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Tuesday, 30 June 2026

Ms Kami Kaur  
A/Executive General Manager, Network Regulation  
Australian Energy Regulator  
GPO Box 3131  
Canberra ACT 2601

Dear Kami

### Notification of approach to forecasting expenditure

Transgrid has commenced deep engagement with consumers and their representatives to inform the development of our revenue proposal for the 1 July 2028 to 30 June 2033 period. Our proposal will set out our plan for how we will operate and manage our NSW and ACT electricity transmission network in the long-term interests of consumers, including forecast expenditure, required revenue, and the resulting transmission charges.

This letter sets out the methodologies we intend to use to prepare our forecast expenditure, consistent with the requirements of National Electricity Rule 6A.10.1B.

We will also soon provide you with a *First Look* of our revenue proposal. This document will provide more detail on our overarching approach, our initial thinking, as well as early versions of our expenditure, revenue and bill impact forecasts. We will then release a draft plan for public consultation and feedback before finalising and submitting our revenue proposal by 31 January 2027.

We are approaching a pivotal moment for our consumers, the transition to net-zero and the broader Australian economy. To ensure we deliver outcomes consumers value, we are exploring three core priority areas to guide the development of our Revenue Proposal:

- **First, maintaining a reliable and secure network.** Much of the existing network was built decades ago, and the risk of asset failure is increasing as equipment condition deteriorates. At the same time, extreme weather events and cyber security risks are becoming more significant. In addressing these risks, we need to innovate, utilise our data and systems and consider our asset management practices to maximise the potential of our existing assets. Given the scale of the challenge, we do anticipate additional investment will be required to ensure consumers continue to receive the level of reliability they depend on.
- **Second, adapting the system for the deep transition.** As coal-fired generation retires, the grid needs new sources of system strength and stability. This is expected to require significant new capabilities, including up to 10 large synchronous condensers and services from around 5 GW of grid-forming batteries. These investments will help keep the system stable, but they must be delivered in a way that minimises costs.

- Third, **meeting new and changing demand**. Population growth, electrification and large new loads such as data centres are driving the need for targeted network augmentation. We will test demand forecasts carefully, consider alternative solutions and use existing capacity wherever possible to reduce costs.

Across these priorities, safety remains a core and non-negotiable priority. Additionally, in everything we do we must:

- **Constrain costs and manage delivery complexity:** where investment is necessary, we must deliver on budget, on time and at lowest cost to ensure consumers can realise the benefits of a more renewable, reliable and secure electricity supply. The scale and pace of the transition combined with global conflicts and supply chain shocks can make this particularly challenging but we must robustly test our plans and processes to manage these risks.
- **Engage with consumers and community to serve their long-term interests:** consumers fund the cost of the transition and so must be provided the opportunity to actively participate in its design and delivery. To this end, we are uplifting our consumer engagement practices highlighted by the establishment of our Consumer Working Group (CWG) and Consumer Panel. To date, consumers are telling us clearly that cost discipline must be a focus across our plans without compromising reliability. In response, we are applying a range of cost control measures, including deferring, descoping or removing projects, avoiding duplication and exploring user-pays approaches where appropriate.

Accordingly, it has never been more important to get the balance right between the short and long term implications of investments we make – or don't make – today. Given the significance of our upcoming plan on consumer outcomes, we are not adopting a 'business-as-usual' approach.

We have reworked and uplifted our plan development process. Key changes include first working with stakeholders to develop a series of plausible scenarios to frame, guide and test our expenditure forecasts. We have also enhanced our consumer and stakeholder engagement approach (and are currently mid-way through this process) and strengthened our existing planning processes. Each of these changes has been integrated into our plan development process to allow us to iteratively test, challenge and refine our plans and forecasts.

We have made these changes based on the future challenges we face, feedback previously provided by the AER and stakeholders, learnings from other regulated businesses, as well as our own reflections on what went well and what could be improved in prior processes.

### **Transparency across our investment program**

The usual approach is to develop plans limited in scope to the delivery of our 'prescribed' shared transmission service – elements which the AER needs to review and decide whether to accept or reject.

However, we are also making complementary significant investments which sit outside of the usual revenue proposal process, such as investments related to:

- AEMO's Integrated System Plan (ISP).<sup>1</sup> While the costs of ISP projects are recovered through prescribed transmission charges, the expenditure forecasting and approval typically sits outside of a revenue proposal process and instead occurs mid-period through the contingent project mechanism. Given the link with the ISP and the scale of these projects, we identify them separately in our expenditure forecasts.
- The NSW Electricity Infrastructure Roadmap.<sup>2</sup> The costs of these projects are recovered under a separate framework and not included in our transmission charges, although costs are still recovered from end-consumers (just through a separate mechanism).

To provide consumers, stakeholders and the AER with a complete picture, we will provide transparency of our overall program of investment and highlight interdependencies. We will produce estimated bill impacts to show the consumer cost of our overall investment program (noting that these costs bring benefits and cost reductions in other parts of the electricity bill).

### Future scenarios

To guide our proposal development process, we have identified futures which may plausibly occur. The purpose is to help us understand the interrelationship between macro-environmental factors, consumer outcomes, and our plans. The futures will help guide our expenditure forecasts and help identify and work through other issues (such as pricing, intergenerational fairness etc) which we need to explore with our consumers and stakeholders.

In the second half of 2025, with our Transgrid Advisory Council (now the Consumer Advisory Group, or CAG), we identified several plausible futures and decided to focus on the three plausible futures where we could maximise consumer outcomes:

- **Current Trend** – this scenario reflects the current pace of the energy transition, considering prevailing industry challenges. The scenario assumes that key elements of the Step Change scenario of the ISP will not be achieved, due to factors such as insufficient renewable generation capacity and deliverability constraints.
- **2025 TAPR Vision** – consistent with our 2025 transmission annual planning report which is based on the 2024 ISP Step Change scenario and assumes that all projects are delivered in full and on schedule.
- **Data Centre** – Similar to the TAPR Vision future but with additional demand (and corresponding generation) to supply data centre growth.

We anticipate that over time the Current Trend and TAPR Vision scenarios will converge as AEMO's ISP, and our own planning, is updated to reflect the current pace of the energy transition. Accordingly, the *First Look* will only include expenditure forecasts for the Current Trend and Data Centre scenarios. This will be reflected in our 2026 TAPR due for release later this year.

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<sup>1</sup> These includes Project Energy Connect, HumeLink, Victoria – New South Wales Interconnector West (VNI West), Sydney Ring South.

<sup>2</sup> These include projects like our Central West Orana REZ network upgrades, Synchronous Condenser Deployment Stage 1, and the Hunter Transmission Project

We are using these scenarios to guide the development of our investment program and identify how our program may change as different futures are realised. For example, it will help us identify how much additional investment a data centre future could require.

These futures are not the only lens we will use to guide our program development, and we may consider other sensitivities to test elements of our program.

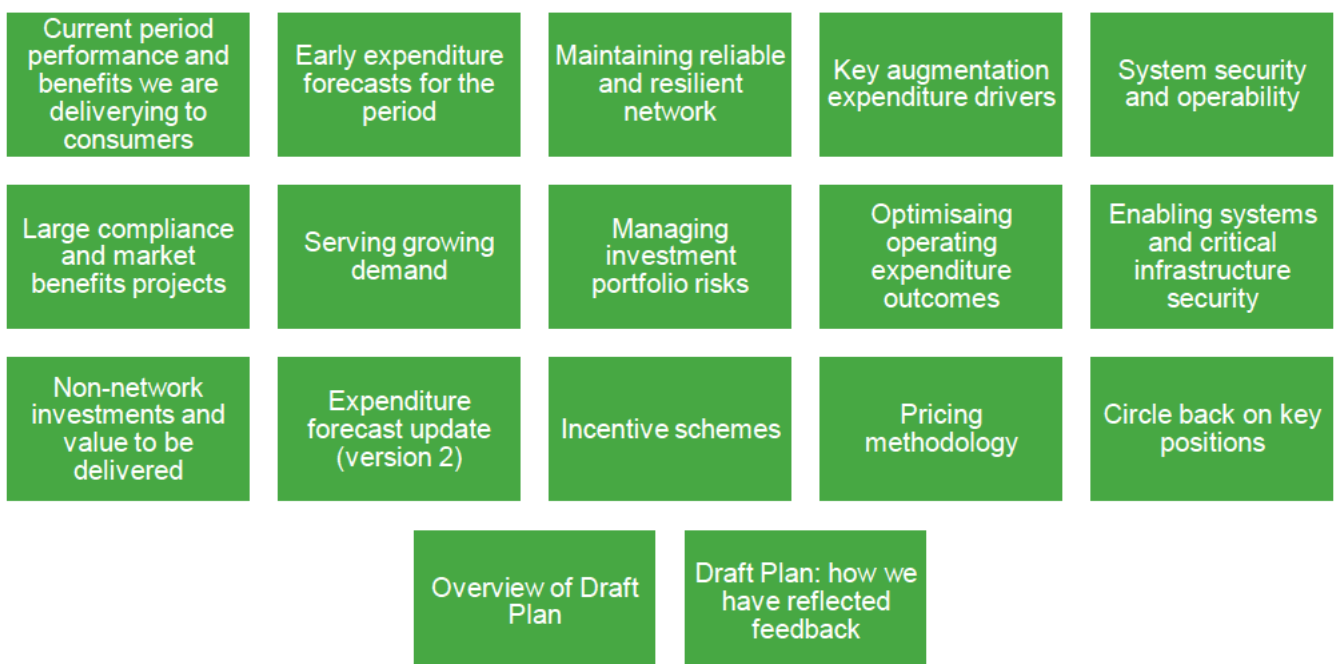
### Engagement

To ensure consumer perspectives, needs, and priorities are considered and meaningfully reflected in our plan, we have made two significant improvements to our engagement approach.

First, we have set up the CWG to ground the development of our proposal in the needs and preferences of our consumers. The CWG, comprised of an independent chair, deputy chair and four consumer representatives, is dedicated to the development of this plan and sits alongside our CAG, which remains our primary advisory forum. We will engage regularly and in detail with the CWG to help understand consumer priorities and preferences to explore key themes and build the narrative, to test our assumptions and forecasts and to develop and agree our approach to broader consumer engagement.

Engaging the CWG is a core part of our proposal development. We have 18 sessions (ranging between three and five hours each) scheduled in 2026. The CWG is a significant uplift from prior engagement, where previously we engaged our TAC on a monthly basis. This new approach allows for more frequent, deeper discussions and feedback on our approach.

Figure 1 CWG 2026 engagement program



Second, we have created an RP4 Consumer Panel that brings together about 45 residential end users for a series of approximately seven meetings over seven months. The Panel will run in parallel with the CWG, which was consulted on its design and composition.

To ensure consumers can provide thoughtful and informed advice, supported and guided by the CWG, we first built consumers' capacity by providing background on the complex energy supply chain and regulatory context in which we operate. While complex, we found that consumers were able to grasp the key concepts and already were able to provide us with insights on what to focus on and how to shape future discussions.

We are now engaging consumers on which outcomes matter most, resilience and operational security, fairness of cost recovery, investment priorities and risk trade-offs, economic benefits projects that are discretionary, as well as other opportunities to reduce costs.

The outcomes and feedback from both the CWG and end-consumer engagement, together with our business as usual engagement (including, but not limited to, engaging directly connected customers as well as communities which could be impacted by our operations), are being used to inform key elements of our plan, including our prioritisation approach and how we consider forecasting risk.

### **Program development**

Our starting point in developing our expenditure forecasts is to apply standard forecasting approaches consistent with AER expectations, including those set out in the AER's Better Resets Handbook, AER guidelines, feedback to us in prior processes as well as feedback provided to other businesses in other recent regulatory processes.

Given the criticality of our investment program, we have sought to strengthen our forecasting approach as well as our usual forward planning processes. This has resulted in expanding the breadth and depth of the analysis and evidence base on which our program is based. These changes affect both how we forecast individual components of our program as well as our supporting cost estimation and deliverability assessment processes. As we complete and update the underpinning analysis, and integrate consumer, stakeholder and AER feedback, our program is likely to be refined between our First Look, Draft Plan and ultimate revenue proposal.

Further detail on these changes, and our broader methodologies to forecasting capital and operating expenditure are set out in Attachment 1 and 2.

If you have any questions, please contact Patrick Duffy, at [REDACTED]

Yours sincerely,

[REDACTED]

Alex McPherson  
General Manager Regulation & Policy

## 1. Capital expenditure

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Our capital expenditure forecast is based on a “bottom-up” build. The forecast is developed to meet the capital expenditure objectives set out in the National Electricity Rules,<sup>3</sup> taking into account consumer values and preferences.

Our approach to forecast our capital expenditure requirements for the 1 July 2028 to 30 June 2033 period is to:

1. Start with our existing capital investment program delivered through our ongoing planning (including joint-planning works with DNSPs, etc.). This is underpinned by our robust internal governance and investment processes.
2. Pull forward analysis and development, which would ordinarily be made later closer to when an investment decision is required. We undertake this work now to ensure we prepare the best forecast possible given that it will form the basis of our discussions with consumers and will (partly) determine our forecast revenue requirement and in turn the prices consumers will pay.
3. Strengthen our forecast given the criticality of the upcoming period. We are increasing the breadth and depth of our cost estimation and improving our deliverability and prioritisation processes. As outlined above, we are integrating scenario analysis (informed by the identified plausible futures), as well as consumer, stakeholder and AER feedback. We will consider key constraints on deliverability, sequencing and more detailed needs analyses, including project-level need justifications, timing dependencies and system-wide operational requirements.

Below we provide more detail on our approach and the changes we have made. We also outline the approach taken to prepare each forecast at the category level (augmentation, replacement, ICT, property, fleet and overheads).

### 1.1. Planning, governance and investment processes

Our planning, governance and investment processes are designed to:

1. Identify network needs to improve consumer outcomes, based on observed risks and opportunities.
2. Evaluate solution options, selecting options that deliver the highest benefits to consumers at the least cost and the optimal time.
3. Deliver projects on time and on-budget.

Our network capital projects are developed at the project level, as shown in Figure 2 below. The key elements for our Plan include:

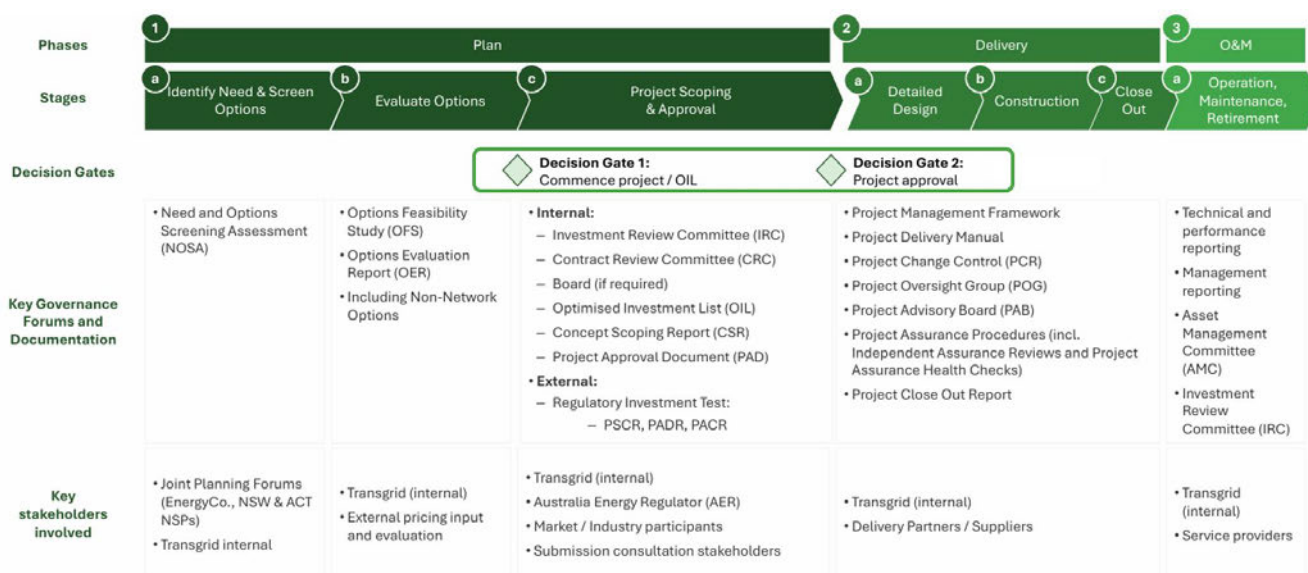
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<sup>3</sup> As set out in Rule 6A.6.7 and broadly 1) to meet or manage the expected demand 2) comply with all applicable regulatory obligations or requirements 3) to the extent that there is no applicable regulatory obligation or requirement maintain quality, reliability and security of supply, 4) maintain safety and 5) contribute to achieving emission reduction targets.

1. The identification of a potential need for a project and initial options screening. This results in the preparation of a Need and Options Screening Assessment (NOSA). The kind of analysis undertaken depends on the type of project and the kind of need being considered (see further detail by category later in this section).
2. The assessment on which options are feasible (considering technical factors and deliverability) and estimating the cost of undertaking each option. This results in an Options Feasibility Study (OFS).
3. Lastly, we review the feasibility and cost of the potential investment options against the risks and benefits identified to identify a preferred option (which may be do nothing) and the optimal timing. This results in the preparation of an Options Evaluation Report (OER).

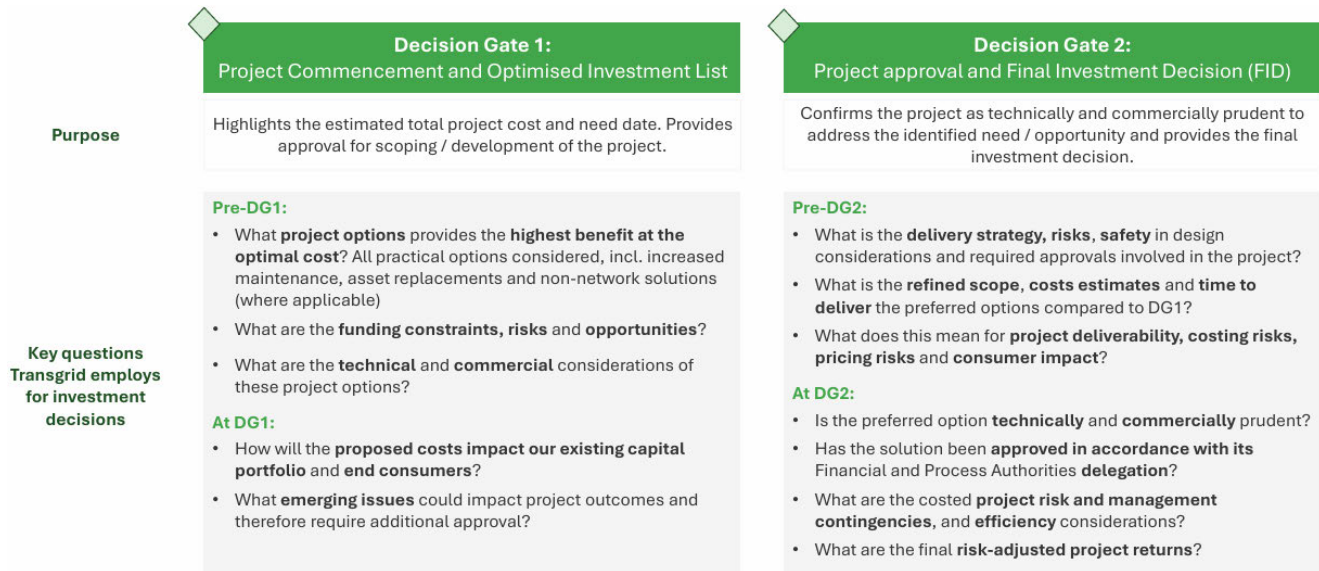
This process is supported by our ISO 55001 certified Asset Management System.

Figure 2 Example network project lifecycle.



As shown in Figure 2 and Figure 3, we then make a decision at the program level, taking into account the costs, benefits and risk of each (Decision Gate 1) and later a decision on whether to proceed with the project (Decision Gate 2).

Figure 3 Investment Decision Gates 1 & 2.



## 1.2. Cost estimation, deliverability and prioritisation

To develop our Plan, we started by preparing NOSAs for all potential projects which we have identified may be required. This resulted in the identification of about 250 ‘needs’ to be considered.

The next step, which we are part way through, is to prepare the associated OFSs and OERs for each identified need. We have focussed on strengthening these elements as it is this analysis that will form the basis of our expenditure forecast.

### 1.2.1. Cost estimation

Cost estimates are a critical part of our OFSs as they can determine whether the project is economic (i.e. is the cost lower than the reduction in quantified consumer risk), the optimal timing and the lowest cost solution.

A common approach is to develop cost estimates which are sufficiently accurate to inform an initial options assessment at a concept level. This approach is adopted due to the significant resources required to produce more detailed cost estimates together with information constraints (e.g. scope definition). This typically leads to “Class 5” estimates, using the AACE International Cost Estimate Classification System.

Given the criticality of our program, we have sought to uplift the quality of our cost estimates and go beyond an early ‘concept’ Class 5 estimate. We aim to reduce the level of assumptions and uncertainty in the cost estimate to produce a ‘feasibility’ or ‘budget’ (Class 4 or 3) quality estimate which could be picked up and largely used to deliver the project, wherever possible.

Improving the quality of our cost estimates will allow better project screening, options selection and reduce uncertainty and allow key risks to be identified. This approach requires significantly more resources and increases the time each individual estimate takes to produce – e.g. to undertake risk workshops, loop in delivery teams to integrate current period lessons learned and seek additional information (e.g. from

vendors). To support our Plan development, we have stood up a dedicated team to produce these cost estimates.

We will produce a number of Class 3 estimates for projects of a recurrent nature where we have recently delivered projects and scope uncertainty is relatively low. For most of the remainder we will produce Class 4 estimates. However, for a number of projects – where the scope is uncertain – we will only be able to produce Class 5 estimates.

We are also costing up alternative options in addition to the most likely option. In total we are preparing 600 individual cost estimates for 250 identified needs. In some cases, we are preparing more than 10 options for a particular needs case. This approach multiplies the costing effort but provides confidence that we have appropriately considered all available options.

Lastly, we are developing Options Feasibility Studies and cost estimates for all projects which may potentially be included in our program. Some of these projects will be deferred to a subsequent period or found to be uneconomic and not be included in our forecast. Others will be included as contingent projects (and in turn not included in our 'base' expenditure forecast).

We are developing these cost estimates to strengthen our analysis. This approach also provides transparency to consumers, stakeholders and the AER of our overall expenditure program, and how it could change if contingent projects are triggered.

Despite our significant efforts, the cost estimates of several projects will remain uncertain. Particularly, where the activities are uncommon and we are unable to obtain accurate pricing before going to market.

### **1.2.2. Cost escalation**

We intend to forecast increases in labour costs consistent with our approach for operating expenditure (see section 2.2).

We are also considering approaches to take into account expected changes in materials and contractor costs and will engage the AER on our approach prior to the lodgement of our Revenue Proposal.

### **1.2.3. Deliverability**

We are embedding deliverability into our Plan development process to identify how the overarching portfolio of projects is best executed. Key considerations include workforce and delivery partner capacity; supply-chain constraints; interactions between projects; access and site conditions; as well as outage availability.

We are seeking to identify constraints and develop controls and measures to address them, taking into account our recent experience. Possible measures could include considering alternative delivery techniques (e.g. live line works) and additional measures to increase the supply or key resources and skills.

Each version of our expenditure forecast will be assessed from a deliverability perspective to ensure the program is realistic. These assessments are undertaken both at the project and portfolio level to test workforce capacity, outage availability, supply chain constraints and sequencing interactions. Where required, this will inform adjustments to the timing and sequencing of individual projects.

#### 1.2.4. Prioritisation

We recognise that unprecedented investment needs and affordability concerns mean we will need to make deliberate decisions and trade-offs about which projects are included in our expenditure forecast and which are deferred or de-prioritised. We will need to make trade-offs between projects and programs as well as trade-offs between the short and long term.

Given that these decisions will have different effects on customer outcomes and across customer groups in the short and long term, we are seeking to integrate consumer and stakeholder views into this process.

Our approach is to first develop and optimise category level forecasts, which will include integrating CWG feedback, latest cost estimates (and associated risks), deliverability and scenario outcomes (where appropriate). This category level assessment will identify which investments are critical (e.g. safety or compliance related) and which projects have a degree of optionality or flexibility in when they are delivered.

Second, we will undertake a portfolio level optimisation. We will consider the investment needs, and their priority, and balance these needs against the overall impact on our prices. This analysis will also need to have regard to interactions across the entire electricity supply chain – as some of our projects increase our costs but will reduce constraints and provide broader market benefits.

We are iteratively providing the CWG (and the AER) with versions of our overall expenditure forecast as it is refined, including showing the changes we have made to reflect new information and how we have sought to ensure we have got the balance right.

Lastly, we will need to identify which projects are included in our ‘base’ forecast and where project funding is provided only after certain conditions or events occur. We will need to consider how much forecasting risk we bear, how to avoid windfall gains and losses and how to ensure that the mid-period incentives we face are aligned with, and do not undermine, customer outcomes. Our approach is to work through this issue and develop an approach with input from our CWG.

### 1.3. Augmentation expenditure

Our augmentation expenditure relates to enlarging or increasing the capacity of our network to meet and maintain power system compliance obligations and performance levels, triggered by factors such as changes in electricity demand and generation and the consequent changes in power flows across the network.

A key driver of our augmentation projects is our demand forecasts, which are derived from forecasts by distribution networks for each transmission connection point. Distribution networks develop detailed demand forecasts that consider the underlying non-weather sensitive demand, make adjustments for trends in energy efficiency, Consumer Energy Resources (CER) and spot loads.

We consider multiple demand scenarios, validate connection point forecasts with distribution networks and compare our forecasts against Australian Energy Market Operator (AEMO) forecasts including the ISP and/or Electricity Statement of Opportunities (ESOO). Our three futures play a key role in identifying a range of possible expenditure profiles which may be required.

Given the surge in data centre demand, from existing and new data centres, we are carefully reviewing these forecasts and engaging with distribution network service providers to isolate and prepare plausible scenarios of load growth.

The changing generation mix in NSW, with the closure of coal power plants and introduction of new renewable generators in regions that were historically load centres, also drives the need to augment the network. Our generation mix assumptions are based on connection applications (with priority given to committed and advanced projects), AEMO ISP modelling, modelling and reporting by AEMO Services Limited (ASL) and EnergyCo and public announcements by owners of existing generators.

Modelling using the updated demand and generation forecasts identifies whether we will breach any of our legal and regulatory obligations (including technical requirements in the National Electricity Rules and reliability levels mandated by the NSW Reliability Standard) and whether any intervention is required. We also use our models to forecast economic risks/benefits in the form of expected unserved energy (which we value using the AER's value of customer reliability) and the value of transmission constraints on the wholesale electricity market. We compare the value of economic benefits against the cost of augmenting our network to determine whether investment is economic and delivers net consumer benefits.

In determining the need for investment, Transgrid undertakes scenario and sensitivity analysis, assesses network and non-network solutions, and establishes the optimal timing of projects. As the sophistication of NEM service providers and technology develops, Transgrid expects the complexity and importance of non-network options to increase. It is critical that the way networks are remunerated to develop and implement these options, compared to traditional poles and wires alternatives, appropriately recognises the complexities and risks posed to network operators and investors. Otherwise, there is a risk of a clear disincentive existing for networks to invest the considerable resources required to develop and implement complex non-network options.

## **1.4. Replacement**

We replace existing network assets to comply with regulatory obligations, maintain the quality, reliability and security of supply and maintain the safety of the transmission system. We replace assets where their continued operation presents unacceptable or uneconomic risk to consumers, workers or the community.

Our approach is guided by our Network Asset Strategy, our ISO 55001 certified Asset Management system along with our Electrical Network Safety Management System (aligned with AS 5577 and ISO 31000).

There are three key components to our replacement program, described in turn below.

### **1.4.1. Maintaining a safe and reliable network**

The first part is expenditure to respond to asset condition and obsolescence risks. This forms the largest component of our overall replacement program.

We forecast our expenditure requirements consistent with the AER's Industry practice application note on Asset replacement planning (which defines the principles and process for asset risk modelling and replacement planning).

Broadly, we identify the need for investment (based on analysis of asset condition information) then develop a base case and credible options. We then consider the risk costs based on probability of failure together with the financial / reliability / safety / environment / emissions consequences. This risk-cost analysis identifies whether the investment should occur as well as the optimal timing. This analysis is undertaken in our Asset Analytics and Investments Tool (AAIT).

Following this analysis, we undertake portfolio prioritisation through a top-down challenge, sensitivity testing, consideration of futures, optimisation with the augmentation program as well as deliverability assessment (as outlined earlier).

We continually refine our process. The key changes we made since we lodged our previous Revenue Proposal are set out in Table 1 below.

Table 1 Updates to our replacement expenditure forecasting approach

| Themes from 2023-28 Determination  | Updated approach   |
|--|--|
| Improve clarity on risk methodology for asset replacements                                   | Update Network Risk Assessment Methodology to be clearer and easier to interpret, including source and development of inputs to calculations |
| Application of disproportionality factors in risk modelling                                  | Simplify calculations to apply these factors only to the safety component of risk  |
| Demonstrate top-down network performance and risk aligns with bottom-up forecast             | Present whole-of-network risk profile and calibrate with network performance   |
| Review portfolio sensitivity to global factors, e.g. unit rates, discount rate               | Develop scenario based repex portfolios and include sensitivity analysis in business cases   |
| Additional evidence to justify operational avoided cost in business cases                    | Provide observed evidence along with a sensitivity analysis in business cases  |
| Some investments have optimal timing sensitive to changes                                    | Include optimal timing sensitivity analysis and justification in business cases  |
| Compliance based investments not supported by adequate quantitative cost/benefit analysis    | Include cost/benefit analysis in business cases and demonstrate economic net benefit   |
| Demonstrate total capex package is suitable in addition to assessment of individual projects | Top-down analysis to be tested with bottom-up analysis   |

#### 1.4.2. Critical infrastructure security

The second element of our replacement program is improving the security of our network against growing and more sophisticated cyber and physical security threats. This program covers our network assets (while a separate program in our ICT category relates to our ICT systems).

Our approach is to forecast this program of works by first evaluating the capability and maturity level we want to achieve then second identifying the activities required to reach this goal. This assessment will take into account stakeholder views on how we should make the risk / cost trade-offs to determine the level of investment to undertake.

### 1.4.3. Increasing network resilience to extreme weather

The last element of our replacement program is the strengthening of our network against single points of failure with high consequence outcomes.

We intend to adopt a three-step process to forecast expenditure for these projects:

1. Identify areas of our network vulnerable, e.g. to bushfire risk or intense wind.
2. Determine the consequence and vulnerability.
3. Focus investments on assets which offer the greatest benefit to consumers.

Our approach will integrate the Value of Network Resilience developed by the AER as well as stakeholder and consumer views on areas we should target and how we will prioritise this spend.

### 1.5. Information Communication and Technology (ICT)

Our ICT expenditure relates to the technology systems and platforms which support the safe, reliable and secure delivery of transmission services. This category includes our core platforms, applications, data, supporting infrastructure and cyber security.

Our Technology Plan, informed by business needs and opportunities, identifies the planned future state of our ICT systems and platforms as well as the most efficient path to get there. Over the upcoming period we expect that our focus will be on the initiatives required to maintain, leverage and evolve our existing systems and platforms as well as improve our cyber security posture.

To develop our expenditure forecast, we are evaluating a range of initiatives on an individual basis. We are considering the strategic context and the potential options to achieve the desired outcome. We then review and consider these individual initiatives at the program level to identify an effective and efficient portfolio leveraging our existing ICT assets where possible. We will also take into account factors such as cost, deliverability and alignment with our Technology Plan. We will document these outcomes in Options Evaluation Reports.

We have based our ICT expenditure proposal on the AER's *Non-network ICT capex assessment approach (2019)* which provides domain specific guidance to NSPs as how to demonstrate prudence and efficiency in order to meet each of the capex factors specified in the National Electricity Rules, clause 6.5.7(c) and the AER's general *Expenditure forecast assessment guideline (2013)*.

Our expenditure forecasting approach will also consider the interrelationship with our operating expenditure forecast. This will include changes to non-recurrent ICT operating expenditure (project operating expenditure) and recurrent operating expenditure, from new subscription and licensing costs and whether a step change will be required.

## 1.6. Property

Our property expenditure relates to maintaining our offices and depots. It does not include network property, which depending on driver could be included in the augmentation or replacement categories.

The first part of our property forecast relates to maintaining the safety and regulatory compliance and in turn ongoing usability and functionality of our property assets. This forecast is based on property condition assessments which identify issues which we then prioritise based on safety risk, regulatory compliance obligations and asset condition. We then cost up the works to rectify the identified issues.

The second part of our forecast relates to new properties or reconfiguration of our existing properties to support strategic initiatives including Operational Readiness & Efficiency, Sustainability and Workforce Growth and Development strategies. Potential projects which could be required include new regional satellite sites and storage facilities to support operational readiness and a new training centre to support future capabilities. To identify which projects are included in our forecast, and support overall prioritisation, we are currently considering the costs, risks and benefits of each potential option, with the results to be documented in an Options Evaluation Report to confirm the preferred option and which projects will be included in our forecast.

The last part of our forecast is expenditure of a largely recurrent nature to address minor property issues.

## 1.7. Fleet

Fleet, plant and equipment are essential to supporting the efficient and safe delivery of capital works and maintenance activities.

Most of our expenditure relates to replacing fleet items as they reach the end of their economic life. We first forecast when each item is due to be replaced (based either on age or usage). We then combine this forecast with a unit cost estimate based on current market pricing. We will also adjust the forecast to take into account the expected change in the size of our fleet required to support the workforce required to deliver the forecast investment program.

At this stage, we do not intend on forecasting any uplift in expenditure related to fleet electrification. This is because we have already introduced electric vehicles for our pool cars and are gradually shifting towards hybrid and low emissions options for light commercial vehicles (utes and vans). We will not propose any uplift in expenditure to shift to electric heavy vehicles and specialised plant as we have not identified any commercial alternatives yet. That said, we will continue to monitor technology developments and adjust as opportunities are identified.

## 1.8. Overheads

Capitalised overheads include the costs which support the delivery of our capital program. These include corporate and network support, control and management costs. We intend to forecast these costs using the AER's standard approach where we project forward historical costs adjusted for the change in the scale of our overall program.

## 2. Operating expenditure

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Operating expenditure includes costs related to operations, emergency response, maintenance, asset management, corporate support, as well as fees and taxes.

We forecast operating expenditure using a top-down ‘base-trend-step’ method. A recent year of expenditure is taken as a starting point, escalated for price changes, growth in network size and adjusted for expected productivity. Step changes are added for costs not included in the base or trend along with categories of cost not forecast using the ‘base-trend-step’ approach.

### 2.1. Base year

We intend to use 2026-27, year 4 of the current 2023-28 period, as our base year. This year will be the most recently available year of actual, audited operating expenditure available at the time the AER is required to make its final decision.

We consider that this base year represents our efficient costs given that we expect to spend close to the allowance (even in the increasingly complex environment we operate within), we have been subject to the AER’s efficiency benefit sharing scheme (EBSS), and our operating expenditure productivity benchmarks well against other businesses.

Where necessary, we will adjust the base year to exclude non-recurrent costs that are not expected to continue into the forecast period. This may include one-off ICT implementation expenditure. At this stage, we do not expect such adjustments to materially increase or decrease base year opex.

### 2.2. Trend

We will apply a rate of change to trend forward our base expenditure into the future. Consistent with the AER’s standard approach, we will take into account:

- price escalation: the expected changes in the real (above inflation) price increases we face. We intend to forecast increases in labour costs consistent with the AER’s standard approach.
- output growth: the expected increase in the ‘outputs’ we will deliver, for instance the increase in energy transported, customer numbers, maximum demand and circuit length. We intend to apply output weights based on the recent AER annual transmission benchmarking reports.
- productivity growth: the expected reduction in cost due to technological change and other factors. We intend to apply the most recent estimate from the AER’s annual transmission benchmarking reports.

### 2.3. Step changes

We will adjust our base operating expenditure to account for step changes in operating expenditure which are expected to increase or decrease our costs and are not already captured by our base expenditure or the rate of change.

Step changes could arise due to expected changes in regulatory obligations, opportunities to incur operating expenditure (rather than capital expenditure), other factors outside of our control or opportunities to deliver greater consumer value.

Our approach is to identify possible step changes then test to see whether they meet the AER's criteria, are sufficiently material and whether they are already captured within the base year or forecast rate of change. We will then explore these step changes with the CWG.

We intend to use a bottom-up build for our step changes and, if required, net off any amounts already included in the base year.

#### **2.4. Category specific forecasts**

We will include category specific forecasts for debt-raising costs consistent with the method included in the AER's Post-Tax Revenue Model.

We will also consider whether changes in cost are more appropriately considered a step change or a category specific forecast. This consideration will consider interactions with the Efficiency Benefits Sharing Scheme as well as whether the costs should be embedded into the revealed-cost forecasting approach going forward.