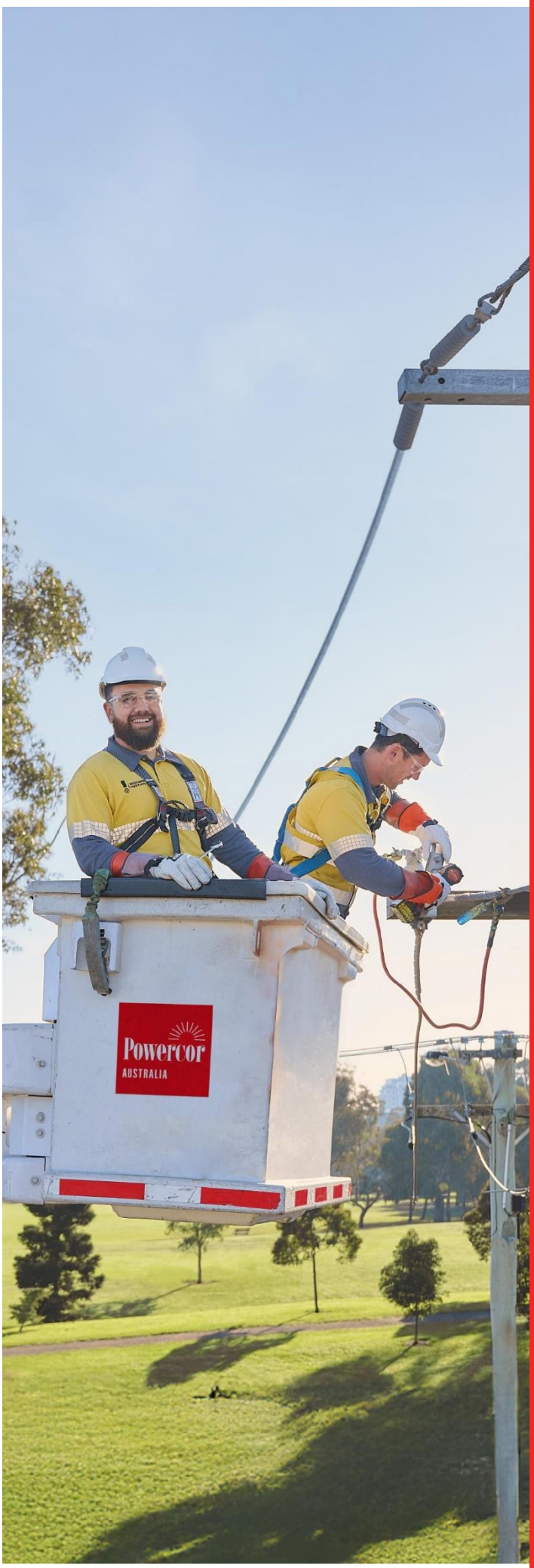

Powercor
AUSTRALIA

REPLACEMENT
POLES ADDENDUM

PAL RRP BUS 3.4.01 - PUBLIC
2026–31 REVISED PROPOSAL

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1. Overview

This business case addendum sets out our response to the AER's draft decision on our poles program and presents the key updates made since our regulatory proposal. It should be read in conjunction with our original business case, included with our regulatory proposal.[1]

Our regulatory proposal maintained intervention volumes in line with Energy Safe Victoria's (ESV) mandated volumes, reflecting a long-term strategy to sustainably manage ageing assets and bushfire risk.

While the AER accepted our proposed intervention volumes, it raised concerns about the efficiency of our unit rates. In response, we have revised our unit rates using the latest available data and a four-year average ending FY25. These updates have resulted in reductions in forecast expenditure for our pole replacement program compared to our regulatory proposal but are still above the AER's draft decision.

Our revised forecast for our poles program is presented in table 1.

TABLE 1 REVISED PROPOSAL: POLES ($M, 2026)

CATEGORY	REGULATORY PROPOSAL	DRAFT DECISION	REVISED PROPOSAL
LV pole replacement	83.6	72.0	74.5
HV pole replacement	400.7	328.1	351.6
Pole reinforcement	40.4	18.4	33.0
TOTAL	**524.7**	**418.5**	**459.1**

[1] PAL BUS 4.01 – Poles, January 2025

2. Background

Poles are essential to an overhead electricity distribution network. Their basic function is to support overhead electrical conductors and other pole mounted assets, and to provide safe clearance from the ground and other adjacent objects (including vegetation).

This section provides an overview of our poles asset class, including what we put forward in our regulatory proposal and the AER's draft decision.

2.1 Our regulatory proposal

In 2019, ESV undertook a review of our pole replacement practices that concluded our prior pole replacement practices were unsustainable, leading to a mandated uplift in intervention volumes over the 2021–26 regulatory period.

Our regulatory proposal proposed to maintain the same volume of pole interventions in the 2026–31 regulatory period as those will be completed in the 2021–26 regulatory period (under our commitment with ESV). Our regulatory proposal also proposed to maintain our existing proportions of reinforced poles (i.e. staked poles) relative to replacements.

We challenged this forecast by developing an alternative counter-factual for our pole interventions. Our alternative wood pole measurable condition-based intervention forecast was based on the predicted condition and serviceability of wood poles over time. This forecast was modelled through our enhanced pole calculator, which used inspection data—particularly sound wood thickness—to model internal decay and predict future serviceability.

Applying this forecast of future sound wood thickness showed an increasing volume of unserviceable and added-control serviceable poles across multiple future regulatory periods which would exceed our resourcing and delivery capacity. This modelling corroborated ESV's findings and our proposal to maintain current-period volumes across the 2026–31 regulatory period.

2.2 AER draft decision

In its draft decision, the AER acknowledged our alignment with the ESV direction notice and the rationale for maintaining current pole intervention volumes into the next regulatory period. The AER accepted our proposed volume of pole interventions, agreeing that addressing a decline in pole performance typically spans two regulatory periods.

However, the AER did not accept our proposed capital expenditure for our poles program and instead allowed a substitute estimate which was materially lower than our proposed forecast (as shown previously in table 1).

The basis of the AER's substitute estimate referenced the conclusions of its technical consultant, EMCa, who presented rudimentary benchmarking analysis comparing our recent RIN data to those of other distribution networks. These comparisons showed our unit costs were above both the Victorian and broader National Electricity Market (NEM) average. EMCa surmised this may reflect a higher cost structure and expected our increased volumes to result in greater economies of scale.

3. Revised proposal

In response to the AER's concerns regarding unit rates, we have updated our unit rates using the latest available data and deployed a four-year average to calculate our unit rate rather than a single year. This has resulted in a reduction in our proposed expenditure for the 2026–31 regulatory period. We have also outlined our concerns with using pole RIN data to directly compare the costs of different networks.

3.1 Response to AER draft decision

The following section highlights our response to the key issues raised by the AER around our poles program.

3.1.1 We have updated our unit rates

Following feedback from the AER that questioned our use of a single year to forecast unit rates, we have now updated our forecast unit rates to reflect a four-year average, incorporating the latest available data to FY25. This approach provides a more stable unit rate which avoids any potential anomalies or short-term fluctuations that may occur in a single financial year.

The unit rate calculations are set out in our capital expenditure forecast model and outlined in table 2 below.[2]

TABLE 2 CHANGE IN POLE UNIT RATES ($2026)

CATEGORY	ORIGINAL RATE	REVISED RATE	CHANGE (%)
LV pole replacement	$20,890	$18,776	-10.1%
HV pole replacement	$21,314	$18,998	-10.9%
Pole reinforcement	$2,913	$2,377	-18.4%

3.1.2 Our unit rates reflect our operating environment and delivery practices

The AER and EMCa noted that our original unit rates were materially higher than efficient benchmarks, both within Victoria and across the NEM based on Category Analysis pole RIN data from FY24.

We caution the comparison of our unit rates with other distributors based on category specific RIN data, as what is included in the RIN data at this category level is likely to differ between network providers.

RIN reporting related to our pole replacements, and the basis for this benchmarking, requires asset replacements to be recorded against the material type being removed rather than what is being installed. This means that when a wood pole is replaced with a more expensive and resilient concrete pole, the cost of this more expensive pole is still recorded as a wood pole in the Category Analysis

[2] PAL RRP MOD 3.4.01 – replacement expenditure forecast model, December 2025

(CA) RIN data. As a result, the benchmarking is not capturing the type of pole that is being deployed and is therefore not comparing the same type of pole replacement.

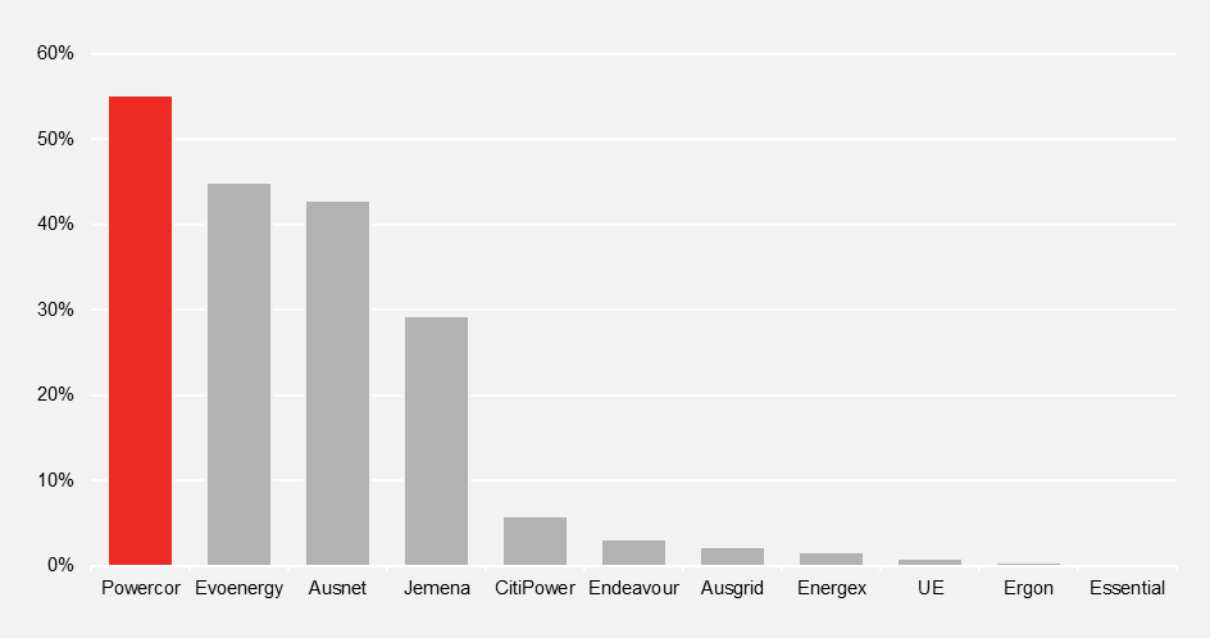
Figure 1 highlights that our network has a significantly higher proportion of concrete pole installations relative to other distributors. This is largely driven by the unique challenges in parts of our service area, including high bushfire risk zones and widespread termite activity. These environmental factors, which are not evident or less prevalent in other networks, necessitate the use of more durable materials, which naturally increases unit costs.

For example, there are a number of additional costs related to the installation of concrete poles including:

- higher transport costs due to the additional weight of concrete poles. This requires us to undertake additional trips compared to an equivalent number of wood poles
- additional earthing costs that are not required when installing a wood pole
- crane hire due to the additional weight of the concrete poles

Without accounting for these characteristics, benchmarking based solely on pole RIN data will not provide an accurate comparison across networks.

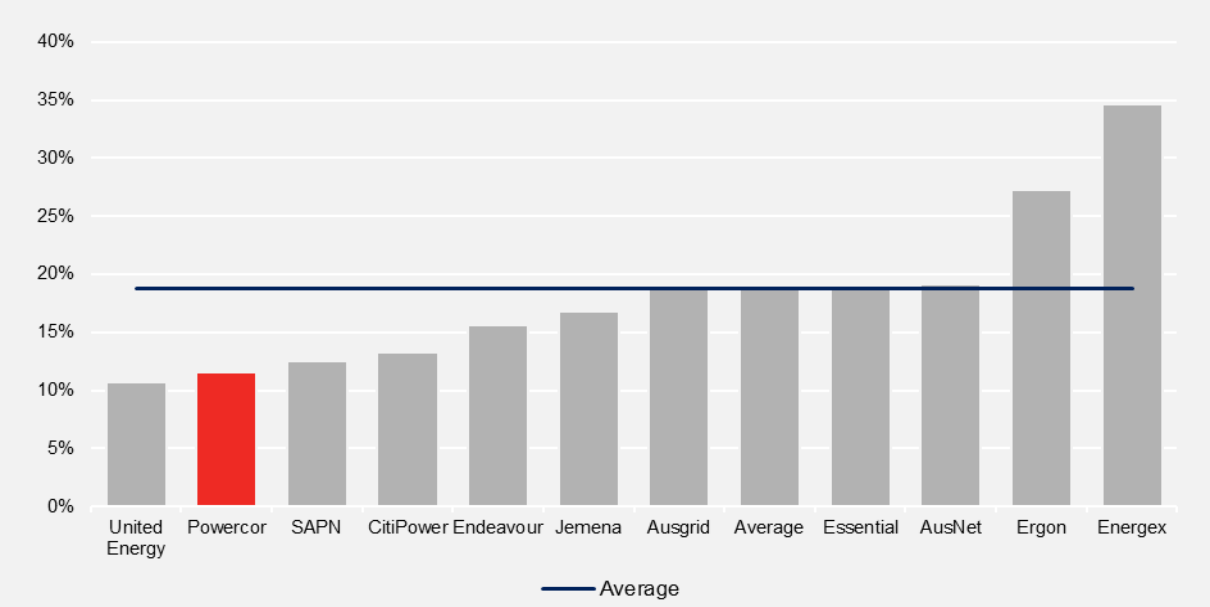
FIGURE 1 AVERAGE CONCRETE POLE INSTALLATIONS AS A PROPORTION OF INSTALLATIONS (FY20-24)



Source: CA RIN 5.2 (Asset Age Profile)

Additionally, how networks treat overheads is likely to alter the costs included in category specific RIN data. As shown in figure 2, our proportion of network overheads relative to total expenditure is significantly lower than the average across other distributors. This suggests that some costs we classify as direct may be reported as overheads by others. As a result, when comparing only direct costs, our unit rates may appear higher, even though the underlying cost structures may be similar. Therefore, comparing direct costs and/or individual categories in isolation does not provide a like-for-like comparison.

FIGURE 2 DISTRIBUTION NETWORK OVERHEADS AS A PROPORTION OF TOTEX (FY24)



Source: CA RIN 2.1

Lastly, the size of a distribution network and the distance from a network's depots to its assets can further impact the direct comparisons of pole unit costs. Powercor is a large predominately rural network that often requires our teams to travel significant distances to rectify our assets. This is again likely to lead to higher unit costs compared to a network with highly centralised assets.

Given the above, we maintain that our own costs provide the strongest indication of the cost of replacing poles in the Powercor network, and any direct comparison with other networks would need to account for differences between networks.

3.2 Revised proposal forecasts

The following section set outs our updated forecast volumes and expenditure.

Our revised proposal reflects our adjusted unit rates (as outlined above) and volumes consistent with the AER's draft decision. This has resulted in a reduction in forecast expenditure compared to our regulatory proposal.

Table 3 and table 4 set out our revised forecast volumes and expenditure.

TABLE 3 REVISED FORECAST VOLUMES

CATEGORY	FY27	FY28	FY29	FY30	FY31	TOTAL
LV wood pole replacement	794	794	794	794	794	3,970
HV wood pole replacement	3,689	3,689	3,689	3,689	3,689	18,445
Pole reinforcement	2,777	2,777	2,777	2,777	2,777	13,885
TOTAL	**7,260**	**7,260**	**7,260**	**7,260**	**7,260**	**36,300**

TABLE 4 REVISED FORECAST EXPENDITURE ($M, 2026)

CATEGORY	FY27	FY28	FY29	FY30	FY31	TOTAL
LV wood pole replacement	14.9	14.9	14.9	14.9	14.9	74.5
HV wood pole replacement	70.3	70.3	70.3	70.3	70.3	351.6
Pole reinforcement	6.6	6.6	6.6	6.6	6.6	33.0
TOTAL	**91.8**	**91.8**	**91.8**	**91.8**	**91.8**	**459.1**

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