Final decision

AusNet Services electricity distribution determination
1 July 2026 - 30 June 2031

Attachment 2 – Capital expenditure

April 2026

AUSTRALIAN ENERGY REGULATOR

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Version	Date	Pages
1	30 April 2026	55

Contents

2 Capital expenditure

Capital expenditure (capex) refers to the money required to build, maintain or improve the physical assets needed to provide standard control services (SCS).[1] Generally, these assets have long lives, and a distributor will recover capex from customers over several regulatory control periods. A distributor's capex forecast contributes to the return of and return on capital building blocks that form part of its total revenue requirement.

Under the regulatory framework, a distributor must include a total forecast capex that it considers is required to meet or manage expected demand, comply with all applicable regulatory obligations, to maintain the safety, reliability, quality, and security of its network and contribute to achieving emissions reduction targets for reducing Australia's greenhouse gas emissions (the capex objectives).[2]

We must decide whether or not we are satisfied that this forecast reasonably reflects prudent and efficient costs and a realistic expectation of future demand, cost inputs, and other relevant inputs (the capex criteria).[3] We must make our decision in a manner that will, or is likely to, deliver efficient outcomes in terms of price, quality, safety, reliability and security of supply and contribute to achieving targets for reducing Australia's greenhouse gas emissions for the benefit of consumers in the long term (as required under the National Electricity Objective (NEO)).[4]

The AER capital expenditure assessment outline explains our and distributors' obligations under the National Electricity Law and Rules (NEL and NER) in more detail.[5] It also describes the techniques we use to assess a distributor's capex proposal against the capex criteria and objectives. Where relevant we also assess capex associated with emissions reduction proposals taking into account our *Guidance on amended National Energy Objectives*.[6]

Total capex framework

We analyse and assess capex drivers, programs and projects to inform our view on a total capex forecast. However, we do not determine forecasts for individual capex drivers or determine which programs or projects a distributor should or should not undertake. This is consistent with our ex-ante incentive-based regulatory framework.

Once the *ex-ante* capex forecast is established, there is an incentive for distributors to provide services at the lowest possible cost, because the actual costs of providing services will determine their returns in the short term. If distributors reduce their costs, the savings are shared with consumers in future regulatory control periods. Our assessment of the ex-ante capex is consistent with the NEO, which in addition to providing for the lowest possible costs also recognises that services should be valued appropriately and adapt to changing

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1 These are services that form the basic charge for use of the distribution system.

2 NER, cl. 6.5.7(a).

3 NER, cl. 6.5.7(c).

4 NEL, ss. 7, 16(1)(a).

5 AER, *Capex assessment outline for electricity distribution determinations*, February 2020.

6 AER, Guidance on amended National Energy Objectives, September 2023.

circumstances to maintain efficiencies in the long term interest of consumers. This incentive-based framework provides distributors with the flexibility to prioritise their capex program given their circumstances and due to changes in information and technology.

Distributors may need to undertake programs or projects that they did not anticipate during the reset. Distributors also may not need to complete some of the programs or projects proposed if circumstances change. These are decisions for the distributor to make. We consider a prudent and efficient distributor would consider the changing environment throughout the regulatory control period and make decisions accordingly.

Importantly, our decision on total capex does not limit a distributor's actual spending. We set the forecast at a level where the distributor has a reasonable opportunity to recover its efficient costs.

Assessment approach

We provide guidance on our assessment approach in several documents, including the following which are of relevance to this decision:

- AER's *Expenditure Forecast Assessment Guidelines*[7]
- AER's Regulatory Investment Test for Distribution and Transmission (RIT-D and RIT-T) Guidelines[8]
- AER's *Asset Replacement Industry Note*[9]
- AER's *Information and Communication Technologies (ICT) Guidance Note*[10]
- AER's *Guidance on amended National Energy Objectives*[11]
- AER's *An interim guidance on emissions reduction*.[12]

We also had regard to the guiding principles in the AER's Better Resets Handbook – Towards consumer centric network proposals which encourages networks to develop high quality, well-justified proposals that genuinely reflect consumers' preferences.[13]

Our final decision has been based on the information before us, which includes:

- the distributor's revised regulatory proposal and accompanying documents and models
- the distributor's responses to our information requests

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7 AER, *Expenditure Forecast Assessment Guideline for Electricity Distribution*, October 2024.

8 AER, *Regulatory Investment Test for Transmission and Distribution application guidelines*, November 2024.

9 AER, *Industry practice application note for asset replacement planning*, January 2019.

10 AER, *AER publishes guidance on non-network ICT capital expenditure assessment approach*, November 2019.

11 AER, *Guidance on amended National Energy Objectives*, September 2023.

12 AER, *An interim guidance on emissions reduction*, June 2025.

13 AER, *Better Resets Handbook – Towards consumer-centric network proposals*, December 2021.

- stakeholder comments in response to our draft decision and the distributor's revised proposal
- technical review and advice from our consultant's reports. In this instance, we sought technical review and advice from Energy Market Consulting Associates (EMCa) to assist us in reviewing certain aspects of the augmentation capex proposal.

2.1 Final decision

Our final decision is to not accept AusNet's proposed total forecast capex of $3,408.1 million ($2025–26) for the 2026–31 regulatory control period because we are not satisfied that it reasonably reflects the capex criteria. This requires expenditure to be both prudent and efficient costs and exhibit a realistic expectation of demand and cost inputs required, to meet the capex objectives. Our alternative forecast is $2,590.5 million, which is 24.0% below AusNet's forecast.

We consider this forecast will provide for a prudent and efficient service provider in AusNet's circumstances to meet the capex objectives. Table 2-1 outlines our alternative estimate of forecast capex and compares this to AusNet's proposed forecast capex.

Table 2-1 AER's final decision on AusNet's total net capex forecast ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
AusNet's revised proposal	703.0	720.8	731.3	611.9	641.1	3,408.1
AER's final decision	542.2	572.5	528.3	473.9	473.6	2,590.5
Difference ($)	**-160.8**	**-148.2**	**-203.0**	**-138.0**	**-167.5**	**-817.6**
Difference (%)	**22.9%**	**20.6%**	**27.8%**	**22.6%**	**26.1%**	**24.0%**

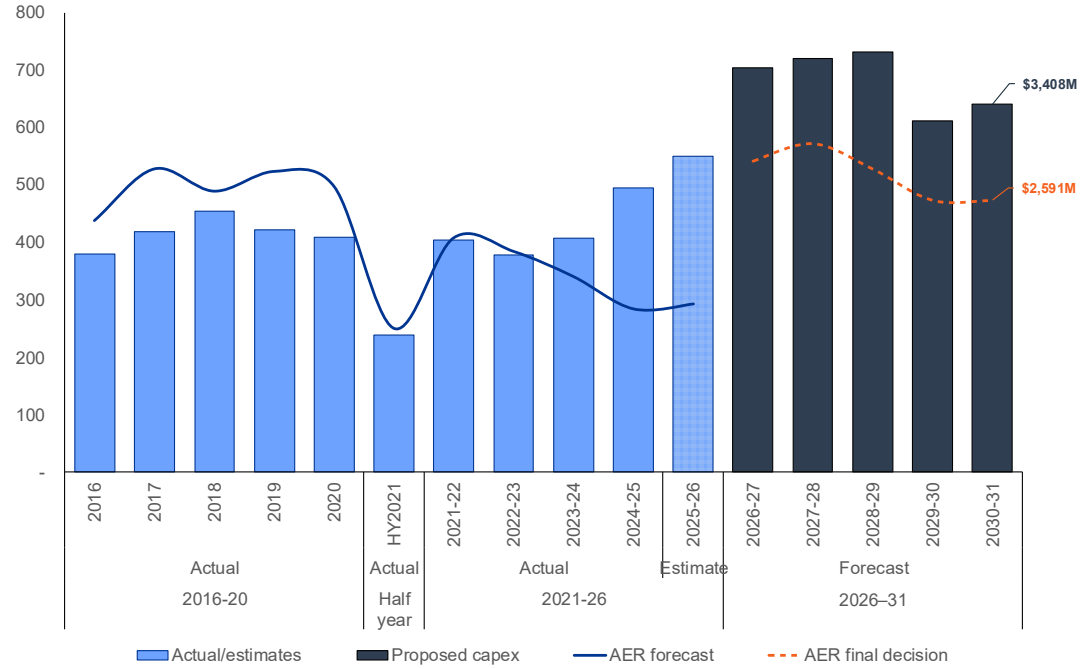
Source: AusNet's revised proposal and AER analysis.
Note: Numbers may not add up due to rounding.

2.2 AusNet's revised proposal

AusNet's revised proposal forecasts $3,408.1 million ($2025–26) capex over the 2026–31 regulatory control period. This represents an increase of approximately 52.6% compared to actual and expected expenditure over the 2021–26 period.

Figure 2-1 outlines AusNet's historical capex trend, its revised proposed forecast for the 2026–31 regulatory control period, and our final decision. As can be seen, AusNet is proposing a material step up in the forecast period relative to the current period. The main drivers of the step up are augmentation, replacement and connections expenditure.

Figure 2-1 AusNet's historical and forecast capex ($million, 2025–26)



Source: AER RIN Database and AER Analysis.
Note: Nominal figures converted to real dollars 2025–26.

2.3 Reasons for final decision

We are satisfied that our alternative forecast of total capex of $2,590.5 million is reasonable and sufficient for AusNet to maintain its network.

Our final decision to reduce AusNet's forecast by 24.0% is materially different from our draft decision reduction of 51.3%. This reflects AusNet accepting some of the lower forecasts in our draft decision and our acceptance in this final decision of a higher forecast for some programs because of additional supporting information.

We reviewed AusNet's capex drivers, programs and projects to inform our view on a total capex forecast that reasonably reflects the capex criteria. We conducted top-down analysis such as examining trends and forecast costs compared with historical capex, and inter-relationships between cost categories. To complement this, we conducted bottom-up analysis of AusNet's specific major programs and projects.

Our capex assessment focused primarily on the material capex categories that either represented a significant uplift in expenditure, had stakeholder interest or are new and evolving areas such as CER integration and resilience. Capex that was relatively small and forecast using established modelling approaches and inputs in line with our expectations, meant that we did not need to undertake a more detailed analysis of the individual programs and projects. Our final decision is reflective of this approach as set out in Table 2-2 and 2-3 below.

We have not accepted AusNet's forecast in full, reducing it by 24.0% because of the differences in our forecasts mostly in replacement expenditure (repex), augmentation expenditure (augex), connections and fleet. In most cases, we found that while we agree with

AusNet that some level of investment is prudent, AusNet did not provide sufficient information to demonstrate that its preferred option is efficient.

For new and emerging areas of expenditure, our assessment of proposals takes account of the limitations and challenges in forecasting these areas of expenditure. We have accepted some expenditure like AusNet's innovation and property forecast in full, acknowledging the importance of innovation investment in supporting the energy transition and ensuring AusNet is able to deliver its programs through the up skilling of its workforce with a new training centre in South Morang. However, we have partly accepted funding for emerging expenditure such as for resilience and CER integration because there is a material gap in supporting information to demonstrate the net benefits to consumers.

While our final decision is a reduction to AusNet's forecast, it is also a step up from AusNet's current period actual/estimates. Our final decision is $357.0 million or 16.0% higher than AusNet's actual/estimated capex for the 2021–26 regulatory control period.

Most of this step up is because for:

- repex, AusNet provided sufficient evidence that a moderately higher forecast relative to the current period is reasonable based on the condition of its network and its need to respond to climate risks
- augex, AusNet provided sufficient evidence that it required more augex to address network growth, to improve customer-driven reliability, particularly in regional areas and to address compliance requirements, including safety
- connections, there is an increase in economic activity and emerging connections to AusNet's network such as data centres and grid connected batteries
- fleet, AusNet will be taking control of its vehicle needs rather than through a contracted service provider.

We have included AusNet's proposed property, non-network other, capitalised overheads and innovation expenditures in the total capex forecast. We have also accepted AusNet's demand forecast.

The categories of expenditure where we have not included all of AusNet's proposed expenditure are:

- repex – we have made material adjustments to 14 repex programs, which were driven by overestimated modelling inputs and cost estimates. Further, we have removed the risk allowance applied across replacement, augmentation and connections expenditure. We consider the proposed risk allowance is generic in nature and not specific to the individual projects
- resilience – we have adjusted the network hardening and vegetation management programs. We consider that AusNet overestimated the benefits and the effectiveness of some of its proposed solutions
- connections – we have adjusted AusNet's programs where we considered a number of projects were presented without justification and with high unit rates

- augex – we have adjusted expenditure for demand-driven, reliability, safety and compliance augex. These adjustments are driven by our engineering and economic assessments, as well as community support considerations
- ICT – we have accepted AusNet's recurrent ICT program but have adjusted some non-recurrent projects where we consider that benefits were overestimated and the scope was not adequately justified. Further, we have adjusted the cybersecurity forecast with updated costs and removed initiatives we considered were not justified or duplicative
- fleet – our forecast is based on continuing to lease all currently leased vehicles at existing rates, with the currently owned vehicles replaced at the cost AusNet proposed. There have been no changes to proposed volumes, and we have allowed for AusNet's growth in fleet
- CER integration – our forecast allows AusNet to implement measures to facilitate and manage CER, such as flexible export limits, and dynamic voltage management. The funding enables AusNet to undertake cost effective measures to manage incoming CER volumes on the network including flexible export limits. We have also removed duplication within some initiatives.

Table 2-2 sets out our final decision for AusNet by category.

Table 2-2 AER final decision by capex category ($million, 2025–26)

Category	AusNet's revised proposal	AER final decision	Difference ($/%)	
Replacement	1,218.8	979.9	-238.9	-19.6%
Augmentation	881.8	638.5	-243.4	-27.6%
Connections	793.3	528.1	-265.2	-33.4%
ICT	349.8	282.5	-67.3	-19.2%
Property	145.7	145.7	-	-
Fleet	173.5	102.9	-70.6	-40.7%
CER integration	92.1	38.2	-54.0	-58.6%
Non-network - other	4.5	4.5	-	-
Capitalised overheads	204.9	204.9	-	-
Gross Total	**3,864.5**	**2,925.1**	**-939.4**	**-24.3%**
Less customer contributions	420.0	209.8	-210.2	-50.0%
Less disposals	36.4	36.4	-	-
Modelling adjustments		-88.4		
Net Total	**3,408.1**	**2,590.5**	**-817.6**	**-24.0%**

Source: AusNet's capex model and AER analysis. Numbers may not sum due to rounding.

Note: Within these categories:

- Resilience: Our forecast includes $73.6 million for network and community resilience, spread between replacement, augmentation and fleet expenditure. This is $81.9 million (52.7%) less than AusNet's proposal.
- Innovation: Our forecast includes a $3.7 million innovation allowance, spread between augmentation and ICT expenditure.
- Cyber security: Our forecast includes $20.0 million for cyber security within ICT expenditure. This is $7.5 million (27.3%) less than AusNet's proposal.

Table 2-3 summarises our views on each of the capex categories and whether they are prudent and efficient and reflect the capex criteria, and the reasons for this. Further detail and reasons on capex for the final decision are contained in Appendices A.1 to A.7.

Our findings on each capex driver are part of our broader analysis and should not be considered in isolation. We do not approve an amount of forecast expenditure for each individual capex driver or project/program. However, we use our findings on the different capex drivers to assess a regulated business's proposal as a whole and arrive at an alternative estimate for total capex where necessary. Our decision on total capex does not limit a regulated business's actual spending.

Table 2-3 Summary of findings and reasons, by capex category

Issue	Findings and reasons
Replacement	We have not included all of AusNet's replacement expenditure in the total forecast capex. AusNet proposed $1,218.8 million ($2025–26) for replacement capex, excluding resilience. Our final decision is to include $979.9 million for replacement capex. This is $238.9 million or 19.6% less than what AusNet proposed. AusNet addressed some of our concerns from our draft decision by providing additional information in the form of business cases and models. AusNet also improved its modelling by: • using the AER's Values of Customer Reliability (VCR) inputs • amending its timing to reflect maximum benefit in its cost benefit approach • applying a program-based risk allowance approach • removing overlaps between resilience and its station rebuild programs. We consider that AusNet has not demonstrated that its revised expenditure uplift was justified. Despite its revised approach, we did not find AusNet provided sufficient information to support the following: • its risk allowance calculations, which did not specify the itemised risk the allowance would address • AusNet's operation and maintenance support costs that were included as a fixed value • its models which were either too volatile to be reliable, or used inputs that overestimated the risk, increasing replacement volumes to higher than efficient levels. Our forecast for repex adjusts AusNet's modelling inputs, resulting in changes to proposed replacement volumes and timing adjustments. Where there is insufficient information for its proposed programs, we have referred to historical expenditure where possible to determine our forecast. Our reasons for this are set out in Appendix A.1.(Replacement).

Issue	Findings and reasons
Augmentation	We have not included all of AusNet's augmentation expenditure in the total forecast capex. AusNet proposed $881.1 million ($2025–26) for augmentation capex. Our final decision is to include $638.5 million for augmentation capex. This is $243.4 million or 27.6% less than what AusNet proposed. Our forecast includes: • AusNet's revised demand forecast. Although AusNet's forecast could be refined, the impact on demand driven augmentation is not material. On balance, we consider AusNet's revised demand forecast is reasonable • $437.2 million of the $609.4 million proposed for demand driven augex. We did not accept all the low voltage augmentation program due to insufficient justification and adopted an alternative option for the program to install a new 22kV distribution feeder and new switchboard at Warragul zone substation. We accepted the proposed programs on growth corridors and other programs based on AusNet's demand forecast, but reduced costs where efficiency was not demonstrated • $150.5 million of the $187.1 million proposed for compliance and safety programs. We consider the need for the proposed programs are reasonable but the forecast costs on certain projects are not sufficiently justified • $7.2 million of the $39.7 million proposed for the reliability program. We have accepted AusNet's worst served feeder revised proposal of $1.7 million but have provided an alternative estimate of $5.6 million for the reliability program in the Euroa area (BN11). This alternative estimate reflects the communities feedback for improved reliability for that area but at a lower cost. Our alternative provides funding to install covered conductors on the BN11 feeder to address the main cause of outages for that area • $20.8 million of the $22.8 million proposed for resilience. Resilience is discussed separately below in this table • $2.6 million of innovation and $18.7 million of strategic land purchases which we have accepted. Our reasons for this are set out in Appendix A.2 (Augmentation, including the Demand Forecast).

Issue	Findings and reasons
Resilience	We have not included all of AusNet's resilience expenditure in the total forecast capex. AusNet proposed $155.5 million ($2025–26) for resilience capex. Our final decision is to include $73.6 million for resilience capex. This consists of $51.7 million of replacement capex, $20.8 million of augmentation expenditure and $1.1 million of fleet expenditure. This is $81.9 million or 52.7% less than what AusNet proposed. Our forecast includes: • correcting the application of the value of network resilience • adjusting the implied effectiveness of covered conductors from 57.7% to 12.1% for all outages • removing all reclosers, concrete poles and pole wrap solutions with a negative net present value and substituting pole wraps for hardened poles • reclassifying the $6.6 million of hazard tree removal from opex to capex. Our reasons for this are set out in Appendix A.3 (Resilience).
Connections	We have not included all of AusNet's connections forecast in the total forecast capex. AusNet proposed $793.3 million ($2025–26) for connections capex. Our final decision is to include $528.1 million for connections capex. This is $265.2 million or 33.4% less than what AusNet proposed. We considered that AusNet's connection proposal included high unit rates and volumes, alongside highly speculative projects. We also found issues with project funding, data centre forecasts and risk allowances. Our forecast for connections also includes an adjustment to exclude the capital contributions associated with large connections to be consistent with our decision on upfront tax recovery (see Attachment 16 – Connections policy). Our reasons for this are set out in Appendix A.4. (Connections).
ICT	We have not included all of AusNet's proposed ICT forecast in the total forecast capex. AusNet proposed $349.8 million ($2025–26) for ICT capex. Our final decision is to include $282.5 million for ICT. This is $67.3 million or 19.2% less than what AusNet proposed. Our forecast includes: • AusNet's proposed recurrent ICT expenditure ($88.4 million) • non-recurrent ICT expenditure ($174.0 million) • cybersecurity ($20.0 million) • innovation ($1.1 million). Our alternative is based on adjustments to remove expenditure where the scope was not justified, or the proposed option was not economic (where the benefits were overestimated or duplicative). Our reasons for this are set out in Appendix A.5 (ICT).

Issue	Findings and reasons
Property	We have included all of AusNet's proposed property forecast in the total forecast capex. AusNet proposed $145.7 million ($2025–26) for property capex. AusNet reduced its forecast property expenditure by $28.1 million or 16.2% in response to our draft decision.[14] The key project for the final decision is AusNet's South Morang training centre at a total cost of $27.0 million, with the costs shared 50/50 between AusNet's electricity distribution and transmission businesses. Our final decision includes the South Morang training centre. We recognise networks are faced with unprecedented workforce challenges and need to undertake expansive work in the coming years with the energy transition, particularly for transmission infrastructure. We consider AusNet and its customers will benefit from the new training centre by reducing the workforce shortfall in skilled labour projected over the next decade.
Fleet	We have not included all of AusNet's proposed fleet forecast in the total forecast capex. AusNet proposed $173.5 million ($2025–26) for fleet capex. Our final decision is to include $102.9 million for fleet capex. This is $70.6 million or 40.7% less than what AusNet proposed. We found high unit rates used for leasing vehicles when compared to AusNet's current rates. Using the current rates led to a change in preferred option in the modelling, which lowered capex significantly over the next regulatory period. Our reasons for this are set out in Appendix A.6 (Fleet).
CER integration	We have not included all of AusNet's proposed CER integration forecast in the total forecast capex. AusNet proposed $92.1 million ($2025–26) for CER integration capex, which includes distribution system operator expenditure, CER enablement and supply improvement. Our final decision is to include $38.2 million for CER integration. This is $54.0 million or 58.6% less than what AusNet proposed. Our forecast includes: • $21.1 million to allow for network data visibility and a non-network market platform. This expenditure has the potential to defer network augmentation through procuring flexible services and improving net data visibility • $8.7 million for CER enablement for dynamic voltage management activities • $8.4 million for the supply improvement program to respond to quality of supply issues on the network. Our reasons for this are set out in Appendix A.7 (CER).
Other non-network capex	We have included AusNet's other non-network capex forecast of $4.5 million ($2025–26) in the total forecast capex. This was considered and accepted in our draft decision.[15]

[14] AER, *Draft Decision Attachment 2 - Capital expenditure – AusNet Services – 2026–31 Distribution revenue proposal*, September 2025, pp. 61–63.

[15] AER, *Draft Decision Attachment 2 - Capital expenditure – AusNet Services – 2026–31 Distribution revenue proposal,* September 2025, p. 14.

Issue	Findings and reasons
Capitalised overheads	We have accepted AusNet's proposed $204.9 million ($2025–26) for capitalised overheads. AusNet proposed capitalised overheads that were 100% fixed and independent of the forecast, with a 0.5% productivity factor. We consider that the fixed approach is not an accurate indicator of forecast overheads and our standard approach of 75% fixed and 25% variable is more reasonable. However, we have accepted AusNet's forecast overheads expenditure as the outcome is not materially different from our approach.
Innovation	We have included AusNet's proposed network innovation forecast in the total forecast capex. AusNet proposed $6.2 million ($3.7 million capex, $2.5 million opex). This includes the alternative storage technologies and the vehicle to grid outage management program.
Customer contributions	We have not accepted all of AusNet's capital contributions forecast. AusNet proposed to recover $420.0 million ($2025–26) for customer contributions, all of which is related to connections capex. Our final decision is to include $209.8 million for customer contributions. This is $210.2 million or 50.0% less than what AusNet proposed. This reduction is largely driven by our decision to reduce the connections expenditure forecast. We have also adjusted AusNet's customer contribution rate for its large commercial connections from 35% to 85%. Our forecast for capital contributions also includes an adjustment to exclude the capital contributions associated with large connections to be consistent with our decision on upfront tax recovery (see Attachment 16 – Connections policy). Our reasons for this are set out in Appendix A.4.(Connections).
Disposals	We have included AusNet's asset disposal forecast in the total forecast capex.
Modelling adjustment	Our final decision includes standard modelling adjustments for updated inputs to inflation and labour real cost escalation. Consistent with our decisions in previous revenue determinations,[16] we do not accept AusNet's proposal to apply real cost escalation to contract labour. We have applied real escalation to internal labour only.

[16] AER, *Final Decision Attachment 5 - Capital expenditure – SA Power Networks – 2025–30 Distribution revenue proposal*, April 2025, p. 6; AER, *Final Decision – SA Power Networks – 2025-30 Distribution determination revenue proposal – AER Standardised Capex model*, April 2025.

Issue	Findings and reasons
Ex post review	We are required to provide a statement on whether the roll forward of the regulatory asset base (RAB) from the previous period contributes to the achievement of the capex incentive objective. The capex incentive objective is to ensure that, where the RAB is subject to adjustment in accordance with the NER, only expenditure that reasonably reflects the capex criteria is included in any increase in value of the RAB.[17] We may exclude capex from being rolled into the RAB when a distributor has overspent the amount of capex above the forecast that does not reasonably reflect the capital expenditure criteria.[18] We have reviewed AusNet's capex performance for the 2020 to 2023–24 regulatory years. AusNet incurred total capex below its regulatory forecast for the ex-post review period. On this basis, the overspending requirement for an efficiency review of past capex is not satisfied. We are satisfied that including this actual capex in the RAB is likely to contribute towards achieving the capex incentive objective.

17 NER, cl. 6.4A(a).

18 AER, *Capital Expenditure Incentive Guideline for Electricity Network Service Providers*, July 2024, p. 16.

A Reasons for decision on key capex categories

This appendix sets out our assessment of key capex categories and programs/projects within AusNet's total revised capex forecast and the reasons for our decision. This appendix includes:

- replacement expenditure (A.1)
- augmentation expenditure (A.2)
- resilience (A.3)
- connections (A.4)
- information and communication technology (A.5)
- fleet (A.6)
- consumer energy resources (A.7).

A.1 Replacement expenditure

Replacement expenditure or repex must be set at a level that allows a distributor to meet the capex criteria. Replacement can occur for a variety of reasons, including when:

- an asset fails while in service or presents a real risk of imminent failure
- a condition assessment determines that it is likely to fail soon or degrade in performance such that it does not meet its service requirement, and replacement is the most economic option[19]
- the asset does not meet the relevant jurisdictional safety regulations and can no longer be safely operated on the network
- the risk of using the asset exceeds the benefit of continuing to operate it on the network.

Most network assets will remain in efficient use for far longer than a single five-year regulatory control period (many network assets have economic lives of 50 years or more). As a result, a distributor will only need to replace a portion of its network assets in each regulatory control period.

A.1.1 AER's final decision

We are not satisfied that AusNet's proposed $1,218.8 million ($2025–26) for replacement capital expenditure would form part of a total capex forecast that reasonably reflects the capex criteria. Our final decision includes an alternative forecast of $979.9 million which is

[19] A condition assessment may relate to assessment of a single asset or a population of similar assets. High-value/low-volume assets are more likely to be monitored on an individual basis, while low value/high volume assets are more likely to be considered from an asset category wide perspective.

$238.9 million or 19.6% lower than AusNet's revised proposal. This alternate forecast includes $51.7 million for replacement resilience expenditure, which we discuss in Appendix A.3.

Table A1.1 provides a breakdown of AusNet's revised proposal repex projects and our final decision.

Table A1.1 Breakdown of AusNet's revised repex proposal ($million, 2025–26)

Category	AusNet's revised proposal	AER final decision	Difference over capex category ($/%)	
Switches & Other	205.6	173.2	-32.4	-15.8%
Poles	200.0	183.7	-16.4	-8.2%
Station rebuild	176.6	151.5	-25.1	-14.2%
Resilience	131.6	51.7	-79.9	-60.7%
Plant	122.6	96.3	-26.3	-21.4%
Conductor	92.4	60.6	-31.8	-34.4%
Safety	82.3	72.0	-10.2	-12.4%
Crossarms	46.5	43.1	-3.4	-7.4%
Substation Protection	44.0	40.0	-4.0	-9.1%
Environmental	29.2	29.2	-	-
Infrastructure Security	26.2	16.8	-9.4	-35.9%
Digital	23.7	23.7	-	-
Compliance	17.3	17.3	-	-
Metering SCS - Repex	8.5	8.6	0.1	1.2%
Comms	8.4	8.4	-	-
Civil Infrastructure	2.5	2.5	-	-
Insurance Repex	1.3	1.3	-	-
Total repex	**1,218.8**	**979.9**	**-238.9**	**-19.6%**

Source: AusNet's revised proposal and AER analysis. Numbers may not sum due to rounding.

Reductions shown in the table above for poles, crossarms and substation protection are the sole result of the removal of contingency risk allowances and the subsequent reduction in supporting costs discussed in sections A.1.3.1 and A.1.3.2 respectively. We also have revised infrastructure security to reflect the preferred option in the business case.

A.1.2 AusNet's revised proposal

AusNet proposed a revised repex forecast of $1,218.8 million for the 2026–31 regulatory control period. AusNet's revised forecast represents an increase of $509.0 million (71.7%) from our draft decision.

AusNet states its revised proposal is required to address its ageing network, meet its regulatory obligations and maintain network reliability. AusNet has addressed our draft decision by updating its risk modelling methodology, this includes updating its Values of Customer Reliability (VCR) values to reflect the AER's 2024 VCR report. AusNet has also revised its unit costs and discrete project cost estimates to reflect actual costs and market driven changes. This has lead to changes across AusNet's repex volumes and costs. Additionally, AusNet has included 16 repex programs, totalling $94.2 million that were not included in its initial proposal, including its pole wraps program under resilience.

A.1.3 Reasons for decision

We reviewed AusNet's supporting material which included business cases, models and stakeholder submissions. We sought further information through information requests when needed.

Our final decision is $270.1 million higher than our draft decision. We have accepted most of AusNet's repex proposal as the additional information from AusNet was able to justify aspects of its repex programs. However, we have maintained our position on aspects of AusNet's cost build up and adjusted forecasts where inputs were high. Our forecast is derived from our draft decision and AusNet's historical performance where relevant.

We discuss our specific findings on AusNet's revised repex proposal below.

A.1.3.1 Risk allowance

Our repex forecast does not include $54.6 million that AusNet has included under contingency risk allowances. AusNet's revised proposal includes risk allowances in its unit rates to account for contractual risks. Following our draft decision, AusNet adjusted its risk allowance on an individual project basis rather than a blanket percentage rate.

As stated in our draft decision, we will only accept risk allowances in limited circumstances, specific to a particular project or program. For example, risks that relate to a realistic latent condition with the project sites, or specific risks that are reasonably likely to arise that are beyond the control of the Network Service Provider. In such cases we review the nature of each type of risk as well as the basis of the calculation of the estimated risk costs.

In its revised proposal, AusNet stated that it agrees that only program specific risks should be accepted. AusNet undertook Monte Carlo simulation to model the risk probabilistically and only applied a blanket percentage uplift to five projects.[20] For bulk programs delivered by its contract delivery partner, AusNet has included a risk adjustment that is intended to reflect contractual exposure to actual costs exceeding the target baseline costs.[21] AusNet states that this allowance is required to achieve costs where there is an equal chance of projects costing less or more than forecast.[22] The risk allowance also affects projects across AusNet's augmentation and connections capex.

When calculating forecast project risk, we expect that networks identify contingent risks that are specific to a project. The cost this risk would incur should then be weighted by the

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20 AusNet, *2026–31 Revised Regulatory Proposal*, p. 73.

21 AusNet, *2026–31 Revised Regulatory Proposal*, p. 73.

22 AusNet, *2026–31 Revised Regulatory Proposal*, p. 74.

probability of it occurring. AusNet has not provided an itemised risk register for the projects that we would expect to assess the need for a risk allowance. AusNet has provided limited supporting information regarding what risks they are accounting for but did provide some historical examples of risks experienced in project delivery.[23]

We consider that the historical risks identified by AusNet are either:

- within the control of AusNet (e.g. project delays, design changes)
- accounted for in cost escalators (e.g. market conditions)
- likely to diversify out at the portfolio level (e.g. weather).

Although AusNet used probabilistic modelling, the proposed risk allowance appears to be generic in nature and not specific to the individual projects. We also would expect the impacts of such risk to be even when spread out across the entire capex portfolio. We consider that this does not reflect a prudent or efficient cost and does not align with recent AER positions regarding the application of contingency risks.[24]

In response to submissions from stakeholders on AusNet's risk allowance, we note that based on its contract, the risk borne by AusNet primarily stems from scope and design issues. In our alternate forecasts, we have maintained AusNet's forecasts for design related expenditure in its unit costs, to ensure risk from revised design scope is minimised.

In our capex forecast, we have removed all risk allowances, totalling $135.1 million, included in the forecast replacement, augmentation and connections expenditure.

A.1.3.2 Operation and maintenance support costs

We do not accept AusNet's approach of forecasting operation and maintenance support cost. This cost is spread across replacement, augmentation and connections expenditure and is provided for under an operating and management agreement with its contracted service provider.

The support costs recognise the capitalisation of the delivery partner's overheads arising from operation and maintenance activities.[25] The portion of this that would be capitalised is determined by the split of opex and capex incurred in undertaking maintenance on the network.[26] We consider this appropriate. However, AusNet's application in the proposed capex model fixes it such that if reductions are made to the capex proposal, the support cost being capitalised remains constant regardless of any changes to the volume of work.[27] We accept the need to capitalise support costs incurred but consider that any reductions to AusNet's capex allowance would be reflected in reductions to the capitalisation of these support costs. In our alternative forecast we have adjusted these costs in line with our adjustments for applicable projects.

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23 AusNet, *2026–31 Revised Regulatory Proposal*, p. 78.

24 Recent distribution decisions include *Power and Water Corporation distribution determination 2024–29* and *Essential Energy Bushfire Reclassification Contingent Project decision 2025*.

25 AusNet, *2026–31 Revised Regulatory Proposal*, p. 106

26 AusNet, *Response to IR#085 capex questions*, 18 February 2026, p. 2.

27 AusNet, *Response to IR#085 capex questions*, 18 February 2026, p. 2.

A.1.3.3 Station rebuilds

We do not accept AusNet's revised forecast for its station rebuilds program reasonably reflects the capital expenditure criteria. We have included $151.5 million for station rebuilds in our forecast, which is $25.1 million lower than AusNet's revised proposal.

Our final decision maintains our draft decision to accept AusNet's station rebuild programs that are already inflight and due for completion during the first half of the forecast regulatory control period. The revised proposal included the Bayswater Substation rebuild which was a deferral from the current regulatory period. Our forecast does not include AusNet's revised risk allowances and support costs for the reasons set out in sections A1.3.1 and A1.3.2.

For the remaining programs we have adjusted the forecast, as we do not consider these programs are prudent and efficient. We acknowledge that AusNet has amended its VCR inputs to reflect the AER's 2024 VCR report and provided clearer information about its cost estimation and scope, but the changes made since the initial proposal were not sufficient to justify the need and costs of each program in its entirety.

In AusNet's unit cost build up, it included incentives for its contract delivery partner. This is not a reasonable inclusion as it has not been adequately justified to meet the capex criteria, nor does it appear to benefit consumers.[28] We have observed this incentive adjustment across other categories in AusNet's proposal and have excluded the amounts from our forecast.

In AusNet's revised scope, it added additional sub transmission and distribution feeders and revised the voltage for its proposed transformer replacements. Despite the change in materials, direct costs did not appear to reflect the revision in materials used.

AusNet's business case also showed the project cost summary in more detail than its initial proposal. When examining the breakdown, particularly the Thomastown Stage 2 – 22kV upgrade, we found that direct costs were still materially higher than before. A driver of this increase is tied to project management and allowances.[29] Further assessment showed that this was a general percentage applied to site costs and was consistent across the station rebuilds' unit costs. We do not accept that this is reasonable as there is a lack of justification for what project management accounts for.

Our revised forecast removes adjustments that AusNet has not effectively justified and reflects scope costs that are efficient and prudent.

A.1.3.4 Plant

We do not accept AusNet's revised forecast for its plant program reasonably reflects the capital expenditure criteria. We have included $96.3 million for plant repex in our forecast, which is $26.3 million lower than AusNet's revised proposal.

Our draft decision did not accept AusNet's initial proposal due to high inputs and timing based on the first instance of positive net present value benefit. In response, AusNet amended its modelling to ensure timing was based on the point of maximum benefit and submitted a new model. While we are satisfied by the prudency for most of its plant program,

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28 EMCa, *Review of selected augex projects,* March 2026, p. 16.

29 AusNet, *ASD - AusNet - unit rates*, December 2025.

we found that its modelling for its power transformer programs still forecasted high replacement volumes relative to its past performance.

AusNet states its power transformers were experiencing accelerated failures. AusNet's outputs supported this statement, but the model itself was particularly volatile during sensitivity testing, meaning small adjustments would result in material changes to the replacement volumes. The input values for its modelled failure probability were also calculated higher than what is observed historically, and AusNet did not sufficiently justify the basis of its accelerated failure rate forecast. Following our review, we did not find the model to be a reliable predicator of the need for more transformer replacements.

Our alternative forecast revises the volumes to reflect AusNet's historical replacements and uses the unit rate similar to what AusNet has proposed, excluding the risk allowance and supporting costs.

A.1.3.5 Conductors

We do not accept AusNet's revised forecast for its conductors program reasonably reflects the capital expenditure criteria. We have included $60.6 million for conductors in our forecast, which is $31.8 million lower than AusNet's revised proposal.

In its revised proposal, AusNet increased its conductors forecast from the draft decision. This was driven by revised modelling, higher unit costs and an additional $25.2 million of new programs.

We sought more information about AusNet's conductor program, in which AusNet noted that one of the conductor projects should be excluded from the proposal.[30]

In its supporting material for its conductors, AusNet's risk modelling was based on inputs that were high and disproportionately multiplied risk factors in its modelled outputs. This includes its failure probability calculations that forecasted failure rates and replacement timings that were materially different from past replacements. We also note that its model was highly sensitive, with minor adjustments resulting in replacement volume forecasts that were half of what AusNet proposed.

We do not accept AusNet's reactive program in the form it was presented in the revised proposal. We acknowledge that there has been a steady increase in proactive and reactive replacements. However, our analysis of AusNet's entire conductor program found reactive replacement volumes to be distinctly higher than historically trended failure. Additionally, as AusNet's modelling is reliant on past failures, or more specifically, replacements, the conductor programs already proposed would include reactive replacements in its modelling outputs.

For its early fault detection monitoring program, we do not consider the evidence from North America on the assets' performance to be sufficient in supporting the program's prudency due to differences in environment and risks. But we do agree that it would be beneficial to conduct more trials in Australia and have included expenditure for further trials of the

30 AusNet, *Response to IR#061 capex questions*, 13 January 2026, p. 1.

program in our alternative forecast, noting the added benefit of reductions to AusNet's conductor repex.

A.1.3.6 Switches and other

We do not accept AusNet's revised forecast for its switches and other program reasonably reflects the capital expenditure criteria. We have included $173.2 million for switches and other in our forecast, which is $32.4 million lower than AusNet's revised proposal.

We do not consider AusNet's forecast for its switches and other program of $205.6 million reasonably reflects the capex criteria. Particularly for programs such as its medium voltage switches - manual gas and line voltage regulators we found the model did not sufficiently justify the proposed replacement volumes.

We do not agree with AusNet's approach for its medium voltage switches, in which the model, despite using several failure probability inputs, produced pre-determined outputs. Based on AusNet's business case, we deducted that these condition-based replacements were tied to its ILJIN gas switches that AusNet claimed were becoming obsolete.[31] While we acknowledge that there are concerns about the assets' obsolescence, the risk of the asset failing before ageing out was not sufficiently explained.[32] In our final decision we have adjusted volumes to reflect the switches average replacement age but also accounted for cases where particular switches may fail earlier.

For its line voltage regulator program, we did not accept AusNet's model was a reliant predicator of replacement volumes due to the lack of data points and inputs that were disproportionally high for the risk that was modelled. We also found that the probability of failure contained biases that skewed towards earlier replacements. We have adjusted our forecast for this program to reflect historical replacements which is more in line with AusNet's initial forecast.

A.1.3.7 Safety

We do not accept AusNet's revised forecast for its safety program reasonably reflects the capital expenditure criteria. We have included $72.0 million for safety in our forecast, which is $10.2 million lower than AusNet's revised proposal.

Primarily, we do not accept AusNet's forecast level for its newly proposed fused overhead line connection boxes program of $8.0 million efficiently contributes to meeting the safety obligations. We note that this program is considered repex but was erroneously allocated to the augex total in AusNet's capex model.

While we acknowledge and agree with EMCa for the need for the program due to increasing fire starts on the network, we do not consider the unit rate proposed by AusNet to be reasonable or sufficiently justified. We also found that actual observed risk was not aligned with the risk AusNet forecasted in the model. We have included the program in our alternative forecast but have reduced the unit rate and volumes to reflect past performance.

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31 AusNet, *Business case brief - regulatory submission 2026–31- medium voltage switches, automatic circuit reclosers and control boxes*, December 2025, p. 4; AusNet,

32 AusNet, *ASD – AusNet – manual gas switches replacement model*, December 2025.

A.2 Augmentation expenditure

Augmentation is capital expenditure required to build or upgrade the network to address system constraints driven by changes in demand and network utilisation to enable the network service provider to comply with quality, safety, reliability, security of supply and greenhouse gas emission reduction target requirements. AusNet's augmentation consists of, but is not limited to, expenditure on demand driven augmentation, compliance, safety, reliability, resilience and innovation allowance.

A.2.1 AER's final decision

We are not satisfied that AusNet's proposed $881.8 million ($2025–26) for augmentation capital expenditure (augex) would form part of a total capex forecast that reasonably reflects the capex criteria.

Our final decision includes an alternative forecast of $638.5 million which is $243.4 million or 27.6% lower than AusNet's revised proposal. This includes reductions of $172.3 million in demand driven augex, $32.5 million in the maintain reliability program and $36.6 million in compliance and safety programs.

Table A2.1 provides a breakdown of AusNet's revised proposal augex projects and our final decision.

Table A2.1 Breakdown of AusNet's revised augex proposal ($million 2025–26)

Category	AusNet's revised proposal	AER final decision	Difference over capex category ($/%)	
Demand Driven Augex	609.4	437.2	-172.3	-28.3%
REFCL compliance	147.9	116.7	-31.3	-21.1%
Reliability Improvement	39.7	7.2	-32.5	-81.8%
Compliance	22.9	21.8	-1.0	-4.5%
Resilience	22.8	20.8	-2.0	-8.7%
Land	18.7	18.7	-	-
Safety	16.3	12.0	-4.3	-26.6%
Innovation	2.6	2.6	-	-
Insurance Augex	1.5	1.5	-	-
Total augex	**881.8**	**638.5**	**-243.4**	**-27.6%**

Source: AusNet's revised proposal and AER analysis. Numbers may not sum due to rounding.

A.2.2 AusNet's revised proposal

AusNet's revised proposal for augex is $881.8 million ($2025–26), which is $653.1 million (285.5%) greater than our draft decision.

AusNet's revised proposal includes major changes to its augex compared to the initial proposal, introducing an additional $322.4 million new projects on demand driven augex, compliance, safety and land purchases. The revised proposal incorporates a projected increase in demand, leading to increased augex.

AusNet's proposed augex is set out in Table A2.1 above. Resilience is discussed separately below in Appendix A.3.

A.2.3 Reasons for decision

We reviewed the information AusNet provided in support of its revised augex forecast, including the business cases and cost-benefit models. Where required, we sought further information from AusNet through an information request.

Our assessment of the key components of AusNet's augex forecast is outlined below.

A.2.3.1 Demand driven augmentation

AusNet's revised proposal includes $609.4 million for demand driven augex, which represents a $495.0 million (432.5%) increase from the draft decision.

In this section, we discuss the demand forecast and resulting augex.

Demand Forecast

In responding to concerns raised in our draft decision, AusNet submitted an updated demand forecast, incorporating the latest developments and addressing the matters identified in the draft decision, including:

- using the latest data from AEMO's 2025 Inputs, Assumptions and Scenarios Report, resulting in minimal changes to demand forecasts
- incorporating updated demand, customer numbers and block loads, pushing forecasts higher due to the record high maximum demand during summer and winter in 2025
- factoring in energy efficiency and battery storage, referencing AEMO's forecasts, which lowered forecasts
- including commercial and industrial gas electrification based on AEMO's 2025 Electricity Statement of Opportunities ESOO forecasts, increasing demand forecasts.

Our final decision is to accept AusNet's demand forecast in the revised proposal. However, we consider there are aspects of forecasting demand that need to be reflected in future forecasts and we outline this in the context of AusNet's demand forecasts below.

The revision has resulted in an overall increase in the demand forecast primarily driven by the inclusion of demand data for the most recent year. AusNet's demand forecasts appear to be highly sensitive to the inclusion of an additional year of data, specifically the 2025 summer season. Considering current conditions, we would expect AusNet and DNSPs more broadly to carry out a more detailed analysis. This should include a closer examination of how weather patterns influence demand, as well as a detailed breakdown of demand growth attributable to demand drivers such as residential, commercial, energy efficiency, CER, and the electrification of gas and transportation.

AusNet provided additional reconciliation between system forecasts and terminal station forecasts. Although this reconciliation is not comprehensive, it does aid in demonstrating consistency across forecast levels. We encourage DNSPs to consistently conduct systematic reconciliation between system-level and spatial-level forecasts as part of the demand forecasting process to enhance the robustness of these projections. We consider this is

essential for ensuring consistency across different network levels and preventing potential duplication or over-forecasting that may arise from block load adjustments.

We are satisfied that the approach adopted by AusNet on CER forecasting has accounted for the technological limitations or demographic differences at the local level, and its block load adjustments approach is broadly reasonable and does not present notable risk of double counting at higher network levels.

In relation to the impact of gas electrification, we still have residual concerns about some of the input parameter values used, where some values lacked sufficient justification, were unverifiable, or differed from other data sources. However, our analysis indicates that these potential differences do not significantly affect augex. For future demand forecasts, we encourage AusNet and DNSPs more broadly to continue to refine its forecasting approach for gas electrification, including improving documentation and transparency in both data and computations, and providing clear justifications for input parameter values.

For organic growth forecasts, AusNet undertakes modelling and forecasting for all customers based on the assumption that customer and load composition remain constant over time. This approach does not account for the changes in customer mix and its implications for per-customer average demand. As a result, this methodology can lead to the overestimation of per-customer average demand, and the underestimation of demand in areas where commercial and industrial customer growth is expected to outpace residential growth.

For future demand forecasts, we encourage AusNet to continue refining its demand forecasting methodology, including by assessing the availability and reliability of data to support more granular, sector-specific demand modelling.

Taken as a whole, although AusNet's forecast could be better refined, the impact on demand driven augex is minimal and on balance, we consider AusNet's revised demand forecast is reasonable.

Demand driven augex

AusNet has increased its demand driven augex in the revised proposal, reflecting an updated forecast of increased demand. It has rescoped some of the projects from its initial proposal and introduced $252.2 million in new projects. These projects use two zone substations at Wollert and Pakenham South as anchors to develop AusNet's new northern and southeastern growth corridors.

In responding to our draft decision, AusNet adopted the AER's VCR, modified various forecasting models to enable scenario testing and provided additional information to justify the reasonableness of its proposed capital programs.

We engaged EMCa to conduct an engineering assessment of these projects, drawing on information provided by AusNet in the revised proposal, its responses to our information requests, and online workshops.[33]

[33] Two workshops with AusNet were held on 22 and 29 February 2026 that focused on LV augex forecasting methodology and proposed expenditure.

Overall, our primary concern is the insufficient justification for the low voltage (LV) augex and the new 22kV distribution feeder (WGL31) and new switchboard at the Warragul zone substation. We consider the proposed programs on the growth corridors and other programs are reasonable based on AusNet's demand forecast, but the costs are too high.

We discuss these areas in the sections below.

LV Augmentation

In its revised proposal, AusNet reduced its LV augex expenditure to $120.1 million, removing some overlaps, resulting in the removal of 5.8% of proposed upgrades, while maintaining largely the same methodology. EMCa's review shows AusNet's modelling does not provide a valid representation of expected unused energy risk that underpins the LV augex program.[34] For instance, AusNet assumed that if all supply to a LV area exceeds a certain threshold, it is considered 'not supplied' and equated a higher risk of thermal overload with an assumed 100% chance of outage. EMCa considers this approach conflates the risk of energy unserved, and therefore AusNet's claimed economic modelling does not provide a justification for the proactive programs that it proposes.

EMCa does not consider AusNet has demonstrated that it is beneficial to move from its current approach of considering upgrades following faults, to adopting a proactive approach based on its modelling. However, EMCa recognises that there is indication of relative risk levels caused by thermal overloads and a level of expenditure to manage an increase in forecast overloads is reasonable, but this would be less than AusNet has proposed. [35]

We agree with EMCa and have adopted its central forecast of $26.4 million for LV augex in our final decision.[36] This figure is based on actual historical spending from 2022 to 2025 on distribution substations and the related costs for deferring such substations. We did not include expenditure for single wire earth return upgrades, as AusNet has not provided enough justification for this.[37]

New 22kV distribution feeder (WGL31) and new switchboard at the Warragul zone substation

We did not accept this project in our draft decision because AusNet did not adequately consider all available cost-effective options. In its revised proposal, AusNet re-scoped this project to a $32.8 million program to install a new feeder & switchboard to address the risk of overload.

AusNet considered 4 options for the proposed program and selected Option 1 – construct a new 22kV distribution feeder and new switchboard at the Warragul zone substation. However, EMCa considers that a modified Option 3, to construct a 5MW/10MWh battery energy storage system (BESS), with materially reduced capital costs for each of the two

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34 EMCa, *Review of selected augex projects*, March 2026, p. 82.

35 EMCa, *Review of selected augex projects*, March 2026, p. 19.

36 EMCa, *Review of selected augex projects*, March 2026, p. 90.

37 EMCa, *Review of selected augex projects*, March 2026, pp. 89 and 107.

BESS installations and for the future replacement batteries, results in a higher net present value (NPV) than for AusNet's preferred Option 1.[38]

In addition, we consider that AusNet has not explored all available options. For example, for approximately the same cost as the modified Option 3 that EMCa recommended,[39] a network solution based on connecting the new feeder to the capacitor bank circuit, rather than building entirely new assets, would represent another alternative, which AusNet did not consider.[40]

As a result, we have included $12.8 million, after removing the risk allowance which is discussed in section A.1.3.1, for AusNet to install a new 22kV distribution feeder and new switchboard at the Warragul zone substation.

Cost overestimation on remaining projects

EMCa's assessment includes reviewing modelling assumptions, the appropriateness of additions to scope, cost-benefit analysis, and the selection of options by AusNet. EMCa considers that there is adequate justification for investing in the network for the remaining projects including the northern and southeastern growth corridors, based on AusNet's demand forecast. We consider AusNet's proposed capital programs on the remaining projects within the demand driven augex are reasonable.

However, EMCa considers that the proposed projects costs have been overestimated. AusNet has established commercial arrangements with some of its contractors, which include a contractual incentive. AusNet has not demonstrated how these arrangements will deliver consumer benefits or reflect efficient project costs.[41]

In addition, AusNet incorporated contractor project management allowances, mark-ups, and adjustments into its cost build-up. EMCa does not consider that these inclusions have been sufficiently substantiated and lead to an overestimation of the overall project expenditure.[42] We agree with EMCa's assessments and have factored a further 3.5% reduction into our alternative estimates for relevant projects. As discussed in section A 1.3.1, AusNet's revised proposal includes risk allowances for certain projects and our alternative estimates exclude these allowances.

Our alternative estimate for the demand driven augex program is $437.2 million. We are satisfied that our forecast is prudent and efficient based on the information available to us.

A.2.3.2 Compliance and safety

AusNet's revised proposal includes $187.1 million for augex related to compliance and safety, including $51.5 million in new projects. This represents a $96.5 million increase (106.4%) from the draft decision.

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38 EMCa, *Review of selected augex projects*, March 2026, p. 47.

39 EMCa, *Review of selected augex projects*, March 2026, p. 47.

40 EMCa, *Review of selected augex projects*, March 2026, p. 47.

41 EMCa, *Review of selected augex projects*, March 2026, pp. 16 and 75.

42 EMCa, *Review of selected augex projects*, March 2026, pp. 16 and 75.

AusNet's revised proposal largely accepted our draft decision regarding compliance and safety expenditure, except for rapid earth fault current limiter compliance, where they have redefined the project scope and added 2 projects at Bairnsdale and Lilydale, which are delayed from the current regulatory period. In addition, AusNet has proposed 2 new projects, including a delayed voltage regulator relay replacement, and the replacement of codified fused overhead line connection boxes, which is discussed in Section A1.3.7.

EMCa assessed the range of solutions considered by AusNet, including the reasonableness of the change in scope and unit rates applied, while considering AusNet's obligation to maintain rapid earth fault current limiter compliance. EMCa considers AusNet's proposed solutions for these projects are reasonable.[43] However, EMCa considered that the revised proposal does not sufficiently justify the level of increase in the unit rate for remote rapid earth fault current limiters. We agree with EMCa's assessment and have factored a 3.5% reduction into our alternative estimates, in addition to the removal of the risk allowance and contractor incentives applied by AusNet.

As for the compliance projects, AusNet largely accepted our draft decision on steady-state voltage compliance and under-frequency load shedding programs. We consider the need for the newly added voltage regulator relay replacement project, delayed from the current regulatory period, to be reasonable.

As discussed in section A 1.3.1 AusNet's revised proposal includes risk allowances for some of its compliance and safety projects, our alternative estimates exclude these allowances. Our alternative estimate for compliance and safety programs is $150.5 million. This includes:

- $116.7 million for rapid earth fault current limiter compliance programs
- $12.0 million for safety programs
- $21.8 million for compliance programs.

A.2.3.3 Reliability improvement

Our forecast for reliability expenditure accepts the worst served feeder programs but includes a reduction resulting from a change in the option for the Benalla to Euroa express feeder project. The reasons for this change are outlined below.

The Benalla to Euroa feeder (BN11) is the longest distribution feeder in Victoria and is constructed as a bare overhead system, leaving it exposed to both vegetation and lightning risks.

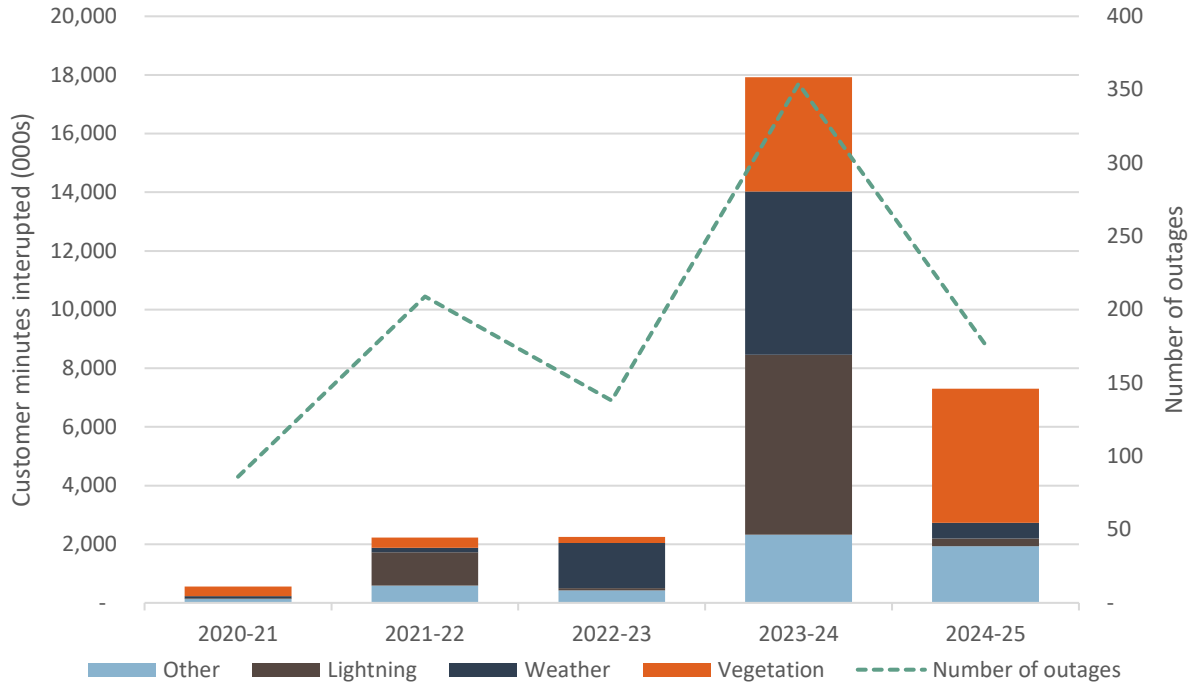
In the revised proposal AusNet undertook a root cause analysis which demonstrated that vegetation outages have been the primary driver of outages on this feeder over recent years, accounting for 63% of all customer minutes interrupted in 2024–25, followed by weather and lightning related outages. Further, since the introduction of the rapid earth fault current limiters, outages now affect more customers due to its inability to limit the outage to the fault

[43] EMCA, *Review of selected augex projects*, March 2026, p. 103.

location.[44] AusNet has stated that the rapid earth fault current limiter issues are not the focus of the business case as works in the current period will address this issue.[45]

As shown below in Figure A2.1 the performance data reflects a material improvement in reliability performance in 2024–25 compared to the year prior. However, outage length in 2024–25 remains above historical levels.

Figure A2.1 — BN11 performance



Source: AusNet, *Reliability Calculator – BN11*, December 2025; AER analysis.
Note: 'Other' represents all sustained outages that are not lightning, weather or vegetation related.

As shown above, the number of outages experienced across the feeder in 2024–25 returned to levels similar to historic performance.

The poor performance of the feeder has been highlighted in submissions where community representatives and customers have expressed concerns about heightened outages and the impact they have had on the community. The submissions also support AusNet's proposed express feeder to address reliability concerns.[46] The submission from Strathbogie Shire Council also included a petition in support of improving reliability and the construction of the express feeder.[47]

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44 AusNet, EDPR Business Case - BN11, January 2025, p. 6

45 AusNet, EDPR Business Case - BN11, January 2025, p. 2.

46 Strathbogie Shire Council, *Submission - AusNet revised proposal 2026-31*, December 2025; Regional Development Australia (RDA) Hume, *Submission - AusNet electricity distribution proposal 2026-31*, January 2026; Kristy Hourigan (Euroa Caravan park), *Submission - AusNet revised proposal 2026-31*, December 2025; Hon Annabelle Cleeland, *AusNet electricity distribution proposals 2026-31*, January 2026; Member for Indi Dr Helen Haines MP, *Letter of Support - AusNet Revised Regulatory Proposal 2026-2031 BN11 Express Feeder Upgrade*, January 2026.

47 Strathbogie Shire Council, *Submission - AusNet revised proposal 2026-31*, December 2025.

Responding to the poor performance in 2023–24, AusNet undertook eight projects aimed at improving reliability for customers on this feeder at a total cost of $10 million.[48] This work included animal proofing, vegetation management, reclosers and a bypass of the rapid earth fault current limiter on days with low fire risk.[49] The vegetation management has resulted in all identified hazard trees being treated.[50] We consider that the bypassing of the rapid earth fault current limiter alongside other improvements to fault detection should address the increase in outages due to the commissioning of the technology.

We consider that the investment undertaken in 2024 has contributed to the improvement in performance discussed above. This is supported by AusNet's Strathbogie Benalla Community Group where members noted that they felt that the $10 million works program had largely addressed the issues with BN11.[51]

Proposed investment

In the revised proposal, AusNet considered 16 options that would improve reliability for BN11. 11 of these were deemed as not credible and were not included in the cost benefit modelling. These included building a new zone substation, downstream small diesel generator or battery energy storage systems, feeder ties, lightning protection, undergrounding and animal proofing.

Of the solutions excluded from the modelling, several were deemed not credible due to being uneconomic (building a new zone substation, lightning protection, animal proofing and undergrounding). AusNet did not explain what criteria were used to determine whether an uneconomic project was considered credible. The remaining non-credible options were considered impractical or duplicative.

The options that AusNet considered credible included building an express feeder (AusNet's preferred option), installing battery energy storage systems, back up diesel generators and covered conductors.

The proposed express feeder would run between Benalla and Euroa along a similar path to the existing feeder, acting as a backup supply. This construction does not provide significant route diversity and the express feeder will remain exposed to similar risks that the current line faces. Further, this solution would only affect outages that are upstream of Euroa as it is expected to connect back into the existing network prior to the township.

AusNet's updated cost-benefit modelling resulted in the express feeder being presented as net present value negative. AusNet's business case states that despite the uneconomic nature of the express feeder, it emerged as the preferred solution through customer engagement.[52] Noting the uneconomic nature of AusNet's preferred option, the revised proposal stated:

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48 AusNet, *2026–31 Revised Regulatory Proposal,* p. 139.

49 AusNet, *Reliability BC – BN11*, 1 December 2025, p. 9.

50 AusNet, *Reliability BC – BN11*, 1 December 2025, p. 13.

51 Strathbogie Benalla Community Group, *Meeting minutes*, June 2025, p. 2.

52 AusNet, *Reliability BC – BN11*, 1 December 2025, p. 15.

"Should the AER be minded to reject this project, we have provided an alternative option to instead insulate sections of bare conductors which are frequently impacted by vegetation. Replacing bare conductor with covered conductor will reduce the probability of vegetation blow-ins impacting the line resulting in either a momentary or sustained outage. This option costs $2.2 million and is NPV positive."[53]

We have reviewed the engagement material provided and found that AusNet did not present this alternative of covered conductors to the community for consideration.[54] We consider that presenting alternative options at different investment levels to consumers would represent more robust engagement.

AusNet's modelling demonstrated that the express feeder is not expected to reduce the number of outages by addressing the root cause of reliability issues, rather, it will provide backup supply when there is a fault on the line between Benalla and Euroa.

Further, AusNet's analysis of the impact of the express feeder showed that only 13 out of the 963 sustained outages experienced across the feeder would have reduced minutes off supply. Further, for these 13 outages, investments that were made in 2024 to manage vegetation, animal proof and improve fault detection will address these outages as well.[55]

Options

We reviewed the options presented by AusNet and consider that covered conductors will best address the root cause of poor reliability as it is the only solution that directly reduces vegetation outages.

AusNet presented a partial rollout of covered conductors as an alternative option to the express feeder in the business case. This would reduce the number of outages customers face and improve the customer minutes interrupted. However, given the poor performance experienced by consumers that was expressed in submissions, we have considered a more extensive roll out of covered conductors.

Table A2.2 below summarises the modelled options alongside their economic and reliability outcomes (benefit-cost ratio >1 is considered economic as the benefits are greater than the cost). Of those AusNet considers credible, covered conductors are the only option expected to reduce the number of outages customers face while having a significant impact on the minutes off supply customers would experience.

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53 AusNet, *2026–31 Revised Regulatory Proposal,* p. 139.

54 AusNet did not provide this option for consideration during the all-in forum for the revised proposal in November 2025 and it was not considered in the initial proposal through the pre-lodgement phase.

55 AusNet, *Euroa - Improvements to the electricity network,* p. 1.

Table A.2.2 BN11 reliability improvement options

Description	Customer minute interrupted reduction (000s)	Average sustained outage reduction (annually)	Present value of investment (2025-26, millions)	Benefit-Cost Ratio
Benalla to Euroa express feeder	1,303.4	-	44.8	0.23
AER's alternative option Covered conductors (extensive rollout)	1,173.2	4.1	5.7	1.64
Diesel generators at Euroa	1,021.3	-	16.5	0.49
Battery energy storage system at Euroa	1,021.3	-	17.6	0.46
Covered conductors (partial rollout)	999.9	1.8	2.4	3.27
Partial supply of BN11 load from other feeders	538.9	-	25.9	0.17

Source: AusNet, *Reliability Calculator – BN11*, December 2025; AER analysis.
Note: Present value of investment includes both opex and capex costs. A modelling error was identified for the BESS and diesel generation options. Correcting this error has increased the customer minute interrupted reduction for these options by 136%.

We consider that the covered conductor option will likely achieve a better outcome for the local community through reducing the number of outages and effectively addressing the root cause of the feeder's issues at a significantly lower cost. Although AusNet presented this option as a partial rollout ($2.4 million) across the feeder, we consider that an extensive rollout ($5.7 million) remains economically positive in aggregate and delivers the highest improvement in reliability. This more expansive option allows AusNet to undertake covered conductors across the feeder not just the two segments AusNet modelled. This option would also allow for covering the line between Benalla and Euroa, where the express feeder is proposed to impact.

For our forecast, we have provided for the expenditure required for a more extensive rollout of covered conductors compared to AusNet's alternative option for the partial rollout of covered conductors. Our alternative option will directly focus on the community concerns regarding the region's reliability by addressing the root cause of the poor reliability experienced around Euroa at a lower capex of $5.6 million. This is $32.5 million lower than AusNet's proposed express feeder but higher than AusNet's partial covered conductors option.

Our forecast for reliability augmentation is $7.2 million, which is 81.8% less than AusNet's revised proposal of $39.7 million. This includes $5.6 million for BN11 and $1.7 million for the worst served feeder program.

A.3 Resilience expenditure

Resilience is the network's ability to continue to adequately provide network services and recover those services when subjected to a disruptive event. It is generally categorised as

either network resilience (the ability to withstand or respond to an outage) or community resilience (the ability to assist and support communities during an outage).

A.3.1 AER's final decision

We are not satisfied that AusNet's proposed $155.5 million ($2025–26) for resilience expenditure would form part of a total capex forecast that reasonably reflects the capex criteria. Our final decision includes an alternative forecast of $73.6 million which is $81.9 million or 52.7% lower than AusNet's revised proposal.

In accordance with the *Electricity Safety Act 1998* (Vic),[56] we will issue a notice to Energy Safe Victoria and AusNet specifying the resilience projects that AusNet will be required to undertake during the 2026–31 regulatory control period.[57] This notice will be issued following the conferral of functions, duties and powers on the AER, in accordance with section 44AI of the *Competition and Consumer Act 2010* (Cth).

A.3.2 AusNet's revised proposal

AusNet's revised proposal includes $155.5 million for network and community resilience expenditure, which is a $113.2 million (267.5%) increase from our draft decision. Table A3.1 provides a breakdown of the resilience program.

Table A3.1 Breakdown of resilience program ($million, 2025–26)

Projects	Draft decision	Revised proposal	Final decision
Asset hardening[58]	30.7	143.9	61.9
Stand-alone power systems	7.1	7.1	7.1
Mobile generation	3.5	3.5	3.5
Emergency vehicles	1.1	1.1	1.1
Community hubs	0.0	0.0	0.0
Total	42.3	155.5	73.6

Source: AusNet's revised proposal and AER analysis. Numbers may not sum due to rounding.

Our draft decision found that AusNet's modelling, with respect to its asset hardening program, did not apply the value of network resilience methodology correctly and overestimated the maximum achievable benefits. We did not include expenditure for undergrounding or pole replacements, instead we allowed for more cost-effective options such as pole wraps. We also adjusted the unit rates for covered conductors to reflect the

56 As amended by the *Energy and Other Legislation Amendment (Resilience Reforms and Other Matters) Act 2026* (Vic).

57 In accordance with section 90G of the *Electricity Safety Act 1998* (Vic), as soon as reasonably practicable after making a distribution determination, the AER, by notice given to the distribution company to which the distribution determination applies and Energy Safe Victoria, must specify projects, works or expenditure towards which the AER considers the distribution company must apply accepted resilience expenditure during the regulatory control period for that distribution determination (a resilience project).

58 This project contains the hazard tree removal program.

industry standard. Our decision did not accept the community hubs as these were deemed outside of standard control services.

AusNet's revised proposal accepted our decision for community resilience, stand-alone power systems, mobile generation and emergency vehicles, but proposed a larger program for network hardening.[59] This includes increased volumes for covered conductors, reclosers and concrete pole hardening. AusNet has also included pole wraps as an option in response to our draft decision. The biggest component in the revised proposal is the proposed increase in the volume of covered conductors by 768%.[60]

AusNet also updated and resubmitted its economic model underpinning the proposal in response to our draft decision.[61] This included:

- updating the application of the value of network resilience
- updated unit rates – AusNet reduced the unit rate of covered conductors by 50% and increased the unit rate of its concrete poles by 25% from our draft decision unit rate
- inclusion of pole wraps as an option
- inclusion of hazard tree removal as an option.

We received four submissions that responded to AusNet's proposed resilience expenditure. This included submissions from the Victorian Government, Consumer Challenge Panel, AusNet's community Coordination Group and the Sandy Point Community Power group. All stakeholders raised the importance of resilience expenditure in addressing the risk of extreme weather events and responding to prolonged outages particularly for rural areas. However, the Victorian Government and Consumer Challenge Panel stated that oversight was important to ensure that the resilience proposals were still providing value and supported by customers.

A.3.3 Reasons for decision

We focused our assessment on the network hardening component of the revised proposal, particularly, covered conductors, as this comprises approximately 80% of the proposed network hardening expenditure. Our assessment does not include the community resilience expenditure that we determined in our draft decision as AusNet has accepted this.

We recognise the work that AusNet has done to model the increasing climate risk to its network. We understand that this is a difficult but important process, a view shared by the Victorian Government[62] and the Consumer Challenge Panel.[63] We also note the strong

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59 AusNet, 2026–31 Revised Regulatory Proposal, December 2025, p. 134.

60 AusNet, 2026–31 Revised Regulatory Proposal, December 2025, p. 135.

61 AusNet, *Cutler Merz Climate Resilience Investment Model*, January 2026.

62 Hon Lily D'Ambrosio MP, *Response to AER draft decisions for the Victorian Electricity Distribution Determination 2026-31*, 28 January 2026, p. 1.

63 Consumer Challenge Panel 32, *CCP32 Advice to the Australian Energy Regulator on the AusNet Services electricity distribution network AER Draft Decision & Revised Revenue Proposal (2026-31)*, 19 January 2026, p. 18.

customer support for AusNet's resilience proposal with its focus on rural customers, as noted by AusNet's Coordination Group.[64]

We consider that AusNet has overestimated the improved resilience and network performance that its proposed network hardening program could deliver for consumers. This is based on:

- an incorrect application of the value of network resilience methodology,[65] resulting in an overestimation of the historical value of unserved energy and the subsequent expected maximum achievable benefits.[66] The correct application decreases the estimated annual value of unserved energy by over 50%
- the use of the Victorian wide value of customer reliability, rather than the relevant climate zone value for each feeder. The statewide value is higher than the climate zone specific values for the modelled feeders and is not reflective of the rural customers the program is aimed at. Our calculation of historical unserved energy applies the more accurate climate zone values from our network resilience methodology
- the inclusion of outages that are not considered climate related. AusNet's outage data included all major events day related outages between 2015–2022 that were caused by asset failure, weather, vegetation or unknown. While some outages in the unknown and asset failure categories might be relevant, it is not reasonable to include 100% of such outages for resilience modelling. In the absence of better data, our alternative estimate calculation retains this outage dataset, but we note that the maximum achievable benefit is overestimated
- other methodology concerns and modelling errors such as the inclusion of feeders with negative unserved energy due to a high presence of customer generated supply. AusNet's model turns negative values (potential loss of energy exports) into positive values (loss of network supply).[67]

Once the modelling was updated, we found that many of the proposed solutions are no longer suitable to undertake, as they were demonstrated to not be needed or did not provide value in deploying them. This included nearly all the hardened poles and pole wraps and several reclosers and spans of covered conductors.

We also consider that the assumptions AusNet has applied in its model have overestimated the effectiveness of covered conductors in two ways:

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64 AusNet Coordination Group, *Independent Report and Submission on Draft Decision and Revised Regulatory Proposal 2026 – 2031*, 19 January 2026, p. 38.

65 AER, Value of Network Resilience 2024 Final Decision, September 2024.

66 AusNet used the customer type weighted 12-24 hour VNR value for each feeder for all outages longer than 12 hours. Per the VNR methodology, all outages longer than 12 hours should be broken up into their duration cohorts (1-12 hours, 12-24 hours, 24-72 hours, 72-168 hours and 168 hours and above) and calculated using the respective VNR duration cohort values.

67 VCR/VNR methodology and associated values are not developed to value energy exports.

- AusNet's outage data is collected at the feeder level,[68] rather than the feeder segment level. As a result, all segments on the feeder are treated as being equally at risk to increasing climate hazards. In practice, some segments are more vulnerable than others. This approach fails to recognise that only a proportion of the feeder needs to have covered conductor installed to mitigate the increasing climate risk, not the whole feeder. Installing covered conductor beyond a certain point produces diminishing returns with respect to improving resilience. AusNet's modelling does not account for this factor. This has resulted in the model producing inefficient outcomes where it proposes the installation of covered conductor over 70% of a feeder. By way of comparison, Ausgrid's model from the 2024–29 revenue determination stated that a deployment percentage of 32% was required to address the increased climate risk to its most vulnerable feeders[69]
- AusNet's modelling overestimates the percentage of windstorm related outages that covered conductors could reasonably be expected to improve. AusNet states that 70% of its outages are windstorm related and that of these outages, covered conductors could be expected to improve all of them with an effectiveness of 77%. AusNet stated that the effectiveness of covered conductors in preventing windstorm related outages was 50% in its initial proposal. This value was increased to 77% in its revised proposal without sufficient justification. This is higher than what we have observed in other determinations.[70] This results in an overestimation of the effectiveness of covered conductors and, in turn, an overestimation of the benefits that could be achieved in AusNet's modelling.

In addition to our analysis of the network hardening program discussed above, we also consider that AusNet's hazard tree removal program should be categorised as capex, rather than operating expenditure. AusNet has proposed expenditure to selectively widen clearance zones in conjunction with the network hardening program. This project has been proposed beyond what is already included in the hazard tree maintenance operational expenditure[71] and as an alternative solution in-lieu of the more capex intensive covered conductor solution. Given the nature of this program and the information before us, we consider this is primarily a one-off capital expenditure for the upcoming period rather than a recurrent opex step-change.

Our forecast is based upon the inclusion of the resilience expenditure accepted in our draft decision and a reduction to AusNet's asset hardening expenditure. Our adjustments to AusNet's asset hardening program are based on the following:

- correcting the application of the value of network resilience
- adjusting the implied effectiveness of covered conductors from 57.7.% to 12.1% for all outages
- removing all reclosers, concrete poles and pole wrap solutions with a negative NPV and substituting pole wraps for hardened poles with a NPV negative

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68 AusNet, *Information Request #083 – Resilience*, 19 February 2026, p. 5.

69 *Att. 5.5.2 - Climate Resilience Model 2 - Network Top Down - 30 Nov 2023*. See: https://www.aer.gov.au/industry/registers/determinations/ausgrid-determination-2024-29/revised-proposal

70 AER, *Final Decision, Ausgrid Electricity Distribution Determination 2024 to 2029,* April 2024, pp. 17–31.

71 AusNet, *2026–31 Revised Regulatory Proposal*, December 2025, p. 136.

- reclassifying the $6.6 million of hazard tree removal from opex to capex as vegetation management in asset hardening project.

These adjustments result in a total alternative forecast of $73.6 million, a reduction of $81.9 million (52.7%) on AusNet's revised proposal. This is $31.3 million (or 73.9%) higher than our draft decision recognising that AusNet has carried out further analysis and provided us with additional supporting information.

Our forecast ensures that resilience expenditure is being targeted to the rural areas that face the most climate risk and provide value to all AusNet's consumers. The focus on rural areas is an approach supported by community groups, such as the Sandy Point Community Power Incorporated.[72]

A.4 Connections

The cost of electricity connections is recovered from AusNet's customers and is made up of the cost of connection (gross connections), which is based on the forecast volumes of new connections and expected unit costs, minus any capital contribution a customer makes towards the cost of the connection (the result is referred to as the net connection cost).

We assess the amount of connection costs AusNet is proposing to recover from its customers as well as the proportion of capital contributions that is netted off the connection costs in line with AusNet's connections policy.[73]

A.4.1 AER's final decision

We are not satisfied that AusNet's proposed $793.3 million ($2025–26) for connections capital expenditure would form part of a total capex forecast that reasonably reflects the capex criteria. Our final decision includes an alternative forecast of $528.1 million which is $265.2 million or 33.4% lower than AusNet's revised proposal.

A.4.2 AusNet's revised proposal

AusNet's revised proposal includes $793.3 million gross connections expenditure ($373.4 million net), which represents a $270.6 million (51.8%) increase from our draft decision.

AusNet's revised proposal includes an updated connections forecast, incorporating the 2024–25 actuals and revising cost estimates. In addition to this, AusNet has increased its forecast for emerging connection types such as community batteries, hybrid/BESS generation and EV charging. AusNet have also included an additional data centre alongside a large commercial connection (the Beveridge Intermodal Freight Terminal). Further, AusNet has proposed a feeder augmentation program as connections expenditure in response to our draft decision.

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72 Sandy Power Community Power Inc, *Submission: AusNet Services - Determination 2026–31*, 19 January 2026, pp. 2–3.

73 The connections policy specifies the categories of persons that may be required to pay a connection charge, the services for which a charge may be made, the basis on which the charge is determined, how this is paid and the threshold below which a retail customer (not being a non-registered embedded generator or a real estate developer) will not be liable for a connection charge for an augmentation.

A.4.3 Reasons for decision

We have conducted a bottom-up assessment of the revised connections expenditure and supporting information, including responses to information requests. Our bottom-up assessment of AusNet's connections expenditure found speculative projects without a clearly defined need, and high increases in both unit rates and volumes. Our assessment is detailed in the sections below and focused on:

- BESS/hybrid generation
- community batteries
- feeder augmentation
- large commercial connections (including data centres)
- business-as-usual connections.

A.4.3.1 BESS/hybrid generation

For AusNet's 'large BESS/hybrid generation' forecast we found that of the $151.5 million in gross expenditure, a large proportion was allocated to 'Place holder projects'. AusNet has stated that relying on connection applications or inquiries alone would underestimate the efficient level of capex for connections.[74] In addition, AusNet commented that in the prior determination they did not forecast any BESS/hybrid generation connections, yet actual gross capex was $66.0 million across the current period for this connection type and it was concerned that it faced the same risk in the upcoming period.

Although we recognise that BESS and hybrid generations are difficult to forecast accurately in the current environment, this allowance lacks supporting information and is in addition to a large forecast that is tied to specific projects. Given this, we consider that the inclusion of these unsubstantiated projects does not reflect prudent and efficient expenditure. Further, these types of connections will be excluded under the CESS and AusNet does not face the same forecasting risk other connection types may face.

Our alternative forecast has removed the place holder projects.

A.4.3.2 Community battery forecast

Between the draft decision and revised proposal, AusNet's community battery connections increased from 12 to 155. This forecast includes 74 batteries that have been funded by announced government funding over the first two years.[75] The remaining 81 forecast connections occur in the last three years of the regulatory period and are reliant on the assumption that there will be both future government funding and market led community batteries. AusNet stated that falling battery prices would create market led opportunities but provided no supporting evidence for this assumption.[76] We have also reviewed both

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74 AusNet, *Response to information request IR#61*, January 2026, p. 14.

75 The 74 batteries have been funded by Victorian Government's 100 Neighbourhood Batteries and ARENA Community Batteries – Round 1 and 2.

76 AusNet, *Response to information request IR# 61*, January 2026, p. 14.

ARENA's and the Victorian Government's community battery funding and neither have indicated that future funding will be offered beyond what is already available.

Given this, we have included the forecast for 74 batteries with committed funding and excluded the batteries dependant on unsupported future government funding and market outcome assumptions.

A.4.3.3 Feeder augmentation

AusNet's feeder augmentation program is proposed to fund upstream augmentation that is required to support customers connecting to the network. The connections policy requires the network to include the cost that connection applicants above a specific usage threshold would pay to fund or contribute to this upstream augmentation.[77]

Our assessment found that AusNet provided insufficient justification as to why additional expenditure was required in addition to the funding received through the customer contribution. AusNet acknowledged that the projects that make up this proposed program would be partially funded through the customer contribution however, still required expenditure to cover the total cost of the augmentation.[78]

We consider that for larger connections the upstream augmentation required is funded by the capital contribution, while for smaller residential connections partial funding of the upstream augmentation is appropriate.

We have removed the feeder augmentation works related to commercial connections, leaving only the residential feeder augmentation project in the forecast.

A.4.3.4 Large commercial connections

To be consistent with our position on the recovery of the upfront tax liability associated with the contributions for large connections, we have updated modelling to reflect our final decision threshold of greater than or equal to 22kV (see Attachment 16 – Connections policy). This has no impact on net capex.

We have also reviewed AusNet's new large commercial connection and identified a low forecast customer contribution rate of 35%.

The expected load of this connection will be served by dedicated 22kV feeders until 2031 and is in line with data centres.[79] Given the nature of the project, we consider that it more closely aligns with a BESS or data centre and contributions should be forecast at a rate of 85%. This is similar to the rate applied in our draft decision for data centres, which was accepted by AusNet.

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77 AusNet, *Distribution Connection Policy,* July 2021, p. 16.

78 AusNet, *Response to information request 74,* February 2026, p. 4.

79 AusNet, *2026-31 Revised Regulatory Proposal*, December 2025, p. 149.

A.4.3.5 Data centres

AusNet has forecast two data centres that are currently between the connection enquiry and offer stages. As such, we required the business to provide data centre cost build ups that show unit rates, capacity and the probability of progression in the forecast period.[80]

AusNet stated that the two forecast data centres had a high likelihood of proceeding, but could not provide a numerical probability of progression at this stage.[81] We consider that AusNet's data centre capacity forecast is reasonable from a top-down perspective, however should be weighted by a probability.

Our forecast applies a comparable probability derived from other data centres at similar stages across Victoria. This reflects an acceptance of the project, but with a cost reduction given the uncertainty it will proceed in the next regulatory period.

A.4.3.6 Business-as-usual connections

We have identified a modelling error that increased unit rates for the forecast period. AusNet has confirmed the error and provided an updated model to correct for this.[82,83]

AusNet also identified an error made when creating the customer number forecast.[84] We have adjusted forecast connection growth based on the corrected customer number forecasts.

For our forecast we have used AusNet's updated model and the newer volume forecasts from AusNet.

A.4.3.7 Risk allowance and management reserve

As discussed above in replacement expenditure, AusNet's revised proposal includes risk allowances for a large portion of projects. AusNet has also included a project management reserve in addition to the risk allowance for two connections projects. AusNet did not provide any information to support the management reserve allowance and stated in the revised proposal that these costs are not included in AusNet's regulatory submissions.[85]

We have removed both allowances in our forecast (see section A.1.3.1).

A.5 Information and communication technology

Information and communication technology (ICT) refers to all non-network related devices, applications and systems that support AusNet's business operations. ICT expenditure is categorised broadly as either replacement of existing infrastructure for reasons due to end of life, technical obsolescence or added capability of the system with the acquisition of new assets.

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80 AER, Draft decision: *Powercor electricity distribution determination 1 July 2026 – 30 June 2031, Attachment 2 – Capital expenditure,* September 2025, pp. 33–34.

81 AusNet, *Response to information request 74*, February 2026, pp. 4–5.

82 AusNet, *Response to information request IR#74,* February 2026, p. 7.

83 AusNet, *Connections Capex Forecast Model (2026-31)*, February 2026.

84 AusNet, *Response to information request IR#76*, February 2026, p. 6.

85 AusNet, *2026–31 Revised Regulatory Proposal*, December 2025, p. 74.

A.5.1 AER's final decision

We are not satisfied that AusNet's proposed $349.8 million ($2025–26) for ICT capital expenditure would form part of a total capex forecast that reasonably reflects the capex criteria. Our final decision includes an alternative forecast of $282.5 million which is $67.3 million or 19.2% lower than AusNet's revised proposal.

A.5.2 AusNet's revised proposal

AusNet's revised proposal includes $349.8 million for ICT expenditure. The proposed program consists of:

- recurrent expenditure ($88.4 million)
- non-recurrent expenditure ($232.7 million)
- cybersecurity ($27.5 million)
- innovation ($1.1 million).

Our draft decision identified concerns with the scope justification and maturity of the projects, the cost estimate robustness, benefit justification, risk management and the cost allocation between transmission, distribution and gas services.

AusNet's revised ICT proposal was the result of a review of all digital programs to justify costs and support them with evidence and detailed NPV analysis. AusNet also clarified how each project is allocated between transmission, distribution and gas services.

A.5.3 Reasons for decision

We have reviewed the revised recurrent, non-recurrent and cybersecurity ICT proposals and this is detailed below.

A.5.3.1 Recurrent ICT expenditure

We accept AusNet's recurrent ICT expenditure. The revised proposal is slightly above historic expenditure but is within expectations and benchmarked well against other networks. AusNet has rescoped and examined its ability to manage its ongoing ICT contract risk.

A.5.3.2 Non-recurrent ICT expenditure

AusNet proposed 6 non-recurrent projects. We have reviewed the revised business cases and supporting information. We consider the updated cost estimates to be reasonable and justified with vendor quotes and market advice.

However, our concerns from the draft decision regarding the scope of the non-recurrent projects and the underlying assumed benefits remain. We conducted a bottom-up assessment of four of the non-recurrent projects, including:

- asset risk management ($54.4 million)
- field enablement ($33.5 million)
- advanced distribution management system (ADMS) upgrade ($34.9 million)
- customer experience ($33.5 million).

This accounts for 67% of the proposed non-recurrent expenditure.

Asset risk management

AusNet has proposed $54.4 million for its asset risk management program. The purpose of the asset management project is to improve its analytics, risk management and decision-making capabilities. It is to move AusNet to a more data-driven asset management.

In the draft decision we considered that this project was marginally economic and was over scoped.[86] In the revised proposal AusNet has updated the scope of the project and the supporting NPV analysis.

We found that the benefits supporting the revised proposal were overestimated and not realistic. For example, the main benefit supporting this program is derived from improvements in maintenance practices which are based on an assumed annual percentage reduction to its maintenance expenditure. Although we agree that this benefit would be present, the input assumptions used, such as the maintenance expenditure growth for the next period, were high and not reflective of reasonable levels of growth. We observed this across the other benefits used to justify this project.

We do consider that there is merit in undertaking this project and customers are likely to see benefits, however, based on the information provided we do not consider the proposal to be efficient and have retained the draft decision. This results in an alternative forecast of $47.6 million, which is a $6.8 million reduction. This includes the difference in escalation factors.

Field enablement

AusNet has proposed $33.5 million for its field enablement program. The purpose of the field enablement program is to improve digital tools used to coordinate and execute work, including improved communication during outages.

In the revised proposal, AusNet broadened the scope of the field enablement program and proposed a further increase in forecast expenditure.

Our review determined the benefits were overestimated, unsubstantiated, and duplicative both within the field enablement program and with other ICT projects. For example, the 'reduction of billable non-productive time' is a duplicative benefit of the reduced outage time of the 'avoided idle time in outages' within the field enablement program. Some benefits had significantly increased from the initial proposal with no supporting evidence of the increase.

Our assessment adjusted the benefits to reflect industry expectations or actual performance (such as occurrence of major event outages) and removed duplicative benefits. The subsequent NPV of the program was no longer positive. However, the scope of works from the draft decision remains economic.

Our forecast retains the draft decision of $17.5 million, which is $16.0 million less than the revised proposal.

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[86] AER, *Draft Decision Attachment 2 - Capital expenditure – AusNet Services – 2026–31 Distribution revenue proposal,* September 2025, p. 60.

ADMS upgrade (IT portion)

AusNet has proposed $34.9 million for its field ADMS upgrade program.

The ADMS project is a multi-period program of works that aims to upgrade the platform with the necessary capability to continue managing the distribution network as it grows. The program consists of four phases, with the first two phases underway in the current period and last two planned for the 2026–31 regulatory control period.

AusNet presented two options in the revised proposal, a core foundation improvement option ($24.0 million) and an enhanced improvement option ($34.9 million, AusNet's preferred option). The second option builds on the core foundation modules and includes additional features.

Our review identified issues with the benefits calculation for both options. Some benefits were overestimated or duplicative with field enablement such as improved productivity outage response benefits. Whilst some other benefits were business-exclusive benefits that were not consumer benefits, such as avoided compliance penalties which is a business cost not worn by customers. The economic model indicated that all options become NPV negative when the benefits are adjusted for these issues.

However, we recognise this program of work is a multi-period program that may deliver benefits over a longer period. We consider it is necessary to ensure AusNet's ADMS remains fit-for-purpose in the energy transition. Our forecast allows for the core foundation improvement option as proposed in the revised proposal. This option provides best value for money while allowing for the essential upgrades to be done. Our forecast is $24.0 million, which is $10.9 million less than the revised proposal of $34.9 million.

Customer experience

AusNet has proposed $33.5 million for its customer experience program. This program is to invest in AusNet's systems to improve customer communications, service interactions, and operational efficiency. It focuses on maintaining and upgrading customer-facing platforms, improve outage management, and improve faster response times.

In the revised proposal, AusNet has retained the scope of the initial proposal but has updated the cost and benefits used to justify the program.

We consider the scope of the program remains excessive and that each initiative does not necessarily provide value to customers. For example, AusNet proposed building a separate dedicated portal for major customer connections, rather than modifying the existing connections portal to include a major customer page.

AusNet supported the costs associated with the program with information provided by vendors, but we consider they remain high and are above similar projects from other networks such as SA Power Network's customer portals consolidation program.[87] We also consider the benefits underpinning the NPV analysis are overestimated and some are not

[87] SA Power Networks, *Business case: ICT Non-Recurrent - Customer Program: Customer Portals Consolidation*, January 2024.

customers benefits such as the inclusion of avoided compliance penalties that are a business benefit, not a customer benefit.

Taking the above into account, we consider that the customer experience program as set out in the revised proposal is not prudent or efficient. Our forecast is $11.3 million, which is $22.2 million less than the revised proposal.

A.5.3.3 Cybersecurity

AusNet has proposed $27.5 million for its cybersecurity program. This program is to invest in systems tools to manage risks to its digital systems, networks, programs, and data and protect them from unauthorised access, digital attacks, or damage. AusNet's cybersecurity program is shared across its entire business, covering transmission, distribution, and gas networks.

In the draft decision, we provided a capex placeholder of $27.5 million in our forecast (AusNet's proposed expenditure). We indicated that from a top-down perspective, the proposed cybersecurity expenditure was reasonable however, we required further information to understand what initiatives were being proposed and how they addressed the cyber risk and legislative cybersecurity requirements.

Following the draft decision, AusNet finalised its internal cybersecurity framework and also submitted its 2027–32 transmission proposal that included cybersecurity. Based on the framework and through information provided, AusNet's cybersecurity approach is to manage the cyber risks it faces from a whole of business perspective. Under this framework, AusNet is aiming to achieve security profile, SP3 across its business under the Australian Energy Sector Cyber Security Framework (Version 2). We support this approach.

AusNet has provided a detailed breakdown of its cybersecurity requirements, including an updated cost benefit model that covers transmission, distribution and gas services. It has also provided the gap analysis we required that maps the proposed expenditure to the cyber risks it is trying to address.

We have reviewed the detailed supporting information and found:

- with the finalisation of AusNet's internal cybersecurity framework, the costs that AusNet considers are required to meet the cybersecurity framework is $24.7 million, however, AusNet did not propose this reduced expenditure in its revised proposal
- there was duplication of scope between some of the initiatives
- one initiative was above what is required to meet its compliance requirements and no reasonable justification for its inclusion was provided.

Our forecast has adopted the costs to meet its internal cybersecurity framework as the starting point ($24.7 million) but removed the scope duplication between initiatives and removed the unsubstantiated initiative. Our forecast for distribution cyber security capex is $20.0 million. This is $7.5 million less than the revised proposal.

A.6 Fleet

Fleet is non-network expenditure that relates to the provision of motor vehicles, plant and equipment used by AusNet in support of its business operations.

A.6.1 AER's final decision

We are not satisfied that AusNet's proposed $173.5 million ($2025–26) for fleet capital expenditure would form part of a total capex forecast that reasonably reflects the capex criteria. Our final decision includes an alternative forecast of $102.9 million which is $70.6 million or 40.7% lower than AusNet's revised proposal.

A.6.2 AusNet's revised proposal

AusNet's revised proposal includes $173.5 million for fleet expenditure, which represents a $85.5 million (97.1%) increase from our draft decision.

In the initial proposal, AusNet proposed $144.2 million to transition its fleet from leasing to ownership while shifting to electric vehicles (EVs). Our analysis of the model supporting ownership found that AusNet was over estimating lease costs and in turn biasing ownership. We removed the bias from the model, which made leasing the most economic option. Our draft decision identified an overestimation of lease costs in the supporting model and considered that AusNet should demonstrate additional options such as a hybrid between only leasing or only buying vehicles. We also removed the incremental capex associated with EV purchases, allowing for EVs only where cost neutral and included an allowance for emergency response vehicles.[88]

AusNet's revised proposal accepted our decision on EV cost neutrality and redeveloped the fleet model to consider a new option of partial fleet ownership. This emerged as AusNet's preferred option. The increase in expenditure in the revised proposal is due to both volume and unit rate increases.

A.6.3 Reasons for decision

Our analysis of AusNet's proposed fleet program identified that AusNet increased unit rates for leasing above existing rates.

To calculate leasing rates, AusNet obtained both a leasing and a purchasing quote for two vehicles, one for heavy vehicles and one for light. AusNet used this to determine lease payments as a percentage of the purchase price. This percentage was then multiplied by the purchase price of each vehicle to calculate monthly lease payments.

We consider that this methodology is too simplistic to reflect robust estimates of leasing costs given the differences in characteristics and asset lives across vehicle types. This is supported by existing leasing rates that do show differences between vehicles of the same type.

We have adjusted the unit rates for leasing vehicles to reflect existing rates that AusNet provided within the forecasting model.

Our forecast adopts the option to continue leasing vehicles using current rates but allows for the purchase of vehicles that are currently owned by AusNet. This forecast provides for AusNet's proposed volumes and growth in fleet in full.

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88 AER, *Draft Decision Attachment 2 - Capital expenditure – AusNet Services – 2026–31 Distribution revenue proposal,* September 2025, p. 65.

A.7 CER integration

Consumer energy resources (CER) include rooftop solar photovoltaics, energy storage devices, electric vehicles and other consumer appliances that can respond to demand or pricing signals. When assessing CER integration expenditure, it is important to consider the whole-of-system benefits and costs. CER integration expenditure includes expenditure to reduce CER curtailment and coordinate CER operation.

A.7.1 AER's final decision

We are not satisfied that AusNet's proposed $92.1 million ($2025–26) for CER integration capital expenditure would form part of a total capex forecast that reasonably reflects the capex criteria. Our final decision includes an alternative forecast of $38.2 million which is $54.0 million or 58.6% lower than AusNet's revised proposal.

A.7.2 AusNet's revised proposal

AusNet's revised proposal includes $92.1 million for CER expenditure, which represents a $58.6 million (174.5%) increase from our draft decision.

The draft decision raised concerns on the stated need for the CER expenditure proposed and the lack of supporting evidence for the costs and benefits underpinning the proposals for a distribution service operator program and for CER enablement. AusNet has responded to our draft decision by revising the scope of the programs, providing additional detail and providing updated NPV analysis supporting the programs.

The revised proposal consists of:

- an expanded CER enablement program to reduce future curtailment of customer solar exports. This included additional expenditure on dynamic voltage management. ($36.1 million)
- an expanded supply improvement program to address customer complaints related to overvoltage, undervoltage, harmonics, unbalance and voltage flicker. The proposed capex relates to network augmentation solutions such as new transformers and transformer upgrades, new feeders and circuits and splitting or reconfiguring circuits. ($23.1 million)
- an updated distribution system operator program to improve network visibility, develop a platform to procure non-network solutions from third parties and a distributed energy resources management system program. ($33.0 million).

A.7.3 Reasons for decision

We have conducted bottom-up assessments of all three CER programs as there has been a material change in the scope and cost of each program. We found that AusNet has not provided substantive justification for the change in scope and expenditure, particularly for the CER enablement and supply improvement programs that were accepted in the draft decision.

Our assessment is set out below.

2.3.1 CER enablement

AusNet proposes to use dynamic voltage management to reduce voltage-based curtailment of customer CER devices.

AusNet's revised proposal includes additional dynamic voltage management projects at more sites than what were proposed in the initial CER enablement proposal. Most of the new projects were included in the voltage compliance program business case at the initial proposal stage and were not accepted in our draft decision due to insufficient explanation of underlying assumptions.[89]

We consider AusNet's revised proposal has not adequately justified the uplift in expenditure on dynamic voltage management, nor addressed the concerns we identified in our draft decision, which included considering the impacts of lower cost activities such as tap changes. Further, we are not satisfied that AusNet has sufficiently accounted for the reduction of curtailment which will be enabled by the introduction of flexible export limits, which we accepted in the draft decision under the distribution system operator business case.

AusNet's proposal for dynamic voltage management assumed that 70% of new exporting customers will adopt flexible export limits. The Victorian Government raised concerns in its submission that the assumed 70% adoption rate is too low and unsupported by what is being observed on other networks.[90] We have reviewed this assumption and consider it is a low estimate that has not been justified by AusNet when compared to observed take up rates in other networks. For instance, SA Power Networks has observed an uptake rate of flexible export limits of greater than 85%.[91] A higher uptake of flexible export limits decreases potential curtailment, leading to a reduction in benefits justifying the CER enablement program.

AusNet has noted that the lower uptake of flexible export limits is due to having a higher proportion of rural customers on its network and that these customers may have a lack of internet access needed.[92] No evidence was provided by AusNet for this assumption and we note that published data shows that only 2% of Australians did not have internet at home in 2024.[93]

To the extent that rural areas are likely to experience more curtailment due to lower uptake of flexible export limits, this may mean that CER enablement projects should be focussed on those areas, rather than be dispersed across the entirety of AusNet's network.

We consider that AusNet has overestimated the benefits of dynamic voltage management by only modelling benefits up to 2036–37 and assuming that benefits remain constant until

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89 AER, *Draft Decision Attachment 2 - Capital expenditure – AusNet Services – 2026–31 Distribution revenue proposal,* September 2025, p. 45.

90 Hon Lily D'Ambrosio MP, *Response to AER draft decisions for the Victorian Electricity Distribution Determination 2026–31*, 28 January 2026, p. 6.

91 SA Power Networks, *Unlocking solar potential: Expanding Flexible Exports to more areas in South Australia*.

92 AusNet, *Response to information request IR#82*, January 2026, p. 2.

93 Department of Infrastructure, Transport, Regional Development, Communications and the Arts, *Digital exclusion in Australia – Evidence from the Household, Income and Labour Dynamics in Australia (HILDA) Survey*, August 2025, p. 4.

2046–47. A more realistic estimate of benefits would account for the forecast generation mix beyond 2036–37.

Our forecast includes $8.7 million for CER enablement.

2.3.2 Supply improvement

The revised proposal for supply improvement proposes to increase expenditure to address quality of supply issues that were intended to be addressed by projects under AusNet's voltage compliance program that was not accepted at the draft decision.

We do not consider that AusNet has provided sufficient additional justification in its revised proposal for the increase in expenditure. AusNet notes that the revised capex amount is based solely on continuing the supply improvement program at current expenditure levels, and that no modelling has been undertaken. AusNet does not appear to have accounted for other drivers that may decrease the need for supply improvement expenditure going forward, including the rollout of flexible export limits, end of life replacement of aging inverters with modern inverters and the implementation of dynamic voltage management.

Our forecast includes $8.4 million for supply improvement.

2.3.3 Distribution System Operator

In the revised proposal, AusNet has proposed network data visibility and a non-network market platform at a lower cost. A distributed energy resources management system uplift has been added to the proposal, consolidating similar initiatives from AusNet's initial proposal (flexible demand orchestration and flexibility services integration).

We recognised that some distribution system operator policy uncertainty exists and responsibilities are still being determined, including network obligations, through the distribution system operator workstreams under the National CER roadmap. Nexa Advisory's submission raised concerns about accepting expenditure for distribution system operator capabilities which may require re-working once the distribution system operator regulatory framework is developed,[94] while the Victorian Government's submission supported AusNet's proposed distribution system operator expenditure.[95] As noted in our draft decision, we consider that although AusNet is not yet formally obligated to fulfil any distribution system operator functions, it may be prudent for AusNet to undertake such activities if they will provide net benefit to consumers.

Network data visibility and non-network market platform

AusNet has proposed the network data visibility and non-network market platform initiatives at a lower level of expenditure than the draft proposal. The reduction in expenditure reflects our concerns noted in the draft decision that costs were likely to be overestimated.

The non-network market platform has potential to defer network augmentation through the procurement of flexibility services under a distribution system operator model, while network data visibility expenditure is noted to provide high priority datasets to the market, which is

94 Nexa Advisory, *Submission – Victorian electricity distribution proposals 2026–31*, January 2026, p. 7.

95 Hon Lily D'Ambrosio MP, *Response to AER draft decisions for the Victorian Electricity Distribution Determination 2026–31*, 28 January 2026, p. 3.

necessary to provide a level playing field for third parties seeking to connect CER to the network. While there is some uncertainty in quantifying the precise benefits of these programs, we agree with AusNet's view that there is value in investing in these capabilities now.

Distributed Energy Resources Management System Uplift

The distributed energy resources management system uplift intends to enable two new demand response programs. AusNet states these programs would reduce peak demand by 2.4–3.2%.[96] These programs would send SMS messages prompting residential customers to reduce load during peak periods, and directly control commercial and industrial loads via the internet.[97]

The main assumed benefit underpinning this program is a reduction in peak demand and associated capex requirements under the low voltage augmentation project discussed in Appendix A.2.3.1 above. It has not been made clear by AusNet how this reduction in capex requirements has been determined.

We consider insufficient detail has been provided to justify that the proposed expenditure is efficient. AusNet has not detailed how the proposed expenditure would be utilised to put in place the demand management programs, such as details of which systems need to be modified or built in order to undertake the activities.

While we support the intention of AusNet's proposal to reduce capex through innovative demand management, we consider insufficient information has been provided to justify that this expenditure is likely to be prudent and efficient.

We have not included the distributed energy resources management system uplift in our alternative estimate of CER integration capex.

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96 AusNet, *Demand Driven Augmentation in the LV Network & Flexible Services Business Case*, 1 December 2025, p. 28.

97 AusNet, *Resubmission Addendum: Distribution System Operator (DSO)*, 1 December 2025, p. 10.

B Contingent Projects

Contingent projects are significant network augmentation or replacement projects that are reasonably required to be undertaken in order to achieve the capex objectives. However, unlike other proposed capex projects, the need for the project within the regulatory control period and the associated costs are not sufficiently certain. Consequently, expenditure for such projects does not form a part of the total forecast capex that we approve in this determination. Such projects are linked to unique investment drivers and are triggered by defined 'trigger events'. The occurrence of the trigger event must be probable during the relevant regulatory control period.[98] The cost of the projects may ultimately be recovered from customers in the future if the trigger events are met.

This appendix details our assessment of AusNet's Cranbourne Zone Substation and Wodonga-Barnawartha Area Augmentation contingent project proposals as part of its revised proposal for the 2026–31 regulatory control period.

B.1.1 AER's final decision

Our final decision is to accept AusNet's proposed Cranbourne Zone Substation ($53.9 million, $2024) and Wodonga-Barnawartha Area Augmentation ($59.3 million, $2024) contingent projects for the 2026–31 regulatory control period. We have concluded that both contingent projects may be reasonably required to be undertaken in order to achieve the capex objectives over the 2026–31 regulatory control period.[99]

B.1.2 AusNet's proposal

There were no contingent projects submitted in AusNet's initial proposal or included in our draft decision. However, AusNet proposed two load-driven augmentation expenditure projects as contingent projects in its revised proposal, totalling $113.2 million ($2024):[100]

- Cranbourne Zone Substation ($53.9 million) – this involves installing a third 20/33MVA transformer, switch room, busbar and new 22kV distribution feeder(s) at the Cranbourne zone substation to accommodate growing demand and enable transfer of load from constrained neighbouring substations to maintain supply during peak periods
- Wodonga-Barnawartha Area Augmentation ($59.3 million) – this involves adding a new 66kV line and upgrading low-capacity sections of existing lines between Wodonga Transmission Terminal Substation and Barnawartha zone substation.

The projects' proposed trigger events share the same structure and similar wording, related to RIT approval, AusNet internal sign-off, and demand exceeding specific thresholds as set out in Table B.1 below.

98 NER, cl. 6.6A.1(c)(5).

99 NER, cl. 6.6A.1(b)(1).

100 AusNet, *2026–31 Revised Regulatory Proposal*, December 2025, pp. 174–179.

B.1.3 Assessment Approach

A contingent project should reflect a project that AusNet can reasonably expect would occur in the 2026–31 regulatory control period, with uncertainty related to the scope, timing and costs of the contingent project.

We reviewed AusNet proposed contingent projects against the assessment criteria in the NER. We considered whether:

- the proposed contingent project is reasonably required to be undertaken in order to achieve any of the capex objectives[101]
- the proposed contingent project capex is not otherwise provided for in the capex proposal[102]
- the proposed contingent project capex reasonably reflects the capex criteria, taking into account the capex factors[103]
- the proposed contingent project capex exceeds the defined threshold[104]
- the trigger events in relation to the proposed contingent project are appropriate.[105]

AusNet's revenue proposal included a description of each contingent project, proposed trigger events, project requirement, proposed capex and demonstration of rules compliance.

We reviewed each project based on AusNet's and our own analysis. We reviewed whether each contingent project is reasonably likely to be required in the 2026–31 regulatory control period based on the materiality and plausibility of the trigger conditions. This gives us a high level view of whether the project is reasonably required to achieve any of the capex objectives and reflect the capex criteria.

We also considered whether the proposed trigger events for each project are appropriate. This includes having regard to the need for the trigger event:

- to be reasonably specific and capable of objective verification[106]
- to be a condition or event which, if it occurs, makes the project reasonably necessary in order to achieve any of the capex objectives[107]

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101 NER, cl. 6.6A.1(b)(1). Relevantly, a distribution NSP must include forecast capex in its revenue proposal which it considers is required in order to meet or manage expected demand for standard control services over the regulatory control period (see NER, cl. 6.5.7(a)(1)).

102 NER, cl. 6.6A.1(b)(2)(i).

103 NER, cl. 6.6A.1(b)(2)(ii).

104 NER, cl. 6.6A.1(b)(2)(iii).

105 NER, cl. 6.6A.1(b)(4).

106 NER, cl. 6.6A.1(c)(1).

107 NER, cl. 6.6A.1(c)(2).

- to be a condition or event that generates increased costs or categories of costs that relate to a specific location rather than a condition or event that affects the distribution network as a whole[108]
- to be described in such terms that it is all that is required for the revenue determination to be amended[109]
- to be a condition or event, the occurrence of which is probable during the 2026–31 regulatory control period but the inclusion of capex in relation to it (in the total forecast capex) is not appropriate because either:
  - it is not sufficiently certain that the event or condition will occur during the regulatory control period or if it may occur after that period or not at all, or
  - assuming it meets the materiality threshold, the costs associated with the event or condition are not sufficiently certain.[110]

B.1.4 Reasons for decision

We consider AusNet has justified the need for these contingent projects and shown they are reasonably necessary to meet the localised demand in Cranbourne and Wodonga-Barnawartha Areas associated with the development of specific commercial projects. We also consider the probability of these projects becoming necessary is sufficiently uncertain.

We worked with AusNet to develop appropriate trigger events, after raising concerns that they were not objectively verifiable as proposed. The key triggers for both projects were originally based on forecasted demand exceeding a specified threshold. Forecasts are the result of subjective assumptions that cannot reasonably be objectively verified, and the relevant probability of these forecasts was not specified.

We held a workshop with AusNet to ensure the trigger events are appropriate and compliant with the NER.[111] AusNet acknowledged our concerns and agreed to amending the triggers for the contingent projects to describe an objective verifiable trigger event.[112] These updates aligned the trigger events with other recent distribution determinations. Table B1.1 lists AusNet's contingent projects with the trigger events as proposed and as accepted in our final decision respectively.

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108 NER, cl. 6.6A.1(c)(3).

109 NER, cl. 6.6A.1(c)(4).

110 NER, cl. 6.6A.1(c)(5).

111 AER/AusNet, *Contingent project workshop*, 3 March 2026.

112 AusNet, *Email to the AER, Revised proposal trigger events*, 13 March 2026.

Table B1.1 AusNet's proposed contingent projects and AER final decision

Project	AusNet's proposed trigger events	AER's final decision trigger events
Cranbourne Zone Substation (CRE ZSS) - $53.9 million	a) AusNet receives a connection application or applications for load(s) at CRE ZSS or its associated feeders which results in forecast demand exceeding the N-rating (96.4 MVA) at the CRE ZSS during the 2026-31 regulatory control period. b) AusNet completes a RIT-D during the 2026-31 regulatory control period to address the identified need of maintaining a reliable supply of power to customers in the CRE ZSS coverage area where the preferred credible option demonstrates that network investment is required during the 2026-31 regulatory control period. c) The AER is satisfied that the proposed investment meets the requirements of the RIT. d) AusNet's Chief Executive Officer provides a commitment to proceed with the Project within the 2026-31 regulatory control period, subject to the AER amending AusNet's 2026-31 distribution determination pursuant to the NER. For verification, a letter from the CEO will be provided to the AER.	a) AusNet receives one or more connection applications for connection in the CRE zone substation supply area that in aggregate exceed the available capacity at CRE ZSS of 20 MVA, during the 2026-31 regulatory control period. b) The AER is satisfied that AusNet has successfully completed a RIT-D during the 2026-31 regulatory control period that identifies the efficient project to make capacity available to meet additional consumer demand in the CRE ZSS supply area that requires investment during the 2026-31 regulatory control period. c) AusNet's Chief Executive Officer provides a commitment to proceed with the Project within the 2026-31 regulatory control period, subject to the AER amending AusNet's 2026-31 distribution determination pursuant to the NER. For verification, a letter from the CEO will be provided to the AER.
Wodonga-Barnawartha (WO-BWA) Area Augmentation ($59.3 million)	a) AusNet signs a connection agreement with the existing [C-I-C] applicant or any other load applicant(s) at BWA ZSS which results in forecast demand exceeding 92 MW at BWA ZSS during the 2026-31 regulatory control period b) AusNet completes a RIT during the 2026-31 regulatory control period to address the identified need of maintaining a reliable supply of power to customers in the BWA ZSS coverage area where the preferred credible option demonstrates that	a) AusNet receives one or more connection applications for connection in the BWA zone substation supply area that exceed in aggregate the available capacity at the BWA zone substation of 80 MW, during the 2026-31 regulatory control period. b) The AER is satisfied that AusNet has successfully completed a RIT during the 2026-31 regulatory control period that identifies the efficient project to make

Project	AusNet's proposed trigger events	AER's final decision trigger events
	network investment is required during the 2026-31 regulatory control period. c) The AER is satisfied that the proposed investment meets the requirements of the RIT. d) AusNet's Chief Executive Officer provides a commitment to proceed with the Project within the 2026-31 regulatory control period, subject to the AER amending AusNet's 2026-31 distribution determination pursuant to the NER. For verification, a letter from the CEO will be provided to the AER	capacity available to meet additional consumer demand in the BWA ZSS supply area that requires investment during the 2026-31 regulatory control period. c) AusNet's Chief Executive Officer provides a commitment to proceed with the Project within the 2026-31 regulatory control period, subject to the AER amending AusNet's 2026-31 distribution determination pursuant to the NER. For verification, a letter from the CEO will be provided to the AER.

Shortened forms

Term	Definition
ADMS	advanced distribution management system
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
augex	augmentation expenditure
capex	capital expenditure
CCP32	Consumer Challenge Panel, sub-panel 32
CER	customer energy resources
CESS	capital expenditure sharing scheme
DNSP or distributor	distribution network service provider
DSO	distribution service obligation
EBSS	efficiency benefit sharing scheme
ESV	Energy Safe Victoria
ICT	information and communication technology
kV	kilovolts
LV	low voltage
NEL	National Electricity Laws
NEO	National Electricity Objectives
NER	National Electricity Rules
NPV	net present value
NSP	network service provider
opex	operating expenditure
RAB	regulated asset base
repex	replacement expenditure
RIN	regulatory information notice
SCS	standard control service
VCR	value of customer reliability
VNR	value of network resilience