
Electricity Distribution Price Review FY2027 to FY2031 (EDPR 2026-31)

Business case: Fleet

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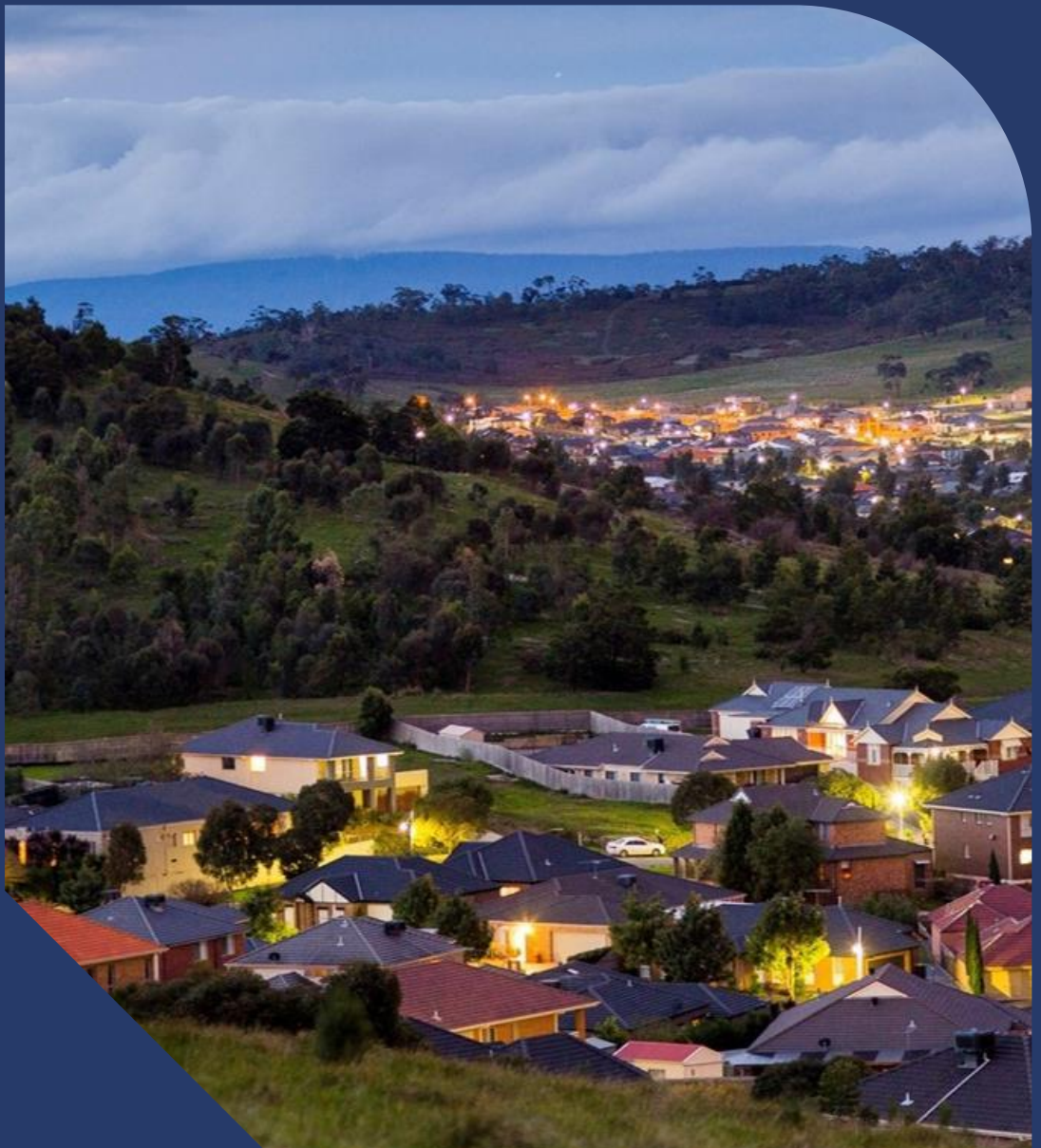


Table of contents

1.	Executive summary	2
2.	Background	5
2.1.	Unifying the fleet	5
2.2.	Lease expiries and aging vehicles	5
2.3.	A lean fleet and a need to grow and meet new requirements	6
2.4.	Buy vs lease vs hire	8
3.	Identified need	9
3.1.	Essential fleet requirements	9
3.2.	Growth in fleet	10
4.	Options assessment	10
4.1.	Options considered	10
4.2.	Key analysis inputs and assumptions	11
4.3.	Cost effectiveness analysis	13
4.4.	Qualitative assessment	15
4.5.	Recommended Option: Option 3 – Hybrid (buy heavy / lease light)	16
A.	Key NPV modelling improvements	17

1. Executive summary

Following Project Switch and the insourcing of the previous delivery contractor's vehicles, we now manage a single, unified fleet. We need to identify how best to resource our fleet going forward, given that many leases are expiring early in the 2026-31 regulatory period, a large share of our fleet is reaching end-of-life, and heavy vehicles take a long time to build and fit out.

We have identified the following options:

- Option 1: Lease only – continue to lease all vehicles.
- Option 2: Buy over time – as the current leases expire shift to an owned fleet model.
- Option 3: Hybrid – continue to lease light vehicles but buy heavy vehicles.

In evaluating each option, we have had regard to the feedback provided by the AER in its Draft Decision, specifically that our previous analysis had a bias towards buying and that the transition to electric vehicles was not justified. In particular we:

- Re-designed our model to ensure we treat buy and lease decisions on a consistent basis. Key model improvements and assumptions are set out in Appendix A.
- Applied a technology agnostic (electric/hybrid/internal combustion) approach to identify the lowest whole-of-life cost for the relevant asset class and duty. We purposefully do not take into account the value of emissions reductions to ensure we identify the lowest cost approach for our customers in this case.
- Draw on improved data on fleet running costs, which is now available to us following the transition to Zinfra on 1 August 2025.

We found that Option 3 provides the lowest cost outcome for consumers.

A further change from our initial proposal is that we're now treating leases as right-of-use (ROU) assets under AASB 16 and modelled consistently with the AER's regulatory treatment of leases.

In Table 1 we outline how we have addressed the AER's 4 key concerns regarding our previous fleet proposal.

Table 1: Summary of economic options assessment (40 year horizon) (PV \$M, \$2025-26)

Issue	AER's concern	How AusNet has addressed concern
Standalone business case	The AER noted that it would expect that a program like our fleet transition program would be supported by a standalone business case, rather than relying solely on an NPV model.	This business case addresses this concern.
Bias toward buying	The AER considered the pricing assumptions for vehicle purchases vs leases in our NPV model led to a bias toward buying.	In our revised modelling, prices for new vehicle purchases and leases are both based on recent supplier quotations. We have assumed a 0% real price increase for both for the full evaluation period ensuring consistent pricing assumptions across all options and avoids any bias.
Double counting	The AER identified that our model double-counted certain plant/equipment assets.	Our NPV model has been rebuilt, taking extra care to avoid duplicates including use of and checks against multiple unique identified (for example vehicle registration number).
Electric vehicles	The AER considered our proposal to replace all light vehicles at end-of-life with EVs resulted in purchases of some EV vehicles that would not be economic to purchase in the current market.	Our revised fleet replacement strategy is technology agnostic and does not prescribe a target for transition to EVs. Any decision to transition to electric or hybrid vehicles will be based on the lowest whole of life cost at the time of the replacement decision. To ensure the lowest cost approach for customers in the context of affordability pressures, we have purposefully not considered the potential value of emissions reductions in transitioning to EVs.

A summary of the economic analysis of the 3 options is shown in Table 2. This shows, over the 40-year assessment period, Option 3 Hybrid provides the lowest cost outcomes. We note that the lease option would result in \$152.6m higher costs in present value terms.

Table 2: Summary of economic options assessment (40 year horizon) (PV \$M, \$2025-26)

	Option 1: Lease only	Option 2: Buy over time	Option 3: Hybrid (buy heavy / lease light)
Capex	507.7	343.5	355.1
Opex	77.3	99.2	77.3
Total	584.9	442.8	432.4

Table 3 shows the expenditure under each option within the 2026-31 and 2031-36 regulatory periods. While the lease option is lower cost within the 2026-31 regulatory period, this option would lead to higher costs to customers in the subsequent period as shown in Table 3, and in the long run as shown above. The lease only option would be lower cost within the 2026-31 regulatory period because it would include only capex associated with 5-year lease terms of the costlier heavy vehicles, as opposed to the full cost of buying these vehicles. However, as our analysis shows, reducing costs in the short-term will lead to higher long-term costs, which is not in the long-term interests of consumers.

Table 3: Fleet expenditure during the 2026-31 and 2031-36 regulatory periods (\$M, \$2025-26)

	Option 1: Lease only		Option 2: Buy over time		Option 3: Hybrid (buy heavy / lease light)	
	2026-31	2031-36	2026-31	2031-36	2026-31	2031-36
Capex	155.5	163.8	169.5	68.9	172.4	72.2
Opex	32.0	21.4	36.8	29.1	32.0	21.4
Period totals	187.5	185.2	206.3	98.0	204.4	93.6
Combined totals	372.7		304.3		298.0	

We note that we have already commenced the shift to a hybrid model with a significant uplift in fleet spend planned for RY26 of \$63M. Making this investment in the current regulatory period – which was not funded in the current period capex allowance - reduces the capex required over the 2026-31 regulatory period, which averages at \$40M per year. Importantly, our proposed fleet expenditure levels are **below** the only available year of current period planned spend following the full transition to Zinfra.

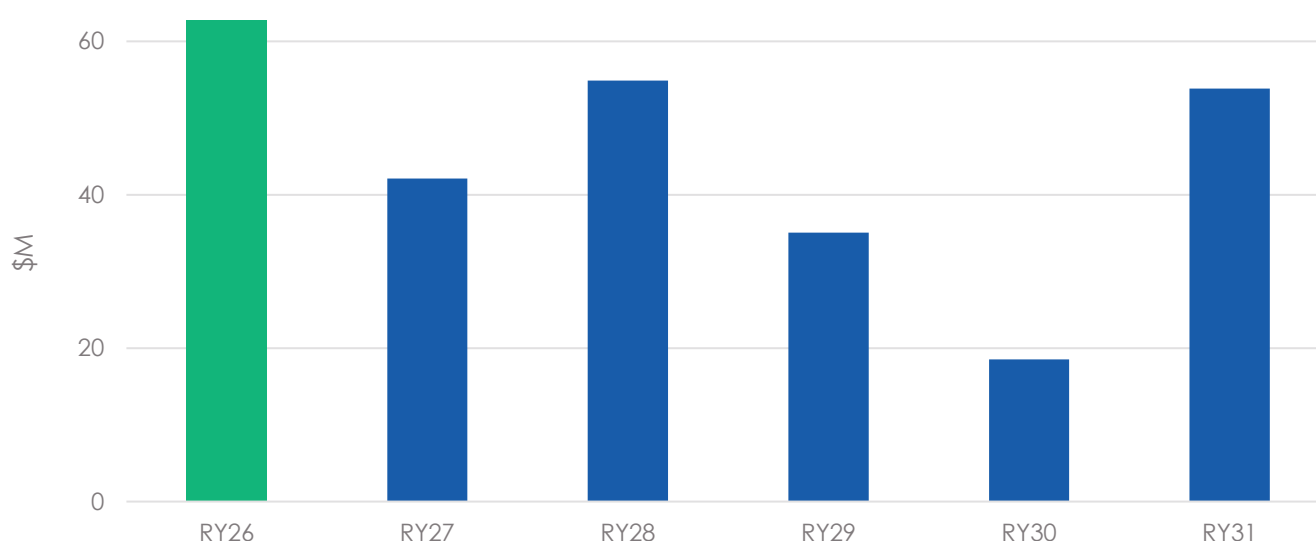
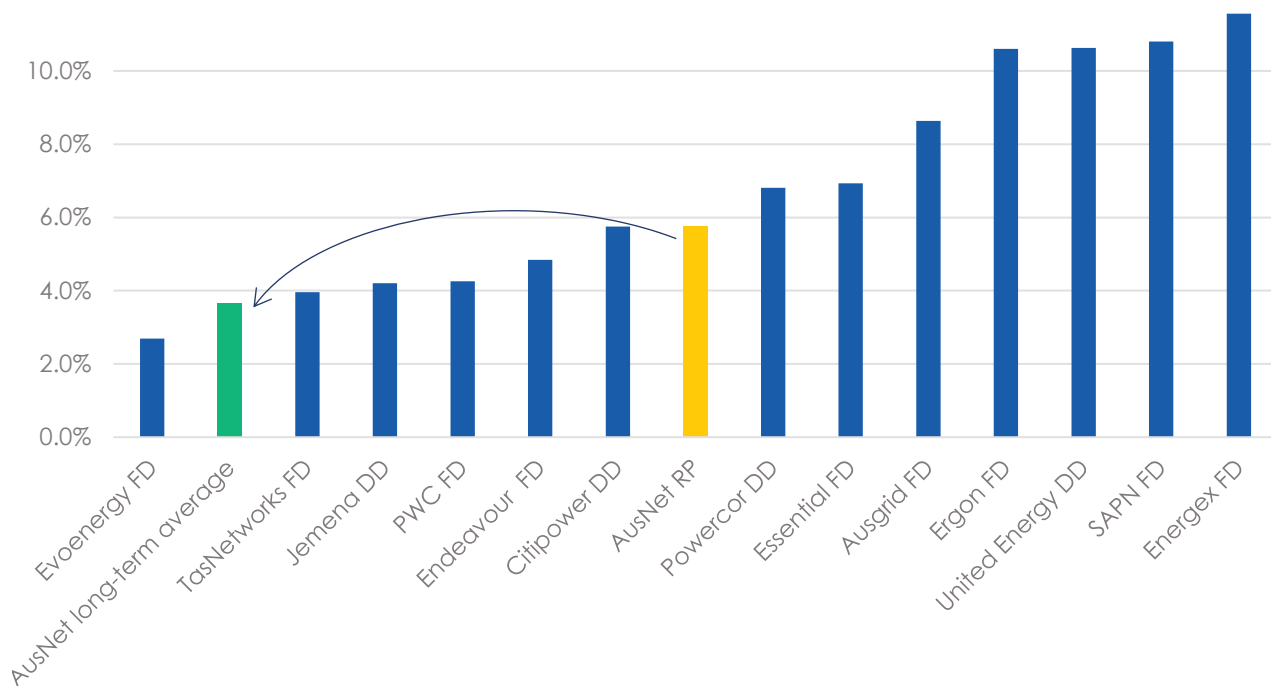
Figure 1: Fleet totex – RY26 and 2026-31 regulatory period forecast (\$M, \$2025-26)


Figure 2 compares AusNet's proposed 5-year fleet totex for the 2026-31 regulatory period and over the longer term average as a proportion of total capex against that of other DNSPs regulated by the AER. It shows AusNet's proposal is in the mid-range for the 2026-31 regulatory period, but reduces toward the lower end when looking at the longer term average, when AusNet's ownership transition has reached steady state.

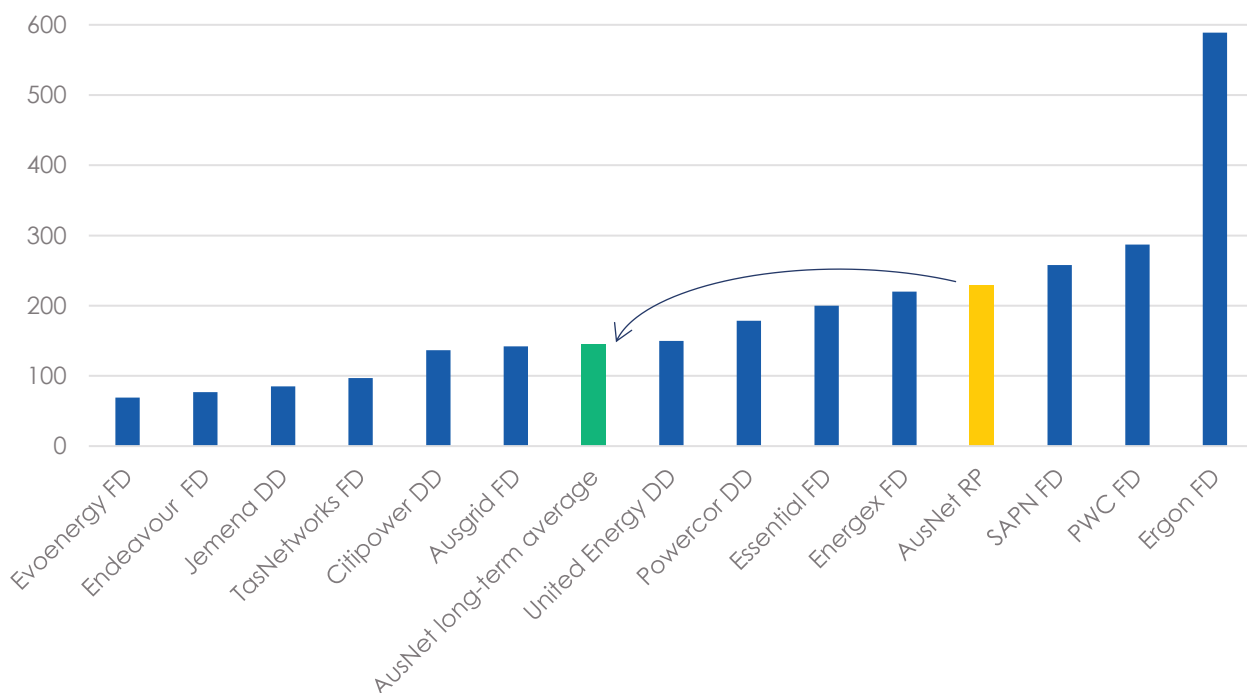
Figure 2: Peer comparison – 5-year fleet totex as % of total capex (%)



Source: AER draft and final decisions; Reset RINs; AusNet Revised Proposal.

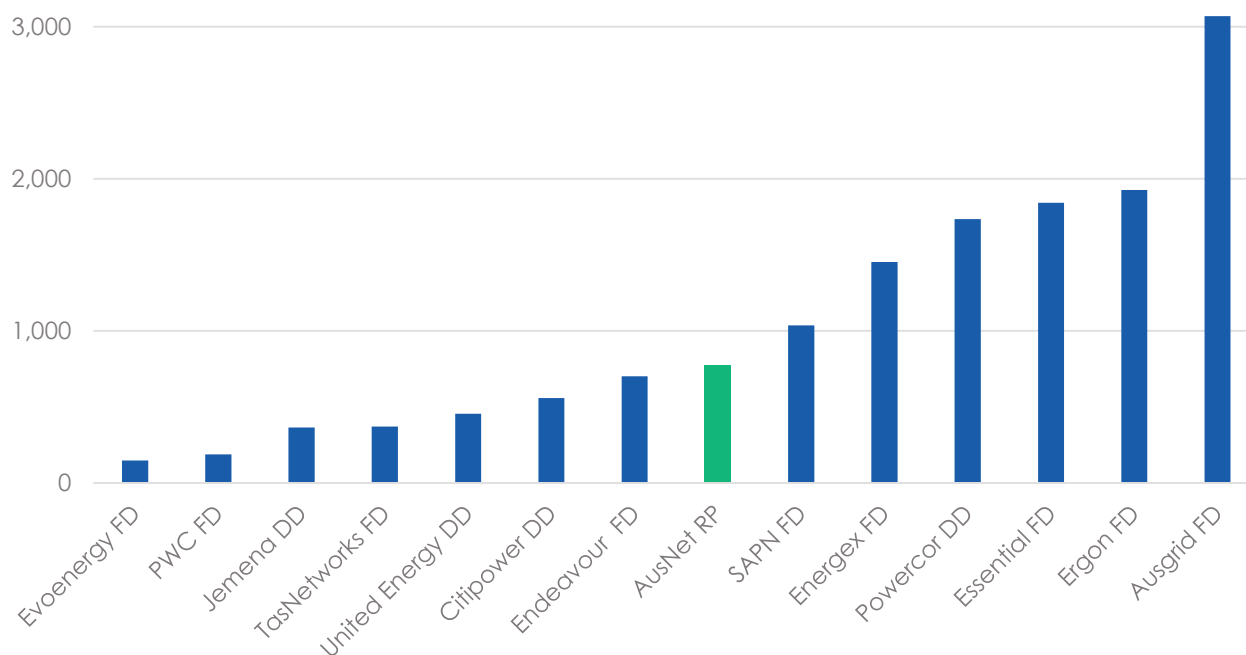
Similarly, Figure 3 shows that AusNet's fleet totex per customer in the 2026-31 regulatory period and longer-term average is in alignment with that of peers. The networks with lower fleet totex per customer compared to AusNet's long-term average are mostly urban networks with high customer density, which would be expected to require a smaller fleet per customer.

Figure 3: Peer comparison – 5-year fleet totex per customer (\$2025-26)



Source: AER draft and final decisions; Reset RINs; AusNet Revised Proposal

Furthermore, Figure 4Error! Reference source not found. below compares AusNet's total fleet against other DNSPs, demonstrating that AusNet's fleet is within the range that would be expected for a network of its size and characteristics.

Figure 4: Peer comparison – Total fleet (vehicles)

Source: Reset RINs; AusNet Revised Fleet Proposal

Transitional affordability measure

In light of current affordability challenges faced by our customers, and consistent with our Initial Proposal, we propose to absorb about \$6.4m of additional operating costs per year during the 2026-31 regulatory period, for a total of \$32m over the period. We will seek to fund this through additional productivity gains made during the 2026-31 regulatory period, over and above the 0.5% productivity growth measure applied to our opex forecast. This is a temporary measure with a sunset and review at the next price reset.

2. Background

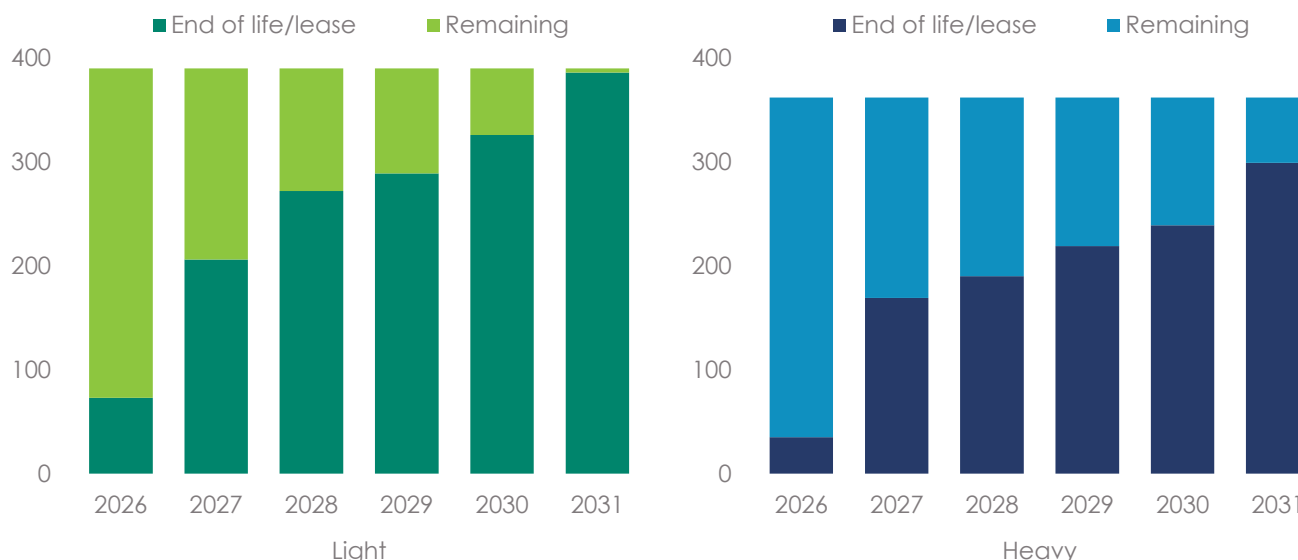
2.1. Unifying the fleet

With the insourcing of our fleet, AusNet now manages the previously contractor-operated fleet alongside the existing AusNet-owned vehicles. All fleet planning, procurement and maintenance policy has been integrated into a single fleet strategy, eliminating duplicative processes and fragmented asset strategies, while ensuring optimal long-term value for money for AusNet and our customers.

2.2. Lease expiries and aging vehicles

A large cohort of vehicles and plant comes up for decision this regulatory year (2025-26) and early in the new regulatory period, as legacy leases roll of and sizeable proportion reaches end of life, illustrated in Figure 5. This explains the relatively high spend on fleet in the 2026-31 regulatory period, which is followed by a lower ongoing steady state fleet spend in subsequent periods.

Figure 5: Forecast vehicles up for decision by regulatory year



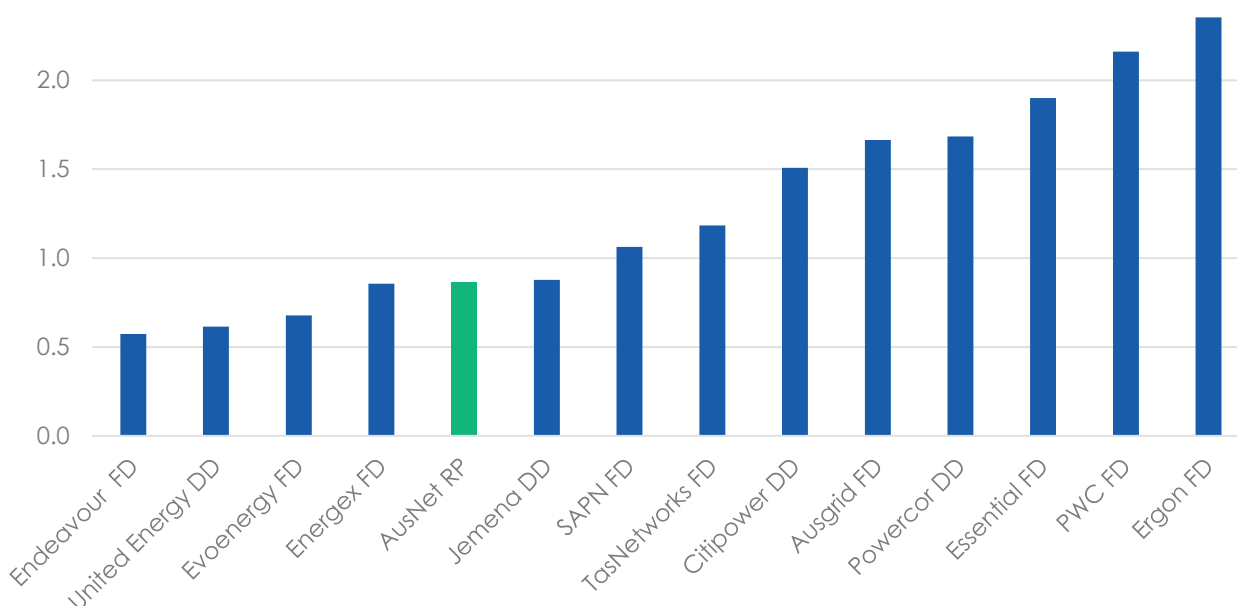
2.3. A lean fleet and a need to grow and meet new requirements

Under the previous commercial arrangement, Downer was responsible for providing the fleet required to deliver AusNet's field services. This gave Downer a clear incentive to minimise fleet costs while still meeting our service requirements (contingent on contract length). In practice, Downer supplemented the core leased fleet with a material number of short-term hire vehicles to meet our workload. This indicates that our current fleet is not excessive for the work required and is likely to be relatively lean.

To test whether our fleet size is reasonable in the context of the work it supports, we benchmarked ourselves against other DNSPs using publicly available data for current regulatory periods or in recent proposals and AER draft decisions for Victorian DNSPs. This analysis seeks to check whether AusNet's fleet looks obviously over- or under-sized relative to its workload.

Peer comparison of fleet totex as a proportion of capex and per customer is shown in Figure 2 and Figure 3 in the Executive Summary, along with Figure 4 showing how AusNet's total fleet size compares with that of peers. Figure 6 shows the number of vehicles per customer, further demonstrating that AusNet's fleet size is reasonable given our network size and characteristics. We note that larger networks (in terms of circuit length) tend to require a larger fleet on a per customer basis.

Figure 6: Peer comparison – Vehicles per customer



Source: Reset RINs; AusNet Revised Fleet Proposal

For a more nuanced comparison, we also conducted peer comparison of our fleet against:

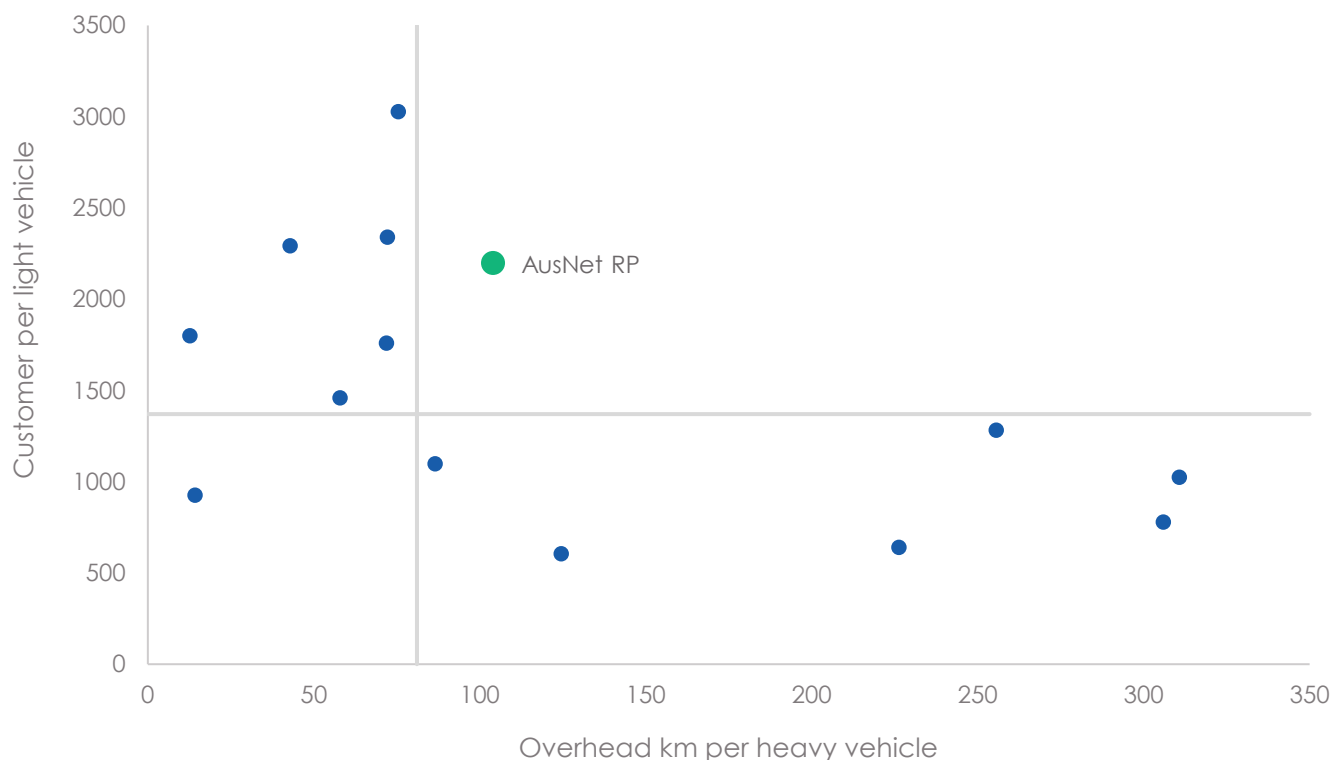
- key network characteristics relevant to fleet composition, and
- expenditure on field work that rely heavily on fleet (ie, "field totex").

Figure 7 plots, for each DNSP, the number of customers per light vehicle against overhead line kilometres per heavy vehicle. These two ratios capture the key drivers of light and heavy fleet respectively:

- light vehicles are mainly used for things like fault response and minor repairs, routine inspections and patrols, customer connection and service work and field support – this work is a result of how many customers need to be served and supported.
- on the other hand, a significant portion of the work supported by the heavy fleet relates to how much overhead line must be built, inspected, maintained and repaired.

In Figure 7, networks with very dense, urban customers tend to sit high on the vertical axis (many customers per light vehicle) but lower on the horizontal axis (less overhead line per heavy vehicle). More rural networks tend to have the opposite pattern. AusNet sits toward in the upper-right quadrant of the chart: above the median on both customers per light vehicle and overhead kilometres per heavy vehicle. This means each AusNet vehicle is, on average, supporting a relatively large customer base and a relatively long overhead network compared with most peers. There is no indication of surplus fleet capacity on these measures, demonstrating the current fleet is 'right sized' and supporting the prudent and efficiency of the leasing, replacement and running costs that we have proposed for 2026-31.

Figure 7: Customers per light vehicle vs overhead km per heavy vehicle (5-year avg)

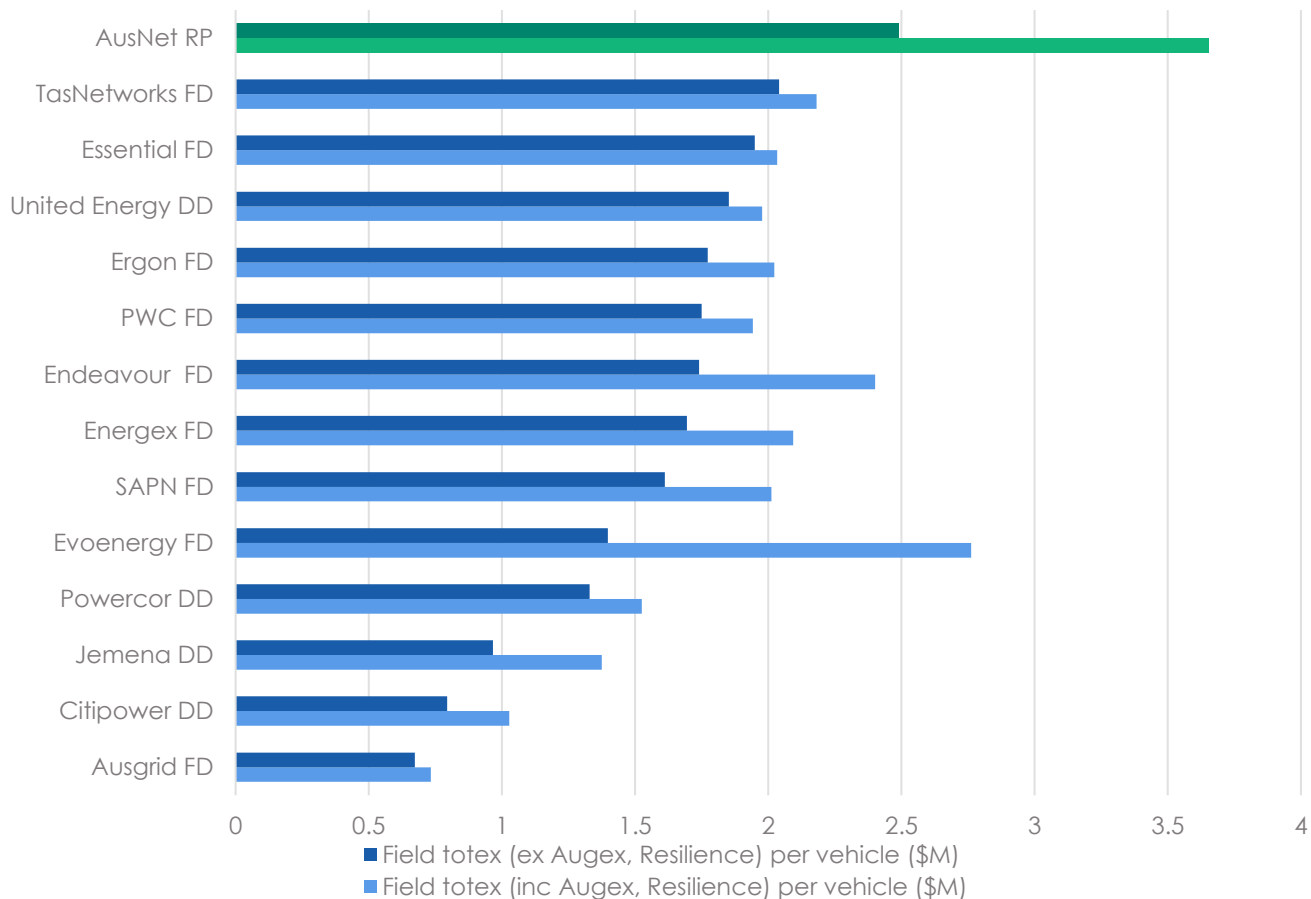


Source: Reset RINs; AusNet Revised Fleet Proposal

Figure 8 shows field program per vehicle, calculated as total field totex over five years (field opex plus field capex)¹ divided by average fleet numbers. The green bars exclude augmentation and resilience programs; the blue bars include them. On both definitions AusNet is at or near the top of the distribution: each AusNet vehicle supports a larger field program, on average, than vehicles in most other networks. This holds even when augmentation and resilience expenditure are included, which tend to favour networks with large growth or hardening programs.

¹ For this purpose, we have defined field capex as repex mainly, but have also separately included augex and resilience capex since these also rely to a great extent on the fleet, although less so for urban networks. Field opex has been defined as maintenance & repairs, vegetation management and emergency response. This data is provided in reset RINs. Where the AER did not approve the full opex in the initial proposals, we have scaled field opex to match the change in total opex from the DNDPs initial proposal to the AER's draft or final decision, as relevant.

Figure 8: Field totex per vehicle (5-year total, \$M \$2025-26)



Source: AER draft and final decisions; Reset RINs; AusNet Revised Proposal.

These benchmarks are deliberately simple and do not attempt to adjust for every difference between networks (for example detailed terrain, access or undergrounding). They do, however, use consistent definitions across DNSPs and align closely with the main drivers of fleet demand. Taken together, the results indicate that AusNet's current fleet is working relatively hard compared with peers, and that our proposed modest fleet growth over 2026–31 is a reasonable response to the substantially increased capital program we have forecast for the 2026–31 regulatory period.

2.4. Buy vs lease vs hire

Selecting the right commercial model is central to ensuring value for money and keeping downward pressure on long-term costs. When we source a vehicle, we choose between buying, leasing or hiring (for a short period). The right choice depends on a range of factors, including how long we need the vehicle, how specialised the fit-out is, how much it's used and how fast our needs might change. We select the option with the lowest whole-of-life cost for the intended use of the vehicle.

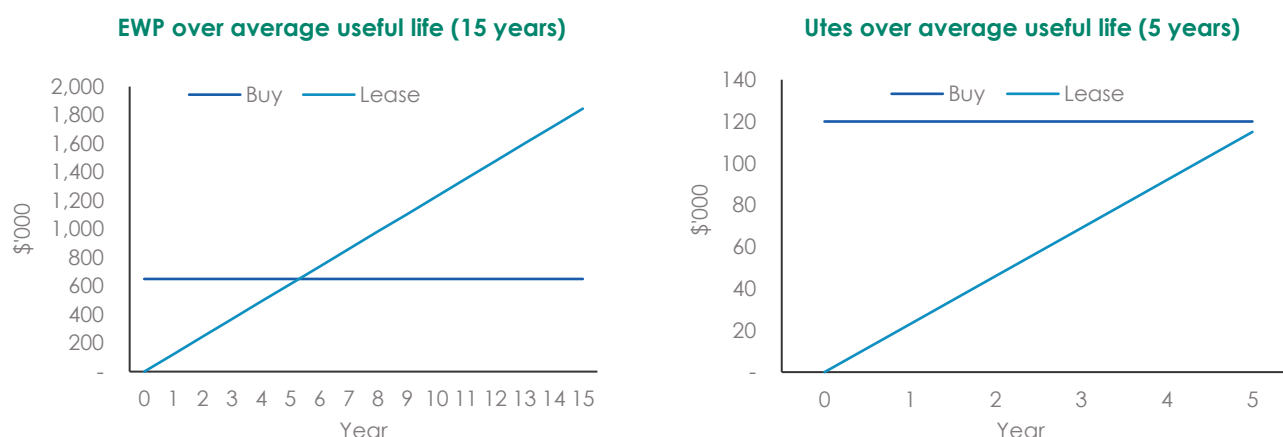
The table below sets out the pros and cons of each approach and the circumstances where each is typically best suited.

Table 4: Pros and cons at a glance

Approach	When it works best	Strengths	Trade-offs
Buy	Long-life, specialised assets with steady use	<ul style="list-style-type: none"> Lowest lifetime cost over long holds Full control of spec and maintenance Can rebuild/repurpose 	<ul style="list-style-type: none"> Bigger up-front cash outlay Resale risk Slower to change/ upgrade
Lease	Vehicles with shorter useful lives (eg, 3-5 years) or rapidly changing requirements	<ul style="list-style-type: none"> Low upfront cash outlay Smooth, predictable spend Easy to refresh/ upgrade Maintenance can be included 	<ul style="list-style-type: none"> Higher cost than buy if held long-term End of term conditions & fees (eg, termination/extension, return to standard) Exposure to lease price resets
Hire	Short term surge needs, emergencies, or bridging between arrangements	<ul style="list-style-type: none"> Fast access to No long commitment Helps avoid underutilised vehicles 	<ul style="list-style-type: none"> Highest unit costs Limited customisation Availability risk

Figure 9 provides a clear illustration of how cumulative cash flows differ between buy vs lease for a specialised asset like an elevated work platform (EWP) and a lower value asset like a utility vehicle. It shows:

- In both cases, the cost of buying the vehicle is equivalent to 5-6 years of lease payments.
- For a high value asset like an EWP costing \$650,000 with a 15-year useful life, at the end of the 15 years a lease would see us having paid ~\$1.2m extra with no asset ownership at the end.
- For a low value asset like a \$120,000 ute with a 5-year useful life, the cost of buying would be slightly higher at the end of the 5-year period, but we would own the asset at the end. All in, the difference is small between the two approaches if holding the lease for the full useful life of the asset.

Figure 9: Cumulative cash flow comparison – buy vs lease


3. Identified need

3.1. Essential fleet requirements

Historically AusNet did not own or operate most of the field fleet directly. Fleet costs were bundled into the unit rates paid to our delivery contractor and did not appear as a separate capex or opex line in our regulatory proposal or annual regulatory reporting. Project Switch has changed this model: AusNet now owns and manages the fleet required to deliver our network program. As a result, the costs of renewing and operating this fleet now appear explicitly in our forecast, rather than being embedded in contract rates. This creates a visible step change in fleet expenditure, but does not represent new work or a larger fleet than was required previously.

As noted by EMCa; our capex forecast for the 2026-31 regulatory period reflect the new delivery contractor rates – which do not include any costs related to fleet.²

² [EMCa - Review of proposed expenditure for ICT - AusNet Services 2026-31 regulatory proposal - August 2025.pdf](#)

We need a fleet that:

- (1) Meets Health, Safety, Environment and Quality (HSEQ) requirements to keep our people safe and our vehicles compliant, with fit-for-purpose specifications and a reliable maintenance program
- (2) Supports delivery of our growing work program, including planned, emergency and customer work, with the right mix of light and heavy vehicles and plant.
- (3) Minimises lifetime cost for customer through smart buy/lease/hire choices, timely replacement and technology-agnostic decisions (eg, electric vehicles vs hybrid vs internal combustion)
- (4) Minimises exposure to availability risk for critical assets.

Following Switch, AusNet now has a single view of the fleet it has taken over from Downer, including asset registers by class and age and a clearer picture of total fleet spend. This information was not fully available when we prepared our Regulatory Proposal. For this business case, we have combined the available internal data with current lease contracts and market quotes to estimate unit purchase and running costs.

3.2. Growth in fleet

As shown in section 2.3, benchmarking against other DNSPs indicates that AusNet's fleet reflects prudent levels on both customers per light vehicle and overhead line per heavy vehicle, and that program delivery per vehicle is at the upper end of the peer range. Against this background, the proposed 3.3% increase in fleet numbers over the 2026–31 regulatory period is a modest and targeted uplift to maintain service levels and meet new requirements:

- An additional 12 heavy vehicles, or 3.3% increase on current fleet,
- An additional 13 light vehicles or 3.3% increase on current fleet.

This growth reflects our assessment of what is required to support growth in our network while maintaining reliability and safety and ensuring our ability to respond effectively to increasing extreme weather events. Our proposed fleet growth of 3.3% compares favourably with the output growth factors in both the AER's draft decision (5.75%) and in our revised proposal (10.04%). It is also lower than the growth in our forecast capex program (73%), which means each vehicle in our fleet will be supporting a larger program of works over the 2026–31 regulatory period than currently.

4. Options assessment

4.1. Options considered

Table 5: Option descriptions

Option	Brief description
Option 1: Lease only	This lease only option would involve continuing with lease arrangements for the leases transferred from Downer, renewing expiring leases with 3-5 year leases and adopting leases for growth vehicles and AusNet-owned vehicles when these are due for replacement.
Option 2: Buy over time	This buy option would mean buying replacement vehicles at expiry of existing leases or end-of-life of current AusNet owned vehicles, and holding the vehicles until end of useful life.
Option 3: Hybrid (buy heavy / lease light)	This hybrid option would mean, at expiry of existing lease or end of life of current AusNet owned vehicles, a default approach of buy high-value heavy fleet and leasing light fleet.

Under all options, when a vehicle sourcing/replacement decision is needed, the decision would be technology agnostic (EV/PHEV/ICE) and reflect the lowest lifetime cost for that class and duty.

We have not considered a hire-only option, as this could not meet our essential fleet requirements set out in section 3.1 above and would be materially higher in cost. Vehicle hire remains an integral part of all options to meet temporary, surge or emergency needs.

4.2. Key analysis inputs and assumptions

Each of the short-listed options were assessed using a detailed cost-effectiveness analysis with the following key assumptions and settings.

4.2.1. Fleet size and composition

The starting point for our fleet size and composition is the unified AusNet fleet as at the time of this Revised Proposal submission, consolidating vehicles and plant insourced from Downer with the existing AusNet owned fleet.

Benchmarking analysis in section 2.3 indicates that this is a modest fleet compared with peers, on measures such as customers per light vehicle and overhead line per heavy vehicle. Downer also relied on hire vehicles in addition to the leased fleet, with hire being a significantly higher cost solution which Downer was not able to recharge AusNet for. This indicates the additional hire vehicles were a necessary part of the fleet to meet field demand.

Growth in fleet numbers over the 2026–31 regulatory period is based on a bottom-up assessment of additional vehicles required to support the forecast work program (section 3.2). The proposed uplift is moderate and is consistent with, or below, the growth in other activity metrics.

4.2.2. New vehicle purchase cost

New vehicle purchase cost is the upfront capital cost to acquire each vehicle or item of plant, including standard fit-out and any incremental body build or specialist equipment.

Unit purchase costs by vehicle class are based on current supplier quotes and recent AusNet purchases. Costs include typical body build and safety fit-out. A real price path of 0% is assumed (that is, costs are held constant in real terms over the horizon).

No assumption of transition to PHEVs or EVs have been assumed – a decision to transition to PHEVs or EVs will be made at the time of replacement, based on the lowest whole-of-life cost.

4.2.3. Vehicle running costs

Vehicle running costs is the ongoing operating costs over the life of the vehicle include fuel or electricity, maintenance and repairs, tyres, registration, insurance and any other on-costs directly attributable to the vehicle.

Vehicle running costs are estimated using two sources:

- AusNet's internal cost records for owned fleet over FY22–25, analysed by vehicle class and age; and
- an estimate of embedded running costs within full-service lease rates, as described below.

For vehicle classes where internal running-cost data is limited, AusNet uses market quotes for full-service leases and finance-only leases. The difference between the full-service rental and the finance-only rental is treated as the "service component", which must recover the lessor's maintenance and operating costs. To avoid over-estimating running costs on this basis, we have deducted 20% to accommodate a profit margin for the lessor on the service component. This assumption produces running-cost estimates that are consistent with AusNet's internal data and external benchmarks.

4.2.4. Lease cost, terms and modelling treatment

Lease costs reflect current market offers for equivalent vehicles, based on recent tender outcomes and lessor proposals. As with purchase costs, a 0% real price path is assumed for lease rentals.

For NPV analysis purposes, each lease is represented by a schedule of rentals and an associated right-of-use (ROU) asset equal to the present value of rentals, discounted at the regulatory real WACC.³ This is treated in the model as capital expenditure incurred at lease commencement and depreciated on a straight-line basis.

Lease terms reflect current practice (typically 3-5 years) and are applied consistently across options, except where an option assumes ownership rather than leasing of heavy fleet.

4.2.5. Vehicle useful lives

AusNet's vehicle useful life assumptions are based on existing replacement practice, observed age-at-disposal data and peer information, and are in line with standard industry values (discussed further below). Table 6 summarises AusNet's current fleet replacement criteria by asset type, including both age and kilometre triggers where these are used operationally. For the NPV model we translate these into a single "replacement age" assumption for each

³ Consistent with AASB16 accounting requirements and as adopted by the AER for regulatory treatment.

class, shown in the right-hand column of Table 6. In practice, replacements are managed at a more granular level, also taking into account actual asset condition, but these ages provide a reasonable and transparent approximation of when vehicles become uneconomic to maintain or no longer fit for purpose.

For light fleet, passenger vehicles are assumed to be replaced after 7 years or around 200,000 km, with utes at 5 years / 200,000 km and vans at an average of 8 years / 200,000 km. For heavy and specialised plant the assumed lives are significantly longer, reflecting their higher build quality and lower annual kilometres: 10 years for smaller EWP, 15 years for larger EWP, trailers and specialised plant, and 20 years for PERUs and tracked plant. Trucks without EWP are assumed to have a 15-year life. Forklifts and ATVs sit in between, with model lives of around 7–8 years.

Table 6: AusNet's fleet replacement criteria

Asset type	Replacement age	Replacement km	Model assumptions – replacement age
Passenger vehicle	7 years	200,000	7 years
Ute	5 years	200,000	5 years
Van	7-10 years	200,000	8 years
EWP 13m or less	10 years	N/A	10 years
EWP >13m	15 years	N/A	15 years
PERU	20 years	N/A	20 years
Tracked EWP & PERU	20 years	N/A	20 years
Trailers	15 years	N/A	15 years
Forklifts	7-10 years	N/A	8 years
Specialised Plant	15 years	N/A	15 years
ATV	7 years	N/A	7 years
Truck only	15 years	N/A	15 years

Table 7 compares AusNet's replacement criteria with other DNSPs. This shows that AusNet's assumed lives are generally consistent with, and in several cases longer than, those of peers. For example, AusNet's passenger vehicle and light commercial replacement criteria are towards the upper end of the peer range, and its 10–20 year range for heavy commercial and plant assets is aligned with, and toward the upper end, of useful lives adopted by other networks that operate similar fleets. This provides assurance that the model is not assuming unduly short lives or prematurely renewing vehicles to drive higher capex.

Table 7: Peer comparison – fleet replacement criteria

DSNP	Passenger	Light commercial	Heavy commercial & plant
AusNet	7 years/200,000km	5-10 years/200,000km	10-20 years
Energex	150,000km	7 years/150,000km	10-15 years/250,000-350,000km
Powercor	5 years/150,000km	5 years/150,000km	10-15 years
SAPN	5 years/150,000km	5 years/150,000km	10-20 years
Ausgrid	5 years/150,000km	6 years/150,000km	15 years
Essential	5 years/150,000km	5 years/150,000km	10-15 years
Ergon	150,000km	7 years/150,000km	10-15 years/250,000-350,000km
Endeavour	5 years/150,000km	5 years/150,000km	10-20 years
Jemena	5 years/150,000km	5 years/150,000km	10-15 years
United Energy	4 years/150,000km	5 years/150,000km	10-15 years
TasNetworks	7 years/170,000km	7 years/170,000km	10-20 years/700,000km
PWC	4 years/80,000km	5 years/125,000km	5-10 years/125,000km

Source: For other DNSPs, most recent fleet strategies and business cases submitted to the AER.

These useful life assumptions are used in the economic analysis to schedule replacements and to calculate terminal values for vehicles that remain in service at the end of the 40-year evaluation period. They strike a balance between cost efficiency and safety: extending lives materially beyond these ranges would increase the risk of reliability issues, higher defect rates and non-compliance with contemporary safety standards, while shortening lives would not be justified by condition or peer practice.

4.2.6. Evaluation period

The evaluation period is 40 years (RY27–RY66), long enough to cover at least two full replacement cycles for major heavy fleet and EWPs. This ensures long-term cost differences between buying and leasing are visible. Terminal values are used to recognise residual value for assets that continue beyond the horizon, so results are not sensitive to the exact end year.

4.2.7. Terminal values

For owned vehicles still in service at the end of the 40-year horizon, terminal values are calculated as the remaining undepreciated value based on the assumed economic life (e.g. a 10-year asset bought in year 35 has 60% of its capex value remaining in year 40). Remaining ROU asset balances are also included in terminal values. No terminal value is assumed for leases that expire before the horizon.

For simplicity, we have not modelled explicit scrap or disposal proceeds for vehicles that reach end of life during the horizon. This is expected to be a modest effect at the individual vehicle level and, once discounted, has a small impact on overall NPV outcomes. The omission of scrap values slightly understates the economic advantage of ownership relative to leasing, because lease options have no scrap proceeds while owned vehicles will typically retain some residual salvage value at the end of their economic life. Including reasonable scrap values would therefore increase the NPV benefit of the buy and hybrid options relative to the lease-only option.

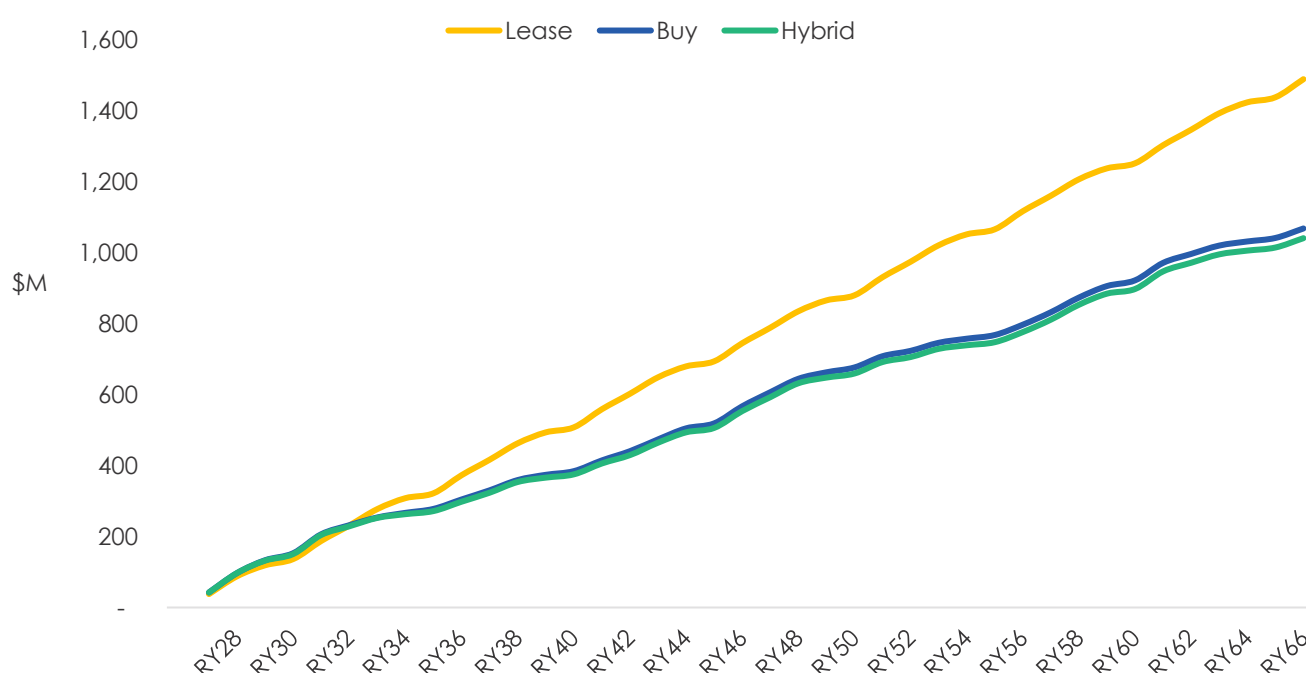
4.2.8. Discount rate

Our NPV analysis adopts a real vanilla WACC of 5.56%, consistent with the discount rate we applied in all initial proposal capex business cases, which we have maintained in our revised proposal.

4.3. Cost effectiveness analysis

Figure 10 shows the cumulative total expenditure (real \$2025-26) for each option. It clearly shows that while the hybrid option would involve slightly higher initial expenditure, adopting a hybrid approach would lead to significantly savings over the long term and lower long-term cost to customers. The hybrid option is marginally lower cost than the buy-only option over the assessment period.

Figure 10: Cumulative total expenditure by option (Real \$2025-26, \$M)



Source: Reset RINs; AusNet Revised Proposal

Table 8 provides a summary of the present value results of the cost-effectiveness analysis through 2066. Again, the result clearly shows the lease-only option as the highest cost, with the proposed hybrid option offering the lowest long-term costs.

Table 8: Summary of cost effectiveness analysis results (PV \$M, \$2025-26)

	Option 1: Lease only	Option 2: Buy over time	Option 3: Hybrid (buy heavy / lease light)
PV Capex	507.7	343.5	355.1
PV Opex	77.3	99.2	77.3
PV Total	584.9	442.8	432.4

Error! Reference source not found. also shows total fleet expenditure for the 2026-31 and 2031-36 regulatory periods for each option. While the lease option is lower cost within the 2026-31 regulatory period, this option would lead to higher costs to customers in the subsequent period, and in the long run as shown above. The lease only option would be lower cost within the 2026-31 regulatory period because it would include only capex associated with 5-year lease terms of the costlier heavy vehicles, as opposed to the full cost of buying these vehicles. However, as our analysis shows, reducing costs in the short-term will lead to higher long-term costs, which is not in the long-term interests of consumers.

Table 9: Fleet expenditure during the 2026-31 and 2031-36 regulatory periods (\$M, \$2025-26)

	Option 1: Lease only		Option 2: Buy over time		Option 3: Hybrid (buy heavy / lease light)	
	2026-31	2031-36	2026-31	2031-36	2026-31	2031-36
Capex	155.5	163.8	169.5	68.9	172.4	72.2
Opex	32.0	21.4	36.8	29.1	32.0	21.4
Period totals	187.5	185.2	206.3	98.0	204.4	93.6
Combined totals	372.7		304.3		298.0	

4.4. Qualitative assessment

A financials-only view does not capture practical factors like safety control, emergency response and flexibility. This section scores each option against the set of weighted qualitative factors in Table 10.

Scores: 1 = poor; 5 = strong

Table 10: Assessment of each option against qualitative factors

Factor	Weight (out of 100)	Option 1: Lease only	Option 2: Buy over time	Option 3: Hybrid (buy heavy/ lease light)
Safety, compliance & standardisation How much control we have over specs, fit-out and maintenance to meet HSEQ and regulatory obligations, and ability to standardise across fleet	25	3	5	4
Service reliability & emergency readiness Can our fleet support day-to-day work and stand-up quickly for storms/outages?	20	3	4	5
Flexibility & adaptability How quickly we can change vehicle type/spec/technology as needs evolve	15	4	2	4
Supply-chain resilience Availability risk and our exposure to long lead times and limited build slots, and how well we can hedge that risk.	10	3	3	4
Implementation simplicity How easy is it to run the sourcing model (procurement effort, admin load, change impacts)	10	4	2	3
Budget smoothness & predictability How stable and forecastable is the spend profile (capex/opex)	10	5	2	4
Data & asset visibility Quality and completeness of data on utilisation, condition and maintenance to facilitate planning and cost control	10	2	5	4
Overall	100	3.4	3.6	4.1

Interpreting the results of the qualitative assessment

The results of the qualitative assessment can be interpreted as follows:

- **Option 1 – Lease only** is simple to implement and with smooth, predictable cash flows, but gives up some control over specs, maintenance and data visibility.
- **Option 2 – Buy over time** gives strong control over specs and standardisation with strong data visibility, but is less flexible, can be complex to implement (partly due to volume) and involves lumpy cash outlays.
- **Option 3 – Hybrid** brings the best of both options 1 and 2: control where it matters (heavy, specialised) and flexibility and optionality where it helps (eg, light fleet & spec control, availability risk).

4.5. Recommended Option: Option 3 – Hybrid (buy heavy / lease light)

Option 3 Hybrid, delivers the lowest total present value cost over the assessment period, while also scoring strongest on the qualitative assessment.

By adopting a hybrid stance, Option 3 permits optimising the sourcing approach by asset class and duty, where high value and highly customised long-life assets are bought outright for AusNet to own and manage, while lower value and less complex assets can be leased and replaced more regularly as needs change. This includes the option to move to alternative fuel technologies (EV/PHEV/ICE) where it makes economic sense to do so.

Table 11 shows total forecast expenditure over the 2026-31 regulatory period under the hybrid approach. As noted above, in light of current affordability challenges faced by our customers, and consistent with our Initial Proposal, we propose to absorb about \$6.4m of additional operating costs per year during the 2026-31 regulatory period, for a total of \$32m over the period. We will seek to fund this through additional productivity gains made during the 2026-31 regulatory period, over and above the 0.5% productivity growth measure applied to our opex forecast. This is a temporary measure with a sunset and review at the next price reset.

Table 11: EDPR annual expenditure under recommended Option 3 Hybrid (buy heavy/lease light) (\$M, \$2025-26)

Expenditure	RY27	RY28	RY29	RY30	RY31	TOTAL
Capex	35.3	47.4	30.2	10.4	49.1	172.4
Opex	6.8	7.4	4.9	8.1	4.7	32.0
Total	42.1	54.9	35.1	18.5	53.8	204.4

A. Key NPV modelling improvements

Table 12: Key NPV modelling improvements descriptions

Modelling element	Initial proposal	Revised proposal and effect
Replacement cost	Replacement capex estimated at a high level by broad vehicle types (eg, ute, truck, EWP), with limited differentiation between sub-types, body builds and specialised fit-out. Unit costs not consistently linked to current market prices.	Replacement capex based on recent third-party supplier quotes for the majority of vehicle sub-types, including typical body build and safety fit-out. A common 0% real price path applied across options. This anchors capex in observed market pricing, better reflects the actual fleet composition and removed any systematic pricing bias between options.
Cost of leases	Lease costs derived using an assumed lease margin factor of 45% applied to capital values. Capital and service components of leases not explicitly separated, creating a potential bias towards purchasing.	Lease costs now based on current third-party lease quotations for relevant vehicle classes. Quotes are used to establish the ratio of lease rentals to capital value for each class. Purchase and lease prices share the same underlying cost base and escalation assumptions, so buy and lease options are assessed on a consistent, market-based footing.
Growth in fleet	Growth represented via a single annual percentage applied to baseline fleet numbers, with limited direct linkage to specific work program or regulatory drivers.	Growth modelled bottom-up using specific additional vehicles by class required to deliver forecast field programs and meet new requirements over 2026-31.
Scope of fleet modelled	Model scope based primarily on vehicles expected to be insourced from the delivery partner at the time of the draft proposal. Fleet listing still evolving, with some vehicles ultimately not taken over and some short-term hire arrangements not fully reflected.	Model now based on the unified fleet as at the time of this Revised Proposal's submission, consolidating vehicles and plant insourced from Downer with the existing AusNet owned fleet. The fleet register has been updated for vehicles not taken over and for trucks on short-term hire. The NPV analysis therefore reflects the actual fleet AusNet owns and operates, also reflected in the benchmarking analysis in the business case.
Running costs	Running costs (fuel/energy, maintenance and repairs, tyres, registration, insurance and other on-costs) estimated at a high level by vehicle type, with limited reliance on observed spend or explicit treatment of running costs embedded in lease rates.	Running costs now draw on AusNet internal cost record for owned fleet and on the difference between full-service and finance only lease quotes for equivalent vehicles. For light fleet R&M, the incremental cost between lease quotes with and without fixed price R&M is used to infer the underlying maintenance cost. To avoid overstating costs inferred from lease quotes, 20% of the service component is assumed to represent lessor profit margin, with 80% treated as operating costs. Overall, running-cost assumptions are now more evidence-based and transparent.
Lease recognition and regulatory treatment	Lease recognition and phasing based on timing of cashflows, without explicitly mirroring AASB 16 right-of-use (ROU) treatment or the AER's regulatory approach to leases, and without recognising terminal values for vehicles still in service at the end of the assessment period.	Leases are now treated as ROU assets consistent with AASB 16 and the AER's regulatory treatment. For each lease, the model represents: (i) a stream of rentals; and (ii) an ROU asset equal to the present value of rentals, treated as capex at the lease commencement and depreciated over the lease term. Terminal values are not recognised for both owned vehicles and any remaining ROU balances at year 40. All options are evaluated over the same 40-year period using the regulatory real vanilla WACC. This ensures like-for-like comparison between lease and buy options and removes distortions from

		cashflow timing alone, and avoids overstating the cost of options with more long-lived owned assets.
Terminal values	No explicit recognition of terminal values for owned vehicles or leases still in service at the end of the 40-year assessment period, which tended to overstate the cost of options with more long-lived owned assets.	Terminal values are now recognised for both owned vehicles and remaining ROU balances at the end of the 40-year horizon, consistent with standard NPV practice. This ensures the analysis properly accounts for residual value and avoids overstating the long-run cost of options with higher ownership of long-life fleet.
Double counting	The AER identified that the model underpinning our initial fleet proposal double-counted certain plant/equipment assets.	Our NPV model has been rebuilt, taking extra care to avoid duplicates including use of and check against multiple unique identified (for example vehicle registration number).

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