AusNet

Capex transparency requirements

EDPR 2026-31

CONFIDENTIAL

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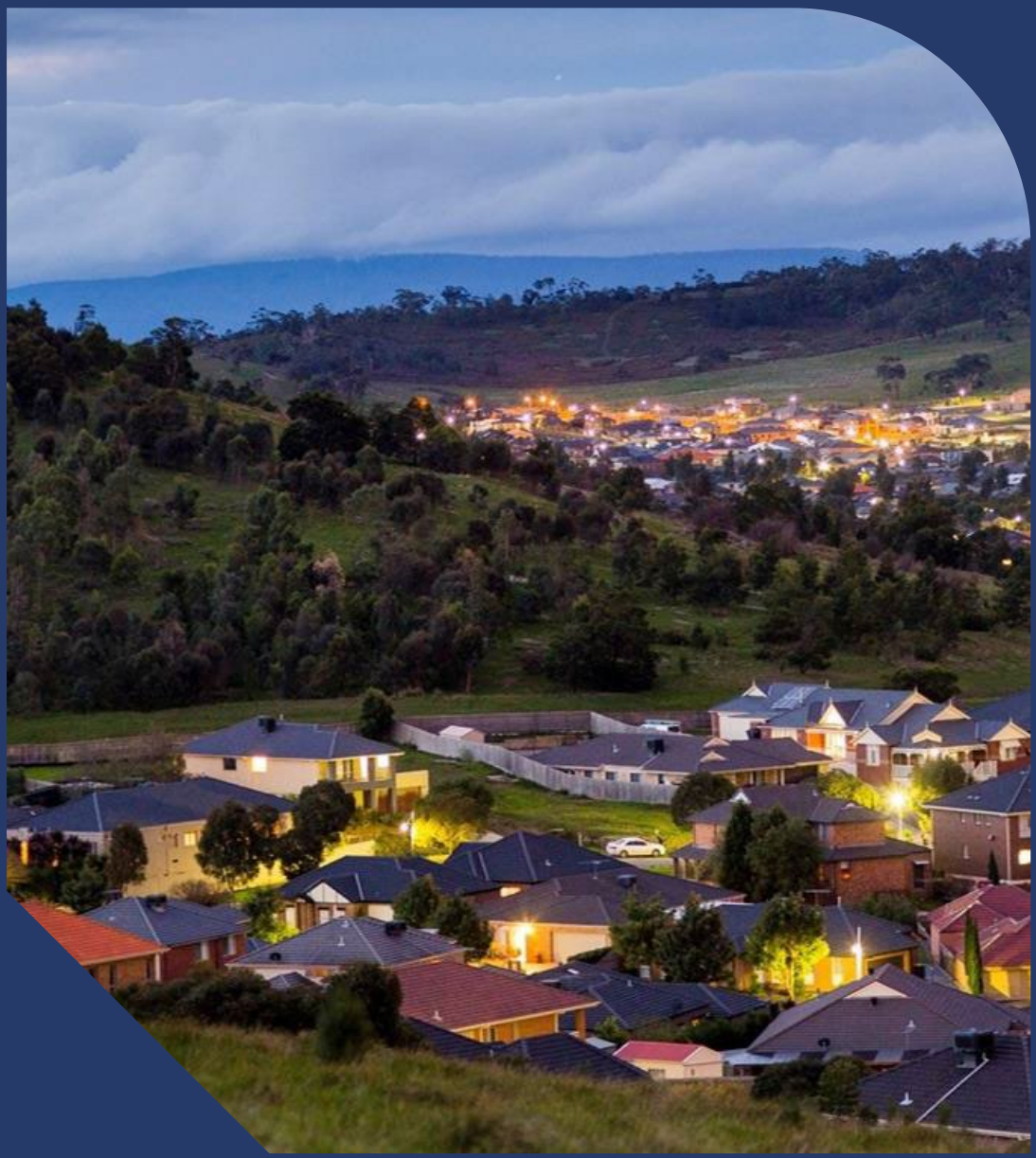

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1 Purpose

As requested by the AER, the purpose of this document is to address the capex transparency requirements in sections 4.4.4(a)-(b) and 4.4.5(a)-(c) of the Regulatory Information Notice (RIN) for the forecast period 1 July 2026 to 30 June 2031. This is a supporting documentation for AusNet's revised regulatory proposal.

4.4.4 Capex transparency

4.4.4 For total capital expenditure expected to be incurred in the current regulatory control period, provide:

a) a comparison of the total expenditure, disaggregated by expenditure category or driver, to the total forecast capex allowed for the current regulatory control period;
b) an explanation of the drivers of differences noted in response to section 4.4.4 (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 regulatory control period and included in the forecast capex for the forthcoming regulatory control period, and the rationale for the deferral.

Addressing 4.4.4(a) and (b), we are expecting a material 27% overspend for the current 2021-26 regulatory period primarily driven by:

- **External driver**: Increasing labour and material costs due to market-driven cost pressures affecting the whole industry.
- **External driver**: Addressing unanticipated issues that have arisen over the period, including reliability issues.
- **External driver**: Investments to address stronger than anticipated demand growth, including land purchases (not previously forecast) to accommodate new zone substations and network upgrades in our northern and south-eastern growth corridors.
- **External driver**: Delays and cost increases for some REFCL compliance augex relative to the approved timing and costs.
- **External driver**: Overspend of connections allowance, both for load connections and unanticipated hybrid/battery connections (not previously forecast).
- **External driver**: Overspend of digital allowance to deliver Advanced Distribution Management System (**ADMS**) and customer platforms to improve resilience and customer experience.

Driver[1] ($m, real 2025-26)	2021-26 forecast / AER allowance	2021-26 expected spend	Variance ($)	Variance (%)
Replacement expenditure	808.2	776.5	-31.7	-3.9%
Connections	336.5	429.1	92.5	27.5%
Augmentation expenditure	211.6	393.3	181.6	85.8%
Export services	59.4	45.3	-14.1	-23.7%
ICT	207.4	358.5	151.1	72.8%
Property	23.5	57.4	33.9	144.5%
Fleet	16.7	67.8	51.1	306.1%
Other non-network	19.2	9.3	-9.9	-51.4%
Network overheads	148.0	193.3	45.3	30.6%
Corporate overheads	28.0	29.5	1.5	5.3%
Total gross	**1,858.6**	**2,360.0**	**501.3**	**27.0%**
Customer contributions	129.0	188.4	59.5	46.1%
Total net before disposals	**1,729.7**	**2,171.6**	**441.9**	**25.5%**

[1] Reported values exclude gifted assets

Addressing 4.4.4(c), we note that the following projects have been partially or fully deferred out of the current 2021-26 regulatory period and included in the forecast for the next 2026-31 regulatory period:

Projects that have been **fully deferred** include:

- Watsonia substation rebuild; and
- Newmerella substation rebuild.

Projects that have been **partially deferred** include:

- Thomastown substation rebuild – a staged approach adopted, 22kV switchgear replacement deferred; and
- Traralgon substation rebuild - a staged approach adopted, 22kV switchgear replacement deferred.

Projects that have commenced in the current 2021-26 regulatory period and, due to project delays, we are forecasting **carry-over expenditure** into the 2026-31 regulatory period include:

- Warragul ZSS Rebuild;
- Traralgon ZSS Rebuild - Stage 1;
- Bayswater Substation Rebuild;
- Clyde North (CLN) 3rd transformer and switchboard;
- REFCL Driven Augmentation (Safety) program, including Lilydale REFCL augmentation and Bairnsdale REFCL augmentation projects;
- Central Region Feeders program, including the new 22kV distribution feeder (CLN33) project; and
- Voltage Compliance Program, including Voltage Regulator Relay Replacement program.

4.4.5 Capex transparency

4.4.5 For forecast capex for the forthcoming regulatory control 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 regulatory control period;**
b) **an explanation of the drivers of differences noted in response to section 4.4.5 (a), for example the impact of efficiency gains, major new projects, project deferrals or rescoping, changing regulatory obligations, asset age, or other factors;**

Addressing 4.4.5(a) and (b), we are expecting a material 57%[2] increase for the forthcoming 2026-31 period primarily driven by:

- **External driver**: Several extreme events driven by the changing climate, have resulted in an increasing focus and value placed on resilience – by customers, government and regulators alike. These prolonged outages occurred as a result of the June 2021, October 2021, February 2024 and September 2024 storms. These storms are the largest on record for our network, with 297,000[3] customers impacted by the February 2024 storm, and approximately 28,000 customers impacted by all four storms. This has triggered our resilience investment plans.
- **External driver**: Our consumer engagement has indicated significant concern – including equity concerns – for those customers that experience lower than average reliability levels either because they are served by unreliable feeders or live in regions with poor reliability. Our research has shown that customers are willing to pay for investments to uplift regional reliability even if they do not directly benefit. This has triggered our reliability investment plans.
- **External driver**: Two drivers – amendments to the NEO to include emissions reduction targets and customers' feedback that AusNet needs to contribute to government's renewable energy targets – have triggered the need for AusNet to undertake projects that reduce emissions. We have proposed CER enablement.
- **External driver**: Increasing unit rates reflecting market-driven, global cost pressures is contributing to the cost increase in condition- or age-based replacement capex we are forecasting.
- **Asset age and condition**. Our ageing asset base and the deteriorated condition of some assets are contributing to our higher repex requirement.
- **External driver**: Demand driven augex is a BAU activity that we have been undertaking for many regulatory periods. However, the volume of demand driven augex is going to be fundamentally different over 2026-31 due to increasing maximum demand and high utilisation (both current and projected utilisation) that are causing constraints to emerge.
- **Internal driver:** We recently changed our delivery partner and one of the flow-on effects is the change in fleet arrangements where we are now fully responsible for our own fleet, either through leasing them or purchasing them.
- **External driver:** The introduction of a training centre driven by an increasing program of work, to ensure resources are available to deliver our longer-term capital program and support the energy transition.
- **Deferrals.** As explained above in response to 4.4.4(c), the partial or full deferral or carryover of some projects is contributing to our increased repex and augex requirement.

[2] Net capex, net of disposals.
[3] Other sources reference 255k customers which is the coincident peak customers off supply.

Drivers[4] ($m, real 2025-26)	2021-26 expected spend	2026-31 forecast	Variance ($)	Variance (%)
Replacement expenditure	776.5	1,098.1	-321.6	-29%
Connections	429.1	793.3	-364.3	-46%
Augmentation expenditure	393.3	981.0	-587.8	-60%
Export services	45.3	71.5	-26.2	-37%
ICT	358.5	373.3	-14.8	-4%
Property	57.4	164.3	-106.9	-65%
Fleet	67.8	173.5	-105.7	-61%
Other non-network	9.3	4.5	4.8	105%
Network overheads	193.3	204.9	-11.6	-6%
Corporate overheads	29.5	-	29.5	0%
Total gross	**2,360.0**	**3,864.5**	**-1,504.5**	**-39%**
Customer connections	188.4	420.0	-231.6	-55%
Total net before disposals	**2,171.6**	**3,444.5**	**-1,272.9**	**-37%**

[4] Reported values exclude gifted assets