Draft Decision

AusNet Services electricity transmission determination 2027 to 2032

(1 April 2027 to 31 March 2032)

Attachment 2
Capital Expenditure

June 2026

AUSTRALIAN ENERGY REGULATOR

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2 Capital expenditure

Capital expenditure (capex) refers to the money required to build, maintain or improve the physical assets needed to provide prescribed transmission services. Generally, these assets have long lives, and a network service provider will recover capex from customers over several regulatory control periods. A network service provider'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 network service provider 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).[1]

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).[2] 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)).[3]

The AER capital expenditure assessment outline explains our and distributors' obligations under the National Electricity Law and Rules (NEL and NER) in more detail.[4] It also describes the techniques we use to assess a network service provider'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*.[5]

AusNet does not include any forecast capex for network augmentation or new customer connections to meet expected growth in demand. This is because VicGrid is responsible for planning and procuring augmentation of AusNet's shared transmission network.

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 network service provider 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 network service providers to provide services at the lowest possible cost, because the actual costs of

1 NER, cl. 6A.6.7(a).

2 NER, cl. 6A.6.7(c).

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

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

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

providing services will determine their returns in the short term. If network service providers 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 circumstances to maintain efficiencies in the long term interest of consumers. This incentive-based framework provides network service providers with the flexibility to prioritise their capex program given their circumstances and due to changes in information and technology.

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

Importantly, our decision on total capex does not limit a network service provider's actual spending. We set the forecast at a level where the network service provider 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*[6]
- AER's *Regulatory Investment Test for Distribution and Transmission (RIT-D and RIT-T) Guidelines*[7]
- AER's *Asset Replacement Industry Note*[8]
- AER's *Information and Communication Technologies (ICT) Guidance Note*[9]
- AER's *Guidance on amended National Energy Objectives*[10]
- AER's *An interim guidance on emissions reduction*.[11]

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.[12]

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

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

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

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

9 AER, *Non-network ICT capital expenditure assessment approach,* November 2019.

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

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

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

- AusNet's regulatory proposal and accompanying documents and models
- AusNet's responses to our information requests
- stakeholder comments in response to our Issues Paper
- 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 the major stations capex proposal.

2.1 Draft decision

Our draft decision is to not accept AusNet's proposed total forecast capex of $2,437.0 million ($2026–27) for the 2027–32 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 $1,710.9 million, which is 29.8% 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 draft decision on AusNet's total net capex forecast ($million, 2026–27)

	2027–28	2028–29	2029–30	2030–31	2031–32	Total
AusNet's proposal	620.2	625.7	456.6	408.9	325.7	2,437.0
AER's draft decision	465.2	429.3	292.0	273.0	251.4	1,710.9
Difference ($)	-155.1	-196.4	-164.6	-135.9	-74.2	-726.2
Difference (%)	-25.0%	-31.4%	-36.0%	-33.2%	-22.8%	-29.8%

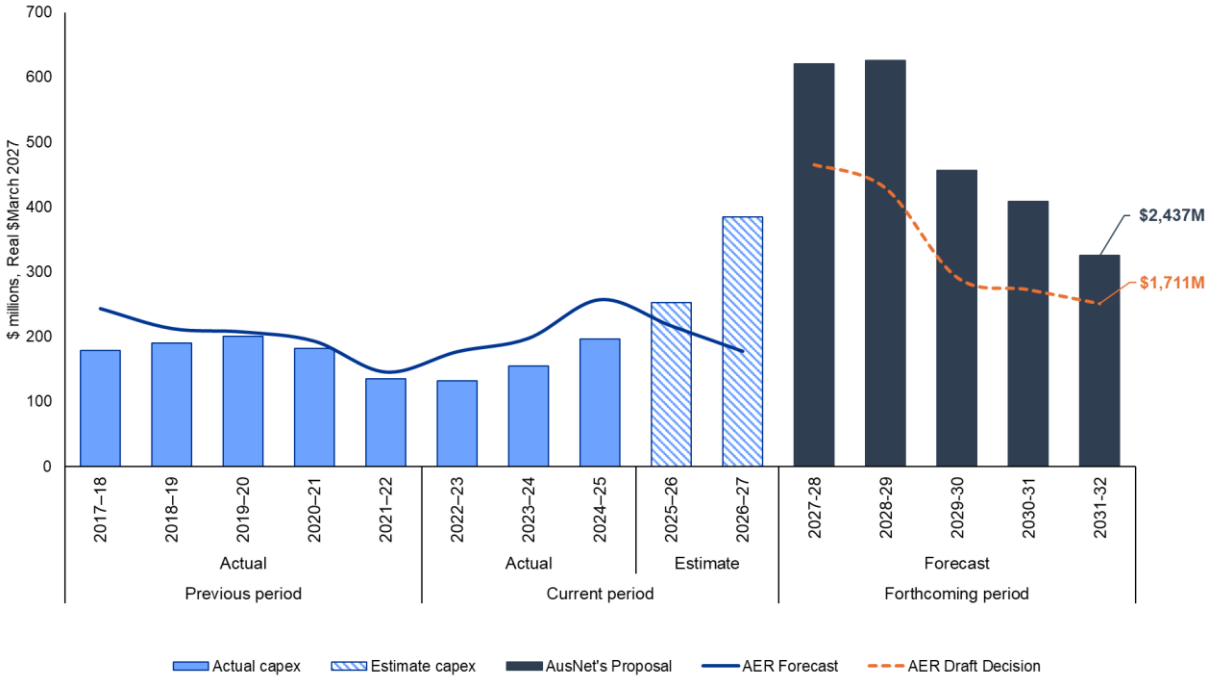
Source: AusNet's proposal and AER analysis.
Note: Numbers may not add up due to rounding.

2.2 AusNet's proposal

AusNet's proposal forecasts $2,437.0 million ($2026–27) capex over the 2027–32 regulatory control period. This represents an increase of approximately 117.8% compared to actual and expected expenditure over the 2022–27 period.

Figure 2-1 outlines AusNet's historical capex trend, its proposed forecast for the 2027–32 regulatory control period, and our draft 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 major station replacements, other asset replacements, compliance expenditure and ICT.

Figure 2-1 AusNet's historical and forecast capex ($million, 2026–27)



Source: AER RIN Database and AER Analysis.
Note: Nominal figures converted to real dollars 2026–27.

AusNet expects to overspend its capex in the current 2022–27 period by $94.9 million ($2026–27) or 9.2% compared to our forecast. As shown in Figure 2-1, a majority of this expected overspend is to occur in the last 2 years of the current period. This may trigger an ex-post review in the 2032–37 regulatory determination.[13] However, AusNet incurred total capex below its regulatory forecast for the current ex-post review period (2020–21 to 2024–25 regulatory years) and on this basis, the overspending requirement for an efficiency review of past capex is not satisfied. We note that a majority of this step up is because of increased labour and material costs.

AusNet's proposed forecast investment requirement in the 2027–32 period is a further 117.8% higher than expected investment in the current period. AusNet submitted that the uplift reflects the need to undertake several large projects to address the aging condition of its network, including replacement infrastructure for the 500 kV substations and to maintain safety and reliability for its customers.[14] AusNet states that its forecasts are based on condition and risk-based economic assessment, and that the program has been tested for deliverability and informed by stakeholder engagement.[15]

AusNet is proposing material increases in all capex categories, this includes increasing:

- major station replacement expenditure by 136.0% ($1,121.1 million or 46.0% of its total forecast capex) to manage and maintain its ageing assets at critical 500kV terminal

13 NER, S6A.2.2A.

14 AusNet, *TRR 2027-32 Revenue Proposal*, 7 November 2025, p. 62.

15 AusNet, *TRR 2027-32 Revenue Proposal*, 7 November 2025, p. 9.

stations including key interconnector points, which it considers necessary to support the reliability and security of electricity supply across Victoria

- replacement – other expenditure by 77.8% ($655.0 million or 26.9% of its total forecast capex) to manage and maintain its aging assets across the network with a continued focus on assets nearing end of life. AusNet attributes this uplift primarily to increased volumes of line replacement works, including higher insulator replacements due to failure and corrosion issues and tower replacements in corrosive environments, together with material and labour cost increases
- compliance and resilience expenditure by 482.7% ($250.0 million or 10.3% of its total forecast capex). The increase in compliance and resilience expenditure is primarily driven by the introduction of new programs to address safety risks, strengthen network resilience to extreme weather, and meeting regulatory expectations on safety and security of the network
- information and technology (ICT) expenditure by 89.3% ($256.1 million or 10.5% of its total forecast capex). AusNet states that the increase in this period is driven by an Advanced Energy Management System capability uplift, expanded cyber security requirements, and enhanced landholder engagement systems.

Table 2-2 provides a breakdown of AusNet's capex proposal in more detail.

Table 2-2 AusNet's 2027–32 capex proposal compared to 2022–27 ($million, 2026–27)

Category	AusNet's 2022–27 actual/estimate	AusNet's proposal	% change 2027–32 proposal vs 2022–27 actual/estimate	% over proposed gross capex
Replacement - Major Stations	475.1	1,121.1	136.0%	46.0%
Replacement – Other	368.4	655.0	77.8%	26.9%
Compliance and Resilience	42.9	250.0	482.7%	10.2%
ICT capex	135.3	256.1	89.3%	10.5%
Non-network capex	41.3	73.8	78.8%	3.0%
Capitalised overheads	58.5	83.5	42.7%	3.4%
Gross Total	**1,121.5**	**2,439.5**	**117.5%**	**100.0%**
Less Disposals	2.8	2.5	-13.2%	
Net Total	**1,118.7**	**2,437.0**	**117.8%**	

Source: AER analysis; AusNet, *TRR 2027–32 Capital Expenditure Model*, 31 October 2025.
Note: The totals for Replacement – Major Stations, Replacement - Other, and Compliance and Resilience categories are estimated based on table 4-1 of AusNet's proposal. AusNet's figures supplied in its proposal included overheads; to exclude overheads, we have proportionally adjusted the totals supplied by AusNet.

2.3 Reasons for draft decision

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 resilience and cyber security. 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 draft decision is reflective of this approach.

Further, in considering the scope of our review we had regard to how AusNet has performed against the Better Resets Handbook expectations for capex.[16] We consider that AusNet has satisfied the capex expectations related to evidence of alignment with asset and risk management standards and genuine consumer engagement on its capex proposal but has not satisfied the remaining expectations. In this case we have undertaken a bottom-up review in most capex categories.

Our assessment against each expectation is set out in Table 2-3.

Table 2-3 Better Resets Handbook capex expectations

Capital expenditure expectations	AER Position
Top-down testing of the total capex forecast and at the category level.	AusNet has not met this expectation as the total forecast capex is 117.8% above current period actual/estimate expenditure and there is also a material increase above current expenditure for all of AusNet's capex categories, as set out in Table 2.2 above.
Evidence of prudent and efficient decision-making on key projects and programs.	AusNet has not satisfied this expectation. While it provides quantitative evidence of prudent and efficient decision-making such as cost benefit analysis for some projects and programs, in some cases, we found project scope, costs and/or benefits were higher than reasonable. We also have concerns over AusNet's economic model input assumptions and interpretation of economic model results such that we are not satisfied that its forecast capex will result in the greatest net benefit to consumers.
Evidence of alignment with asset and risk management standards.	AusNet has met this expectation. AusNet provided detailed information on its planning and asset management practices which is largely consistent with good industry practices. Key asset management documents outline the processes and approach to quantitative cost-benefit analysis.
Genuine consumer engagement on capital expenditure proposals.	AusNet has met this expectation. AusNet has undertaken a detailed and structured customer engagement in preparation of its proposal. Stakeholder submissions indicated that overall, the consumer engagement was conducted well.

[16] AER, *Better Resets Handbook – Towards Consumer Centric Network*, December 2021, pp. 19–23.

Throughout the assessment, AusNet has provided timely responses and engaged constructively and proactively. Based on the information before us, we have reviewed AusNet's total capex forecast from a top-down and bottom-up perspective.

Our top-down testing of AusNet's forecast capex informed the scope of our bottom-up review, noting a total forecast materially above current period actual estimates across all categories, with a material step up in replacement, compliance and ICT related expenditure.

Given these top-down findings, we have undertaken a bottom-up review on most capex categories. The Consumer Challenge Panel (CCP34) also emphasised the proposed uplift underscores the importance of close scrutiny of the forecast capex.[17]

We have not accepted AusNet's forecast in full, because we found that it did not provide sufficient quantitative evidence to support its material 117.8% step up in expenditure. Our draft decision includes $1,710.9 million in total forecast capex, which is $592.2 million or 53% more than AusNet's actual/estimated capex for the current period.

Based on the information provided, we have identified several key components of AusNet's forecast that it has not demonstrated are prudently required to maintain the safety, reliability or security of the network and contribute to achieving emissions reduction targets or reflect the efficient costs of doing so. These are AusNet's proposed capex programs for major station and other replacements, compliance, resilience, ICT and non-network other.

AusNet's replacement expenditure made up the bulk of its proposal, at around 72.9% or over $1.7 billion, and included substantial major station replacements for its more complex and expensive 500 kV network.

Replacement expenditure is required to maintain the safety, security and reliability of the network. AusNet's proposal included $1,121.1 million for replacement work on its major station assets and $655.0 million for other replacements which includes towers, insulators, conductors and communication and secondary systems.

Our draft decision includes alterative estimates for the following:

- Replacement – major stations
  - AusNet proposed $1,121 million for replacement – major stations capex. Our draft decision is to include $834.7 million. This is $286.5 million or 25.6% less than what AusNet proposed.
  - Our alternative estimate reflects the deferral of certain proposed projects by one or more years (and, in some cases, beyond the end of the next regulatory control period) and removing risk allowances and contractor incentives that have been applied without sufficient justification.
- Replacement – other assets
  - AusNet proposed $655.0 million for replacement – other assets. Our draft decision is to include $467.4 million. This is $187.6 million or 28.6% less than what AusNet

[17] CCP34, *Submission - AusNet Services 2027–32 electricity transmission revenue proposal*, February 2026, p. 15.

proposed. Our alternative total forecast capex includes expenditure on many in-flight projects including $165.1 million on stage 2 of AusNet's Portland tower replacements and a placeholder alternative of $11.4 million for metering.
  - We adjusted AusNet's programs following the identification of systematic issues within its economic models, and reduced the scope and costs of certain projects where we consider the proposed expenditure is neither prudent nor efficient, including the removal of risk allowances that are not sufficiently justified.

- Compliance
  - AusNet proposed $216.0 million on compliance expenditure. This represents a 403.4% increase on the actual/estimated compliance expenditure for the current period. Our draft decision is to include $80.3 million.
  - This is $135.6 million or 62.8% less than AusNet's proposed compliance expenditure. Our alternative estimate for compliance expenditure is $37.4 million or 87.2% more that AusNet's actual/estimated compliance expenditure for the current period.
  - This includes $23.6 million to address several low span lines where ground clearance needs to be rectified and a placeholder alternative for physical Security of Critical Infrastructure (SOCI) related expenditure of $36.1 million.
  - We have included most of AusNet's proposed projects, including fall arrest projects and the majority of the SOCI and non-SOCI security items. However, we have concerns that the supporting information provided in AusNet's proposal, including responses to our information requests, does not provide sufficient justification for the proposed scope of several projects.

- ICT
  - AusNet proposed $256.1 million on ICT capex. Our draft decision is to include $208.8 million. This is $47.3 million or 18.5% less than what AusNet proposed. This includes $52.3 million for cyber security expenditure and a placeholder alternative of zero for AusNet's $12.4 million metering ICT capex, which is contingent on AusNet's metering replacement program.
  - We recognise the need for an uplift in capex, including the proposed Advanced Energy Management System upgrade. Our alternative estimate for ICT reflects the exclusion of some items where we consider the benefits to customers are not demonstrated and the economic case is not sufficiently justified.

- Resilience
  - AusNet proposed $34.0 million on resilience. Our alternative forecast is $13.2 million. This is $20.8 million or 61.1% less than what AusNet proposed.
  - Our alternative reflects a program we consider delivers a higher benefit to cost ratio and greater value for money for customers based on information supplied.

- Other non-network
  - AusNet proposed $18.4 million for other non-network capex. Our draft decision is to include $14.9 million. This is $3.4 million or 18.6% less than what AusNet proposed.
  - Our decision excludes two programs that were not sufficiently described or justified.

Our draft decision total capex forecast includes AusNet's proposed property and fleet expenditure.

Table 2-4 sets out our draft decision for AusNet by capex category.

Table 2-4 AER draft decision by capex category ($million, 2026–27)

Category	AusNet's proposal	AER draft decision	Difference ($/%)	
Replacement – major stations	1,121.1	834.7	-286.5	-25.6
Replacement – other assets	655.0	467.4	-187.6	-28.6
Compliance	216.0	80.3	-135.6	-62.8
Resilience	34.0	13.2	-20.8	-61.1
ICT	256.1	208.8	-47.3	-18.5
Property	43.4	43.4	-	-
Fleet	12.1	12.1	-	-
Non-network - other	18.4	14.9	-3.4	-18.6
Capitalised overheads	83.5	69.5	-14.0	-16.8
Gross Total	**2,439.5**	**1,744.3**	**-695.3**	**-28.5**
Less disposals	-2.5	-2.5	-	-
Modelling adjustments	**-**	**-31.0**	**-31.0**	
Net Total	**2,437.0**	**1,710.9**	**-726.2**	**-29.8**

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

We are satisfied that our alternative forecast of total capex of $1,710.9 million is reasonable and sufficient for AusNet to maintain its network.

Our capex review has focused on AusNet's replacement expenditure but we recognise that augmentation and connections, which are outside of our review, will also put pressure on AusNet to deliver on its network investments over the 2027–32 period.

In terms of AusNet's replacement program, we consider that AusNet has placed deliverability as a high priority as part of its proposal, and has appropriate governance and procurement processes to consider deliverability constraints. AusNet has an established history demonstrating its ability to deliver its replacement programs through internal and partner labour availability and the procurement of long-lead materials.[18]

Replacements are largely recurrent in nature, based on condition monitoring over time and allows for proactive replacement, which assists in planning delivery over extended periods of

[18] AusNet, *TRR 2027-32 Appendix 4G Deliverability Strategy*, 10 November 2025, pp. 11–17.

time. Notwithstanding AusNet's major station program is a 136.0% uplift on the current period:

- several of the major station programs are currently under way, and AusNet is anticipating that 90% of the major station projects will have commenced by 2027–28[19]
- the increase in expenditure is being driven by material and labour cost increases rather than large uplifts in the volume of work required.

It is for these reasons that we consider AusNet is taking all the necessary steps to enable it to deliver on its replacement and compliance programs over the coming period.

Table 2-5 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 draft decision are contained in Appendices A.1 to A.6.

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 2-5 Summary of findings and reasons, by capex category

Issue	Findings and reasons
Replacement – major stations	We have not included all of AusNet's replacement – major stations expenditure in the total forecast capex. AusNet proposed $1,121.1 million ($2026–27) for major station replacement capex. Our draft decision is to include $834.7 million for major station replacement capex. This is $286.5 million or 25.6% less than what AusNet proposed. We consider that: • the majority of AusNet's forecast for major stations repex appears reasonable • cost estimations include contractor incentives, certain equipment costs and unit rate uplifts, which have not been sufficiently justified • generic risk allowances are not supported by an itemised risk register linking costs to clearly identified assessable risks • AusNet's cost estimation methodology is reasonable but has not shown a reduction in allowances as project scope is refined, resulting in potential over-estimation. Our alterative forecast for major station replacement adjusts AusNet's modelling inputs and forecast costs, resulting in changes to proposed project expenditure and timing. Our reasons for this are set out in Appendix A.1.(Replacement – major stations).

[19] AusNet, *TRR 2027-32 Appendix 4G Deliverability Strategy*, 10 November 2025, p. 3.

Issue	Findings and reasons
Replacement – other assets	We have not included all of AusNet's replacement – other assets expenditure in the total forecast capex. AusNet proposed $655.0 million ($2026–27) for other asset replacement capex. Our draft decision is to include $467.4 million for other asset replacement capex. This is $187.6 million or 28.6% less than what AusNet proposed. We consider that: • the majority of AusNet's proposed repex–other appears reasonable • AusNet's economic modelling is subject to systematic issues in both its assumptions and the application of outputs to forecast expenditure • certain project scopes and forecast costs are not sufficiently justified • generic risk allowances are not supported by sufficiently detailed, project-specific risk information, as discussed in the major station section. Our reasons for this are set out in Appendix A.2 (Replacement – other assets).
Compliance	We have not included all of AusNet's compliance expenditure in the total forecast capex. AusNet proposed $216.0 million ($2026–27) for compliance capex. Our draft decision is to include $80.3 million for compliance. This is $135.6 million or 62.8% less than what AusNet proposed. We consider that: • there is a need to uplift compliance expenditure and further works are required • certain project scopes and forecast costs have not been sufficiently justified • AusNet's economic modelling is subject to systematic issues in both its assumptions and the application of outputs to forecast expenditure • generic risk allowances are not supported by sufficiently detailed, project-specific risk information, as discussed in the major station section. Our reasons for this are set out in Appendix A.3 (Compliance).
Resilience	We have not included all of AusNet's resilience expenditure in the total forecast capex. AusNet proposed $34.0 million ($2026–27) for resilience capex. Our draft decision is to include $13.2 million for resilience capex. This is $20.8 million or 61.1% less than what AusNet proposed. We consider that: • the scope of AusNet's resilience expenditure is not justified • generic risk allowances are not supported by sufficiently detailed, project-specific risk information, as discussed in the major station section. Our reasons for this are set out in Appendix A.4 (Resilience).

Issue	Findings and reasons
ICT	We have not included all of AusNet's proposed ICT forecast in the total forecast capex. AusNet proposed $256.1 million ($2026–27) for ICT capex. Our draft decision is to include $208.8 million for ICT. This is $47.3 million or 18.5% less than what AusNet proposed. We consider that: • most of AusNet's ICT expenditure is reasonable, including recurrent expenditure • the need for some items was not demonstrated, and some items are not economic when overestimated or duplicative benefits are adjusted • cost allocations were not consistent between AusNet's businesses and required adjustment. Our alternative estimate is based on adjustments to remove expenditure where the scope was not justified. We have also included an ICT metering alternative of zero as a placeholder, which is dependent on replacement expenditure. Our reasons for this are set out in Appendix A.5 (ICT).
Property	We have included all of AusNet's proposed property forecast in the total forecast capex. AusNet proposed $43.4 million ($2026–27) for property capex. AusNet's property program is largely shared between both the transmission and distribution segment of its business. Given this, AusNet's property expenditure was assessed holistically and deemed reasonable in the distribution determination.[20]
Fleet	We have included all of AusNet's proposed fleet forecast in the total forecast capex. AusNet proposed $12.1 million ($2026–27) for fleet capex AusNet's fleet expenditure includes replacement, growth and contract related changes. AusNet's replacements were in line with historic and we found the additional expenditure to be reasonable.
Other non-network capex	We have not included all of AusNet's proposed other non-network capex in the total forecast capex. AusNet proposed $18.4 million ($2026–27) for other non-network capex. Our draft decision is to include $14.9 million for other non-network capex. This is $3.4 million or 18.6% less than what AusNet proposed. AusNet's proposed other non-network capex consisted of replacements to testing equipment. Our assessment of AusNet's forecast found two unsubstantiated allowances. Our reasons for this are set out in Appendix A.6 (Other non-network capex).

[20] AER, *Final Decision – AusNet Services distribution determination 2026–31 – Attachment 2 – Capital expenditure*, April 2026, p. 10.

Issue	Findings and reasons
Capitalised overheads	We have included all of AusNet's proposed capitalised overheads in the total forecast capex. AusNet proposed $83.5 million ($2026–27) for capitalised overheads capex. Our draft decision is to include $69.5 million for capitalised overheads capex. This is $14.0 million or 16.8% less than what AusNet proposed. This is because capitalised overheads are an allocated portion of total forecast capex, requiring a modelling adjustment based on our alternative forecast of total capex. The adjustment to capitalised overheads reflects this impact for the capex categories for which overheads have been allocated.
Disposals	We have included AusNet's asset disposal forecast in the total forecast capex.
Modelling adjustment	Our draft decision includes standard modelling adjustments for updated inputs to inflation and labour real cost escalation. Consistent with our decisions in previous revenue determinations,[21] we do not accept AusNet's proposal to apply real cost escalation to contract labour. When a network engages a service provider, the price growth it faces is after productivity growth. As such, we consider that providing real wage escalations for contract labour overstates the expenditure requirement. We have applied real escalation to internal labour only.
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.[22] We may exclude capex from being rolled into the RAB when a network service provider has overspent the amount of capex above the forecast that does not reasonably reflect the capital expenditure criteria.[23] We have reviewed AusNet's capex performance for the 2021–22 to 2024–25 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.

21 AER, *Final Decision – Citipower distribution determination – Attachment 2 – Capital expenditure*, April 2026, p. 10; AER, *Final Decision – AusNet distribution determination 2026–31 – Attachment 2 – Capital expenditure*, April 2026, p. 11; AER, *Final Decision – SA Power Networks distribution determination 2025–30 – Attachment 5 – Capital expenditure*, April 2025, p. 6.

22 NER, S6A.2.2A.

23 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:

- replacements – major stations (A.1)
- replacements – other assets (A.2)
- compliance (A.3)
- resilience (A.4)
- information and communication technology (A.5)
- non-network other (A.6).

A.1 Replacements – major stations

Replacement expenditure (repex) must be set at a level that meets 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;
- the asset does not meet the relevant jurisdictional safety regulations and can no longer be safely operated on the network; or
- the risk of using the asset exceeds the benefit of continuing to operate it on the network.

AusNet's repex comprises projects related to the sites designated as major stations by AusNet and other repex.

In this section, we will discuss major station repex.

A.1.1 AER's draft decision

We are not satisfied that AusNet's proposed $1,121.1 million ($2026–27) for major station capital expenditure would form part of a total capex forecast that reasonably reflects the capex criteria. Our draft decision includes an alternative forecast of $834.7 million, which is $286.5 million or 25.6% lower than AusNet's proposal.

Our alternative estimate reflects deferring the economic timing of certain proposed projects by one or more years (and, in some cases, beyond the end of the next regulatory control period) and removing risk allowances and contractor incentives that have been applied without sufficient justification.

A.1.2 AusNet's proposal

AusNet has proposed $1,121.1 million in major stations repex, which makes up 46.0% of AusNet's capex proposal. This is an increase of 136.0% over its actual/estimated major station repex from the 2022–27 regulatory period.

AusNet's proposed major station projects comprise 18 replacement projects on transformers, switchgear/circuit breakers, and reactor replacement at terminal and power stations. Of these, 5 projects ($99.9 million, 8.9% of total major station projects) are classified as 'in-flight' projects. The transformer and switchgear replacement project at Templestowe terminal station is forecast to be completed in the current period and there is no expenditure planned in the next period. The 330/220kV transformer and circuit breaker replacement at Dederang Terminal Station is a contingent project and discussed in Appendix B.

The new major station projects indicate a transition from replacing its 220kV assets to the replacement of higher value, more complex and expensive 500kV assets.[24]

AusNet submits that its repex expenditure is primarily driven by:[25]

- addressing deteriorating and aging assets; and
- increasing unit costs that reflect market-driven pressures.

A.1.3 Reasons for decision

We have not accepted all the proposed expenditure for major station repex. We are not satisfied that AusNet has provided adequate justification to demonstrate that the expenditure is prudent and efficient. Our assessment is based on AusNet's proposal, additional information provided by AusNet through information requests and workshops and submissions from stakeholders. Further, we engaged EMCa to undertake a technical review of AusNet's major stations repex proposal.

We have reviewed AusNet's forecasting methods, the scope, need and timing of the proposed projects as well as AusNet's approach to the cost build up. Based on the information provided, we consider that the majority of AusNet's forecast for major stations repex appears reasonable. However, certain underlying assumptions have led to an overestimation in the proposed expenditure for the 2027–32 regulatory control period.

Based on AusNet's information, we also identified a systematic overestimation of cost estimates arising from:

- the inclusion of inadequately justified allowances, including contractor incentives
- a lack of demonstrated progressive refinement of forecast expenditure as project scope has matured, leading to potential duplication of allowances for uncertainty and risk.[26]

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24 AusNet, *TRR 2027-32 Revenue Proposal*, 7 November 2025, p. 14.

25 AusNet, *TRR 2027-32 Revenue Proposal*, 7 November 2025, p. 14.

26 EMCa, *Assessment of AusNet transmission major station repex,* March 2026, p. xi.

In addition, consistent with our recent decisions, we have removed risk allowances that have not been sufficiently justified.

We consider there are 6 projects which could be prudently deferred and that the scope of a further two projects could be reduced.

Our consideration of the key issues and our finding on AusNet's cost estimation and optimal timing, for its major station projects is outlined below.

Cost estimation

AusNet has included contractor incentives and risk allowances in its forecast expenditure; however, we consider that these have not been sufficiently justified.

Contractor incentive

AusNet included contractor incentives to all major stations repex projects and according to AusNet is payable only if agreed performance targets are achieved for that project.[27]

EMCa does not consider there is a clear linkage to the value for consumers.[28] We agree with EMCa and consider that managing contractors to deliver the projects is AusNet's responsibility. AusNet has discretion over how contractor performance is managed, so any additional costs incurred in managing contractors should not be passed on to customers.

Accordingly, we have excluded all contractor incentives related to the proposed projects.

Progressive refinement of forecast expenditure

EMCa noted several concerns indicating a potential systematic overestimation in the forecast. For example, AusNet has not demonstrated that it adjusts its cost estimates in accordance with its established forecasting methodology. We agree with EMCa that AusNet has a reasonable cost estimating methodology which, if appropriately applied, should result in a reasonable estimate of its project costs. This requires AusNet's cost estimate to be progressively refined as projects move through 'Stage Gates', including from options analysis to business cases.[29] However, AusNet has not shown the anticipated reduction in broad allowances that we would expect, especially as the scope accuracy is improved.

Risk allowance

AusNet has included risk allowances for certain proposed projects. AusNet has included the risk allowance to manage asymmetric risk in forecasting costs, reflecting risk factors including the impacts of changes in project scope, contractor delay, weather, new design standards, asset condition risk, technology change or obsolescence, and system strength issues (creating outage management risks that impact crew mobilisation costs).[30]

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27 EMCa, *Assessment of AusNet transmission major station repex,* March 2026, p. 26.

28 EMCa, *Assessment of AusNet transmission major station repex*, March 2026, p. 26.

29 EMCa, *Assessment of AusNet transmission major station repex,* March 2026, p. 24.

30 AusNet, *TRR 2027-32 Revenue Proposal*, 7 November 2025, pp. 74–75.

AusNet used different approaches to quantify the risk allowance. It has applied a P50 risk[31] for certain major station repex ranging from 2.9% to 8.9%, and a blanket 7.5% for certain other repex projects. For major station repex, EMCa observed that AusNet has tended to include uncertainty for several factors both in its direct cost estimate and in its calculation of its P50 risk allowance, such that there is a level of duplication of cost.[32]

Consistent with our determination for AusNet distribution and other recent decisions,[33] as a general principle, we only accept risk allowances in limited circumstances that are specific to a particular project or program. For example, risks that relate to a realistic latent condition with the site(s), 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 cost(s). We do not accept a general contingency allowance, and this is reflected in several recent decisions.

We did not accept proposals to apply a non-specific percentage-based risk allowance across capex programs and projects, including Power and Water Corporation distribution determination 2024–29, Essential Energy Bushfire Reclassification Contingent Project decision 2025, AusNet Services Determination 2026–31 and the AGN access arrangement decision 2026–31.[34]

While we acknowledge that the AER's 2022–27 AusNet transmission determination accepted broader forms of contingency allowances (including a 7.5% uplift), more recent decisions have clarified and developed this approach. Consistent with current practice, any risk allowance must be supported by clearly defined, project-specific risks, in line with the general principle outlined above.

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 probability of it occurring. AusNet has not provided an itemised risk register for the projects that we would expect in order to assess the need for a risk allowance.

We expect the risk register to:

- identify all material risks and assign clear ownership
- quantify likelihood and consequences (including cost and schedule impacts)

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31 P50 refers to a cost estimate at a 50% confidence level, meaning there is an equal likelihood that actual costs will be higher or lower than the estimate.

32 EMCa, *Assessment of AusNet transmission major station repex,* March 2026, p. 27.

33 AER, *Final Decision – AusNet Services distribution determination 2026–31 – Attachment 2 – Capital expenditure*, April 2026, pp. 15–16; AER, *Final Decision – AGN access arrangement 2026–31 – Attachment 2 – Capital expenditure*, May 2026, pp. 12–14.

34 AER, *Final Decision - Power and Water Corporation electricity distribution determination 2024–29 – Attachment 5 – Capital expenditure*, April 2024, p. 15; AER, *Essential Energy Bushfire Risk Reclassification Contingent Project determination*, June 2025, p. 14; AER, *Final Decision – AusNet Services distribution determination 2026–31 – Attachment 2 – Capital expenditure*, April 2026, pp. 15–16; AER, *Final Decision – AGN access arrangement 2026–31 – Attachment 2 – Capital expenditure*, May 2026, pp. 12–14.

- provide estimates of impacts under optimistic, most likely and pessimistic scenarios to support probabilistic analysis
- document controls and mitigation measures which clearly identify how each risk is treated – including whether it is retained by the network business, transferred to contractors, covered by insurance, or excluded from the estimate
- demonstrate how risks are reflected in cost and schedule outcomes and actively managed over time.

Based on the information provided by AusNet, we do not consider that the contingency risk allowances applied broadly to various capex programs and projects are for specific risks that are reasonably likely to arise and are beyond the control of AusNet, such as environment or condition-based risks.

As an experienced network transmission provider, project delivery risks such as impacts of changes in project scope, contractor delay, weather, new design standards, asset condition risk, technology change or obsolescence, and system strength issues, are best managed by AusNet rather than customers. We consider that including a unit rate risk adjustment would result in double counting or customers paying a premium for costs that may not eventuate.

We do not accept AusNet's proposed general contingency risk allowances included across various capital expenditure estimates and unit rates. AusNet should provide adequate justification and evidence for any proposed risk allowance, demonstrating that it relates to a specific, identifiable risk associated with a particular project, consistent with the principles outlined in this section.

For the projects we have accepted, a total $87.0 million ($2024–25) of risk allowance has been excluded from our alternative estimates. This comprises $55.2 million associated with major station repex projects, $29.3 million for other repex, $1.6 million for compliance-related projects, and $0.9 million for resilience projects.

Projects that could be prudently deferred

EMCa found evidence that the assumptions AusNet has applied have led to a higher level of capex. These assumptions relate to scope, cost increases, and calculation of the unserved energy and probability of failure that lack evidence and which are in some cases overestimated.[35]

As part of the responses to our information requests, AusNet advised that it had identified an error in its analysis.[36] After correcting for this error, the economic timing of several projects is later than AusNet initially proposed. As a result, two projects were deferred. This is in addition to other projects we consider can be prudently deferred.

Below, we provide a discussion of each project. While the underlying need for these projects are reasonable, their economic timing may be deferred.

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35 EMCa, *Assessment of AusNet transmission major station repex,* March 2026, p. 8.

36 EMCa, *Assessment of AusNet transmission major station repex,* March 2026, pp. 11–12, 76–77; AusNet, *Response to AER information request IR#007*, 15 December 2025.

Thomastown Terminal Station circuit breaker replacement project deferred beyond next period

We are concerned that the failure rates AusNet assumed in its modelling may be higher than is indicated by its asset condition. Additionally, the adoption of a lower discount rate for this specific project appears to have accelerated the project's timeline without adequate justification.[37] After adjusting for these assumptions, the economic timing is projected to be 2034, which is beyond the next regulatory control period.

Loy Yang Power Station and Hazelwood Terminal Station circuit breaker replacement project deferred by 2 years

EMCa's review considers that the 500kV circuit breaker and current transformer replacement costs assumed by AusNet are higher than in other projects, with no clear explanation provided. The project's timing is highly sensitive to these costs. Our draft decision includes a prudent two-year deferral for this project.

Newport Power Station D gas insulated switchgear replacement project deferred by 2 years

EMCa found that AusNet's own economic model indicates the economic timing for the project is 2034 (as this is when the annual project benefits exceed the annual project cost), rather than 2032 as proposed by AusNet. As a result, the project start can be deferred by two years.

Wodonga Terminal Station spare transformer project deferred beyond next period

AusNet has included a cost of $12.1 million for the purchase of a spare transformer, which is materially higher than the $7.5 million included for a similar project for the purchase of a spare transformer for the Wodonga Terminal Station project TD-0007975.[38] In addition, this project is predicated on the assumption that the old 'connection enablement' project from AusNet distribution will proceed. However, we did not accept this project in our draft decision and this was not included in AusNet distribution's revised proposal.[39] AusNet has updated the economic timing to beyond the next regulatory control period in a response to our information request.[40]

Moorabool Terminal Station reactor deferral by 2 years

AusNet has not provided sufficient information to justify the assumed market benefits from mitigating the voltage support costs for an N-1 failure of the shunt reactor continuing at an elevated level until 2070. We consider it reasonable to replace the reactor within the next 10 years (i.e. by 2035) given its reported condition, AusNet's own economic analysis does not support the inclusion of this project in the next regulatory control period.[41]

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37 EMCa, *Assessment of AusNet transmission major station repex,* March 2026, p. 66.

38 EMCa, *Assessment of AusNet transmission major station repex,* March 2026, p. 76.

39 AER, *Draft Decision – AusNet Services distribution determination 2026–31 – Attachment 2 – Capital expenditure*, September 2025, p. 11. AusNet did not include the connection enablement project in its revised proposal; AusNet, *EDPR Revised Proposal 2026 – 31*, December 2025.

40 EMCa, *Assessment of AusNet transmission major station repex,* March 2026, pp. 11–12, 76–77; AusNet, *Response to AER information request IR#007*, 15 December 2025.

41 EMCa, *Assessment of AusNet transmission major station repex,* March 2026, p. 79.

Thomastown Terminal Station B4 transformer deferral by one year

AusNet has proposed delaying the delivery schedule to 2032 based on its updated analysis in response to our information request.[42] We consider this approach reasonable.

Projects with insufficient justification for changes in project scope and costs

There are a couple of in-flight projects for which construction has already commenced but not finished, and AusNet has not adequately substantiated the proposed increases in cost and scope compared to the 2022–27 forecast. AusNet advised that these projects are currently subject to its internal project change request process, through which changes to scope, cost and delivery are assessed and approved. However, the relevant documentation underpinning this process has not been provided to us.

Red Cliffs Terminal Station transformer & switchgear replacement

AusNet did not provide sufficient evidence and quantitative analysis to support its forecasts for this project. EMCa was unable to substantiate the basis for the qualitative analysis presented in the documents provided, and which are essentially just statements about the age of the assets.

Given this is an in-flight project, EMCa assessed the project to be reasonable and recommended removing the cost and scope increase, which accounts for approximately $10.3 million.[43]

We do not consider that AusNet has sufficiently justified the proposed cost and scope increase for this project. We would expect AusNet's revised proposal to include quantitative condition evidence, clear justification for the expanded scope, and supporting cost documentation. As a result, we agree with EMCa's recommendation.

Shepparton Terminal Station transformer and circuit breaker replacement

AusNet has not provided adequate information regarding the project change request or the details of the cost increase. As a result, EMCa is unable to assess the basis for the scope and cost forecast for the additional work proposed in the next regulatory control period.

In the absence of more comprehensive information, EMCa has recommended removal of an estimated cost and scope increase, which accounts for approximately $18.5 million, based on AusNet's response to our information request.[44]

We do not consider that AusNet has sufficiently justified the proposed cost and scope increase for this project. As a result, we agree with EMCa's recommendation.

Remaining projects

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42 EMCa, *Assessment of AusNet transmission major station repex,* March 2026, pp. 11–12, 86; AusNet, *Response to information request, IR#007*, 16 December 2025.

43 EMCa, *Assessment of AusNet transmission major station repex,* March 2026, pp. 43–46.

44 EMCa, *Assessment of AusNet transmission major station repex,* March 2026, pp. 39–42; AusNet, *Response to information request IR#001*, 3 December 2025.

For the remaining projects, we have largely accepted AusNet's proposal. However, as discussed earlier, we have removed the risk allowances and contractor incentives for all relevant projects.

We note that the economic timing is very sensitive to the demand growth forecast for two projects below:

- Keilor Terminal Station 500/220kV transformer replacement[45]
- Deferral of Thomastown Terminal Station B4 transformer by one year[46]

While we have accepted these projects for the purposes of this draft decision, we expect AusNet to revisit the implications of the 2025 demand forecast in its revised proposal and further assess the impact on the scope and timing of the work. There is the possibility that this could result in a case for prudent deferral beyond the next regulatory control period.

A.1.4 Alternative forecast for major station repex

Table A-1 below sets out AusNet's proposed capex and our alternative estimates for major stations.

Overall, our alternative estimate for major station repex is $834.7 million, representing a reduction of $286.5 million, or 25.6%, compared to AusNet's proposal. We consider this a reasonable forecast for AusNet to address the identified major station issues. Our alternative estimate is $359.6 million or 75.7% more than the actual/estimated major station expenditure for 2022–27, acknowledging that there is a genuine need for AusNet to increase investment in its 500kV stations.

Table A-1 AusNet's proposed capex and AER's draft decision for repex – major stations ($million, 2026–27)

Project	Proposal	Draft Decision	Difference ($)	Difference (%)
In-flight projects	**99.9***	**64.7**	**-35.2**	**-35.3%**
RCTS Transformer & Switchgear Replacement	35.1	21.7	-13.4	-38.2%
SYTS 500kV GIS Replacement	34.1	31.9	-2.2	-6.4%
SHTS Transformer and CB Replacement	18.4	-	-18.4	-100%
MLTS CB Replacement	12.3	11.1	-1.2	-9.7%
New major station projects	**1,021.3**	**770.0**	**-251.3**	**-24.6%**
SMTS 500kV GIS and F2 Transformer Replacement	264.3	238.9	-25.3	-9.6%

45 EMCa, *Assessment of AusNet transmission major station repex,* March 2026, p. 54.

46 EMCa, *Assessment of AusNet transmission major station repex,* March 2026, p. 86.

Project	Proposal	Draft Decision	Difference ($)	Difference (%)
KTS 500/220kV Transformer Replacement	226.2	207.0	-19.2	-8.5%
NPSD 220kV GIS	152.0	61.2	-90.8	-59.7%
SMTS 330/220kV Transformer Replacement	102.1	95.2	-6.9	-6.8%
LYPS and HWTS 500kV Circuit Breaker Replacement Stage 2	65.6	21.5	-44.1	-67.3%
ROTS 500 kV GIL Replacement	60.9	55.2	-5.8	-9.5%
BATS B2 Transformer Replacement	45.0	40.1	-4.9	-10.9%
TTS Circuit Breaker Replacement	30.8	-	-30.8	-100%
MWTS 66kV Circuit Breaker Replacement	21.9	19.5	-2.4	-10.8%
TTS B4 Transformer Replacement	21.8	19.5	-2.3	-10.5%
MLTS Reactor Replacement	18.5	12.0	-6.6	-35.5%
WOTS Spare 330/66/22kV Transformer Procurement	12.1	-	-12.1	-100.0%
Total major station	**1,121.1**	**834.7**	**-286.5**	**-25.6%**

Source: AusNet's capex model and AER analysis. Numbers may not sum due to rounding.
Note: Templestowe Terminal Station (TSTS) and the Switchgear Replacement is one of the in-flight projects and is forecast to be completed in the current period, no forecast cost for the 2027–32 regulatory control period.

A.2 Replacements – other assets

This section covers repex – other assets. These are repex programs outside of the major stations replacement projects designated by AusNet.

A.2.1 AER's draft decision

We are not satisfied that AusNet's replacement (other) capital expenditure proposal of $655.0 million would form part of a total capex forecast that reasonably reflects the capex criteria. Our draft decision includes an alternative forecast of $467.4 million, which is 28.6% less than AusNet's proposal.

This is driven by adjustments to AusNet's programs following the identification of systematic issues within its economic models, and reduced scope and costs of certain projects where we consider the proposed expenditure is neither prudent nor efficient, including the removal of risk allowances that are not sufficiently justified.

A.2.2 AusNet's proposal

AusNet has proposed $655.0 million in repex – other assets, which makes up 26.9% of AusNet's capex proposal. This is an increase of 77.8% over its actual/estimated repex – other assets from the 2022–27 regulatory period.

AusNet's repex proposal comprises of the following key replacement programs:

- Portland tower replacement - Stage 2 ($177.4 million)
- Transmission Line Insulators ($158.0 million), Structures ($30.0 million) and Conductors ($21.8 million)
- Communication Systems ($80.9 million)
- Secondary Systems ($36.9 million)
- Power Transformers and Oil Filled Reactors ($21.8 million)
- Circuit Breakers ($21.2 million)
- Auxiliary Power Supplies ($18.8 million)
- Metering ($18.3 million).

Among these key projects, the stage 2 Portland tower replacement is a one-off project that is exclusively on the Heywood terminal station lines supplying the Alcoa Aluminium Smelter.

AusNet submits that its repex expenditure is primarily driven by its aging network, as well as increasing labour and material costs resulting from market-driven cost pressures.[47] A risk allowance has been incorporated into some of these projects. During the assessment, AusNet indicated that the tranche 1 rectification low spans (transmission lines) project has been incorrectly classified as 'repex – other assets', and should instead be included under compliance projects. This project is discussed in Section A.3 below under compliance.

A.2.3 Reasons for decision

We have not accepted some of the proposed expenditure on repex – other assets. While we consider the majority of AusNet's proposed forecast for repex – other assets appears reasonable, our review has identified systematic concerns regarding the assumptions AusNet employed in its economic models, as well as the way the outcomes from the models have been interpreted and utilised in forecasting costs. These factors have led to project scope and cost forecasts that lack sufficient justification. Furthermore, we also consider that some elements within certain projects are not adequately supported and the inclusion of a risk allowance does not represent an efficient cost.

We outline these concerns further below.

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47 AusNet, *TRR 2027-32 Revenue Proposal*, 7 November 2025, p. 65.

Economic modelling

AusNet's economic model analysis compares the probability weighted expected cost of asset failure with the annualised cost of proactive replacement. Replacement is considered economic from the first year in which the expected failure cost exceeds the replacement cost. While the overall approach is reasonable, we have concerns regarding the inputs to the model and the way the outputs have been interpreted and used to inform the proposed repex.

Financial consequences assumptions

Financial consequence refers to the costs that arise when an asset fails, including expenditure required to restore service or replace the asset. In estimating the cost of failure, AusNet has treated the full asset replacement cost (and the only cost in most cases) as a financial consequence of failure. AusNet then compares this to an annualised replacement cost for proactive replacement to determine the economic timing for replacement. We are concerned that this approach results in an inconsistent comparison, as it compares a non-annualised cost with an annualised cost, leading to a bias where proactive replacement is preferred.

We consider a consistent treatment should apply to the annualised replacement cost in both cases. The economic models for major stations differ significantly from those for other replacement, and we have not observed this issue within the major station models.

We consider that AusNet's approach introduces a systematic bias toward earlier replacement by overstating the economic cost of failure in the early years.

We sought further clarification from AusNet through information requests to confirm our understanding of the approach and the rationale for its application. AusNet confirmed that our interpretation of its methodology was correct and advised that the full replacement cost is included as a financial consequence of failure because the expenditure is incurred in full in the year the asset fails, and that applying an annual probability of failure is intended to allow comparison with the annualised cost of proactive replacement. [48]

We have taken AusNet's explanation into consideration, but are not satisfied that it provides a sound basis for its approach. While the replacement cost is incurred by AusNet at the point of failure, it is capitalised and recovered from customers over the life of the asset, in the same way as a proactive replacement. Further, applying an annual probability of failure does not annualise the replacement cost, it simply scales it by the likelihood of failure. As a result, the comparison of the probability weighted full replacement cost on failure with the annualised cost of planned replacement is not like-for-like.

On this basis, we have updated the relevant economic models to reflect a consistent treatment of costs. This resulted in changes to the economic timing for replacement of certain assets within the projects and, consequently, our alternative estimates.

Replacements that are not economically justified in the next period

AusNet's economic modelling identifies the first year in which proactive replacement becomes economic for each asset over the modelling period, mostly up to year 2035.

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[48] AusNet, *Response to information request #012*, question 6, 16 January 2026.

However, in translating these results into its repex proposal, AusNet has included the replacement cost of all assets assessed in the economic models, rather than limiting proposed replacement to those assets that are economic to replace in the next regulatory period. While the modelling generally indicates that only a subset of assets warrants replacement within the next five years, AusNet's proposal includes repex for assets that its own modelling indicates are not yet economic to replace.

For example, AusNet has proposed $20.0 million (2024–25 dollars) for the transmission line conductors replacement program. However, this proposed repex reflects the total replacement cost of all assets assessed in the economic model. More than:

- half of the proposed replacements identified in the model do not become economic within the next five years
- 33.0% of the proposed replacements pertain to assets that are not projected to become economically viable for replacement within the modelling period to 2035.

This is an issue that is evident across all asset management models and forecasts. While AusNet's repex proposal reflects the aggregate replacement cost of assets assessed in the economic modelling, the modelling itself indicates that a substantial proportion of this work is not economic, and does not deliver value to customers, within the next regulatory period.

We engaged with AusNet through information requests to clarify our understanding of this approach and to seek further insight into why replacement is proposed for assets that are not yet economic to replace. AusNet advised that it may be appropriate to bring some replacement works forward to address constructability considerations, achieve efficiency benefits through bundled delivery, and support the integrity and reliability of interconnected assets, even where individual assets are not yet economic to replace on a standalone basis.[49]

We accept that considerations such as constructability, delivery efficiency and asset integrity are relevant factors in determining the timing and scope of replacement works. However, these factors should only justify limited departures from the economic timing demonstrated by the models, resulting in, at most, a relatively small increase in expenditure beyond what can be shown to be efficient within the regulatory period.

While bringing forward some related works may deliver efficiencies in certain circumstances, we consider that these benefits diminish rapidly as the works that are not economically justified are brought forward. In particular, bringing replacement works forward by five years or more is unlikely to deliver material efficiency benefits.

In addition, with the exception of the tower member replacement program, AusNet has not provided sufficient detail on the bundled scopes underpinning its proposal, nor analysis demonstrating that bringing forward additional works is more efficient than returning to the site in later years. As a result, we have not been able to verify whether the extent of bundling reflected in the repex proposal is justified on efficiency grounds.

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[49] AusNet, *Response to information request #024*, 10 April 2026.

Accordingly, we have only included replacement costs that can be demonstrated to be efficient within the next five years from 2026 in our alternative estimates for repex – other assets. Where AusNet proposes to bring forward replacement works ahead of the economic timing indicated by the models, it should demonstrate in the revised proposal, on a case-by-case basis, that doing so is efficient and delivers value to customers.

Assessment of elevated repex in 2026 from economic model outcomes

A further observation arising from our assessment, consistently reflected across all economic modelling results, is that a disproportionate proportion of asset replacement is identified as economic in 2026, resulting in a pronounced spike in repex in the first year of the modelling period.

We raised this issue with AusNet at a meeting to better understand the drivers of the elevated repex shown in 2026.[50] AusNet advised that, as part of developing each five-year revenue proposal, it updates its economic modelling to reflect changes in industry practice and the availability of new information. This can include updates to key inputs such as safety and environmental consequence values (including revised government guidance), values of customer reliability based on updated AER publications or customer studies, refreshed demand forecasts from AEMO or VicGrid, and new information arising from recent asset failures or updated condition assessments. AusNet then refines its asset risk assessment.

AusNet's application of updated inputs in its 2025 modelling has resulted in a concentration of assets with an economic replacement year of 2026. AusNet advised that this occurs because assets that, under the updated analysis, would have been economic to replace earlier are instead assigned to the first available year within the modelling period. AusNet further noted that this reflects its latest assessment that the risk associated with these assets is higher than previously understood, informed by updated economic modelling and engineering validation by subject matter experts. On this basis, AusNet proposes to undertake replacement of these assets in the 2027–32 regulatory period.

We are satisfied with AusNet's explanation. For a number of asset classes, AusNet has provided historical repex information, and average historical expenditure is broadly consistent with the level of repex identified as efficient in the first five years of the economic models, including the elevated expenditure in 2026.

On this basis, our alternative estimates include replacement costs shown to be efficient in the AusNet economic model within the first five years, commencing from 2026, for the 2027–32 regulatory control period.

Reliability and Asset Condition

Failures on the transmission network are very rare. While this reflects a high level of reliability for customers, it also means there is limited historical failure data available to reliably calibrate or validate theoretical probabilities of failure.

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[50] AER/AusNet meeting, 16 April 2026, after this meeting, AusNet provided further clarification; email 22 April 2026.

Assessments of network and asset condition rely heavily on inspection and testing outcomes, which are reflected in defect notifications. AusNet has provided data on reported defects over time for most asset classes.[51] This information does not indicate a broad deterioration in network condition, which is used as a proxy for future reliability.

Based on the information before us, we consider that AusNet has not demonstrated a deterioration in overall network condition that would justify replacement activity materially above historical levels. The exceptions to this are the Portland Tower Replacement and tower member replacement programs in the South West corridor, where condition issues have been identified and are being addressed through specific projects. We have accepted the $177.4 million Portland stage 2 replacement program ($165.1 million excluding the risk allowance).

Projects with insufficient justification for proposed scope

We identified a couple of projects for which the proposed scope was not supported by sufficient justification. As a result, forecast costs have been reduced where elements of the scope could not be established as prudent or efficient.

These are discussed further below.

Secondary systems

AusNet proposed expenditure of $36.9 million on secondary systems for protection and control, remote terminal unit replacement and weather stations. We are satisfied that AusNet has adequately justified the proposed protection and control and remote terminal unit replacement. This conclusion has considered the updated economic modelling and revised financial consequence assumptions, historical expenditure trends in the case of protection and control, and the availability of spares and original equipment manufacturer support in the case of remote terminal unit replacement. However, we have concerns regarding proposed repex on weather stations.

AusNet proposed to replace 21 of its 39 weather stations, based on its economic modelling. Of the existing fleet, around 23 weather stations are more than 20 years old, while approximately 14 are less than 10 years old. AusNet has advised that many older stations are legacy installations that require custom modifications to remain operational, lack compatibility with modern SCADA and analytics systems, and are less suitable for real-time monitoring and predictive maintenance.

We recognise that weather stations play a useful, though not critical, role and consider a program of progressive replacement appropriate. However, we are not satisfied the proposed scope, replacing more than half of the fleet within a single period, is justified. In practice, the proposal represents replacement primarily based on age rather than a prioritised, risk-based program. We consider that replacement of 21 weather stations can be prudently staged over 2 regulatory periods and have halved the proposed expenditure, allowing higher-priority

[51] AusNet provided data on the number of defect notifications for each of its asset types in the Asset Management Strategy reports; AusNet, *TRR 2027-32 Appendix 2A Asset Management Strategy*,10 November 2025.

weather stations on transmission lines to be replaced in the 2027–32 regulatory period and to commence the renewal of the remaining aged assets in the following period.

Our alternative estimate for secondary systems, after removing the risk allowance, is $30.9 million, representing a $6.0 million, or 16.2% reduction from AusNet's proposed repex of $36.9 million.

Metering

AusNet proposed $18.3 million with the following options for its metering fleet:

- replace the 'Mk3' meters over the period 2027 to 2029; and
- either:
    a) replace all 'Mk6e' meters in the period 2030 to 2031 (option 1 – AusNet's preferred option); or
    b) IT changes to the 'Eziview' meter software to allow it to run on Windows 11 (option 2).

In responding to our information request, AusNet identified an error in its economic model and provided a revised model for metering,[52] which forms the basis of our assessment.

We consider the proposed replacement of Mk3 meters reasonable. However, we have concerns regarding the proposed replacement of Mk6e meters in the next regulatory period. The average age of the Mk6e fleet is currently around 6 years and would be approximately 12 years at the end of the 2027–32 regulatory period. Given the age profile of the Mk3 meters at replacement, we consider it reasonable to assume that the Mk6e meters have an average service life of at least 22 years, implying a remaining life of around 10 years at the end of the next period. AusNet has also noted that Mk6e meters have not yet exhibited the same failure behaviour as Mk3 meters.

We consider the driver for bringing forward replacement of the Mk6e meters by around 10 years appears to be AusNet's concern regarding the ongoing use of the Eziview software, particularly its compatibility with Windows 11. However, we do not consider that this justification supports the proposed repex for early replacement. The estimated cost of addressing Eziview compatibility issues is materially lower than the cost of replacing the entire Mk6e fleet.

We also note inconsistencies in the evidence provided regarding vendor support. While AusNet advised that EDMI has removed support for Mk6e meters and Eziview, EDMI (the supplier) continues to promote the Mk6e meter and Eziview publicly.[53] On this basis we consider that the risks associated with continued operation of Mk6e meters and Eziview have not been demonstrated to warrant early replacement.

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52 AusNet, *Response to information request #021,* 23 March 2026.

53 EDMI, *https://www.edmi-meters.com/wp-content/uploads/2025/06/MKT-FS-023-Mk6E-Factsheet-Global-Rev-03-1.pdf* .

We encourage AusNet to continue discussions with EDMI regarding operation of Eziview in a Windows 11 environment and revisit the need for software expenditure once those discussions are resolved.

Our alternative estimate for the metering project is $11.4 million. This reflects inclusion of the proposed Mk3 replacement costs, removal of the cost for Mk6e, a zero placeholder for Eziview (because we need further evidence from AusNet that EDMI is no longer supporting Eziview), and removal of the associated risk allowance. This represents a reduction of $6.9 million, or 37.6%, relative to AusNet's proposed repex of $18.3 million.

Remaining projects

For the remaining projects, we have largely accepted AusNet's proposal. However, as discussed earlier, we have removed risk allowances for all relevant projects under repex – other assets (excluding Tranche 1 Rectification Low Spans). Our alternative estimate for these remaining projects is $45.8 million, representing a $1.6 million or 3.4% reduction from AusNet's proposed repex of $47.4 million.

A.2.4 Alternative forecast for repex – other assets

Table A-2 below sets out AusNet's proposed capex and our alternative estimates for repex – other assets, which is 26.9% above actual/estimated expenditure in the current period, excluding the one-off projects.

Table A-2 AusNet's proposed capex and AER's draft decision for repex – other assets ($million, 2026–27)

Project	Proposal	Draft Decision	Difference ($)	Difference (%)
Portland tower replacement - Stage 2	177.4	165.1	-12.4	-7.0%
Transmission Line Insulators	158.0	79.6	-78.3	-49.6%
Communication Systems	80.9	58.2	-22.6	-28.0%
Secondary Systems	36.9	30.9	-6.0	-16.2%
Transmission Line Structures	30.0	11.2	-18.8	-62.6%
Tranche1 Rectification Low Spans, TL*	22.6	13.7	-9.0	-39.6%
Power Transformers and Oil Filled Reactors	21.8	13.2	-8.6	-39.5%
Transmission Lines Conductors (GW & Ph Cond)	21.8	9.5	-12.3	-56.5%
Circuit Breakers	21.2	11.3	-9.8	-46.5%
Auxiliary Power Supplies	18.8	17.5	-1.3	-7.0%
Metering	18.3	11.4	-6.9	-37.6%
South West Network Comms Replacement	13.2	13.2	-	-

Project	Proposal	Draft Decision	Difference ($)	Difference (%)
Civil Infrastructure	10.2	9.5	-0.7	-0.7%
Disconnectors and Earth Switches	8.0	7.5	-0.6	-7.0%
VNSC & Comms Sites Battery Replacement	5.6	5.6	-	-
North East Network Comms Replacement	5.0	5.0	-	-
Instrument Transformers	2.8	2.6	-0.2	-7.0%
Surge Diverters	2.1	2.0	-0.1	-7.0%
T624 to T628B HYTS-APD tower replacement	0.4	0.4	-	-
Transmission Insulator Replacement	0.02	0.02	-	-
MPLS-TP Metro East Pilot Comms Replace	0.01	0.01	-	-
Total repex – other	**655.0**	**467.4**	**-187.6**	**-28.6%**

Note: * Tranche1 Rectification Low Spans project is discussed later in this document under Compliance.

A.3 Compliance

Compliance projects relate to works undertaken by a transmission business to meet statutory and safety obligations, including maintaining required clearances and managing risks to the public and workers. Expenditure on these projects is assessed against whether it represents the prudent and efficient costs of meeting these obligations, having regard to the nature and extent of the risks being addressed.

A.3.1 AER's draft decision

We are not satisfied that AusNet's proposed $216.0 million ($2026–27) for compliance capital expenditure would form part of a total capex forecast that reasonably reflects the capex criteria. Our draft decision includes an alternative forecast of $80.3 million, which is $135.6 million or 62.8% lower than AusNet's proposal. This includes a placeholder alternative for physical security expenditure of $36.1 million (a $33.3 million, or 48.0% reduction).

A.3.2 AusNet's proposal

The key compliance programs AusNet proposed include:

- management of transmission line ground clearances ($75.4 million), and Tranche1 rectification low spans ($22.6 million) which is included in repex – other assets in AusNet's original proposal.
- physical security replacement that AusNet breakdown into 'Security of Critical Infrastructure (SOCI)' and 'non-SOCI' ($75.5 million)
- transmission line conductors ($31.9 million).

A.3.3 Reasons for decision

We have not accepted all of the AusNet's proposed compliance expenditure. We have concerns that the supporting information provided in AusNet's proposal, including responses to our information requests, does not provide sufficient justification for the proposed scope of several projects.

Management of transmission line ground clearances and Tranche1 Rectification Low Spans

AusNet has proposed expenditure of $22.6 million for Tranche 1 Rectification of Low Spans and a further $75.4 million for Management of Transmission Line Ground Clearances, totalling $98.0 million in the next regulatory period. These two projects are being assessed together as they are closely related and are supported by a single economic analysis.

The purpose of the program is to reduce the risk of electrical flashover, with the primary consequence in the economic assessment based solely on safety considerations, rather than asset replacement costs or reliability outcomes.

AusNet's economic model assesses 103 spans across the network with a risk of failure rate classed as 'intolerable' by AusNet's internal risk framework. The model indicates that only 20 spans, with a total replacement cost of $22.5 million ($2024–25), are efficient to replace during the 2027–32 regulatory control period. The model does not identify any additional spans as efficient to remediate over the remainder of the modelling period to 2036.

AusNet's proposed expenditure (across both projects) includes the cost to replace all 103 spans analysed in the model not just those that are economic within the 2027–32 regulatory control period. Our draft decision is to include the 20 spans that AusNet's model indicates are efficient to replace.

Where AusNet considers that additional works are required, for example due to the scope of works necessary to rectify the identified spans, we expect AusNet to provide information at an individual asset level in its revised proposal. Any such proposed works would need to be assessed on a case-by-case basis.

We have engaged with Energy Safe Victoria to understand its perspective and expectations of AusNet regarding safety aspects of the proposal including ground clearances, tower replacements and resilience. While future regulatory requirements may evolve, AusNet's proposed expenditure must be assessed on the basis of the information currently available and demonstrated to be prudent and efficient.

Our alternative estimate for the two projects combined is $23.6 million, aligned with the scope supported by AusNet's own economic modelling and excluding the risk allowance. This provides for the rectification of 20 low spans, including 6 low span lines that Energy Safety Victoria considered were critical for AusNet to address.[54] This represents a $74.4 million, or 75.9% reduction from AusNet's proposed ground clearance and low span rectification expenditure of $98.0 million.

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54 AusNet, *TRR 2027-32 Revenue Proposal*, 7 November 2025, p. 104.

Physical security

AusNet has proposed $75.5 million for its physical security program, of which $69.4 million is related to SOCI and $6.1 million related to non-SOCI. The proposal includes various works, ranging from higher-cost items like security fencing, CCTV, and gates to lower-cost items such as signage, padlocks and window protections. The 'SOCI' and 'non SOCI' allocation is AusNet's breakdown. We consider the prudency and efficiency of expenditure for a variety of reasons including safety, risk of theft, and outages in addition to AusNet's obligations under the SOCI Act and Critical Infrastructure Risk Management Program (CIRMP) Rules. Our position is that maintaining and upgrading, where necessary, physical security at substations is good electricity industry practice, with CIRMPs used to inform and guide TNSP investment decision making.

We are satisfied that a majority of AusNet's proposed non-SOCI physical security expenditure is justified. However, we do not support the proposed $1.2 million expenditure on Future Technology. The information provided by AusNet in response to information requests[55] indicates that the proposed expenditure either reflects existing good industry practice or does not demonstrate clear additional benefits. We consider that any costs associated with exploring new security technologies should be offset by operational savings from reduced callouts and maintenance, rather than recovered through capital expenditure.

In relation to the SOCI related physical security expenditure, we agree with the Victorian Government submission that this represents a material increase in expenditure relative to the current period.[56] We engaged with AusNet through meetings and information requests to seek further detail and clarification. However, we consider the additional information provided did not sufficiently justify the proposed costs.

AusNet did provide security risk assessments for its Tier 1 and Tier 2 locations, and we have considered the overall condition of sites when considering whether the proposed expenditure on physical security is prudent. Evidence was provided in the form of supplier quotations to support the costs being efficient. While many aspects of the proposal are consistent with current industry practice, this alone does not demonstrate that the expenditure is prudent or efficient for customers,[57] or that it is necessarily reasonably practicable.[58]

In particular, AusNet did not provide:

- building-block cost breakdowns for individual SOCI elements, site-specific cost attribution, or a clear rationale for costs proposed for Tier 3 and Tier 4 sites;[59] and
- sufficient detailed cost information to substantiate the aggregate costs proposed for Tier 2 sites.

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55 AusNet, *Response to information request #023*, 9 April 2026.

56 Hon Lily D'Ambrosio MP, *Submission - AusNet Services 2027–32 electricity transmission revenue proposal*, March 2026. p. 5.

57 NER 6A.6.7(c) apply for regulatory obligations under rule 6A.6.7(a)(2).

58 Security of Critical Infrastructure (Critical Infrastructure risk management program) Rules 11(1)(b).

59 AusNet have classified its sites using a tiered rating based on criticality, with Tier 1 being the most critical infrastructure and Tier 4 the least critical.

As a result, our assessment has been based on the information available to us.

This is the first revenue proposal for AusNet in which the SOCI Act and CIRMP Rules apply. These requirements create a clear regulatory obligation that a prudent network operator must meet. However, there are multiple ways of satisfying these obligations, with differing costs and levels of risk reduction.

The CIRMP Rules require critical infrastructure operators to minimise or eliminate material risks, and mitigate relevant impacts, 'as far as it is reasonably practicable to do so'. This requires consideration of whether the time, cost and effort of a mitigation measure is justified by the benefit achieved. The draft CIRMP fact sheet[60] issued by the Cyber and Infrastructure Security Centre addresses 'reasonably practicable' and states '*There is no expectation that entities pursue risk mitigation measures that are disproportionate relative to the likelihood and consequences of a particular risk*.'

In this context, some form of cost benefit assessment and risk assessment would assist in demonstrating that the scale and standard of proposed works at each site are reasonable and proportionate. We do not consider that adopting industry standards and applying them uniformly across all sites satisfies the 'reasonably practicable' test, as this does not appropriately account for differences in risk or proportionality.

On this basis, we are not satisfied that the proposed expenditure for security fencing, switchyard CCTV and in-building protective measures, such as doors and window screens, is sufficiently justified. We also identified instances of duplicate scope where physical security works are already included within major station projects. Based on the information before us, we have adopted the following approach for the alternative estimate:

- For Tier 1 sites, we have adopted the site specific costs provided by AusNet in its information request response,[61] with the exception of one site where only the incremental costs have been included to avoid duplication with scope already included in a major station refurbishment project.
- For Tier 2 sites, AusNet did not provide detailed cost build-ups. We developed indicative estimates using AusNet's Tier 1 component pricing for small-medium sized stations and estimated fence distance based on our analysis of publicly available aerial photography, with further cost reduction where duplication exists in major station refurbishment projects. Our estimates are materially lower than the costs proposed by AusNet for Tier 2 sites, which is likely to be driven by the quantity of fencing but we are unable to confirm this due to the lack of detailed information.
- For Tier 3 and Tier 4 sites, we have not included any physical security expenditure in the alternative estimate. AusNet has not provided sufficient information to enable us to develop a robust cost estimate, and we have concerns regarding the prudency of the proposed scope, noting that the required scope definition and security risk assessment have not been completed. In addition, AusNet has not provided any supporting information on historical expenditure to demonstrate the reasonableness of the forecast.

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60 *Draft Critical Infrastructure Risk Management Program*. April 2025.

61 AusNet, *Response to information request #023*, 9 April 2026.

This raises uncertainty as to whether the proposed works are required within the forecast period.

In addition, AusNet has not included any expenditure for access control as part of its proposal. We consider that such expenditure is necessary to support the proposed physical security measures and have included an allowance of $0.3 million, which we consider to be a prudent and efficient for this element.

If AusNet considers its proposed expenditure is reasonable, we expect the revised proposal to demonstrate that the costs represent the efficient costs of a prudent operator in meeting its obligations under the SOCI Act and the CIRMP Rules, and when exercising good electricity industry practice for risk management and safety reasons. In particular, we would expect evidence of a proportionate assessment of costs relative to consequences, noting that in more remote parts of the network the potential impact of incidents, and the level of material risk to national security and socio-economic stability of the nation, is likely to be lower.

Taking all of the above into consideration, we have accepted the SOCI related project, apart from the proposed expenditure for security fencing and CCTV, and included an additional provision of $0.3 million for access control.

Our alternative estimates for the:

- security fencing program is $28.1 million, representing a $28.1 million, or 50.0% reduction from AusNet's proposed repex of $56.3 million
- CCTV is $4.0 million, representing a $5.5 million, or 58.0% reduction from AusNet's proposed repex of $9.4 million.

Overall, our alternative estimate for physical security program is $41.0 million, representing a $34.5 million, or 45.7% reduction from AusNet's proposed expenditure of $75.5 million. This includes a placeholder alternative for physical SOCI related expenditure of $36.1 million (a $33.3 million, or 48.0% reduction).

Transmission Lines Conductors

AusNet has proposed expenditure of $31.9 million in the next regulatory period to replace ground wire and phase conductors due to insufficient capacity.

The economic modelling for this project exhibits the same issues identified in section A.2, including the use of full replacement cost as a financial consequence of failure and the inclusion of assets that the model does not demonstrate are efficient to replace within the next five years. As a result, the modelling, as applied in the proposal, overestimates the volume of replacement works that are efficient to undertake in the next regulatory period.

We have included $13.5 million in our draft decision, which reflects the results of the adjusted economic modelling, with the risk allowance removed. This represents an $18.4 million, or 57.7% reduction from AusNet's proposed repex of $31.9 million.

Remaining projects

We have largely accepted the remaining projects as proposed, apart from $11.2 million for 'Rework' and $6.1 million for 'Consultants', as AusNet has not provided supporting documentation to justify this expenditure.

For our draft decision, we have included $80.3 million for the compliance program, after removing the associated risk allowance. This represents a $135.6 million, or 62.8% reduction from AusNet's proposed compliance program of $216.0 million. Our draft decision recognises that AusNet needs to undertake more compliance expenditure compared to the current period. Our alternative estimate is $37.4 million or 87.2% more that AusNet's actual/estimated compliance expenditure for 2022–27.

A.3.4 Alternative forecast for compliance

Table A-3 below sets out AusNet's proposed capex and our alternative estimates for compliance.

Table A-3 AusNet's proposed capex and AER's draft decision for compliance ($million, 2026–27)

Projects	Proposal	Draft Decision	Difference ($)	Difference (%)
Management of Transmission Line Ground Clearances*	75.4	9.9	-65.4	-86.8%
SOCI – Security Fencing	56.3	28.1	-28.1	-50.0%
Transmission Lines Conductors (GW & Ph Cond)	31.9	13.5	-18.4	-57.7%
Rework	11.2	-	-11.2	-100.0%
SOCI – CCTV (Building and Poles)	9.4	4.0	-5.5	-58.0%
Consultant	6.1	-	-6.1	-100.0%
Transmission Line Fall Arrest Towers	5.7	5.7	-	-
Environmental	5.6	5.6	-	-
Fire Detection and Suppression	3.0	3.0	-	-
SOCI – Gate Installation and Paving Works (exclusive of Gate Motors)	1.7	1.7	-	-
Transmission Lines Fall Arrest System (FAS) Racks	1.6	1.6	-	-
Non-SOCI Security – Future Technology	1.2	-	-1.2	-100.0%
Non-SOCI Security – CCTV Server Replacement	1.1	1.1	-	-
Non-SOCI Security – Security Control Room Upgrade	1.0	1.0	-	-
Non-SOCI Security – CCTV End of Life replacement (Tier 1 and Tier 2)	0.8	0.8	-	-

Projects	Proposal	Draft Decision	Difference ($)	Difference (%)
SOCI – Signage	0.7	0.7	-	-
SOCI – Sub-component Protection	0.7	0.7	-	-
Non-SOCI Security – Replacement Gate Motors	0.6	0.6	-	-
SOCI – Lighting	0.5	0.5	-	-
Non-SOCI Security - Fault Finding - Replacement of Broken Assets	0.4	0.4	-	-
Non-SOCI Security - Trailer technology replacement	0.4	0.4	-	-
Non-SOCI Security - Padlock Protection	0.3	0.3	-	-
Non-SOCI Security - Rapid Deployment camera	0.2	0.2	-	-
SOCI - Window Protection	0.1	0.1	-	-
SOCI - Access Control	-	0.3	0.3	100.0%
Total Compliance expenditure	**216.0**	**80.3**	**-135.6**	**-62.8%**

Note: *This should be read in conjunction with 'Tranche1 Rectification Low Spans, TL' in Table A-2.

A.4 Resilience

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.4.1 AER's draft decision

We are not satisfied that AusNet's proposed $34.0 million ($2026–27) for resilience capital expenditure would form part of a total capex forecast that reasonably reflects the capex criteria. Our draft decision includes an alternative forecast of $13.2 million which is $20.8 million or 61.1% lower than AusNet's proposal.

A.4.2 AusNet's proposal

AusNet has proposed $34.0 million to strengthen around 180 transmission towers on market-critical lines to improve resilience to extreme wind events. AusNet submits that this is in response to tower collapse experiences in the current and previous periods,[62] which its investigations showed to be caused by more extreme winds than the rating of its strongest towers. AusNet submits that extreme weather events are becoming more frequent and severe, warranting upgrades to the towers it considers to be most at risk. AusNet's proposal is not based on safety risks but rather the financial consequences of the supply risk caused by tower failure.

[62] AusNet references the collapse of 500kV towers at Cressy in January 2020 and at Anakie in February 2024.

AusNet identified the at-risk towers using weather modelling and engineering assessments and proposes expenditure to reinforce cross-arms, foundations and bracing systems without replacing the towers entirely.

To support this proposal, AusNet engaged Beca Group to undertake an engineering and cost-benefit analysis of individual lines. Beca's analysis assessed the costs and customer benefits of tower strengthening across a range of wind events, up to very rare 'one-in-1,000-year' wind conditions. The analysis indicates that tower strengthening can be justified where the benefits exceed the costs, even for very rare, extreme wind events. AusNet's proposal is based on Beca's recommendation to adopt all strengthening works where benefits exceed costs.

AusNet also held engagement sessions on resilience with its Transmission Stakeholder Advisory Panel, including a 'deep dive' session in May 2025, where stakeholders supported AusNet's approach.[63]

A.4.3 Reasons for decision

Our analysis of the materials provided showed customer benefits are typically maximised at lower levels of strengthening than proposed by AusNet, replacing fewer towers and where benefit-cost ratios are higher. We recognise the capability of towers to withstand potentially damaging high winds is important to ensure the transmission system remains operational and that risk is reduced as far as practicable, as expressed by the Victorian Government submission.[64]

We consider the projects can be compiled and ordered by the maximum benefit-cost ratio rather than by those projects that have a benefit-cost ratio greater than 1. This approach is shown in Table A-4. The analysis shows that the costs for any work beyond this scope increase significantly while additional customer benefits are limited.

Table A-4 Benefit-Cost ratio comparison between the work to achieve maximum customer benefit and AusNet's proposal/Beca's recommendation ($million 2024–25).

Feeder	AER staff analysis				Beca Recommendation			
	ARI[65]	Cost ($m)	No Towers	Benefit /Cost ratio	ARI	Cost ($m)	No Towers	Benefit /Cost ratio
LYPS-HWTS 1	50	0.2	1	**18.27**	1,000	4.7	25	**1.80**
LYPS-HWTS 2	50	0.5	2	**8.48**	1,000	5.4	25	**1.59**
LYPS-HWTS 3	100	1.2	5	**1.82**	250	3.3	15	**1.07**

63 AusNet, *TRR 2027-32 Revenue Proposal*, 7 November 2025, p. 52; Transmission Stakeholder Advisory Panel, *Submission - AusNet Services 2027–32 electricity transmission revenue proposal,* February 2026, p. 18.

64 Hon Lily D'Ambrosio MP, *Submission - AusNet Services 2027–32 electricity transmission revenue proposal*, March 2026, p. 5.

65 The Average Recurrence Interval (ARI) is the long-term average number of years between occurrences of a natural event—such as a flood, storm, or rainfall—that reaches or exceeds a certain magnitude. A 100-year ARI event, for example, is a large event that occurs on average once every 100 years.

Feeder	AER staff analysis				Beca Recommendation			
	ARI[65]	Cost ($m)	No Towers	Benefit /Cost ratio	ARI	Cost ($m)	No Towers	Benefit /Cost ratio
SMTS-SYTS 1	50	0.2	1	**33.6**	1,000	6.0	42	**1.8**
SMTS-SYTS 2	100	1.2	6	**2.3**	100	1.2	6	**2.3**
SYTS-MLTS 1	100	4.3	21	**1.33**	100	4.3	21	**1.33**
SYTS-MLTS 2	100	4.4	21	**1.29**	100	4.4	21	**1.29**
BATS-BETS	200	0.4	1	**5.5**	250	1.3	6	**1.9**
BETS-KGTS	50	0.7	2	**8.8**	50	0.7	2	**8.8**
Total strengthening required		**13.1**	**60**			**31.3**	**163**	

Source: Derived from Beca's analysis. Costs are in $2024-25; AusNet, Beca; *Tower Resilience Study*, 8 Oct 2025.

Based on the Beca analysis, we consider that the customer benefits are maximised by strengthening approximately 60 towers at a cost of $13.1 million ($2024–25), rather than strengthening 163 towers at a cost of $31.3 ($2024–25) million as proposed by AusNet. Beyond this point, additional strengthening adds significant cost while delivering relatively small additional benefits to customers.

A.4.4 Alternative forecast for resilience

Our alternative estimate for the transmission tower resilience program, after removing associated risk allowance, is $13.2 million ($2026–27), representing a $20.8 million, or 61.1% reduction from AusNet's proposed repex of $34.0 million.

A.5 ICT

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.

A.5.1 AER's draft decision

We are not satisfied that AusNet's proposed $256.1 million ($2026–27) for ICT capital expenditure would form part of a total capex forecast that reasonably reflects the capex criteria. Our draft decision includes an alternative forecast of $208.8 million which is $47.3 million or 18.5% lower than AusNet's proposal.

A.5.2 AusNet's proposal

AusNet's proposal includes $256.1 million for ICT capex. This is an 89.3% increase over current period actuals/estimates. AusNet's ICT strategy states the uplift is required to meet business requirements and align with peers, with capex increases driven by the need to

address increasing cyber security risk, energy transition, maintenance of ageing assets to ensure reliability and safety, and meet stakeholder expectations.[66]

AusNet's ICT model shares costs across its transmission, distribution and gas networks. All costs in this section represent the portion allocated to the transmission network business. To forecast costs, AusNet identified the needs and desired outcomes and multiple timing and scope options for investments. Business cases then conducted risk-cost or net present value analysis, for recurrent and non-recurrent items respectively, to identify the preferred option. AusNet states that costs are estimated on an annual basis using a mix of internal estimations, vendor information, and benchmarking against other TNSPs and historical performance.[67]

Table A-5 below sets out the 7 projects that make up AusNet's ICT proposal.

Table A-5 Description of AusNet's ICT program ($million 2026–27)

Program	Capex	Type	Overview
Advanced Energy Management System	81.4	Non-recurrent	This program is to invest in AusNet's network control capabilities. It is part of a larger project that has commenced in the current regulatory period. This project is exclusive to transmission – none of its 21 items are shared with AusNet's other network businesses.
Cyber Security	60.8	Recurrent and non-recurrent	Investment in cyber security is required to manage cyber risks and meet regulations and laws for critical infrastructure. Both cyber security items are shared across AusNet's network businesses.
Digital Resilience – Applications	37.2	Recurrent	These two projects are to maintain and optimise the infrastructure and applications needed for business operations to manage the network on an ongoing basis. 19 of the 24 items in these projects are shared across AusNet's network businesses.
Digital Resilience – Infrastructure	31.0	Recurrent	
Asset Management & Field Enablement	29.5	Non-recurrent	This project aims to upgrade AusNet's asset management systems to enhance analytics, risk identification, and decision-making capabilities. 4 of this project's 9 items are shared across AusNet's network businesses.
Metering	12.4	Non-recurrent	This is the ICT expenditure associated with AusNet's proposed meter replacement program, submitted on the basis that it needs to replace the entire transmission metering fleet. Additional ICT capex would be required to

66 AusNet, *TRR 2027-32 Revenue Proposal*, 7 November 2025, pp. 106–107.

67 AusNet, *TRR 2027-32 Revenue Proposal*, 7 November 2025, p. 109.

Program	Capex	Type	Overview
			update data exchange systems and communications protocols to support new meter models. This project is exclusive to transmission – none of the 5 items are shared with AusNet's other network businesses.
Customer Engagement	3.9	Non-recurrent	This program seeks to improve landholder customer engagement through enhanced systems, automation, and integration. This project is exclusive to transmission – its only item is not shared with AusNet's other network businesses.

A.5.3 Reasons for decision

We reviewed the information AusNet provided in support of its ICT capex proposal, including business cases and cost-benefit analysis. Where needed, we have sought further information from AusNet. We have based our review on AusNet satisfying the key aspects of our ICT assessment guideline note.[68]

We have accepted the expenditure for Asset Management and Field Enablement, Digital Resilience - Applications, and Customer Engagement and included them as proposed in our alternative forecast. For the remaining projects, we identified four general areas of concern across the ICT proposal – scope of works, cost allocation between regulated services, benefits estimation, and options analysis. While these concerns did not always change the outcome of our review, numerous information requests were required to address gaps and inconsistencies in the proposal. These issues are discussed further below and should be addressed by AusNet in its revised proposal where relevant.

Scope of works

AusNet mostly provided justification for the identified needs in its ICT business cases, but there were instances where detail was omitted about how the proposed expenditure would be used to achieve desired outcomes. We agree with AusNet's Transmission Stakeholder Advisory Panel that digital investment should be an enabler to improve consumer outcomes.[69] Some business cases referenced goals, targets, or general activities without providing detail about the specific works, products, or services AusNet plans to obtain, or how they will be employed to address the identified needs. Although many items were sufficiently described in responses to information requests, it remained an issue for the Cyber Security program.

Cost allocation

As AusNet's ICT provides services to distribution, transmission and gas, the total ICT costs are apportioned across the three services as they are used to provide support to multiple services. However, the allocations conflicted across information provided by AusNet in its

68 AER, *Non-network ICT capex assessment approach*, November 2019.

69 Transmission Stakeholder Advisory Panel, *Submission - AusNet Services 2027–32 electricity transmission revenue proposal,* February 2026, p. 19.

transmission proposal, information request responses, and to the AER to support the distribution review. Most cost allocation issues were resolved with information requests, but we found that some figures could not be aligned between sources and within individual models. Persistent errors in the allocation suggested that some costs may be speculative or not calculated based on known sources.

For example, our analysis found that the varying allocations provided for the 'Digital Resilience – Infrastructure' project item 'Shared Data Centre Infrastructure' would lead to 4 conflicting allocation and cost totals, depending on the data source and base costs used. There was one set of figures provided in AusNet's Transmission NPV Model[70] and the 'TRR' tab of the model attached to its information response,[71] a second set in the 'EDPR' tab of the same model,[72] a third set in the explanatory text of AusNet's information request response,[73] and a fourth set based on the allocations and total provided in the ICT NPV model submitted as part of AusNet distribution's revised proposal.[74] This issue was also present for the item 'System Integration Platforms – HW'.

For our draft decision, we have adopted an alternative forecast that is consistent with our recent decision for AusNet distribution[75] where possible. For items without finalised or consistent cost allocation, we adjusted the total submitted in the capex model by applying the lowest transmission allocation provided. In the case above, the lowest allocation was the value in the explanatory text of the information request response, which we substituted and used to calculate our alternative forecast.

Benefits estimation

For non-recurrent works, AusNet provided a net present value model outlining the costs and benefits of each project. However, we identified issues with the benefits calculation for the Advanced Energy Management System project. In some cases, AusNet included unclear or tenuous benefits in its analysis that may not be realised by customers, for example 'passive knowledge management, UAV inspection, and security cameras for network purposes'. We also consider a number of benefits were double-counted where they overlapped between items, for example we consider the benefits for 'load forecast by feeder' and 'DPV forecasts for modelling' duplicate those for 'connection asset demand management'. We consider the benefits were not substantiated for 7 of the 21 proposed Advanced Energy Management System items and we have excluded these from our alternative forecast.

Options analysis

We consider the 'options analysis' presented in many business cases is limited and does not explore the merits of including each initiative in necessary detail. Often the options are presented as 'do nothing' or 'do everything', such as the Digital Resilience programs, with no

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70 AusNet, *AusNet Services - TRR 2027-32 ICT NPV Model V2.0 – CONFIDENTIAL*, 31 October 2025.

71 AusNet, *Response to IR#006*, *TRR.EDPR Initiative Allocation Mapping - Confidential*, 15 December 2025.

72 AusNet, *Response to IR#006*, *TRR.EDPR Initiative Allocation Mapping - Confidential,* 15 December 2025.

73 AusNet, *Response to IR#006,* 15 December 2025, p. 3.

74 AusNet, *Revised Proposal Digital Program NPV model - Confidential*, 2 December 2025.

75 AER, *Final Decision – AusNet Services distribution determination 2026–31 – Attachment 2 – Capital expenditure*, April 2026, pp. 37–41.

gradual or core function option being provided. The 'do nothing' option was typically not a realistic option and provided as the only comparison with the preferred option, making it difficult to assess the efficiency of the expenditure. For items with graded options, some options were scaled up or down based on another option without a specific source, indicating the options analysis may be superficial.

A.5.4 Alternative forecast for ICT

Based on the concerns raised above, we do not accept the proposed ICT capital expenditure of $256.1 million. We have included an alternative forecast of $208.8 million for ICT. The reduction is mainly driven by excluding items in the Advanced Energy Management System program, reductions to Cyber Security, and the exclusion of the Metering program.

The alternative forecast consists of the following adjustments:

- reallocation between distribution, transmission and gas services as provided by AusNet
- adjustment to allow for deferral of a proportion of initiatives into the subsequent period
- adjustment to account for cost over-estimation bias.

Table A-6 below provides a breakdown of our alternatives by project. The opex alternative estimate and explanation can be found in attachment 3.

Table A-6 AusNet's proposed capex and AER's draft decision for ICT by project ($million 2026–27)

Program	Proposal	Draft Decision	Reasons
Advanced Energy Management System	81.4	59.1	This is driven by the exclusion of 7 of the 21 proposed items where there was insufficient justification as described above. We have accepted the remaining 13 items as proposed and included them in our alternative forecast. AusNet should provide evidence that shows how the excluded items are prudent and efficient by clearly mapping the discrete benefits these items deliver to customers.
Cyber Security	60.8	52.3	As the program is shared across AusNet's network businesses, the reduction in our alternative forecast reflects the reasoning in our final decision for AusNet distribution.[76] Our alternative reflects the expenditure required for AusNet to meet its internal cyber security framework and meet Security Profile 3 of the Australian Energy Sector Cyber Security Framework (Version 2), based on the supporting information required.

[76] AER, *Final Decision – AusNet Services distribution determination 2026–31 – Attachment 2 – Capital expenditure*, April 2026, p. 41.

Program	Proposal	Draft Decision	Reasons
			Some initiatives were reduced where the scope was duplicative or not justified, and we have adopted the cost allocation between AusNet's distribution and transmission businesses provided to align our decisions. This results in an $8.5 million reduction to the project, which we have applied as an adjustment to the non-recurrent portion.
Digital Resilience – Applications	37.2	37.2	We have accepted AusNet's proposal for this program and included it in our alternative.
Digital Resilience – Infrastructure	31.0	26.9	Our alternative forecast reflects adjustments to 2 items where the cost allocation between AusNet's network businesses was inconsistent, using the method described above in section A.5.3. AusNet should explain the discrepancy in its cost allocation issues in its revised proposal.
Asset Management & Field Enablement	29.5	29.5	We have accepted AusNet's proposal for this program and included it in our alternative.
Metering	12.4	-	We consider no additional ICT capex is required for metering. AusNet's metering ICT expenditure is for different systems to support new meter models but, as stated in section A.2, much of AusNet's existing meters are relatively new Mk6e models that we consider do not require replacement. The meters that do need replacing can be replaced with Mk6e models that can be integrated with AusNet's current ICT systems. On this basis, our alternative forecast may change if AusNet provides sufficient evidence to support the program in its revised proposal.
Customer Engagement	3.9	3.9	We have accepted AusNet's proposal for this program and included it in our alternative.

A.6 Other non-network capex

Other non-network capex includes expenditure to replace tools and equipment.

A.6.1 AER's draft decision

We are not satisfied that AusNet's proposed $18.4 million ($2026–27) for other non-network capital expenditure would form part of a total capex forecast that reasonably reflects the

capex criteria. Our draft decision includes an alternative forecast of $14.9 million which is $3.4 million or 18.6% lower than AusNet's proposal.

A.6.2 AusNet's proposal

AusNet's proposal includes $18.4 million for other non-network capex. The proposed expenditure involves the replacement of testing equipment required to manage the network.[77]

A.6.3 Reasons for decision

We have reviewed AusNet's supporting evidence and found most forecast replacements to be justified. However, we found that AusNet had included two non-specific programs that were proposed to address:

- replacement of failed equipment that was not forecast
- aging equipment replacement in 2031 and 2032.

AusNet stated that the first program was based on experience and that the second was required as detailed forecasts were not available yet for these later years.[78] We consider that AusNet has not provided sufficient justification to support this further expenditure in addition to the large program of replacements already forecast. Our alternative forecast does not include these allowances.

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77 AusNet, *TRR 2027-32 Revenue Proposal*, 7 November 2025, p. 68.

78 AusNet Services, *Testing Equipment Capex Calculation*, October 2025; AusNet Services, Response to information request #6, January 2026, p. 4.

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.[79] 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 proposed Dederang Terminal Station transformer and circuit breaker replacement project as part of its proposal for the 2027–32 regulatory control period.

B.1.1 AER's draft decision

Our draft decision is not to accept AusNet's proposed Dederang Terminal Station transformer and circuit breaker replacement project as a contingent project. We do not consider that this meets the requirements for a contingent project consistent with the NER. Our view is that this project should be included in the ex-ante forecast for assessment in AusNet's revised proposal.

B.1.2 AusNet's proposal

AusNet has proposed the Dederang Terminal Station transformer and circuit breaker replacement as a contingent project, totalling $44.0 million in nominal dollars.

The Dederang Terminal Station is a switching station that forms part of the 330kV interconnector between Victoria and New South Wales and has 220kV connections to major power stations and regional networks. AusNet states that while the station's H1 and H2 transformers are in good condition, the H3 transformer is 45 years old and poses supply interruption and reactive replacement cost risks of over $80 million. This project involves replacing the H3 transformer and selected 330kV switchgear, with plans to use the old transformer as a spare.[80]

AusNet submits in its business case that it is economic to commence the project now[81] but has removed this project from its ex-ante replacement program ($1,776.2 million ($2026–27)) as a way to address deliverability risk. This contingent project is in response to a deliverability workshop with AusNet's transmission stakeholder advisory panel and with whom AusNet has committed to further engage before commencing the project.[82]

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79 NER, cl. 6A.8.1(c)(5).

80 AusNet, *TRR 2027-32 Revenue Proposal, 7 November 2025*, p. 115.

81 AusNet, *TRR 2027-32 Revenue Proposal, 7 November 2025*, p. 114.

82 AusNet, *TRR 2027-32 Revenue Proposal, 7 November 2025*, p. 58.

AusNet submits that the need and positive NPV is already demonstrated but is proposing it as contingent to manage deliverability[83] and proposed one trigger event for the project, being 'AusNet Board commitment to proceed with the project subject to the AER amending the revenue determination pursuant to the NER'.[84]

B.1.3 Assessment Approach

A contingent project should reflect a project that AusNet can reasonably expect would occur in the 2027–32 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[85]
- the proposed contingent project capex is not otherwise provided for in the capex proposal[86]
- the proposed contingent project capex reasonably reflects the capex criteria, taking into account the capex factors[87]
- the proposed contingent project capex exceeds the defined threshold[88]
- the trigger events in relation to the proposed contingent project are appropriate.[89]

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 whether the contingent project is reasonably likely to be required in the 2027–32 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[90]

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83 AusNet, *TRR 2027-32 Revenue Proposal, 7 November 2025*, p. 114.

84 NER, cl. 6A.8.1(c)(2).

85 NER, cl. 6A.8.1(b)(1). Relevantly, a transmission NSP must include forecast capex in its revenue proposal which it considers is required in order to meet or manage expected demand for prescribed transmission services over the regulatory control period (see NER, cl. 6A.6.7(a)(1)).

86 NER, cl. 6A.8.1(b)(2)(i).

87 NER, cl. 6A.8.1(b)(2)(ii).

88 NER, cl. 6A.8.1(b)(2)(iii).

89 NER, cl. 6A.8.1(b)(4).

90 NER, cl. 6A.8.1(c)(1).

- to be a condition or event which, if it occurs, makes the project reasonably necessary in order to achieve any of the capex objectives[91]
- 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[92]
- to be described in such terms that it is all that is required for the revenue determination to be amended[93]
- to be a condition or event, the occurrence of which is probable during the 2027–32 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.[94]

B.1.4 Reasons for decision

In assessing the contingent project against the criteria for contingent projects in the NER we considered that the project is not otherwise included in AusNet's proposal, meets the relevant expenditure threshold for contingent projects,[95] and relates to expenditure at a specific location.[96] However, our view is that the Dederang project lacks the required uncertainty to be characterised as a contingent project.

Contingent projects depend on events that are either sufficiently uncertain to occur, or for which the resulting costs are sufficiently uncertain. AusNet submits that it is already economic to commence the Dederang project now and that it is needed. Consequently, we understand that the costs are reasonably certain. The proposed uncertainty stems from the trigger event, which requires AusNet's Board approval. This is entirely at AusNet's discretion and, while it may not be clear now if its Board would approve the project, this is within AusNet's foreseeable control. We consider that this contingent project is not sufficiently uncertain to the standard required by the NER, which is intended to account for unforeseeable external events.

We also consider the proposed trigger event does not meet the other requirements under the NER. A trigger event must be condition or event, which, if it occurs, makes the undertaking of the proposed contingent project reasonably necessary.[97] AusNet submits in its business case that the H3 transformer currently needs replacing and it is economic to commence the

91 NER, cl. 6A.8.1(c)(2).
92 NER, cl. 6A.8.1(c)(3).
93 NER, cl. 6A.8.1(c)(4).
94 NER, cl. 6A.8.1(c)(5).
95 NER, cl. 6A.8.1(b)(2)(iii).
96 NER, cl. 6A.8.1(c)(3).
97 NER, cl. 6A.8.1(c)(2).

project now.[98] We consider that as a trigger event, AusNet Board commitment does not in itself make the project necessary and is instead a reflection of the project's deliverability and AusNet's risk appetite.

Additionally, while the existence of Board approval can be verified (through formal meeting minutes, for example), the factors considered during the decision making process are subjective, and cannot reasonably be reviewed by the AER. Accordingly, we consider that this trigger event is not objectively verifiable.

Overall, as the need to undertake this project has already been established, we consider that this project is better characterised as expenditure that AusNet should include it its ex ante forecast for the 2027–32 period rather than as a contingent project.

98 AusNet, *TRR 2027-32 Revenue Proposal*, 7 November 2025, p. 114.

Glossary

Term	Definition
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
capex	capital expenditure
CCTV	closed circuit television
CIRMP	Critical Infrastructure Risk Management Program
ICT	information and communication technologies
kV	kilovolt
NEL	national electricity law
NEO	national electricity objective
NER	national electricity rules
NSP	network service provider
opex	operating expenditure
PTRM	post-tax revenue model
RAB	regulatory asset base
repex	replacement expenditure
RFM	roll forward model
STPIS	service target performance incentive scheme
SOCI	Security of Critical Infrastructure
TNSP	transmission network service provider