



EXPENDITURE TRANSPARENCY

RESET RIN 4.4.4 AND 4.4.5

PAL RRP RIN 01 – PUBLIC
2026–31 REVISED PROPOSAL

1. About this document

The information provided in this document supports the information provided in Part B of our regulatory proposal. Please refer to Part B of the regulatory proposal for further details.

This document addresses the 'Transparency' requirements in sections 4.4.4 and 4.4.5 of the Reset Regulatory Information Notice. Specifically:

- section 4.4.4 of the AER's reset RIN requires that we provide the following for total capital expenditure expected to be incurred in the current regulatory period:
 - (a) a comparison of the total expenditure by category, disaggregated by expenditure category or driver, to the total forecast capex allowed for the current regulatory 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
- section 4.4.5 of the AER's reset RIN requires that we provide the following for forecast capex for the forthcoming regulatory control period:
 - (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 expected efficiency gains, major new projects, project deferrals or rescoping, changing regulatory obligations, asset age, or other factors.

2. Transparency requirements

Today, our customers experience some of the highest performance standards in the National Electricity Market (NEM), in terms of reliability, price and network utilisation. As outlined in part B of our regulatory proposal, we provide a consistent, dependable and affordable service every day:

- we are the most reliable rural distribution network in Australia, and in the face of extreme weather, have outperformed our peers in restoring supply as quickly and safely as possible
- our customers face the lowest network charges of any rural distributor in Australia
- our network utilisation is greater than any other network, and around 25 percentage points above the National Electricity Market average.

This performance is supported by our investment governance framework that encompasses a set of principles, guidelines and controls that support planning, forecasting, decision-making, risk management and performance evaluation. This framework covers both our capital and operational expenditure related to our network assets, as well as non-network investments that support the operation of our network.

2.1 Comparison and explanation of total current period expenditure by category compared to allowance

Our net capital expenditure in the current regulatory period will exceed the AER's allowance by \$203 million, or 9 per cent. The principal drivers have been:

- augmentation:
 - augmentation activity was below that forecast due to more efficient management of customer energy resources (CER) driven by the stronger than expected performance of our dynamic voltage management system and other low cost interventions like our industry-leading work to identify and address incorrect customer solar settings with solar manufacturers
 - further drivers of our augmentation underspend included deferred augmentation works around the Tarneit supply area due to land and environmental issues and subsequent re-scoping, delays at our Ballarat East zone substation to facilitate more community consultation, and more general impacts associated with the pandemic, including the significant demand uncertainty and supply chain disruptions that impacted project timelines
- replacement:
 - additional replacement expenditure was incurred due to input cost inflation for both high-volume asset replacement works and larger projects on zone substations. These rising input costs arose during the pandemic, and have not abated
 - our ability to manage these price impacts was also limited by market factors, including that suppliers were only offering ultra short-term contracts due to the underlying uncertainty. This was compounded in our pole replacement program, where we have mandated delivery volumes and targets as directed and required by Energy Safe Victoria
 - our replacement spend also reflected longer-term trends of increasing asset replacements of high-volume distribution assets, which is reflective of the characteristics of the underlying asset populations

- connections – connection activity remained far more buoyant than forecast by the AER throughout the pandemic. The final determination applied a negative COVID based adjustment to connection forecasts that did not come to pass.
- disposals – the sale of depot sites and associated land following the construction of new depots at Shepparton and Brooklyn resulted in significantly higher disposals

Other expenditure categories are anticipated to fall close to the expenditure allowance provided in the final determination and/or are of small impact to the overall spend.

TABLE 1 ACTUAL EXPENDITURE VS AER ALLOWANCE: 2021–26 (\$M, 2026)

CATEGORY	ACTUALS	ALLOWANCE	CHANGE (\$)	CHANGE (%)
Augmentation	324	410	-87	-21%
Replacement	1,039	704	336	48%
Connections: net	420	371	50	13%
- connections (gross)	1,028	781	246	31%
- contributions	-607	-411	-197	48%
ICT	198	225	-27	-12%
Fleet	98	118	-20	-17%
Property	147	137	10	7%
Other non-network	26	15	11	77%
Overheads	330	274	56	20%
Net capex (before disposals)	2,583	2,254	329	15%
Less disposals	-141	-16	-125	803%
Net capex (after disposals)	2,442	2,238	203	9%

Note: Totals may not add due to rounding

Our deferred projects

Our capital expenditure forecasts for the 2026–31 regulatory period include the following material projects that have been deferred from the 2021–26 regulatory period:

- our SAP S/4 HANA upgrade was reallocated in the current regulatory period as the vendor provided extended support for our existing system. In place of this project we undertook upgrades to our Advanced Distribution Management System (ADMS)

However, given we have not underspent our allowance, and the full substitution of our SAP S/4 HANA upgrade with alternative expenditure, we do not consider these deferrals warrant any consideration of adjustments to our capital expenditure sharing scheme revenue.

2.2 Comparison and explanation of total current period expenditure by category compared to forecast

The way our customers are using electricity is rapidly changing. With growing electrification, continued uptake of consumer energy resources (CER) and increasing frequency and severity of extreme weather, we are more dependent on a safe, reliable and resilient electricity supply than ever before.

This transformation of electricity needs is occurring at the same time as more typical network drivers, like population growth, asset risk, safety and regulatory compliance. The prevailing economic environment is also changing, with rising input costs challenging affordability and what customers value from their network.

Given the scale and scope of these changes, our energy system in the future will need to function very differently to the energy system we see today. Consistent with this, we forecast a total capital expenditure requirement of \$3.3 billion, or a 37 percent increase on our anticipated expenditure in the 2021–26 regulatory period.

At a category level, the need for additional expenditure reflects the convergence of multiple challenges and opportunities facing our network including:

- augmentation – we are the fastest growing network in National Electricity Market, with major growth corridors extending from Melbourne's western suburbs, through Geelong and out to the Bellarine Peninsula and Surf Coast. We are also the most highly utilised network in the NEM, meaning we must invest to accommodate electrification of transport and gas, population growth and the further integration of CER
- safety – our network resides in some of the most bushfire prone areas in the world. We are therefore subject to some of the most rigorous legislated bushfire risk reduction initiatives in the NEM such as the continuing requirement for rapid earth fault current limiters
- replacement – uplifts have been forecast in asset replacement to manage increases in observed defects in assets such as overhead conductor. We note that for overhead conductor, Energy Safe Victoria is conducting an industry wide review of the sustainability of current management practices of this asset class
- resilience – new investment to strengthen our networks and communities we serve against the increasing strength and severity of extreme weather. This investment follows two separate reviews conducted by the Victorian Government and subsequent recommendations for networks
- connections – increased investment to support customer growth fuelled by population and economic growth, electrification and data centre connections
- ICT – the need for non-recurrent investment in our IT infrastructure, including cyber security, upgrading our enterprise resource planning and billing system, CER integration and new regulatory obligations associated with the post 2025 NEM market reforms
- property – works to be completed at our inner-city Geelong depot to maintain customer response times and support our larger works program in the greater Geelong area. Further property related investments are required to refurbish our head office, and to establish a new training facility to meet the needs of a growing workforce.

Table 2 outlines our forecast capital expenditure by expenditure category, relative to our expected actual spend over the 2021–26 regulatory period.

TABLE 2 ACTUAL EXPENDITURE: 2021–26 VS FORECAST: 2026–31 (\$M, 2026)

CATEGORY	ACTUALS	FORECAST	CHANGE (\$)	CHANGE (%)
Augmentation	324	602	279	86%
Replacement	1,039	1171	132	13%
Resilience		50	50	0%
Connections: net	420	606	186	44%
- connections (gross)	1,028	1,032	4	0%
- contributions	-607	-426	182	-30%
ICT	198	283	85	43%
Fleet	98	105	7	7%
Property	147	136	-11	-7%
Other non-network	26	29	3	11%
Overheads	330	362	32	10%
Net capex (before disposals)	2,583	3,345	763	30%
Less disposals	-141	-7	134	-95%
Net capex (after disposals)	2,442	3,339	897	37%

Note: Totals may not add due to rounding



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