might have flow-on impacts for end customers, generators (impacting wholesale costs) other states importing or exporting power to or through Victoria.

We propose modest uplifts in a limited number of areas and have avoided gold-plating

We clearly heard that the TSAP and other stakeholders do not need or expect "gold plated" levels of service – for example, higher standards of customer service, reliability or safety than is acceptable to customers. Rather, it was agreed that investments in tower strengthening, landholder experience, low span remediation and digital be targeted. All stakeholders who commented acknowledged investing in these areas is important and appreciated the effort taken to limit the scope of discretionary programs given the high cost of the overall proposal. Our engagement-informed decisions include:

- only investing to the economic level for tower strengthening to support network resilience
- proposing a bundle of landholder experience improvements in collaboration with landholder and customer advocates, striking an appropriate balance between meeting landholders' needs, keeping bill impacts down and absorbing the costs of several initiatives
- limiting digital upgrades to programs that are clearly linked to customer benefits

Transparency on the full cost impact of transmission investments is appreciated

While we are responsible for spending on the existing transmission network, the transmission component of customers' bills is also under pressure from other drivers, including the Integrated System Plan and Victorian Transmission Plan.

All stakeholders appreciated that the proposal addresses how our transmission investments fit into the bigger picture while focussing on what can be controlled – an approach we collaborated on with the TSAP for our draft proposal and this proposal.

We avoided overlap with other plans

The TSAP expressed a strong desire for us to work with jurisdictional planners to prevent, detect and remove overlaps in replacement and augmentation plans so customers only pay once for the works needed on the network. They challenged us throughout the process to demonstrate the efficacy of our joint planning work. At the TSAP's invitation, AEMO and VicGrid attended a TSAP meeting in September 2025 and were questioned directly on their thoughts on our proposal and participation in joint planning activities.

Through this process, we identified approximately $19 million of overlap which has now been removed from this proposal. Bundling opportunities were also found, which resulted in augmentations being delivered through replacement projects, such as at Keilor Terminal Station. This means customers get the benefit of augmentation without additional cost. In addition, and outside the scope of the TRR, we provided extensive data, information and ideas to support VicGrid's efficient planning. We cannot quantify the value of these contributions but expect they considerably reduced transmission augmentation costs.

We carefully assessed the deliverability of our Capex program and included a contingent project to reduce risk to customers

The TSAP noted that delivering projects at the right time is important for customers and will help keep overall costs and risk down. The TSAP provided input to the methodology used for assessing deliverability and supported the use of contingent projects as a tool to mitigate the risk of customers paying for a project/s that we can't deliver. The TSAP collaborated on the design of the contingent project trigger and the overall composition of the Capex program, including the decisions to:

- defer the Terang Terminal Station B2 Transformer Replacement Project
- partially defer the fall arrest structures program
- make the Dederang Terminal Station H3 330/220kV Transformer & Circuit Breaker Replacement a contingent project.

3.3 Plans for post-submission engagement

When the AER publishes its Issues Paper in December 2025, we will actively support its public consultation process by encouraging stakeholders to participate in the public forum and provide feedback on the AER's initial observations.

In the medium term, we will continue engaging with customers and stakeholders following our submission to help shape our revised proposal and respond to the AER's feedback. We have committed to meeting with our TSAP twice in the first half of 2026 and approximately twice more between receiving the AER's draft decision on this proposal and lodging our revised proposal.

Longer-term, we intend to continue engaging beyond our revised proposal submission. Our TSAP supports this approach, which is consistent with our approach following the 2022-27 TRR process, with details including terms of reference to be determined in the final TSAP meeting before we lodge our revised proposal.

Submissions on Proposal close in February 2026

Submissions on Revised Proposal close in November 2026

31 October 2025
TRR proposal submitted to AER

↓

December 2025
AER issues paper released
AER public forum

↓

November 2025 – August 2026
Post-submission engagement

↓

June 2026
AER draft decision

↓

November 2026
Revised proposal submitted to AER

↓

January 2027
AER final decision

↓

April 2027
New regulatory period starts

4 Context for this revenue reset

Our core objective is to maintain system reliability, which drives the majority of our expenditure, to keep the lights on for Victorian homes and businesses. However, our proposal also comes at a time of significant change in the Victorian energy system. These drivers of change were considered in developing our proposal.

Victorian Transmission Plan

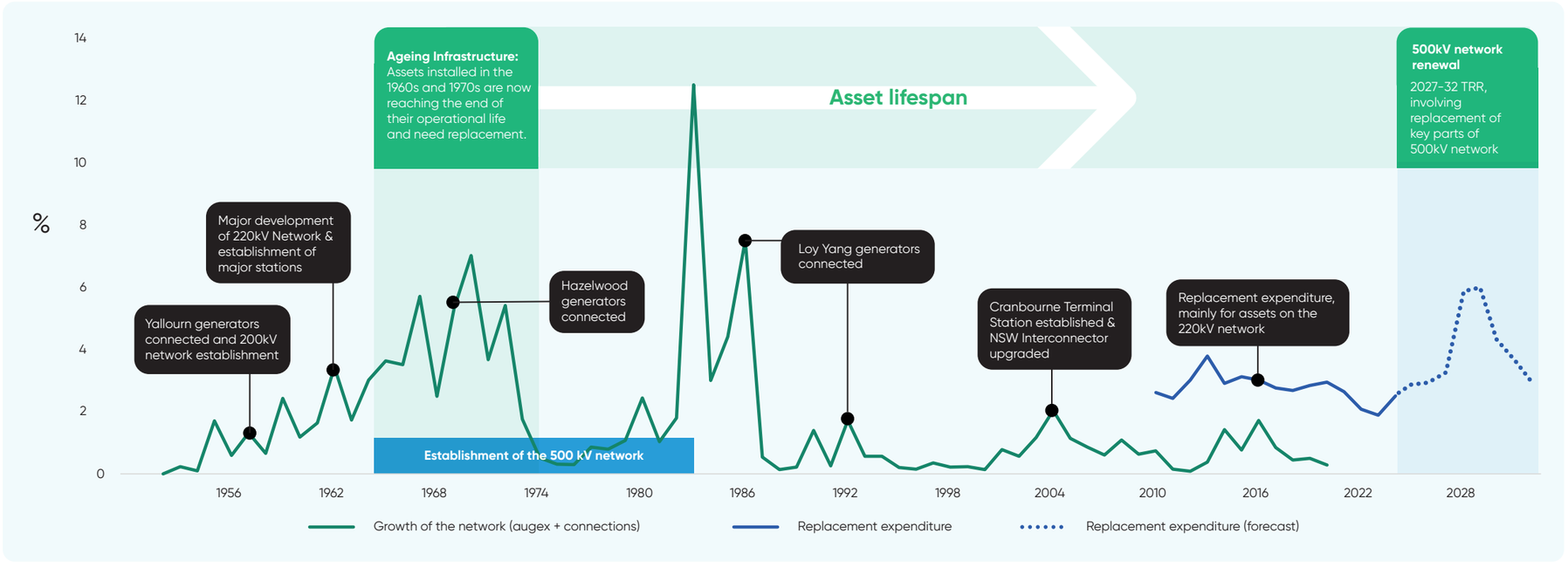
The current transmission network was built around large, centralised coal-fired power stations, mostly located in the Latrobe Valley. These coal-fired power stations will soon retire and the generation being built to fill this gap in supply is much more dispersed. This generation needs to connect to the grid, so substantial investments in new transmission infrastructure were proposed by Victoria's transmission planner, VicGrid, and the national transmission planner, AEMO.

VicGrid is responsible for producing the Victorian Transmission Plan (VTP) – a central document that outlines where and when energy infrastructure needs to be built to meet power needs, providing clear signals to communities and the energy industry. The VTP identifies seven programs and 21 projects to upgrade the transmission network to and through these areas, totalling $7.9 billion in investment.

While the focus of the Transmission Revenue Reset (TRR) process is on maintaining the existing transmission system, we carefully considered proposed network augmentation plans to avoid overlap and help keep costs down for customers.

In addition, AEMO performs the role of national energy system planner and is responsible for long-term planning and coordination with State planners (such as VicGrid), particularly inter-state connectors. In addition to the VTP projects above, there are a few large upgrades to Victoria's inter-state connections planned and underway, including the Western Renewables Link and Victoria-NSW West Interconnector. These projects are reflected in AEMO's Integrated System Plan (ISP).

▼ **Figure 8:** Historical development and replacement expenditure for the transmission network



Ageing network

The Victorian network is ageing and requires substantial replacement to maintain safety and reliability. This reflects the historical development of the transmission system, centred on supplying coal-fired generation from the Latrobe Valley to the major demand centres – Melbourne and Geelong. Of particular relevance to our replacement needs, the 500kV backbone network in Victoria was built in the late 1960s and early 1970s, and key equipment like switchgear and transformers now need replacing as they near the end of their operational life. The replacement of these key assets is a key driver of the capital expenditure forecast for 2027-32.

There has not been significant augmentation investment in the Victorian network since the early 1990s. This has allowed us to give Victorians the lowest cost transmission network in Australia and prices have remained low and flat in real terms since then. But it also means the network is ageing and significant investment to replace deteriorating network assets is needed.

Operational challenges

Our network is becoming increasingly complex to run and is operating close to its limits. The way the network is used is dramatically shifting, with the widespread penetration of rooftop solar photovoltaic (PV), closure of large baseload generators (e.g. coal-fired power stations) and repurposing parts of the network that were originally designed to serve small regional loads into pathways for new large scale renewable generation.

The network must now deal with the emerging challenges of lower minimum demands and falling system strength, which leave the system vulnerable to destabilisation and an increasingly complex number of new connections and large shared network upgrades. AEMO is regularly sending us Minimum System Load notices (27 times during the 2024-25 summer period) requiring us to prepare to meet the challenge of a critical low in system demand. Minimal System Load occurs when electricity demand (usage) is very low. This often occurs during sunny days when rooftop solar is generating a lot of energy, but not enough energy is being used. In the past 12 months, we switched or reconfigured parts of the network to deal with these operational challenges approximately 40,000 times – this is compared to only ~25,000 times in 2019. Each of these circuit breaker operations represents a higher load being placed on our assets.

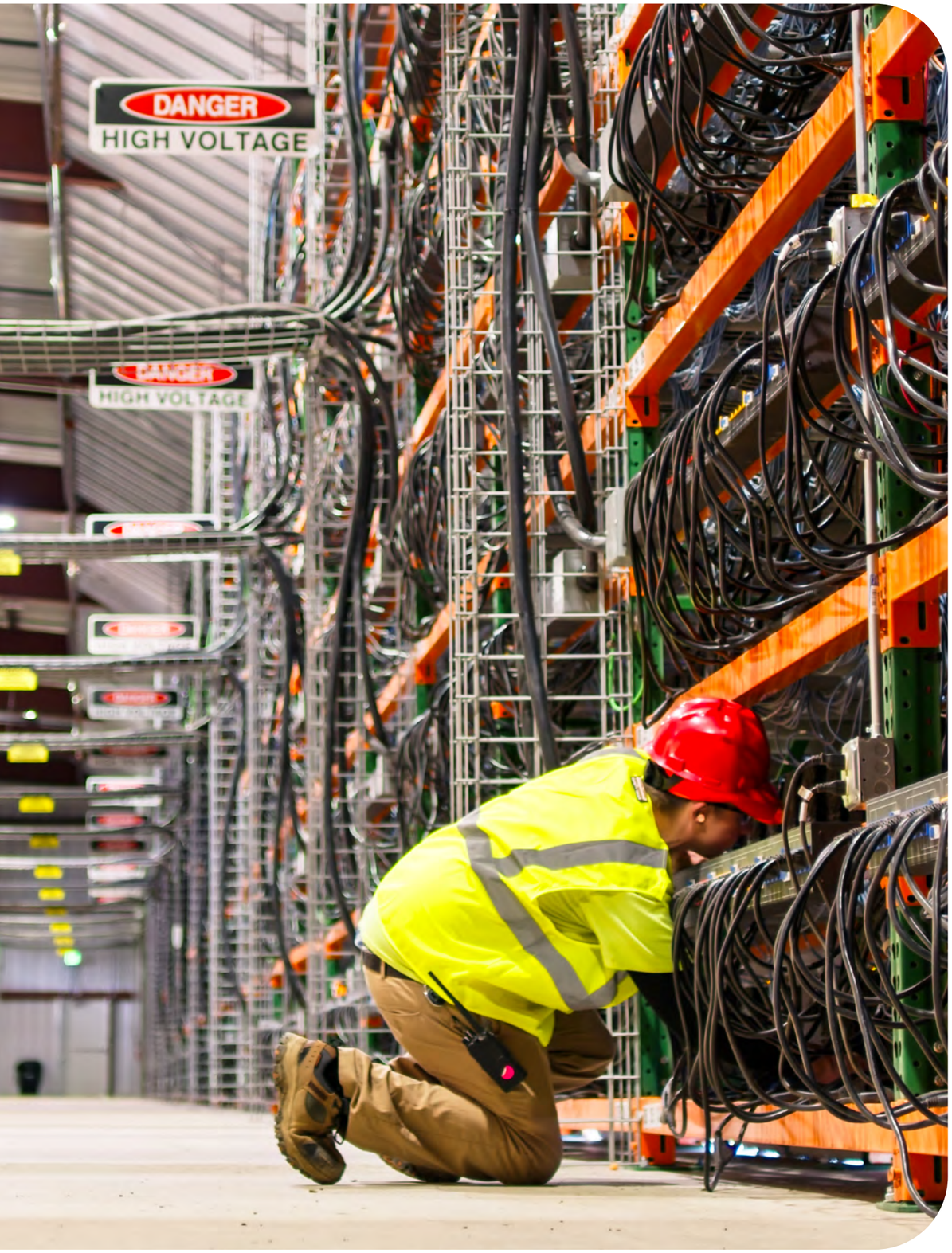
Although power systems worldwide are built to be resilient to a range of contingency events, these emerging challenges mean there is increasingly a need to plan for high impact but low probability events. In extreme cases, such as where cascading tripping of protection systems occurs, sections of the network or the entire network loses power. This is called a system black event. Although Australia has not experienced a state-wide system black event since South Australia in 2016, these events do occur around the world as seen in recent occurrences in Spain and Portugal in April 2025.

Cost escalation

Significant increases in construction costs over the last five years have also impacted our proposal. This is driven by:

- sustained supply chain pressures on materials, equipment and workforce
- market competition driven by a high number of concurrent projects under development in the NEM
- project complexity, including an increased number of projects planned for remote areas
- social licence and additional community and landholder engagement along proposed transmission line routes
- additional contracting costs to account for risk allocation in engineering, procurement and construction contracts in response to pressures in the current market.

AEMO's transmission cost database (TCD) is a national benchmark for cost reporting in the sector and reports approximately 60-80% real cost escalation between the 2021 TCD and the 2025 TCD.



Deliverability

The growing need to replace ageing infrastructure through the TRR, the large volume of augmentation work in the VTP and the increasing volume of network connections means there is a lot of transmission work coming. This creates a deliverability challenge, as there is a limited supply of resources to complete all this work.

We identified four challenges that will be critical in delivering this level of uplift in capital expenditure over the next period. The content below explains each of these challenges and how we are planning to navigate them.

Challenge 1: Labour availability	The availability of workers, particularly in specialised roles, is essential to transmission infrastructure delivery. Workers in skilled electrical roles, such as lineworkers, fitters and testers, are critical to the successful and timely delivery of transmission projects. However, they are among the most difficult to fill due to lengthy training periods and competition from interstate and international sectors. We expect a material uplift in the number of skilled workers that are required to deliver the capital projects within this proposal. **Our analysis suggests this is the most critical constraint for this proposal.**
Challenge 2: Procurement of long-lead time materials	Delivery of transmission infrastructure requires a range of materials typically sourced internationally and often subject to global supply chain constraints. Global manufacturing capacity has not kept pace with demand, and we face strong competition from other customers when looking to purchase these materials, which is driving up prices.
Challenge 3: Outage availability	Outage availability is largely outside of our control. To safely deliver many of the projects outlined in this proposal, we need to take transmission elements out of service. These events are called "planned outages". Planned outages require coordination across the network via AEMO decision making processes, so customers do not lose electricity supply while the transmission element is offline. However, these planned outages are becoming increasingly difficult to schedule due to the Victorian transmission network's geographic, structural and operational characteristics. This limits the availability of alternative pathways for power to flow. Victoria also has a requirement to support network security in South Australia, Tasmania and New South Wales.
Challenge 4: Planning approvals	Construction activities for transmission assets typically require planning approvals, including for cultural heritage, environmental and biodiversity reasons. We must secure these approvals before any construction work can start. We must also navigate these approvals so the projects outlined in this proposal can be delivered on time, noting that each project will need to be assessed on a case-by-case basis by the Victorian Minister for Planning via the Department of Transport and Planning (DTP).

The consideration of deliverability has been a critical part of our proposal development and engagement with our stakeholders. Further information on how the deliverability risks are being managed through our proposal is available in **Section 7.2**.

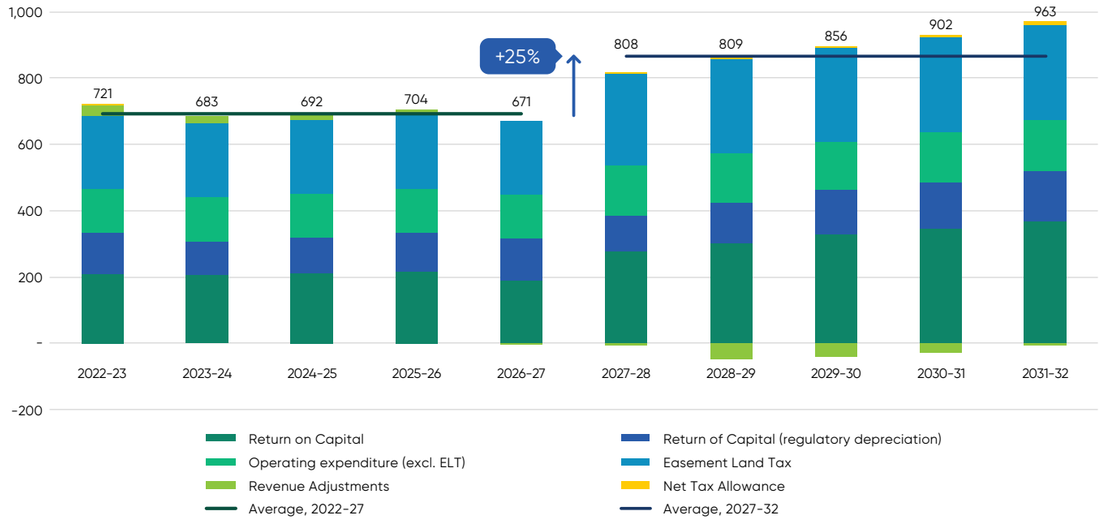
5 Revenue for 2027-2032

5.1 Revenue

Our total revenue requirement for the 2027-32 regulatory period is calculated using the 'building block' approach set out in the National Electricity Rules (NER). This approach combines several cost components to determine the revenue needed to operate, maintain and invest in the transmission network.

In the current regulatory period (2022-27), our approved revenue allowance is $3.5 billion (in real 2027 dollars). In the next regulatory period (2027-32), we expect total revenue of $4.3 billion (in real 2027 dollars). This is an increase of 25% in real terms in our total revenue. Over the 2027-32 period, this means a 57% nominal increase in annual revenue.

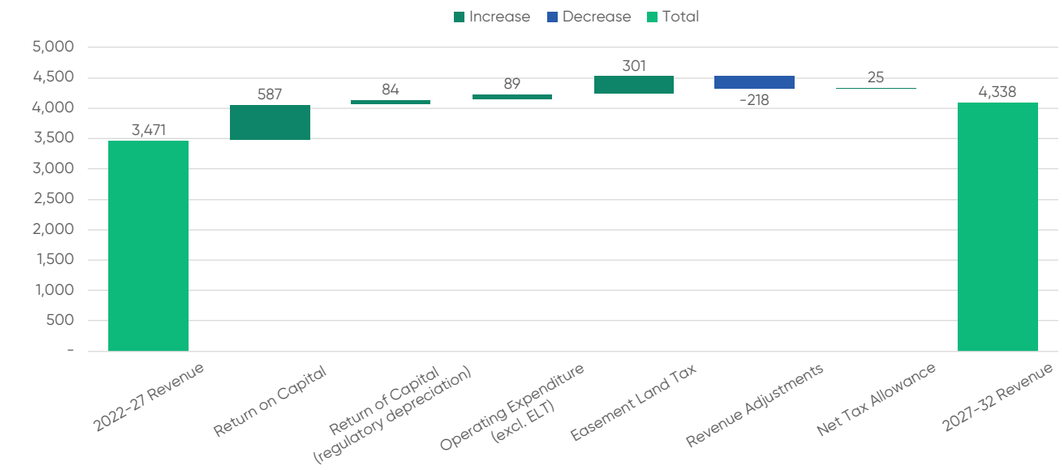
▼ **Figure 9:** Revenue in the current and upcoming regulatory periods ($M, real $2027)



Key drivers of the increase include:

- higher easement land tax – a state-imposed levy we pay to operate transmission infrastructure on land we don't own. The amounts for easement land tax are not controlled by AusNet, and are "passed through" to consumers each year
- increased capital expenditure impacting return on capital and depreciation
- higher rates of return applied to capital – in the current environment, interest rates are expected to remain much higher compared to the low levels set in the current period.

▼ **Figure 10:** Drivers of increase in revenue from current to forthcoming regulatory period ($M, real $2027)



Most of our revenue requirement depends on inputs that we cannot control, most notably the value of our existing assets and financing costs. We also have limited control over our operating and capital expenditure because reliability, safety and performance obligations mean that certain activities are non-negotiable.

▼ **Table 2:** Building block revenue requirement, ($m, nominal)

	2027-28	2027-29	2029-30	2030-31	2031-32	Total
Return on Capital	285	320	356	386	417	**1,763**
Return of Capital (regulatory depreciation)	110	128	144	154	176	**711**
Operating expenditure (excl. ELT)	157	160	160	167	173	**816**
Easement Land Tax	284	295	306	317	329	**1,531**
Revenue Adjustments	(9)	(52)	(44)	(32)	(9)	**(146)**
Net Tax Allowance	3	2	4	9	11	**28**
Total unsmoothed building block revenue	**829**	**852**	**925**	**1,000**	**1,096**	**4,703**
Total revenue after smoothing	**829**	**881**	**936**	**994**	**1,056**	**4,696**

5.2 Bill impacts

We incorporated many decisions and actions into our proposal to reduce costs to customers as much as reasonably possible, including:

- maintaining high asset utilisation and consistently increasing productivity. The AER's benchmarking reports rank us consistently high in these areas. This means we have demonstrated our ability and commitment to extract more value for customers from the existing network over many years
- using economic timing assessments to determine the optimal investment window for major projects (e.g. transformer replacements) while balancing cost and benefit. We engaged on this methodology and shared these assessments with stakeholders throughout our engagement process
- including a contingent project to protect customers from paying for a project that cannot be delivered
- integrating our program with VicGrid and AEMO's augmentation plans to remove duplication and increase capacity for reduced or no extra cost
- maintaining an ambitious 0.52% p.a. productivity target for operating expenditure reductions, in line with industry benchmarks
- presenting credible costed options for stakeholders to consider and engage on throughout the process
- developing a deliverability strategy to manage labour, materials, outages and planning approvals. This is so projects are executed efficiently and avoids delays that could inflate costs
- deferring a few digital investments to future TRR cycles. The investments deferred are in areas where the market is less mature and where we're waiting for more evidence that the solutions currently available will achieve the desired results
- incorporating customer preferences expressed in the AER's updated Value of Customer Reliability (VCR) to shape expenditure plans, so investments reflect what customers value most and avoid unnecessary spending on areas that do not meaningfully impact customer experience
- bundling and prioritising security-related investments (e.g. CCTV, fencing, access control) based on risk and compliance needs
- advocating to planners and government, including by sharing information and ideas with VicGrid to support efficient transmission augmentation planning and providing feedback from stakeholders to those who control other components of transmission charges, including by sharing stakeholder feedback on the Easement Land Tax with the Victorian Government.

Despite these cost-saving measures, our proposal still represents a significant increase in expenditure.

Residential customers

Victorian energy consumers will see a notable rise in transmission charges over the next decade. Part of this increase comes from our regulated business, as outlined in this proposal. However, a large portion is due to network upgrades required for the energy transition, set out in VicGrid's Victorian Transmission Plan (VTP) and AEMO's Integrated System Plan (ISP). Investing in energy transmission also displaces some investment in other areas, such as gas networks, and allows access to lower cost generation, reducing price pressure in other areas of the energy supply chain.

Our transmission charge typically accounts for 5% to 6% of residential and business electricity bills. Our transmission component in electricity bills will increase by 43% by the end of the regulatory period (2032). This is a significant increase in the transmission component and other elements of electricity bills are likely to increase at the same time. However, for many customers, our transmission component will only increase their current total energy bill by ~2% over the next regulatory period. This increase does not include transmission charge hikes outside the TRR.

▼ **Table 3:** Bill impacts for residential and small business customers

	Assumed consumption (kWh)	Total retail bill ($, real 2026-27)	Transmission % of bill (%)	2026-27 transmission component ($ p.a. nominal)	2031-31 transmission component ($ p.a. nominal)	Increase ($ p.a. nominal)
Residential 'average' customers	4,000	1,908	5%	99	142	**42**
Small business customer (low usage)	10,000	4,398	6%	249	354	**106**
Small business customer (high usage)	20,000	8,279	6%	497	709	**212**

Larger industrial and transmission connected customers

For our larger industrial customers, particularly those directly connected to the transmission network, the transmission component of the bill is much higher (up to tens of millions of dollars per year), so any increases to their bills are more substantial. Our transmission portion of their bills will rise by 43% (nominal) by the end of the regulatory period, before non-Transmission Revenue Reset charges (including the cost of ISP and VTP projects) are factored in.

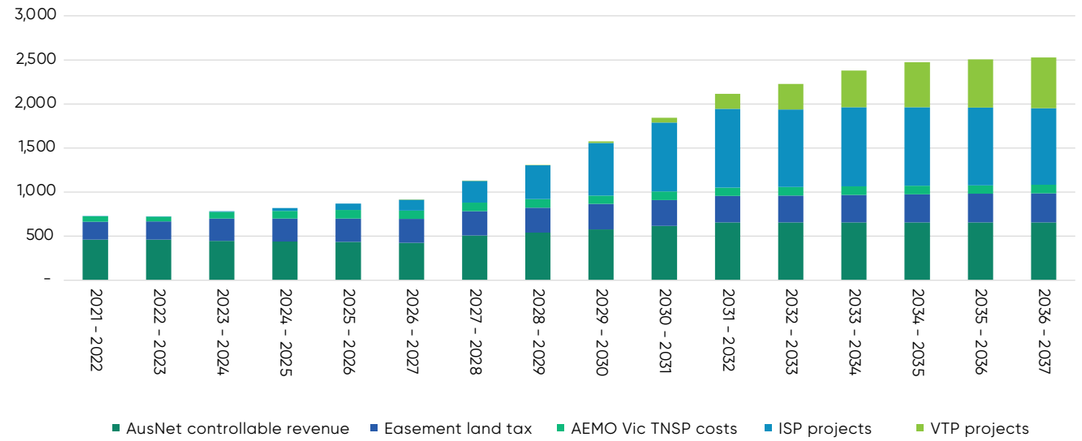
▼ **Table 4:** Bill impacts for large industrial and transmission connected customers

	Assumed consumption (MWh pa)	Distribution charges ($, real 2026-27)	Transmission charges ($, real 2026-27)	Transmission % of bill (%)	Increase ($ p.a. nominal)
Medium industrial and commercial customers	240,903	29,673	3,330	10.0%	**1,417**
Large industrial and commercial customers	819,903	77,090	14,160	15.5%	**6,027**
High voltage customers	3,008,312	171,827	51,522	23.1%	**21,927**
Sub transmission customers	17,652,275	188,294	287,483	60.4%	**122,351**
Transmission connected customers	The circumstances of each transmission customer differ significantly, so we have not tried to present an 'average' customer. Million dollar increases in transmission charges are possible for these customers.				

Combined impact of TRR, VTP and ISP

We acknowledge the investment proposed in the existing network is significant and will result in higher costs for Victorian electricity customers. Currently, the costs of maintaining our existing network and the easement land tax charges make up most of the transmission component of customers' bills. However, as spending on new transmission infrastructure increases, our controllable revenue as a share of the transmission component of customers' bills will reduce from ~53% today to ~31% by 2032.

▼ **Figure 11:** Total Victorian transmission revenues ($, real March 2025)



Note: The above figures are indicative only and rely on publicly disclosed information about upcoming projects, including the Victorian Transmission Plan and Integrated System Plan.

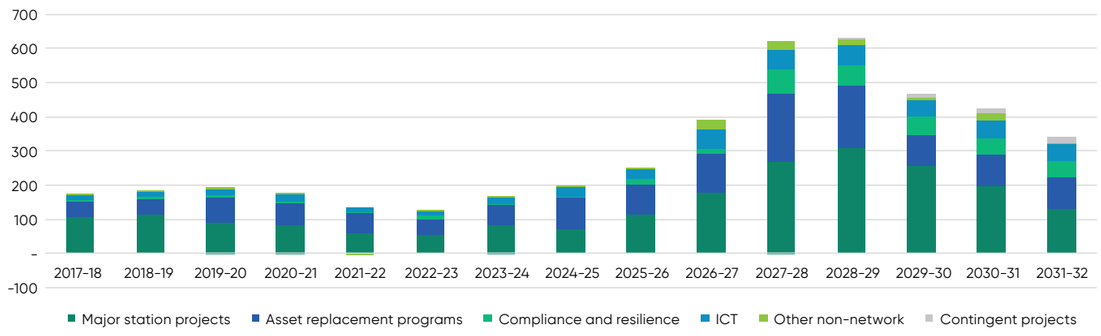
6 Key elements of our proposal

6.1 Capital expenditure

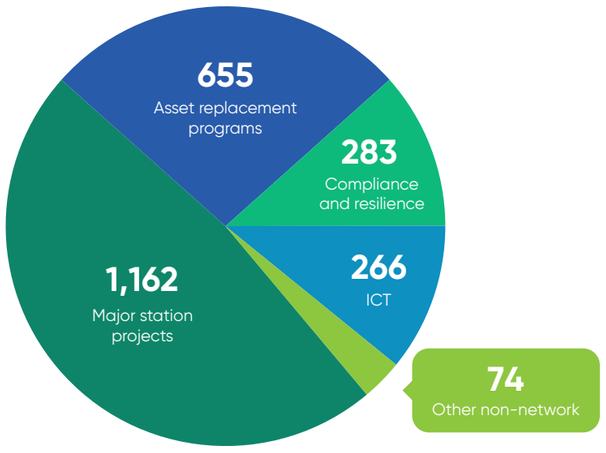
We are forecasting total capital expenditure of $2.4 billion ($, real March 2027) for 2027-32, which is 2.2 times more than our expected capital expenditure in the current period. Our forecast asset replacement projects and programs were developed using an economic risk-based approach. This longstanding approach addresses reliability, safety and environmental risks prudently and efficiently, serving the long-term interests of customers.

In developing this forecast, we considered the trade-offs associated with deferring capital projects. While economic deferral can reduce short-term costs, it may increase long-term risks to reliability, safety and cost escalation. For example, delaying the replacement of ageing assets could lead to higher failure rates, more frequent outages or emergency repairs that are more expensive and disruptive. Our investment timing reflects a balance between cost efficiency and the need to maintain a secure and reliable transmission network for all Victorians.

▼ **Figure 12:** Capital expenditure over time ($M, real $2027)



▼ **Figure 13:** Capital expenditure by category over 2027-32 ($M, real $2027)



Note: ICT is Information and Communication Technology (expenditure for digital systems).

6.1.1 Major station projects

The major stations replacement program will replace selected, deteriorated assets at terminal stations where the risk to the safety and reliability of the transmission network outweighs the cost of a replacement program. As such, these projects are critical to make sure the transmission network continues to provide reliable supply to Victoria.

We propose $1.2 billion ($, real March 2027) in major stations works across 14 key projects, including large-scale transformer and switchgear replacements at sites like South Morang, Keilor and Geelong. These upgrades are driven by asset age, condition and system resilience and are essential to maintaining the performance and reliability of Victoria's transmission network.

6.1.2 Asset replacement programs

Asset replacement programs involve the replacement of deteriorated line and tower assets (e.g. conductors), station assets (e.g. transformers and circuit breakers), protection and control systems and communication equipment. These programs are crucial to maintaining the safety and reliability of the transmission network.

As with major station projects, asset replacement programs are economically justified when the consequence of failure exceed the cost of replacement. This occurs as the condition of our assets deteriorate, resulting in the performance of these assets (being able to provide safe and reliable power) gradually declining, presenting risks to the continued reliability and safety of the transmission network. However, unlike major station projects which target the replacement of deteriorated assets at a single location, replacement programs involve the replacement of individual types of assets geographically spread across the network.

We forecast this replacement program to cost $655 million ($, real March 2027). This program represents a significant increase compared to the current period. A key driver of the increase is escalations in unit rates (above inflation) that have made it more expensive to conduct replacement programs. Some categories are also expected to increase due to the volume or number of asset replacements identified for the program compared to the current period.

6.1.3 Compliance and resilience

This program covers a range of asset types identified for replacement due to compliance obligations or standards. For example, the physical security requirements set out in the Security of Critical Infrastructure (SOCI) Act and the safety requirements for transmission lines set out by Energy Safe Victoria influence some of this expenditure.

We are proposing a capital expenditure of $283 million for safety, security and compliance programs. Importantly, this includes the introduction of several new categories of expenditure, including low span remediation and the tower strengthening resilience project. Significant uplifts for physical security, environmental and other compliance obligations reflect the need to comply with stricter requirements (e.g. recent changes to SOCI legislation), cost escalation above inflation and ongoing compliance with obligations, such as the Environment Protection Act 2017 (EPA).

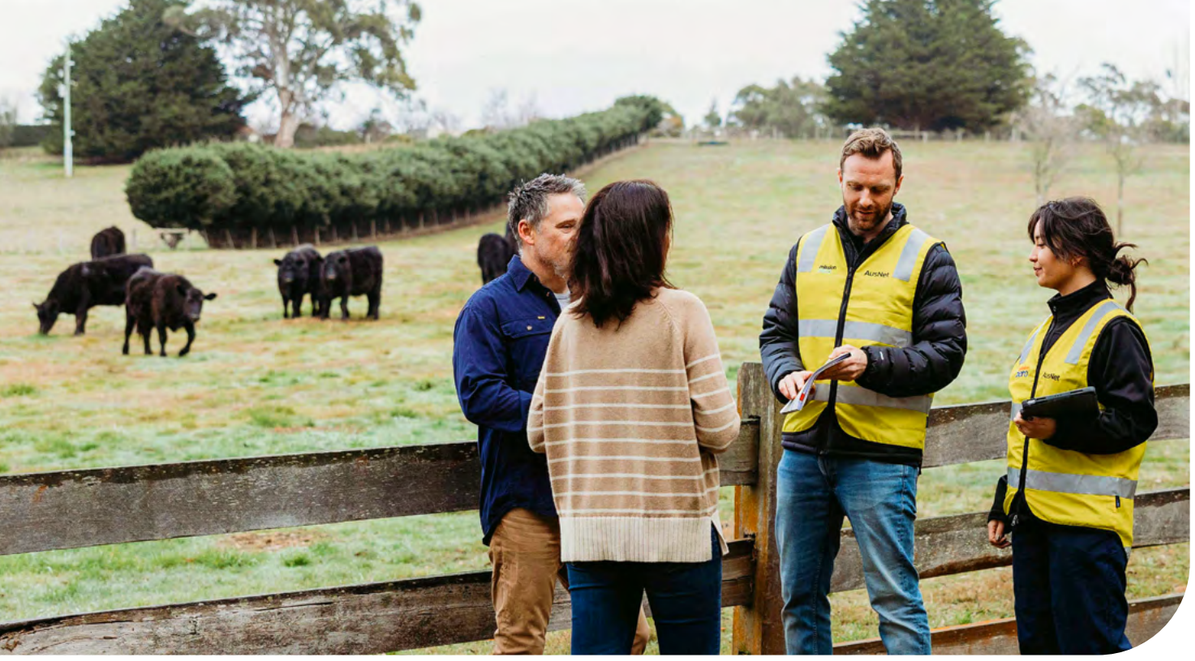
6.1.4 Information and communication technology (ICT)

We must modernise our digital infrastructure to remain agile, secure and future-ready. While our current digital systems remain operational, they require significant upgrades to support real-time data processing, advanced analytics and integrated asset and network management capabilities.

We propose investing $266 million ($, real March 2027) in digital infrastructure to modernise our systems and enhance network resilience, cybersecurity and operational efficiency. This investment will directly fund the implementation of advanced digital systems, including real-time monitoring platforms, upgraded analytics software and integrated asset and network management tools. These enhancements will allow us to more effectively manage the growing volume and complexity of data, improve system reliability and strengthen our ability to respond to cyber threats and network incidents.

6.1.5 Non-network Capex

The non-network Capex category totals $74 million ($, real March 2027) and includes investment premises upgrades, fleet vehicles and operational tools. These investments support the safe and efficient operation of the network, so we can comply with evolving standards and allow our workforce and infrastructure to meet future demands.



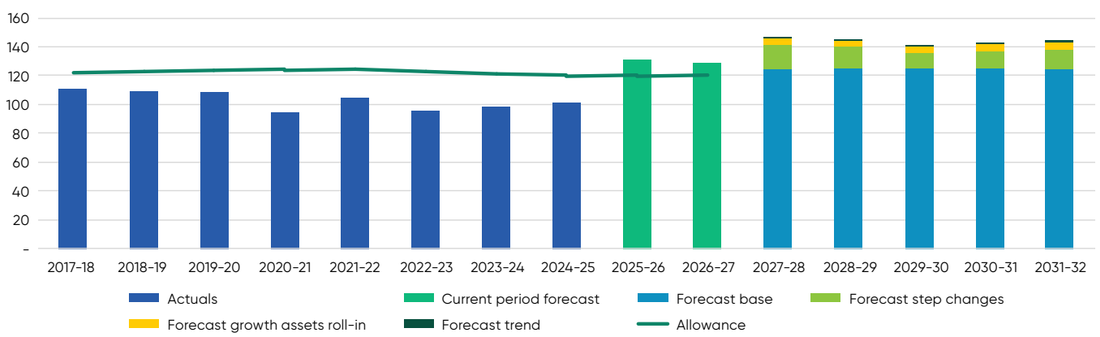
6.2 Operating expenditure

Our proposed Operating expenditure (Opex) minimises costs while maintaining the reliability and safety of network services and managing network growth. This proposed Opex delivers strong value for customers by keeping controllable costs low while maintaining a safe and reliable electricity supply. By efficiently managing our operations, we direct the majority of customer-funded expenditure towards enhancing the performance and resilience of the network. Figure 13 below shows how much is spent on each category of Opex costs.

Easement land tax makes up the majority of these costs, accounting for an estimated 66% of our Opex. The remaining categories reflect 'controllable' categories of Opex that we are incentivised to reduce, including maintenance, IT, network overheads, corporate and other taxes and charges.

Our forecast of controllable Opex is $720 million (real March 2027), which is 19% higher than the allowance approved for the current period.

▼ **Figure 14:** Controllable operating expenditure over time ($M, real $2027)



6.2.1 Efficient base year

The base year accounts for approximately 87% of the controllable Opex forecast. We propose 2025-26 as the base year for the 2027-32 regulatory period. The 2025-26 year will be the first full year reflecting our updated organisational structure and operating conditions, which makes it more representative of future operations. Our strong track record in operating efficiency, as demonstrated through independent benchmarking, supports the selection of 2025-26 as a representative and efficient base year.

6.2.2 Trend parameters

Our Opex forecast incorporates expected real wage growth of approximately 1% per annum, reflecting growth in wages above inflation consistent with historical trends and based on independent forecasts. A productivity growth rate of 0.52% per annum is applied, consistent with the AER's industry benchmarking from its 2024 Annual Benchmarking Report. This helps to partially offset the impact of rising labour costs. Together, these trend parameters contribute around 1% of the total controllable Opex forecast for the 2027-32 regulatory period.

6.2.3 Growth assets

Our Opex forecast includes an allowance for operating and maintaining new assets that will be added to our regulated asset base in 2027. These assets were constructed during the current regulatory period at the direction of AEMO or the Victorian distribution businesses. Importantly, this does not represent a new cost to customers as these costs are already being recovered by AEMO and the distributors under existing arrangements. As these assets transition into our asset base, the associated operating costs will be recovered through our Opex allowance. The operating expenditure forecast reflects $22 million of expenditure associated with these assets in the 2027-32 period.

6.2.4 Step changes

Our Opex forecast includes several step changes that reflect new regulatory obligations and operational requirements. These initiatives are designed to support a more resilient, efficient and customer-focused network, while enabling future Capex savings. Collectively, step changes account for $68 million or approximately 9% of our controllable Opex forecast.

▼ **Table 5:** Opex step changes

Step change	Description	Customer benefits	Forecast Opex
Digital (inc SaaS, cyber security, etc) (Opex associated with new Capex initiatives)	As we modernise our digital systems, ongoing costs such as licensing, subscriptions and cyber security services will increase. These costs are tied to Capex investments.	These investments improve the digital systems supporting the grid to remain secure and supply reliable electricity to customers.	**$62.1**
Landholder engagement (Customer driven)	Reflecting rising expectations and new regulatory requirements, this step change supports enhanced land access protocols, biosecurity compliance, digital engagement tools and additional staff to manage landholder relationships.	Avoids project delays and disruptions that hinder timely delivery of network upgrades and maintenance. Important for social license in the transmission sector.	**$6.2**
Total			**$68.3**

6.2.5 Other costs

In addition to step changes, our Opex forecasts include allowances for non-controllable operating expenditure. These costs are outside our direct control and are treated separately in line with standard regulatory practice.

6.3 Other elements of our proposal

This section describes other elements of our proposal, which reflect standard approaches.

6.3.1 Incentive schemes

We propose that all incentive schemes designed for regulation of transmission services should be fully applied.

6.3.2 Financing costs

Financing costs reflect the AER's 2022 Rate of Return Instrument and a placeholder 10-year bond rate of approximately 4.4%. The actual rate used to set our revenue will be based on a 3-month averaging period in late 2026. The annual return on capital is calculated as the rate of return multiplied by the value of the Regulatory Asset Base (RAB).

6.3.3 Depreciation

The National Electricity Rules require us to depreciate assets over their economic life. This approach makes sure that the prices paid each year properly reflect the costs of using the network. This means that current and future generations of customers are treated equitably. No variations from the standard and previously agreed depreciation schedules are proposed.

7 Risks and benefits

7.1 Benefits

We know that regardless of their individual financial circumstances, customers do not want to pay any more than is necessary for electricity services. However, we believe this proposal strikes the right balance of costs, service levels and risk management.

Customer and stakeholder needs have been a critical input into our asset management priorities and plans. Their feedback generally supports our asset management approach, where replacing aged, deteriorating assets is done progressively and only when the benefits outweigh the cost of the investment. This approach guarantees efficient service provision for our customers.

Key customer benefits of our proposal:

Reliability

The core benefit of our proposal is maintaining network reliability – "keeping the lights on". Stakeholders emphasised that they value reliability and do not want to see decreases in the service level we provide. Therefore, the investment being proposed maintains current service levels in an operating environment that is becoming increasingly complex.

Resilience

Resilience refers to the network's ability to withstand and recover from high impact, low probability events – like major storms or cyber attacks. This proposal increases resilience through targeted strengthening of the most at-risk towers and investment in the cyber and physical security of our network.

Market impact

Keeping the existing network operating reliably avoids unnecessary constraints on generators. This helps us maintain access to the lowest cost generation for Victorian homes and businesses.

Safety and environment

This proposal continues to keep our crews and communities safe by replacing assets with a high risk of failure and by making proactive investments to address environmental risk. We are also planning to raise conductor spans with low ground clearances in high risk areas.

Enabling other transmission works

By keeping the existing Victorian transmission network performing safely and reliably, our proposal helps customers benefit from the significant augmentation investment that will occur over the next decade.

7.2 Risk and uncertainty

Asset risks

As our asset replacement decisions are efficiently determined using cost benefit assessments, there's a residual risk of asset failure which may impact our expenditure priorities in the regulatory period. In the event of an unexpected asset failure, the network would face higher risk while remedial action is taken. The inputs for economic analysis reflect the value customers place on network reliability.

Deliverability risk

Our ability to deliver our proposed TRR Capex program has been assessed with other capital drivers, including customer-initiated work, such as battery energy storage systems or data centre connections, and network augmentation works under VicGrid's inaugural VTP. A comprehensive assessment was completed to evaluate deliverability challenges, internal and external capabilities and actions to address these challenges so we can successfully deliver all Capex programs. This took into account the four deliverability constraints outlined in Section 4.

Our assessment concluded that our TRR proposal is deliverable but requires action to be taken to relieve constraints. We are already taking action to increase our delivery capacity and will continue to do so during the 2027-32 period, by:

- hiring roles needed to deliver an uplift in Capex for the remainder of the current regulatory period
- uplifting employee attraction and retention programs
- creating a delivery partner and procurement strategy for labour, materials and equipment
- investigating innovative work methods that can improve capital delivery productivity
- expanding live line work to reduce the need for outages
- improving digital tools that enable network access and management.

While our analysis suggests that the proposal is deliverable, there are factors outside of our direct control that introduce uncertainty into our capital planning. If there are changes to augmentation plans, higher than expected volumes of connections, or directions to prioritise other work over the TRR, some of our currently planned capital projects may need to be delayed.

We engaged the TSAP extensively on these sources of uncertainty and risk and made intentional changes to our program to manage risk and respond to the TSAP's feedback:

- **Contingent projects:** We are proposing one contingent project, which would be approved only after we demonstrate our capacity to deliver within the regulatory period. We consider that this approach provides a balanced mechanism for managing risk and cost. It safeguards customers from paying upfront for a project that may not proceed, while still enabling us to undertake it if delivery becomes feasible.
- **Deferrals:** The TSAP suggested that we should defer some economically justified works to support deliverability. As a result, we have chosen to defer one major station project that was planned to start in 2032 and to reduce the amount of "proactive" installation of tower fall arrest systems by prioritising investment in locations where we expect more tower climbing to occur.

Other

There is also uncertainty on a few other inputs into our revenue proposal that may lead to adjustment in our proposals, including sensitivities to economic conditions, such as wage growth, interest rates and inflation. There is also the potential for further growth in externally imposed costs, such as taxes.

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