Multinet Gas Networks

Attachment 9.21

Capital Expenditure

Response to AER Draft Decision

January 2023

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1 Capital Expenditure

We are investing $669 million in our Multinet network in the next AA period. The capex we incur is required to ensure gas is supplied in a safe and reliable manner and to support ongoing network growth and customer service.

1.1 Overview

This attachment sets out our revised Final Plan capital expenditure (capex) proposal for the Multinet gas distribution networks over the next (2023/24 to 2027/28) Access Arrangement (AA) period in response to the AER's Draft Decision. In the next AA period we propose to invest $669 million, which is unchanged from the AER's Draft Decision and our Final Plan Gas Substitution Roadmap (GSR) Response.

The AER's Draft Decision approved our GSR Response capex forecast of $669 million in the next AA period.

As part of its review of our capex, the AER produced its own alternative forecast. Although the AER's forecast did not include some of the items we proposed, the forecast was not materially different in quantum to our own, and therefore the Draft Decision was to accept our proposed capex forecast.

In particular, the AER's alternative capex forecast in its Draft Decision:

- Accepted our proposed $408 million on mains replacement which is an uplift compared to mains replacement expenditure in the current AA period as our low pressure mains replacement moves into more complex and more costly inner urban areas;
- Accepted $94 million in growth capex to connect new customers to the network which is lower than we will spend in the current AA period factoring in the impact to new connection numbers following the GSR;
- Accepted capex of $22 million for the replacement of meters, in line with the age of the meter fleet;
- Accepted $2 million for augmentation projects to ensure safe and reliable supply of gas is maintained for our customers; but
- Did not agree with our proposed $3 million for cyber security, reducing the total IT capex to $68 million; and
- Did not agree with our proposed hydrogen readiness capex of $9 million, reducing the total capex for other assets to $23 million.

We are pleased that the AER accepted our forecast capex for the next AA period, however we provide further clarification on the importance of our cyber security capex program. All other aspects of our revised Final Plan capex remain unchanged. More detail on this is provided at 1.4.1 below.

We have updated our forecast of capex for the current AA period to $444 million, reflecting slightly lower actual spend for 2022, and lower inflation when converting to 2022/23 dollars for comparison to proposed spend in the next AA period. We also discuss our forecast actual capex for the six month extension period January to June 2023 (H1 2023).

The sections below discuss the AER's Draft Decision and our revised Final Plan on capex in more detail.

All numbers quoted throughout our revised Final Plan are dollars 2022/23, unless otherwise labelled.

1.2 Customer and stakeholder feedback

In preparing our revised Final Plan we have continued to engage with stakeholders, including through our Reference Groups and consideration of public submissions to the AER on our Final Plan and GSR Response. We have also reengaged with end use customers to update them on changes since our series of customer workshops completed in March 2022.

A summary of customer and stakeholder feedback is provided in Table 1.1 below.

Table 1.1: Summary of relevant customer and stakeholder insights

What we heard	Our response
Public submissions on our Final Plan and GSR Response	
On capex generally: • EUAA did not want to see large levels of capex with 30 to 50 year asset lives that will soon be subjected to accelerated depreciation.[1] • Friends of the Earth Melbourne reject proposals for capital expenditure that involves new assets being created, preparing for hydrogen blending or for asset replacement.[2] • Origin state that a pragmatic forecasting approach has been adopted where associated policy has yet to be fully articulated. It was also stated that sufficient flexibility in the regulatory process is required to adapt to the changing policy environment.[3] • TRAC Partners suggest that distribution businesses have adopted a 'business as usual' approach to capex investments at a time where there is uncertainty around the future of gas and the economic life of networks as there doesn't appear to be any consideration to how practices may change to reduce capex levels.[4]	The majority of our investment reflects the continuation of existing programs that we undertake to ensure strong safety and reliability of our network and compliance with our obligations. In our GSR Response, we reduced forecast growth, augmentation, service replacement and meter replacement capex to reflect lower forecast new connections and higher forecast existing customer disconnections in line with the Victorian government's proposed new policy measures. The capex in our revised Final Plan balances the feedback we received from our customers and stakeholders, and ensures our networks can continue to deliver strong safety, reliability and customer experience. Overall, our revised capex is $201 million (or 43%) higher than the capex incurred in the current AA period.

[1] EUAA, Submission to Victorian Gas Access Arrangement Proposal 2023-28, September 2022, p 6 (EUAA Submission).
[2] Friends of the Earth Melbourne, Distributor's gas access arrangement proposals 2023-2028 From Ausnet and AGIG (owners of AGN and Multinet), September 2022, p 1 (FoE Melbourne Submission).
[3] Origin Energy, Submission to Victorian gas access arrangement proposals, September 2022, p 2-3 (Origin Submission).
[4] TRAC Partners for BSL, Response to Vic DBs' 2023-28 Access Arrangement Proposals, September 2022, p 40 (TRAC for BSL Submission).

What we heard	Our response
On mains replacement: • BSL state mains replacement should not be justified on the grounds of accommodating hydrogen blends or augmentation, rather proposed replacement programs must be supported by clear evidence of safety risks.[5] • EUAA stated in their submission the proposed mains replacement expenditure should not be funded for by customers as a hydrogen readiness program under the guise of safety. They also suggest that the AER engages with Energy Safe Victoria for formal advice for the replacement of mains.[6] • Darebin Climate Action Now proposed replacement capital investment must be only for safety reasons, supported by clear evidence and a business case considering all options.[7] • Origin believe that the forecast expenditure on mains replacement should be based on meeting customer connections and ensuring network safety and reliability.[8]	Our Distribution Mains and Services Strategy (provided as Attachment 9.7 to our Final Plan) details the performance and ongoing safety risk of mains across our network, the risk treatment options available and justification of the proposed replacement program. Mains replacement is the single most important program we carry out to manage the safety risks posed by gas escape from ageing mains across our network. All 800 km of proposed replacement in the next AA period is driven by this safety risk. The low pressure replacement program has been ongoing since 2003, targeting the prioritised replacement of low pressure cast iron mains across our network which are susceptible to leaks and fractures. Early generation HDPE and medium pressure steel mains will also be replaced as these areas are exhibiting higher break and corrosion rates. None of the proposed mains replacement in the next AA period is driven by hydrogen readiness or network capacity.

[5] Brotherhood of St Laurence, 2022 Victorian gas access arrangements, September 2022, p 21-23 (BSL Submission).
[6] EUAA Submission, p 7
[7] Darebin Climate Action Now, Submission to the Australian Energy Regulator Distributors' Access Arrangements 2023-2028, September 2022, p 3 (DCAN Submission).
[8] Origin Submission, p 3

What we heard	Our response
On growth capex: • EnergyAustralia acknowledged reductions were made to capital expenditure in customer growth, aligning with the GSR forecasts however, there was very little capex reduction to account for existing customers that are expected to reduce their gas consumption.[9] • EUAA support the reduced capex proposed in the addendum given the uncertainty of demand forecasts.[10] • Friends of the Earth Melbourne refuse capital expenditure that attracts new customers and retains existing customers on the network.[11] • Origin have stated the AER need to be cognisant of the uncertain future facing the gas sector and the potential asset stranding risk associated with forecasting growth capex.[12] • TRAC Partners expect more information to be provided to substantiate the key reasons for the higher unit rates, in particular why the unit rates are higher in new developments and why the unit contractor rates for new mains capex are higher than the rates for mains replacement.[13]	We have maintained our approach to forecasting growth capex in our revised Final Plan based on our forecast of relevant unit rates (see Attachment 9.6 to our Final Plan) and our GSR Response customer numbers, both of which were approved by the AER in its Draft Decision.
On IT: • BSL are not supportive of IT expenditure to service customers through a Digital Customer Services program.[14] • TRAC Partners state that it is important the AER undertake a review into the forecast spend on cyber security in light of new requirements and increasing threats. It is also stated in their submission that deferring the expenditure on digital metering and digital customer experience needs to be considered with the uncertainty of the future of gas and offsetting impacts on customers where possible.[15]	We have accepted the AER's approval of our overall capex, but have provided some comments on our proposed cyber security program which the AER did not include in its alternative estimate (see 1.4.1 below). On digital customer services, we note this was strongly supported by customers, is a relatively small level of investment and will ensure we continue to deliver on the expectations of the 627,000 customers who will still be using our gas distribution services at the end of the next AA period.

[9] EnergyAustralia, Gas Access Arrangement proposals 2023-28 for AusNet, Multinet and AGIG – 1 July 2022, September 2022, p 2 (EnergyAustralia Submission).
[10] EUAA Submission, p 7
[11] FoE Melbourne Submission, p 2
[12] Origin Submission, p 3
[13] TRAC Partners, p 42
[14] BSL Submission, p 23
[15] TRAC for BSL Submission, p 46

What we heard	Our response
On meter replacement: • BSL note that networks should quantify the opportunity to avoid replacement with new meters through the re-use of meters removed from houses that disconnect from the network.[16]	As is current practice, we will continue to look to refurbish and reuse removed meters where it is cost efficient to do so. We would comment that the refurbishment of domestic meters is not a guaranteed service in coming years as the economic viability of the service being maintained relies on sufficient volumes of meters being available for refurbishment across all distribution businesses each year. This also impacts the cost competitiveness of the service compared to the purchase of new meters, therefore we cannot be confident of the ongoing availability of the refurbishment service for domestic meters over the next AA period. We expect we will still refurbish much of our replaced commercial and industrial meters in the next AA period. Where removed meters cannot be refurbished, they are scrapped and recycled.
On augmentation • BSL have acknowledged the adjustments made to the augmentation forecast in response to the GSR, but given the stranding risk, low cost, flexible solutions should be explored such as 'demand management' to avoid augmentation.[17] • TRAC partners state that the AER needs to be satisfied with the augmentation forecasts proposed and they best represent estimates arrived on a reasonable basis. TRAC Partners are not convinced with the forecast proposal due to the fact that a simplified approach to assess the impacts of the GSR is different to the approach used in the initial proposal. They also add that the augmentation proposal is based on demand forecasts which themselves are not the best estimates .[18]	We scaled back our proposed augmentation in the next AA period in our GSR Response in line with revised forecasts of new customer connections and existing customer disconnections. We will continue to incorporate the most up to date information on network flows and forecast customer growth across our networks to ensure we undertake the least cost augmentation required to meet our obligations to maintain minimum network pressures and maintain reliable gas supply for our customers.

[16] BSL Submission, p 21
[17] BSL Submission, p 21
[18] TRAC for BSL Submission, p 45

What we heard	Our response
On hydrogen adaptation: • BSL do not support the proposal of any hydrogen adaptation of the network as broadscale infrastructure investment is premature, where there is no clear understanding of the development of hydrogen production in Australia and the full costs associated with blending is still unknown.[19] • EnergyAustralia believe hydrogen and renewable gas is a viable alternative to carbon intensive natural gas, especially in industries where electrification is not economical, however, there is no need, desire or latent industry that requires distribution networks to supply hydrogen. The 'no regrets' expenditure, resulting in increased cost for customers, may become regretful as the energy transition is forecasted to major impacts on customer's bills.[20] • Origin support expenditure to facilitate hydrogen readiness where appropriate to the extent that the legislation supports hydrogen blending.[21] • TRAC Partners state customers today should not have to pay for the cost of exploring alternatives to natural gas as it would be intergenerationally inequitable especially when the current economic climate makes electrification more cost efficient, even with the cost of switching and augmenting the electricity network.[22] • Victorian Community Organisations believe that expenditure to accommodate a hydrogen blend should not be accommodated as it is in opposition to the opportunity to electrify residential loads.[23]	We have accepted the AER's approval of our overall capex. We accept there are different views across stakeholders on the future of gas. As a prudent asset manager, we will continue to manage the safety and integrity of our network. This includes monitoring developments in the renewable gas future and responding accordingly.

1.3 AER Draft Decision

1.3.1 Forecast capex in the next AA period

The AER's Draft Decision approved conforming net capex for the next AA period of $669 million, which is the same as what we proposed in our GSR Response capex.

In coming to this decision, the AER developed its own alternative forecast. Although the AER's alternative forecast did not include some of the items we proposed, the forecast was not materially different in quantum from our own, and therefore the Draft Decision approved our proposed forecast.

[19] BSL Submission, p 18-19
[20] Energy Australia Submission, p 1-2
[21] Origin Submission, p 3
[22] TRAC for BSL Submission, p 43
[23] Victorian Community Organisations, Submission to gas distributors' initial proposals: 2023–2028 Access Arrangements, September 2022, p 4 (Victorian Community Organisations Submission).

The AER's alternative estimate, which was not materially different from our own, did not include:

- Proposed expenditure on hydrogen readiness ($9 million); or
- Cyber security uplift ($2.6 million).

The AER's Draft Decision in respect of our capex forecast over the next AA period is summarised in Table 1.2 below.

Table 1.2: Summary of the AER's Draft decision on capital expenditure

	AER Draft Decision	AER Comments
Mains Replacement	Accept	The AER approved our proposed mains replacement program.
Growth Assets	Accept	The AER approved our proposed capex for new connections.
IT	Modify	The AER approved the majority of our proposed IT capex, however did not include our proposed cybersecurity uplift capex in its alternative forecast.
Meter Replacement	Accept	The AER approved our proposed meter replacement program.
Augmentation	Accept	The AER approved our proposed augmentation program.
Telemetry	Accept	The AER approved our proposed telemetry program.
Other assets	Modify	The AER approved the majority of our proposed other assets capex, however did not include our proposed hydrogen adaptation capex in its alternative forecast.
Escalation	Accept	The AER approved our proposed capex escalation.
Overheads	Accept	The AER approved our proposed capitalised overheads.
Overall Capex	**Accept**	The AER approved the total capex proposal for MGN as conforming capex after assessing the forecast capex with the AER alternative capex considering the available evidence, engineering advice from external consultants and stakeholder submissions.

Note: In this 'traffic light' table, green shading represents the AER's acceptance of our GSR Response, orange represents the AER's modification of our GSR Response and red shading represents the AER's rejection of our GSR Response.

The following sections outline the reasons for the AER's Draft Decision on each category of proposed capital expenditure in the next AA period.

Mains replacement

The AER's Draft Decision accepted our proposed mains replacement ($408 million) as it is necessary to maintain and improve safety, and to maintain the integrity of services. In coming to this decision, the AER sought advice from an external engineering consultant, Zincara. Zincara found the prioritisation of our mains replacement program was appropriately targeted based on our safety obligations. Consequently, the AER also approved the prudency of the volume and location of our proposed mains replacement program.

On our low pressure cast iron and unprotected steel mains, Zincara's analysis of leaks, fractures and water in mains and services incidents show that MGN's low pressure mains are in relatively poor condition and continue to deteriorate. It is also noted that some PVC mains are experiencing increasing rates of leaks, with similar levels to unprotected steel. After analysing the assessment provided of leaks and fracture rates for each postcode being targeted in the next AA period, Zincara noted MGN is replacing mains in high risk areas and support the need for a strong replacement program.[24]

Zincara also deemed our proposal to replace medium pressure Early Generation High Density Polyethylene Mains (HDPE), medium pressure steel and reactive replacement as prudent and efficient after analysing leak and fracture rates of these assets, confirming they are in poor condition and should be replaced. [25]

An analysis of the methodology used to determine unit rates for the mains replacement programs was also conducted by Zincara. The methodology which includes a combination of competitive tenders, historical actual rates, density considerations and observations from street walks was considered to be reasonable in determining the best estimate of the work to be undertaken in the next AA period and represents the best possible forecast in the circumstances.

The AER has accepted the advice provided by Zincara on our mains replacement plan and the unit rates to carry out the work in the next period.[26]

Growth Assets

The AER is satisfied our growth capex forecast of $94 million is conforming capex. The AER accept that policies flowing from the GSR are likely to lead to a reduction in new connections, particularly as the AA period progresses and consider the volume adjustment we proposed to be reasonable and proportionate noting there remains considerable uncertainty about the likely impact of these changes.[27]

On unit rates, the AER has accepted our forecast unit rates for new connections considering current costs are competitively tendered contractor costs and reflective of most recent contracted rates.[28]

IT

The AER's Draft Decision accepted the majority of our proposed IT spend as prudent and efficient. However, the AER did not include the $3 million for cybersecurity uplift in its alternative capex forecast. This is because the AER considers there is currently no obligation for us to achieve the capabilities of a Maturity Indicator Level 3 (MIL-3)/Security Protection Level (SP 3) for our gas distribution business and therefore consider that our proposal is higher than the efficient investment required to meet the likely security capabilities under the Act.[29]

Meter Replacement

The AER's Draft Decision accepted our proposed meter replacement capex. The AER was satisfied we are following good industry practice in our replacement of meters and that unit rates reflect historical costs.[30]

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[24] AER, Attachment 5: Capital expenditure | Draft decision – Multinet Gas Networks Access Arrangement 2023–28, p 10 (AER Draft Decision Capex).
[25] AER Draft Decision Capex, p 10
[26] AER Draft Decision Capex, p 11
[27] AER Draft Decision Capex, p 13.
[28] AER Draft Decision Capex, p 14.
[29] AER Draft Decision Capex, p 15.
[30] AER Draft Decision Capex, p 21.

Augmentation

The AER's Draft Decision accepted our proposed augmentation capex. The program is a significant reduction from the current AA period due to the impact of lower growth in the next AA period. The AER is satisfied that the augmentation proposal is conforming capex and is reflective of expectations in the next AA period.[31]

Telemetry

The AER accepted our proposed telemetry capex stating the program is supported by risk assessments and cost build ups which it considers to be reasonable.[32]

Other Assets

The AER accepted the majority of our proposed capex on other assets. However, the AER's alternative forecast did not include our proposed hydrogen readiness program.

The AER notes expenditure on hydrogen readiness is relatively new in the context of natural gas distribution networks. Where the National Gas Law (NGL) has currently defined natural gas as being a hydrocarbon predominately consisting of methane, expenditure to allow for the safe distribution of hydrogen has not previously been capable of being conforming capex, and therefore not capable of approval in an AA. Once proposed amendments to the Law change the definition of natural gas to include hydrogen, expenditure on hydrogen related assets could be approved in an AA where such expenditure meets the new capex criteria.[33]

The AER also refers to the Australian Energy Market Commission's (AEMC) 2022 review into including hydrogen in the regulatory framework. The AEMC draws a distinction between investments in hydrogen readiness that have been mandated and are voluntary. It is the AEMC's view that a safety case is not sufficient to justify expenditure on hydrogen readiness where a service provider has voluntarily decided to introduce hydrogen into its network. Rather, the expenditure would need to pass a positive economic benefits test to be conforming capex.[34]

1.3.2 Capex in the current AA period

The AER has accepted our proposed $468.4 million net capex for the current AA period as conforming capex, which is lower than the final decision of $487.5 million due to higher than forecast spend on growth capex, meter replacement and IT capex, partially offset by lower than forecast spend on mains replacement. The AER scrutinised our reasons for the areas of overspend and underspend and stated,

> "The framework allows regulated businesses to reprioritise capex to achieve prudent and efficient outcomes, such as response to COVID and safety priorities. We accept MGN's [underspend] of its mains replacement program. We note the overall underspend is modest."[35]

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[31] AER Draft Decision Capex, p 22.
[32] AER Draft Decision Capex, p 22.
[33] AER Draft Decision Capex, p 19.
[34] AER Draft Decision Capex, p 20.
[35] AER Draft Decision Capex, p 7.

1.4 Our revised Final Plan

1.4.1 Forecast capex in the next AA period

Our revised Final Plan forecast capex for the next AA period is $669 million, which is unchanged from the AER's Draft Decision and our GSR Response. This reflects that we have accepted the AER Draft Decision capex amount.

A summary of our response to the AER's Draft Decision is provided in Table 1.3 below.

Table 1.3: Summary of our response to the AER's Draft decision on capital expenditure

	AER Draft Decision	Our Response	Our comment
Mains Replacement	Accept	Accept	We welcome the AER's acceptance of our total capex forecast of $669 million in its Draft Decision. We have accepted this decision, and as such, included the same capex forecast in our revised Final Plan. While updates to our demand forecast lead to a small increase in forecast growth capex, we have determined this increase is not material to our total capex proposal. We add some further comments below on our proposed cyber security capex.
Growth Assets	Accept	Accept	
IT	Modify	Accept	
Meter Replacement	Accept	Accept	
Augmentation	Accept	Accept	
Telemetry	Accept	Accept	
Other assets	Modify	Accept	
Escalation	Accept	Accept	
Overheads	Accept	Accept	
Overall Capex	**Accept**	**Accept**	

Note: In this 'traffic light' table, green shading represents the AER's acceptance of our GSR Response, orange represents the AER's modification of our GSR Response and red shading represents the AER's rejection of our GSR Response.

The following sections provide more detail on our response to the AER's Draft Decision in our revised Final Plan.

Growth Assets

We accept the AER's decision to accept our proposed growth capex of $94 million. Throughout the AA submission process, we have mirrored the number of new connections with our demand forecast. In our revised Final Plan, we have updated our demand forecast, including for more recent Housing Industry Association forecasts (see Attachment 13.6), which results in an update to the number of new connections we will see over the next AA period.

Using the new information, there will be approximately 2,000 new connections leading to a $6 million increase in capex. After reviewing the impact the update has on our growth assets capex plan, and consistent with the approach followed by the AER in its Draft Decision, we have decided that the increase is negligible to our total expenditure proposal and therefore we do not propose any change to the AER's Draft Decision.

Cyber Security

While we have accepted the AER's Draft Decision to accept our total proposed capex, we have a few comments to make in response to the AER's findings on our proposed cyber security capex, which was not included in the AER's alternative capex forecast for the next AA period.

As critical infrastructure owners, it is imperative that we continually take steps to increase our monitoring of threats and our cyber security capabilities, keeping pace with the external environment and reducing the impacts cyber attacks may have on our customers, assets and business. Therefore, we will proceed with our cyber security program as proposed.

The Security Legislation Amendment (Critical Infrastructure Protection) Act 2022 and draft risk management program rules require our risk management program to comply with at least Security Profile 1 of the Australian Energy Sector Cyber Security Framework (AESCSF). However, our own risk assessment has determined MIL-3/SP3 as the required target state because:

- Cyber threats have heightened globally with high profile data breaches in recent months in Australia highlighting the damage that can be caused by malicious cyber actors, as well as the cost to organisations in the wake of these incidents which are expected to lead to regulatory reforms that include significantly increased penalties and enforcement measures for non-compliance; [36]
- Cyber security is our highest ranked strategic risk under our corporate risk management framework and our shareholders expect us to take all prudent actions to mitigate this risk;
- For our business a cyber incident resulting in a data breach could also amount to a breach of our FIRB data conditions (e.g. relating to access to customer or personal (including employee) information), with serious criminal and civil penalties applicable for breaches of the conditions under the Foreign Acquisitions and Takeovers Act 1975 (Cth);
- The cyber security regulatory compliance obligations aim to ensure a responsible entity:
  - takes a holistic and proactive approach toward identifying, preventing and mitigating risks from all hazards; and
  - seeks to minimise or eliminate material risk where it is reasonably able to do so, in order to secure its critical infrastructure asset; [37]
- We are reasonably able to minimise or eliminate material risk by targeting Security Profile 3, in line with the program we have developed, which is suggested as the required maturity level under the AESCSF for high criticality businesses like our Multinet distribution business (which is classified as high criticality under the gas criticality assessment tool[38]);
- In order to take a holistic approach toward identifying, preventing and mitigating risks from all hazards, all AGIG businesses must participate in our cyber security risk management program as

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[36] Johnson Winter Slattery, Privacy and cyber security imperatives – reactions to and lessons from the Optus data breach, October 2022, accessible at https://jws.com.au/en/insights/articles/2022-articles/privacy-and-cyber-security-imperatives.
[37] Cyber and Infrastructure Security Centre, Risk Management Program Factsheet, August 2022, p 2, available at https://www.cisc.gov.au/critical-infrastructure-centre-subsite/Files/cisc-factsheet-risk-management-program.pdf.
[38] We submitted our 2022 Criticality Assessment to the AER in September in response to a formal information request. The AESCSF gas criticality assessment tool (G-CAT) can be found here: https://aemo.com.au/-/media/files/initiatives/cyber-security/aescsf/aescsf-gas-criticality-assessment-tool-g-cat.pdf?la=en

cyber capabilities that are established are only as effective as the lowest capability exhibited across the whole environment;

- There will be further uplift to cyber security regulatory compliance obligations over the next AA period. The AESCSF was updated in 2022 to align with international standards and respond to the cyber threat landscape. AESCSF Version 2 is expected to be published in early 2023 and we understand this update includes additional requirements compared to previous versions; and
- A portion of the activities in the program are required to maintain and replace existing cyber investments. The total cost of maintenance activities over the next AA period is $4.3 million opex (an uplift of $1.8 million compared to the current AA period) and $0.2 million capex. The maintenance activities include:
  - 4 FTE in our AGIG cyber team;
  - Annual security testing and awareness programs;
  - Running our Security Operations Centre;
  - Ongoing licensing costs; and
  - Refresh of our Identity Access Management, Privileged Access Management and Vulnerability Management solutions.

Further our program reflects good industry practice, independent advice from Ernst & Young and efficient costs which have been allocated across our AGIG businesses in accordance with our allocation methodology (see our IT Business Cases provided in Attachment 9.19 to our Final Plan).

1.4.2 Capex in the current AA period

We have updated capex in the current AA period with draft actual capex for the 2022 year in our revised Final Plan. We note the final position for 2022 will be submitted in the 2022 Annual RIN which is due to the AER 1 May 2023.

In our revised Final Plan, we have included $443 million capex in the current AA period to be rolled in the regulatory asset base (RAB). This is $25 million or 5.3% below the $468 million included in our GSR Response and the AER's Draft Decision. The drivers of this reduction are:

- A change in application of the CPI between June 2021 to June 2023 following discussions with the AER which impacts the value expressed in 2022/23 dollars for comparison to forecast capex in the next AA period (-$16 million); and
- Lower draft actual capex in 2022 (-$9 million).

We have also updated our forecast capex for the six month extension period 1 January to 30 June 2023. Overall, the updates to 2022 and January to June 2023 capex result in:

- A lower penalty under the Contingent Capital Expenditure Sharing Scheme (CESS); and
- A slightly lower opening RAB for the next AA period.

The following sections provide more detail on the update to capex in the current AA period, including drivers for the lower spend by capex category. The carryovers under the CESS are discussed in Attachment 12.2 Response on Incentives.

Table 1.4 below shows updated five year capex for the current AA period compared to the forecast submitted in our Final Plan.

Table 1.4: Comparison of our revisions to capex for the current AA period with the Final Plan ($ million, 2022/23)

	Final Plan	Final Plan (CPI update)*	Revised Final Plan	Our Comment
Mains replacement	206.7	199.7	191.7	Draft actual capex in 2022 is $8 million below our Final Plan forecast due to early completion of the target kilometres for the period in 2021 and reallocation of resources to support AGN's completion of low pressure mains replacement in the Melbourne CBD.
Growth assets	128.1	123.7	119.7	Draft actual capex in 2022 is slightly below our Final Plan forecast due to ongoing supply shortages impacting the residential building and construction sector which has seen a slowdown in new connections compared to earlier years in the period.
IT	47.5	45.9	47.6	Draft actual capex in 2022 is slightly above our Final Plan forecast with some additional spend required on our GIS upgrade.
Meter replacement	15.9	15.3	17.1	Draft actual capex in 2022 is slightly above our Final Plan forecast.
Augmentation	18.0	17.3	15.1	Draft actual capex in 2022 is slightly below our Final Plan forecast due to a combination of project cost savings (-$0.5m) and a small amount of regulator capacity upgrades (-$1.0m) and mains augmentation (-$0.4m) deferrals.
Telemetry	5.0	4.8	4.4	Draft actual capex in 2022 is consistent with our Final Plan forecast.
Other assets	19.6	18.9	19.5	Draft actual capex in 2022 is consistent with our Final Plan forecast.
Overheads	27.6	26.7	28.3	Draft actual capex in 2022 is consistent with our Final Plan forecast.
Total	**468.4**	**452.4**	**443.3**	

*We note that when escalating current period capex into 2022/23 dollars we have incorporated a change to the application of CPI between June 2021 and June 2023 in line with discussions with the AER following submission of our Final Plan. This change reduces the current period capex as quoted in 2022/23 dollars (actual nominal values for the years 2018 – 2021 have not changed) by $16 million compared to the values quoted in our Final Plan.

Mains Replacement

Draft actual capex on mains replacement in 2022 is $8 million lower than we forecast in our Final Plan. This does not detract from our commitment to delivering our low pressure mains replacement program. In fact, we completed the target kilometres for replacement in the current AA period in 2021. Therefore, we have reallocated a small number of resources from this program in 2022 to support completion of the high priority low pressure mains replacement in the Melbourne CBD in our AGN Victoria network.

1.5 Summary

We have accepted the AER's Draft Decision which accepted our GSR Response capex forecast of $669 million for the next AA period. Our capex forecast in our revised Final Plan remains unchanged from the AER's Draft Decision and our GSR Response. We have also provided further comments on the need for us to incur cyber security capex in the next AA period.

We have also updated our current period capex with actual expenditure of $443 million which includes an adjustment to the applied CPI along with variations from forecast in our mains replacement capex.