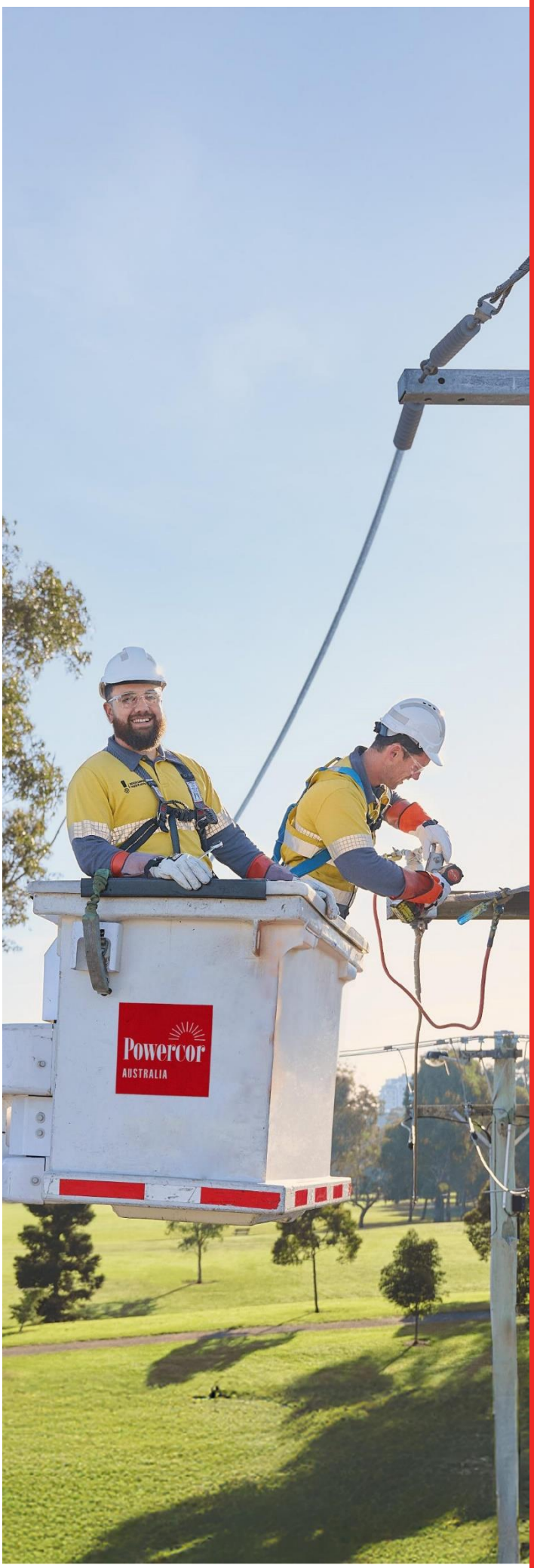

Powercor
AUSTRALIA

REPLACEMENT

POLE TOP STRUCTURES ADDENDUM

PAL RRP BUS 3.4.02 – 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 pole top structures asset class and describes the further work we have undertaken since our regulatory proposal. It should be read in conjunction with our regulatory proposal business case.[1]

Our regulatory proposal included targeted interventions across LV and HV pole top structures, and a targeted risk-based crossarm replacement program in hazardous bushfire risk areas (HBRA).

While the AER accepted the volumes associated with our risk-based program for HV wooden cross-arms in HBRA, it did not accept our overall capital expenditure forecast, citing concerns around volume justification for our pole top replacements, defect trends and unit rate efficiency.

We have since accounted for overlaps with related programs such as pole replacements, incorporated updated defect and failure data to include FY25 data, and revised our unit rates using a four-year average ending in FY25. We have also accepted the AER's draft decision in relation to our risk-based HV wood cross-arm replacements in HBRA.

These updates have resulted in a lower forecast compared to our regulatory proposal. Our revised forecast for our pole top structure program is presented in table 1.

TABLE 1 REVISED PROPOSAL: POLE TOP STRUCTURES ($M, 2026)

CATEGORY	REGULATORY PROPOSAL	DRAFT DECISION	REVISED PROPOSAL
LV pole top replacement	122.7	57.4	89.2
HV pole top replacement	105.5	71.1	88.5
HV wood cross-arm replacements in HBRA	23.9	20.0	20.0
TOTAL	**252.1**	**148.5**	**197.8**

[1] PAL BUS 4.02 – Pole-top structures, January 2025

2. Background

Pole top structures support our overhead conductors and low voltage (LV) service lines on poles.

Specifically, cross-arms are mounted horizontally on a pole to support insulator, overhead conductors, overhead service lines, LV components, high voltage (HV) fuses and other electrical equipment. Cross-arms are designed to ensure phase to phase clearance requirements are met.

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

2.1 Our regulatory proposal

Our forecast interventions for pole top structures were based on three broad categories, including historical faults, corrective forecasts that use defect find rates and annual inspection volumes, and a targeted risk-based program.

In the current regulatory period, our existing asset management approach for cross-arms has generally maintained network performance. Consistent with this, and a reducing population of wooden cross arms, our forecast 'business-as-usual' intervention volumes for the 2026–31 regulatory period was lower than the corresponding replacements in the 2021–26 regulatory period.

We also included a risk-based program targeting HV wooden cross-arms in HBRA. This program was part of our separate bushfire mitigation business case but was included in our pole top structure interventions to align with RIN reporting.

2.2 AER draft decision

In its draft decision, the AER accepted our forecast volumes for our risk-based crossarm replacement program in HBRA. However, the AER did not accept volumes associated with our LV and HV pole top replacements, nor our proposed unit rates for our pole top structures program. The AER instead included a materially lower substitute estimate (as shown previously in table 1).

The AER considered that we did not provide sufficient evidence to support a step-up in volumes, particularly considering declining defect trends and the impact of related replacement programs.

Based on initial conclusions by EMCa, the AER noted the following in making its draft decision:

- our forecast did not adequately factor in the recent increase to pole replacements, which would have included a high number of opportunistic pole top structure replacements
- our forecast volumes were overestimated based on a declining failure and defect trend
- our unit rates for our pole top structures programs are materially higher than our peers.

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3. Our revised proposal

We have updated our pole top structures program in response to the AER's draft decision.

While we maintain that our proposed volumes are prudent and necessary to manage asset condition and network safety, we have made adjustments to reflect minor overlaps between our pole top program and our pole replacement program and adjusted our volumes based on the inclusion of more recent volume data. We have also revised our expenditure to reflect updated unit rates and to address the specific concerns raised by the AER and EMCa.

3.1 Response to AER draft decision

The following section highlights our response to the key issues raised by the AER regarding our pole top structures program.

3.1.1 Our revised forecast accounts for related replacement programs

The AER noted that our forecast did not adequately consider the impact of related programs, such as pole replacements, which may reduce the need for separate pole top structure interventions.

We have analysed the impact of our poles program on our pole top structure program and identified that since FY22, only 2.4 per cent of proposed HV crossarm and 1.7 per cent of LV crossarm replacement volumes overlap with our pole replacement program.[2] This low level of overlap is both reasonable and expected due to the following factors:

- most wood poles we replace are over 60 years old. Since wood crossarms have a shorter service life than poles, most of the poles we are replacing have relatively new crossarms attached, and therefore do not require a cross-arm replacement
- crossarm replacements are driven by condition-based corrective intervention. With a low replacement-to-population ratio (0.9 per cent for HV and 2.4 per cent for LV), the likelihood of simultaneous replacement with poles is relatively low
- although we have increased our wood pole replacement rate since 2021 (in line with ESV mandated volumes), our pole replacement program only includes 1.3 per cent of the total wood pole population (i.e. approximately 350,000 poles), further limiting the chance of an overlap.

We have accounted for these overlaps in our revised forecasts to ensure opportunistic replacements are excluded from our cross-arm replacement volumes. This reduction is set out in our attached model with the four-year historical percentages for LV and HV crossarms also included in table 2 below.[3]

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2 2021 marks the start of the Energy Safe Victoria (ESV) mandated uplift in pole replacement volumes, meaning any material overlap between these programs is captured by the analysed period.

3 PAL RRP MOD 3.4.01 – replacement expenditure forecast model, December 2025

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TABLE 2 CROSSARMS REPLACED DURING POLE REPLACEMENTS (%)

CATEGORY	FY22	FY23	FY24	FY25	Average
HV crossarms	3.2%	1.9%	2.7%	1.7%	2.4%
LV crossarms	2.5%	1.5%	1.5%	1.1%	1.7%

3.1.2 We consider defect and failure rates alone are not good indicators of asset condition

In its draft decision, the AER considered our forecast volumes were overestimated based on a declining failure and defect trend.

Failure rates in particular are a lagging indicator of future asset risk and should be used cautiously in assessing the reasonableness of forecast volumes. Our planning approach is condition-based, relying on field inspection data and asset condition assessments to determine replacement needs. Given this, we see no reason to alter our asset management practice.

We further note that following the inclusion of the latest available data, we are now forecasting cross-arm replacement volumes below our 2021–26 regulatory period volumes.

3.1.3 We have revised our unit rates

Following feedback from the AER around using 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 3 below.[4]

TABLE 3 CHANGE IN CROSSARM UNIT RATES

INTERVENTION TYPE	ORIGINAL RATE	REVISED RATE	CHANGE (%)
LV crossarm replacement	$5,192	$4,204	-19.0%
HV crossarm replacement	$7,184	$6,310	-12.2%

3.1.4 Our unit rates reflect our operating environment and delivery practices

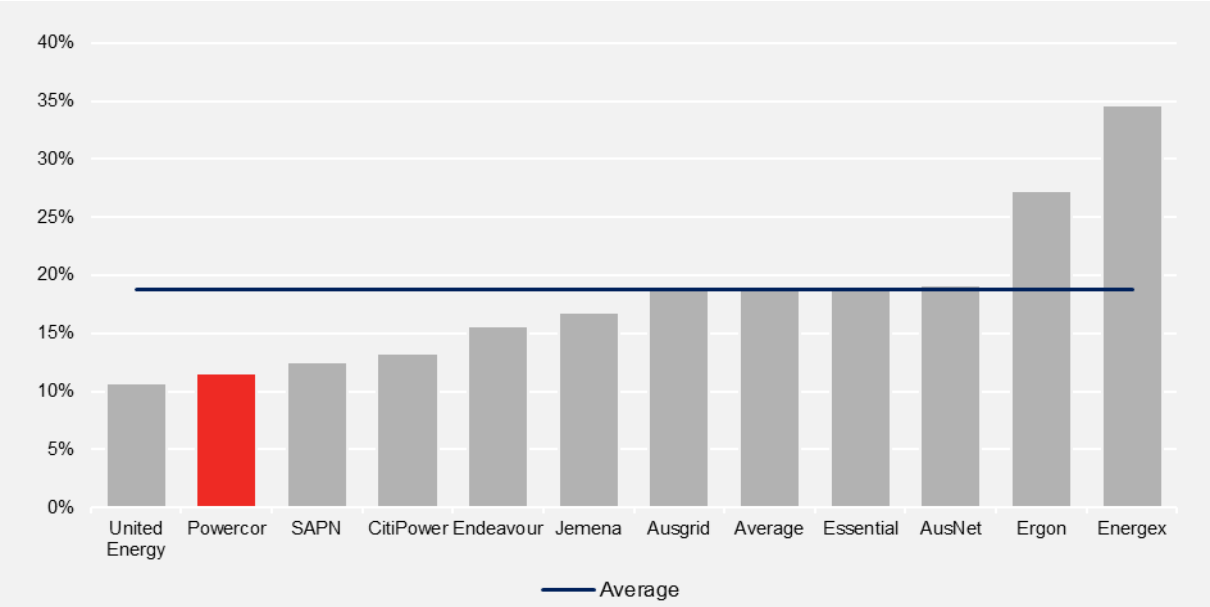
The AER and EMCa noted that our original unit rates were materially higher than efficient benchmarks, both within Victoria and across the National Electricity Market (NEM) based on Category Analysis (CA) pole top RIN data from FY24.

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

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.

For example, how networks treat overheads is likely to alter the costs included in category specific RIN data. As shown in figure 1, 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 1 DISTRIBUTOR NETWORK OVERHEADS AS A PROPORTION OF TOTEX (FY24)



Source: CA RIN 2.1

Additionally, the size of a distribution network, and the distance from a network's depots to its assets, can further impact the direct comparison 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 cross-arms in the Powercor network, and any direct comparison with other networks would need to account for differences between networks.

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3.2 Revised proposal forecasts

The following section sets out updated forecast volumes and expenditure for our revised proposal.

Our revised proposal reflects our adjusted unit rates and reduced cross-arm volumes. However, the forecast volumes associated with our risk-based HBRA program remain unchanged and in line with the AER draft decision.

Since our regulatory proposal, we have also restated our RINs to include insulators (which we show separately below for clarity). Given this addition, total volumes are not directly comparable with our regulatory proposal.

Our revised forecast volumes and expenditure for pole top structures have reduced from our regulatory proposal, as set out in table 4 and table 5.

TABLE 4 REVISED FORECAST VOLUMES

CATEGORY	FY27	FY28	FY29	FY30	FY31	TOTAL
LV cross-arms	2,918	3,601	3,454	2,746	3,475	16,194
HV cross-arms	2,165	1,906	1,728	1,285	2,235	9,319
LV insulators	209	264	246	192	245	1,156
HV insulators	2,323	2,481	2,476	2,373	2,463	12,116
HV wood cross-arm replacements in HBRA	952	952	952	952	952	4,760
TOTAL	**8,567**	**9,204**	**8,856**	**7,548**	**9,370**	**43,545**

TABLE 5 REVISED FORECAST EXPENDITURE ($M, 2026)

CATEGORY	FY27	FY28	FY29	FY30	FY31	TOTAL
LV pole top replacements	16.5	19.4	18.8	15.7	18.8	89.2
HV pole top replacements	19.5	18.0	16.9	14.0	20.1	88.5
HV wood cross-arm replacements in HBRA	4.0	4.0	4.0	4.0	4.0	20.0
TOTAL	**40.0**	**41.4**	**39.7**	**33.7**	**42.9**	**197.8**

Note: Pole top replacements include both cross-arms and insulators.

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