AusNet

AusNet Transmission Revenue Reset 2027-32

Revised Revenue Proposal – Public

Thursday, 10 September 2026



About AusNet

AusNet is a major energy network business that owns and operates key regulated electricity transmission and electricity and gas distribution assets located in Victoria, Australia. These assets include:

- A 6,500+ kilometre electricity transmission network that services electricity consumers across Victoria;
- An electricity distribution network delivering electricity to 800,000+ customers in an area of more than 80,000 square kilometres of eastern Victoria; and
- A gas distribution network delivering gas to 800,000+ customers in an area of more than 60,000 square kilometres in central and western Victoria.

AusNet's vision is to be trusted to bring the energy today and build a cleaner tomorrow.



For more information visit: www.ausnetservices.com.au

Contact

This document is the responsibility of the Transmission line of business of AusNet. Please contact the indicated owner of the document below with any inquiries.

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0. Executive summary

AusNet owns and operates the majority of Victoria's electricity transmission network. This Revised Proposal responds to the AER's Draft Decision, providing an updated view of our required revenue for the five years from 1 April 2027 to 31 March 2032.

0.1. Context for the Revised Proposal

0.1.1. Our role in the transmission system

In Victoria, planning and augmentation of the transmission system are separate from ownership. AusNet maintains and operates the network, providing shared transmission services to VicGrid and connection services to generators, distributors, and large industrial customers.

In the Initial Proposal and in this Revised Proposal, we focus on what we can control: the efficiency of our operations, asset replacement, outage planning, and stakeholder engagement. Key cost drivers such as augmentation planning, easement land tax, and the rate of return are determined externally.

0.1.2. Drivers of the Initial Proposal

Our Initial Proposal was submitted amid transformational change in Victorian transmission, driven by ageing assets, increasing operational complexity, cost escalation, and significant augmentations to support the energy transition. This wider context is important for stakeholders for transparency on total expenditure, deliverability and Victorian transmission charges, much of which is determined outside of this process.

Collectively, these individual investment programs will result in a significant cost increase for customers relative to recent prior periods. Nonetheless, our asset replacement investment is essential to maintain reliability and safety, and enable the value of broader transmission investments.

We briefly recap the drivers of the expenditure contained in our Initial Proposal below and explain their continued relevance for the Revised Proposal.

0.1.2.1. Ageing network

There has not been significant augmentation investment in the Victorian network since the early 1990s. This has allowed us to deliver the lowest cost transmission network in Australia and keep prices low and flat in real terms over that time. However, the Victorian network is ageing and requires substantial replacement to maintain safety and reliability. The station assets installed in the late 1960s and early 1970s to establish the 500kV backbone network in Victoria, such as switchgear and transformers, are now approaching the end of their operational life. The replacement of these key assets is a key driver of the capital expenditure forecast for 2027-32.

The ageing network remains a key driver of our capital expenditure plans in the Revised Proposal, as our core network projects and programs have not changed since the Initial Proposal.

0.1.2.2. Operational complexity

Our network is now operating close to its limits and is significantly more complex to manage. The way the network is used is dramatically shifting, with the widespread penetration of rooftop solar photovoltaic (PV), closure of large baseload coal generators and the repurposing of parts of the network that were originally designed to serve small regional loads into pathways for new large scale renewable generation.

The network must now deal with the emerging challenges of lower minimum demands and falling system strength, which leave the system vulnerable to destabilisation, as well as an increasing number of complex new connections and large shared network upgrades. Although power systems worldwide are planned to be resilient to a range of contingency events, these emerging challenges mean there is increasingly a need to plan for high impact but low probability events.

Operational complexity remains an important driver of the Revised Proposal, and underlies the critical digital initiatives we have proposed for our control room. In the Revised Proposal, we have provided further support and justification for these uplifts.

0.1.2.3. Cost escalation

Significant increases in the cost of construction have also occurred in the last 5 years and have impacted our proposal. This has impacted the entire network infrastructure sector, driven by:

- Sustained supply chain pressures on materials, equipment and workforce
- Market competition driven by a high number of concurrent projects under development in the NEM and globally

- Project complexity, including an increased number of projects planned for remote areas
- Social licence and additional community & landholder engagement along proposed line routes, and
- Additional contracting costs to account for risk allocation in engineering, procurement and construction contracts in response to pressures in the current market.

The impacts of cost escalation continue to be reflected in the estimates and unit rates that underpin our Revised Proposal. Where market tested costs have been received for our planned projects, we have reflected this in the Revised Proposal, to ensure that our forecasts reflect the best and latest information.

0.1.2.4. Deliverability

The Initial Proposal was submitted at a similar time as VicGrid's 2025 Victorian Transmission Plan, which outlined $7.9B of investment in augmentation of the network. The current transmission network was built around large, centralised coal-fired power stations, mostly located in the Latrobe Valley. These coal-fired power stations will soon retire, and the generation being built to fill this gap in supply is much more dispersed. This generation needs to connect to the grid, which has driven the Victorian Transmission Plan investments, and the Integrated System Plan published by the national transmission planner, AEMO. In addition, we expect significant growth in customer driven works to connect new generators, storage and load to the network. Increases in connection volumes are already underway, with connections such as Battery Energy Storage Systems (BESS) and data centres being integrated into metropolitan areas.

While these augmentation and customer-driven works are outside of the remit of the revenue proposal, they compete with our replacement works for resources, creating a deliverability challenge. This is compounded by growing demand for resources from other networks across Australia and around the world as they undergo the energy transition at the same time.

To support the Initial Proposal, we undertook a detailed analysis of deliverability constraints. Our assessment concluded that the Initial Proposal was deliverable. In addition, we made several adjustments to our capital expenditure plans to support the deliverability of the Initial Proposal, which were made in consultation with the TSAP.

Our Revised Proposal contains lower capital expenditure than our Initial Proposal and has a "smoother" profile. Therefore, we consider that our Revised Proposal is likely to be more easily deliverable than our Initial Proposal.

0.1.3. Changes since the Initial Proposal submission

As mentioned above, the four contextual drivers discussed in the Initial Proposal remain relevant for our Revised Proposal. However, since the Initial Proposal was submitted, new information has also influenced our Revised Proposal. This includes regulatory changes, newly released frameworks, transfers of responsibility, updated demand forecasts, and an additional 10 months of on-the-ground information from our ongoing delivery program and project development activities.

0.1.3.1. New Security of Critical Infrastructure regulations

There is growing recognition of the role of government policy to address threats to Australian critical infrastructure assets that are increasingly interconnected and complex. Critical infrastructure is fundamental to Australia's social and economic prosperity, national security and defence. Disruptions can have consequences well beyond the affected asset because of interdependencies across sectors.

The SOCI Act was legislated in 2018 and began as a regime focused on visibility of ownership and control. Under this Act, legal obligations are outlined for entities that own, operate or have direct interests in critical infrastructure assets. Our electricity transmission network has been registered by the Secretary of Home Affairs as critical infrastructure as defined under the SOCI Act. Subsequently, the Commonwealth Department of Home Affairs introduced the Security of Critical Infrastructure (Critical infrastructure risk management plan) Rules 2023, that define the obligations and specific requirements regarding how AusNet must protect critical assets in the electricity transmission network and comply with the SOCI legislation.

In June 2026, the Department of Home Affairs published further amendments under the Security of Critical Infrastructure Legislation Amendment (Enhanced Critical Infrastructure Risk Management Program) Rules 2026 – henceforth the "CIRMP Amendment Rules". The CIRMP Amendment Rules were developed following the Independent Review of the Security of Critical Infrastructure (SOCI) Act, delivered in January 2026, which identified opportunities to strengthen Australia's critical infrastructure security framework and respond to a rapidly evolving threat environment. The explanatory statement for the Rules states that existing obligations require updating because the threat landscape has become more dynamic and challenging, including through state-sponsored and malicious actors, supply chain vulnerabilities, emerging technologies, espionage and foreign interference.

As these latest regulations were released after the submission of the Initial Proposal in October 2025, we include in this Revised Proposal a set of new programs which will allow AusNet to comply to these new requirements in the 2027-32 period. This has been flagged to the AER through our regular engagement since the Initial Proposal, and to stakeholders through TSAP meetings and at the AER's Predetermination Conference.

We recognise that there is a material cost associated with these new programs. However, these costs are essential to managing security risks for the transmission network, and to comply with amended regulations. We have undertaken risk assessments and cost benefit analyses to ensure our programs and the costs associated with them are proportionate to the risk facing Victorians. In addition, AusNet has engaged the Department of Home Affairs, the Australian Signals Directorate, and AEMO on our proposed programs. We will continue this engagement throughout the 2027-32 period as necessary, to ensure our security programs remain in the best long-term interests of Victorians and align with government advice.

0.1.3.2. AEMO Transmission System Operational Capability Framework

On 17 July 2026, AEMO published the draft Transmission System Operational Capability Framework (TSOCF). The TSOCF is being developed to address the widening gap between power system complexity and operational capability. It aims to do so by aligning emerging operational capability challenges with the future power system requirements to address those challenges.

AEMO's TSOCF is a voluntary guide to transmission system operations capability planning in the national electricity market. It will provide a considered, consistent and transparent view of the transmission system operational capabilities needed to support the energy transition. It is intended to support AEMO and TNSPs to assess, prioritise and progressively improve operational coordination, capability and maturity.

AusNet has been involved in the development of the TSOCF, including through the TNSP workshop in June 2026. While Version 1 of the TSOCF will only be published in mid-September 2026, after the submission of the Revised Proposal, we have assessed the Advanced Energy Management System (AEMS) digital program included in our Initial Proposal against the draft TSOCF.

Based on this assessment, we have identified that the existing initiatives proposed for the AEMS program are consistent with the TSOCF. We have therefore kept the majority of the AEMS program the same as the Initial Proposal. We have, however, removed some initiatives in response to the feedback received in the Draft Decision and through direct engagement with the AER.

0.1.3.3. Transfer of operational responsibilities

In our Initial Proposal, we flagged that when VicGrid took over operational responsibilities from AEMO, certain network operations responsibilities may be delegated or transferred to AusNet. We mentioned that this would require us to uplift our operational capability, requiring additional resources in our Transmission Operations Centre (TOC), and that an opex step change may be included in the Revised Proposal if these delegations formally occurred by that time.

This potential step change was also discussed with AusNet's Transmission Stakeholder Advisory Panel (TSAP), who supported the approach of excluding the step change in the Initial Proposal, awaiting confirmation from AEMO and/or VicGrid.

AusNet has now received formal confirmation that we will be taking on 3 operational responsibilities:

- **Develop contingency plans**: AusNet will be responsible for developing network contingency plans for planned outages involving critical transmission assets. This is a transfer of responsibility from AEMO, meaning that it is not a new cost or service for Victorian customers, and is rather a change in where the service is being done
- **Coordinate emergencies**: AusNet will be responsible to act as the primary operational coordinator during transmission system emergencies. This is a transfer of responsibility from AEMO, meaning that it is not a new cost or service for Victorian customers, and is rather a change in where the service is being done
- **Instrument of delegation**: AusNet will be responsible for managing power system security and generation dispatch within AEMO's zone of operation when required.

As a result, the Revised Proposal includes an opex step change to enable AusNet to recover the costs of performing these functions. We have also added a new initiative within the AEMS digital program related to these operational responsibilities, which will establish direct communication links with ElectraNet and Transgrid. This will provide a resilient backup communications path that can be used if primary communications through AEMO are unavailable.

0.1.3.4. VicGrid 2026 demand forecasts

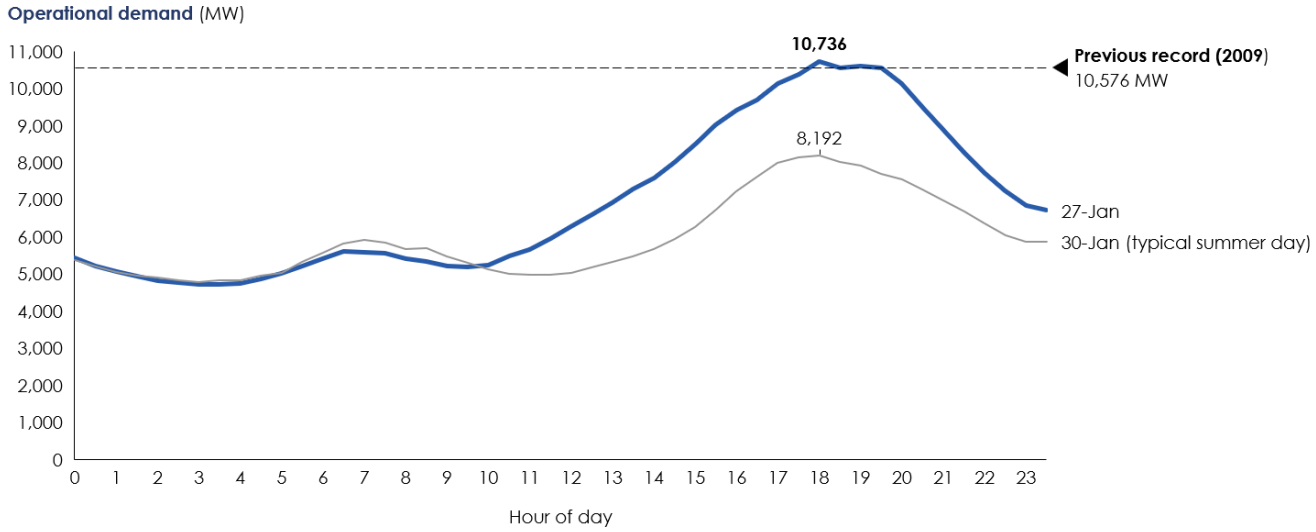
Demand forecasts are a key input for planning replacements on the transmission network, as they inform our calculations of the consequences of an asset failing. Due to the unique split of planning responsibilities in Victoria, AusNet is not responsible for forecasting transmission network demand. This role was instead performed by AEMO until 1 November 2025, then subsequently performed by VicGrid. Therefore, to develop our Initial Proposal, we used demand forecasts published in 2024 by AEMO. This informed the cost benefit analysis for our major station projects in particular and set the economic timing for these projects.

In the Draft Decision, the AER and their consultants noted that the timing of some projects was sensitive to demand forecasts. In response, AusNet has used the 2026 Victorian Connection Point Forecasts published by VicGrid to update our analyses for the Revised Proposal. These updated forecasts reveal the following:

- Demand growth is highly concentrated in Melbourne's north and west, with large customer connections including data centres contributing to increasing peak demand forecasts
- While summer demand has historically been the dominant concern for network planning, the forecast now indicates strong growth in both summer and winter peaks. Growing winter demand is attributed to increasing electrification and electric heating, while summer growth remains primarily driven by cooling loads
- Minimum demand continues to decline across most of Victoria, driven by the continued growth of rooftop solar

The generally higher demand in these latest forecasts is not a surprise, as Victoria has experienced multiple maximum demand events in recent years. Of particular note is that on 27 January 2026, Victoria reached a new all-time operational peak demand record of 10,736 MW.

Figure 0-1: Maximum operational demand on 27 January 2026 vs. a typical summer day



We have updated many of our major station project economic models using the latest demand forecasts, to ensure our plans continue to leverage the best and latest available information. For most of the stations at which we have proposed a project, the 2026 demand forecasts are higher, resulting in higher benefits that strengthen the needs case. There is, therefore, minimal change in our proposed major station projects as a result of the updated demand forecasts.

The only project that has been delayed due to our updated analysis is the Dederang Terminal Station (DDTS) H3 330/220kV Transformer & Circuit Breaker Replacement project. This project was a contingent project in our Initial Proposal, but is no longer proposed as a contingent project nor as part of the ex-ante cap in the Revised Proposal,

0.1.3.5. Additional information from ongoing project delivery and development

The Revised Proposal is being submitted 10 months after the Initial Proposal. In that time, AusNet has continued to:

- Deliver on our large program of capital works, providing us with on-the-ground information on project costs. This allows us to validate and test the assumptions with which we built the Initial Proposal
- Progress project development activities, including engaging the market to gain more certain cost information
- Update economic analyses and publish new Regulatory Investment Test reports
- Conduct additional studies on our assets and proposed replacement programs

Our Revised Proposal reflects updated information collected in the last 10 months from these business-as-usual activities. For example, this includes updated market-tested costs for the major station project at Keilor Terminal Station.

However, while this new information has been incorporated, we confirm that there are no new network programs in our Revised Proposal.

0.2. Engagement with our customers and stakeholders

Engagement with our customers and stakeholders continues to be an important part of our revenue reset. Since the Initial Proposal, AusNet has continued to engage our Transmission Stakeholder Advisory Panel (TSAP) on relevant industry developments, the AER's Draft Decision, and our plans for the Revised Proposal. As the majority of our proposed projects and programs have remained the same as they were the Initial Proposal, engagement in the last 10 months has focused on the limited set of new information that has influenced the Revised Proposal – namely those discussed in the previous section.

A summary of how engagement has influenced the Revised Proposal is provided below, with further information provided in the Chapters 1, 3, and 4, and in the Engagement Documents. We include below the outcomes of engagement that preceded the Initial Proposal, as our Revised Proposal is largely the same as the Initial Proposal and therefore continues to reflect the outcomes of earlier engagement.

Table 0-1: Our response to customer & stakeholder feedback

We recognise the cost is high but consider the balance is right: Stakeholders unanimously noted both the high cost of the proposal and the high costs of underinvesting for customers. The tension between these costs and what balance reflects customers' long-term interests was debated extensively through the engagement process by our TSAP. It is clear stakeholders are more concerned about the collective future cost of transmission networks than the details or cost of any specific component/s of this proposal.

We fully reflected the TSAP's advice on the composition of the Capex proposal and projects prioritised in the Initial Proposal. Our Revised Proposal continues to reflect this advice, with changes only made where new information has become available.

Safety and reliability are critical and there is very low appetite for more outages: Stakeholders universally agreed that reliability and safety need to be maintained, but it is prudent not to seek improvements given the trajectory of our component of the transmission charge and the bundle of transmission costs. There was very low to no appetite for customers wearing higher outage risk (i.e. service degradations), which might have flow-on impacts for end customers, generators (impacting wholesale costs) and other States importing or exporting power to or through Victoria.

Panel members expressed that the Draft Decision to reduce the scope of the tower resilience program by ~60% may reduce resilience improvements addressing the increased the risk faced by customers. They highlighted the potential for increases wholesale prices, load shedding risk, and reduced operational flexibility if resilience works are deferred. We have, therefore, retained the full scope of the resilience program in the Revised Proposal.

We carefully assessed the deliverability of our Capex program: The TSAP noted that delivering projects at the right time is important for customers and will help keep overall costs and risk down. The TSAP collaborated on the overall composition of the Capex program, including the decisions to:

- defer the Terang Terminal Station B2 Transformer Replacement Project
- partially defer the fall arrest structures program
- make the Dederang Terminal Station (DDTS) H3 330/220kV Transformer & Circuit Breaker Replacement a contingent project.

We have retained these decisions in the Revised Proposal, with the exception of the DDTS project, which has been deferred in light of lower demand forecasts. We have also made further adjustments to smooth the capital expenditure profile, providing customers and stakeholders with more confidence in the deliverability of our plans.

We have only included costs where the need is certain: In the engagement prior to the Initial Proposal, the TSAP were clear in their preference for AusNet not to include projects where the need had not been confirmed. This led to the removal of a project to procure an additional spare transformer, and the reduction of scope of the Moorabool Terminal Station (MLTS) Reactor Replacement project to only include 220kV reactor, and not the 500kV reactor. The same principle was applied to the network operations step change, which was removed from our Initial Proposal as confirmation of AEMO/VicGrid delegating operational responsibilities to AusNet had not yet been confirmed.

Since the Initial Proposal, we have received confirmation from VicGrid about the ongoing need for the 500kV reactor at Moorabool Terminal Station, and confirmation of the new operational responsibilities that AusNet is required to fulfil. Our Revised Proposal therefore includes the 500kV reactor in the MLTS Reactor Replacement project, and an opex step change relating to transferred and delegated operational responsibilities.

Transparency on the full cost impact of transmission investments is appreciated: While we are responsible for spending on the existing transmission network, the transmission component of customers' bills is also under pressure from other drivers, including the Integrated System Plan and Victorian Transmission Plan.

All stakeholders appreciated that the proposal addresses how our transmission investments fit into the bigger picture while focussing on what can be controlled – an approach we collaborated on with the TSAP for our draft proposal and the Initial Proposal.

We continue to present the full cost impact of transmission investments in this Revised Proposal.

In addition to engaging on the Revised Proposal and revenue reset process more generally, we have also been working with the TSAP to design the customer and stakeholder engagement that AusNet will undertake throughout the 2027-32 period. This includes the continuation of the TSAP as a business-as-usual panel, which will allow customers and stakeholders to continue to hold AusNet accountable for delivering on our plans, and to have continued input into our decision-making. Further information on AusNet's future engagement is provided in Chapter 1.

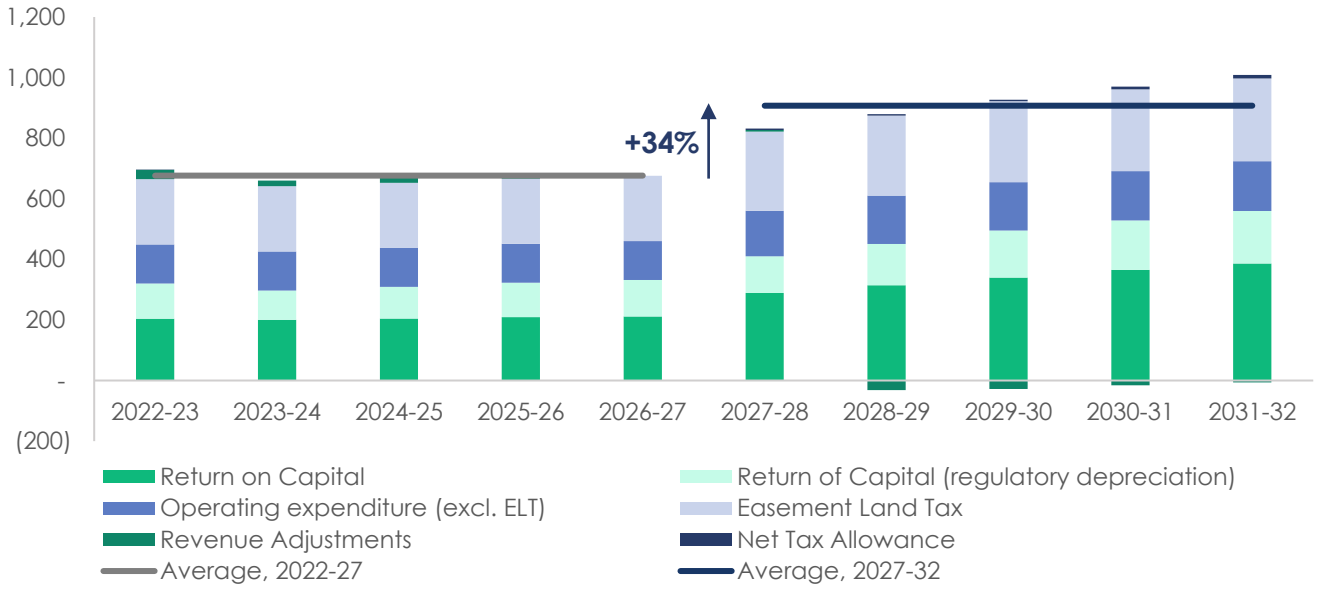
0.3. Revised Proposal overview

0.3.1. Revenue requirement

Revenue is required to fund the capital and operating expenditure needed to maintain the reliability, security and safety of the existing transmission network. The total (smoothed) revenue requirement for the Revised Proposal is $4,888M in nominal dollars.

The figure below provides our revenue requirement by year for the 2027-32 period and compares it to the revenue for the 2022-27 period. It shows that our Revised Proposal increases revenue by 34% in real terms compared to the approved allowance for the current period.

Figure 0-2: Building block revenue in current and next regulatory period ($M, real 2026-27)

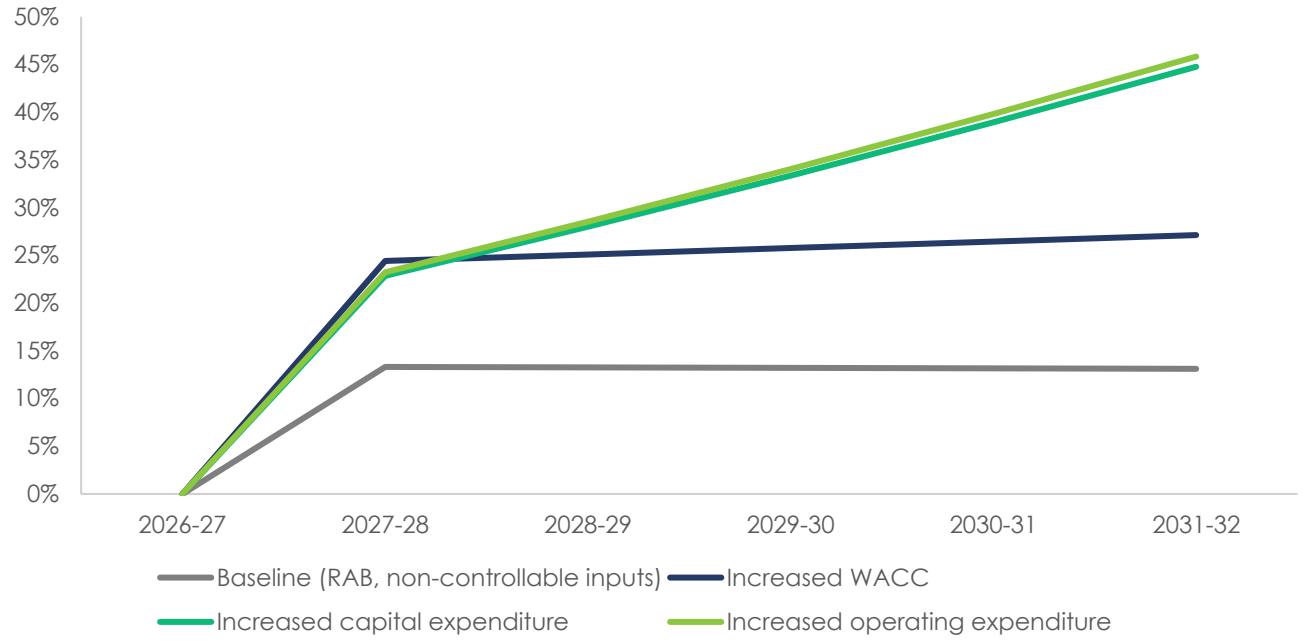


This increase in revenue is driven by:

- **Higher regulatory asset base and non-controllable expenditure**: AusNet's capital expenditure in the current period has increased the value of our asset base. In addition, higher inflation in the early years of the current period which immediately followed the COVID-19 pandemic led to higher indexation of the asset base. Both of these factors increase the return on capital that we will receive in the next period. Furthermore, easement land tax and AEMO participant fees are forecast to be higher in the next period, compared to the current period
- **Higher interest rates**: The Final Decision for our 2022-27 revenue was set at a time of particularly low interest rates, which led to a lower allowed weighted average cost of capital (WACC). Interest rates are now much higher than they were at the time of the previous Final Decision, leading to higher forecast return on capital in the 2027-32 period. That being said, the WACC included in the Revised Proposal is a placeholder only, and the AER will update the WACC calculation in the Final Decision to reflect actual interest rates over an approved confidential averaging period
- **Higher capital and operating expenditure**: Higher capital and operating expenditure is required in the 2027-32 period to maintain the reliability, security and safety of the network, particularly in the context of new and emerging risks. This is explained in more detail in the sections below and the Capital Expenditure and Operating Expenditure chapters of our proposal

A breakdown of how these factors have influenced revenue is provided below.

Figure 0-3: Drivers of increased revenue (% real increase vs. 2026-27)

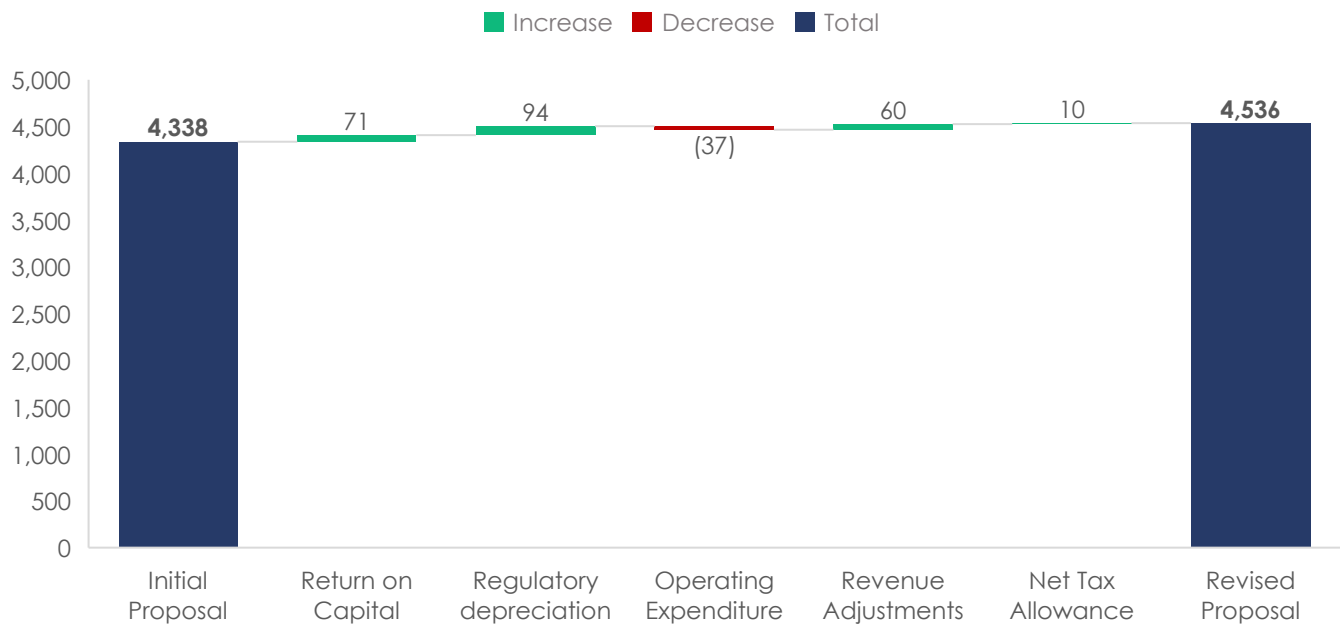


Between the Initial and Revised Proposals, AusNet has been conscious to maintain our capital and operating expenditure plans, with changes only where new information has become available since the Initial Proposal. We have also accepted a number of the reductions to expenditure made in the Draft Decision, taking on the AER's feedback on the prudency and efficiency of our forecasts. Both the capital and operating expenditure included in the Revised Proposal are lower than that included in the Initial Proposal.

However, revenue in our Revised Proposal is higher than our Initial Proposal. This is driven by:

- An increase in interest rates, which is largely outside of AusNet's control. This increases the return on capital component of revenue
- A decrease in expected inflation, which increases the return of capital component of revenue
- Lower actual operating expenditure in regulatory year 2025-26, compared to the forecast which was included in our Revised Proposal, which increases rewards under the Efficiency Benefits Sharing Scheme (EBSS). This increases the revenue adjustments component of revenue

Figure 0-4: Change in building block revenue ($M, real 2026-27)



0.3.2. Capital expenditure

AusNet remains committed to the program of works proposed in the Initial Proposal, which are necessary to maintain the reliability, security, and safety of the Victorian transmission network. However, we have made some changes to our capital plans in response to the AER's Draft Decision, as well as the new information that has come to light in the last 10 months, in particular the SOCI CIRMP Amendment Rules. The table below summarises the drivers of increase and decrease in capital expenditure in the Revised Proposal, compared to the Initial Proposal.

Table 0-2: Drivers of change in capital expenditure in the Revised Proposal

Drivers of decrease in capital expenditure	Drivers of increase in capital expenditure
• Removal of the WOTS spare transformer project • Removal of risk allowances for the following major station projects: MLTS Circuit Breaker Replacement, SYTS 500kV GIS, TTS Circuit Breaker Replacement, LYPS Circuit Breaker Replacement, MLTS Reactor Replacement, and MWTS 66kV Circuit Breaker Replacement • Delay of the TTS B4 transformer project by 1 year • Delay of the LYPS & HWTS project (though we are proposing a slightly different approach to Draft Decision) • Removal of the DDTS contingent project • Removal of risk allowances from asset replacement program unit rates, other than for the HYTS-APD tower replacement project • Removal of weather station replacement from the secondary systems program, where the station is not used for dynamic line ratings • Reduction to tower refurbishment program • Removal of the Mk6e meter replacement program • Removal of risk allowances from compliance & resilience program unit rates, other than for the HYTS-APD tower replacement project • Some reductions to the low spans programs • Removal of consultant costs from the environmental programs • Some reductions to SOCI CCTV and Security Fencing programs • Removal of Non-SOCI Security Future Technology program • Some reductions to Digital Metering Systems expenditure • Removal of some unjustified costs to replace broken testing equipment • Removal of external labour cost escalation • Removal of contractor incentives • Some reductions to the variable component of capitalised overheads, consistent with the AER's standard approach	• Updated costs for major station projects at Keilor, Red Cliffs, and Shepparton terminal stations, based on recent market responses and more detailed scopes enabled by an additional 10 months of project development • New digital programs proposed in response to the new Enhanced SOCI CIRMP Rules, which were released in June 2026, which will enable AusNet to better manage the security of the network and meet our compliance obligations • Increased unit rates for a subset of the asset replacement and compliance programs, which have been informed by the actual costs of recent projects and new design studies, which were not available at the time of the Initial Proposal

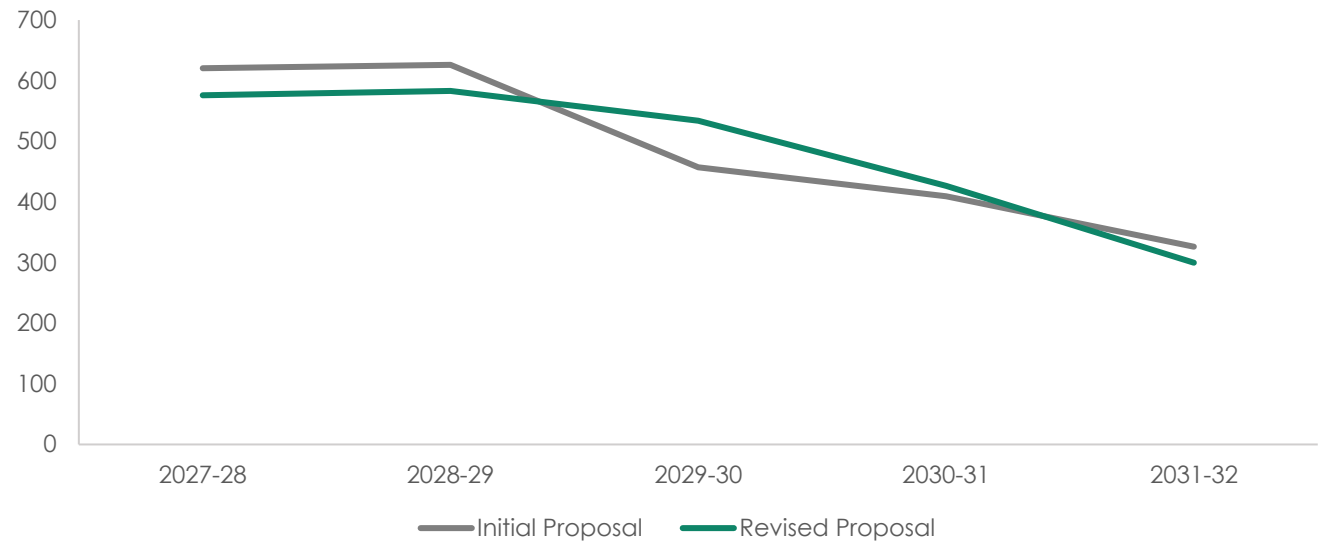
Overall, these changes have led to an updated capital expenditure forecast of $2,420M (real 2026-27) over the forthcoming regulatory control period, which is $20M or 1% lower than our Initial Proposal.

In addition, we have made several top-down changes to our capital plans, which "smooth" the capital expenditure profile for the 2027-32 period. This involved delaying a small number of projects and programs. These changes will support the deliverability of our forecast, as the soften the "peak" in capital expenditure early in the next period, and will allow AusNet to better capture the learnings from in-flight projects before beginning construction of new work. A

smoother, more back-ended profile also reduces the revenue that customers are being asked to fund in the 2027-32 period.

The graph below shows the smaller and smoother capital expenditure forecast included in the Revised Proposal, compared to the Initial Proposal.

Figure 0-5: Capital expenditure in Revised Proposal versus Initial Proposal ($M, real 2026-27)



0.3.3. Operating expenditure

AusNet uses the AER's standard base-trend-step approach to forecasting operating expenditure. This has remained consistent across our Initial and Revised Proposals. Under this approach, operating expenditure for future periods is set based on a base year, in which actual operating expenditure is deemed to be a reasonable representation of efficient operating costs.

The base year proposed in our Initial Proposal was regulatory year 2025-26, which ended on 31 March 2026. As actual expenditure for this year was not yet available at the time of the Initial Proposal, our previous operating expenditure proposal was based on a forecast of 2025-26 expenditure. Our Revised Proposal, therefore, includes an update to incorporate actual expenditure for 2025-26, which has turned out to be $8M lower than the previous forecast (with relevant exclusions and adjustments). The impact of this update is to reduce our base operating expenditure by $41M over the next regulatory period.

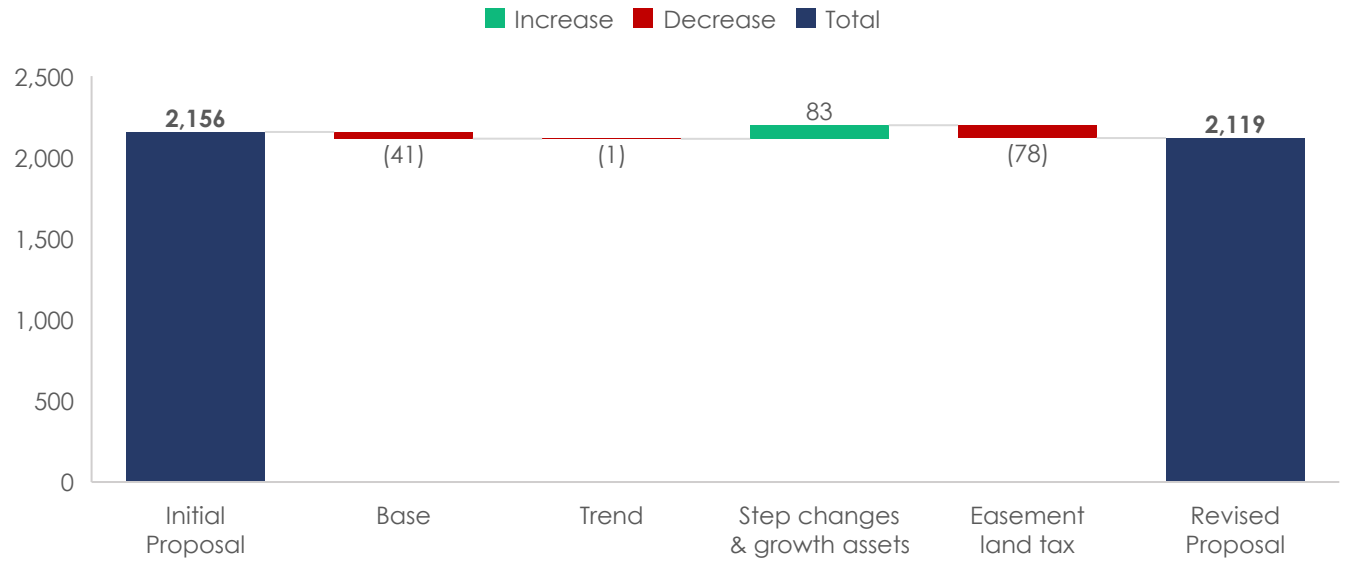
In addition to the update to the opex base year, we have also made changes to our category specific forecasts and opex step changes, in response to the AER's Draft Decision and to incorporate the latest information that has become available. The changes to opex components that were included in the Initial Proposal are as follows:

- **AEMO participant fees:** We have updated the forecast of AEMO participant fees based on AEMO's FY27 budget and fees, which were not available at the time of the Initial Proposal
- **Easement land tax:** We have updated our forecast easement land tax based on the 2026 Land Tax Assessment notice, which was not available at the time of the Initial Proposal
- **Growth assets:** Our opex step change relating to growth assets, which are excluded prescribed projects that "roll in" to our regulated asset base at the start of each regulatory period, has been updated based on an additional 10 months of project information
- **Digital (incl. SaaS):** We continue to propose an opex step change to cover ongoing costs related to the digital uplifts proposed in the capital expenditure programs. However, we have accepted some of the reductions made by the AER in the Draft Decision, which have reduced the size of this step change – in particular relating to the metering systems program
- **Landholder Engagement:** AusNet remains committed to delivering an uplift to landholder engagement service standards, as agreed with our stakeholders. However, we accept the AER's Draft Decision not to approve an opex step change for landholder engagement. Instead, we will deliver these works using the base and trend components of our opex allowance
- **Network operations:** In the Initial Proposal, we mentioned that an opex step change may be included in the Revised Proposal to reflect the delegation of some operational responsibilities from AEMO/VicGrid to AusNet. This was also reflected in our operating expenditure model, where a delegated responsibilities step change was included at zero value. We have now received confirmation of these delegated responsibilities, and have, therefore, included an opex step change of $19M in the Revised Proposal to cover these costs

In addition to these changes to existing opex components, the Revised Proposal includes a new opex step change relating to the SOCI CIRMP Amendment Rules. [SOCI ACT PROTECTED]

Overall, these changes lead to operating expenditure of $2,119M (real 2026-27, excluding debt raising costs) over the next regulatory period, which is $38M or 2% lower than the Initial Proposal.

Figure 0-6: Operating expenditure in Revised Proposal versus Initial Proposal ($M, real 2026-27)



0.4. Bill impacts

0.4.1. Impacts of our Revised Proposal

We expect our Revised Proposal to increase the annual transmission bill for a typical residential customer by $43, or for a typical small business customer by $107. For a large commercial or industrial customer with a demand contract, the transmission component of the bill will increase by 33%. The tables below provide the bill impact of the Revised Proposal for various types of customers.

Table 0-3: Bill impact of Revised Proposal – residential and small business customers

Customer type	**Typical energy consumption** (kWh p.a.)	**Annual electricity bill, 2027** ($, nominal)	**Transmission component of bill, 2027** ($, nominal)	**Transmission component of bill, 2032** ($, nominal)	**Increase in transmission bill** ($, nominal)
Residential customer	4,000	1,748	131	174	43
Small business customer	10,000	3,896	327	435	107

Source: AusNet, Victorian Default Offer

Table 0-4: Bill impact of Revised Proposal – commercial & industrial customers

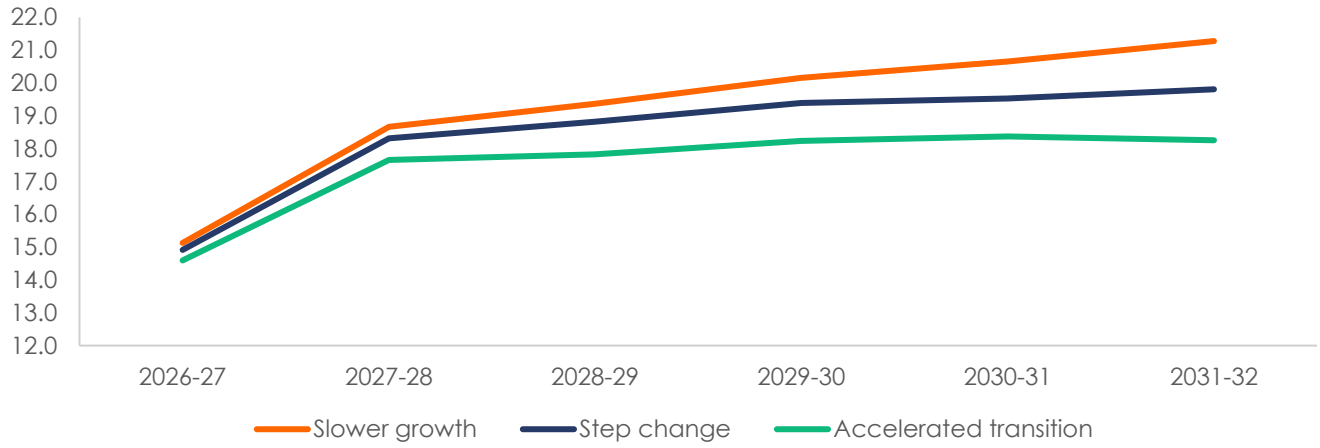
Customer type	**Assumed consumption** (kWh p.a.)	**Distribution component of bill, 2027** ($, nominal)	**Transmission component of bill, 2027** ($, nominal)	**Transmission component of bill, 2032** ($, nominal)	**Increase in transmission bill** ($, nominal)
Medium industrial & commercial customers	240,903	28,727	4,384	5,823	1,439
Large industrial & commercial customers	819,903	74,633	18,641	24,758	6,117

Source: AusNet

In the context of increases in other parts of customer's energy bills, and broader cost of living pressures, we do not propose these increases lightly. We see these increases as the necessary costs to maintain the reliability, safety, and security of the transmission network, and propose only the expenditure that we see as being in the best interests of Victorians.

We note that if demand for electricity in Victoria increases faster than predicted, this may lead to lower average prices, as transmission costs are "spread out" over a larger base. Conversely, if demand is lower than predicted, this may lead to higher average prices. To provide an indication of how demand impacts prices, the graph below presents the price path (in $/MWh) implied by our Revised Proposal under three scenarios in AEMO's Integrated System Plan (ISP): Step Change, Slower Growth, and Accelerated Transition.

Figure 0-7: Price path under different demand scenarios ($/MWh, nominal)



0.4.2. Broader transmission costs

Total Victorian transmission charges, levied by VicGrid, contain significant costs in addition to the revenue covered by this review. In particular, the 2025 Victorian Transmission Plan sets out $7.9B of capital work to be undertaken by 2040, which will likely have a significant impact on transmission costs for Victorians.

We have heard from customers and stakeholders that they are seeking transparency on the total transmission costs that Victorians are likely to face. We therefore provided a view of transmission costs outside of this revenue reset in our Initial Proposal and do so in the Revised Proposal as well – this is shown in the graphs below.

Figure 0-8: Total Victorian transmission revenues ($M, real 2024-25)

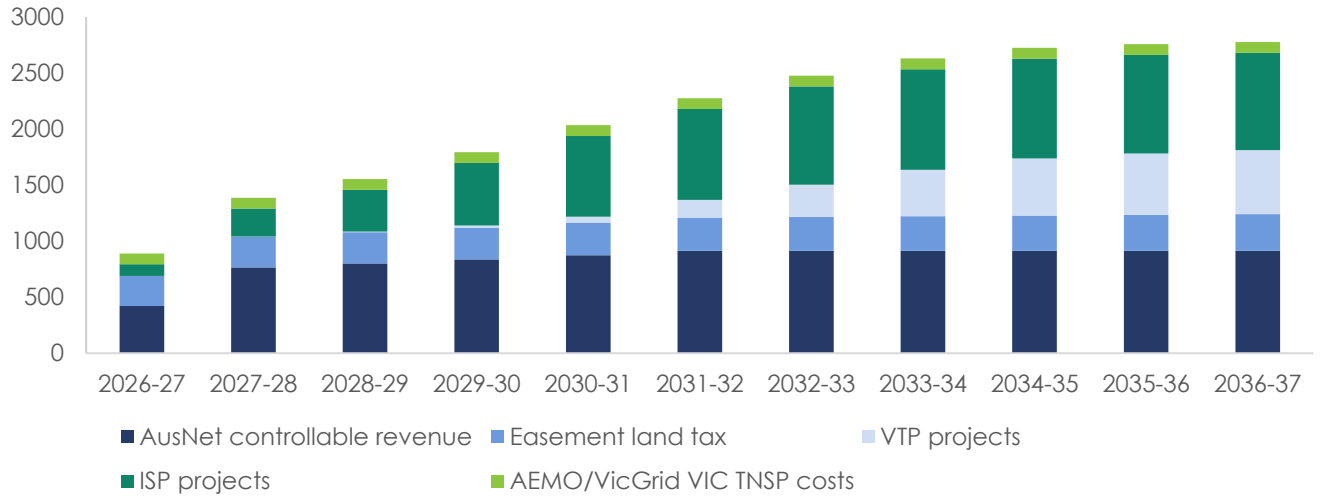
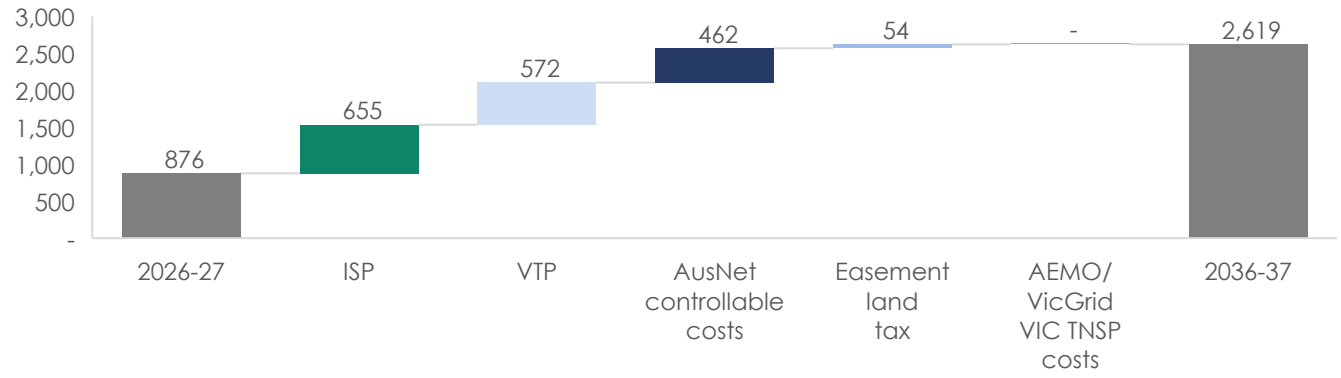
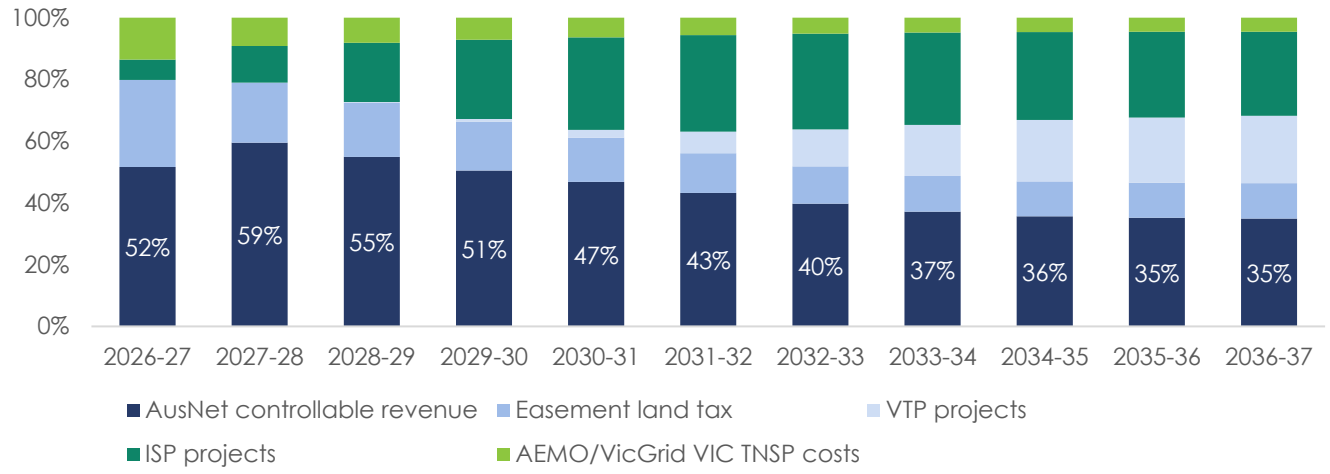


Figure 0-9: Increase in Victorian transmission revenues over 2027-37 ($M, real 2024-25)



As shown in the graphs above, the combination of various investments in the Victorian transmission network is likely to lead to an increase in total transmission costs of 199% over the next 10 years. As spending on new transmission infrastructure through VicGrid's VTP and AEMO's ISP increases, AusNet's controllable revenue as a share of the transmission component of customers' bills will reduce from 52% today to 43% by 2032, and as little as 35% by 2037.

Figure 0-10: AusNet controllable revenue as a % of total Victorian transmission revenues



0.5. Conclusion

Over Revised Proposal remains largely the same as the Initial Proposal and continues to account for our customers' and stakeholders' views. We remain committed to the key investments included in our Initial Proposal and have only made changes in response to the AER's Draft Decision, or where necessary to address new legislative requirements and incorporate new information. As a result of these changes, we are proposing less capital expenditure and less operating expenditure than was included in the Initial Proposal.

We look forward to discussing the Revised Proposal, and the additional evidence that we have provided in support of it, with the AER.

0.6. Structure of the Revised Proposal

The remainder of this document is structured as follows:

- Chapter 1 explains how customer and stakeholder engagement has influenced the Revised Proposal;
- Chapter 2 provides the revenue requirement for the 2027-32 period, and the resulting bill impact for customers;
- Chapter 3 explains our capital expenditure plans;
- Chapter 4 explains our operating expenditure plans;
- Chapter 5 explains our proposed application of incentive schemes and the shared asset revenue decrement;
- Chapter 6 provides our updated calculation of the opening regulated asset base (RAB) at 1 April 2027, and the forecast of the RAB over the 2027-32 period;
- Chapter 7 provides our forecast of depreciation;
- Chapter 8 provides the rate of return and inflation assumptions that are used to calculate our revenue;

- Chapter 9 explains the calculation of the corporate tax allowance;
- Chapter 10 provides our proposed pass-through events; and
- Chapter 11 explains our pricing methodology and proposed negotiating framework.

In the event of any inconsistency between information contained in the Revised Proposal and our Initial Proposal, the information contained in the Revised Proposal (this document) prevails.

01

Customer & stakeholder engagement

1. Customer & stakeholder Engagement

1.1. Key Points

The key points of this chapter are:

- AusNet received positive feedback on the quality of our Initial Proposal engagement from our Transmission Stakeholder Advisory Panel (TSAP), the AER's independent Customer Challenge Panel (CCP) and Victorian Government.
- These stakeholders expressed their confidence that our Initial Proposal reflected consumer interests and broadly supported the proposed investments. They also stressed the importance that the Revised Proposal balances affordability, prudency and deliverability [of transmission investments and the network overall.
- Our Revised Proposal retains the core investment program that our customers and key stakeholders indicated support for via our Initial Proposal engagement. As such, our post-lodgement engagement focusses on areas of change rather than re-engaging on previously supported items.
- Following submission of the Initial Proposal, AusNet engaged primarily with its TSAP. AusNet convened three TSAP meetings between March and August 2026, culminating in an in-person forum to discuss the AER's Draft Decision and AusNet's proposed response. At the in-person forum, the TSAP:
  - Supported AusNet's proposed response to the AER's Draft Decision and the approach of accepting most of the Draft Decision outcomes while focusing the Revised Proposal on areas where additional evidence, updated demand forecasts and further justification could be provided.
  - Affirmed its support for the unchanged capital expenditure program, including resilience investments, major station projects, digital expenditure and compliance-driven expenditure.
  - Agreed on the format and purpose of the continuing a transmission-focused advisory panel during the upcoming regulatory period. The panel will provide transparency, independent challenge and accountability on delivery of commitments made through the 2027-32 TRR process and enable a smooth transition to engaging on the following 2032-37 TRR.

1.2. Chapter structure

The remainder of this chapter is structured as follows:

- Section 1.3 recaps the engagement on the Initial Proposal
- Section 1.4 discusses engagement after lodgement of the Initial Proposal
- Section 1.5 discusses the outcomes of post-lodgement engagement on the Revised Proposal
- Section 1.6 summarises how engagement has influenced our Revised Proposal
- Section 1.7 provides a summary of our supporting documentation

1.3. Initial Proposal engagement approach

AusNet began our engagement for the Transmission Revenue Reset (TRR) with a clear understanding of our customers' priorities for their electricity network. Our recently completed Electricity Distribution Price Review and business-as-usual engagement and research showed that our customers expect our network to be efficient, reliable, resilient, affordable, safe, and ready to meet future challenges. Our customer engagement for this TRR sought to validate and refine these insights through a transmission-specific lens. Our task was to develop a program of works that would meet customer expectations while balancing near-term cost pressures with long-term system risk.

Our approach to engagement relected the breadth, complexity and importance of the subject matter. The Transmission Stakeholder Advisory Panel (TSAP) sat at the centre of this approach as the independent advisory group representing key customer and stakeholder interests and providing feedback on both the Initial and Revised Proposals. We supplemented this with targeted deep-dive sessions on complex transmission topics, including landholder relationships, new connections and resilience, bringing together stakeholders and subject matter experts to explore trade-offs and inform the development of the Proposal. We also presented our Initial Proposal and emerging transmission issues to the Customer Consultative Committee (CCC) to sense-check them with broader customer priorities and sentiment.

1.3.1. Submissions on our Initial Proposal

Given the technical nature of the Proposal and consistent with recent Transmission Regulatory Reset processes across the sector, we expected limited stakeholder feedback on our Initial Proposal. We received three submissions on our Initial Proposal from the AER's Consumer Challenge Panel, the Victorian Government, and the TSAP.

The AER CCP characterised AusNet's program of engagement for our Initial Proposal as "*comprehensive and credible,*"[1] noting that it extended beyond information sharing to enable the TSAP to participate in substantive discussion of expenditure drivers, pricing impacts and investment trade-offs. The CCP also observed that AusNet's engagement iteratively built stakeholders' understanding of transmission operations, the regulatory framework and key investment drivers, in turn enhancing the depth of scrutiny and challenge they were able to apply to the Proposal.[2] With regards to engagement outcomes, the CCP's view was that AusNet successfully reflected stakeholder and customer needs in its proposal design, prioritisation and narrative.

The TSAP expressed its support for our Initial Proposal via its submission. It noted the effectiveness with which the proposed investments would maintain transmission network safety and reliability and manage resilience risks while avoiding unnecessary expenditure. The TSAP acknowledged AusNet's transparent approach to justifying proposed investments, including explaining the links between asset condition, risk, reliability and proposed expenditure. The panel particularly valued AusNet's efforts to explain how the Integrated System Plan (ISP), Victorian Transmission Plan (VTP) and Initial Proposal interact to provide a clear view of the total investment required across Victoria's transmission network. They noted that no other organisation brought this information together in a way that helped customer better understand the broader investment landscape, therefore, strengthening the credibility of the Proposal.

The Victorian Government's submission highlighted the importance of maintaining a safe, secure, reliable and affordable transmission system capable of supporting Victoria's energy transition, while keeping expenditure efficient, justified and deliverable[3].

Overall, feedback on AusNet's Initial Proposal affirmed that its investments reflected stakeholder priorities and consumer interests. However, stakeholders signalled their concern for the cost impacts for customers and emphasised the importance of AusNet's accepted expenditure being prudent, efficient and deliverable.

1.4. Post-Lodgement Engagement Activities

Our Revised Proposal retains the core investment program that our customers and key stakeholders indicated support for via our Initial Proposal engagement. As such, our post-lodgement engagement focusses on areas of change rather than re-engaging on previously supported items.

We also continued to engage our Customer Consultative Committee (CCC) to keep members informed and sense-check the Initial Proposal against broader customer priorities and perspectives.

1.4.1. Transmission Stakeholder Advisory Panel (TSAP)

The Transmission Stakeholder Advisory Panel (TSAP) is an independent advisory group comprising of representatives from key customer and stakeholder groups across Victoria's transmission network. The panel provides feedback and advice on regulatory, economic and technical aspects of AusNet's Proposals, helping to bring diverse customer and stakeholder perspectives into decision-making.

Over the course of our Initial Proposal engagement program, the TSAP expressed its strong preference to continue advising AusNet as we prepared our Revised Proposal. As such, and consistent with our engagement on the Initial Proposal, AusNet continued our "no surprises" approach to engagement post-lodgement. We discussed developments that could materially influence the Revised Proposal, including changes to demand forecasts, policy and regulatory developments, project deliverability considerations and broader market conditions. To support a transparent and accountable process, we invited the AER to observe TSAP meetings and distributed meeting summaries.

We convened three meetings with the TSAP throughout the period between lodgement of the Initial Proposal and submission of the Revised Proposal.

Meeting #1 | 24 March 2026

At this 1.5-hour TSAP meeting, AusNet and the TSAP met to discuss key developments since Initial Proposal lodgement. Discussions focused on recent extreme weather events, record summer demand, data centre-related load growth, and emerging transmission planning considerations involving VicGrid and AEMO. The TSAP considered the implications of the record demand event experienced on 27 January 2026, including the role of planned augmentations, asset replacement projects, and digital control room uplifts in maintaining network reliability and resilience. Members also discussed uncertainty associated with future data centre demand and implications for long-term transmission planning.

[1] CCP34, *Submission – AusNet Services 2027-32 Electricity Transmission Revenue Proposal* (February 2026) 4
[2] *CCP34, Submission – AusNet Services 2027-32 Electricity Transmission Revenue Proposal (February 2026) 18-21.*
[3] Victorian Government, *Response to AER Issues Paper: AusNet Services Electricity Transmission Determination 2027–32*, submission to the Australian Energy Regulator, 17 March 2026.

Meeting #2 | 21 May 2026

At this 3-hour TSAP meeting, AusNet presented on developments that could influence our Revised Proposal. The workshop included discussion on AusNet's proposed physical security program, and evolving Security of Critical Infrastructure (SOCI) obligations and associated compliance activities. Members also received updates on major project delivery, workforce capability initiatives, market conditions and the impact of global supply chain pressures and the Middle East conflict on project costs and delivery. The relevance of project risk allowances in the context of global geopolitical instability was also discussed. Within these areas, AusNet outlined where the Revised Proposal might differ from the Initial Proposal and sought member views on these emerging issues.

Meeting #3 | 06 August 2026

At this in-person 5-hour forum, AusNet convened with the TSAP to discuss the AER's Draft Decision and for the panel to provide feedback on AusNet's Revised Proposal.

AusNet outlined where it planned to accept the Draft Decision and the areas where it proposed to maintain expenditure in the Revised Proposal, supported by updated forecasts, additional evidence and new information available since lodgement. AusNet presented updated demand forecasts provided by VicGrid, proposed timing for major station investments, asset condition and replacement needs, updated physical security costs, cyber and digital capability investments, and the impact of new Security of Critical Infrastructure (SOCI) Enhanced Critical Infrastructure Risk Management Program (CIRMP) requirements.

Members discussed the customer bill impacts of the Draft Decision and whether AusNet's proposed response appropriately balanced affordability, reliability and resilience while addressing the AER's concerns regarding project timing, supporting evidence and risk allowances.

The forum concluded with a TSAP-only discussion to determine whether the Panel would submit an Independent Report on AusNet's Revised Proposal and to discuss the role of panel within the new regulatory period.

Following the forum and at the request of two TSAP members who were unable to attend, AusNet held an additional briefing. The condensed briefing provided the two TSAP members with an overview of AusNet's proposed response to the Draft Decision and gave the members an opportunity add their feedback.

The outcomes of this meeting are outlined further below. Meeting summaries which were finalised by the TSAP independent Chair are included in the Engagement Documents, which provide more detail on the Panel's deliberations at each meeting.

1.4.2. Customer Consultative Committee (CCC)

Following submission of our Initial Proposal, AusNet continued to keep our Customer Consultative Committee (CCC) informed on transmission-related matters. The CCC brings together community representatives and AusNet senior leaders to provide feedback, challenge and customer-focused perspectives on AusNet's plans and activities. Sharing the Initial Proposal with them helped maintain visibility of broader customer priorities and perspectives at a high level, complementing the in-depth engagement undertaken through the TSAP.

In November 2025, AusNet briefed the CCC on the final Victorian Transmission Plan and its Initial Proposal, including the key drivers of proposed expenditure, expected customer bill impacts and the role of transmission investment in supporting Victoria's energy transition. The CCC explored the balance between affordability, reliability and resilience, and the implications of broader transmission developments for customers. These discussions helped build members' understanding of the transmission network, the drivers of proposed investment and emerging issues affecting the sector, building the foundations for more informed engagement on transmission-related matters over time.

In February 2026, AusNet returned to the CCC to discuss emerging electricity demand trends and the rapid growth in data centre connections, at the request of members. Discussion focused on the opportunities and challenges associated with growing demand, including implications for future network investment, planning coordination and customer outcomes. Members highlighted the importance of new large loads contributing proportionately to the costs they impose on the network, with affordability impacts for existing customers remaining the highest concern.

While the CCC's engagement with detailed transmission issues was necessarily more limited than with the TSAP, reflecting its role as our business-as-usual customer panel, the forum provided a valuable opportunity for AusNet to sense-check our Proposal with broader customer priorities. The CCC expressed particular interest in how growing electricity demand on AusNet's network might impact customers' experiences of affordability, reliability and resilience as the energy transition progresses.

1.5. Post-Lodgement Engagement Outcomes

In the tables below, we summarise how engagement has influenced our Revised Proposal, including where our Revised Proposal deviates from the engagement-supported decisions that informed the Initial Proposal. As shown in Tables 1 and 2, the TSAP endorsed all material changes to capital and operating expenditure matters relevant to the Panel that were included in the Revised Proposal.

Table 1-1: Engagement on Revised Proposal capex topics

Topic	Initial Proposal engagement	Revised Proposal engagement
Safety and resilience are important but avoid gold-plating	**Feedback received:** Our risk-based proposal for tower resilience was discussed in detail with the TSAP on 5 June 2025 and during the Resilience Deep Dive on 20 May 2025. In both forums, the TSAP expressed strong support for this resilience investment, acknowledging AusNet's considered and proportionate approach. **How we responded:** We presented multiple options and considerations to the TSAP and the expenditure included in the Initial Proposal reflected the option supported by the TSAP.	**Feedback received:** The Draft Decision for the tower resilience program and AusNet's proposed response was discussed with the TSAP on 6 August 2026. Panel members expressed that the Draft Decision may reduce resilience service levels and increase the risk faced by customers. They highlighted the potential for increases wholesale prices, load shedding risk, and reduced operational flexibility if resilience works are deferred. **How we have responded:** Our decision not to accept the reductions in the Draft Decision is supported by the TSAP's feedback. Our Revised Proposal is not materially different from the preferred option supported by the TSAP in 2025, with the main change relating to the addition of 9 towers to address safety risks.
Deliverability and contingent projects	**Feedback received:** Extensive engagement on deliverability was undertaken prior to the Initial Proposal, including at TSAP meetings/deep dives held on 8 April, 5 June, 1 September, and 18 September. Through this process, several TSAP members commended and thanked AusNet for being the first network service provider to present the deliverability challenge in the way they did and for the analysis shared on VTP integration and workforce planning. The TSAP provided detailed feedback on the use of contingent projects to manage deliverability risks and the design of triggers. **How we responded:** In light of the stakeholder feedback received, it was agreed that select projects could be deferred and that AusNet would propose the use of contingent projects as a mechanism to manage deliverability risk within this proposal. This includes the deferral of the TGTS B2 Transformer Replacement Project and partial deferral of the fall arrest structures program, alongside the DDTS H3 330/220kV Transformer & Circuit Breaker Replacement being made a contingent project.	**Feedback received:** Delivery updates were provided to the TSAP on 24 March, 21 May, and 6 August 2026. The Draft Decision to reject the DDTS contingent project was discussed at the TSAP meeting on 6 August 2026. In this session, AusNet shared that the latest demand forecasts around DDTS were lower than those used to develop the Initial Proposal, and as a result, the project would be deferred beyond the 2027-32 period. The TSAP did not raise any concerns with the proposed approach. The TSAP continued to consider deliverability as a key topic that warrants further consideration by AusNet during the next regulatory period. **How we have responded:** The Revised Proposal does not include capex for the DDTS project in the 2027-32 period, consistent with what was discussed with the TSAP. We have also made high-level adjustments to our overall capital expenditure forecast to support deliverability and confirm that our Revised Proposal is no less deliverable that our Initial Proposal. AusNet will continue to discuss deliverability and progress on capital projects with the TSAP during the next regulatory period, when it will transition from a revenue reset-focused panel to a business-as-usual panel.

Topic	Initial Proposal engagement	Revised Proposal engagement
ICT expenditure (excluding programs relating to the new SOCI CIRMP Amendment rules)	**Feedback received:** Stakeholders expressed a desire for AusNet to only pursue Digital investments that brought meaningful material benefits to customers. Through detailed discussion of digital initiatives, costs and benefits, the TSAP questioned what was driving operating costs, and provided feedback on the context and considerations AusNet should provide in the business cases. The TSAP supported the importance of investment in cyber security in particular. **How we responded:** We quantified the benefits of all digital investments to justify their costs and removed initiatives in areas where stakeholders had concerns on the ratio of benefits to cost – particularly in our Asset Management & Field Enablement program. We updated our business cases to better illustrate the benefits that customers will receive from digital investments. We have continued to prioritise investment in cyber security.	**Feedback received:** Our response to the Draft Decision for the existing digital programs was discussed with the TSAP on 6 August 2026. Discussion focused on the timing of proposed cyber investments, including how achievement of the target state would be demonstrated. A member questioned whether some investments should be delivered sooner given current cyber security risks. AusNet agreed on the importance of the investments but noted delivery must occur through established planning and regulatory processes, with priorities continually reviewed. **How we have responded:** Our Revised Proposal reflects what was presented to the TSAP on 6 August. We have added additional justification of benefits to customers in response to the Draft Decision, which is also in line with the TSAP's feedback from 2025.
Risk allowances	**Feedback received:** AusNet presented its approach to cost estimation for capex projects to stakeholders for feedback. This included an overview of its approach to estimating risk allowances for projects, involving Monte Carlo modelling analysis for project cost estimates applied in the Major Stations programs and a fixed percentage (consistent with historical experience) for unit rates used in Asset Replacement and Compliance programs. Stakeholders did not express any concerns in relation to cost estimation methodology. **How we responded:** The Initial Proposal applied risk allowances across project cost estimates and unit rates, consistent with the approach presented to TSAP and the methodology applied in previous TRRs.	**Feedback received:** On 21 May, AusNet discussed project risk allowances in the context of the Middle East conflict and global geopolitical instability more broadly. AusNet contended that risk allowances are an important way of accounting for such uncertain events within cost estimates. On 6 August, AusNet discussed the Draft Decision on risk allowances in detail with the TSAP, and outlined our proposed response. This included a deep dive on our approach including: risk registers to be provided for each projects where a risk allowance is sought (consistent with the expectation set out in the Draft Decision), accepting the Draft Decision to remove risk allowances for unit rates (with the exception of towers), and a more detailed explanation of the risk allowances methodology to provide a further opportunity for feedback. Members posed questions on our approach including whether risk assessments are undertaken individually, whether the AER recommended the use of Monte Carlo analysis, whether historical project information is used for risk assumptions, and whether governance arrangements exist for drawing down contingent funding. AusNet responded to each of these questions (details provided in the Engagement Documents in this submission) and the TSAP did not pose further questions or concerns regarding approach. **How we have responded:** Our Revised Proposal reflects what was presented to the TSAP on 6 August.

Topic	Initial Proposal engagement	Revised Proposal engagement
SOCI CIRMP Amendment Rules requirements	N/A – this program was not included in the Initial Proposal, as rules were not put into force until June 2026	**Feedback received:** An update on the Physical Security program and upcoming legislative reforms relating to SOCI were discussed with the TSAP on 21 May 2026. Members asked questions on drone-based threats, the types of assets included in the expenditure, and whether costs proposed by AusNet were in line with other TNSPs. Following the release of the CIRMP Amendment Rules in June 2026, the full suite of related expenditure that would be included in the Revised Proposal was discussed with the TSAP on 6 August. Members engaged in detailed discussion on the scope and timing of these investments. Members raised concerns that systems that provide outage and service information to customers might be disrupted if IT and OT systems were isolated. AusNet confirmed that maintaining critical customer communications would remain an important consideration for business continuity planning. No other material concerns were raised. TSAP members also raised concerns about whether proposed SOCI investments would provide sufficient resilience against future threats. AusNet confirmed that the program was designed in response to increasing cyber security expectations from the Australian Signals Directorate (ASD), Home Affairs and other agencies, recognising that threat environments continue to evolve and require continual improvement. **How we have responded:** Our Revised Proposal reflects what was presented to the TSAP on 6 August.
Keilor A Transformer Replacement Project	**Feedback received:** The project at Keilor Terminal Station (KTS) was discussed numerous times with the TSAP in 2025, including at a high level on 13 February, in detail on 5 June, and in the context of deliverability on 1 and 18 September. The TSAP generally supported the preferred option for this project subject to the AER's detailed analysis of prudency & efficiency, and supported the fact that it should not be deferred to support deliverability given the critical risks it addresses. **How we responded:** Our Initial Proposal reflected the preferred option presented to the TSAP.	**Feedback received:** The project at KTS was discussed with the TSAP on 24 March in the context of the extreme weather and maximum demand events that occurred in January 2026 and increasing data centre demand in the area. On 6 August 2026, KTS was discussed again. AusNet shared information on higher demand forecasts around KTS provided by VicGrid, and the recent A2 transformer failure that occurred at KTS which led to the existing spare transformer being put into service. AusNet also provided an update on market tested costs for the KTS project, and additional OPGW scope which has been added. Members asked whether the recent transformer failure strengthened the case for the KTS major station project, which AusNet confirmed. **How we have responded:** Our Revised Proposal reflects what was presented to the TSAP on 6 August, including an update of the original KTS project cost and inclusion of the additional ground wire scope.

Topic	Initial Proposal engagement	Revised Proposal engagement
MLTS Reactor Replacement	**Feedback received:** The project to replace the 220kV and 500kV reactors at Moorabool Terminal Station (MLTS) was discussed multiple times with the TSAP in 2025, including on 5 June, and in the context of deliverability on 1 and 18 September. The TSAP expressed that given significant deliverability challenges, the 500kV reactor should only be included in our proposal if the need for the asset is confirmed by the planner (AEMO at the time, now VicGrid). **How we responded:** Our Initial Proposal excluded the 500kV reactor, consistent with the decision made in consultation with the TSAP.	**Feedback received:** On 6 August 2026, we reminded the TSAP that the MLTS 500kV reactor may be included in our Revised Proposal if confirmation is received from VicGrid about the ongoing need for the asset. The TSAP did not express any concerns with this approach. **How we have responded:** We have now received confirmation from VicGrid that the 500kV reactor at MLTS will continue to be required. We have therefore included this scope in the MLTS Reactor Replacement project.

Table 1-2: Engagement on Revised Proposal opex topics

Topic	Initial Proposal engagement	Revised Proposal engagement
Landholder Engagement	**Feedback received:** During the 4th TSAP Meeting on 8 April 2025 and the dedicated Landholder Engagement Deep Dive held on 1 May 2025, stakeholders expressed broad support for improving the experience of landholders who host existing transmission infrastructure. Stakeholders recognised the importance of effective engagement in supporting project delivery, maintaining community trust and supporting the energy transition. Landholders were identified as a critical stakeholder whose ongoing support and cooperation contribute to the operation, maintenance and future development of Victoria's transmission network. Through this engagement, multiple options for landholder engagement service uplifts were presented to stakeholders, and a preferred option was selected. **How we responded:** The preferred option selected in consultation with stakeholders was included in the Initial Proposal as an opex step change.	**Feedback received:** The Draft Decision to remove the landholder engagement step change was discussed briefly with the TSAP on 6 August. AusNet confirmed that we remain committed to delivering the proposed initiatives by funding the associated expenditure through its base and trend opex allowances. No concerns were raised with this approach. **How we have responded:** While accepting the AER's Draft Decision not to include Landholder Engagement as a step change, AusNet remains committed to delivering the proposed initiatives by funding the associated expenditure through its base opex allowance. AusNet considers effective landholder engagement supports better customer outcomes by improving project deliverability, reducing disputes and access constraints, and facilitating the efficient delivery of transmission investments.
Digital	**Feedback received:** During the 5th TSAP Meeting held on 5 June 2025, stakeholders acknowledged the increasing complexity of operating Victoria's transmission network and the growing importance of digital and cyber security capabilities in supporting system security and the energy transition. Stakeholders also emphasised the importance of clearly demonstrating customer value and how proposed digital investments would deliver tangible benefits for Victorian energy users. **How we responded:** We included the Digital opex step change in the Initial Proposal. We provided business cases that explained the benefits of digital investments.	**Feedback received:** The Draft Decision on the Digital step change was discussed with the TSAP on 6 August. AusNet explained the intention to re-propose opex step changes in the Revised Proposal. Members questioned how achievement of the target state for cybersecurity would be demonstrated, and AusNet responded by confirming that audits and benchmarking activities would be undertaken. Another member questioned whether some investments should be delivered sooner given current cyber risks. **How we have responded:** The Digital opex step change in the Revised Proposal reflects the position presented to the TSAP on 6 August. In response to the Draft Decision AusNet has strengthened the customer

Topic	Initial Proposal engagement	Revised Proposal engagement
		value proposition underpinning its proposed Digital investments and provided clearer articulation of the customer, operational and system resilience benefits associated with key programs. This includes strengthening the explanation of how the Advanced Energy Management System (AEMS) supports the management of emerging system risks and improves customer outcomes. This is in line with the outcomes of the Initial Proposal engagement.
SOCI CIRMP Amendment Rule Requirements	N/A – this program was not included in the Initial Proposal, as rules were not put into force until June 2026	**Feedback received:** An update on the Physical Security program and upcoming legislative reforms relating to SOCI were discussed with the TSAP on 21 May 2026. Members asked questions on drone-based threats, the types of assets included in the expenditure, and whether costs proposed by AusNet were in line with other TNSPs. Following the release of the CIRMP Amendment Rules in June 2026, the full suite of related expenditure that would be included in the Revised Proposal was discussed with the TSAP on 6 August. Members engaged in detailed discussion on the scope and timing of these investments. Members raised concerns that systems that provide outage and service information to customers might be disrupted if IT and OT systems were isolated. AusNet confirmed that maintaining critical customer communications would remain an important consideration for business continuity planning. No other material concerns were raised. TSAP members also raised concerns about whether proposed SOCI investments would provide sufficient resilience against future threats. AusNet confirmed that the program was designed in response to increasing cyber security expectations from the Australian Signals Directorate (ASD), Home Affairs and other agencies, recognising that threat environments continue to evolve and require continual improvement. **How we have responded:** Our Revised Proposal reflects what was presented to the TSAP on 6 August.
Delegated Network Operations Responsibilities	**Feedback received:** AusNet engaged the TSAP on the potential transfer of network operations responsibilities, in a TSAP Meeting on 8 April 2025. In this meeting, AusNet flagged that the exact timing of a decision and delineation of responsibilities had not been confirmed. Panel members discussed how fees for these services were currently being recovered from customers by AEMO, and how this might change if the service were performed by VicGrid or AusNet. The network operations step change was included in the Draft Proposal, which was published in July 2025 for stakeholder consultation.	**Feedback received:** Through ongoing discussions with AEMO, VicGrid and other stakeholders, the scope of the proposed responsibilities has now been clarified. We therefore engaged the TSAP on this step change again through TSAP Meetings 10 and 11 on 21 May 2026 and 6 August 2026. Stakeholders sought assurance that the costs of providing these services would only be recovered from customers once, and how the changes would impact the NEM more broadly. AusNet confirmed that costs for existing services would stop being recovered by AEMO to avoid

Topic	Initial Proposal engagement	Revised Proposal engagement
	Throughout engagement prior to the Initial Proposal, the TSAP were clear in their preference for AusNet not to include projects where the need had not been confirmed. Therefore, at a TSAP meeting on 18 September 2025, AusNet confirmed that the transfer had not yet been formalised and that the step change would not be included in the Initial Proposal. **How we responded:** AusNet committed not to propose a step change until there was greater certainty regarding the responsibilities to be transferred. Consistent with the position presented to the TSAP, we did not include costs for this step change in the Initial Proposal, though the possibility of a step change in the Revised Proposal was flagged to the AER.	duplication, and that the changes would align Victoria more closely to operational practices in other parts of the NEM. **How we have responded:** Consistent with stakeholder feedback received through Initial and Revised Proposal engagement, the Revised Proposal includes only those responsibilities that have subsequently been confirmed for transition to AusNet as part of Victoria's evolving governance arrangements.

In addition to the Revised Proposal outcomes described in the tables above, the post-lodgement engagement process resulted in two broader outcomes:

Independent submission on the AER's Draft Decision and AusNet's Revised Proposal

In the 06 August 2026 forum, the TSAP privately discussed whether it would prepare an independent submission in response to the AER's Draft Decision and AusNet's Revised Proposal. Members agreed not to prepare a separate submission for two reasons. First, several of the remaining matters under consideration were highly technical in nature and outside of the panel's remit, and were therefore more appropriately resolved by the AER and AusNet. Secondly, the TSAP expressed confidence that the key themes and priorities it had raised throughout the engagement process had been appropriately reflected in both AusNet's proposals and their previous submission to the AER.

Transition to a business-as-usual advisory panel

The TSAP also discussed its role within the new regulatory period. Consistent with feedback received throughout the review process, TSAP members supported the continuation of a transmission-focused advisory panel during the 2027-32 regulatory period. Members considered that an ongoing forum would help maintain transparency, provide independent challenge, support accountability for commitments made in the Proposal and enable a smooth transition to engaging on the next 2032-37 regulatory period. Members raised major station delivery progress, expenditure outcomes and emerging issues as priority topics for future engagement. AusNet committed to establishing a business-as-usual advisory panel following the Final Decision.

1.6. Conclusion

Collectively, our engagement with the TSAP following lodgement of our Initial Proposal confirmed stakeholder support for our Revised Proposal and that their feedback had been incorporated investments most relevant to customer outcomes. The engagement process also established a pathway for ongoing stakeholder oversight and accountability throughout the 2027-32 regulatory period.

1.7. Supporting Documentation

The Engagement Documents are provided in support of this chapter:

- 4.6.01 AusNet - TSAP Meeting 9 Summary – 1 Sep 2026 - PUBL
- 4.6.02 AusNet - TSAP Meeting 10 Summary - 1 Sep 2026 - PUBL
- 4.6.03 AusNet - TSAP Meeting 11 Summary - 1 Sep 2026 - PUBL

02

Revenue & bill impact

2. Revenue requirement & bill impact

2.1. Key points

The key points of this chapter are:

- Our Revised Proposal establishes a total smoothed revenue requirement for the 2027-32 period of $4,534M in real 2026-27 dollars, which is:
  - 5% ($199M) higher than the revenue we sought in our Initial Proposal; and
  - 3% ($124M) higher than that included by the AER in its Draft Decision.
- The principal changes from the Draft Decision are:
  - We have updated our actual capital expenditure for 2025-26, which forms part of the opening RAB;
  - We have revised our capex forecasts to address the issues raised in the Draft Decision, to comply to the new SOCI CIRMP Amendment Rules, and to incorporate new information which has emerged in the 10 months since the Initial Proposal submission;
  - We have revised our opex forecasts to address the issues raised in the Draft Decision, to comply to the new CIRMP Amendment Rules, to include costs associated with network operations responsibilities delegated to AusNet by AEMO/VicGrid, and to incorporate the latest information on easement land tax, growth assets, and AEMO participant fees; and
  - An increase in the EBSS incentive scheme outcome of $33M in real 2026-27 dollars, as reflected in the updated EBSS model.
- As a result of the above changes, consequential changes have been made to our regulatory asset base, return on capital, depreciation and corporate tax allowance.
- On average, our building block (unsmoothed) revenue requirement is $907M in real 2026-27 dollars per annum over the 2027-32 regulatory control period. This is 34% higher than our expected revenue for the current regulatory period in real terms.
- Transmission charges in Victoria are calculated by VicGrid, and consist of costs within AusNet's control as well as costs outside of our control such as the easement land tax, AEMO Integrated System Plan (ISP) costs, and VicGrid Victorian Transmission Plan (VTP) costs
  - We expect our Revised Proposal to increase the annual transmission bill for a typical residential customer by $43 (nominal), or for a typical small business customer by $107. For a large commercial or industrial customer with a demand contract, the transmission component of the bill will increase by 33%.
  - The combination of various investments in the Victorian transmission network, including those outside of the purview of this revenue reset, is likely to lead to an increase in total transmission costs of 199% over the next 10 years. As spending on new transmission infrastructure through VicGrid's VTP and AEMO's ISP increases, AusNet's controllable revenue as a share of the transmission component of customers' bills will reduce from 52% today to 43% by 2032, and as little as 35% by 2037.

2.2. Chapter Structure

The remainder of this chapter is structured as follows:

- Section 2.3 provides an overview of our total revenue requirement for the 2027-32 regulatory control period;
- Section 2.4 presents a summary of the building block components of the revised revenue requirement;
- Section 2.5 provides a summary of our smoothed revenue requirement;
- Section 2.6 sets out how the Revised Proposal will impact transmission charges; and
- Section 2.7 provides a summary of our supporting documentation

2.3. Total Revenue

2.3.1. Our Initial Proposal

In our Initial Proposal, we calculated our building block (unsmoothed) revenue requirement for the 2027-32 regulatory control period to be $4,338M in real 2026-27 dollars or $4,703M in nominal dollars. This results in a smoothed revenue requirement of $4,696M in nominal dollars.

2.3.2. Draft Decision

The AER's Draft Decision calculated a total building block (unsmoothed) revenue requirement of $4,748M in nominal dollars, which represents an increase of $45M or 1.0% compared to our Initial Proposal. The AER's Draft Decision reflects a number of changes to our proposed building block components, including the following (in nominal terms):

- a decrease in the return on capital of $2.8M, or 0.2%;
- an increase in the regulatory depreciation of $30.8M, or 4.3%;
- a reduction in our opex forecast of $33.2M, or 1.4%;
- an increase in the revenue adjustments of $27.3M, or 18.7%; and
- an increase in corporate income tax of $23.3M, or 82.6%.

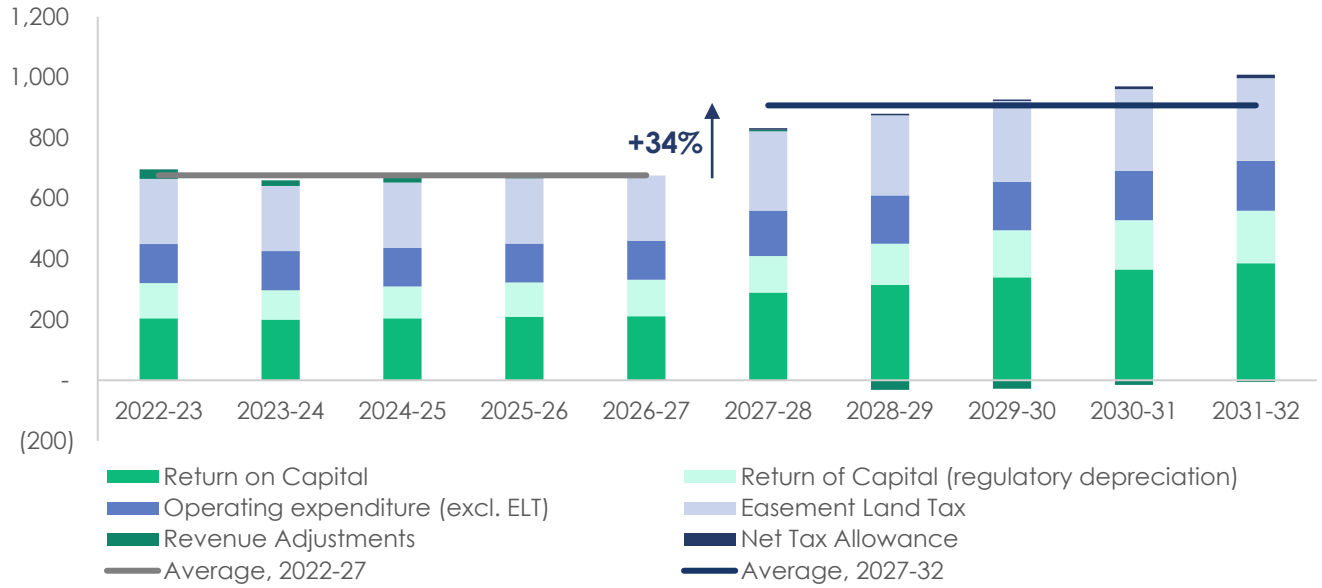
This results in a smoothed revenue requirement of $4,754M for the 2027-32 period.

2.3.3. Revised Proposal

Our Revised Proposal includes a building block (unsmoothed) revenue requirement of $4,536M in real 2026-27 dollars, or $4,893M in nominal dollars. This results in a smoothed revenue requirement of $4,888M in nominal dollars.

The figure below provides our building block (unsmoothed) revenue requirement by year for the 2027-32 period and compares it to the revenue for the 2022-27 period. It shows that our Revised Proposal increases revenue by 34% in real terms compared to the current period.

Figure 2-1: Building block revenue in current and next regulatory period ($M, real 2026-27)



The Revised Proposal calculates a total revenue requirement (in real terms) that is 3% higher than the AER's Draft Decision and 5% higher than the Initial Proposal.

Much of the increase compared to the Initial Proposal is driven by an increase in interest rates, which increases the weighted average cost of capital (WACC) and, therefore, the return on capital component of revenue. The Revised Proposal retains the risk-free rate and cost of debt inputs from the Draft Decision, which are significantly higher than those used in the Initial Proposal. This is explained in Chapter 8.

2.4. Building block components of the revenue requirement

The building block components and our unsmoothed annual revenue requirement for each year of the 2027-32 regulatory control period are provided below.

Table 2-1: Building block (unsmoothed) revenue requirement ($M, nominal)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Return on Capital	296	330	365	403	436	**1,830**
Regulatory depreciation	124	143	167	180	196	**809**
Operating Expenditure	422	445	459	477	494	**2,296**
Revenue Adjustments	5	(33)	(30)	(17)	(7)	**(82)**
Net Tax Allowance	5	5	5	10	13	**38**
Annual Building Block Revenue Requirement (unsmoothed)	**852**	**890**	**967**	**1,052**	**1,132**	**4,893**

Source: AusNet

The unsmoothed annual revenue requirement is calculated as the sum of the building block components, which are described in the sections below, and detailed in the chapters that follow.

2.4.1. Return on capital

Consistent with the requirements of clause 6A.5.4(a)(2) of the NER, and in accordance with the AER's PTRM version 6, the return on capital is calculated by applying the post-tax nominal vanilla WACC to the opening RAB for each year of the regulatory control period. The table below summarises the calculation of the return on capital component of the building block approach. Full details of the WACC calculation for this Revised Proposal are set out in Chapter 8.

Table 2-2: Return on capital ($M, nominal)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Opening RAB	4,790	5,267	5,747	6,164	6,463	
WACC (% per annum)	6.19%	6.27%	6.36%	6.53%	6.74%	
Return on capital	**296**	**330**	**365**	**403**	**436**	**1,830**

Source: AusNet

Our return on capital shown above is based on a RAB that we have calculated in accordance with the requirements of clause 6A.6.1 and schedule 6A.2 of the NER. It reflects our revised capex forecast as set out in Chapter 3 of this Revised Proposal, our opening RAB (Chapter 6) and our depreciation (Chapter 7). The table below summarises our revised RAB for the 2027-32 regulatory control period.

Table 2-3: Regulatory asset base ($M, nominal)

	2027-28	2028-29	2029-30	2030-31	2031-32
Opening RAB	4,790	5,267	5,747	6,164	6,463
Net Capex	600	623	584	479	345
Straight-line Depreciation	(241)	(272)	(308)	(331)	(354)
Inflation on Opening RAB	117	129	141	151	158
Closing RAB	**5,267**	**5,747**	**6,164**	**6,463**	**6,612**

Source: AusNet

2.4.2. Regulatory depreciation

We have calculated regulatory depreciation in accordance with the requirements of clauses 6A.6.3, 6A.5.4.(a)(1) and (3) of the NER, and the AER's PTRM. The table below summarises our revised regulatory depreciation for the 2027-32 regulatory control period.

Table 2-4: Regulatory depreciation ($M, nominal)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Straight-line Depreciation	241	272	308	331	354	**1,506**
Inflation on Opening RAB	(117)	(129)	(141)	(151)	(158)	**(697)**
Return of Capital (regulatory depreciation)	**124**	**143**	**167**	**180**	**196**	**809**

Source: AusNet

2.4.3. Operating expenditure

Consistent with the requirements of clause 6A.5.4(a)(6) of the NER, we have included our revised forecast opex for the 2027-32 regulatory control period. Our revised opex forecast addresses the issues raised in the Draft Decision and includes new step changes relating to the SOCI CIRMP Amendment Rules and the confirmed network operations responsibilities delegated to AusNet by AEMO/VicGrid. This is explained in Chapter 4. The table below provides a summary of our revised forecast opex.

Table 2-5: Operating expenditure ($M, real 2026-27, including debt raising costs)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Operating Expenditure	412	424	427	433	437	2,133

Source: AusNet

2.4.4. Revenue adjustments

Consistent with the requirements of clauses 6A.5.4(a)(5) and (5A) of the NER, we have incorporated the amounts that have been determined under the efficiency benefits sharing scheme (EBSS), the capital efficiency sharing scheme (CESS), the Demand Management Innovation Allowance Mechanism, and the Shared Assets Guidelines. The detailed calculation of each of these components was undertaken in accordance with all applicable provisions of the NER, as explained in Chapter 5.

We have updated the EBSS, CESS, and DMIAM calculations to reflect the latest available information for the 2022-27 period. We retain the same shared assets revenue decrements from the Initial Proposal, and which were accepted in the Draft Decision. The table below provides a summary of our revenue adjustments in the Revised Proposal.

Table 2-6: Revenue adjustments ($M, real 2026-27)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
EBSS	11.5	(25.5)	(21.7)	(9.5)	-	**(45.2)**
CESS	(7.1)	(7.1)	(7.1)	(7.1)	(7.1)	**(35.3)**
CESS Final Year True Up	2.0	2.0	2.0	2.0	2.0	**10.1**
Demand Management Innovation Allowance	0.9	0.9	0.9	1.0	1.1	**4.8**
Shared asset decrements	(2.0)	(2.0)	(2.0)	(2.0)	(2.1)	**(10.2)**
Total revenue adjustments	**5.3**	**(31.7)**	**(27.9)**	**(15.5)**	**(6.1)**	**(75.9)**

Source: AusNet

2.4.5. Tax allowance

Consistent with the requirements of clause 6A.5.4(a)(4) of the NER, we have incorporated a benchmark tax allowance in our building blocks revenue requirement. The detailed calculation of the cost of tax is explained in Chapter 9 of this Revised Proposal. The cost of tax calculation in this Revised Proposal accords with the requirements of clause 6A.6.4 of the NER and is summarised in the table below.

Table 2-7: Benchmark tax allowance ($M, nominal)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Tax payable	12.0	12.2	12.1	23.7	31.7	**91.6**
Value of imputation credits	(6.9)	(7.1)	(7.0)	(13.7)	(18.4)	**(53.1)**
Tax allowance	**5.0**	**5.1**	**5.1**	**9.9**	**13.3**	**38.5**

Source: AusNet

2.5. Smoothed revenue requirement

The application of our X-factors in conjunction with our unsmoothed revenue requirement produced our smoothed revenue requirement for this Revised Proposal. This is summarised in the table below.

Table 2-8: Smoothed annual revenue requirement ($M, nominal)

	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Annual Building Block Revenue Requirement (unsmoothed)	675	852	890	967	1,052	1,132	**4,893**
Maximum Allowed Revenue (smoothed)	675	852	911	973	1,040	1,111	**4,888**
X Factors (%)		**-23.21%**	**-4.30%**	**-4.30%**	**-4.30%**	**-4.30%**	

Source: AusNet

Our PTRM attached to this Revised Proposal demonstrates that the smoothed and unsmoothed revenue requirements are equivalent in net present value terms, as mandated by clause 6A.6.8(c)(1) of the NER. Clause 6A.6.8(c)(2) requires the X factor to be set to minimise, as far as reasonably possible, the gap between smoothed and unsmoothed revenue in the final year of the regulatory control period. Our PTRM satisfies this clause because our smoothed revenue in 2031-32 is within 3.0% per cent of the unsmoothed revenue for that year.

Our revenue requirement will be updated annually to reflect:

- Actual CPI, consistent with clause 6A.5.3(c)(3) of the NER;
- The annual return on debt update, in accordance with the AER's Rate of return instrument;
- Our actual service standard performance, relative to our service standard targets, under the Service Target Performance Incentive Scheme; and
- Any approved cost pass-through amount resulting from a pass-through event specified in clauses 6A.7.2 or 6A.7.3 of the NER or nominated in Chapter 10 of this Revised Proposal and accepted by the AER.

The revenue requirement in the second year of the next regulatory period, 2028-29, will also include an adjustment relating to the carryover amount under the Demand Management Innovation Allowance Mechanism (DMIAM). This is explained in the Chapter 5.

2.6. Average transmission charges

2.6.1. Impacts of our Revised Proposal

We expect our Revised Proposal to increase the annual transmission bill for a typical residential customer by $43, or for a typical small business customer by $107. For a large commercial or industrial customer with a demand contract, the transmission component of the bill will increase by 33%. The tables below provide the bill impact of the Revised Proposal for various types of customers.

Table 2-9: Bill impact of Revised Proposal – residential and small business customers

Customer type	Typical energy consumption (kWh p.a.)	Annual electricity bill, 2027 ($, nominal)	Transmission component of bill, 2027 ($, nominal)	Transmission component of bill, 2032 ($, nominal)	Increase in transmission bill ($, nominal)
Residential customer	4,000	1,748	131	174	43
Small business customer	10,000	3,896	327	435	107

Source: AusNet, 2026-27 Victorian Default Offer

Table 2-10: Bill impact of Revised Proposal – commercial & industrial customers

Customer type	Assumed consumption (kWh p.a.)	Distribution component of bill, 2027 ($, nominal)	Transmission component of bill, 2027 ($, nominal)	Transmission component of bill, 2032 ($, nominal)	Increase in transmission bill ($, nominal)
Medium industrial & commercial customers	240,903	28,727	4,384	5,823	1,439
Large industrial & commercial customers	819,903	74,633	18,641	24,758	6,117

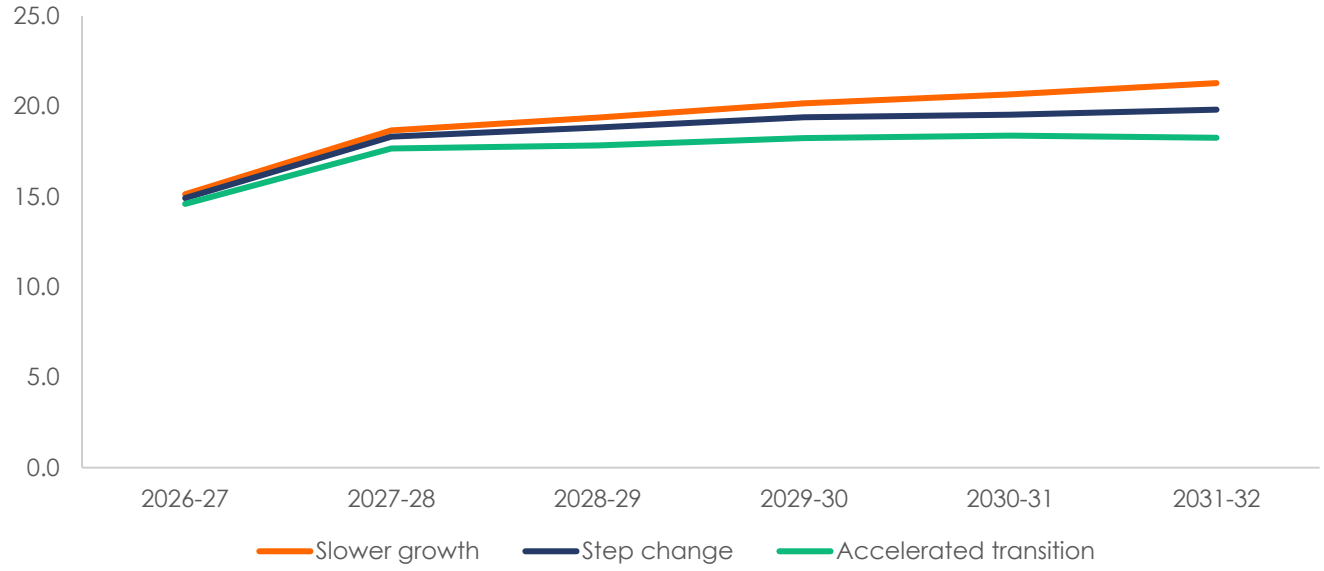
Source: AusNet

In the context of increases in other parts of customer's energy bills, and broader cost of living pressures, we do not propose these increases lightly. We see these increases as the necessary costs to maintain the reliability, safety, and

security of the transmission network, and propose only the expenditure that we see as being in the best interests of Victorians.

We note that if demand for electricity in Victoria increases faster than predicted, this may lead to lower average prices, as transmission costs are "spread out" over a larger base. Conversely, if demand is lower than predicted, this may lead to higher average prices. To provide an indication of how demand impacts prices, the graph below presents the price path (in $/MWh) implied by our Revised Proposal under three scenarios in AEMO's Integrated System Plan (ISP): Step Change, Slower Growth, and Accelerated Transition.

Figure 2-2: Price path under different demand scenarios ($/MWh, nominal)



2.6.2. Broader transmission costs

Total Victorian transmission charges, levied by VicGrid, contain significant costs in addition to the revenue covered by this review. In particular, the 2025 Victorian Transmission Plan sets out $7.9B of capital work to be undertaken by 2040, which will likely have a significant impact on transmission costs for Victorians.

We have heard from customers and stakeholders that they are seeking transparency on the total transmission costs that Victorians are likely to face. We therefore provided a view of transmission costs outside of this revenue reset in our Initial Proposal and do so in the Revised Proposal as well – this is shown in the graphs below.

Figure 2-3: Total Victorian transmission revenues ($M, real 2024-25)

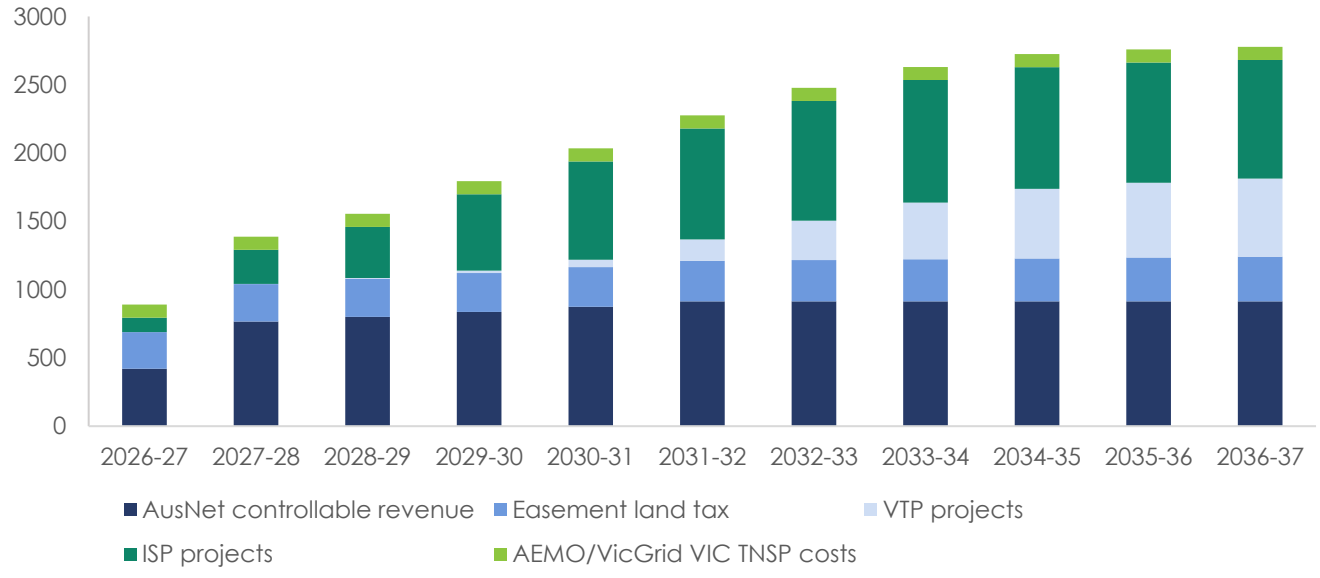
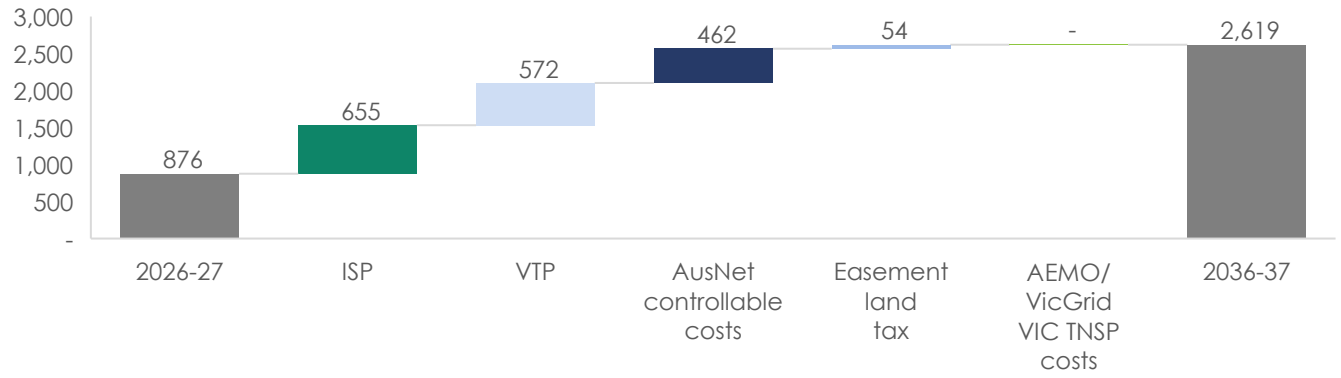
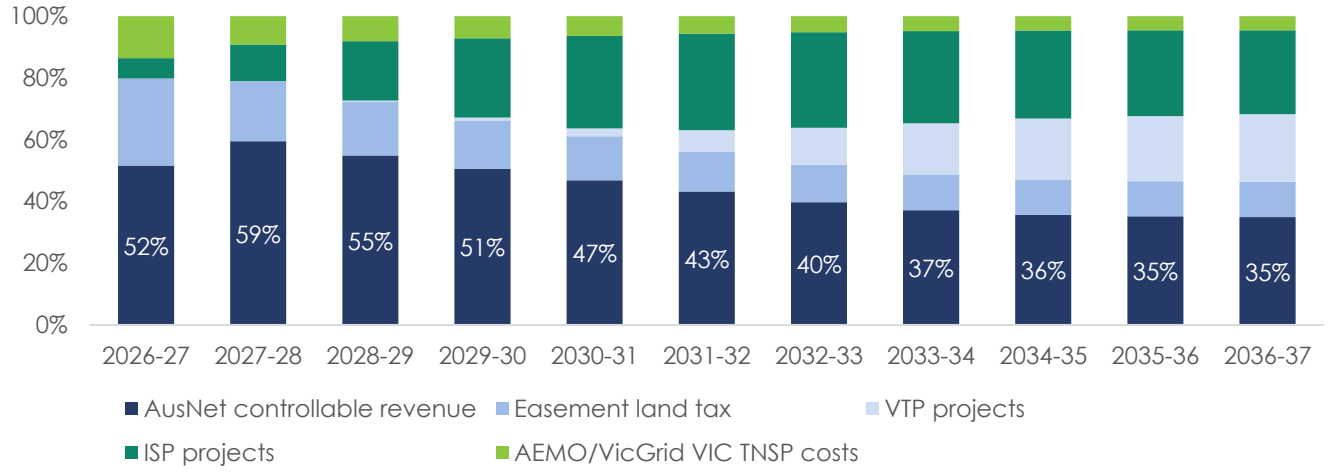


Figure 2-4: Increase in Victorian transmission revenues over 2027-37 ($M, real 2024-25)



As shown in the graphs above, the combination of various investments in the Victorian transmission network is likely to lead to an increase in total transmission costs of 199% over the next 10 years. As spending on new transmission infrastructure through VicGrid's VTP and AEMO's ISP increases, AusNet's controllable revenue as a share of the transmission component of customers' bills will reduce from 52% today to 43% by 2032, and as little as 35% by 2037.

Figure 2-5: AusNet controllable revenue as a % of total Victorian transmission revenues



2.7. Supporting documentation

We have included the following documents to support this chapter:

- Post Tax Revenue Model;
- Roll Forward Model;
- Standalone Depreciation Model;
- Operating Expenditure Model;
- Efficiency Benefit Sharing Scheme model;
- Capital Expenditure Model;
- Capital Expenditure Sharing Scheme model

03
Capital expenditure

3. Capital expenditure

3.1. Key points

The key points of this chapter are:

- The Initial Proposal included forecast capital expenditure of $2,440M (real 2026-27) over the 2027-32 regulatory period. This program reflects a significant uplift compared to historical level of capex, driven by major investments in crucial parts of Victoria's transmission network backbone, including replacement of 500kV substations, to maintain reliability, safety and security of the power system.
- The Draft Decision accepted $1,713M (real 2026-27) capex, which was a $727M or 30% reduction compared to the Initial Proposal. The capital expenditure that was not accepted in the Draft Decision related primarily to the delay of several major station projects, the removal of project cost and scope increases where they were not accompanied by Project Change Request documentation, the removal of risk allowances and contractor incentives, the exclusion of assets that were not individually economic to replace from the asset replacement and compliance programs, reductions to the Physical Security program where detailed cost breakdowns and justification were not provided, and the removal of the Digital Metering Systems program. The AER also made a modelling adjustment to set real cost escalation for external labour costs to zero, consistent the approach taken in recent decisions, including the recent Final Decisions for Victorian DNSPs.
- AusNet remains committed to the core network programs included in the Initial Proposal. However, we have accepted a number of the changes made in the Draft Decision, including the removal of the WOTS spare transformer project, the delay of the LYPS & HWTS project, the removal of all contractor incentives, the removal of risk allowances from unit rates, and some reductions to Physical Security costs. We have also accepted the zero real cost escalation on external labour included in the Draft Decision to limit the number of issues under consideration, though we provide some commentary on the appropriateness of this assumption in this chapter. We also accept the removal of the contingent project at Dederang Terminal Station, and do not include any contingent projects in the Revised Proposal.
- For parts of the forecast where we are not accepting the Draft Decision, the Revised Proposal provides updated analysis and new evidence to support our position. For our network replacement programs, this includes updated major station project economic models using 2026 demand forecasts, market tested costs for projects at Keilor, Shepparton, and Red Cliffs Terminal Stations, detailed project-specific risk registers, and new analysis on delivery efficiencies associated with bundled replacement. For our digital programs, we provide Business Case Addendums and an updated NPV analysis which clarify how our proposed initiatives drive customer benefit.
- Our Revised Proposal also includes four new digital programs which are required for AusNet to comply to the Security of Critical Infrastructure (SOCI) Enhanced Critical Infrastructure Risk Management Plan (CIRMP) Rules which were put into force in June 2026. As the Rules were not finalised by October 2025, we did not have sufficient certainty on these programs to include them in the Initial Proposal. The inclusion of these programs in the Revised Proposal has been discussed with the AER throughout the October 2025 to August 2026 period.
- Engagement with the Transmission Stakeholder Advisory Panel (TSAP) has continued following the submission of the Initial Proposal, which has influenced the Revised Proposal. Furthermore, as the core network programs have remained stable compared to the Initial Proposal, many of the outcomes of engagement from 2025 are preserved in the Revised Proposal.
- Taking into consideration the changes outlined above, we are proposing $2,425M (real 2026-27) capital expenditure over the 2027-32 regulatory period. This is $15M lower than the Initial Proposal. For the reasons set out in this chapter and supporting documents, we consider our revised capex is prudent and efficient. The projects and programs included in the Revised Proposal represent what is required to maintain the reliability, safety, and security of the transmission network over the 2027-32 regulatory period.

3.2. Chapter structure

The remainder of this chapter is structured as follows:

- Section 3.3 provides an overview of our Revised Proposal's total capex forecast, including a summary of our Initial Proposal, the broad changes made in the AER's Draft Decision, and our response as set out in this Revised Proposal;
- Section 3.4 provides an overview of how customer and stakeholder preferences and feedback have been addressed in our Revised Proposal;
- Section 3.5 presents our revised capex for major station projects;
- Section 3.6 presents our revised capex for asset replacement programs;
- Section 3.7 presents our revised capex for compliance & resilience programs;
- Section 3.8 presents our revised capex for digital programs, including the four new programs to support compliance with the new SOCI CIRMP Amendment Rules;
- Section 3.9 presents our revised capex for non-network categories;
- Section 3.10 discusses the deliverability of the Revised proposal, including the top-down adjustments that have been made to the capital expenditure profile;
- Section 3.11 discusses the removal of the contingent project originally included in the Initial Proposal;
- Section 3.12 provides a summary of our Revised Proposal's total capex forecast;
- Section 3.13 explains how our updated capex forecast satisfies the relevant NER requirements; and
- Section 3.14 identifies the supporting documents that provide further substantiation of our Revised Proposal's capex forecast.

3.3. Overview

3.3.1. Our Initial Proposal

Our Initial Proposal reflected a forecast of $2,440 million (real 2026-27) over the 2027-32 regulatory period. This program reflects a significant uplift compared to historical level of capex, driven by major investments in crucial parts of Victoria's transmission network backbone, including replacement of 500kV substations, to maintain reliability, safety and security of the power system. This forecast is broken down across five categories as follows:

- Major station projects ($1,161.8 million)
- Asset replacement programs ($655.1 million)
- Compliance and resilience ($282.7 million)
- ICT and digital infrastructure ($266.1 million)
- Non-network capex ($73.8 million)

3.3.2. Draft Decision

The AER's Draft Decision reflected an alternative forecast of $1,711 million, which is 30% below our Initial Proposal forecast. Across each category of the capex program this comprises of the following (excluding capitalised overheads, disposals and modelling adjustments):

- Major station projects ($834.7 million, 26% less than our Initial Proposal)
- Asset replacement programs ($467.4 million, 29% less than our Initial Proposal)
- Compliance and resilience ($93.5 million, 63% less than our Initial Proposal)
- ICT and digital infrastructure ($208.8 million, 19% less than our Initial Proposal)
- Non-network capex ($70.4 million, 5% less than our Initial Proposal)

In addition to removing or reducing specific projects/programs, the AER's Draft Decision has also removed several cost items across multiple categories of our Initial Proposal (henceforth "broader issues"):

- External labour cost escalation was removed, which was referenced as a modelling adjustment in the Draft Decision appendices
- Contractor incentives were removed from cost estimates for major station projects
- Risk allowances were removed from cost estimates for major station projects and from unit rates for asset replacement programs and compliance & resilience programs

3.3.3. Response to the AER's Draft Decision

We are accepting many of the cuts / alternative forecasts made by the AER in the Draft Decision:

- Removal of the WOTS spare transformer project
- Removal of risk allowances for the following major station projects: MLTS Circuit Breaker Replacement, SYTS 500kV GIS, TTS Circuit Breaker Replacement, LYPS Circuit Breaker Replacement, MLTS Reactor Replacement, and MWTS 66kV Circuit Breaker Replacement
- Delay of the TTS B4 transformer project by 1 year
- Delay of the LYPS & HWTS project (though our proposed approach for the deferral is different compared to the Draft Decision, see Section 3.5.4.8)
- Removal of the DDTS contingent project
- Removal of risk allowances from asset replacement program unit rates, other than for the HYTS-APD tower replacement project
- Removal of weather station replacement from the secondary systems program, where the station is not used for dynamic line ratings
- Reduction to tower refurbishment program
- Removal of the Mk6e meter replacement program
- Removal of risk allowances from compliance & resilience program unit rates, other than for the HYTS-APD tower replacement project
- Some reductions to the low spans programs
- Removal of consultant costs from the environmental programs
- Some reductions to SOCI CCTV and Security Fencing programs
- Removal of Non-SOCI Security Future Technology program
- Some reductions to Digital Metering Systems expenditure
- Removal of some unjustified costs to replace broken testing equipment
- Removal of external labour cost escalation
- Removal of contractor incentives
- Some reductions to the variable component of capitalised overheads, consistent with the AER's standard approach

Our detailed response on issues specific to each category is detailed in Sections 3.5 to 3.10. Our detailed response to the broader issues is included in Section 3.3.4, and summarised below:

- Consistent with the AER's Draft Decision, **we have not included external labour cost escalation in our Revised Proposal**, to limit the number of issues under consideration. However, we still contend that external labour cost escalation is a structural feature of the construction market, and therefore include in our Revised Proposal some commentary on this issue. We also expect to raise external labour cost escalation in AusNet's future regulatory reset processes, as our on-the-ground experience across our regulated networks suggests that contract labour costs do escalate faster than CPI
- **We accept the removal of contractor incentives from our cost estimates**. Since the submission of our Initial Proposal in October 2025, AusNet has engaged in negotiations with design and construction delivery partners on our commercial arrangements. These negotiations were flagged to the AER in information request responses between Initial Proposal submission and the Draft Decision. As a result of these negotiations, AusNet no longer uses contractor incentives as a tool to manage delivery outcomes. We therefore agree with the exclusion of these costs from capital expenditure forecasts
- **We do not accept the removal of risk allowances from our capital expenditure forecasts**. However, we understand that the AER requires additional information to be able to assess risk allowances, in particular detailed risk registers. In this chapter we detail our reasoning for including risk allowances and our updated approach. We have also included a risk register as a supporting document for each project where the risk allowance is being re-proposed.

3.3.4. Revised Proposal

Our Revised Proposal includes sets out a forecast of $2,419.5 M in real 2026-27 dollars, which is $20 million or 1% below our Initial Proposal forecast. Across each category of the capex program this comprises of the following:

- Major station projects ($1,190.3 million, 2% higher than our Initial Proposal)
- Asset replacement programs ($592.1 million, 10% lower than our Initial Proposal)
- Compliance and resilience ($252.3 million, 11% lower than our Initial Proposal)
- ICT and digital infrastructure ($281.5 million, 6% higher than our Initial Proposal)
- Non-network capex ($103.4 million, 40% higher than our Initial Proposal)

Below we explain how the broader issues relating to capex have been addressed in the Revised Proposal. The Revised Proposal for each category of capex is provided in later sections of this chapter.

3.3.4.1. External labour cost escalation

We have elected not to re-propose external labour cost escalation in the capex model for our Revised Proposal. This decision has been made to limit the number of issues under consideration for the Revised Proposal and the AER's Final Decision, recognising the significant additional information that is being provided with our Revised Proposal, including for new programs relating to SOCI CIRMP compliance.

However, AusNet's position continues to be that external labour cost escalation should be included in regulatory allowances for capital expenditure, if they are to reflect prudent and efficient network costs. We consider the AER's proposed treatment of contracted labour costs – limiting escalation to CPI while applying real wage growth only to internal labour – is inconsistent with both market evidence and the principles of incentive regulation. Therefore, despite not including an external labour cost escalation input in our capex model for the Revised Proposal, we provide some arguments on our position in this section.

3.3.4.1.1. Mismatch with actual market evidence

In the Draft Decision on AusNet's Transmission proposal, the AER did not provide detailed arguments for removing external labour cost escalation. The only rationale provided was that "*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 therefore inferred from other AER determinations that the application of zero real cost escalation to contracted labour costs reflects the AER's position that:

- Contracted services can be adjusted to address changes in the labour market and/or economic climate.
- Evidence should be provided to demonstrate that real cost escalation is reflective of the contract provisions for service agreements.

While we acknowledge the Draft Decision approach is in line with the AER's standard approach to contracted labour escalation, we consider a change to this approach is necessary to:

- Reflect increasing demand for contracted skilled labour associated with the significant investment required to deliver the energy transition and the resulting implications for the real price of this labour
- Ensure TNSPs are provided with sufficient opportunity to recover their prudent and efficient costs, in line with Revenue and Pricing principles.

[C-I-C]

Table 3-1: Annual ETU rate increases applicable to Zinfra TOMSA maintenance contract

Period	Annual increase
Sep-23 to Dec-23	[C-I-C]
Dec-24	[C-I-C]
Mar-25	[C-I-C]
Sep-25	[C-I-C]
Mar-26	[C-I-C]
Sep-26	[C-I-C]

Source: AusNet

Figure 3-1: Cumulative increase in labour rates vs CPI (Sep-23 to Dec-25)

[C-I-C]

Source: AusNet, Australian Bureau of Statistics

As shown above, it is clear that actual external labour costs have escalated at a higher rate than inflation in the current period. Other NSPs have also made similar proposals for external labour cost escalation, suggesting that this is a structural, industry-wide issue, rather than one that is specific to AusNet:

- CitiPower, Powercor, and United Energy provided the AER with HoustonKemp analysis on contract labour escalation as part of their 2026-31 Revised Proposals, and mentioned that their relevant enterprise agreements and contract provisions mean that they face growth in labour costs beyond CPI[4]
- Powerlink included external labour cost escalation in their Initial Proposal for the 2027-32 period[5]

With the significant programs of work being delivered across the NEM, including AEMO's Integrated System Plan, the Victorian Transmission Plan, and significant augmentation and replacement portfolios from interstate TNSPs and DNSPs, demand for contract labour is only increasing. As a result, we expect contract labour costs faced by the industry as a whole to continue to increase more quickly than CPI in the next regulatory period, and beyond.

Therefore, by not accounting for external labour cost escalation in regulatory capex allowances, the AER consistently funds NSPs for less than the efficient costs of delivering the necessary capital works.

3.3.4.1.2. Imbalance in incentives

The AER's standard approach risks distorting efficient delivery decisions. By applying real wage escalation only to internal labour, the AER effectively penalises networks that have adopted efficient outsourced delivery models, contrary to the principles of incentive regulation. Regulated businesses should be encouraged to choose the most efficient resourcing model, not the one that aligns most favourably with the regulator's escalation assumption.

While the AER has considered in its recent determinations on this issue that distributors can manage contractor costs by adjusting contract scope or timing, this is not feasible in practice. Much of our capital and maintenance activity is required to meet reliability and safety obligations and cannot be deferred without unacceptable risk. Moreover, cost pressures in the contracted labour market are unlikely to ease in the short- to medium-term, given the sustained and growing demand for skilled labour to support the energy transition, consistent with the OEA forecast of real increases.

[4] CitiPower Revised Proposal, 2026-31 – Revenue and expenditure forecasts – December 2025, p24
[5] Powerlink – 2027-32 Revenue Proposal – January 2026 – PUBLIC, p106

Economic theory and market evidence reinforce this view. Contractor labour operates in a more flexible and market-clearing segment of the labour market. Under tight labour conditions, consistent with those currently being experienced as increased network investment is required to support the energy transition, contractor wages adjust more quickly and sharply than internal wages, consistent with dual labour market and search-and-matching models. Applying CPI-only escalation to contracted labour ignores this dynamic and understates the efficient cost of maintaining delivery capability.

3.3.4.1.3. Future proposals

For the above reasons, we consider that real labour escalation should be applied to both internal and contracted labour, informed by independent wage forecasts such as the OEA EGWWS index. This approach:

- Reflects real market conditions and the actual costs we expect to incur in delivering our capital program
- Maintains neutrality between capital works delivery models
- Avoids creating perverse incentives between opex and capex
- Provides AusNet with sufficient opportunity to recover its prudent and efficient costs, in line with Revenue and Pricing principles.

While we have elected not to re-propose external labour cost escalation for practical reasons, to limit the number of issues under consideration in the Revised Proposal, we maintain the position expressed in AusNet Distribution's 2026-31 proposals, AusNet Transmission's Initial Proposal, and in this section. It is therefore likely that external labour cost escalation will be a feature of future proposals from AusNet.

3.3.4.1.4. Real cost escalation in this Revised Proposal

In our Revised Proposal, we have retained real labour cost escalation for the internal labour component of capex only, and updated our forecasts to reflect the most recent and relevant data available by incorporating:

- The latest Deloitte Access Economics labour cost forecasts for Victoria from the AER's June 2026 Draft Decision
- Updated projections from Oxford Economics, which reflect current expectations for real wage growth

Consistent with our Initial Proposal, we have assumed materials costs increase in line with CPI.

3.3.4.2. Risk allowances

In the Revised Proposal, we are continuing to propose the inclusion of risk allowances for some projects, despite all risk allowances being rejected in the Draft Decision. We consider risk allowances a crucial part of the cost estimation process, that ensures our proposed capex forecasts represent true midpoint estimates with a 50% probability of exceedance.

However, we recognise the AER's concerns regarding the approaches used to estimate risk allowances and the lack of project-specific risk registers. Therefore, our Revised Proposal includes detailed risk registers, which demonstrate that our risk allowances are reasonable. Further information on our approach is provided below.

3.3.4.2.1. Rationale for inclusion

The inclusion of risk allowances is part of AusNet's longstanding estimating methodology for producing capex forecasts with a 50% probability of exceedance, otherwise known as P(50) estimates. We need to include risk allowances to produce a true a midpoint forecast, which represents the efficient costs of delivering critical works that maintain reliability, safety, and system security. Our experience of material unforeseen risks impacting in the current period, reasonable expectations that similar risks will continue to impact for the next period, the asymmetric impact of contingent risks, the maturity of the design and cost certainty, and the unique context of Victorian transmission all support the validity of including risk allowances in P(50) estimates.

- **Current period experience:** In the 2022-27 period, AusNet Transmission's capital program has been impacted by major cost escalation, supply chain disruption driven by COVID-19 and the Russian invasion of Ukraine, and significant scope change, often driven by external changes in legislation. This has resulted in overspends in the current period for many large projects. To illustrate this, in the table below we provide the cost estimates for a sample of major station projects from the last 5 years, which shows how total project cost estimates have changed over time.

Table 3-2: Estimated total project cost in previous AusNet TRR's compared to latest forecast ($M, real 2026-27)

Project	Key driver of cost increase	Forecast in 2022-27 TRR	Forecast in Initial Proposal	% increase
Moorabool Terminal Station Circuit Breaker Replacement	Cost escalation	35.0	63.4	81%
RCTS Transformer and Switchgear Replacement	Major scope change, cost escalation	27.9	77.7	178%
SMTS 330/220kV Transformer Replacement - Stage 2	Major scope change	52.9	148.6	181%
ERTS Redevelopment - Stage 2	Minor scope change	28.4	24.8	-13%
TSTS Transformer and 66kV Circuit Breaker Replacement	Major scope change	52.8	83.1	57%
SYTS 500kV GIS Replacement	Minor scope change, cost escalation	98.8	109.7	11%
SMTS 500kV GIS Replacement	Major scope change	21.7	299.1	1278%
SHTS B2 and B3 Transformer Replacement	Minor scope change, cost escalation	46.1	65.3	42%
TTS 66kV Circuit Breaker Replacement	Cost escalation	23.5	41.2	75%
KTS A4 500/220kV Transformer Replacement	Major scope change, cost escalation	86.4	275.7	219%

Source: Response to IR#001 submitted to the AER on 3 December 2025

The impact of cost escalation on these overspends is also recognised in AER's Draft Decision attachment on capital expenditure, which notes that "AusNet expects to overspend its capex in the current 2022–27 period…a majority of this step up is because of increased labour and material costs." In the context of these major unexpected cost increases in the current period, and the largely unforecastable nature of these increases, it is appropriate to include risk allowances in P(50) cost estimates.

To further illustrate the impact of cost escalation and scope change, 2 case studies on current period projects have been included at the end of this section (3.3.4.2.1).

- **Next period expectations:** While the specific disruptions relating to the COVID-19 pandemic which impacted the current period are not expected to have a significant impact in the 2027-32 period, we continue to see other global events emerging that are likely to have an impact on our programs. A notable example of this is the conflict in Iran and the broader Middle East, which has driven volatility in global energy and commodity markets. This includes constraining global shipping markets, increasing oil and gas prices, and causing price escalation in key construction inputs such as steel, aluminium, copper and petroleum derived products. In their report on labour price escalators that supports our operating expenditure proposal, Oxford Economics states "*long-term and non-discretionary investment projects will still be significantly impacted by the Middle East conflicts, due to much higher costs and possible longer lead times for critical materials and equipment.*"

  Beyond the Middle East conflict, any other international wars, sanctions, reversals of free trade agreements & introductions of tariffs, or blockades of shipping routes has the potential to significantly impact our supply chains and therefore our delivery program. In light of recent geopolitical developments, we consider that the frequency and severity of these events is likely to be higher in the coming regulatory period compared to past periods. While AusNet is taking steps to protect against these sorts of disruptions, including through long-term supply arrangements such as the recently signed 5-year supply agreement with Hyosung Heavy Industries, it is not practical or indeed possible to insulate AusNet from global supply chain risks. We, therefore, see the inclusion of risk allowances as a reasonable approach to recognise the probability-weighted impacts of risks on our projects.

- **Asymmetric risks:** We recognise that the uncertainty associated with future projects can result in cost changes in both upwards and downwards directions. However, for many of the contingent and inherent risks that impact our programs, the favourable variation is capped, while unfavourable variations are uncapped, leading to asymmetric risk that is biased towards increasing costs. Some illustrative examples are provided below:
  - Inclement weather can result in cancellations of scheduled work for the duration of the weather event. While the unfavourable impact of inclement weather is practically unlimited, the favourable impact of weather on a project is capped at 0 inclement weather days
  - When a cost is estimated for a particular piece of equipment, the actual cost may end up higher or lower. While the unfavourable impact of a higher price is practically unlimited, the favourable impact of a lower price is capped at a price of 0 (-100% of estimated price)
  - The unexpected discovery of underground cables or infrastructure not managed by AusNet at a project site can lead to cost and schedule impacts due to re-design, additional scope, or changes to the order/location of planned works. While the unfavourable impact of discovering unexpected assets is practically unlimited, the favourable impact is capped as we cannot have a better outcome than no assets being discovered
  - The cancellation of outages by AEMO (e.g. to manage system security) can result in significant delays to schedule work. While the unfavourable impact of outage cancellations is practically unlimited, as subsequently re-scheduled outages can also be cancelled, the favourable impact is capped as we cannot have a better outcome than no cancellations.

  As a result of the asymmetric nature of these risks, it is probable that over a large sample of projects, actual costs will be higher than the estimated costs for base scope when risk allowances are excluded. This implies therefore that to produce a genuine P(50) estimate, "base" estimates must be adjusted to account for asymmetric risks.
- **Maturity of design and cost certainty:** As regulatory control periods are 5 years long, and revenue for each period is determined using an ex-ante approach, networks must forecast capital expenditure for projects that begin up to 5 years into the future. For such projects, the maturity of project design is relatively low at the time of submission, which does not enable a highly accurate estimate. Typically, AusNet's revenue resets are based on a mix of "Planning Phase" Estimates for nearer term projects, which are equivalent to AACE Class 3, and "Idea Phase" Estimates for projects in which will begin later in the period, which are equivalent to AACE Class 5.

  It is neither practical nor efficient for AusNet to invest heavily in maturing designs up to 5 years in advance to avoid the use of risk allowances. Doing so would mean asking customers to pay for works earlier than they are required and could cause imprudent de-prioritisation of nearer term project development. Furthermore, advancing to detailed design many years before project commencement could lead to inefficient rework, as site and network conditions may change in ways that render previous design work obsolete. Therefore, given the relatively low design maturity and cost certainty achievable for this sort of long-term planning, it is reasonable for AusNet to include risk allowances in P(50) estimates.

  Furthermore, AACE's Recommended Practice 18R-97[6] defines each class of estimate based on typical accuracy ranges, and states that the range "*represents typical percentage variation at an 80% confident interval of actual costs from the cost estimate after application of appropriate contingency (typically to achieve a 50% probability of project cost overrun versus underrun) for given scope*." This confirms that our approach of including risk allowances in P(50) estimates is consistent with industry practice, and indeed necessary to produce a truly unbiased estimate.
- **Victorian transmission context:** The Victorian regime is unique in that AusNet Transmission plans only for replacement of existing assets and is not responsible for planning augmentation. This creates a challenge in coordinating works on the network, as there is a need to interface with VicGrid who is responsible for augmentation and shared network connections, DNSPs who are responsible for augmentation at the transmission connection points, and generators/developers who connect to the transmission network. While AusNet puts significant effort into joint planning and aligning our replacement programs with the jurisdictional planners (e.g. by coordinating outages, and reviewing our plans against the Victorian Transmission Plan), it is unavoidable that some replacement programs will be impacted by concurrent projects that are out of our control. For example, the SYTS 500kV GIS project in the current period was impacted by timelines for the Western Renewables Link project, which is part of AEMO's Integrated System Plan. This was detailed in the Board Paper for the SYTS project that was included as document 5.5.83 in our Initial Proposal.

  We agree that it is not reasonable for AusNet to include the full cost of concurrent project impacts in project cost estimates where the impacts of these projects are not certain. Instead, a reasonable approach would be to include a probability-weighted measure of risk in P(50) estimates, reflecting the "expected" value of risk that is outside of AusNet Transmission's control and beyond what can be managed through prudent mitigations.

For the reasons stated above, it is essential that a reasonable risk allowance is included in capex forecasts to ensure they reflect the efficient costs of delivering the required program of works.

Case study #1: Cost escalation

The Moorabool Terminal Station (MLTS) Circuit Breaker Replacement project has experienced ~80% cost increase, as shown in Table 3-2.

[6] AACE 18R-97: Cost Estimate Classification System - As Applied in Engineering, Procurement, and Construction for the Process Industries

Case study #1: Cost escalation

- Following a qualitative assessment of Construction Delivery Partner (CDP) tender responses received in June 2024, it was clear that market pricing had moved materially from that assumed in the Nov 2022 business case (and the original TRR forecast) exceeding the budget estimate by approximately $28M (nominal). After this assessment, an internal control estimate was done that aligned closely with the lowest technically compliant market response
- This reflects the significant change in market conditions between the time of the initial business case estimate and the actual delivery of the project, leading to cost escalation
- When these cost increases arose, we undertook a Project Change Request process, through which two options were considered: (1) proceeding at higher cost and (2) deferring the project. It was determined that proceeding at higher cost delivered the better outcome, due to the critical need to address asset failure risk

Case study #2: Scope change

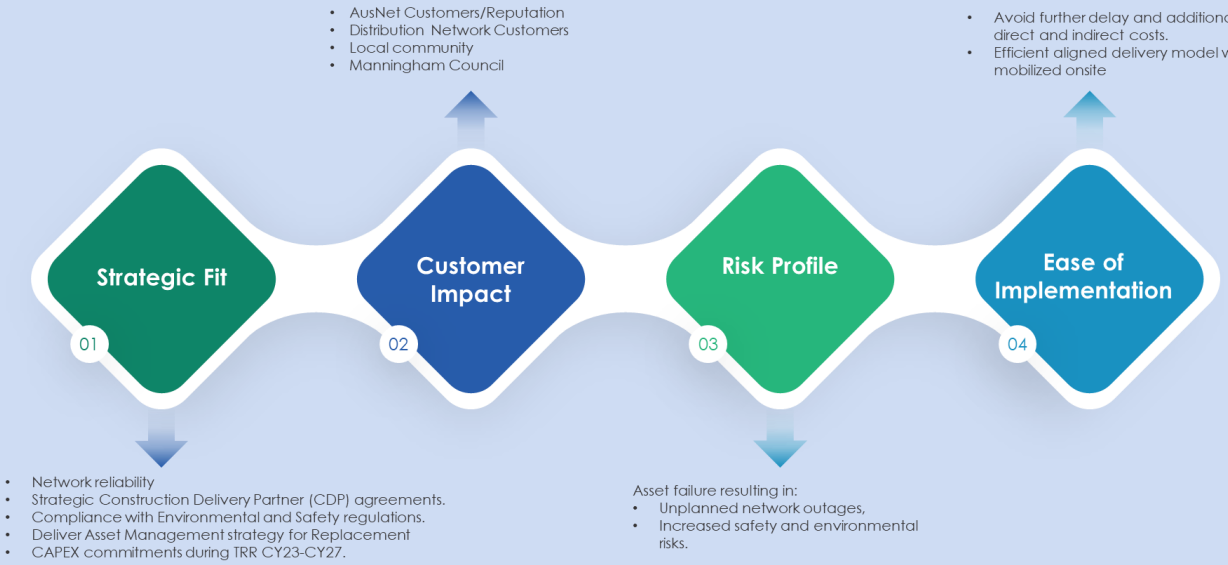
The Templestowe Terminal Station (TSTS) Transformer and 66kV Circuit Breaker Replacement project has experienced ~60% cost increase, as shown in Table 2. During the detailed design phase, issues were identified with the environmental management system at TSTS. It was found that significant additional works were needed for environmental compliance to new requirements, which were not yet in force at the time the project was initially approved, including:

- Civil works to increase the bank height of the retention ponds to prevent contaminated water from discharging into adjacent Mullum Mullum Creek
- Installation of temporary system to regularly pump contaminated water through a pre-treatment plant (to correct water pH levels) and discharge it into existing sewer pipes connected to Yarra Valley's local treatment plant. Yarra Valley Water provided permission to discharge the water via a trade waste agreement
- Retention pond remediation design and implementation.
- Replace the aging stormwater environmental management system with a new SPEL tank
- 2 x Fully enclosed 220/66kV transformer bays

The need for these scope items could only be identified following a detailed assessment of site conditions, which meant that they were not identified in early stages of development.

AusNet considered multiple options to address the additional scope requirements, considering customer impact, risk profile, ease of implementation, and strategic fit, as shown below.

(continued on next page)



Based on these criteria, we assessed multiple options, which are shown below (note that numbers may not reconcile with other sources due to differ dollar basis).

Case study #2: Scope change

Option	Description	Implications
1	Original BC approved budget funding	Not a credible option, as budget is insufficient and would leave environmental remediation incomplete, stranded assets installed but not connected to network, asset write offs, continued risk of unserved energy.
2	**Proceed with additional funding - (Recommended)**	**CAPEX:** $89M ($45M increase) **RISK:** Addresses the Business Case identified and environmental compliance risks. **SCHEDULE:** AIS time extension from date 20 Dec 2024 until 30 Sep 2026 (21 months increase)
3	Defer replacement of 66kV primary plant and related secondary upgrade works from the project	**CAPEX:** $73M ($30M increase) **RISK:** Residual customer supply and safety risk of up to $50M (PV of annual risk cost) **SCHEDULE:** AIS time extension from date 20 Dec 2024 until 30 Aug 2025 (8 months increase)
4	Alternative Construction Delivery Partner (CDP)	**CAPEX:** $90.12M ($46M increase) **RISK:** Addresses the Business Case identified and environmental compliance risks. **SCHEDULE:** AIS time extension from date 20 Dec 2024 until 28 Feb 2027 (26 months increase)

Ultimately, it was determined that proceeding with the larger scope would deliver the best long-term outcomes, considering both the higher cost and the benefit delivered by the project. The images below show the original state of the site, and the completed new retention ponds.



3.3.4.2.2. Amended approach and evidence

While we continue to consider risk allowances a valid and necessary component of P(50) cost estimates, we recognise that risk allowances that are included need to be realistic and beyond the control of the NSP. We have therefore:

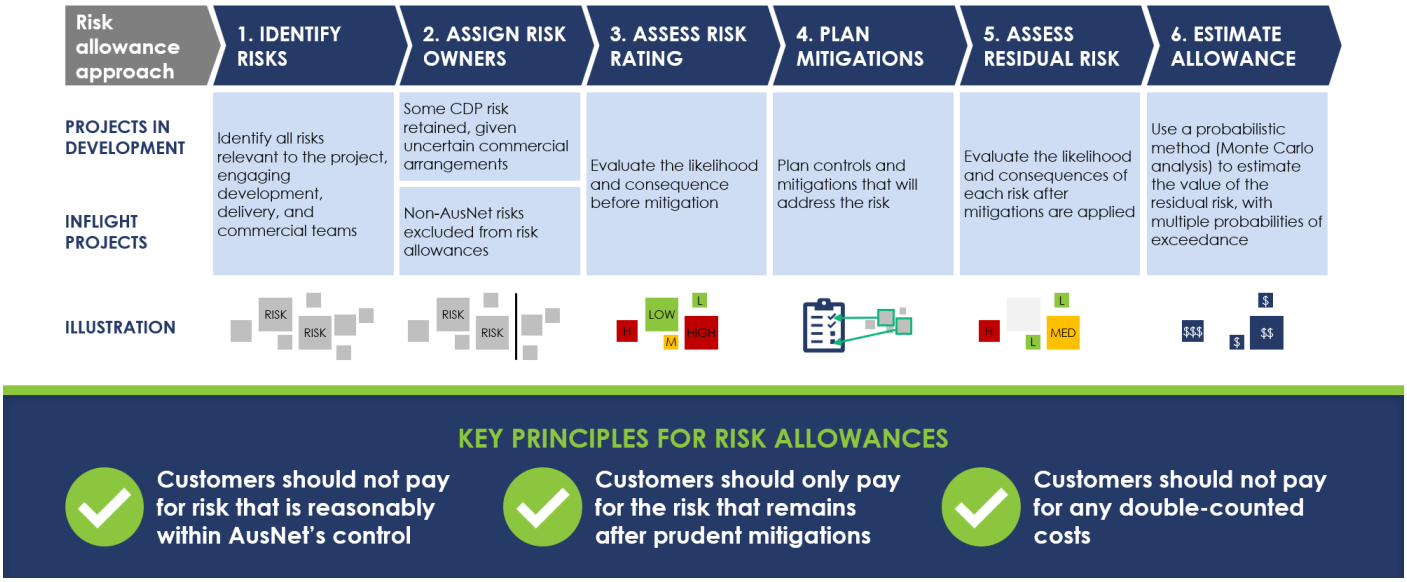
- **Accepted the removal of immaterial risk allowances for the MLTS CB and SYTS GIS inflight projects**: Given the risk allowances for these projects are very small, we will absorb these risk costs and not seek any additional allowance
- **Accepted the removal of risk allowances from unit rates except for the Portland Stage 2 tower replacements**: We maintain that the 7.5% risk allowance included in unit rates in our Initial Proposal is reasonable. This was confirmed by the external consultants, AMCL, who conducted a review of our unit rates, stating that the "*rate of 7.5% has been applied for all line items. The 7.5% value is based on current market benchmarks, consistent with good industry practice, and consistent with our experience working on in [sic] similar projects with peer organisations.*" Nevertheless, we accept that the approach taken is not sufficiently detailed or specific to support the AER's assessment of our capex, and we are not re-proposing risk allowances in our unit rates. The exception to this is for the Portland Stage 2 project, which will follow the same approach as the major station projects – this is because this project is of comparable size and scope certainty to the major station projects, enabling a detailed assessment of risk
- **Taken a more detailed approach to estimating risk allowances for major station projects and the Portland stage 2 tower replacements:** This involves a risk register, consideration of the likelihood and consequence of the risk eventuating, and a more detailed risk allowance estimate which is built bottom-up from estimates for each risk

Our updated approach to estimating risk allowances is underpinned by three key principles, which ensure that only the efficient costs of completing each project are included in cost estimates:

- **Customers should not pay for risk that is reasonably within AusNet's control**: As an experienced network operator, we recognise that AusNet is best placed to manage many of the risks that face a project. We also recognise that we are compensated for these risks through the regulated return. Therefore, we are only seeking to include allowances for probability-weighted risk values for risks that are not within AusNet's control
- **Customers should only pay for the risk that remains after prudent mitigations**: Even for risks that are largely outside of AusNet's control, we recognise that there are actions AusNet can take to mitigate risks, for example through joint planning, planning and delivery controls, and contractual mechanisms. Therefore, we are only seeking to include allowances for residual risk after mitigations are in place, recognising that applying prudent mitigations is part of our role as an NSP
- **Customers should not pay for any double-counted costs**: A cost that is included in the detailed buildup of direct costs should not also be included in the risk allowance. Therefore, we have only costed risks beyond what is included in the detailed buildups of direct costs

Further detail on our updated approach to estimating risk allowances is shown below.

Figure 3-2: Updated risk estimation approach



The Revised Proposal approach is not materially different from what was done to underpin the Initial Proposal, which also leveraged a Monte Carlo analysis to estimate a probability-weighted measure of risk. However, it is much more detailed, involving SMEs across Project Development, Delivery, and Risk teams to identify project-specific risks, and create tailored estimates for each risk rather than a "rule-of-thumb" or combined risk approach. Such detailed assessments are typically reserved for later stages in project development, but have been accelerated to support the AER's review of capital expenditure in our Revised Proposal and provide customers with the confidence that our proposed costs are reasonable.

However, there remain some differences between the risk assessments that have been conducted for in-flight and in-development projects, which are detailed below in.Table 3-3.

Table 3-3: Differences in risk assessments for in-flight and in-development projects

	Background	In-flight project approach	In-development project approach
Risk ownership	For all projects, each risk has been assigned to a relevant owner – typically AusNet or the Construction Delivery Partner.	For in-flight projects, risks that have been assigned to delivery partners are not included in the estimates of risk allowances, as we have a clearer idea of the contractual protections that will likely be in place to protect AusNet and therefore Victorian consumers from bearing these costs. We can be more certain of these arrangements as contracts are closer to being executed for in-flight projects, or in some cases have already been executed. Therefore, to ensure these risks are accounted for exactly once in our cost estimates, we **exclude** them from our risk allowances. This is consistent with the principle that customers should not pay forrisks that AusNet can control through commercial mechanisms.	However, for in-development projects, contractual arrangements are still uncertain. As a result, risks that are assigned to the delivery partners in these early-stage risk registers have not yet been costed into the assumed contract costs in the detailed cost buildups. Therefore, to ensure these risks are accounted for exactly once in our cost estimates, we **include** them in our risk allowances. This is consistent with the principle that customers should not pay for risks that AusNet can control through commercial mechanisms.
Risk framework	AusNet's Risk team are in the process of updating the business' risk frameworks. This reflects continuous efforts to improve risk management, as would be expected from a best practice network business. The updating of these frameworks has led to differences for inflight vs. in-development projects.	Risks for inflight projects have been assessed based on an older framework, reflecting the methodology that was in place at the time that ownership of the project was passed to the Delivery team. Each risk register contains a tab outlining the risk framework used, to assist the AER in interpreting risk assessments.	Risks for in-development projects have been assessed based on a newer framework, reflecting the methodology that is currently in development. Each risk register contains a tab outlining the risk framework used, to assist the AER in interpreting risk assessments. We confirm that the same fundamental approach has been followed for all risk registers, and that the change in frameworks has not led to materially different risk allowances.
Format and language	In general, there may be differences in the 'look and feel' of risk registers for in-flight vs. in-development projects. This primarily reflects the fact that on-site conditions and contractual arrangements are much more certain for in-flight projects.	Risk assessments for in-flight projects have been led by the Delivery team and incorporate information about on-site conditions and contractual arrangements that can only be known once the project begins delivery. Despite this, we confirm that the same fundamental approach has been followed for all risk registers. To ensure consistency across the portfolio, a sample of risk registers produced by Delivery were reviewed by the Project Development, Regulation, and Risk teams.	Risk assessments for in-development projects have been led by the Project Development team, based on information that is more high-level, reflecting the status of the project. Despite this, we confirm that the same fundamental approach has been followed for all risk registers. To ensure consistency across the portfolio, a sample of risk registers produced by Project Development were reviewed by the Delivery, Regulation, and Risk teams.

Following this updated approach, we are submitting 9 detailed risk registers which explain how risk allowances have been estimated for our Major Station Projects and for the replacement of towers in Portland:

1. SHTS Transformer and CB Replacement
2. RCTS Transformer & Switchgear Replacement
3. KTS 500/220kV Transformer Replacement
4. SMTS 330/220kV Transformer Replacement
5. NPSD 220kV GIS
6. ROTS 500 kV GIL Replacement
7. BATS B2 Transformer Replacement
8. TTS B4 Transformer Replacement
9. Portland tower replacement Stg 2

3.3.4.2.3. Addressing the AER's concerns

Our updated approach addresses the concerns raised by the AER in the Draft Decision. In the tables below, text included on the LHS is taken from pages 17 and 18 of Attachment 2 of the Draft Decision.

Table 3-4: Response to AER's concerns

AER'S CONCERNS WITH PREVIOUS APPROACH	AUSNET RESPONSE
Consistent with our determination for AusNet distribution and other recent decisions, as a general principle, we only accept risk allowances in limited circumstances that are specific to a particular project or program.	• We have accepted the removal of "flat rate" risk allowances, and are not seeking to include risk allowances in the unit rates used for Asset Replacement and Compliance & Resilience programs. The exception to this is that we are continuing to seek risk allowances for Portland tower replacement Stage 2, as despite the use of unit rates for estimation, the work has been defined as a specific project and a project-specific risk register has been produced • We have also reviewed risk allowances that have previously been accepted by the AER in developing our updated approach, primarily the 2020 Project Energy Connect Contingent Project Application. This is further explained in Table 3-5.
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	• Consistent with the principle that customers should not pay for any double-counted costs, our risk allowances exclude any costs that are already included elsewhere in the direct cost estimate. • For example, where an inclement weather provision has been included in the contract price, any inclement weather costs included in risk allowances refer only to inclement weather than eventuates beyond what is already provided for in the contract
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.	• As part of this Revised Proposal, we have provided risk registers for all projects where risk allowances are included in capex forecasts
As an experienced network transmission provider, project delivery risks … are best managed by AusNet rather than customers.	• We agree that AusNet, as an experienced transmission business, should be responsible for managing the risks that are within the business' control. However, there are some risks that are outside of our control, and some risks that can only be partially controlled • As stated in Section 3.3.4.2.2, we have developed risk registers and risk allowances based on the principle that customers should only pay for the risk that remains after prudent mitigations. This ensures that AusNet wears the cost impacts of risk that should be prudently managed by AusNet. This can be seen in risk registers as only residual risk has been costed into risk allowances • Furthermore, for some risks that we deem to be mainly in AusNet's control, we have included them on risk registers but not included them in risk allowances – these risks are marked with a sentence to the effect of "Included for completeness, but not costed for TRR purposes"

Our updated approach also fulfils the requirements set out by the AER in the Draft Decision, as shown in table 3-5.

Table 3-5: Response to AER's requirements

AER'S REQUIREMENTS FOR RISK ALLOWANCES	AUSNET RESPONSE
When calculating forecast project risk, we expect that networks identify contingent risks that are specific to a project.	• We have accepted the removal of "flat rate" risk allowances, and are not seeking to include risk allowances in the unit rates used for Asset Replacement and Compliance & Resilience programs. The exception to this is that we are continuing to seek risk allowances for Portland tower replacement Stage 2, as despite the use of unit rates for estimation, the work has been defined as a specific project and a project-specific risk register has been produced • As well, risk registers have been developed considering the specific characteristics of each project. In particular, in-flight project risk registers incorporate knowledge of on-the-ground conditions which can only be known once projects begin
The cost this risk would incur should then be weighted by the probability of it occurring.	• We have continued to use a probabilistic approach, namely Monte Carlo analysis, to estimate risk allowances for major station projects. • We have shifted from a benchmark approach to a probabilistic approach, namely Monte Carlo analysis, to estimate risk allowances for the Portland tower replacement Stage 2 • We have also reviewed the probabilistic approaches that have previously been accepted by the AER in developing our updated approach, primarily the 2020 Project Energy Connect Contingent Project Application (PEC CPA). We consider that the probability and consequence inputs shown on our risk registers offer the same transparency as the PEC CPA, while our Monte Carlo analysis provides a more robust probabilistic approach that better reflects likely outcomes. This is because it considers the cumulative basket of risks when estimating risk allowances, by running scenarios where some risks eventuate and others do not. Conversely, the PEC CPA approach appears to consider each risk individually, which is less reflective of genuine project outcomes. • However, we recognise that it is more challenging to interpret the results of the Monte Carlo analysis, as it is a more complex technique. We have therefore included an approximate PERT calculation of risk for each line item on the risk registers, to assist the AER in understanding the relative contribution of each risk to the P50 risk allowance. The PERT values have been quantified using PERT distributions based on minimum, most likely and maximum impact estimates for each risk.
We expect the risk register to:	
Identify all material risks and assign clear ownership	• This is addressed in steps 1 & 2 of the updated approach
Quantify likelihood and consequences (including cost and schedule impacts)	• This is addressed in steps 3 & 5 of the updated approach • Cost and schedule impacts relating to each risk are described in risk registers
Provide estimates of impacts under optimistic, most likely and pessimistic scenarios to support probabilistic analysis	• This is addressed in step 6 of the updated approach • The values shown on risk registers have formed the inputs for the Monte Carlo analysis. • As mentioned above, we have also included an approximate PERT calculation of risk for each line item on the risk registers, to assist the AER in understanding the relative contribution of each risk to the P50 risk allowance.
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	• This is addressed in steps 2 & 4 of the updated approach • Furthermore, some risks have been excluded from the estimate are marked with a sentence to the effect of "Included for completeness, but not costed for TRR purposes"

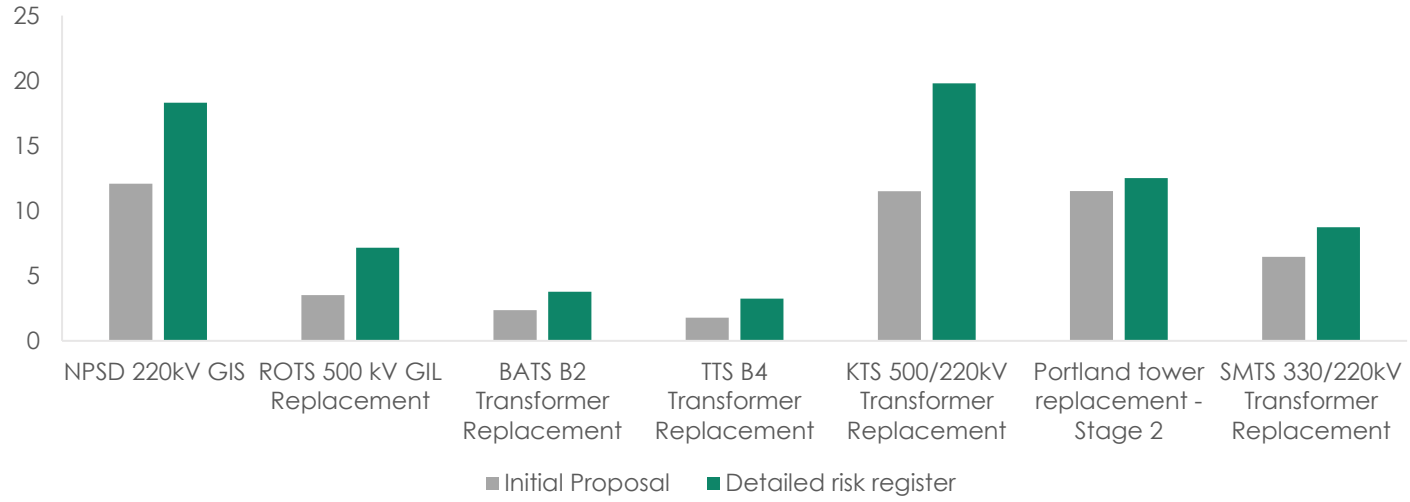
AER'S REQUIREMENTS FOR RISK ALLOWANCES	AUSNET RESPONSE
Demonstrate how risks are reflected in cost and schedule outcomes and actively managed over time.	• The way risks are reflected in cost and schedule outcomes is addressed in steps 3, 5 & 6 of the updated approach. For risks that affect schedule outcomes, these impacts have been converted to dollar impacts to facilitate inclusion in risk allowance estimation • Our approaches to managing risk are shown through step 4 which details controls and mitigations. For in-flight projects, the steps of identifying mitigations, assessing their effectiveness, and re-assessing project risk are an iterative process throughout the project life cycle. This means we can allow for emerging risks or include additional mitigations as the project progresses. • In addition, Project Change Request documentation that has been provided for some inflight projects includes information on how cost and schedule outcomes are managed

3.3.4.2.4. Reasonableness of overall costs

For almost all projects where an updated risk allowance was estimated based on a detailed risk register, updated risk allowances were higher than those included in the Initial Proposal. This suggests that **our Initial Proposal approach produced reasonable and in fact conservative estimates of P(50) risks**, despite the calculation being less detailed.

This is shown in the graph below. Some projects are not shown where a like-for-like comparison is not available (e.g. LYPS/HWTS project which has been split in Revised Proposal).

Figure 3-3: Risk allowances justified by detailed risk registers vs. included in Initial Proposal ($M, real 2024-25, before escalation, excluding overheads)



Although more detailed analyses produce higher risk allowances, in the Revised Proposal, we do not propose to include the higher updated risk allowances for every project.

- We have only proposed to include risk allowances in revised capex forecasts where they are material.
- We have chosen not to propose risk allowances for some projects where there have been other significant changes, such as the MLTS Reactor project which now includes a 500kV reactor (discussed in Section 3.5.4.15)
- In addition, we have chosen to retain the Initial Proposal risk allowances for a number of projects.

This approach has been taken to simplify the assessment of projects and reduce the number of issues under consideration between the Revised Proposal and Final Decision.

The table below provides an overview of the projects for which we are accepting the removal of risk allowances, retaining the Initial Proposal risk allowances, and updating risk allowances to reflect the latest risk registers and analysis. For ease of interpretation, the risk allowances that have ended up in cost estimates in the Technical Project Documents, and that have been included in the Capital Expenditure Model, are highlighted in green.

Table 3-6: Risk allowance by project in Revised Proposal ($000s, real 2024-25, before escalation, excluding overheads)

Project name	Initial Proposal risk allowance	Detailed risk register	Revised Proposal position
MLTS CB Replacement	333	N/A	**We accept the Draft Decision** to remove risk allowances for these projects, as they are relatively small.
SYTS 500kV GIS Replacement	1,480	N/A	
TTS Circuit Breaker Replacement	1,885	3,184	
MWTS 66kV Circuit Breaker Replacement	1,175	2,225	
LYPS Circuit Breaker Replacement Stage 2	4,308 (for combined LYPS/HWTS project)	3,239	**We accept the Draft Decision** to remove risk allowances for these projects. However, capex forecasts have been updated to reflect changes to scope.
MLTS Reactor Replacement	1,017	N/A	
SMTS 500kV GIS and F2 Transformer Replacement	16,772	N/A	**We accept the capex amount approved in the Draft Decision for the 2027-32 period**. However, we have made changes to the profile of the project to support deliverability. This is discussed in Section 3.10.
NPSD 220kV GIS	12,076	18,302	We developed detailed risk registers and produced an updated estimate of the risk allowance. This additional work revealed that risk allowance amounts are material. However, we have chosen to **retain the Initial Proposal risk amounts** to limit the number of issues under consideration.
ROTS 500 kV GIL Replacement	3,516	7,159	
BATS B2 Transformer Replacement	2,357	3,781	
TTS B4 Transformer Replacement	1,788	3,251	
KTS 500/220kV Transformer Replacement	11,499	19,790	We have **updated our capex forecasts to reflect the detailed risk register.**
Portland tower replacement - Stage 2	11,512	12,504	
SHTS Transformer and CB Replacement	N/A	5,116	
RCTS Transformer & Switchgear Replacement	N/A	4,749	
SMTS 330/220kV Transformer Replacement	6,462	8,734	

Source: AusNet

Please note that some Technical Project Documents may refer to estimates that use the higher updated risk allowance amounts for economic analysis, even if we have included a lower amount in the capex forecasts as described above. To support the AER in reconciling numbers across our proposal, we have provided Appendix 3G which provides the above analysis in Excel form, similar to the response previously provided to Information Request #022.

3.4. Incorporating customer preferences and feedback

AusNet undertook an extensive program of stakeholder engagement prior to the submission of the Initial Proposal. This included substantial time spent understanding stakeholders' preferences, including as they relate to price and reliability trade-offs, and how we could align our capital expenditure proposal with these preferences. Our forecast capital expenditure has remained stable between the Initial Proposal and Revised Proposal and therefore continues to reflect the decisions made in consultation with stakeholders prior to the Initial Proposal.

Following the submission of the Initial Proposal in October 2025, AusNet conducted a further 3 meetings with the Transmission Stakeholder Advisory Panel (TSAP) which discussed recent industry developments relevant to the Transmission Revenue Reset, progress on actions that were committed to in 2025, the AER's Draft Decision, and our plans for the Revised Proposal. This is explained in further detail in the Chapter 1, with meeting minutes provided in the Engagement Documents. In the table below, we summarise how engagement has influenced the Revised Proposal, including any deviations from the engagement-supported decisions that informed the Initial Proposal. As shown below, all material changes made in the Revised Proposal have been discussed with the TSAP.

Table 3-7: Engagement on Revised Proposal

Topic	Initial Proposal engagement	Revised Proposal engagement
Safety and resilience are important but avoid gold-plating	**Feedback received:** Our risk-based proposal for tower resilience was discussed in detail with the TSAP on 5 June 2025 and during the Resilience Deep Dive on 20 May 2025. In both forums, the TSAP expressed strong support for this resilience investment, acknowledging AusNet's considered and proportionate approach. **How we responded:** We presented multiple options and considerations to the TSAP and the expenditure included in the Initial Proposal reflected the option supported by the TSAP.	**Feedback received:** The Draft Decision for the tower resilience program and AusNet's proposed response was discussed with the TSAP on 6 August 2026. Panel members expressed that the Draft Decision may reduce resilience service levels and increase the risk faced by customers. They highlighted the potential for increases wholesale prices, load shedding risk, and reduced operational flexibility if resilience works are deferred. **How we have responded:** Our decision not to accept the reductions in the Draft Decision is supported by the TSAP's feedback. Our Revised Proposal is not materially different from the preferred option supported by the TSAP in 2025, with the main change relating to the addition of 9 towers to address safety risks.
Deliverability and contingent projects	**Feedback received:** Extensive engagement on deliverability was undertaken prior to the Initial Proposal, including at TSAP meetings/deep dives held on 8 April, 5 June, 1 September, and 18 September. Through this process, several TSAP members commended and thanked AusNet for being the first network service provider to present the deliverability challenge in the way they did and for the analysis shared on VTP integration and workforce planning. The TSAP provided detailed feedback on the use of contingent projects to manage deliverability risks and the design of triggers. **How we responded:** In light of the stakeholder feedback received, it was agreed that select projects could be deferred and that AusNet would propose the use of contingent projects as a mechanism to manage deliverability risk within this proposal. This includes the deferral of the TGTS B2 Transformer Replacement Project and partial deferral of the fall arrest structures program, alongside the DDTS H3 330/220kV Transformer & Circuit Breaker Replacement being made a contingent project.	**Feedback received:** Delivery updates were provided to the TSAP on 24 March, 21 May, and 6 August 2026. The Draft Decision to reject the DDTS contingent project was discussed at the TSAP meeting on 6 August 2026. In this session, AusNet shared that the latest demand forecasts around DDTS were lower than those used to develop the Initial Proposal, and as a result, the project would be deferred beyond the 2027-32 period. The TSAP did not raise any concerns with the proposed approach. The TSAP continued to consider deliverability as a key topic that warrants further consideration by AusNet during the next regulatory period. **How we have responded:** The Revised Proposal does not include capex for the DDTS project in the 2027-32 period, consistent with what was discussed with the TSAP. We have also made high-level adjustments to our overall capital expenditure forecast to support deliverability and confirm that our Revised Proposal is no less deliverable that our Initial Proposal. AusNet will continue to discuss deliverability and progress on capital projects with the TSAP during the next regulatory period, when it will transition from a revenue reset-focused panel to a business-as-usual panel.
ICT expenditure (excluding programs relating to the new SOCI CIRMP Amendment rules)	**Feedback received:** Stakeholders expressed a desire for AusNet to only pursue Digital investments that brought meaningful material benefits to customers. Through detailed discussion of digital initiatives, costs and benefits, the TSAP questioned what was driving operating costs, and provided feedback on the context and considerations AusNet should provide in the business cases. The TSAP supported the importance of investment in cyber security in particular. **How we responded:** We quantified the benefits of all digital investments to justify their costs and removed initiatives in areas where stakeholders had concerns on the ratio of benefits to cost – particularly in our Asset Management & Field Enablement program. We updated our business cases to better illustrate the benefits that customers will	**Feedback received:** Our response to the Draft Decision for the existing digital programs was discussed with the TSAP on 6 August 2026. Discussion focused on the timing of proposed cyber investments, including how achievement of the target state would be demonstrated. A member questioned whether some investments should be delivered sooner given current cyber security risks. AusNet agreed on the importance of the investments but noted delivery must occur through established planning and regulatory processes, with priorities continually reviewed. **How we have responded:** Our Revised Proposal reflects what was presented to the TSAP on 6 August. We have added additional justification of benefits to customers in response to the Draft Decision, which is also in line with the TSAP's feedback from 2025.

Topic	Initial Proposal engagement	Revised Proposal engagement
	receive from digital investments. We have continued to prioritise investment in cyber security.	
Risk allowances	**Feedback received:** AusNet presented its approach to cost estimation for capex projects to stakeholders for feedback. This included an overview of its approach to estimating risk allowances for projects, involving Monte Carlo modelling analysis for project cost estimates applied in the Major Stations programs and a fixed percentage (consistent with historical experience) for unit rates used in Asset Replacement and Compliance programs. Stakeholders did not express any concerns in relation to cost estimation methodology. **How we responded:** The Initial Proposal applied risk allowances across project cost estimates and unit rates, consistent with the approach presented to TSAP and the methodology applied in previous TRRs.	**Feedback received:** On 21 May, AusNet discussed project risk allowances in the context of the Middle East conflict and global geopolitical instability more broadly. AusNet contended that risk allowances are an important way of accounting for such uncertain events within cost estimates. On 6 August, AusNet discussed the Draft Decision on risk allowances in detail with the TSAP, and outlined our proposed response. This included a deep dive on our approach including: risk registers to be provided for each projects where a risk allowance is sought (consistent with the expectation set out in the Draft Decision), accepting the Draft Decision to remove risk allowances for unit rates (with the exception of towers), and a more detailed explanation of the risk allowances methodology to provide a further opportunity for feedback. Members posed questions on our approach including whether risk assessments are undertaken individually, whether the AER recommended the use of Monte Carlo analysis, whether historical project information is used for risk assumptions, and whether governance arrangements exist for drawing down contingent funding. AusNet responded to each of these questions (details provided in the Engagement Documents in this submission) and the TSAP did not pose further questions or concerns regarding approach. **How we have responded:** Our Revised Proposal reflects what was presented to the TSAP on 6 August.
SOCI CIRMP Amendment Rules requirements	N/A – this program was not included in the Initial Proposal, as rules were not put into force until June 2026	**Feedback received:** An update on the Physical Security program and upcoming legislative reforms relating to SOCI were discussed with the TSAP on 21 May 2026. Members asked questions on drone-based threats, the types of assets included in the expenditure, and whether costs proposed by AusNet were in line with other TNSPs. Following the release of the CIRMP Amendment Rules in June 2026, the full suite of related expenditure that would be included in the Revised Proposal was discussed with the TSAP on 6 August. Members engaged in detailed discussion on the scope and timing of these investments. Members raised concerns that systems that provide outage and service information to customers might be disrupted if IT and OT systems were isolated. AusNet confirmed that maintaining critical customer communications would remain an important consideration for business continuity planning. No other material concerns were raised. TSAP members also raised concerns about whether proposed SOCI investments would provide sufficient resilience against future

Topic	Initial Proposal engagement	Revised Proposal engagement
		threats. AusNet confirmed that the program was designed in response to increasing cyber security expectations from the Australian Signals Directorate (ASD), Home Affairs and other agencies, recognising that threat environments continue to evolve and require continual improvement. **How we have responded:** Our Revised Proposal reflects what was presented to the TSAP on 6 August.
Keilor A Transformer Replacement Project	**Feedback received:** The project at Keilor Terminal Station (KTS) was discussed numerous times with the TSAP in 2025, including at a high level on 13 February, in detail on 5 June, and in the context of deliverability on 1 and 18 September. The TSAP generally supported the preferred option for this project subject to the AER's detailed analysis of prudency & efficiency, and supported the fact that it should not be deferred to support deliverability given the critical risks it addresses. **How we responded:** Our Initial Proposal reflected the preferred option presented to the TSAP.	**Feedback received:** The project at KTS was discussed with the TSAP on 24 March in the context of the extreme weather and maximum demand events that occurred in January 2026 and increasing data centre demand in the area. On 6 August 2026, KTS was discussed again. AusNet shared information on higher demand forecasts around KTS provided by VicGrid, and the recent A2 transformer failure that occurred at KTS which led to the existing spare transformer being put into service. AusNet also provided an update on market tested costs for the KTS project, and additional OPGW scope which has been added. Members asked whether the recent transformer failure strengthened the case for the KTS major station project, which AusNet confirmed. **How we have responded:** Our Revised Proposal reflects what was presented to the TSAP on 6 August, including an update of the original KTS project cost and inclusion of the additional ground wire scope.
MLTS Reactor Replacement	**Feedback received:** The project to replace the 220kV and 500kV reactors at Moorabool Terminal Station (MLTS) was discussed multiple times with the TSAP in 2025, including on 5 June, and in the context of deliverability on 1 and 18 September. The TSAP expressed that given significant deliverability challenges, the 500kV reactor should only be included in our proposal if the need for the asset is confirmed by the planner (AEMO at the time, now VicGrid). **How we responded:** Our Initial Proposal excluded the 500kV reactor, consistent with the decision made in consultation with the TSAP.	**Feedback received:** On 6 August 2026, we reminded the TSAP that the MLTS 500kV reactor may be included in our Revised Proposal if confirmation is received from VicGrid about the ongoing need for the asset. The TSAP did not express any concerns with this approach. **How we have responded:** We have now received confirmation from VicGrid that the 500kV reactor at MLTS will continue to be required. We have therefore included this scope in the MLTS Reactor Replacement project.

3.5. Major station projects

3.5.1. Our Initial Proposal

Our Initial Proposal included major stations replacement capex for the next regulatory period of $1,161.8 million (real 2026-27). The 16 major station projects in the Initial Proposal included four in-flight projects that are already in construction or detailed design, with the remainder of projects in development.

A substantial portion of this investment is allocated to the replacement of 500kV transformers, gas insulated lines and switchgear at the Keilor, Moorabool, South Morang, Hazelwood, Rowville and Sydenham terminal stations, as well as at Loy Yang Power Station.

The assets proposed for replacement are on critical parts of the network, and if left unaddressed, these assets pose unacceptable levels of risk on key supply points to the Victorian network.

3.5.2. Overview of the Draft Decision

The AER's Draft Decision reflected an alternative forecast of $856.6 million (real 2026-27) for the major station projects, which is 26% less than our Initial Proposal.

The majority of the major stations program was found to be 'reasonable' by the AER. This reflects the outcome of the AER's review of AusNet's forecasting methods, scope, need and timing of proposed projects. As a result, there was no timing deferrals or revisions to the project scope applied for 9 projects (representing 70% of proposed major stations capex).

The Draft Decision applied deferrals in timing to 5 projects, due to issues raised with assumptions relating the discount rate, replacement costs, calculation of the unserved energy and probability of failure. Details on the specific reasons and issues raised for each project are set out in the remainder of this section.[7]

The AER did not accept the proposed change in project scope for two in-flight projects due to insufficient justification provided at the time of AusNet's Initial Proposal.

The AER's Draft Decision concludes AusNet's cost estimation methodology is reasonable, however revisions to project cost estimates have been applied across the major stations program to reflect the removal of risk allowances and contractor incentives. See Section 3.3 for further detail in relation to the AER's Draft Decision on the removal of risk allowances and contractor incentives.

[7] The AER's Draft Decision deferred the TTS B4 transformer replacement project by one year to 2032, however this had no impact on the proposed 2027-32 capex.

Table 3-8: Major stations program, AER Draft Decision compared to AusNet's Initial Proposal, real 2026-27 direct unescalated costs[8]

Program	AusNet Proposal ($m)	AER Draft Decision ($m)	Difference ($m)	Difference (%)	Reason for difference
SMTS 500kV GIS and F2 Transformer Replacement	264.3	238.9	-25.3	-10%	Removal of risk allowances and contractor incentives
KTS 500/220kV Transformer Replacement	226.2	207	-19.2	-9%	Removal of risk allowances and contractor incentives
SMTS 330/220kV Transformer Replacement	102.1	95.2	-6.9	-7%	Removal of risk allowances and contractor incentives
ROTS 500 kV GIL Replacement	60.9	55.2	-5.8	-10%	Removal of risk allowances and contractor incentives
BATS B2 Transformer Replacement	45	40.1	-4.9	-11%	Removal of risk allowances and contractor incentives
SYTS 500kV GIS Replacement	34.1	31.9	-2.2	-6%	Removal of risk allowances and contractor incentives
MWTS 66kV Circuit Breaker Replacement	21.9	19.5	-2.4	-11%	Removal of risk allowances and contractor incentives
TTS B4 Transformer Replacement	21.8	19.5	-2.3	-11%	Removal of risk allowances and contractor incentives
MLTS CB Replacement	12.3	11.1	-1.2	-10%	Removal of risk allowances and contractor incentives
NPSD 220kV GIS Replacement	152	61.2	-90.8	-60%	Deferred by two years, Removal of risk allowances and contractor incentives
LYPS and HWTS 500kV Circuit Breaker Replacement Stage 2	65.6	21.5	-44.1	-67%	Deferred by two years, Removal of risk allowances and contractor incentives
RCTS Transformer & Switchgear Replacement	35.1	21.7	-13.4	-38%	Insufficient justification of additional scope, Removal of risk allowances and contractor incentives
TTS Circuit Breaker Replacement	30.8	0	-30.8	-100%	Deferred beyond next period
MLTS Reactor Replacement	18.5	12	-6.6	-36%	Deferred by two years, Removal of risk allowances and contractor incentives
SHTS Transformer and CB Replacement	18.4	0	-18.4	-100%	Insufficient justification of additional scope
WOTS Spare Transformer Procurement	12.1	0	-12.1	-100%	Deferred beyond next period
Total	**1121.1**	**834.7**	**-286.5**	**25.6%**	

Source: AusNet

3.5.3. Response to the Draft Decision

Since submitting our Initial Proposal we have undertaken further project development, updated cost estimates, reviewed latest demand forecasts, reassessed project timing and provided additional supporting evidence. As a result, this Revised Proposal contains a more up to date and robust major stations forecast that addresses the issues identified by the AER while continuing to manage material risks to network reliability, safety and security.

The table below sets out a summary of our responses to the findings set out in the AER's Draft Decision.

Table 3-9: AER's Draft Decision findings and AusNet's revised proposal responses

[8] Costs in this table are presented as excluding overheads for consistency with the layout in the AER's Draft Decision

Summary of AER and EMCa findings	Our response
The majority of the major stations program was found to be 'reasonable' by the AER. There are no timing deferrals or revisions to the project scope applied for the following 9 projects (representing 70% of proposed major stations capex): • SMTS 500kV GIS and F2 Transformer Replacement • KTS 500/220kV Transformer Replacement • SMTS 330/220kV Transformer Replacement • ROTS 500 kV GIL Replacement • BATS B2 Transformer Replacement • SYTS 500kV GIS Replacement • MWTS 66kV Circuit Breaker Replacement • TTS B4 Transformer Replacement • MLTS CB Replacement	AusNet accepts the AER's Draft Decision for these projects. In relation to the KTS project, an update of the proposed cost and scope of the project has been reflected in our revised proposal, due to new updated information.
The AER has deferred 5 projects, resulting in a lower forecast capex. This includes: • TTS Circuit Breaker Replacement deferred beyond next period • LYPS and HWTS 500kV Circuit Breaker Replacement Stage 2 deferred two years • NPSD 220kV GIS Replacement deferred two years • WOTS Spare Transformer Procurement deferred beyond next period • MLTS Reactor Replacement deferred by two years This reflects issues with assumptions in the economic modelling, such as the discount rate, replacement costs, calculation of the unserved energy and probability of failure.	AusNet accepts the deferral of WOTS and the HWTS portion of the LYPS and HWTS project. In relation to the LYPS and HWTS project, this project has now been split into two separate projects. The HWTS portion is proposed to be deferred beyond the upcoming regulatory period, and the LYPS portion is still proposed for replacement in the upcoming period. AusNet accepts the deferral of WOTS because the event triggering the identified need for this project in the upcoming period is no longer applicable. For the remaining projects, AusNet has revised the economic modelling to address the concerns raised by AER and reassess the impact on the project's timing. As part of this process, AusNet has also updated the economic modelling to reflect new information such as the latest 2026 demand forecasts. In relation to the NPSD and MLTS reactor projects, AusNet has been actively engaging AEMO and VicGrid to seek direction for these projects. For the MLTS reactor project, the project scope has been updated to reflect VicGrid's confirmation of the ongoing need for the 500kV shunt reactor service. The Initial Proposal reflected only the forecast capex of the 220kV shunt reactor and noted that the replacement of the 220kV and 500kV shunt reactors would be subject to ongoing joint planning with AEMO and VicGrid to confirm the enduring network need and the appropriate investment approach, with the outcomes to be reflected in the Revised Proposal.
The AER did not accept the proposed change in project scope for the in-flight projects SHTS and RCTS due to insufficient justification provided at the time of AusNet's Initial Proposal. The AER notes these projects are currently subject to internal project change request processes (as advised by AusNet), as well as the expectation that further documentation would be available and submitted as part of AusNet's revised proposal.	These two projects were in-flight at the time of lodgement of our Proposal, and the proposed changes in cost and scope were not yet finalised because the projects had not yet gone to market for construction costs. AusNet's Revised Proposal now reflects the outcome of the project change request to finalise the changes in scope and cost for these projects. Supporting documentation to justify the prudency and efficiency of the additional scope has been provided as part of the revised proposal submission.
Concerns regarding the inclusion and justification of project risk allowances and contractor incentives.	AusNet has accepted the removal of contractor incentives. We maintain that risk allowances are required to produce unbiased P50 cost estimates.

Summary of AER and EMCa findings	Our response
	Consistent with our cost estimating methodology, revised project risk allowances have been developed using project-specific risk assessments and probabilistic analysis, consistent with the expectations set out by the AER. See Section 3.3.4.2. for details of our approach.
The AER raised concerns about the sensitivity of economic timing to demand forecasts for the KTS and TTS B4 projects.	We have reassessed project timing using the updated 2026 demand forecasts. The updated analysis confirms that all but two Major Station projects proposed under the Initial Proposal remain economically justified within the forthcoming regulatory period, with the exception of the DDTS H3 330/220kV transformer and circuit breaker replacement project, and the WOTS spare transformer procurement project.

3.5.3.1. AusNet has reflected the 2026 demand forecasts to address AER feedback

Since submitting its Initial Proposal, AusNet has received updated 2026 connection point demand forecasts from VicGrid. These forecasts are consistent with the 2026 Victorian Annual Planning Report (VAPR). These forecasts incorporate the latest information on expected electricity demand across Victoria and provide a more current assessment of loading conditions at key terminal stations. The updated demand forecasts have been applied across all major station projects where the economic modelling has been revised for the Revised Proposal, including projects for which the AER did not accept the proposed timing or scope in its Draft Decision. This ensures that decisions regarding project need, timing and benefits are based on the latest available forecasts provided by VicGrid.

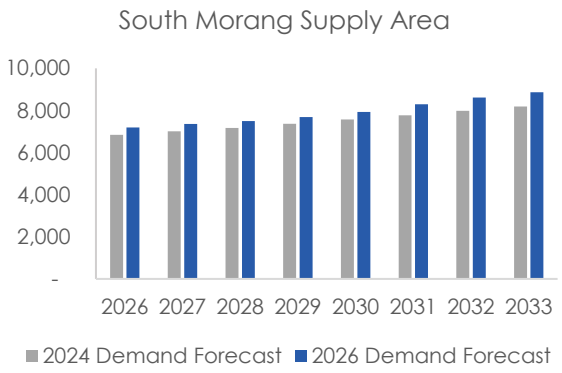
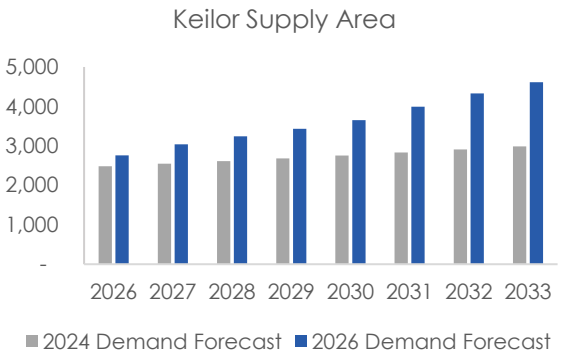
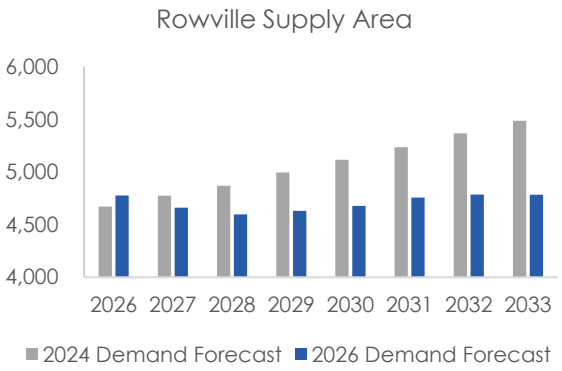
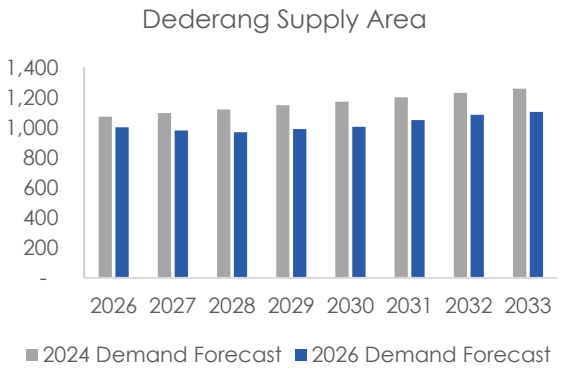
Key changes reflected in the updated 2026 demand forecasts from VicGrid include:

- **Demand growth is more concentrated in Melbourne's north and west.** The strongest forecast demand growth is occurring in Melbourne's northern and western corridors rather than being evenly distributed across Victoria. This outcome is driven by large customer demand, particularly data centres, emerging as a major demand driver. Key parts of the network impacted by higher demand growth include Keilor (east and west), South Morang, and Thomastown. This outcome is particularly relevant in the context of the major station programs planned for these critical parts of the network.
- **Most stations are not forecast to experience a material reduction in peak demand, and minimum demand continues to decline.** The forecast does not identify any connection point with a substantial decline (>2% per annum equivalent) in maximum demand. In relation to minimum demand, this is driven by continued uptake of rooftop solar, with approximately 70% of transmission connection points (48 connection points) forecast to experience substantial reductions in minimum demand during summer and shoulder seasons. This means most of the stations that were economic to undertake in our Initial Proposal remain economic to undertake. For Moorabool Terminal Station, this supports the economic justification for the proposed replacement of the 220kV and 500kV shunt reactors, which are important assets for managing the network in the context of declining minimum demand across the network.
- **Newport Power Station D remains strategically important to support growth in the western Melbourne load pocket.** The forecast growth projections and AEMO's operational advice suggest that the ongoing availability of Newport Power Station D will remain an important consideration for supporting reliability and system security across the western Melbourne network. This supports the importance of Newport and programs to address identified needs at this station including the proposed 220kV GIS replacement.

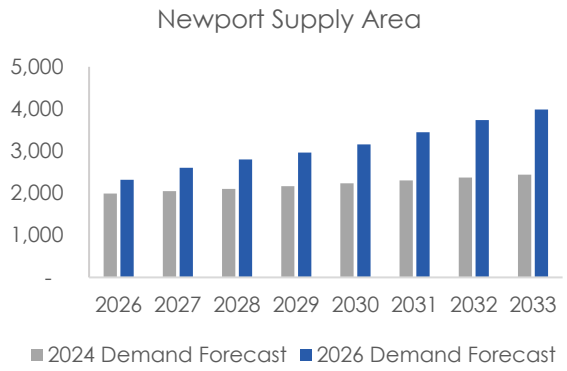
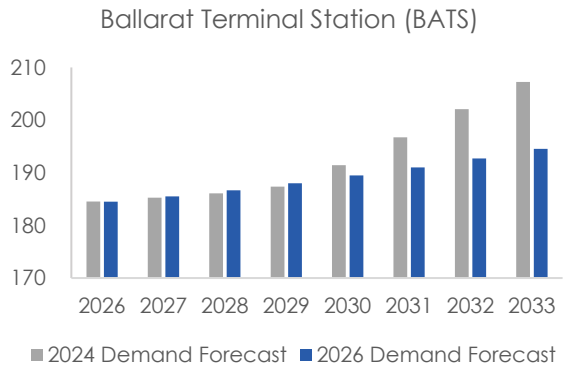
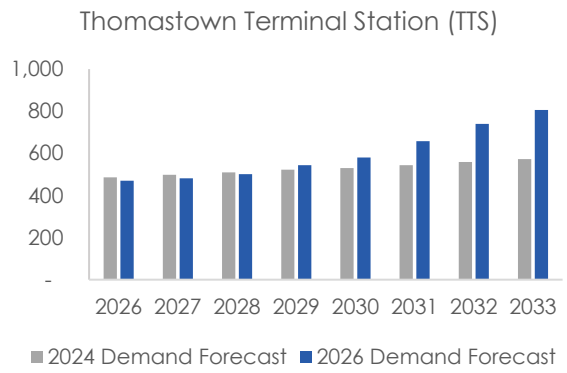
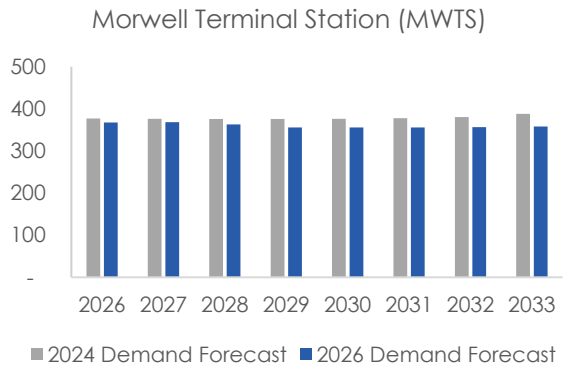
Higher forecast demand increases the consequence of asset failure and the associated risk exposure, resulting in earlier economic replacement timing for some assets. AusNet has, therefore, re-run the relevant economic assessments using the latest demand forecasts to ensure project delivery timing is consistent with economic timing.

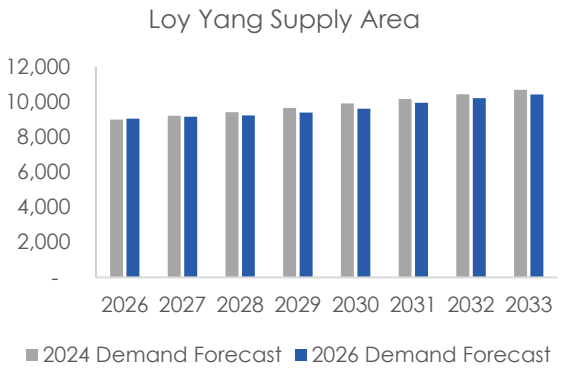
This Revised Proposal therefore reflects the most up-to-date demand information available from VicGrid and provides the AER with an updated assessment of project benefits and timing that addresses concerns raised during the Draft Decision process.

Table 3-10: Comparison of latest 2026 demand forecasts compared to the 2024 demand forecasts used in the Initial Proposal

Station	Latest 2026 demand forecasts compared to 2024 demand forecasts[9]	The impact on economic timing of projects
South Morang Terminal Station (SMTS)		Under the updated demand forecasts, the economic timing of projects at this station proposed in the upcoming regulatory period would be **earlier** than our initial proposal. SMTS 500kV GIS and F2 transformer replacement • Initial Proposal economic timing: 2030 • Revised Proposal economic timing: 2029 • Revised Proposal delivery timing: RY33
Keilor Terminal Station (KTS)		Under the updated demand forecasts, the economic timing of projects at this station proposed in the upcoming regulatory period would be **earlier** than our initial proposal. KTS 500/220kV transformer replacement • Initial Proposal economic timing: 2030 • Revised Proposal economic timing: 2026 • Revised Proposal delivery timing: RY32
Rowville Terminal Station (ROTS)		Under the updated demand forecasts, the economic timing of projects at this station proposed in the upcoming regulatory period would be **later** than our initial proposal but remains consistent with delivery timing. ROTS 500kV GIL replacement • Initial Proposal economic timing: 2029 • Revised Proposal economic timing: 2030 • Revised Proposal delivery timing: RY31
Dederang Terminal Station (DDTS)		Under the updated demand forecasts, the economic timing of projects at this station proposed in the upcoming regulatory period would be **later** than our initial proposal. The DDTS H3 330/220kV transformer and circuit breaker replacement • Initial Proposal economic timing: 2031 • Revised Proposal economic timing: 2036 • Revised Proposal delivery timing: project has been deferred beyond upcoming regulatory period

[9] Based on summer demand POE50 MW

Station	Latest 2026 demand forecasts compared to 2024 demand forecasts[9]	The impact on economic timing of projects
Newport Power Station D (NPSD)		Under the updated demand forecasts, the economic timing of projects at this station proposed in the upcoming regulatory period would be **earlier** than our initial proposal. NPSD 220kV GIS replacement project • Initial Proposal economic timing: 2034 • Revised Proposal economic timing: 2030 • Revised Proposal delivery timing: RY32
Ballarat Terminal Station (BATS)		Under the updated demand forecasts, the economic timing of projects at this station proposed in the upcoming regulatory period would be **later** than our initial proposal but remains consistent with delivery timing. BATS B2 transformer replacement project • Initial Proposal economic timing: 2026 • Revised Proposal economic timing: 2026 • Revised Proposal delivery timing: RY32
Thomastown Terminal Station (TTS)		Under the updated demand forecasts, the economic timing of projects at this station proposed in the upcoming regulatory period would be **earlier** than our initial proposal. TTS circuit breaker replacement • Initial Proposal economic timing: 2028 • Revised Proposal economic timing: 2026 • Revised Proposal delivery timing: RY29 TTS B4 transformer replacement project • Initial Proposal economic timing: 2031 • Revised Proposal economic timing: 2026 • Revised Proposal delivery timing: RY32
Morwell Terminal Station (MWTS)		Under the updated demand forecasts, the economic timing of projects at this station proposed in the upcoming regulatory period would be **later** than our initial proposal but remains consistent with delivery timing. MWTS 66kV circuit breaker replacement project • Initial Proposal economic timing: 2031 • Revised Proposal economic timing: 2032 • Revised Proposal delivery timing: RY33

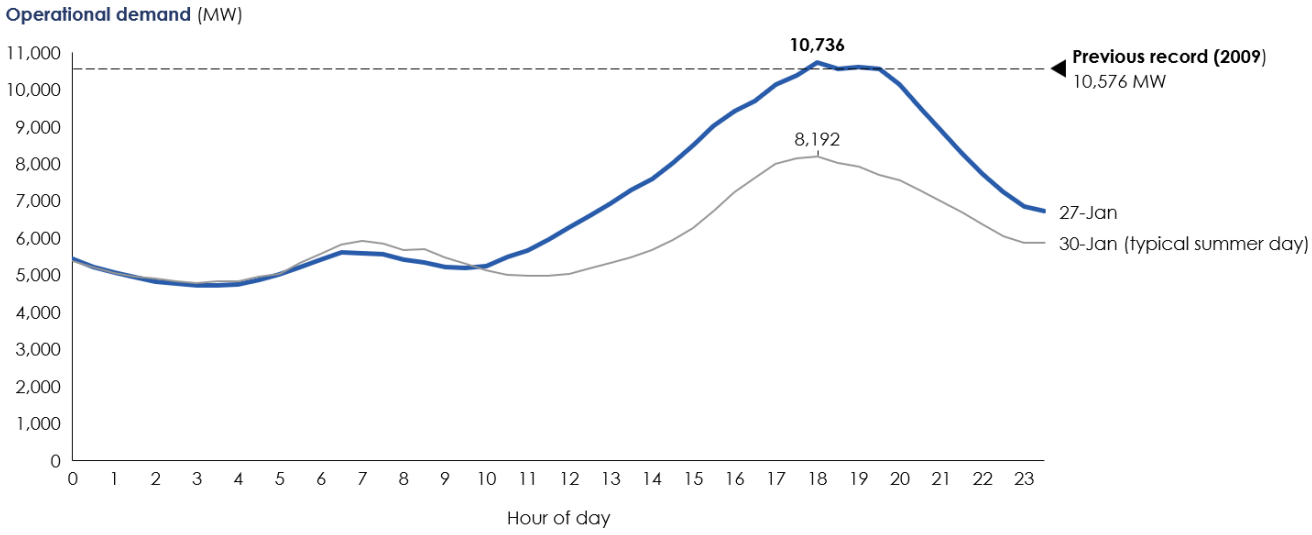
Station	Latest 2026 demand forecasts compared to 2024 demand forecasts[9]	The impact on economic timing of projects
Loy Yang Power Station (LYPS)		Under the updated demand forecasts, the economic timing of projects at this station proposed in the upcoming regulatory period would be **later** than our initial proposal. LYPS circuit breaker replacement Revised Proposal economic timing: 2029 Revised Proposal delivery timing: RY32 Note: this project was proposed as a combined project with the HWTS circuit breaker replacement in our Initial Proposal. In our revised proposal, this is no longer the case. See section 3.5.4.8 for details.

Source: AusNet

Case study #3: increasing summer and winter peak demand

Victoria is experiencing increasing summer and winter peak demand, driven by electrification and growth in data centre connections. Historically, summer demand has often been the dominant concern, however the forecast indicates strong growth in both summer and winter peaks. Victoria reached a new all-time summer record of 10,736 MW on 27 January 2026 following an extreme heat event. The electrification of households, including electric space heating replacing gas, is also contributing to rising winter peak demand. Accordingly, the network must increasingly be capable of supplying both the large air conditioning loads in summer and the evening heating loads in winter, rather than managing a single dominant seasonal peak.

Operational demand on 27 January 2026 (all time record demand in Victoria) relative to typical summer day



In this context, investments in key parts of the existing network are crucial to maintain reliability and enable power to reach Victorian load centres during summer and winter peak demand events. Increasing summer and winter peak demand reflects higher demand across stations, increasing the consequences of a10/09/2026sset failure across our network, supporting the need for the major stations program set out in our Initial Proposal.

3.5.3.2. AusNet's major stations program is crucial to address the failures experienced across AusNet's network

Major stations are critical nodes within Victoria's transmission network, performing essential functions including voltage transformation, network switching, system protection and power flow management. Failures of these assets can result in unplanned outages, loss of network redundancy, increased market impact costs, safety hazards for personnel and significant collateral damage to adjacent equipment. The consequences are particularly severe for higher-voltage assets, where failures can affect large portions of the transmission system.

As assets at major stations are reaching end of their technical lives, and show evidence of deteriorated condition, it is crucial to ensure timely replacement to maintain reliability and service standards due to the heightened risk of failure events.

Key assets at some of the most critical nodes on Victoria's 500 kV transmission backbone, including Keilor Terminal Station and South Morang Terminal Station, require replacement due to their deteriorating condition. The need for

investment at these stations is further evidenced by recent incidents, set out below. The occurrence of asset failures close to our planned replacement timing for these assets provides evidence AusNet's proposed replacement timing for assets is not too early.

- On 7 July 2026, at Keilor Terminal Station (KTS), the red phase of the A2 transformer bank failed, and the spare phase kept on site was used to restore the A2 bank to service on 7 August 2026. A failure of a 500/220 kV A-series transformer at KTS is a significant reliability event because KTS is the primary 500 kV injection point supplying western metropolitan Melbourne. The customer impacts during this time depend heavily on prevailing system conditions as KTS operates in a more vulnerable state while one transformer was out of service. This includes a reduced ability to withstand further contingency events (e.g. further failures at KTS) and greater reliance on network operational interventions. During periods of high demand, particularly in summer, customer impacts can be more material including involuntary load shedding to maintain system security. Another transformer (A4) also briefly tripped on 9 July but was restored to service the same day. The risk associated with transformer failures at this station has increased, as no spare phase of the same size is currently available. AusNet is now investigating options for a new spare phase should another transformer fail.
- In April 2026, a fault on the South Morang No. 2 station services transformer caused a fire in the fuse cubicle, resulting in damage to the H2 330/220 kV spare transformer. Following this event, contingency measures were put in place, including expedited procurement of a replacement spare.
- During routine maintenance in June 2026, a 220kV cap bank circuit breaker at Thomastown Terminal Station was found to have significantly elevated contact resistance on two phases, indicating abnormal operating conditions. Subsequent testing identified degradation of the SF6 insulating gas and wear of the circuit breaker contacts, both of which are indicators of asset deterioration. The findings suggest the asset was at increased risk of failure if left in service.
- The gas insulated line (GIL) pipework at ROTS has observed an increase in mechanical issues, gas leaks and failures on the system in recent years. Notably, in 2023, a significant SF6 gas leak released several hundred kilograms of SF6 into the atmosphere and in 2022, an electrical fault occurred on one GIL phase. Local engineering specialists commissioned by AusNet concluded that the mechanical performance was compromised, with the development of deep cracks remaining an ongoing issue. At the recommendation of third-party technical specialists, AusNet has initiated a program of welding aluminium jackets around crack locations. This temporarily reduces gas leaks and provides marginal local strength improvements, but it is understood that there's a limit to the time extension the jacketing program can offer, since cracks will continue to propagate. AusNet's Major Stations program proposes a longer term solution to the GIL at ROTS, replacing the GIL circuit to Thomastown with a 220kV underground cable and the other GIL circuit to South Morang with an above ground 500kV cable.

AusNet's major stations program has proposed investments to address the need for replacement of existing assets at these stations, alongside other stations where it is economic to replace assets (details of these investments provided in this chapter).

3.5.3.3. AusNet has continued to progress the RIT-T public consultation process for Major Stations projects

The RIT-T process provides a formal avenue for the general public to be consulted and provide feedback on major investment programs for the transmission network. Since the publication of our Initial Proposal, AusNet has continued to progress these assessments. The Thomastown Circuit Breaker Replacement project published its PSCR report in January 2026 and the KTS 500/220kV transformer replacement published its PACR report in August 2026. The status of the RIT-T documentation for other projects is consistent with our Initial Proposal.

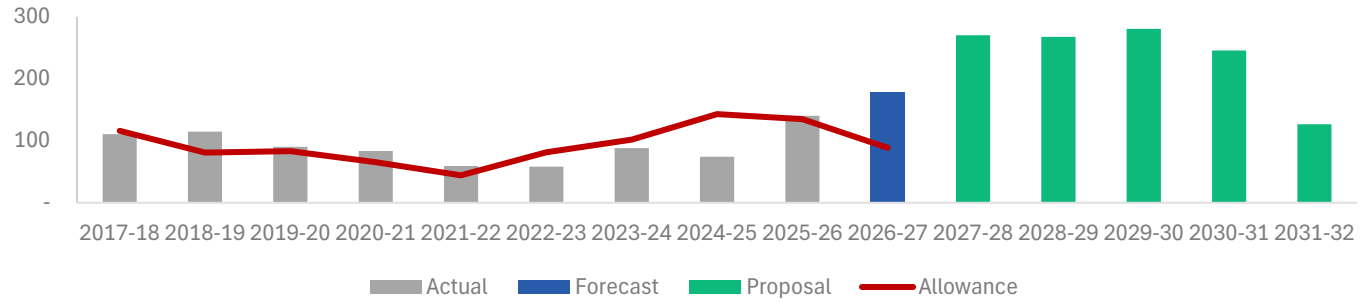
Table 3-11: RIT-T status of major station projects

Project	Description	Current status
KTS 500/220kV transformer replacement	Keilor Terminal Station (KTS) is an important terminal station forming part of the main Victorian 500kV and 220kV transmission system. Three 500/220kV transformers and one 220/66kV transformer require replacement.	Completed and project is underway
SMTS 500kV GIS and F2 transformer replacement	South Morang Terminal Station (SMTS) is the largest and most critical terminal stations in Victoria. It is part of the 500kV transmission backbone, 330kV VIC-NSW interconnector and the 220kV metropolitan network. The SMTS 500kV Gas Insulated Switchgear (GIS) and one 500/330kV transformer (F2) require replacement.	PADR (stage 2) October 2025
NPSD 220kV GIS	Newport Power Station D (NPSD) is a peaking station on the west bank of the Yarra River in Newport, Victoria. It plays an important role in supporting demand in the Western metropolitan 220 kV ring and provides ancillary services such as voltage control and system strength. The gas insulated switchgear at Newport requires replacement.	PSCR expected 2027
SMTS 330/220kV transformer replacement	SMTS is a critical terminal station in the Victorian transmission network and the 330/220 kV transformers at SMTS ties the 330 kV network which includes the NSW interconnector with the 220 kV network that supplies metropolitan Melbourne. Transformer replacements are needed to maintain reliable 330/220kV network services at SMTS.	Completed and project is underway
LYPS 500kV circuit breaker replacement stage 2	Loy Yang Power Station (LYPS) is part of the main 500 kV flow path between the generation resources in the Latrobe Valley and the load centre in Melbourne. Selected 500 kV circuit breaker and other switchgear replacements are required at both these stations.	PSCR expected 2026/27
ROTS GIL replacement	Rowville Terminal Station (ROTS) connects the Eastern metropolitan Melbourne 220 kV network with the 500 kV backbone. Two gas insulated lines (GIL) at ROTS that are part of the Latrobe Valley to Melbourne flow path and Eastern metropolitan 220 kV network requires replacement.	PSCR expected 2027
BATS B2 transformer replacement	Ballarat Terminal Station (BATS) is an important terminal station in Western Victoria forming part of the north-west 220kV loop. The B2 transformer is in poor condition and requires replacement.	PSCR expected 2028
RCTS transformer and switchgear replacement	Red Cliffs Terminal Station (RCTS) provides supply to more than 22,000 Powercor customers via the 66 kV network and more than 6,300 customers via the 22 kV network. This project will replace four transformers (two 220/22 kV transformers and two 220/66 kV transformers) and several instrument transformers that are in poor condition.	Completed and project is underway
SYTS 500kV GIS replacement	Sydenham Terminal Station (SYTS) is an important part of the Victorian main 500 kV transmission backbone and the key link to new generation capacity from the north west. SYTS has 500 kV connections to Keilor (KTS), Moorabool (MLTS) and South Morang (SMTS) terminal stations. The 500 kV GIS at SYTS has deteriorated and this plan includes replacement of these assets.	Completed and project is underway
TTS B4 transformer replacement	Thomastown Terminal Station (TTS) is an important terminal station forming part of the 220kV transmission network in Victoria's metropolitan region. This project replaces the B4 transformer.	PSCR expected 2027
TTS circuit breaker replacement	Thomastown Terminal Station (TTS) is an important terminal station forming part of the 220kV transmission network in Victoria's metropolitan region. 66kV and 220kV circuit breakers require replacement.	PSCR January 2026
MWTS 66kV circuit breaker replacement	Morwell Terminal Station (MWTS) is an important terminal station located in the Latrobe Valley. 66kV circuit breakers, current transformers and other switchgear are in poor condition and require replacement.	PSCR expected 2028
SHTS transformer and CB replacement	Shepparton Terminal Station (SHTS) serves as the main transmission connection point for distribution of electricity to over 70,000 customers via three 150 MVA 220/66 kV transformers. This project will replace two transformers and twelve 66 kV circuit breakers to maintain supply to customers.	Completed and project is underway
MLTS reactor replacement	Moorabool Terminal Station (MLTS) is located north of Geelong and forms part of the main 500kV transmission backbone with transformation from 500kV to 220kV. The 220kV and 500kV shunt reactors has been identified for replacement in this project.	PSCR expected 2027
MLTS CB replacement	Moorabool Terminal Station (MLTS) is located north of Geelong and forms part of the main 500kV transmission backbone with transformation from 500kV to 220kV. The circuit breakers are identified for replacement.	Completed and project is underway

3.5.4. Revised Proposal

AusNet's revised major stations program forecast is $1,190.3 million (real 2026-27) over the 2027-32 period. This represents a $28.5 million increase compared to our initial proposal.

Figure 3-4: Major Stations program capex and allowance, $ millions real 2026-27



There are no new major stations projects proposed in our revised proposal.

Furthermore, we have accepted the following changes to the major stations program set out in the AER's Draft Decision:

- Deferral of the WOTS Spare Transformer Procurement beyond the upcoming regulatory period
- Deferral of the TTS B4 Transformer Replacement project
- Removal of contractor incentives across all projects
- Removal of risk allowances for 6 projects including MLTS CB Replacement, SYTS 500kV GIS Replacement, MLTS Reactor Replacement, TTS Circuit Breaker Replacement, LYPS Circuit Breaker Replacement and MWTS 66kV Circuit Breaker Replacement. Further details in relation to AusNet's approach to risk allowances proposed are in Section 3.3.4.2.4 Reasonableness of overall costs.

Table 3-12: Major Station capex, real 2026-27 escalated including overheads

Program	AusNet Proposal ($m)	AER Draft Decision ($m)	AusNet Revised Proposal ($m)
SMTS 500kV GIS and F2 Transformer Replacement	274.3	245.2	245.7
KTS 500/220kV Transformer Replacement	234.1	212.5	310.4
SMTS 330/220kV Transformer Replacement	105.4	97.7	102.0
ROTS 500 kV GIL Replacement	63.1	56.6	59.8
BATS B2 Transformer Replacement	46.8	41.2	44.2
SYTS 500kV GIS Replacement	35.2	32.8	32.7
MWTS 66kV Circuit Breaker Replacement	22.8	20.0	20.2
TTS B4 Transformer Replacement	22.6	20.0	22.4
MLTS CB Replacement	12.6	11.4	11.3
NPSD 220kV GIS	158.1	62.7	148.3
LYPS and HWTS 500kV Circuit Breaker Replacement Stage 2[10]	68.2	22.0	27.7
RCTS Transformer & Switchgear Replacement	36.3	22.3	34.8
TTS Circuit Breaker Replacement	31.8	0	26.6
MLTS Reactor Replacement	19.2	12.3	41.9
SHTS Transformer and CB Replacement	19	0	62.3
WOTS Spare Transformer Procurement	12.5	0	0
Total	**1,161.8**	**856.6**	**1,190.3**

Source: AusNet

[10] This project was initially proposed as a single combined project to be undertaken across LYPS and HWTS sites in our Initial Proposal. In our Revised Proposal, only the LYPS portion of this project is proposed for replacement, with the HWTS deferred beyond the upcoming period.

3.5.4.1. Keilor Terminal Station 500/220kV transformer replacement

3.5.4.1.1. Response to the Draft Decision

The AER's Draft Decision accepted this project but removed risk allowances and contractor incentives. Consistent with this outcome, the EMCa report found the identified need and the preferred option were justified. However, given the sensitivity of the project to demand growth forecasts, the Draft Decision noted that AusNet is expected to revisit the implications of the 2025 demand forecast to assess the impact on scope and timing in the Revised Proposal.

Table 3-13: Response to Draft Decision for KTS

Summary of AER and EMCa findings	AusNet's response
Given the condition of the transformer assets at KTS, it is prudent for AusNet to consider remedial action. Replacement of the transformers is likely to be the best approach (i.e. rather than refurbishment) and replacing the 750MVA 500/220kV transformers with 'standards' 1000 MVA transformers is justified given the support from AEMO and VicGrid.[11]	AusNet accepts the AER's Draft Decision outcome.
Risk allowances and contractor incentives have been removed. 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.	Ausnet accepts the removal of contractor incentives. AusNet has proposed an updated risk allowance and provided a risk register as part of our revised proposal submission. The capex forecast has been revised to reflect this updated risk allowance. See Section 3.3.4 for details of our updated risk assessment approach.
The economic timing is sensitive to the demand growth forecast, and we consider it prudent for AusNet to revisit the implications of updated demand forecasts.	AusNet has submitted updated economic modelling reflecting the 2026 demand forecasts from VicGrid. Under these forecasts, there is significant growth in demand (especially peak demand) for Keilor Terminal Station, driven in part by anticipated data centre connections. Under the revised economic timing, it remains prudent to undertake this project in the upcoming regulatory period and the delivery timing is later than the economic timing.

3.5.4.1.2. Overview of the forecast

Keilor Terminal Station (KTS) is an important terminal station, and forms part of the main Victorian 500kV and 220kV transmission network backbone. KTS provides 500 kV connections to South Morang and Sydenham, as well as being a major injection point into western metropolitan 220kV loop supplying Altona, Brooklyn, Fishermans Bend and West Melbourne (CBD and metro tunnel). At KTS, there are currently three 750 MVA 500/220kV A transformer banks at Keilor and five 220/66kV B connection transformers.

AusNet has assessed three 500/220 kV transformers (A2, A3 and A4) and one of the 220/66 kV transformers (B4) as being in poor condition with increased risk of failure. As noted in Section 3.5.3.2 above, one of the phases of the A2 transformer bank experienced a failure event on 7 July 2026, with the spare phase kept on site used to restore the A2 bank to service on 7 August 2026.

Under the preferred option, replacement of the three 750 MVA transformers with standard metro 1000 MVA 500/220 kV transformers is proposed.

Since the submission of AusNet's Proposal in October 2025, AusNet has updated the project's proposed cost and scope to reflect the outcomes of market testing of proposed costs and further investigations into the need to address increased fault levels at KTS.

Since lodging our Initial Proposal, AusNet has reflected material changes to the cost of this project following market testing and additional ground wire scope following further investigations of fault level increases at KTS (in consultation with VicGrid). The updated cost of the total KTS project is $324.2, a $75.9 million increase compared to the total project cost in the Initial Proposal. This comprises a $26.4 million increase arising from market tested costs for the KTS project scope under the Initial Proposal, and $49.5 million for the additional ground wire scope.

To support the efficiency of costs proposed under this program, AusNet has undergone a rigorous process to ensure market testing has been applied where possible, as well as commissioning an independent review of the project cost estimate.

AusNet engaged Arcadis to undertake an independent review of the KTS Transformer Replacement project budget, including the estimate basis, major cost drivers, and quantitative risk assessment. This report is provided alongside this submission. Arcadis stated that:

[11] Energy Market Consulting associates (EMCa), Review of proposed major stations repex projects – AusNet Services transmission determination 2027–32, March 2026, Page 53.

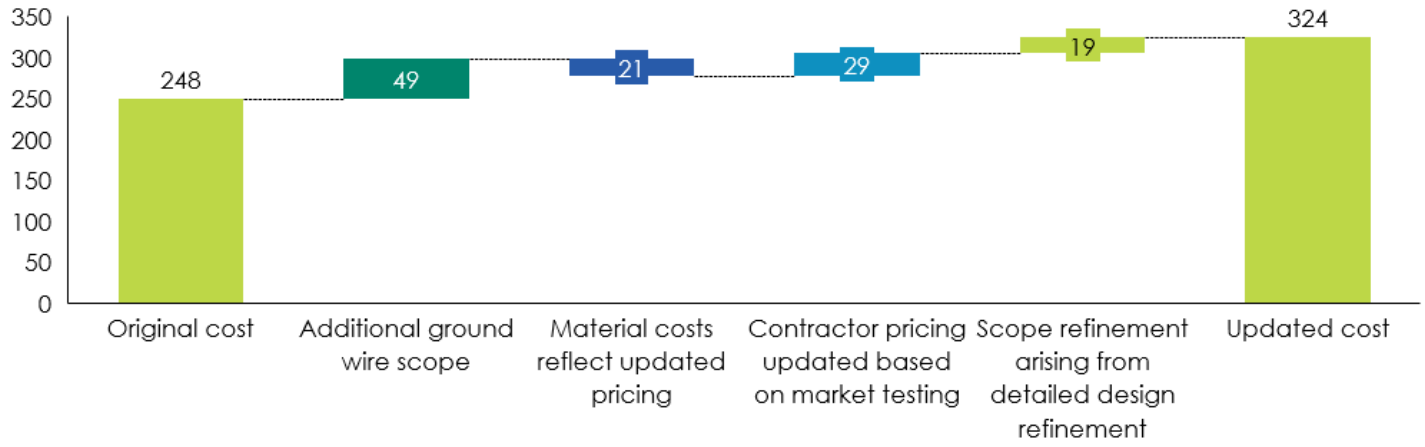
"…Arcadis considers the project budget and associated contingency allowances to be a reasonable representation of the anticipated cost to deliver the KTS A Transformer Replacement Project."

The independent review undertaken by Arcadis also supports the market testing applied throughout the KTS cost estimate, stating:

"…Arcadis found the estimate to be generally well supported by contractor pricing, supplier quotations, specialist estimates and owner-developed allowance methodologies. No material concerns were identified that would be expected to significantly alter the overall project budget position."

The proposed cost of this project is $310.4 million (fully escalated, real 2026-27) over the upcoming regulatory period, $76.3 million higher than our initial proposal due to the additional scope, updated costs following market testing, updated risk allowances and removal of contractor incentives.

Figure 3-5: Comparison of KTS latest project cost compared to Initial Proposal cost



Note: Not inclusive of management reserve, overheads and finance charges. The original cost was submitted in AusNet's Initial Proposal for the 2027-32 TRR. Scope change, due to investigation findings in relation to fault level increases, requiring remediation costs for the ground wire in the Revised Proposal. Change in material costs reflect updated pricing, to be in line with pricing across the major equipment and specialist services sector and due to market testing of costs. Revised contractor pricing updated based on market testing, reflecting the outcome of AusNet's engagement with delivery partners.

Replacing the three existing 750 MVA 500/220 kV transformers at KTS with 1000 MVA units will increase the fault level at the KTS 220 kV bus to approximately 40 kA. At the time of the initial proposal, the full implications of this increase were still being assessed. AusNet therefore conservatively excluded the uncertain cost of addressing these impacts for both the KTS transformer replacement project and the ground wire capacity-based replacement program, in the initial proposal. The subsequent assessment reflects AusNet's ongoing engagement with VicGrid and AEMO to ensure a consistent approach to managing the increasing fault level at KTS.

Since the initial proposal, AusNet have finalised the detailed modelling and assessments of the impact of this fault level increase. As the increase is driven by the KTS transformer replacement, the associated scope and costs have been included only in the revised proposal for that project.

The assessment indicated that the higher fault levels resulting from the KTS transformer replacement are expected to exceed the fault current ratings of the ground wires on the KTS–Geelong No. 1 and No. 3, KTS–Deer Park No. 2, KTS–Thomastown No. 1 and No. 2, and KTS–West Melbourne No. 1 and No. 2 transmission lines. The ground wire on these lines must therefore be replaced with larger capacity ground wire. The installation of these larger and heavier ground wires will increase the mechanical loading imposed on the existing transmission towers and their foundations. Consequently, strengthening of the existing towers steelwork and foundations to AS/NZS 7000 will be required where the additional loads exceed the design capacity of the existing structures.

AusNet consulted VicGrid to address potential overlap in scope between the works proposed by AusNet and the project identified in the Victorian Transmission Plan (VTP), including works on transmission lines where network reconfigurations are foreshadowed in the VTP.

VicGrid considered AusNet's advice that the existing ground wire is not capable of withstanding the forecast fault levels following the replacement of the KTS 500/220 kV (A) transformers. Given this advice, VicGrid supports the view that it is reasonable to include the proposed ground wire replacement scope on the Keilor-Geelong No. 1 and No. 3 220 kV lines and the Keilor-Deer Park No. 2 220 kV line as part of the KTS Transformer Replacement Project.

VicGrid is aware that, where overlaps with projects identified through the VTP exist, AusNet has undertaken a risk assessment and removed overlapping scope from its Transmission Revenue Reset submission. In relation to the ground wire limitations on these lines, VicGrid agrees that AusNet has no means of managing the identified risk, nor is there sufficient certainty, given the timing of the relevant projects, that future network developments or changes in network configuration will resolve the issue by the time the KTS 500/220 kV (A) transformers are replaced. On this basis, VicGrid considers it reasonable for the proposed ground wire replacement scope to proceed as part of the KTS Transformer Replacement Project. See Appendix 3I.

Further details of the project cost update for the KTS Transformer Replacement project are provided in the KTS Project Cost Update supporting attachment, provided alongside this submission.

3.5.4.1.3. Supporting information

AusNet's Revised Proposal submits the following new or updated documents for this project:

- Project cost update summary
- Project cost estimate and detailed cost summary
- Project network modelling report
- Project planning report
- Project economic model
- Project risk register

In addition to the above documents, the following documents were submitted in AusNet's Proposal, with no relevant updates required:

- Project asset condition report

3.5.4.2. South Morang Terminal Station 500kV GIS and F2 transformer replacement

3.5.4.2.1. Response to the Draft Decision

The AER's Draft Decision accepted this project but removed risk allowances and contractor incentives. Consistent with this outcome, the EMCa report found the identified need and the preferred option were justified.

Table 3-14: Response to Draft Decision for SMTS GIS

Summary of AER and EMCa findings	AusNet's response
The need to undertake a project to address the condition of the 500kV GIS and F2 transformer at SMTS is prudent and the scope is reasonable.	AusNet accepts this assessment.
Risk allowances and contractor incentives have been removed. 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.	AusNet accepts the removal of contractor incentives. AusNet accepts a reduction in the capex forecast for this project, noting this project will continue into the 2032-27 regulatory period.

3.5.4.2.2. Overview of the forecast

South Morang Terminal Station (SMTS) is the one of the largest and most critical terminal stations in Victoria. It is part of the 500kV transmission backbone, 330kV VIC-NSW interconnector and the 220kV metropolitan network. The SMTS 500kV Gas Insulated Switchgear (GIS) and one 1000 MVA 500/330kV transformer (F2) require replacement.

AusNet has assessed several high-voltage assets require replacement including the 500 kV gas insulated switchgear (GIS), the F2 transformer and one 330kV circuit breaker with associated protection and control systems.

The proposed option involves replacement of the GIS with a more modern 500kV air insulated system (AIS) and transformer with a similar rated unit, with the other assets replaced on a like-for-like basis.

The proposed cost of this project is $245.7 million over the upcoming regulatory period, $28.6 million lower than our initial proposal. AusNet has reprofiled the forecast expenditure for this program compared to our Initial Proposal due to deliverability, see Section 3.10 for details.

3.5.4.2.3. Supporting information

The following documents were submitted in AusNet's Proposal, with no relevant updates required:

- Project network modelling report
- Project planning report
- Project business case
- Project board paper
- Project economic model
- Asset condition report

3.5.4.3. South Morang Terminal Station 330/220kV transformer replacement

3.5.4.3.1. Response to the Draft Decision

The AER's Draft Decision accepted this project but removed risk allowances and contractor incentives. Consistent with this outcome, the EMCa report found the identified need and the preferred option were justified.

Table 3-15: Response to Draft Decision for SMTS H

Summary of AER and EMCa findings	AusNet's response
The need to undertake a project to address the condition of the 330/220kV transformer at SMTS is prudent and the scope is reasonable.	AusNet accepts this assessment.
Risk allowances and contractor incentives have been removed. 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.	Ausnet accepts the removal of contractor incentives. AusNet has proposed an updated risk allowance and provided a risk register as part of our revised proposal submission. The capex forecast has been revised to reflect this updated risk allowance. See Section 3.3.4 for details of our updated risk assessment approach.

3.5.4.3.2. Overview of the forecast

South Morang Terminal Station is a critical node on Victoria's transmission network, connecting the Victorian 500 kV backbone to the NSW interconnector and supplying Melbourne's northern growth corridor.

AusNet has identified two 700 MVA 330/220kV transformers (H1 and H2) with their associated protection and control systems require replacement.

Under the preferred option, the H1 and H2 transformer are replaced with an in-service and hot spare transformer bank.

The proposed cost of this project is $102 million over the upcoming regulatory period, $3.4 million lower than our initial proposal reflecting the removal of contractor incentives and updated risk allowances.

3.5.4.3.3. Supporting information

AusNet's Revised Proposal submits the following new or updated documents for this project:

- Project risk register
- Project cost estimate and detailed cost summary

In addition to the above documents, the following documents were submitted in AusNet's Proposal, with no relevant updates required:

- Project network modelling report
- Project planning report
- Project board paper
- Project economic model
- Asset condition report

3.5.4.4. Shepparton terminal station transformer and circuit breaker replacement

3.5.4.4.1. Response to the Draft Decision

This project has undergone major changes and updates to scope, alongside cost escalation. This project was originally approved as part of AusNet's 2022-27 TRR and was in-flight at the time of lodgement of our Proposal. The proposed changes in cost and scope were not yet finalised at the time of lodgement.

Significant scope changes have occurred for this project to ensure compliance with new legislation (Environmental Protection Amendment Act 2018) which came into effect in mid-2021 increasing environmental requirements and these have been reflected in stringent planning permit conditions that require transformer noise mitigation and stormwater drainage management not originally captured in the current TRR. The Shepparton Terminal Station, originally constructed in the 1960s in a rural environment, is now surrounded by residential developments, a public park, playground and a school. This project triggered the need for AusNet to obtain a planning permit. This resulted in material changes to the project scope including the need to add three transformer sound enclosures, replacement of cooler banks, fans and surface drainage upgrades. Due to these changes, the original construction method of an in-situ replacement was no longer feasible due to noise compliance requirements, requiring a new construction approach with additional asset relocation and intervention work.

There is also significant cost escalation reflected in this project, consistent with the experience of transmission sector projects over the past 5 years.[12] The costs of materials and contractor pricing for the updated cost of this project reflect the outcome of market testing of costs, with updated costs consistent with current pricing conditions. The AER's Draft Decision accepted the need to address the condition of the transformer and circuit breaker assets at SHTS, however, it did not approve the proposed change in scope due to insufficient information to justify the investment.

[12] AEMO's transmission cost database (TCD) is a national benchmark for cost reporting in the sector and reports approximately 60-80% real cost escalation between the 2021 TCD and the 2025 TCD. AEMO reports this reflects sustained supply chain pressures (on materials, equipment and workforce), market competition driven in the NEM, project complexity, social license and landholder engagement factors, and additional contracting costs.

AusNet's Revised Proposal now reflects the outcome of the project change request to finalise the changes in scope and cost for this project.

Table 3-16: Response to Draft Decision for SHTS

Summary of AER and EMCa findings	AusNet's response
The need to undertake a project to address the condition of the transformer and circuit breaker assets at SHTS in the upcoming regulatory period is prudent.	AusNet accepts this finding and has also provided the asset condition report for this project to support completeness of information.
AusNet has not provided adequate information regarding the project change request or the details of the proposed scope and cost increase.	AusNet's Revised Proposal has submitted further documentation reflecting the outcome of the project change request for SHTS. This reflects the outcome of market testing of the revised project scope following the detailed design and planning process. This documentation confirms the proposed project remains the preferred option to address the identified need and provides a detailed breakdown of project costs.
Risk allowances and contractor incentives have been removed. 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.	Ausnet accepts the removal of contractor incentives. AusNet has proposed an updated risk allowance and provided a risk register as part of our revised proposal submission. The capex forecast has been revised to reflect this updated risk allowance. See Section 3.3.4 for details of our updated risk assessment approach.

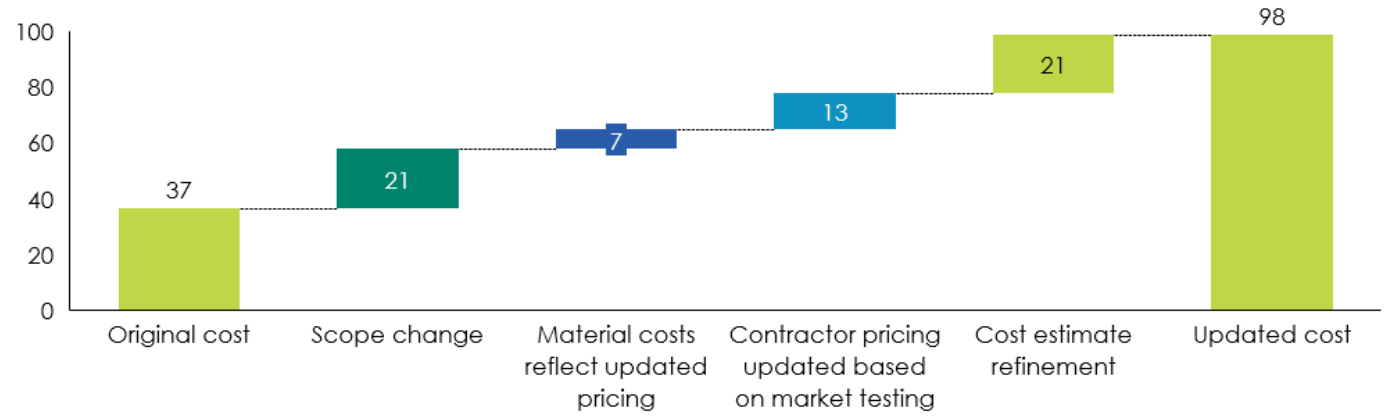
3.5.4.4.2. Overview of the forecast

Shepparton Terminal Station (SHTS) serves as the main transmission connection point for distribution of electricity to over 70,000 customers via three 150 MVA 220/66 kV transformers.

This project will replace two transformers and twelve 66 kV circuit breakers to maintain supply to customers. In addition, due to planning permit requirements, three transformer sound enclosures, replacement of cooler banks, fans and surface drainage upgrades are also required.

The proposed cost of this project is $62.3 million over the upcoming regulatory period, $43.3 million higher than our initial proposal reflecting updated project costs due to the PCR updates to project cost and scope, the removal of contractor incentives and updated risk allowances. See below for a summary of the cost escalation and scope change impacts for these projects.

Figure 3-6: Breakdown of updates to project cost for SHTS project, nominal basis



Note: Not inclusive of management reserve, overheads and finance charges. The original cost was developed 2021 and the project was approved in AusNet's 2022-27 TRR. Scope change due to major scope changes required to comply with stringent planning permit requirements including the need to add transformer sound enclosures, fan replacement, and surface drainage upgrades. Higher material costs reflect updated pricing, to be in line with pricing across the major equipment and specialist services sector and due to market testing of costs. Contractor pricing updated based on market testing, reflecting the outcome of AusNet's engagement with delivery partners.

The total costs of this project differ slightly across the documentation provided alongside this submission. This is because documents for in-flight projects are only accurate at a point in time, with project cost forecasts subject to frequent revisions due to changing project circumstances, updated information and delivery progress. AusNet has provided the business case, detailed cost estimate, and cost estimate summary to support the AER's assessment of the proposed expenditure in the upcoming period under this program.

Table 3-17: SHTS project cost reconciliation across documents provided alongside this submission

Source	Basis	Direct costs (excluding risk allowance)	Risk allowance (P50 risk)	Direct costs (including risk allowance)
Project cost estimate	$ million, Real 2026	91.4	5.6	97.0
Business case	$ million, Nominal	92.6	5.9	98.4

Source: AusNet

3.5.4.4.3. Supporting information

AusNet's Revised Proposal submits the following new or updated documents for this project:

- Project cost estimate and detailed cost summary
- Project change request report
- Project economic model
- Project risk register
- Project asset condition report

3.5.4.5. Red Cliffs terminal station transformer and switchgear replacement

3.5.4.5.1. Response to the Draft Decision

This project has undergone major changes and updates to scope and significant cost escalation, consistent with the experience of transmission sector projects over the past 5 years.[13] This project was originally approved as part of AusNet's 2022-27 TRR and was in-flight at the time of lodgement of our Proposal. However, after undergoing market testing of costs, it was found that market costs exceeded original estimates, requiring this project to undergo a project change request. As part of this process, it was found the project scope would need to be revised. The proposed changes in cost and scope were not finalised at the time of lodgement. The AER's Draft Decision accepted the need to address the condition of the transformer and circuit breaker assets at RCTS, however, it did not approve the proposed change in scope due to insufficient information to justify the investment.

AusNet's Revised Proposal now reflects the outcome of the project change request to finalise the changes in scope and cost for this project.

[13] AEMO's transmission cost database (TCD) is a national benchmark for cost reporting in the sector and reports approximately 60-80% real cost escalation between the 2021 TCD and the 2025 TCD. AEMO reports this reflects sustained supply chain pressures (on materials, equipment and workforce), market competition driven in the NEM, project complexity, social license and landholder engagement factors, and additional contracting costs.

Table 3-18: Response to Draft Decision for RCTS

Summary of AER and EMCa findings	AusNet's response
Undertaking a project to address the condition of transformer and switchgear assets at RCTS in the next regulatory period is prudent, noting that AusNet commenced the project in the current regulatory period.	AusNet accepts this finding and has also provided the asset condition report for this project to support completeness of information.
We do not consider that AusNet has sufficiently justified the proposed cost and scope increase for this project, that remains the subject of its PCR process and has not been included with its submission.	AusNet's Revised Proposal has submitted further documentation reflecting the outcome of the project change request for SHTS. This reflects the outcome of market testing of the revised project scope following the detailed design and planning process. This documentation confirms the proposed project remains the preferred option to address the identified need, the forecast delivery timing is consistent with the project economic timing, and provides a detailed breakdown of project costs.
Risk allowances and contractor incentives have been removed. 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.	Ausnet accepts the removal of contractor incentives. AusNet has proposed an updated risk allowance and provided a risk register as part of our revised proposal submission. The capex forecast has been revised to reflect this updated risk allowance. See Section 3.3.4 for details of our updated risk assessment approach.

3.5.4.5.2. Overview of the forecast

Red Cliffs Terminal Station (RCTS) provides supply to more than 22,000 Powercor customers via the 66 kV network and more than 6,300 customers via the 22 kV network.

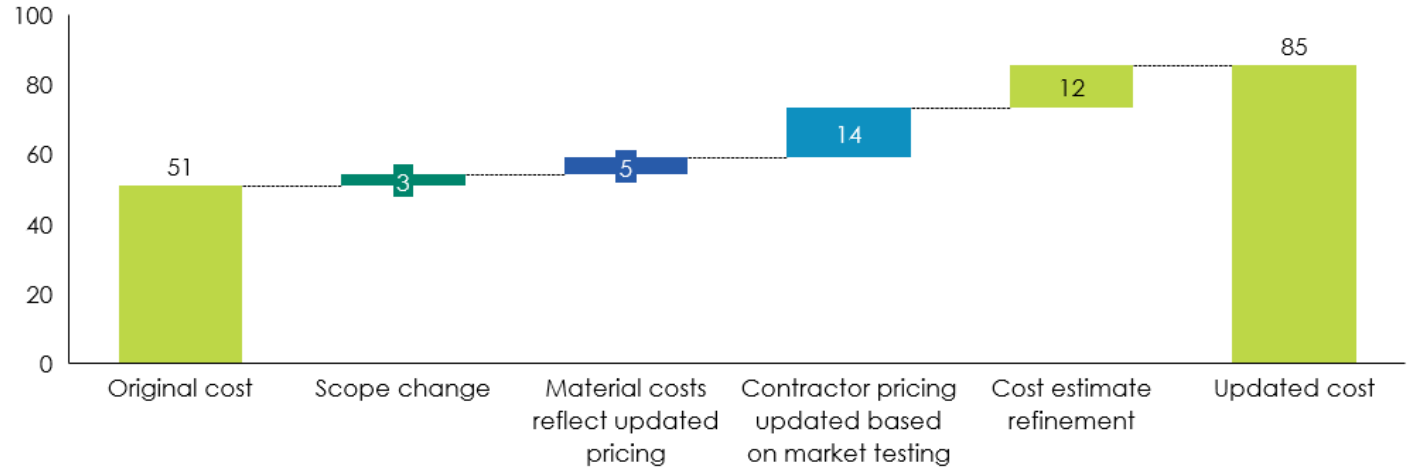
This project will replace two 220/22 kV transformers, two 220/66kV transformers and several instrument transformers that are in poor condition.

This project is in-flight and currently in construction with design completed, materials ordered, outages planned and delivery of transformers received.

After undergoing detailed design and the finalisation of the PCR for this project, the project scope was updated to include 2 x 220kV ROIs / earth switches on B1 and B2 Circuit Breaker circuits.

The proposed cost of this project is $34.8 million over the upcoming regulatory period, $1.5 million lower than our initial proposal reflecting updated project costs due to the PCR updates to project cost and scope, the removal of contractor incentives and updated risk allowances.

Figure 3-7: Breakdown of PCR updates to project cost for RCTS project, nominal basis



Note: Not inclusive of management reserve, overheads and finance charges. The original cost was developed 2023 and the project was approved as part of AusNet's 2022-27 TRR. Scope change, due to additional 2 x 220kV ROIs / earth switches on B1 and B2 Circuit Breaker circuits after undergoing detailed design. Uplift to material costs reflect updated pricing, to be in line with pricing across the major equipment and specialist services sector and due to market testing of costs. Contractor pricing updated based on market testing, reflecting the outcome of AusNet's engagement with delivery partners.

The total costs of this project differ slightly across the documentation provided alongside this submission. This is because documents for in-flight projects are only accurate at a point in time, with project cost forecasts subject to frequent revisions due to changing project circumstances, updated information and delivery progress. AusNet has provided the business case, detailed cost estimate, and cost estimate summary to support the AER's assessment of the proposed expenditure in the upcoming period under this program.

Table 3-19: RCTS project cost reconciliation across documents provided alongside this submission

Source	Basis	Direct costs (excluding risk allowance)	Risk allowance (P50 risk)	Direct costs (including risk allowance)
Project cost estimate	$ Real 2026	78.1	5.4	83.5
Business case	$ Nominal	79.9	5.5	85.3

Source: AusNet

3.5.4.5.3. Supporting information

AusNet's Revised Proposal submits the following new or updated documents for this project:

- Project cost estimate and detailed cost summary
- Project change request report
- Project economic model
- Project risk register
- Project asset condition report

3.5.4.6. Sydenham Terminal Station 500kV GIS replacement

3.5.4.6.1. Response to the Draft Decision

This project was in-flight at the time of lodgement of our Proposal. The AER approved the proposed expenditure in the upcoming regulatory period for this project, with the exception of risk allowances and contractor incentives.

Table 3-20: Response to Draft Decision for SYTS

Summary of AER and EMCa findings	AusNet's response
The need to undertake a project to address the condition of GIS assets at SYTS in the next regulatory period is prudent and the scope reasonable.	AusNet accepts this assessment outcome.
Risk allowances and contractor incentives have been removed. 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.	Ausnet accepts the removal of contractor incentives. AusNet has accepted the removal of risk allowance. See Section 3.3.4 for details of our updated risk assessment approach.

3.5.4.6.2. Overview of the forecast

Sydenham Terminal Station (SYTS) is an important part of the Victorian main 500 kV transmission backbone and the key link to new generation capacity from the north west. SYTS has 500 kV connections to Keilor (KTS), Moorabool (MLTS) and South Morang (SMTS) terminal stations.

AusNet has identified the existing 500kV GIS is due for replacement.

Under the preferred option, the existing GIS is to be replaced with a new outdoor 500kV AIS switchyard.

The proposed cost of this project is $32.7 million over the upcoming regulatory period, $2.5 million lower than our initial proposal due to the removal of contractor incentives and removal of risk allowances.

3.5.4.6.3. Supporting information

AusNet's Revised Proposal submits no new or updated documentation in relation to this project.

AusNet's Initial Proposal submitted the following documents for this project:

- Project cost estimate and detailed cost summary
- Project planning report
- Project business case
- Project change request report
- Project economic model
- Project asset condition report

3.5.4.7. Moorabool Terminal Station circuit breaker replacement

3.5.4.7.1. Response to the Draft Decision

This project was in-flight at the time of lodgement of our Proposal. The AER approved the proposed expenditure in the upcoming regulatory period for this project, with the exception of risk allowances and contractor incentives.

Table 3-21: Response to Draft Decision for MLTS CB

Summary of AER and EMCa findings	AusNet's response
The need to undertake a project to address the condition of the switchgears and instrument transformers at MLTS in the next regulatory period is prudent and the scope reasonable.	AusNet accepts this assessment outcome.
Risk allowances and contractor incentives have been removed. 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.	Ausnet accepts the removal of contractor incentives. AusNet has accepted the removal of risk allowance. See Section 3.3.4 for details of our updated risk assessment approach.

3.5.4.7.2. Overview of the forecast

Moorabool Terminal Station (MLTS) is located north of Geelong and forms part of the main 500kV transmission backbone with transformation from 500kV to 220kV.

AusNet has proposed the replacement of selected circuit breakers and other associated assets including:

- 8 x 500kV circuit breakers
- 10 x 220kV circuit breakers
- 20 sets of three phase isolators, and 56 instrument transformers associated with the circuit breakers.

The proposed cost of this project is $11.3 million over the upcoming regulatory period, $1.3 million lower than our initial proposal due to the removal of contractor incentives and removal of risk allowances.

3.5.4.7.3. Supporting information

AusNet's Revised Proposal submits no new or updated documentation in relation to this project.

AusNet's Initial Proposal submitted the following documents for this project:

- Project cost estimate and detailed cost summary
- Project change request report
- Project business case
- Project planning report
- Project economic model
- Project asset condition report

3.5.4.8. Loy Yang Power Station circuit breaker replacement stage 2

3.5.4.8.1. Response to the Draft Decision

AusNet's initial proposal forecast a combined project, with the replacement of selected 500 kV circuit breaker and other switchgear replacements across Hazelwood Terminal Station (HWTS) and Loy Yang Power Station (LYPS).

The AER's Draft Decision accepted the identified need and preferred option for this project were justified. However, a two year deferral relative to AusNet's proposed delivery timing has been applied because the AER considered insufficient explanation was provided for why the reactive replacement costs appear to be higher than the costs applied to other projects. The two year deferral is the result of applying a lower reactive replacement cost. The AER also removed risk allowances and contractor incentives.

In response to the AER's Draft Decision, AusNet has agreed to defer a portion of the investment under this project. AusNet has separated the LYPS and HWTS works into two standalone projects, with replacement works proposed at each station individually. This reflects the poorer asset condition, more aggressive polluted environment at LYPS relative to HWTS, and potential safety risks due to CT failure, as identified in our asset condition report documentation, which supports prioritising LYPS replacement in the Revised Proposal while separately reassessing the timing of the HWTS works. HWTS asset risks will be prudently managed through targeted refurbishment, and made possible by salvaging of like for like strategic spares' assets and components from the common asset types being replaced at LYPS and KTS. In our Initial Proposal, the proposed replacements at LYPS and HWTS were combined because the assets are located close to one another and provide a similar service, providing synergies and cost savings for customers from a joint project. The approach to separate the proposed replacements into two projects reflects a reprioritisation in response to the AER's feedback in the Draft Decision to more adequately justify the proposed timing of this project.

An updated assessment of the economic timing of replacement at LYPS and HWTS was undertaken, incorporating new information including the latest 2026 demand forecasts. Following this assessment, it was found to be prudent to defer the HWTS project beyond the upcoming regulatory period due to the updated economic timing. The LYPS project is still proposed to be undertaken in the upcoming period.

Table 3-22: Response to Draft Decision for LYPS & HWTS

Summary of AER and EMCa findings	AusNet's response
The need to undertake a project to address the condition of CB assets at LYPS in the next regulatory period is prudent and, on balance, we consider that the scope is reasonable.	AusNet accepts this assessment outcome.
We consider that the advancement of project timing relative to the economic timing has not been adequately justified. Our review of the economic model indicates that reasonable reactive replacement costs would be lower than AusNet has assumed in its modelling, based on the assumptions that AusNet has applied to other projects (e.g. MLTS CB replacement), and this would result in a further deferral of the project timing. A two year deferral of this project has been applied in response.	In response the AER's Draft Decision, AusNet has agreed to defer a portion of the investment under this project. AusNet has reassessed options to address the need for investment across LYPS and HWTS. This process involved AusNet separating the LYPS and HWTS replacement works into two standalone projects. The economic timing of each project was subsequently reassessed using updated information, including the latest 2026 demand forecasts. This reassessment indicated that it is prudent to defer the HWTS project beyond the forthcoming regulatory period, as its optimal replacement timing has shifted (with asset risks at this station prudently managed via targeted refurbishment). The LYPS project remains economically justified and is therefore still proposed for delivery within the upcoming regulatory period. AusNet rejects the assertion that the reactive replacement costs for the LYPS project should be lower, resulting in a deferral of the economic timing of this project. AusNet's approach to estimating the reactive replacement costs for the LYPS project is consistent with the approach for other Major Stations projects in AusNet's Revised Proposal. Reactive replacement costs are consistent with the unit rates that are provided in Appendix 3A Revised Unit Rates. These unit rates have been independently assessed by AMCL to be consistent with current market pricing and conditions. The reactive replacement costs for the LYPS project appear higher than the MLTS Circuit Breaker Replacement project because the MLTS project has been in flight for years and therefore has an economic model that was based on assumptions from several years ago. The reactive replacement costs included in the MLTS model were therefore based on outdated (lower) assumptions, and were not updated at the time of our Initial Proposal to reflect the unit rates in Appendix 3A Revised Unit Rates. AusNet note that should the MLTS project economic model be updated to reflect reactive replacement costs consistent with the unit rates in Appendix 3A Revised Unit Rates, this would result in an earlier economic timing due to higher reactive replacement costs. Hence, the reactive replacement costs for the LYPS project reflect current market conditions and pricing, and are consistent with the reactive replacement costs across the rest of our program.
Risk allowances and contractor incentives have been removed. 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.	Ausnet accepts the removal of contractor incentives. AusNet has accepted the removal of a risk allowance. See Section 3.3.4 for details of our updated risk assessment approach.

3.5.4.8.2. Overview of the forecast

Loy Yang Power Station (LYPS) is in the Latrobe Valley and part of the main 500 kV flow path between the generation resources in the Latrobe Valley and the load centre in Melbourne.

Selected 500 kV live-tank circuit breakers and associated switchgear and protection equipment are due for replacement due to the condition including:

- 6 x 500kV live-tank circuit breaker
- 15 x 500kV current transformer
- 6 x 500kV remotely operated isolator (ROI)

The proposed cost of this project is $27.7 million over the upcoming regulatory period, $40.5 million lower than our initial proposal due to the deferral of the HWTS portion of the project scope, removal of contractor incentives and removal of risk allowances.

3.5.4.8.3. Supporting information

AusNet's Revised Proposal submits the following new or updated documents for this project:

- Project cost estimate and detailed cost summary
- Project planning report
- Project economic model
- Project network modelling report
- Project asset condition report

3.5.4.9. Rowville Terminal Station GIL replacement

3.5.4.9.1. Response to the Draft Decision

The AER's Draft Decision accepted this project but removed risk allowances and contractor incentives. Consistent with this outcome, the EMCa report found the identified need and the preferred option were justified.

Table 3-23: Response to Draft Decision for ROTS

Summary of AER and EMCa findings	AusNet's response
The need to undertake a project to address the condition of GIL at ROTS in the next regulatory period is prudent and the scope reasonable.	AusNet accepts this assessment outcome.
Risk allowances and contractor incentives have been removed. 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.	Ausnet accepts the removal of contractor incentives. AusNet has chosen to retain the risk allowance under the Initial Proposal to limit the number of issues under consideration. A risk register (and updated risk allowance) has been developed and provided as part of our revised proposal submission, but has not been reflected in our capex forecast. See Section 3.3.4 for details of our updated risk assessment approach.

3.5.4.9.2. Overview of the forecast

Rowville Terminal Station (ROTS) connects the Eastern metropolitan Melbourne 220 kV network with the 500 kV backbone. AusNet has two gas insulated lines (GIL) that are part of the Latrobe Valley to Melbourne flow path and Eastern metropolitan 220 kV network, one to Thomastown Terminal Station and another to South Morang Terminal Station. The main function of the GILs are to comply with AEMO planning requirements to mitigate against security risk associated with overhead line crossings within the terminal stations. The Rowville to Thomastown GIL is insulated for 500kV operation but only used at 200kV currently. The Rowville to South Morang 500kV is insulated and operated at 500kV.

AusNet propose to replace the GIL circuit to Thomastown with a 220kV underground cable and the other GIL circuit to South Morang with an above ground 500kV cable.

The proposed cost of this project is $59.8 million over the upcoming regulatory period, $3.3 million lower than our initial proposal due to removal of contractor incentives.

3.5.4.9.3. Supporting information

AusNet's Revised Proposal submits the following new or updated documents for this project.

- Project risk register
- Project cost estimate and detailed cost summary

AusNet's Initial Proposal submitted the following documents for this project:

- Project planning report
- Project economic model
- Project asset condition report

3.5.4.10. Newport Power Station D gas insulated switchgear replacement project

3.5.4.10.1. Response to the Draft Decision

The Draft Decision deferred this project by two years due to concerns in relation to the economic timing of this project relative to the delivery timing. The identified need and scope of the proposed option were assessed to be justified. Risk allowances and contractor incentives were also rejected for this project.

Table 3-24: Response to Draft Decision for NPSD

Summary of AER and EMCa findings	AusNet's response
The need to undertake a project to address the condition of assets at NPSD in the next regulatory period is prudent and the scope reasonable.	AusNet accepts this assessment outcome.
AusNet selected Option 1 – integrated replacement with GIS as the preferred option. EMCa note this option is supported by having the highest NPV and is the reasonable option to select.	AusNet accepts this assessment outcome.
Based on EMCa's review of AusNet's economic modelling, it is considered that the economic timing is likely to be in 2034 at the earliest, and therefore that this project is a candidate to be deferred by up to 2 years relative to the timing of 2032 that AusNet proposes. The economic timing is most sensitive to demand growth assumptions, as shown in Figure 4.12, with a 15% reduction in peak demand deferring the economic timing well beyond 2034. Conversely, a 15% increase in demand would bring forward the economic timing to 2030.	AusNet has submitted updated economic modelling reflecting the 2026 demand forecasts from VicGrid. Under these forecasts, the ongoing availability of NPSD will remain important for supporting reliability and system security. This is because NPSD is directly connected within the Western Melbourne load pocket, providing dispatchable generation to areas forecast to experience significant demand growth. Under the updated demand forecast, the economic timing for NPSD is 2030. Separately, VicGrid has advised that Newport Power Station remains an important asset for the secure and reliable operation of Victoria's electricity system. In addition to providing up to 510 MW of dispatchable generation during periods of peak demand, Newport delivers essential network support services, including voltage support and system strength, which help maintain system security in western metropolitan Melbourne. VicGrid's planning assessments continue to rely on Newport operating during periods of maximum demand to assist in managing loading on key transmission assets and deferring the emergence of network constraints. Forecast demand growth across western and northern Melbourne is expected to further increase the importance of Newport's contribution over coming years. VicGrid notes that the loss of Newport would reduce operational flexibility, increase the risk of supply constraints and could accelerate the need for major network augmentation projects. Consequently, maintaining a reliable connection to Newport is considered important for supporting ongoing reliability, system security and the efficient development of the Victorian transmission network. See Appendix 3I. We have performed multiple sensitivity studies, including assessments of demand forecasts and a shorter 20-year assessment period. It is worth noting that the demand growth sensitivity indicates that the economic timing is delayed by less than two years, to 2032, under a scenario where demand forecasts are 15% lower than expected. This remains aligned with the current project delivery timing of 2032. The investment decision was also tested using a shorter 20-year assessment period to remove future market and

Summary of AER and EMCa findings	AusNet's response
	modelling uncertainty and asset service life uncertainty. The results demonstrate that the economic timing outcome is largely insensitive to the assumed asset life. Adopting a conservative 20-year asset life, rather than the base case assumption of 45 years, alters the economically efficient investment year by no more than one year (still in 2030). This relatively small change provides strong evidence that the timing of the project is not dependent on the inclusion of long-dated benefits and is primarily driven by benefits that arise within the near- to medium-term planning horizon. Importantly, under both the 20-year and 45-year asset life assumptions, the project delivers positive net economic benefits and remains economically justified within the 2027-32 regulatory control period. The analysis therefore confirms the robustness of the proposed investment timing and demonstrates that the investment case remains valid even under significantly more conservative assumptions. Altogether, this means it remains prudent to undertake this project in the upcoming regulatory period and the project remains forecast to be delivered by 2032.
Risk allowances and contractor incentives have been removed. 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.	Ausnet accepts the removal of contractor incentives. AusNet has chosen to retain the risk allowance under the Initial Proposal to limit the number of issues under consideration. A risk register (and updated risk allowance) has been developed and provided as part of our revised proposal submission, but has not been reflected in our capex forecast. See Section 3.3.4 for details of our updated risk assessment approach.

3.5.4.10.2. Overview of the forecast

Newport Power Station is located in the south-west of Melbourne and is connected to the western metropolitan 200kV ring. It is a 500 MW generator that provides peak demand support and ancillary services such as voltage support and system strength. AusNet owns the 220kV NPSD connection station with GIS located inside the power station building.

AusNet proposes to replace the 220kV GIS connection station.

The proposed cost of this project is $148.3 million over the upcoming regulatory period, $9.8 million lower than our initial proposal due to removal of contractor incentives.

3.5.4.10.3. Supporting information

AusNet's Revised Proposal submits the following new or updated documents for this project.

- Project risk register
- Project planning report
- Project economic model
- Project cost estimate and detailed cost summary

AusNet's Initial Proposal submitted the following documents for this project.

- Project asset condition report

3.5.4.11. Ballarat Terminal Station B2 transformer replacement

3.5.4.11.1. Response to the Draft Decision

The AER's Draft Decision accepted this project but removed risk allowances and contractor incentives. Consistent with this outcome, the EMCa report found the identified need and the preferred option were justified.

Table 3-25: Response to Draft Decision for BATS

Summary of AER and EMCa findings	AusNet's response
The need to undertake a project to address the condition of B2 transformer at BATS in the next regulatory period is prudent and the scope reasonable.	AusNet accepts this assessment outcome.

Risk allowances and contractor incentives have been removed. 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.	Ausnet accepts the removal of contractor incentives. AusNet has chosen to retain the risk allowance under the Initial Proposal to limit the number of issues under consideration. A risk register (and updated risk allowance) has been developed and provided as part of our revised proposal submission, but has not been reflected in our capex forecast. See Section 3.3.4 for details of our updated risk assessment approach.

3.5.4.11.2. Overview of the forecast

Ballarat Terminal Station (BATS) is an important terminal station in Western Victoria forming part of the north-west 220kV loop, serving as a supply point for the city of Ballarat.

AusNet has proposed to replace one of the two 150MVA 220/66kV power transformers (B2) transformer due to the poor condition of the asset with high likelihood of failure.

The proposed cost of this project is $44.2 million over the upcoming regulatory period, $2.6 million lower than our initial proposal due to removal of contractor incentives.

3.5.4.11.3. Supporting information

AusNet's Revised Proposal submits the following new or updated documents for this project.

- Project risk register
- Project cost estimate and detailed cost summary

AusNet's Initial Proposal submitted the following documents for this project:

- Project planning report
- Project economic model
- Project asset condition report

3.5.4.12. Thomastown Terminal Station B4 transformer replacement

3.5.4.12.1. Response to the Draft Decision

The AER's Draft Decision accepted this project but removed risk allowances and contractor incentives. Consistent with this outcome, the EMCa report found the identified need and the preferred option were justified. A deferral of this project by one year to 2032 was applied due to updated analysis provided by AusNet in relation to the economic timing. This deferral did not change the total proposed capex for this project over the 2027-32 period.

Table 3-26: Response to Draft Decision for TTS B4

Summary of AER and EMCa findings	AusNet's response
The need to undertake a project to address the condition of the B4 transformer at TTS in the next regulatory period is prudent and the scope reasonable.	AusNet accepts this assessment outcome.
A deferral of one year to 2032 has been applied for this project due to updated analysis provided by AusNet.	AusNet accepts this assessment outcome.
The economic timing is sensitive to the demand growth forecast, and we consider it prudent for AusNet to revisit the implications of updated demand forecasts.	AusNet has submitted updated economic modelling reflecting the 2026 demand forecasts from VicGrid. Under these forecasts, there is significant growth in demand (especially peak demand) for Thomastown Terminal Station, driven in part by anticipated data centre connections. Under the updated demand forecast, the economic timing for this project is 2026 and the project is forecast to be delivered by 2032.
Risk allowances and contractor incentives have been removed. 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.	Ausnet accepts the removal of contractor incentives. AusNet has chosen to retain the risk allowance under the Initial Proposal to limit the number of issues under consideration. A risk register (and updated risk allowance) has been developed and provided as part of our revised proposal submission, but has not been reflected in our capex forecast. See Section 3.3.4 for details of our updated risk assessment approach.

3.5.4.12.2. Overview of the forecast

Thomastown Terminal Station (TTS) is an important terminal station forming part of the 220kV transmission network in Victoria's metropolitan region.

This project replaces the 150 MVA 220/66kV transformer (B4) due to the deterioration of the condition of this asset.

The proposed cost of this project is $22.4 million over the upcoming regulatory period, $0.2 million lower than our initial proposal due to removal of contractor incentives.

3.5.4.12.3. Supporting information

AusNet's Revised Proposal submits the following new or updated documents for this project.

- Project risk register
- Project cost estimate and detailed cost summary

AusNet's Initial Proposal submitted the following documents for this project:

- Project planning report
- Project economic model
- Project asset condition report

3.5.4.13. Thomastown circuit breaker replacement

3.5.4.13.1. Response to the Draft Decision

The Draft Decision proposed to defer this project beyond the end of the upcoming regulatory period. This is due to issues raised in relation to the discount rate applied for this project and the failure rates. The risk allowances and contractor incentives for the project have also been rejected.

Table 3-27: Response to Draft Decision for TTS CB

Summary of AER and EMCa findings	AusNet's response
EMCa consider it appropriate to consider remedial action to address condition of the circuit breakers and switchgear identified for replacement.	AusNet accept the outcome of this assessment.
Notwithstanding that replacement should occur prior to a major failure occurring, based on assessed condition and cognisant that AusNet has been undertaking a program of replacement for its 66kV CB fleet, we remain concerned that the failure rates that AusNet has assumed in its modelling for these units may be higher than is indicated by their condition. EMCA states the following in relation to the modelled failure rates of 66kV CBs and VTs: "AusNet rates the 66kV CB's condition as 5, the highest rating. The aggregate 66kV CB failure rate modelled by AusNet for the 11 x 66kV CBs is 139% in 2025, and 100% for the five VTs. However, the aggregate PoF does not accord with recent failure experience." EMCA also state the following concern in relation to the sensitivity of the project to the time period over which benefits accrue (20 years vs 45 years): the majority of the Option 1 benefits accrue after 2036 and given the uncertainty about benefits over 45 years as discussed in Section 3, we considered a shorter study period of 20 years to help assess the robustness of the result, all other factors unchanged.	AusNet's asset management approach is not based on a run-to-failure strategy. Instead, AusNet adopts a proactive maintenance and replacement philosophy, intervening before failure occurs where asset condition indicates an elevated risk. AusNet has reviewed and revised the failure rates for voltage transformer assets, by applying a Weighted Average Health Score methodology as described in AMS 01-09. This results in lower failure rates and more closely align to historical experience. However AusNet does not accept the assertion the failure rates for circuit breakers assumed in its modelling are higher than warranted by the condition of the assets sought to be replaced. Recorded failures alone do not fully reflect the underlying risk profile of the asset population, as condition-based interventions prevent a proportion of potential failures from occurring. Notably, AusNet has recently undertaken offline testing and taken preventative replacement of three bushings at TTS due to signs of accelerated degradation before catastrophic failure could occur, with the replacements completed in 2025. This proactive replacement was undertaken in response to the failure of an asset of the same time at Brooklyn Terminal Station in 2023, prompting the risk associated with this asset to be reassessed to be higher. AusNet therefore considers that the Probability of Failure assumptions adopted in the initial submission remain representative of the underlying condition and risk profile of the TTS circuit breaker fleet. AusNet has submitted an updated Asset Condition Report for the TTS Circuit Breaker Replacement project as part of the Revised Proposal, to provide further detail in relation to these changes. In addition, the economic model has been updated to reflect the failure of a 220 kV capacitor bank circuit breaker at Thomastown in June 2026. As this failure has already occurred, the failure rate and mean time to repair assumptions have been revised to reflect the actual asset condition and circumstances. Specifically, a failure rate of 1.0 has been assigned to the failed circuit breaker, recognising that the asset is already out of service. The mean time to repair has been assumed to be four months. A like-for-like replacement circuit breaker is not available due to the specialised switching duty associated with capacitor bank applications. Restoration using a strategic spare would require approximately four to six months to accommodate design modifications, procurement of supplementary materials, installation and commissioning activities. Procuring and commissioning a new capacitor bank circuit breaker would require

	approximately twelve months. Accordingly, a four-month repair duration has been adopted as a reasonable and conservative assumption for the economic assessment. In relation to EMCa's feedback on the sensitivity of the project to the period of time over which benefits accrue, AusNet has provided a sensitivity study to demonstrate the impact when investment benefits are assessed over 20 years instead of 45 years. This analysis shows the economic timing of the project changes from 2026 to 2030/31 when the investment is assessed over a 20-year period and all benefits are excluded beyond year 20. This study is provided in the Planning Report for this project provided alongside this submission.
The adoption of a lower 3% discount rate for this specific project appears to have accelerated the project's timeline without adequate justification, given a discount rate of 7% has been applied for other projects.	AusNet has submitted updated economic modelling for this project using the discount rate of 7%, consistent with the approach across other major stations projects. The updated analysis shows this project is prudent to undertake in the upcoming regulatory period and the delivery timing is later than the economic timing.
Risk allowances and contractor incentives have been removed. 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.	Ausnet accepts the removal of contractor incentives. AusNet has accepted the removal of risk allowance. See Section 3.3.4 for details of our updated risk assessment approach.

3.5.4.13.2. Overview of the forecast

Thomastown Terminal Station (TTS) is an important terminal station forming part of the 220kV transmission network in Victoria's metropolitan region and is an important switching station.

This project proposes to replace twelve circuit breakers, twenty three disconnectors, six current transformers, and six voltage transformers at this station due to deteriorated condition.

The proposed cost of this project is $26.6 million over the upcoming regulatory period, $5.2 million lower than our initial proposal due to removal of contractor incentives and removal of risk allowances.

AusNet's Initial Proposal forecast the economic timing of this project to be 2029, and consistent with this timing, the project was proposed to be delivered by 2028-29. Based on this analysis, this project is was commenced and is now in-flight.

As part of the Revised Proposal, the economic timing of this project was reassessed to reflect updated inputs and changes in response to the AER and EMCa's feedback, especially in relation to the discount rate for this project. The reassessed economic timing for this project was found to be 2026. This updated economic timing is earlier than the delivery timing reflected in the Initial Proposal, hence we have not changed the proposed delivery timing of this project.

The project is currently in-flight following approval of the business case in December 2025, and is in the design phase. With the Revised Proposal, we are providing a Planning Report that sets out the updated economic timing and incorporates the changes discussed above to address the AER's feedback.

3.5.4.13.3. Supporting information

AusNet's Revised Proposal submits the following new or updated documents for this project.

- Project planning report
- Project economic model
- Project asset condition report
- Project business case
- Project cost estimate and detailed cost summary

3.5.4.14. Morwell Terminal Station 66kV circuit breaker replacement

3.5.4.14.1. Response to the Draft Decision

The AER's Draft Decision accepted this project but removed risk allowances and contractor incentives. Consistent with this outcome, the EMCa report found the identified need and the preferred option were justified.

Table 3-28: Response to Draft Decision for MWTS

Summary of AER and EMCa findings	AusNet's response

The need to undertake a project to address the condition of the circuit breakers at MWTS in the next regulatory period is prudent and the scope reasonable.	AusNet accepts this assessment outcome.
Risk allowances and contractor incentives have been removed. 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.	Ausnet accepts the removal of contractor incentives. AusNet has accepted the removal of risk allowances. See Section 3.3.4 for details of our updated risk assessment approach.

3.5.4.14.2. Overview of the forecast

Morwell Terminal Station (MWTS) is a terminal station located in the Latrobe Valley that will remain essential for the foreseeable future, in line with future transmission network developments outline in VicGrid's VAPR and AEMO's ISP.

AusNet has identified nine circuit breakers, twenty-five associated disconnectors, fifteen 66kV current transformers, and six 66kV voltage transformers at MWTS that require replacement.

The proposed cost of this project is $20.2 million over the upcoming regulatory period, $2.6 million lower than our initial proposal due to removal of contractor incentives and risk allowances.

3.5.4.14.3. Supporting information

AusNet's Initial Proposal submitted the following documents for this project:

- Project cost estimate and detailed cost summary
- Project planning report
- Project economic model
- Project asset condition report

3.5.4.15. Moorabool Terminal Station reactor replacement

3.5.4.15.1. Response to the Draft Decision

In our Initial Proposal, AusNet proposed this project to replace the No.1 220kV bus shunt reactor at Moorabool Terminal Station (MLTS) in the upcoming regulatory period, driven by the need to address the condition of the asset. In addition, at the time of lodgement of our Initial Proposal, AusNet was awaiting further guidance from AEMO VIC Planning and VicGrid to confirm the ongoing need to replace the Cressy Terminal Station (CRTS) No. 2 500 kV line shunt reactor, given the condition of the asset. Our Initial Proposal noted that the replacement of the 220 kV and 500 kV shunt reactors would be subject to ongoing joint planning with AEMO and VicGrid to confirm the enduring network need and the appropriate investment approach. The outcomes of this process would be reflected in the Revised Proposal.

The Draft Decision deferred this project by two years to the upcoming regulatory period due to concerns that insufficient information has been provided to justify the market benefits for this project. In addition, risk allowances and contractor incentives have been removed.

Since the publication of our Initial Proposal in October 2025, AusNet has received advice from VicGrid of the ongoing need for the CRTS No. 2 500kV line shunt reactor at MLTS, see Appendix 3I. This project now proposes the replacement of a 220kV bus shunt reactor and a 500kV line shunt reactor at MLTS.

Table 3-29: Response to Draft Decision for MLTS Reactor

Summary of AER and EMCa findings	AusNet's response
The condition of the 220kV shunt reactor at MLTS indicates that it should be considered for replacement.	AusNet agrees with this assessed outcome.
The Draft Decision states that 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. On this basis, the Draft Decision argues it is reasonable to replace the reactor within the next 10 years (i.e. by 2035) given its reported condition, and that AusNet's economic analysis does not support the inclusion of this project in the next regulatory control period. EMCa consider the benefits over such a long period of 45 years to be very uncertain given that they were derived from extrapolation of a 10-year AEMO forecast. A more conservative 20-year study period leads to negative NPV for the preferred option. On this basis EMCa consider	In our Initial Proposal, the assessment of market benefits was based on assumptions adopted a RIT-T study published by AEMO's. In response to the Draft Decision, AusNet's revised proposal AusNet has updated its methodology of quantifying market benefits to be based dedicated network modelling to assess the operational impacts of an MLTS reactor outage, provided alongside this submission. This updated approach is intended to more directly capture the reactor's role in providing voltage support during minimum demand conditions. AusNet used AEMO's Metropolitan Melbourne Voltage Management PACR as the primary source for estimating the cost of alternative voltage management measures. This benchmark was used to estimate the cost of providing equivalent voltage support following the loss of

Summary of AER and EMCa findings	AusNet's response
project completion can prudently be deferred until early in the following regulatory period.	the two existing shunt reactors at MLTS, forming part of the quantified risk associated with the continued operation of the ageing assets. The economic timing for MLTS is 2029 and the project remains forecast to be delivered by RY31. The option analysis has also been undertaken for a 20-year analysis period to ensure that the investment decision is not biased and dependent on long-dated benefits rather than being primarily driven by benefits that arise within the near- to medium-term planning horizon. The NPV benefits for all options are lower when considering a 20-year analysis period but remains positive for all investment options for all sensitivities considered. This provides strong evidence that the project will deliver NPV benefits for a shorter analysis period and that the economic outcome is not dependent on the inclusion of long-dated benefits as it is primarily driven by benefits that arise within the near- to medium-term planning horizon. Importantly, the project continues to deliver positive net economic benefits and remains economically justified in 2029, within the 2027-32 regulatory control period when the analysis period is set at 20 rather than 45 years. AusNet note the ongoing need for the 220kV shunt reactor has been confirmed by VicGrid as it is part of the 2025 VAPR.
Risk allowances and contractor incentives have been removed. 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.	Ausnet accepts the removal of contractor incentives. AusNet has accepted the removal of risk allowance. See Section 3.3.4 for details of our updated risk assessment approach.

3.5.4.15.2. Overview of the forecast

Moorabool Terminal Station (MLTS) is located north of Geelong and forms part of the main 500kV transmission backbone with transformation from 500kV to 220kV.

The No.1 220 kV bus shunt reactor and the CRTS No.2 500 kV line shunt reactor have been identified for replacement in this project. This reflects the outcome of AusNet's comprehensive condition assessment of all shunt reactors at MLTS. The evaluation has determined that the shunt reactors proposed to be replaced in this program are in an advanced state of deterioration. The poor condition of some of the assets at the terminal station has increased the likelihood of asset failures. In addition to the Asset Condition Report submitted for the 220kV shunt reactor in AusNet's Initial Proposal, AusNet's Revised Proposal has also submitted the Asset Condition Report for the 500kV shunt reactor.

The following options were assessed to identify the preferred solution:

- **Do nothing:** This option would entail no mitigating action beyond existing measures to address the identified risk.
- **Option 1 Replace No.1 220kV bus shunt reactor:** Option involves the replacement of the No.1 220kV bus shunt reactor.
- **Option 2 Replace No.2 500kV line shunt reactor:** Option involves the replacement of the CRTS No.2 500kV line shunt reactor.
- **Option 3 Replace both No.1 220kV bus shunt and No.2 500kV line shunt reactors:** Replacement of the No.1 220kV bus shunt reactor and CRTS No.2 500kV line shunt reactor.
- **Option 4 Defer shunt reactor replacements by 5 years:** Same as option 3 but deferred replacement by 5 years.

Replacement of the 220kV and 500kV shunt reactors (option 1) was identified as the preferred solution because it maximises the NPV of the options assessed, including under different sensitivity scenarios. Under this option, the economic timing for this project is 2029.

The primary benefits of the MLTS reactor arise from controlling high voltages during low demand periods (in contrast to most other network investments that are driven by managing load at risk during peak demand periods). Voltage management requirements are typically highest during overnight periods, mild-weather weekends and periods of high distributed solar generation. The operational requirement is to absorb surplus reactive power at appropriate network locations so that transmission voltages remain within equipment design limits and secure operating limits. Existing

transmission shunt reactors provide this service directly by absorbing reactive power from the network when switched into service.

The proposed cost of this project is $41.9 million over the upcoming regulatory period, $22.7 million higher than our initial proposal due to the addition of the 500kV shunt reactor to the project scope, alongside the removal of contractor incentives and removal of risk allowances.

3.5.4.15.3. Supporting information

AusNet's Revised Proposal submits the following new or updated documents for this project.

- Project economic model
- Project cost estimate and detailed cost summary
- Project planning report
- Project modelling report
- Project asset condition report (500kV shunt reactor)

AusNet's Initial Proposal submitted the following documents for this project:

- Project asset condition report (220kV shunt reactor)

3.5.4.16. Wodonga Terminal Station spare 330/66/22 kV transformer

3.5.4.16.1. Response to the Draft Decision

The identified need for this project was driven by a project to commission the spare transformer located at Wodonga Terminal Station (WOTS) for the AusNet Distribution project called 'Connection Enablement: Wodonga-Barnawartha in North-Eastern Victoria RIT-T'. This project was approved as a contingent project by the AER, with the contingent project trigger that the data centre customer would submit a connection application. Since AusNet's Initial Proposal, AusNet Distribution has advised it is very unlikely that the project will proceed. Hence, there would be no need to commission the spare transformer at WOTS, and thus no need for this project to be proposed in the upcoming regulatory period.

The Draft Decision deferred this project beyond the upcoming regulatory period due to updated circumstances that mean there is no longer an identified need for this project to be proposed.

Table 3-30: Response to Draft Decision for WOTS Spare

Summary of AER and EMCa findings	AusNet's response
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. AusNet has updated the economic timing to beyond the next regulatory control period in a response to our information request.	The Draft Decision outcome is consistent with AusNet's assessment that this project no longer needs to be proposed for the upcoming regulatory period.

3.5.4.16.2. Overview of the forecast

This is project seeks a spare 330/66/22kV transformer for Wodonga Terminal Station (WOTS).

This project has been deferred beyond the upcoming regulatory period.

3.5.4.16.3. Supporting information

WOTS consists of two 330/66/22kV three-winding 75 MVA transformers with a new 75 MVA cold spare transformer on site.

AusNet's Revised Proposal does not submit any new or updated documents for this project.

AusNet's Initial Proposal submitted the following documents for this project:

- Project cost estimate and detailed cost summary
- Project planning report
- Project asset condition report
- Project economic model

3.6. Asset replacements

3.6.1. Our Initial Proposal

Our Initial Proposal included expenditure on asset replacement programs for the next regulatory period of $655.1 million. This consisted of a small number of in-flight projects, as well as planned replacement programs across 12 asset categories.

Table 3-31: Asset replacement programs, AusNet Proposal ($M, real 2026-27)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Lines	131.6	137.7	43.5	44.0	44.5	**401.3**
Stations	13.5	13.6	13.7	13.9	14.0	**68.7**
Secondary and Protection	15.0	15.2	15.3	15.5	15.7	**76.7**
Communications	39.8	17.7	16.8	17.0	17.2	**108.5**
Total	**200.0**	**184.1**	**89.4**	**90.3**	**91.4**	**655.1**

Source: AusNet

The largest asset replacement programs relate to lines assets, in particular, the $163.9 million insulator program and $214.8 million towers program. These programs have been developed following investigations that have found faster than anticipated deterioration for select assets on our network due to locational and/or external factors (for example, high corrosive zones near the coast).

This forecast reflected our risk-based approach to economic assessment of asset replacement expenditure, with programs assessed as being economic only when the expected cost of asset failure exceeds the cost of replacement.

3.6.2. Draft Decision

The AER's Draft Decision was to allow for proposed repex on other assets of $467.4 million, a cut of 28.6%. The AER noted that it considered the majority of proposed repex to be reasonable, though its review identified systemic 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. According to the AER, these factors led to project scope and forecasts that lacked sufficient justification. Furthermore, the AER considered that some elements within projects were not adequately supported and that the inclusion of a risk allowance does not represent an efficient cost. More information on the AER's draft decision is included in 'Appendix 3E Asset Replacement and Compliance Update', which is a detailed document that should be read in conjunction with this section '3.6 Asset replacements' and section '3.7 Compliance and resilience'.

3.6.3. Response to the AER's Draft Decision

3.6.3.1. Economic modelling

3.6.3.1.1. Financial consequences assumptions

AusNet has addressed the AER's concerns in relation to AusNet's economic model and the treatment of annualised costs. The AER notes AusNet has treated the full asset replacement cost as a financial consequence of failure and then compares this to an annualised replacement cost to determine the economic timing for replacement. The AER is 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. AusNet has subsequently revised its approach to financial consequences consistent with modelling shared by the AER, including annualised replacement costs instead.

AusNet has also considered other financial consequences in its revised modelling approach. New financial consequences include annualised replacement costs (in lieu of emergency replacements and response costs), collateral damage costs and other related investigation/engagement costs for compliance related risks. In Information Response #012, AusNet flagged its initial approach could act as a proxy for these other costs, so their inclusion is appropriate given the change to the methodology.

3.6.3.1.2. Replacements that are not economically justified in the next period

Another major criticism concerns AusNet's approach to 'bundling' under which assets that may not be economic to replace individually are replaced alongside economic replacements as part of a coordinated package of works. In Information Response #024, AusNet provided information on this topic. This is reproduced here.

Why some assets that are not economic to replace when assessed individually are included in our programs

While the economic assessment is a primary driver for justifying the replacement of an asset, our programs also take into account other factors, as described in the "Engineering Validation" sections of our Asset Management Strategy. Some factors that may drive the need for assets to be replaced that are not economic to replace when assessed individually are:

- **Constructability:** due to the interconnected nature of many assets, replacement of an asset in poor condition can require works on related or connected assets to enable a safe, practical and constructible solution. In most cases, the additional assets included are directly adjacent / same locality to assets that are independently economically

justified for replacement, and their inclusion is considered prudent when the bundled scope is economically efficient.

- **Efficiency:** the bundling of replacement works (for example, by location) can deliver material efficiency benefits and result in a better overall outcome for customers, even where some individual components are replaced earlier than their standalone economic replacement timing. In all cases, we have assessed the inclusion of additional assets to be economically efficient when assessed as part of the bundled program scope. In the original asset replacement economic models submitted, it was explicit that some assets were included due to bundling efficiency.
- **Long term asset integrity:** in most cases, the additional assets included fall within a similar likelihood of failure band to those assets that are independently justified for replacement. Treating adjacent assets as an integrated scope reduces interfaces and jointing points, helping to preserve the functional integrity and long-term reliability of the connected asset group. Their inclusion is considered prudent when the bundled scope is economically efficient.

AusNet has engaged a consultant to analyse bundling and the replacement of conductor spans provides a good example of these factors in action. This example demonstrates if we bundle and replace multiple spans, from strain tower to strain tower, rather than a single span it is cheaper and more economical and maintains conductor integrity by minimising jointing.

AusNet has selected two representative strain-to-strain sections to demonstrate the cost efficiency of bundling conductor replacement works. Together these examples reflect the range of strain-to-strain sections proposed for replacement and compare the cost of replacing the full section with replacing only those individual spans that are economic during the 2027–32 regulatory period.

As shown in Table 3-32, replacing only economic spans would cost between 80 to 116% more than replacing the corresponding bundled strain-to-strain section.

The comparison is conservative because the selective-span costs in Table 3-32 do not include the further costs of replacing the uneconomic spans within the strain-to-strain section in future years.[14] Consequently, when considered over the full strain section and asset life, selective replacement would result in a substantially higher total cost than AusNet's bundled strain-to-strain section replacement approach.

Table 3-32: Cost comparison of bundled strain-to-strain section replacement and economic spans replacement

Transmission line	Towers	Number of spans in bundled section	Number of 2027-32 economic spans within the bundled section[15]	Total bundled section replacement cost, A (2026 $)	Cost to only replace economic spans, B (2026 $)	Difference in costs (B-A)
CBTS-ERTS-LYD	T006-T017	11	4	567,065	1,021,715	454,650 (80%)
ROTS-YPS 7	T177 – T267	76	35	3,515,343	7,596,638	4,081,296 (116%)

Source: AusNet

[14] The cost to replace uneconomic spans in the future is difficult to forecast due to the difficulty in predicting the economic replacement year and hence, the appropriate replacement solution and associated cost.
[15] The unitised bundled cost has been conservatively used to determine the economic timing of span replacement.

Bundling reduces costs by avoiding repeated sit visits, crew mobilisation, outages and conductor tensioning works. Replacing a single span may require several visits, potentially across different years, and can create mechanical imbalances within the remaining spans of the strain section. These recurring activities comprise the fixed costs shown in Table 3-33. The variable cost is the unit rate required per meter to change the ground wire conductors.

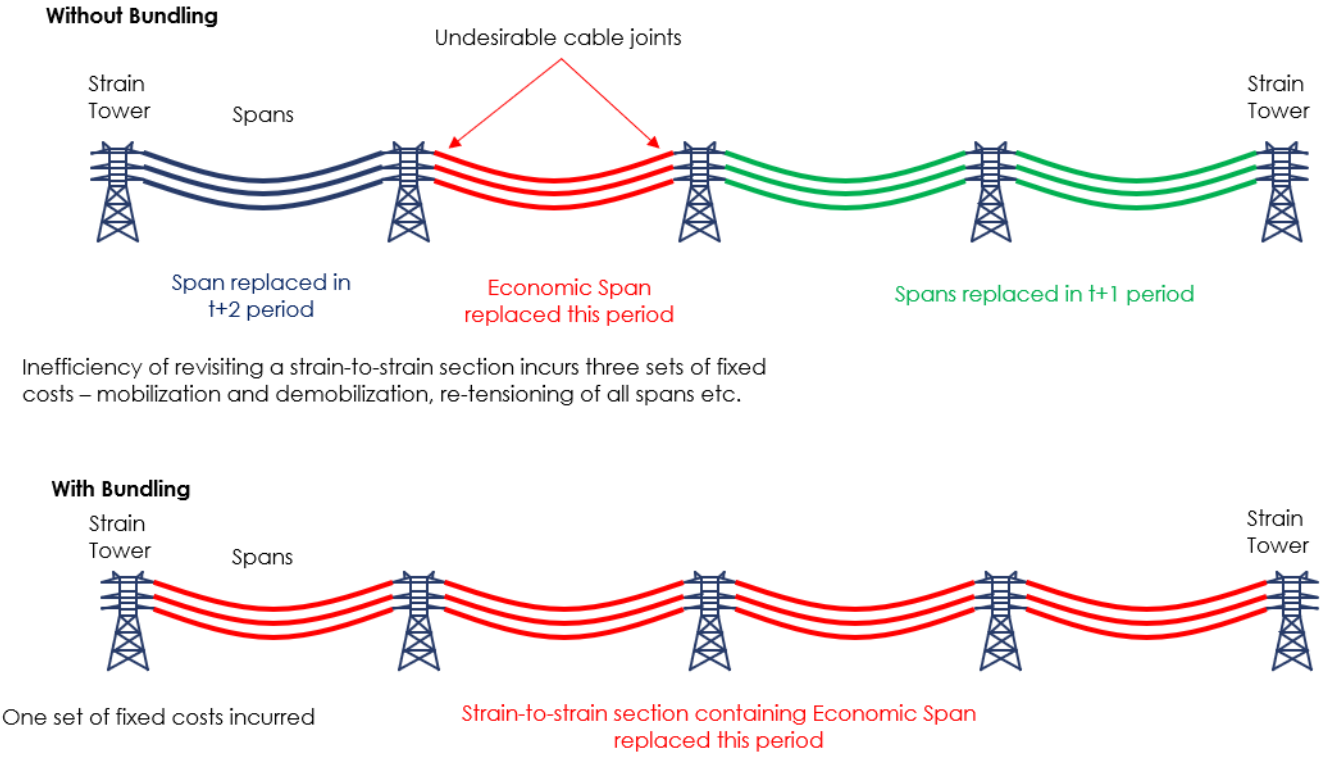
Table 3-33: Fixed costs (single span)

Item description	Cost	Comments
Mobilisation/demobilization	[C-I-C]	Per mobilisation
Outage costs	[C-I-C]	Assumed as two days
Tension-end upgrade costs	[C-I-C]	Labour only, needed at each end of span replacement
Total	[C-I-C]	

Source: AusNet

This example demonstrates AusNet's bundled strain section replacement approach delivers a more cost-efficient outcome than replacing only the economic spans in the 2027-32 regulatory period. Figure 3-8 further visualises the more efficient nature of bundling for a hypothetical example.

Figure 3-8: Strain to strain section with and without bundling



Additional information on this topic is included in the document 'Appendix 3E Asset Replacement and Compliance Update'.

3.6.3.1.3. Unit rates

AusNet has comprehensively updated its unit rates for the revised proposal to ensure maximum accuracy of revised forecasts. The updated unit rates are contained in 'Appendix 3A Revised Unit Rates'. Some unit rates have changed substantially, for example replacement of a 500kV transformer bushing increased from [C-I-C] in the initial proposal to [C-I-C] in the revised proposal. The increase in unit rate is driven by higher material and installation costs. Material costs are based on the [C-I-C] reference pricing, and installation costs are based on the [C-I-C] quotation.

AusNet also engaged consultants AMCL to undertake a review of its updated unit rates and found that they were reasonable. These updated unit rates have been used to forecast the revised proposal program.

3.6.3.1.4. Modelling period chosen

AusNet has chosen the 2027-32 period in its economic models for the purposes of determining capex amounts. We note that the AER appeared to include costs as the five years from 2026.

3.6.3.2. Risk allowances

AusNet has accepted the AER's draft decision on the removal of risk allowances, except for the Portland tower replacement Stage 2 project. AusNet has included a supporting risk register for this project 'Portland Stage 2 Risk Register'.

The Revised Proposal forecasts below therefore reflect updated economic modelling and risk allowances.

3.6.4. Revised Proposal

3.6.4.1. Lines

We are forecasting $367.1 million for lines in the next regulatory period, an uplift compared to current period actual and forecast expenditure of $235.8 million. This is driven by the insulators and towers programs (explained in further detail in the following sections). The lines program in the upcoming regulatory period comprises expenditure on insulators, ground-wires, and towers.

3.6.4.1.1. Insulators

AusNet's proposed program is $152.5 million over the 2027-32 period, marginally lower than our initial proposal amount ($164.0 million) but higher than the AER's draft decision amount of $81.8 million. In response to the AER's concerns, AusNet has undertaken the following modifications across the insulator asset class analysis:

- Included bushfire risks and collateral damage risks, which had previously been conservatively neglected in the initial proposal
- Updated the financial consequence to address AER methodology concerns (see Section 3.6.3.1.1)
- Removed the risk allowance

AusNet also notes that it has published the RIT-T Project Specification Consultation Report (PSCR) for the Doulton insulator program in Gippsland. This RIT-T is part of a wider insulator replacement program. The 500kV insulators in the Gippsland region have been prioritised over other insulators in the wider program due to their accelerated depreciation and the timeliness to meet the investment need.

Refer to Section 8 of 'Appendix 3E Asset Replacement and Compliance Update' for more information.

3.6.4.1.2. Ground wire (condition-based replacement)

Our proposed program is $20.5 million over the 2027-32 regulatory period, marginally lower than our initial proposal amount ($22.6 million) but higher than the AER's draft decision amount of $9.7 million. Key changes to this program include:

- A slight decrease in volume using strain sections as the unit of analysis
- Updated unit rates applied
- Updated financial consequence methodology to address AER methodology concerns (see Section 3.6.3.1.1)
- Removed the risk allowance

Refer to Section 9.2 of 'Appendix 3E Asset Replacement and Compliance Update' for more information.

3.6.4.1.3. Towers

We are forecasting a total Towers program of $194.2 million over the next regulatory period, lower than the $214.8 million initially proposed. We have proposed $182.3 million for the Portland Towers project and higher than the AER's draft decision amount of $169.4 million and marginally lower than the $183.1 million initially proposed. There was no material change to AusNet's initial proposal for this project.

Excluding the Portland towers project, AusNet has accepted the AER's draft decision on the transmission line structures program of $11.4 million, which was a cut to the initially proposed $31.2 million ($2026-27). The tower member replacement scope has been reduced to prioritise the highest risk and economically justified tower member replacements for the upcoming regulatory period. Lower priority replacements will be deferred to the subsequent regulatory period, with ongoing condition monitoring to ensure risks remain appropriately managed.

3.6.4.2. Stations

We are forecasting $61.6 million ($2026-27) for stations asset replacement, outside of the major stations projects, marginally lower than our initial proposal amount ($68.7 million). This forecast includes work on the following asset types: power transformers, circuit breakers, instrument transformers, surge arrestors, disconnectors and civil works.

3.6.4.2.1. Power Transformers and Reactors

We are forecasting $22.1 million for power transformers in the next regulatory period, higher than our initial proposal ($22.0m) and the AER's draft decision ($13.5 million). For power transformer (PT) and shunt reactor bushings (SHR) the AER's alternative forecast uses an age-based approach:

- It accepted the replacement of bushings installed in 1962
- It accepted half the replacement cost of bushings installed between 1979-92
- It did not accept replacement of bushings installed after 2002.

AusNet uses an asset health risk model based on electrical testing results. We have added asset health scores to the economic model to better demonstrate this linkage. AusNet has updated the financial consequence methodology and is proposing most of the original program. However, as the bushing unit rate has gone up, the economic volume has come down slightly.

We have also discovered that there were some data quality issues in the initial proposal submission. There were 16 bushings with recorded start up dates after the year 2000 which were found to have incorrect start up dates and have now been corrected to their 1980s era. This has no effect on risk modelling outcomes as age is not a factor in the probability of failure. No other discrepancies in the data were found.

3.6.4.2.2. Circuit Breakers

We are forecasting $17.6 million for replacing CBs in the next regulatory period, marginally lower than our initial proposal amount ($22.0 million) but higher than the AER's draft decision amount of $11.6 million. In response to the AER's draft decision we have:

- Updated the new financial consequence to address AER methodology concerns (see Section 3.6.3.1.1)
- Applied updated unit rates

Compared to the initial proposal we have reduced the forecast volume by four circuit breakers which are not economically justified. Refer to Section 6 of 'Appendix 3E Asset Replacement and Compliance Update' for more information.

3.6.4.2.3. Instrument Transformers

We accept the AER draft decision and are forecasting $2.7 million for replacing Instrument Transformers (ITs) in the next regulatory period, and this only includes ITs that are economic to replace based on condition and risk based assessments. Other ITs of the same types that are in poor condition will be replaced as part of major station redevelopment works.

3.6.4.2.4. Disconnectors

We accept the AER's draft decision and are forecasting $7.6 million for replacing disconnectors in the upcoming regulatory period, and this includes only assets that are economic to replace based on risk based assessments. This is marginally lower than our initial proposal amount ($8.3 million). Other disconnectors of the same types that are in poor condition will be proposed for replacement as part of the major stations programs.

3.6.4.2.5. Surge Arrestors

We accept the AER's draft decision and are forecasting $2.0 million for replacing surge arrestors in the upcoming regulatory period. This is marginally lower than our initial proposal amount of $2.2 million.

3.6.4.2.6. Infrastructure Assets

We accept the AER's draft decision and are forecasting $9.6 million in relation to the works program in the upcoming regulatory period, marginally lower than the $10.6 million initially proposed.

3.6.4.3. Secondary and Protection

We are forecasting $60.7 million ($2027) for secondary and protection projects. In the current period, actual and forecast expenditure under this category was $61.3 million. This forecast includes work on the following asset types: auxiliary power supplies, metering, and other secondary and protection.

3.6.4.3.1. Auxiliary power systems

We accept the AER's draft decision and are forecasting a program of $17.7 million (real 2026-27) in the next regulatory period decision. This is marginally lower than the $19.5 million initially proposed. This program reflects replacement where it has been assessed to be economic to replace key assets due to the assessed condition of the assets. AusNet has published the RIT-T PSCR for the project 'Maintaining safe and reliable 250V DC supply systems at nine terminal stations' in July 2026.

3.6.4.3.2. Metering

We accept the AER's Draft Decision to remove the Mk6e meter replacement program and retain only the Mk3 replacement program.

For our 347 MK6e meters, we currently use an older version of Eziview software that is only compatible with Windows 10. We use this older version of Eziview because the newer versions do not support testing and calibration of meters with measurement transformer correction factors. We apply correction factors to our transmission MK6e meters during testing to maintain compliant accuracy to our Transmission meters.

In accordance with AusNet's cyber security requirements, all laptops should be upgraded to Windows 11, as Windows 10 is considered insufficiently secure, and should cease to be used. However, doing so would result in AusNet being unable to continue the compliant operation of our Mk6e meters. To address this incompatibility issue, we proposed a program in the Initial Proposal to replace Mk6e meters with newer models, which are compatible with newer versions of Eziview that can run on Windows 11. Since the Initial Proposal, we have undertaken further discussions with EDMI, the provider of the Eziview software. Through these discussions, EDMI have confirmed that while the currently available Windows 11 versions of Eziview are incompatible with the Mk6e meters, they are willing to undertake software changes (on a paid basis) that will enable the continued support of AusNet's Mk6e meters with the currently applied measurement transformer correction factors. Our Revised Proposal is therefore to:

- No longer proceed with the replacement of Mk6e meters which was included in the Initial Proposal
- Instead, implement a new Digital program with EDMI to ensure the continued support of Mk6e meters without compromising accuracy through the Windows 11 version of Eziview, addressing the incompatibility, compliance, and cyber security concerns at a much lower cost to Victorian consumers
- Continue to monitor fleet performance, fault trends and developments from EDMI, including progress on both the software and compliance fronts, and reassess our position in future planning cycles if required

Further information on the proposed Digital program to address Eziview compatibility is provided in section 3.8 and discussed in the Business Case Addendum for Metering Systems (included in the Technology Documents).

3.6.4.3.3. Other Secondary and Protection

We accept the AER's draft decision and are forecasting a program of $31.4 million (real 2026-27) in the next regulatory period, lower than the $38.3 million initial proposal. This program in part reflects replacement driven by device obsolescence, as advised by asset manufacturers and suppliers. Other replacements are driven by the condition of the asset and have been identified following risk based assessments.

For weather stations, the AER decided that the proposed replacement of 21 weather stations could instead be prudently staged over 2 regulatory periods and therefore halved the proposed expenditure. In response, AusNet has accepted a staged delivery approach for weather station replacement. The current regulatory period will focus on replacing the highest priority weather stations on lines and station ends that provide critical inputs to dynamic line rating (DLR) capability, with remaining replacements deferred to a subsequent period. This program will generate key component spares to support obsolete legacy weather systems that are deferred.

3.6.4.4. Communications

We are forecasting a program of $102.7 million (real 2026-27) in the next regulatory period, marginally lower than the $108.5 million initially proposed and higher than the draft decision amount of $84.2 million. In response to the AER's concerns, AusNet has undertaken the following actions across the communications systems asset class:

- Updated the financial consequence to address AER methodology concerns (see Section 3.6.3.1.1)
- Removed the risk allowance
- Updated unit rates

Refer to Section 7 of 'Appendix 3E Asset Replacement and Compliance' for more information.

3.6.4.5. Summary of revised asset replacement program

Table 3-34 summarises AusNet's revised proposal for Asset replacements, with a forecast of $592.1 million for the next regulatory period.

Table 3-34: Asset replacement programs, AusNet revised proposal ($M, real 2026-27)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Lines	54.3	130.5	108.1	36.9	37.3	**367.1**
Stations	12.3	12.3	12.3	12.3	12.5	**61.6**
Secondary and Protection	12.1	12.1	12.1	12.2	12.3	**60.7**
Communications	27.1	19.6	18.5	18.6	18.8	**102.7**
Total	**105.7**	**174.4**	**151.0**	**80.0**	**80.9**	**592.1**

Source: AusNet

Table 3-35 shows AusNet's revised proposal is lower than its initial proposal but higher than the AER's draft decision.

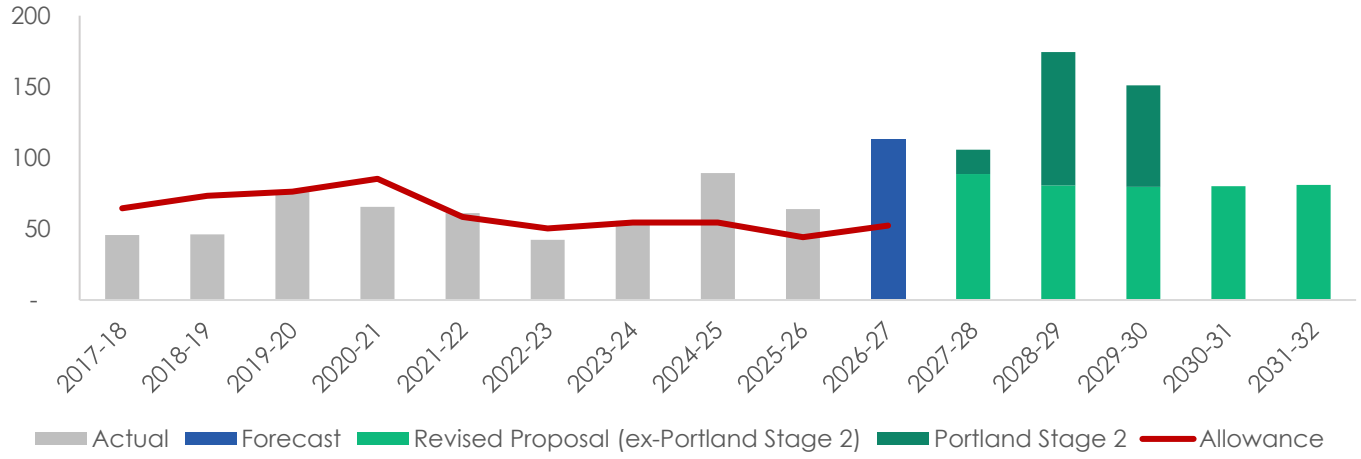
Table 3-35: Asset replacement programs, AusNet initial and revised proposal and AER Draft Decision ($M, real 2026-27)

	Initial Proposal	AER Draft Decision	Revised Proposal
Lines	401.3	272.9	367.1
Stations	68.7	47.3	61.6
Secondary and Protection	76.7	61.3	60.7
Communications	108.5	84.2	102.7
Total	**655.1**	**465.7**	**592.1**

Source: AusNet

Figure 3-9 shows AusNet's revised proposal capex represents an increase on recent actual capital expenditures. The Portland Towers Stage 2 project is responsible for most of the increase in replacement capex as shown by its distinct series.

Figure 3-9: Actual, forecast and proposed replacement capital expenditure ($m, real March 2027)



Source: AusNet

3.7. Compliance and resilience

3.7.1. Our Initial Proposal

Our Initial Proposal included expenditure for the compliance and resilience category of $282.7 million.

This included new programs of expenditure including low span remediation ($101.6 million) and tower resilience ($35.3 million). These programs reflect the expectations communicated by safety regulators and were developed in close consultation with stakeholders.

Table 3-36: Compliance and resilience programs, AusNet proposal ($M, 2026-27)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Fire protection systems	0.6	0.6	0.6	0.6	0.6	**3.2**
Infrastructure security	26.2	12.9	15.7	12.4	11.0	**78.3**
Structure fall arrests	1.5	1.5	1.5	1.5	1.5	**7.6**
Ground wire conductors	6.5	6.5	6.6	6.7	6.8	**33.2**
Low spans remediation	28.0	25.0	16.8	15.8	16.0	**101.6**
Tower resilience	6.9	7.0	7.1	7.1	7.2	**35.3**
Environmental	4.6	4.7	4.7	4.8	4.8	**23.7**
Total	**74.4**	**58.2**	**53.1**	**49.0**	**48.0**	**282.7**

Source: AusNet

In addition, the release of the Security of Critical Infrastructure Rules 2023 resulted in significant increases for the physical security program compared to the current period ($78.3 million). Expenditure was also included for the environmental program, reflecting the findings of recent assessments of condition and criticality against our environmental legislative obligations.

3.7.2. Draft Decision

3.7.2.1. Tower resilience

The AER was not satisfied that AusNet's proposed $34.0 million ($m 2026-27, direct escalated) for resilience capital expenditure reasonably reflected the capex criteria. Its draft decision included an alternative forecast of $13.2 million, which was $20.8 million or 61.1% lower than AusNet's proposal. The AER found customer benefits were typically maximised at lower levels of strengthening than proposed by AusNet, replacing fewer towers and where benefit-cost ratios are higher.

3.7.2.2. Management of transmission ground clearances and Tranche 1 Rectification Low Spans

AusNet 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. The AER's alternative estimate for the two projects combined was $23.6 million, aligned with the scope supported by AusNet's economic modelling and excluding the risk allowance. This provides for the rectification of 20 low spans, including 6 low span lines that Energy Safe Victoria considered were critical for AusNet to address. This represented a $74.4 million or 75.9% reduction from AusNet's proposed expenditure.

3.7.2.3. Ground wire compliance

AusNet proposed expenditure of $31.9 million in the next regulatory period to replace ground wire and phase conductors due to insufficient capacity. The AER determined that the economic modelling for this project exhibited the same issues as identified for Asset Replacement, 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. The AER therefore determined the modelling overestimated the volume of replacement works required in the next regulatory period. It included $13.5 million in its draft decision, reflecting the adjusted economic modelling and the removal of the risk allowance. This represented a $18.4 million or 57.7% reduction from AusNet's proposed repex of $31.9 million.

3.7.2.4. Physical security

AusNet proposed $75.5 million in the initial proposal for the physical security program. The AER did not accept this program and proposed an alternative estimate of $41.0 million. The AER accepted that physical security investment is consistent with good electricity industry practice and recognised AusNet's obligations under the SOCI Act and CIRMP Rules.

It accepted the proposed non-SOCI expenditure ($6.1 million), with the exception of the proposed Future Technology allowance ($1.2 million).

For the SOCI-related expenditure ($69.4 million), the AER considered that additional information should be provided. AusNet assessed the need for physical security investment across sites of three tiers of criticality. AusNet provided security risk assessments, site condition information and supplier quotations relevant for Tier 1 and Tier 2 sites. Fencing and CCTV make up the two largest categories of proposed SOCI expenditure, and the AER's alternative estimates for fencing ($28.1 million) and CCTV ($5.5 million) represent a 50% reduction and 58% reduction respectively. For Tier 1 sites, the proposed fencing and CCTV expenditure was approved by the AER in the Draft Decision. In relation to Tier 2 and Tier 3 sites, the AER sought additional information on the cost breakdown and the need for fencing and CCTV investment across Tier 3 sites. With the exception of proposed expenditure for fencing and CCTV, the AER approved the proposed expenditure (e.g., signage, window protection, lighting) and included an additional provision of $0.3 million for access control.

The AER stated that compliance with the SOCI Act and CIRMP Rules requires a proportionate assessment of risks and mitigation costs and considered that the proposal did not adequately demonstrate that the proposed security measures reflected site-specific risk and reasonable practicability. In this context, the recommend 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.

3.7.2.5. Environmental

AusNet proposed $22.9 million for the environmental program. This consisted of $5.6 million for environmental – operational improvements (e.g. transformer servicing, holding tank maintenance, stockpile management), $11.2 million in relation to rework – infrastructure improvements (e.g. installation of shut-off valves, bund replacements, puraceptor systems), and $6.1 million for a consultant for the environmental program. The AER's Draft Decision accepted the $5.6 million for environmental works but rejected the proposed costs for rework and the consultant.

3.7.3. Response to the AER's Draft Decision

3.7.3.1. Tower resilience

The tower resilience program is proposed to strengthen structures along critical circuits from a network security and public safety perspective. The primary need for this expenditure is to maintain the safety, reliability, and security of electricity supply to Victorian consumers, consistent with AusNet's obligations under the National Electricity Rules (NER) and the National Electricity Objective (NEO).

AusNet has revised the network resilience program in response to the AER's Draft Decision and to incorporate safety risk considerations. The revised program addresses the AER's concerns regarding transmission line resilience, customer benefits and risk allowances, and supplements the initial economic assessment to identify the safety benefits of tower strengthening on the eight critical transmission lines included in the initial proposal.

AusNet's revised proposal applies two distinct assessment steps. First, for each of the eight critical transmission lines,[16] it selects the highest line-resilience level for which the cumulative benefit cost ratio (BCR) remains above one. This captures all economically justified resilience benefits, rather than stopping at the option with the highest BCR. Second, it adds tower-specific works identified through the safety assessment as necessary to minimise safety risks as far as practicable. 'Appendix 3F Resilience Update' provides the full justification for the tower resilience program while this section provides a summary.

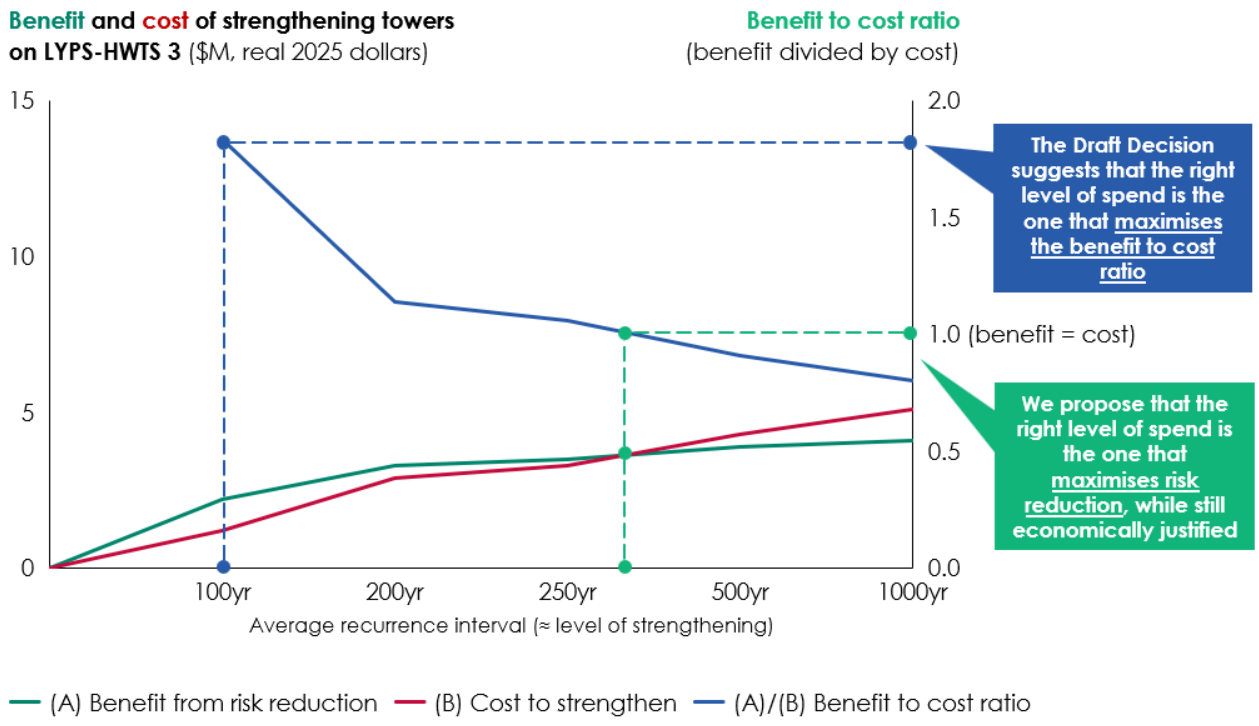
3.7.3.1.1. The treatment of net benefits under the resilience program

AusNet has addressed the AER's feedback on customer benefits and cost efficiency. The revised proposal demonstrates that the proposed strengthening works that are designed to unlock wholesale market benefits are economic where the BCR is greater than one, and that the program seeks to improve line resilience to the highest economically justified level. AusNet has also removed risk allowances and provided updated bottom-up cost build information to support the revised expenditure forecast.

AusNet recognises that strengthening all transmission lines to withstand the most extreme wind conditions would not be economic. The revised program, therefore, focuses on the eight market critical lines and for each line, selects the highest assessed resilience level for which the cumulative BCR remains above one.

This approach differs from selecting the option that maximises the BCR as illustrated in3-10. Maximising the BCR ratio identifies the most efficient individual option but does not necessarily maximise total net benefits. AusNet's approach continues strengthening while cumulative benefits exceed cumulative costs, thereby capturing additional positive net benefits for customers.

Figure 3-10: Benefit and cost of strengthening towers



AusNet's approach is prudent because it:

- assesses resilience at the transmission line level
- reflects greater understanding of transmission line resilience against downdrafts

[16] As outlined in the AMS 10-77 Transmission Line Structures submitted with the initial proposal, the Bendigo Terminal Station to Kerang Terminal Station (BETS-KGTS) 220kV transmission line has been removed from the resilience program because it overlaps with the Victorian Transmission Plan to build a new high-capacity double circuit line from Kerang/New Kerang to Bendigo by 2035. As such, only eight critical transmission lines have been proposed.

- recognises that ARI may under-represent downdrafts intensity
- captures additional resilience benefits while the cumulative benefits of the selected line-level scope continue to exceed cumulative costs
- balances customer benefits, cost and the risk of high impact low probability tower collapse events.

Further, the revised program will improve the resilience of the eight electricity market critical lines, but it will not bring all eight lines up to today's minimum design standard of AS/NZS 7000 of 400 Average Recurrence Interval (ARI) for the Victorian region. Five of the eight lines will remain less resilient than newly constructed transmission lines because not all towers on those lines will meet current design standards. As a result, while the program will reduce the likelihood of tower collapse, it does not eliminate the risk of future collapse events because it is not economic to make transmission lines more resilient to extreme winds.

3.7.3.1.2. Incorporating safety into the resilience program

AusNet's initial proposal for network resilience capital expenditure included a scope that focused on delivering market benefits only. In response to AER's note in its Draft Decision that AusNet's initial resilience program did not include safety risks, AusNet has also incorporated a risk assessment to minimise safety risk from tower collapse to 'as far as practicable' levels, which is a regulated requirement under the *Electricity Safety Act 1998 (Vic)*. Further, [C-I-C]

The progress towards this has informed the revised proposal.

The safety assessment is separate from the line-level resilience assessment. Safety benefits have not been included in the BCR used to justify the 164 tower resilience scope.

As part of the safety risk assessment, AusNet undertook additional tower-level risk modelling for the eight critical transmission lines. This assessment identified elevated safety risk on three lines — SMTS-SYTS 1, SYTS-MLTS 1 and SYTS-MLTS 2 — where towers cross freeway or highway roads or are located in highly urbanised easements. The assessment identified 52 towers requiring treatment to reduce safety risk as far as practicable.

Of these 52 towers, 43 overlap with towers already included in the resilience-driven scope. The remaining nine towers on the SYTS-MLTS 1 and SYTS-MLTS 2 lines have, therefore, been added to the revised program to support AusNet's safety obligations. This increases the proposed strengthening volume from 164 towers in the initial proposal to 173 towers in the revised proposal.

3.7.3.1.3. Revised program

As a result, AusNet still supports the higher BECA recommendation where 166 towers are replaced at a cost of $31.3 million ($2024-25), rather than the AER's 60 towers at $13.1 million cost. As noted in our Information Response #016 to the AER, the correct number of towers should have been 164, reflecting two towers to be removed due to overlap with the Victorian Transmission Plan by VicGrid. However, with the nine additional towers justified, this totals 173 towers to be replaced (=164+9) in our revised proposal, at a cost of $35.8 million ($2026-27). This is marginally higher than the initial proposal amount ($35.3 million).

3.7.3.2. Management of transmission ground clearances and Tranche 1 Rectification Low Spans

For Low Spans Tranche 1, AusNet proposes to maintain the original proposal for this in-flight program. Tranche 1 will address 16 of the 114 high risk spans, including six priority spans (clearance <6.0m), which AusNet committed to rectify as soon as practicable after engagement with Energy Safe Victoria. AusNet has published the RIT-T for low spans tranche 1, including the Project Assessment Conclusion Report (PACR). AusNet also notes it does not support the notion of reducing capex for an in-flight program.

For Low Spans Tranche 2, AusNet has accepted a significant cut to its initial program. This decision followed consultation with Energy Safe Victoria. The revised forecast includes economically justified spans using strain sections, amounting to 19 spans, down from 80 spans in the initial proposal.

Additional information on this topic is included in Section 10 of the document 'Appendix 3E Asset Replacement and Compliance Update'.

3.7.3.3. Ground wire compliance

AusNet has revised the financial consequence methodology and accepted the cut to the risk allowance. Post the initial proposal, further design studies have identified additional scope requirements through detailed earthing system and tower modelling. Further, the need for tower and earth peak strengthening has increased typical unit replacement costs by around three times. Subsequently, for ground wire (compliance), AusNet's revised economic forecast is $93.5 million ($2026-27), which is a substantial increase on the initial proposal ($33.2 million in $2026-27) despite a decrease in total length of ground wire included in the revised proposal.

Additional information on this topic is included in Section 9 of the document 'Appendix 3E Asset Replacement and Compliance Update'.

3.7.4. Revised Proposal

3.7.4.1. Fire detection and suppression

Fire detection and suppression assets are in place to mitigate the effects of potentially destructive fires. We accept the AER's draft decision and are forecasting a program of $3.1 million (real 2026-27) in the next regulatory period.

3.7.4.2. Physical security

AusNet has revised the forecast of the physical security program to be $52.8 million, $25.5 million (33%) lower compared to the initial proposal. This reflects updates to infrastructure to be utilised and unit rate costs reflected in contractor quotes, and development of a detailed cost breakdown of program costs for Tier 2 and 3 sites. AusNet's proposed program for the upcoming 2027-32 period represents 66% of the total costs of the proposed investment in physical security, with the majority of the remainder of the expenditure forecast in the current regulatory period.

Since AusNet's initial proposal was submitted, in June 2026 the Department of Home Affairs released the Enhanced Critical Infrastructure Risk Management Program Rules (2026 Enhanced Rules). Under the 2026 Enhanced Rules, there are a range of new obligations that AusNet is required to comply with, imposing additional costs upon the business (see Chapter 4 Operating Expenditure for additional operating expenditure and Section 3.8 for details of digital investments to comply with the CIRMP Amendment Rules). AusNet's physical security program is compliant with the CIRMP Amendment Rules, reflecting early consultation and engagement with the Department of Home Affairs on proposed rules.

The physical security standards applied to develop this program are risk-based and proportionate to the criticality of assets threatened. AusNet's transmission sites are categorised under three tiers of criticality, with Tier 1 being the most critical and subject to the most stringent physical security standards. AusNet has submitted a copy of the updated criticality assessment methodology alongside the revised proposal. AusNet has also submitted a cost benefit analysis and enterprise risk assessment to further assist in demonstrating that the proposed works under this program are reasonable and proportionate. This assessment reflects a significantly lower monetised risk in relation to Tier 2 and Tier 3 sites, consistent with the expectation that the material risk posed at these sites is lower compared to the most critical sites under Tier 1. The proposed program reflects the outcome of the assessment of options under the cost benefit analysis and risk assessments.

To demonstrate the need for physical security investment across sites, AusNet's initial proposal provided detailed Security Risk Assessments (SRAs) across Tier 1 and Tier 2 sites. In response to the AER's feedback in Draft Decision, AusNet has provided details of the age of fencing assets across Tier 3 sites, demonstrating the majority of fencing assets at Tier 3 sites have exceeded the typical service life.[17] AusNet is unable to provide details of the age of existing CCTV assets across Tier 3 sites due to the lack of legacy records for these assets. The proposed works for CCTV across Tier 3 sites would not only replace existing assets with deteriorated condition but also uplift CCTV coverage to be consistent with current minimum standards for transmission terminal stations. In response to the AER's feedback, AusNet have also included a separate cost item for each tier of criticality in relation to access control costs.

AusNet has provided a business case, developed an updated cost breakdown for the proposed physical security program, with a further a breakdown by site and criticality tier for fencing and CCTV assets, as the proposed investment for these assets was not accepted in the AER's Draft Decision and makes up the majority of the program. Where contractor quotes have been utilised to ensure costs and unit rates are consistent with market pricing, these are provided in the cost breakdown spreadsheet submitted alongside this revised proposal.

3.7.4.3. Structure fall arrests

AusNet accepts the AER's draft decision and proposes a structure fall arrests program of $7.4 million ($2026-27). This program is largely unchanged from the initial proposal ($7.6 million).

3.7.4.4. Ground wire conductors

Ground wires, or earth wires, are installed above conductors and at stations to protect them from lightning strikes and help prevent outages and damage. In addition to the condition-based replacement outlined in the Section 3.6 – Ground wire (condition-based replacement), a compliance program is also required. As discussed in Section 3.7.3.3, AusNet proposes a ground wire compliance program of $93.5 million ($2026-27). This is a substantial increase on the initial $33.2 million proposal.

3.7.4.5. Low spans remediation

Some transmission line spans across Victoria do not meet the required safety clearances between power lines and the ground, vegetation or infrastructure. These "low spans" pose potentially serious safety risks – such as electrical flashovers – especially when tall vehicles or equipment pass underneath. As discussed in Section 3.7.3.2., AusNet proposes a low spans remediation program of $42.7 million ($2026-27). This is substantially lower than the initial proposal amount of $101.6 million; reflecting the significant reduction in the Tranche 2 program.

Figure 3-11: Low Spans: Floating strain successfully installed on East Rowville Terminal Station – Cranbourne Terminal Station 220kV Line

[17] The service life for chain mesh fencing assets is typically 20 years for inland rural areas and 11.5 years for more coastal or urban areas, per advice provided by an independent steel fencing supplier in Australia.



3.7.4.6. Tower resilience

As discussed in Section 3.7.3.1, AusNet proposes a tower strengthening resilience program of $35.8 million ($2026-27) for the next regulatory period.

3.7.4.7. Environmental

AusNet accepts the AER's draft decision to remove consultant costs from the environmental program and has not re-proposed these costs in the revised proposal. However, AusNet has re-proposed the costs associated with rework – infrastructure improvements (e.g. installation of shut-off valves, bund replacements, puraceptor systems) alongside the environmental – operational improvements (e.g. transformer servicing, holding tank maintenance, stockpile management) accepted in the AER's Draft Decision. Both the proposed rework and environmental costs are part of AusNet's proposed environmental program. This program implements the recommendations of the Portfolio Risk Analysis (PRA). The PRA conducted by AusNet assessed compliance with duties under the Environment Protection Act 2017 (in effect from 1 July 2021).[18]

To help demonstrate the need for this program, AusNet has provided additional justification and a clearer linkage to the identified environmental risks. The table below (also provided in technical document – Environmental Capex Calculation demonstrates how these works directly address environmental issues identified through the portfolio risk analysis, including the mitigation of contamination and environmental compliance risks at site level.

This provides a stronger line of sight between the proposed expenditure, the underlying risk drivers, and the environmental outcomes being delivered, consistent with prudent asset management and environmental risk mitigation objectives. AusNet's revised proposal environmental program is $16.8 million (real 2026-27, escalated).

[18] Including the General Environmental Duty (GED), Duty to Manage, and Duty to Notify, requiring AusNet to actively identify, assess, and mitigate risks to human health and the environment arising from pollution, waste, and contamination.

Table 3-37: Breakdown of environmental program costs and links to environmental needs identified in PRA

Category	Item	Cost (real 2024-25, unescalated)	No of sites	Sites	Justification (also presented in the PRA attached alongside the proposal)
[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]
	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]
	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	
	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]
	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]
	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]
[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]
	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]
	[C-I-C]	[C-I-C]			
	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]
	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]
	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]

Category	Item	Cost (real 2024-25, unescalated)	No of sites	Sites	Justification (also presented in the PRA attached alongside the proposal)
	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]
	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]
	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]

Source: AusNet

3.7.4.8. Summary of compliance and resilience programs

Table 3-38 provides a summary of the compliance and resilience programs. Total capex is forecast to be $252.3 million (real $2026-27).

Table 3-38: Compliance and resilience programs, AusNet revised proposal ($M, 2026-27)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Fire protection systems	0.6	0.6	0.6	0.6	0.6	3.1
Infrastructure security	19.1	9.9	7.9	8.1	7.8	52.8
Structure fall arrests	1.5	1.5	1.5	1.5	1.5	7.4
Ground wire conductors	18.6	18.6	18.6	18.7	18.9	93.5
Low spans remediation	9.4	16.5	8.4	8.4	0.0	42.7
Tower resilience	7.1	7.1	7.1	7.2	7.3	35.8
Environmental	3.4	3.4	3.4	3.4	3.4	17.0
Total	**59.7**	**57.6**	**47.5**	**47.9**	**39.6**	**252.3**

Source: AusNet

Table 3-39 shows AusNet's revised proposal is lower than its initial proposal ($282.7 million), but substantially higher than the AER's draft decision. The increase in the ground wire conductors (compliance) program is a key driver of the variation.

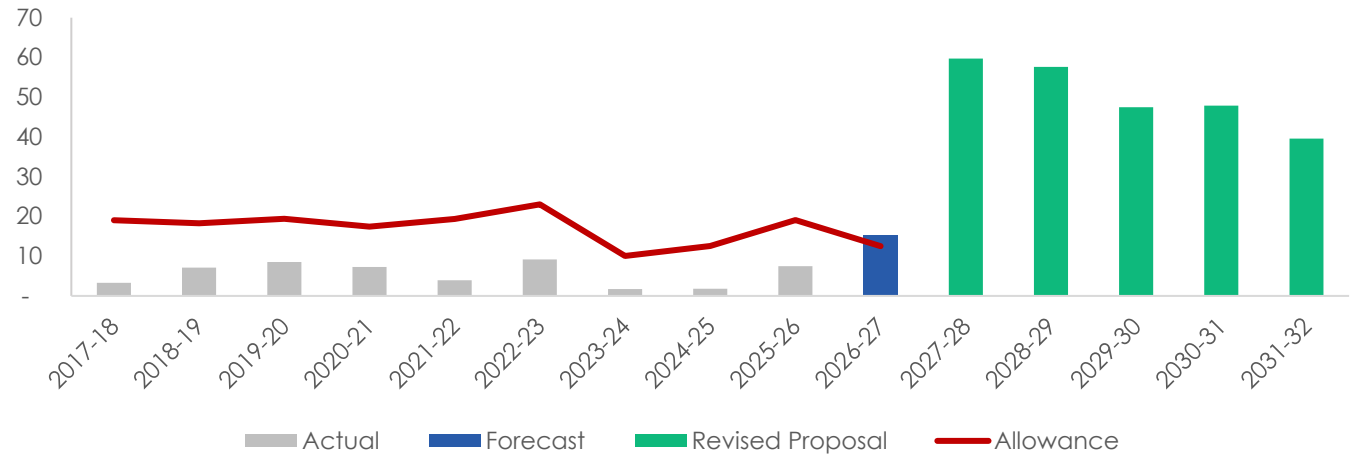
Table 3-39: Compliance and resilience programs, AusNet initial and revised proposal and AER draft decision ($M, 2026-27)

	Initial Proposal	AER Draft Decision	Revised Proposal
Fire protection systems	3.2	3.1	3.1
Infrastructure security	78.3	42.1	52.8
Structure fall arrests	7.6	7.5	7.4
Ground wire conductors	33.2	13.9	93.5
Low spans remediation	101.6	24.2	42.7
Tower resilience	35.3	13.6	35.8
Environmental	23.7	5.7	17.0
Total	**282.7**	**110.1**	**252.3**

Source: AusNet

Figure 3-12 shows AusNet's revised proposal capex represents a substantial increase on recent actual capital expenditures.

Figure 3-12: Actual, forecast and proposed compliance and resilience capital expenditure ($m, real March 2027)



3.8. Information and Communication Technology

3.8.1. Our Initial Proposal

Our Initial Proposal included digital expenditure for the next regulatory period of $266.1 million. This digital expenditure reflects the need to respond to a number of external drivers that pose risks to the network if left unaddressed. In particular, significant investments to uplift digital capability were proposed under the $84.5 million Advanced Energy Management System (AEMS) capex program, $63.1 million Cyber Security capex program, and $30.6 million Asset Management and Field Enablement capex program.

3.8.2. Draft Decision

The Draft Decision approved $210M of digital expenditure, representing an 18% reduction compared to the Initial Proposal. The Draft Decision for each program was as follows:

- **Digital Resilience – Applications**: Fully accepted in the Draft Decision
- **Digital Resilience – Infrastructure**: Majority of initiatives approved; costs for two projects revised due to inconsistent cost allocation between AusNet's network businesses
- **Cybersecurity**: Draft Decision revised costs to align with the Final Decision on AusNet's Distribution reset, reflecting concerns on duplicated/unjustified scope
- **Advanced Energy Management System (AEMS)**: Draft Decision removed 8 of the 22 initiatives, citing concerns around unjustified benefits and duplication
- **Asset Management & Field Enablement**: Fully accepted in the Draft Decision
- **Customer Engagement**: Capital expenditure fully accepted in the Draft Decision, reductions made to operating expenditure (discussed in the Operating Expenditure chapter)
- **Metering Systems**: Fully rejected in the Draft Decision

3.8.3. Response to the AER's Draft Decision

We fully accept the Draft Decision for the following programs:

- Digital Resilience – Applications
- Asset Management & Field Enablement
- Customer Engagement

We will re-propose some or all of the rejected expenditure for the following programs, with minor changes in some cases to reflect the latest information:

- **Digital Resilience – Infrastructure**: We have provided a Business Case Addendum which clarifies the cost allocation between AusNet's network businesses, confirming the appropriate amount of expenditure attributable to AusNet Transmission
- **Cybersecurity**: We have provided a Business Case Addendum which clarifies the compliance requirements for AusNet Transmission, in particular confirming that the initiatives proposed are required to meet Security Profile 3 under Version 2 of the AESCSF, and do not overlap or duplicate scope. We also provide further justification for the phasing of cyber investments
- **Advanced Energy Management System (AEMS)**:
  - We are accepting the removal of 3 initiatives, addressing the AER's feedback
  - We have provided a Business Case Addendum which provides further information on the customer benefits for the 5 other initiatives which were removed in the Draft Decision. We have also provided a mapping of these initiatives to the new Transmission System Operator Capability Framework (TSOCF) being developed by AEMO, which was not available when the Initial Proposal was submitted
  - Since our initial proposal, AusNet has been subject to a new regulatory requirement relating to AEMO delegations under the National Electricity Rules. A small amount of new expenditure is being added to the AEMS program to meet this new requirement.
- **Metering Systems**:
  - We accept the Draft Decision to remove the initiative relating to meter reading software and the meter management solution
  - We partially accept the Draft Decision to remove the 2 initiatives relating to meter data storage and enhancing meter data integrity & analytics. While we have not removed these initiatives, we are proposing a new combined solution design which leverages existing systems. This reduces the cost of delivering these initiatives
  - We have provided a Business Case Addendum which provides further justification of the Meter Asset Register initiative which was removed in the Draft Decision
  - We are proposing a small amount of new expenditure added to this program in response to the AER's concerns with the meter replacement program. Instead of replacing the Mk6e meters, we propose to

undertake a relatively small digital initiative to maintain the compatibility of the Mk6e meters with the EDMI EziView configuration software

In addition to the above responses to the Draft Decision, our Revised Proposal includes a significant amount of digital expenditure relating to the new **Security of Critical Infrastructure (SOCI) Enhanced Critical Infrastructure Risk Management Plan (CIRMP) regulations**, which were put into force in June 2026. The additional expenditure relating to these regulations has been flagged to both the AER and the Transmission Stakeholder Advisory Panel (TSAP) between the lodgement of the Initial Proposal and the release of the Draft Decision.

3.8.4. Revised Proposal

We are proposing $282M (real March 2027) of capital expenditure relating to Digital Programs in the Revised Proposal. This is $16M higher than the Initial Proposal, primarily driven by the addition of new programs to address requirements under the newly released SOCI CIRMP Amendment Rules.

Please note that, similar to the Initial Proposal, the majority of the proposed digital programs drive both capital and operating expenditure. For a comprehensive view of the expenditure associated with each program, please refer to the Business Case Addendums for the programs which were included in the Initial Proposal, and the newly submitted Business Cases for the SOCI CIRMP Amendment Rules programs.

In addition, we note that while the majority of capital expenditure assigned to the "IT" and "In-House Software" asset classes is explained in this section of the proposal, a small amount ($4.5M) is explained in Section 3.9 "Non-network". This relates to expenditure relating to digital fitout costs for the control room at the new head office and is therefore explained as part of the broader section on head office relocation. We confirm that apart from this $4.5M, all "IT" and "In-House Software" are part of our Digital program.

3.8.4.1. Programs included in the Initial Proposal

While the total capital expenditure associated with digital programs has increased compared to the Initial Proposal, this is driven almost entirely by the addition of new programs required to comply with the SOCI CIRMP Amendment Rules. When these new programs are excluded, our proposed digital capital expenditure comes to $253M, compared to $266M in the Initial Proposal. This demonstrates that the digital capital expenditure included in the Revised Proposal is lower than the Initial Proposal when compared on a like-for-like basis.

In this section, we provide a summary of the changes made in the Revised Proposal for the four programs included in the Initial Proposal where AusNet does not accept the Draft Decision on capital expenditure.

Table 3-40: Capital expenditure in Revised Proposal vs. Initial Proposal and Draft Decision ($M, real 2026-27)

Program	Initial Proposal capex	Draft Decision capex	Revised Proposal capex	Explanation of change
No change vs. Draft Decision				
Digital Resilience – Applications	38.7	37.2	37.0	No change to direct cost – change relates only to overheads and escalation applied top-down in the capex model
Asset Management & Field Enablement	30.6	29.9	29.7	No change to direct cost – change relates only to overheads and escalation applied top-down in the capex model
Customer Engagement	4.0	4.0	3.9	No change to direct cost – change relates only to overheads and escalation applied top-down in the capex model
Re-proposed				
Advanced Energy Management System	84.6	59.0	81.4	We are accepting the removal of 3 initiatives, relating to PMU data for incident response & investigation, TASM Phase 3 and UAV/Drone inspection. We are continuing to propose the 5 other initiatives which were removed in the Draft Decision. In support of these initiatives, we are providing a Business Case Addendum and updated cost benefit analysis which: • Provide further explanation on the scope of each initiative, to clarify that there is no duplication or overlap between initiatives • Better explain the link between each initiative and customer benefits

Program	Initial Proposal capex	Draft Decision capex	Revised Proposal capex	Explanation of change
				• Map these initiatives to the Draft Transmission System Operator Capability Framework (TSOCF) being developed by AEMO, which was not yet available when the Initial Proposal was submitted One new initiative has been added to the AEMS program to establish TNSP ICCP links. This initiative has been added as requirement to meet new Instrument of Delegation between AEMO and AusNet requirements. These new regulatory requirements became effective 1 July 2026, as flagged to the AER through post-lodgement engagement. This initiative contributes $4.0M to the capital expenditure forecast.
Cybersecurity	63.1	52.6	60.7	We are continuing to propose all the scope included in the Initial Proposal. We consider that all initiatives included in the Initial Proposal are required for AusNet to meet Security Profile 3 requirements under Version 2 of the AESCSF (SP-3 V2), which is the Security Profile that has been accepted by the AER. Therefore, in support of this program, we are providing a Business Case Addendum which: • Provides further explanation on the scope of each initiative, to clarify that there is no duplication or overlap between initiatives • Explains why each initiative is required to comply to SP-3 V2 • Explains the phasing of initiatives, and why they must be completed at the proposed time in the next regulatory period
Digital Resilience – Infrastructure	32.2	27.8	31.6	We have provided a Business Case Addendum which clarifies the cost allocation between AusNet's network businesses, confirming the appropriate amount of expenditure attributable to AusNet Transmission. The updates are consistent with AusNet's EDPR Final Determination, and will also inform AusNet Gas Distribution's upcoming Gas Access Arrangement Review (GAAR).
Metering Systems	12.8	0.0	8.3	We accept the Draft Decision to remove the initiative relating to meter reading software and the meter management solution. We partially accept the Draft Decision to remove the 2 initiatives relating to meter data storage and enhancing meter data integrity & analytics. While we have not removed these initiatives, we are proposing a new combined solution design which leverages existing systems. This reduces the cost of delivering these initiatives. We have provided a Business Case Addendum which provides further justification of the Meter Asset Register initiative which was removed in the Draft Decision. The Business Case Addendum also explains a small amount of new expenditure added to this program in response to the AER's concerns with the meter replacement program (which was included in "Replacement – Other" in the Initial Proposal). We agree that the need to replace Mk6e meters was not sufficiently justified by incompatibility with EziView software. However, following further engagement

Program	Initial Proposal capex	Draft Decision capex	Revised Proposal capex	Explanation of change
				with the vendor EDMI. we have confirmed that work is required to ensure the continued functionality of testing of meters with measurement transformer correction factors in the Windows 11 version of EziView. Therefore, instead of replacing the Mk6e meters, we propose to undertake a relatively small digital initiative to maintain the compatibility of the Mk6e meters with EziView, working with EDMI.
Total	**266.1**	**210.5**	**252.7**	

Source: AusNet

For more information on the Revised Proposal for the existing Digital programs, please refer to the Technology Documents, which contain the Business Case Addendums and updated NPV model. The capital expenditure forecast for each initiative is also available in the Capital Expenditure Model.

3.8.4.2. New programs relating to Enhanced SOCI CIRMP Rules

3.8.4.2.1. Legislative background

There is growing recognition of the role of government policy to address threats to Australian critical infrastructure assets that are increasingly interconnected and complex. Critical infrastructure is fundamental to Australia's social and economic prosperity, national security and defence. Disruptions can have consequences well beyond the affected asset because of interdependencies across sectors.

The SOCI Act came into force in 2018 and began as a regime focused on visibility of ownership and control. Under this Act, legal obligations are outlined for entities that own, operate or have direct interests in critical infrastructure assets. Our electricity transmission network has been registered by the Secretary of Home Affairs as critical infrastructure as defined under the SOCI Act. Subsequently, the Commonwealth Department of Home Affairs introduced the Security of Critical Infrastructure (Critical infrastructure risk management plan) Rules 2023 (CIRMP Rules), that define the obligations and specific requirements regarding how AusNet must protect critical assets in the electricity transmission network and comply with the SOCI legislation.

In June 2026, the Department of Home Affairs published further amendments under the Security of Critical Infrastructure Legislation Amendment (Enhanced Critical Infrastructure Risk Management Program) Rules 2026 (CIRMP Amendment Rules). The CIRMP Amendment Rules were developed following the Independent Review of the Security of Critical Infrastructure (SOCI) Act, delivered in January 2026, which identified opportunities to strengthen Australia's critical infrastructure security framework and respond to a rapidly evolving threat environment. The explanatory statement to the Rules states that existing obligations require updating because the threat landscape has become more dynamic and challenging, including through state-sponsored and malicious actors, supply chain vulnerabilities, emerging technologies, espionage and foreign interference.

As the CIRMP Amendment Rules were made after the submission of the Initial Proposal in October 2025, we include in this Revised Proposal a set of new programs which will allow AusNet to comply with these new requirements in the 2027-32 period. This has been flagged to the AER through our regular engagement since the Initial Proposal, and to stakeholders through TSAP meetings and at the AER's Predetermination Conference.

3.8.4.2.2. CIRMP Amendment Rules across our Revised Proposal

To allow AusNet to comply with the CIRMP Amendment Rules, we have included new proposed expenditure in multiple parts of the Revised Proposal. An appendix document is provided which maps each new requirement to the various Revised Proposal documents, however a high-level overview is provided below:

- **The Physical Security program** discussed in section 3.7.2.4 is required for compliance with the enhanced requirements relating to physical security hazards. This program was included in the Initial Proposal and is included in the Revised Proposal with unchanged scope (though costs have been updated). AusNet's early involvement in the development of the CIRMP Amendment Rules allowed the Initial Proposal to be developed in line with the requirements released in June 2026. The final requirements that have been put into force validate the scope that we included in this program.
- **There are 4 new Digital programs proposed** which are required for compliance with the enhanced requirements relating to additional material risks, cyber security hazards, and supply chain hazards. These programs impact both capital and operating expenditure. As a result, they are discussed in both this section and the Chapter 4.
- **There are also non-digital costs** which are required for compliance with the enhanced requirements relating to additional material risks, personnel hazards, supply chain hazards, and physical security and natural hazards. These comprise exclusively of operating expenditure (i.e. no capital expenditure) and are therefore discussed in Chapter 4.

The table below summarises the capital expenditure associated with the 4 new Digital programs and provides an overview of their scope. For completeness, operating expenditure is also shown below, however it is discussed further in Chapter 4.

New business cases for these programs have been provided, and they have been included in the updated NPV model. These new and updated documents are provided in the Technology Documents folder.

Table 3-41: New digital programs for CIRMP Amendment Rules compliance ($M, real 2026-27)

Program name	High-level scope	Capex	Opex
Critical Infrastructure (CI) Fortify	The CI Fortify program will establish the architecture, infrastructure and workforce capability required for AusNet to meet the Department of Home Affairs and Australian Signals Directorate objectives of maintaining critical operational technology (OT) functions for up to 3 months while isolated from IT and the internet. This program involves: [SOCI ACT PROTECTED] **This program supports the continued supply of electricity to Victorian customers in the event of a major cyber security incident through the ability to separate (from IT and the internet) and maintain continuity of critical OT functions.**	16.9	17.2
Foreign Ownership Control & Influence (FOCI) and Supply Chain	The FOCI & Supply Chain program will implement the required controls to appropriately manage risks associated with AusNet's suppliers and functions performed offshore. This program involves: [SOCI ACT PROTECTED] **This program supports the continued supply of electricity to Victorian customers by minimising the risk of disruption caused by an insider / supplier threat event.**	3.4	11.4
Patching	As cyber threats evolve, patching timeframes must reduce to ensure that AusNet can address cyber risks in a timely manner. By implementing the Patching program, AusNet will align our patching speed to CISA targets. This program will drive improvements across the patching lifecycle, including scanning, prioritising, testing & approving, and deploying. This program involves: [SOCI ACT PROTECTED] **This program supports the continued supply of electricity to Victorian customers by reducing the risk of disruption caused by the emergence and exploitation of cyber security vulnerabilities in AusNet's applications and systems.**	3.1	1.0
Artificial Intelligence (AI) Defence	The AI Defence program manages the risk of growing cyber threats, including AI-enabled attacks. This program involves: [SOCI ACT PROTECTED]	5.7	11.6

Program name	High-level scope	Capex	Opex
	[SOCI ACT PROTECTED] We recognise that there is greater uncertainty associated with benefit realisation where networks propose the use of new technologies. Therefore, the AI Defence program proposes only the use of proven technologies, where there are established industry use cases. We have also engaged the Department of Home Affairs, the Australian Signals Directorate, and AEMO on this program, to ensure that the proposed scope is not misaligned with the latest government guidance and consistent with current industry implementations. **This program supports the continued supply of electricity to Victorian customers by better protecting the network against AI-related cyber risk.**		
TOTAL		**29.1**	**41.2**

Source: AusNet

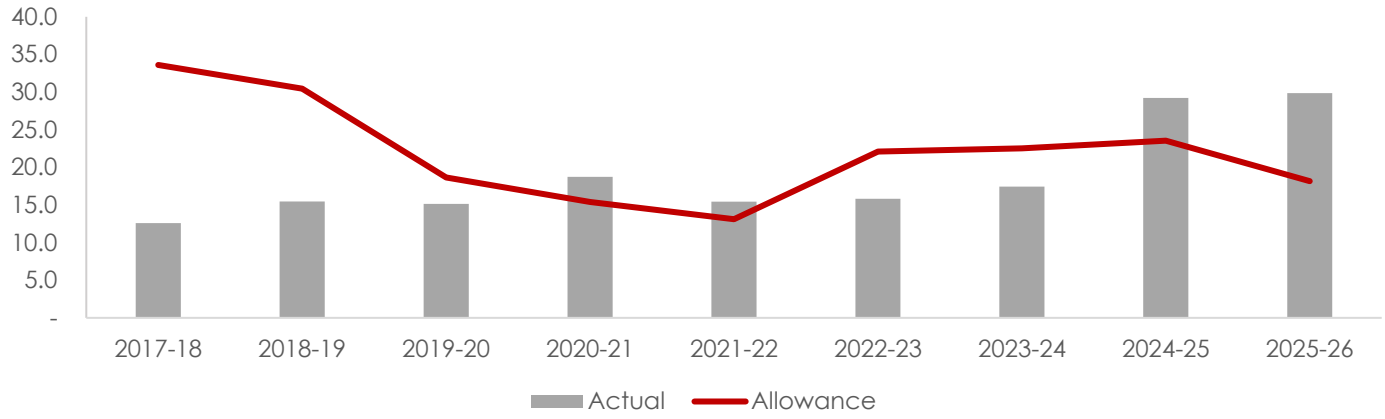
We recognise that there is a material cost associated with these new programs. However, these costs are essential to managing security risks for the transmission network, and to comply with new regulations. We have undertaken risk assessments and cost benefit analyses to ensure our programs and the costs associated with them are proportionate to the risk facing Victorians. In addition, AusNet has engaged the Department of Home Affairs, the Australian Signals Directorate, and AEMO on our proposed programs. We intend to continue this engagement throughout the 2027-32 period as necessary, to ensure our cyber security programs remain in the best long term interests of Victorians, and align with the latest government advice.

3.8.4.2.3. Top-down assessment

AusNet acknowledges that we are proposing a significant step up in ICT investment in the 2027-32 period, compared to the 2022-27 period. In Appendix 4I of the Initial Proposal, we provided an overview of recent actions we have taken to support the deliverability of our digital programs. This includes the following:

- In the current regulatory period, we implemented a Strategic Digital Partnership operating model, partnering with two global information technology services organisations to deliver base-business digital operations and maintenance, and to provide project delivery capability. This model enables AusNet to leverage the global expertise and talent pools of these organisations, and to readily scale up and down resources to match the required investment pipeline.
- Through 2024-25 and 2025-26 we scaled up our ICT delivery capacity with our digital partners. This is reflected in the investment profile shown below, which demonstrates the increase achieved in Digital capex in the last two years, well over previous years and also over the approved allowance.
- To support this increased investment, and to efficiently and effectively manage the increased digital partner teams, AusNet has additionally restructured and bolstered the Digital and Technology organisation. The organisation has established dedicated delivery governance, including a portfolio management office to manage program delivery along with in-house architecture and business analyst teams. Collectively, these groups oversee effective and coordinated delivery performance.

Figure 3-13: Historical digital capital expenditure ($M, real 2026-27)



Source: AusNet

With this increased delivery and governance resourcing in place, AusNet is suitably positioned to deliver the overall proposal portfolio, including the new programs relating to compliance with the Enhanced SOCI CIRMP Rules.

3.9. Non-network

3.9.1. Our Initial Proposal

Our Initial Proposal contained a forecast for non-network capex totalling $73.8 million for the 2027-32 regulatory period. This represented an increase compared to the expenditure that we expect to incur in the current regulatory period, reflecting increases in property, motor vehicle (fleet), and testing equipment capex.

In our initial proposal, $19.8 million was included for capitalised head office leases, reflecting the anticipated cost of lease renewal at Flinders Street (in 2027-28, lease term: 7 years) and Freshwater Place (2030-31, lease terms: 5 years), as well as the expansion to two additional floors at Freshwater Place (in 2027-28, lease term: 8 years).

3.9.2. Draft Decision

The Draft Decision accepted the proposed capex relating to property and fleet.

The Draft Decision accepted the majority of the proposed capex for testing equipment, but rejected two line items which were deemed to be insufficiently justified, which were:

- Replacement of failed equipment that was not forecast
- Aging equipment replacement in 2031 and 2032

3.9.3. Response to the AER's Draft Decision

We accept the AER's Draft Decision relating to fleet capex.

We agree with the AER's Draft Decision to accept capital expenditure relating to head office leases and fitout, however we propose to update these numbers in the Revised Proposal to reflect the selection of a new office location, which occurred after our proposal was submitted, and the finalised lease arrangements that have now been agreed with the landlord.

We accept the removal of the "replacement of failed equipment" line item from the testing equipment forecast. However, we maintain our original position that capex is required in the later years of the 2027-32 period to maintain the reliability of testing equipment and are submitting additional information in support of aging equipment replacement.

3.9.4. Revised Proposal

3.9.4.1. Head office

In the Initial Transmission Proposal , as well as in the Revised Distribution Proposal , the forecasts presented for head office costs related to a 'stay and expand' option, which assumed that AusNet would retain its current head office locations at Freshwater Place (Southbank) and Flinders St (Melbourne CBD).

Since these proposals were submitted, AusNet has undergone a more detailed market engagement process, and assessed multiple relocation options in addition to the 'stay and expand' option. This included:

- Engaging Jones Lang Le Salle to support negotiations with landlords, and Slattery to provide estimates of office fitout costs

- Conducting a quantitative analysis of relocation options and the 'stay and expand' option, to identify the lowest cost option in the long term
- Conducting a qualitative comparison of strategic alignment and building amenities & location
- Seeking Board approval for the recommended option

Figure 3-14: Timeline for selection of head office location

[C-I-C]

Through this process, the Board has approved management's recommendation to relocate AusNet's head office to [C-I-C]. The [C-I-C] location is aligned with AusNet's strategic objectives, while also being the lowest long term cost option. By selecting this option, AusNet is able to set itself up for growth in the next period, while minimising cost impacts for customers.

The updated cost included in our Revised Proposal for head office leases is $46M, representing the transmission proportion of the cost for a 10-year lease at the [C-I-C] location. While this cost appears higher than the $20M included in our Initial Proposal, this is driven by a longer lease term, rather than a true increase in lease costs. The costs included in our Revised Proposal result in materially the same costs per year for Victorian consumers as the Initial Proposal.

Further information on the reasons for exploring relocation, the options considered, and the cost of the preferred option are provided below.

3.9.4.1.1. Need to increase office space

The drivers that led AusNet to explore expanding head office space were explained in detail in AusNet Distribution's 2026-31 Revised Proposal, including data on office occupancy and employee sentiment. The rationale presented was accepted by the AER in their Final Decision, which stated "*We have accepted some expenditure like AusNet's innovation and property forecast in full, acknowledging the importance of innovation investment in supporting the energy transition and ensuring AusNet is able to deliver its programs through the up skilling of its workforce*".

Nevertheless, for completeness of the narrative in this section, we provide a brief summary of the relevant drivers below:

- **Lease forcing events**: Flinders St lease expires in August 2027, and Freshwater Place lease expires in September 2030, requiring urgent decisions on whether renewal results in the best outcomes for the network
- **Cost pressure**: Freshwater Place renewal includes a [C-I-C] rent step-up, materially increasing ongoing cost if unaddressed. In the face of such large cost increases, a prudent operator would review the options associated with these costs
- **Current capacity constraints**: Current office footprint accommodates around 40% of CBD headcount, with availability of desks being a major challenge. This was explained in detail in AusNet Distribution's Revised Proposal in January 2026. While customers have benefitted from low office costs in recent years, our current offices are not fit for purpose, and despite taking steps to maximise utilisation of existing office space we have exhausted all options and the current office space is below industry standard and is negatively impacting staff morale. Over time this will result in retention issues and compromise our ability to provide safe, reliable and secure services for our customers.
- **Expected growth:** The above capacity constraints are expected to worsen in the 2027-32 regulatory period, as significant growth is expected in our headcount to manage increasing complexity and a higher workload. With a significant pipeline of replacement work planned to manage deteriorating assets, major non-contestable projects outlined in the Victorian Transmission Plan, and a growing volume of connections, AusNet Transmission needs to significantly grow our workforce in multiple functional areas. While we are not seeking opex step changes to manage this growth, we do need to provide an adequate working environment to accommodate this additional headcount by increasing office space

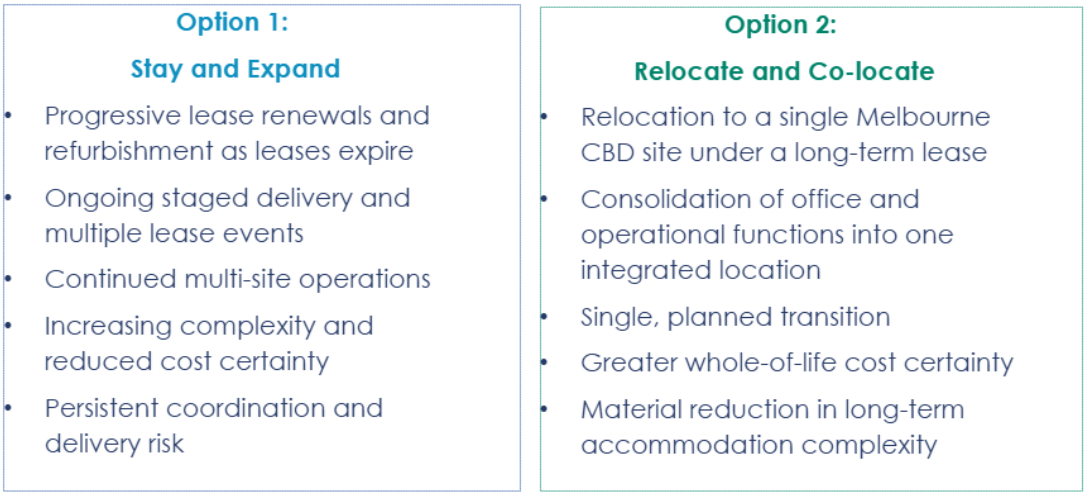
For these reasons, AusNet began exploring a range of options for our head office, seeking to select an option that meets the needs of AusNet's networks at the lowest cost for Victorian energy consumers.

3.9.4.1.2. Options considered

The initial stage of option consideration was to assess whether relocation in general could be a viable option. At a high level, it was determined that relocating could provide significant benefits. Notably, it would allow AusNet to consolidate

its offices that are currently located in Southbank and the Melbourne CBD into one location, which would reduce complexity of lease arrangements and provide better opportunities for cross-team collaboration and efficiency. Figure 3-15 below explains the high-level rationale provided to the Board for exploring relocation.

Figure 3-15: Stay and Expand versus Relocate and Co-locate



[C-I-C] was engaged to undertake an independent market-wide assessment of the Melbourne CBD office market. Through this engagement, they identified a range of technically and operationally feasible buildings, and ran a market-wide, broker-led Request for Information (RFI) and Best And Final Offer (BAFO) process, to collect information to inform AusNet's decision-making. As [C-I-C] work across many large corporates, landlords have an incentive to offer competitive rates.

The options shortlisted for more detailed consideration were:

- **Stay and expand:** Remain at the current locations at Freshwater Place (Southbank) and Flinders St (Melbourne CBD), increasing the footprint at Flinders St to expand office capacity
- [C-I-C]
- [C-I-C]
- [C-I-C]

3.9.4.1.3. Preferred option

An NPV analysis was undertaken to identify the lowest cost option, which considered the costs for rent, parking, fitout/refurbishment, outgoings (e.g. premises cleaning), and transition costs such as legal fees. The inputs for this analysis included the details of the BAFO for each location, as well as estimates provided by [C-I-C]. The results of the 10-year NPV analysis are summarised below.

Table 3-42: 10-year NPV analysis

		Stay and expand			Relocate & collocate		
Item	**Units**	**Freshwater Place**	**Flinders**	**Total**	[C-I-C]	[C-I-C]	[C-I-C]
Area	sqm	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]
Rent	$M	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]
Parking	$M	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]
Fitout & refurbishment (before incentive)	$M	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]
Incentives (net against fitout & refurbishment)	$M	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]
Outgoings	$M	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]
Other costs	$M	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]
TOTAL	**$M**	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]

Source: AusNet

The 10-year NPV analysis revealed that [C-I-C] was the lowest cost option. In addition, a similar comparison was done based on a 20-year timeframe (requiring some assumptions on longer term cost development) and based on non-discounted costs. The results are shown below.

Table 3-43: Additional options analysis

Comparison	**Lowest cost option**	**Stay and Expand**	[C-I-C]	[C-I-C]	[C-I-C]
10-year total cost	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]
10-year NPV	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]
20-year total cost	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]
20-year NPV	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]

Source: AusNet

In all the analyses conducted, [C-I-C] was the lowest cost option. This means that even in a long-term future scenario where leases are renewed after the end of their initial term, [C-I-C] is likely to be the lowest cost option. An NPV model is provided which contains the calculations that underpin these comparisons. We confirm as well that, while a different discount rate was used in this model to allow for greater consistency with the Board materials also being submitted, that using the standard discount rate of 7% (which is used in other parts of the proposal) does not change the outcome of the comparison.

In addition to these quantitative analyses, AusNet also considered the degree to which each location aligned strategically with AusNet's objectives, and the suitability of the building amenities and location. A summary of the assessment outcome of both the quantitative and qualitative analyses is shown below.

Figure 3-16: Assessment outcome by location

[C-I-C]

Based on the above assessment outcome, the preferred option was determined to be [C-I-C]. This recommendation was approved by AusNet's Board in April 2026. A copy of the Board paper which underpinned this approval is provided as a supporting document.

As flagged in the Board paper, the preferred location is part-owned by Brookfield Property Partners. As AusNet is part-owned by Brookfield Asset Management, we recognise that leasing the selected property constitutes a related party arrangement. We confirm that the lease arrangements reflect arm's length terms. In accordance with AusNet's Governance Agreement and affiliated transaction protocols, Brookfield-nominated directors on AusNet's Board were recused from the decision to select the property and corresponding shareholder approval processes.

3.9.4.1.4. Cost allocation and previous proposals

Following the conclusion of the decision-making process outlined above, the costs included in AusNet Transmission's Revised Proposal (this proposal) have been updated to reflect the costs of the preferred option. As a result, the total value of the right-of-use (ROU) asset to be recognised in AusNet's capital expenditure is now $125M, compared to the $75M which underpinned our Initial Proposal in October 2025 and was approved by the AER in the Draft Decision.

While this appears to be a large increase, this is due to the updated lease arrangements being for a 10-year term, rather than the previous assumption of 3 separate leases with terms of 5, 7 and 8 years. The longer lease term results in a larger ROU asset calculation, and therefore a larger capital expenditure forecast. In addition to updating the head office lease costs, we have also updated the asset life for the "head office leases" asset class in the PTRM to reflect the longer lease term. The longer lease term also means that we do not expect to seek further capex allowances for head office leases in the 2032-37 regulatory period. Overall, this means that while the capex amount appears higher in our Revised Proposal, **customers will not bear materially higher costs for AusNet's head office leases compared to the Draft Decision.** In addition, the longer lease term itself supports the efficiency of this expenditure:

- Through the lease negotiations, the landlord was willing to offer higher rent incentives in exchange for long term certainty. Therefore, the longer lease term proved to be an essential driver that enabled AusNet to secure strong incentives worth 55% of lease value, to be received upfront as a reduction to fitout costs. This reduced the future cost for AusNet, and therefore for Victorian consumers, which would not have been possible with a shorter-term lease; and
- A longer-term lease allows AusNet to maximise the value of any fitout, including control room fitout, as remaining in the same location over a longer term ensures that the full useful life of installed assets will be extracted. This is preferable to a short-term lease, which could lead to more frequent "rebuilding" of the control room and office fitout assets. This also contributes to lower long-term costs for Victorian consumers.

To illustrate this simply, the table below compares the whole-of-AusNet costs in our Initial Proposal to those included in our Revised Proposal, normalised for the lease term.

Table 3-44: Head office lease in Revised Proposal vs. Initial Proposal

Initial Proposal (October 2025)	Whole-of-AusNet ROU asset ($M, real 2026-27)	Lease term (years)	ROU asset divided by lease term ($M/year)
Flinders St (Melbourne CBD)	19	7.00	2.8
Freshwater Place (Southbank) - existing floors	41	5.00	8.2
Freshwater Place (Southbank) - additional floors	15	8.00	1.9
Total Initial Proposal	**75**	**6.11**	**12.3**
Revised Proposal (September 2026)	**Whole-of-AusNet ROU asset**	**Lease term**	**ROU asset divided by lease term**
Total Revised Proposal	**125**	**10.00**	**12.5**

Source: AusNet

We have also updated the cost allocation between AusNet's networks to more accurately reflect the usage of the future lease. The cost allocation used in developing AusNet Transmission's Initial Proposal (and AusNet Distribution's Revised Proposal) was to allocate 35% of head office lease costs to Distribution, 25% to Transmission, 15% to Gas, and 25% to AusNet's unregulated business (DFN). This was based on current headcount. While that allocation may be appropriate for head office leases in the current state, it is not reflective of the future usage of the head office. AusNet Transmission will experience significant growth in the next 10 years, as we ramp up to delivery the replacement program, major non-contestable Victorian Transmission Plan projects, and a growing volume of regulated connections. As detailed in our deliverability analysis provided with our Initial Proposal, labour is a critical factor in delivering this pipeline of work, including internal labour. We are therefore seeking to increase the headcount in AusNet Transmission.

While some headcount growth will naturally occur in other areas of AusNet's business, we expect this growth to be small relative to the growth expected in Transmission. As a result, AusNet Transmission will be using a larger proportion of the head office footprint and amenities and therefore must bear a larger proportion of the head office costs.

We recognise that changes in cost allocation can create a challenge for the AER to assess if efficient costs have been approved for AusNet as a combined business. To clarify this, a table is provided below containing the cost allocation

and whole-of-AusNet costs included in each of AusNet's proposals. It shows that the $21M Distribution component approved in AusNet Distribution's proposal is significantly less than the "true" $38M that we expect the Distribution business to incur as a result of the latest decisions on head office leases. This confirms that if the AER were to approve the updated costs included in this Revised Proposal for AusNet's transmission network, AusNet as a whole would not be "overpaid" for head office leases.

Table 3-45: Cost allocation used in AusNet's proposals

		Distribution (%)	Transmission (%)	Gas (%)	DFN (%)
Transmission (TRR) Initial Proposal		35%	25%	15%	25%
Distribution (EDPR) Revised Proposal		35%	25%	15%	25%
Distribution (EDPR) AER Final Decision		35%			
Transmission (TRR) Revised Proposal		30%	37%	5%	29%
	Whole-of-AusNet ROU asset ($M)	**Distribution ($M)**	**Transmission ($M)**	**Gas ($M)**	**DFN ($M)**
Transmission (TRR) Initial Proposal	75	26	19	11	19
Distribution (EDPR) Revised Proposal	60	21	15	9	15
Distribution (EDPR) AER Final Decision		21			
Transmission (TRR) Revised Proposal	125	38	46	6	36
EDPR AER Final Decision minus TRR Revised		**(16)**			

Source: AusNet

Note: To support traceability with previous submissions, we have not normalised the real dollar basis of the above numbers, however differences are immaterial for the purpose of comparison

In summary, we confirm that the costs included in the Revised Proposal relating to AusNet's head office:

- Are based on the lowest cost option
- Contain costs to be borne by the transmission network only, based on a cost allocation that reflects the expected usage of the head office in the next regulatory period
- Does not result in "overpayment" of AusNet as a combined business

The accompanying NPV model clarifies how whole-of-AusNet costs have been allocated to each network.

3.9.4.1.5. Fitout capex

In addition to updating head office lease costs, we have also updated our forecast of fitout capex. Fitout capex refers to the capital works required to prepare the building to AusNet's specifications. In considering the options and costs for AusNet's head office location, fitout costs for office space and the control room were considered separately.

- **Office fitout:** The NPV analysis discussed above (and provided in the Technical Documents) included a consideration of fitout costs for each location, including refurbishment costs for the 'Stay and Expand' option. The preferred option results in the lowest fitout costs (before incentive) of all relocation options, and lower fitout costs compared to the 'Stay and Expand' refurbishment costs once incentives are applied. A quote provided by [C-I-C] has been included in the Technical Documents which supports the costs that have informed the NPV analysis and been included in our capex forecasts.
- **Control room fitout:** Control room fitout costs were not explicitly considered in the NPV analysis, as the need for uplift in the control room was determined to be the same in each option, as the current control room facilities are over 25 years old and in need of upgrade due to age, layout constraints, and technology obsolescence. As explained in the approved Board paper, "*This requirement has already been identified as a stand alone regulated capital project, independent of any accommodation decision and required irrespective of location.*" Two Technical Documents are provided with the Revised Proposal in support of control room fitout costs:
  - Non-digital costs: A quote has been received for the non-digital costs associated with control room fitout, including for base building variations, the inter-tenancy stair, and other capital works. This quote is provided in the Technical Documents.
  - Digital costs: We have provided a detailed scope and cost breakdown in support of the capex forecast. This is based on SMEs understanding of fitout requirements, informed by costs for recent projects.

Please note that the Initial Proposal did not distinguish between digital and non-digital fitout costs. As a more detailed breakdown is now available, we have updated the asset class allocation of the "Fitout capex" line item in the capex model, such that costs are appropriately allocated to the "Buildings – Capital Works" and "IT" asset classes in the PTRM. The accompanying NPV model clarifies how this split has been applied.

3.9.4.2. Testing equipment

The continued operation of our testing equipment is critical to the reliability of the network.

- When testing equipment fails or produces unreliable results, AusNet is at risk of performing incorrect diagnoses of equipment issues, which can lead to failure of critical equipment such as transformers. This can result in adverse reliability, safety, and environmental outcomes.
- Testing equipment is also used to test whether spare assets are fit for service, and ready to be deployed in an emergency. Incorrect results can lead to incorrect assessments of spare equipment conditions, which can result in adverse outcomes during an emergency, and longer restoration times
- In addition, failure of equipment can result in non-compliance with NER Chapter 7 obligations for periodic testing

As part of the Revised Proposal, we are providing further information on the proposed capital expenditure on testing equipment for CY31. The proposed replacements include:

- **Replacement of high voltage control panel** which is ~35 years old and at end of life. While AusNet SMEs have been undertaking corrective action to keep the asset in service, this is becoming more challenging as the equipment is based on technology that is no longer supported by the original manufacturers. The absence of documented designs and readily available spare parts makes it difficult to repair and maintain the asset, leaving it at risk of failure with limited mitigations available. We are therefore seeking to replace the asset in 2031 to address these risks.
- **Replacement of environmental chamber** which is over 22 years old and at end of life. The asset is experiencing operability issues for the humidity control system in particular. While AusNet SMEs have been undertaking corrective action to keep the asset in service, this is becoming more challenging as manufacturer support is no longer available and there is no known service agent capable of providing repairs, spare parts, or ongoing maintenance support.
- **Replacement of current comparator** which is ~30 years old and at end of life. The printed circuit board assembly has failed and required repair and modification due to the original components becoming obsolete. It is at risk of failing again, and therefore needs to be replaced
- **Replacement of high current supply and reference current transformer test system** which is over 30 years old and at end of life. The equipment is already exhibiting issues, including tripping the 415 V supply when transitioning to higher voltage ranges on the variac, resulting in test interruptions. Replacement is required to address these issues
- **Replacement of burden and voltage drop metering secondary circuits test set** which is over 25 years old and at end of life
- **Replacement of acoustic partial discharge units** which are 15 years old and at end of life

An updated capex breakdown is provided as a Technical Document, which includes a detailed breakdown of the assets proposed for replacement, their associated costs, and an explanation of the reason for replacement.

As a result of these updates to CY31 capex and the cuts we have accepted from the Draft Decision, our revised forecast of Testing Equipment expenditure in the 2027-32 period is $17.2M, compared to $18.4M in the Initial Proposal.

3.10. Deliverability

3.10.1. Our Initial Proposal

The Initial Proposal included a detailed analysis of deliverability, recognising the large pipeline of work on the transmission network in the next 10 years from AusNet's replacement plans, VicGrid's Victorian Transmission Plan, AEMO's Integrated System Plan, and connections for renewables developers and data centres. We assessed the deliverability of our Initial Proposal along four dimensions: labour, materials, outages, and planning approvals. This was detailed in the deliverability strategy provided as Appendix 4G of the Initial Proposal, and the accompanying confidential deliverability model.

In addition, several changes were made to the Initial Proposal capex forecast in consultation with stakeholders. This includes:

- Deferral of 70% of the tower fall arrest structures program
- Deferral of the Terang Terminal Station (TGTS) B2 Transformer Replacement project
- Removal of asset replacements that overlapped with VicGrid's 2025 Victorian Transmission Plan
- Proposal of the Dederang Terminal Station (DDTS) H3 330/220kV Transformer & Circuit Breaker Replacement project as a contingent project

3.10.2. Draft Decision

The Draft Decision considered that "*AusNet is taking all the necessary steps to enable it to deliver on its replacement and compliance programs over the coming period*". The Draft Decision also mentioned that several of the major station programs are currently under way, and that the increase in proposed expenditure is being driven by material and labour cost increases rather than large uplifts in the volume of work required.

The AER did not mention any specific project or program deferrals that were driven directly by a concern about deliverability, with the stated reasons for reducing or delaying expenditure primarily being prudency and efficiency. The AER noted that the Draft Decision "*aligns closer to prudent and efficient timing, scope and cost, and may reduce deliverability risk*".

3.10.3. Revised Proposal

3.10.3.1. Ongoing actions to address deliverability

We welcome the AER's recognition that AusNet is taking all reasonable steps to manage the deliverability of our replacement and compliance programs. Ausnet is committed to keeping deliverability top of mind in the 2027-32 period and are continuing to progress initiatives that will maintain and increase our capacity to deliver, relieving constraints on labour, materials, outages and planning approvals. A selection of the actions we are taking is provided below:

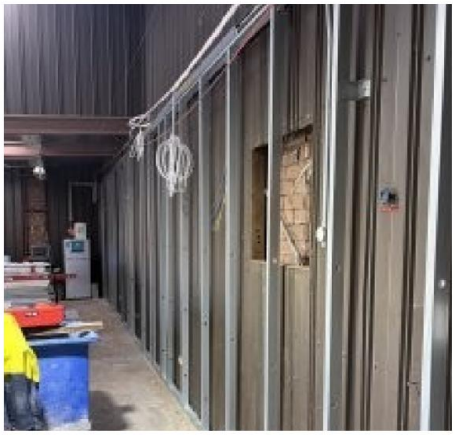
- To address the availability of labour:
  - Continuing to work with construction delivery partners (CDPs) to uplift labour capability, [C-I-C]
  - Since the Initial Proposal was submitted, we have continued to engage VicGrid on the Victorian Transmission Plan scope that may be deemed non-contestable and therefore be delivered by AusNet Transmission, to ensure a coordinated approach to address deliverability challenges such as labour availability
  - In the last year, we have defined a new transmission-specific Employee Value Proposition and increased resourcing in our talent acquisition teams, enabling a shift from reactive hiring to building talent pipelines in critical capability areas (e.g. lines engineers, project managers, primary & secondary engineers) to reduce time to fill and improve quality of care
  - We continue to hire graduates into the Transmission business to ensure a strong pipeline of early career talent that will sustain the business in the long term, with 17 Transmission graduates hired in the last 2 years plans to recruit an additional 7 graduates in 2027
  - We are continuing to progress work to redevelop the South Morang Training Centre (SMTC), with works currently underway to demolish the existing site and undertake refurbishment. These foundational refurbishment works in the current period will set us up to deliver the SMTC redevelopment in the next regulatory period, which was fully approved in the AER's Draft Decision (and in the Final Decision for AusNet Distribution's reset, as the facility will be shared across the two networks).

Figure 3-17: Work in progress at the South Morang Training Centre

Demolition of the existing site is continuing, and removal of concrete upstand to shower



Installation of the framing has commenced, alongside installation of door frames and glass partitions



Electrical rough is ongoing as well as brickwork cutting for internal openings



Source: AusNet

- To address the availability of materials:
  - AusNet has signed a long-term agreement with Hyosung Heavy Industries to reserve manufacturing capacity for up to 45 high-voltage transformers. This supports the deliverability of our projects by providing more certainty on the supply of transformers, which are long lead time equipment and are critical inputs for our major station projects
  - We continue to engage with potential suppliers to understand market dynamics and likely lead times, including potential impacts of the Middle East conflict

- We have secured the supply of critical equipment for specific major projects, with one of the 2 U transformers (66/22kV) delivered to Red Cliffs Terminal Station (RCTS) in May 2026

Figure 3-18: U transformer delivery at Red Cliffs Terminal Station



- To address the availability of planned outages:
  - We continue to improve Digital Tools that enable network access and management (e.g. TASM)
  - We continue to engage in regular outage planning with AEMO and VicGrid, working with them to reduce clash lists
  - We continue to work collaboratively across Delivery, the control room, and CDPs to plan outages on 2–3-month horizons
  - We continue to explore live line work as an option to deliver projects when planned outages are not available. For example, we completed Australia's first ever live powerline transfer in 2025, as part of the Mortlake 500kV Turn-In project (part of the Victorian Government's REZ Development Plan, not included in this revenue reset). This involved engaging highly skilled live line workers from the USA as well as several Australian contractors
- To address planning permits and approvals challenges:
  - We continue to pre-plan likely approvals required for upcoming projects, as part of our usual delivery processes, and consider planning controls (e.g., zoning, overlays, schedules) of terminal stations to avoid unnecessary approval effort
  - We continue to conduct timely, well informed and resourced engagement with impacted communities and stakeholders to understand and reflect environmental conditions and locally expressed concerns, resulting in more holistic socially and environmentally informed project proposals. Since the Initial Proposal was submitted, we have been putting in place access agreements with contain detailed biosecurity provisions, we have implemented a comprehensive *Working on Private Land* guide for employees and delivery partners, and we have continued to increase awareness with landholders on safe behaviours around transmission infrastructure. These and other uplifts are discussed in more detail in Chapter 4, in the context of the Landholder Engagement opex step change

Furthermore, we have committed to the Transmission Stakeholder Advisory Panel (TSAP) that we would continue to provide stakeholders with visibility of our capital project delivery and deliverability actions during the 2027-32 period. This will be facilitated through the continuation of the TSAP as a business-as-usual panel, which is explained in Chapter 1. This ensures that stakeholders continue to hold AusNet accountable for managing deliverability challenges.

3.10.3.2. Update on our capital program

In addition to these actions, AusNet has been working hard at delivering on in-flight projects in the current period. We are ramping up the pace of delivery to manage risks on the network, and in preparation for the growth we are facing in the next period. Below we provide 4 examples of recent developments for current period projects that continue into the 2027-32 period, or for which a second phase/tranche is proposed in the 2027-32 period.

Our progress on delivering these projects supports the robustness of our forecasts for the 2027-32, and demonstrates our ability to deliver large, complex projects.

Update #1: Tower replacements on the Heywood-Portland line

Stage 1 of the tower replacements on the Heywood-Portland line are progressing. Prior to tower replacement, the existing towers need to be offloaded, with conductors transferred onto monopoles. For the first time on our 500kV network, we used monopole structures rather than emergency restoration systems (ERS) to support a bypass (cutover). This allows power to flow through a different pathway parallel to the existing line, while the line is upgraded.

Update #1: Tower replacements on the Heywood-Portland line

These structures have a smaller footprint, using steel pylons instead of concrete foundations, reducing environmental and land impacts. Below is an image of the steel foundations.



Through significant engineering analysis, planning and cross-team collaboration, we have reached a major milestone on the project with power now flowing through the temporary bypass. Importantly, the cutover was completed without interrupting electricity supply to Alcoa Portland – demonstrating the precision, planning and coordination behind the works. The achievement marks a major step forward in the project, as we are now able to dismantle the existing towers and install new towers. Images of the monopoles are provided below. The effective delivery of Stage 1 supports the delivery of the Stage 2 project, which is included in our Asset Replacement Programs for 2027-32.



Update #2: Sydenham Terminal Station (SYTS) GIS Replacement

The SYTS GIS Replacement project is primarily to be completed in the current period, with a small amount of expenditure extending into the 2027-32 period. The installation of the new air insulated switchgear is progressing well, with the second tower erected in July 2026 and primarily installation completed.









Update #3: Moorabool Terminal Station (MLTS) Circuit Breaker Replacement

The MLTS Circuit Breaker Replacement project is primarily to be completed in the current period, with some expenditure extending into the 2027-32 period (which has largely been accepted in the Draft Decision).

500kV and 220kV circuit breakers and Remote Operated Isolators (ROIs) have now been replaced at MLTS. In some cases, these assets have been replaced with more modern units, allowing for better outcomes over the life of the assets.



Update #4: Low spans tranche 1

Low span remediation works on a span on the ERTS-CBTS 220 kV line have been successfully completed, which forms part of Tranche 1 of our low spans/management of ground clearances program. This span was identified as one of the high-risk priority locations included in our program.

A floating strain arrangement was installed on the bottom phase and the conductor was re-tensioned, which has improved the line clearance and reduced risk for the public and surrounding land use. The images below show the work being done to raise the span.
The effective delivery of Tranche 1 supports the delivery of the Tranche 2 project, which is included in our Compliance & Resilience Programs for 2027-32.





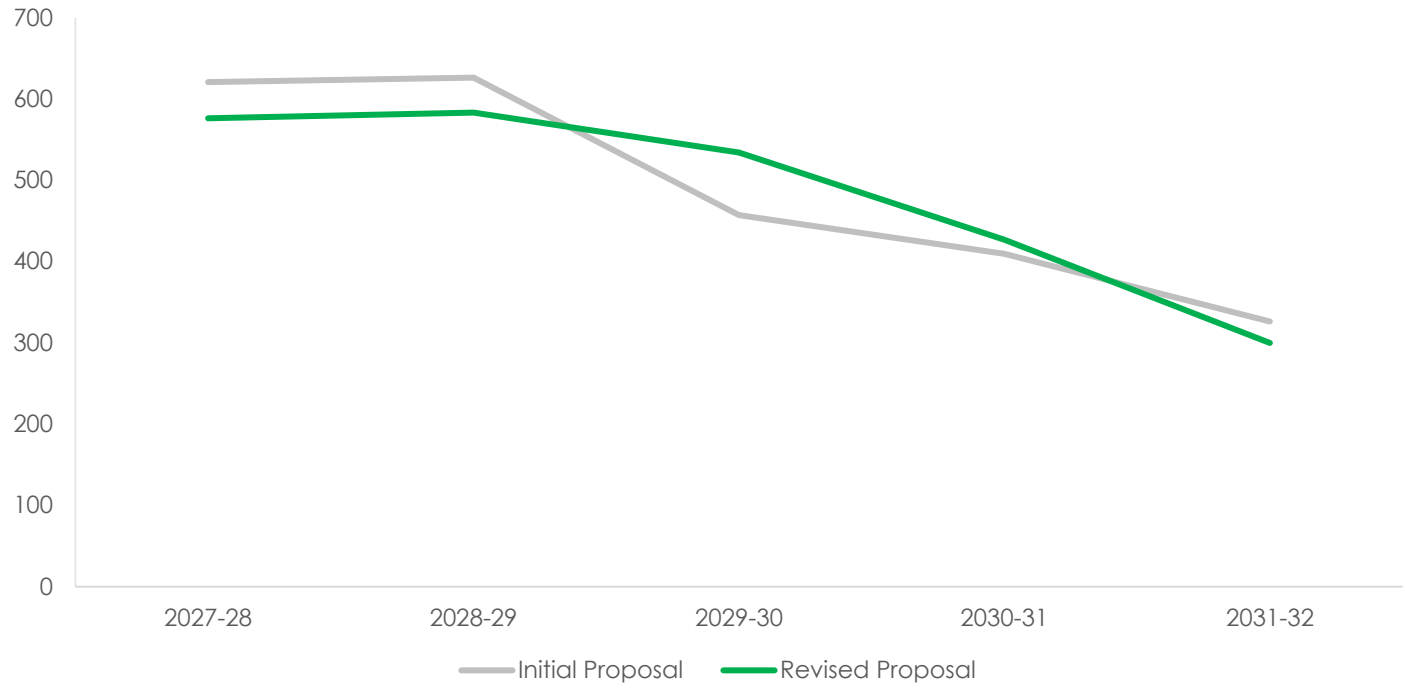
3.10.3.3. Deliverability of our Revised Proposal

In addition to these activities, we have made high-level adjustments to our Revised Proposal, to support the deliverability of our forecast. This includes:

- Re-profiling of the capital expenditure forecast for the SMTS 500kV GIS Replacement project, reflecting ~6 months delay to the commencement of the project
- Re-profiling of the capital expenditure forecast for the Portland Stage 2 tower replacement project, better aligning the start of the Stage 2 works with the end of the Stage 1 works, allowing us to capture the learnings from Stage 1 before delivering Stage 2
- Delay of Tranche 2 of the low spans / management of ground clearances program, better aligning the start of the Tranche 2 works with the end of the Tranche 1 works, allowing us to capture the learnings from Tranche 1 before delivering Tranche 2
- Delay of the Communication Systems asset replacement program, better aligning the start of this program with the end of the large in-flight communications project "South West Network Comms Replacement", allowing us to capture learnings before beginning new communications replacement projects

These adjustments, which generally delay capital expenditure, not only support deliverability but also reduce the impact of our proposal on customer bills within the 2027-32 period. A comparison of the capital expenditure by year in the Revised and Initial Proposals is provided below, which demonstrates the smoother and therefore more deliverable profile.

Figure 3-19: Capital expenditure in Revised Proposal versus Initial Proposal ($M, real 2026-27)



Furthermore, while the total capital expenditure included in the Revised Proposal is similar to that included in the Initial Proposal, it includes a larger proportion of digital expenditure, and therefore a smaller proportion of network expenditure. This may also play a role in alleviating deliverability pressures within the network portfolio.

3.11. Contingent projects

3.11.1. Our Initial Proposal

Our Initial Proposal included one contingent project, the Dederang Terminal Station (DDTS) H3 330/220kV transformer and circuit breaker replacement with estimated capex of $39M. At the time of our Initial Proposal lodgement, our economic assessment found that the DDTS project is economic to undertake in the upcoming period.

The decision to propose this contingent project was informed by the deliverability challenges facing AusNet and the broader industry in the next regulatory period. We undertook a detailed deliverability review and have proposed a program of works that we are confident can be delivered within the regulatory period. For projects we think will face material deliverability concerns, we have proposed the use of contingent projects. Under this approach, projects facing deliverability risks would be approved only after we are confident in our ability to delivery the project and have demonstrated our capacity to deliver within the regulatory period. We consider that this approach would provide a balanced mechanism for managing risk and cost. It safeguards customers from paying upfront for projects that may not proceed, while still enabling us to undertake them if delivery becomes feasible. As noted above, we consider delivering on our proposed capital expenditure program as soon as practical to be critical to maintaining the safety and reliability of the Victorian transmission network.

AusNet proposed the following trigger event for the DDTS contingent project, per the requirements of NER 6A.8.1(c):

- AusNet Board commitment to proceed with the project subject to the AER amending the revenue determination pursuant to the NER

We proposed this trigger event because we believe it will be satisfied only when our capacity to deliver the relevant project has been demonstrated. To further support this, AusNet proposed to commit to note pursue CESS in the event of non-delivery of the process and to provide a commitment of resources from Delivery Partners in the event the contingent project trigger is applied.

AusNet's Initial Proposal also detailed a proposed process for seeking TSAP (or equivalent) endorsement for projects made contingent. This process involved regular meetings with TSAP ahead of AusNet seeking Board approval, and a formal process for the TSAP to vote on whether the project should proceed.

3.11.2. Draft Decision

The AER's Draft Decision considered the DDTS project lacks the required uncertainty to be characterized as a contingent project. The Draft Decision elaborates on the rationale for the decision, stating:

> *"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."*

The Draft Decision also considers the proposed trigger event does not meet the other requirements under the NER, stating that:

> *"A trigger event must be condition or event, which, if it occurs, makes the undertaking of the proposed contingent project reasonably necessary. AusNet submits in its business case that the H3 transformer currently needs replacing and it is economic to commence the project now. 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."*

The Draft Decision considers the DDTS project is better characterised as expenditure that AusNet should included as part of the forecast 2027–32 capex program (e.g. within the Major Stations program) rather than as a contingent project.

3.11.3. Response to the Draft Decision

AusNet accept the AER's draft decision findings. AusNet's Revised Proposal no longer proposes any contingent projects. In relation the DDTS project, the need to address the condition of assets at DDTS in the upcoming regulatory period has been considered as part of Major Stations program. However, following the reassessment of the economic timing of this project to reflect the latest 2026 demand forecasts, it was found to be prudent to defer this project beyond the upcoming regulatory period due to the revised economic timing. See the table below for AusNet's responses to the AER's Draft Decision findings, and the following section for details of the decision to defer the DDTS project beyond the upcoming period.

3.11.3.1. Dederang Terminal Station H3 330/220kV transformer and circuit breaker replacement

3.11.3.1.1. Response to the Draft Decision

AusNet originally proposed this project as a contingent project in its Initial Proposal to address deliverability considerations. The AER's Draft Decision did not approve this project as a contingent project because it did not consider the NER requirements for contingent projects to be met. The Draft Decision set forth the view that this project should be included as part of Major Stations program in the Revised Proposal.

Table 3-46: Response to Draft Decision for DDTS

Summary of AER and EMCa findings	AusNet's response
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.	AusNet have no longer proposed this project as a contingent project and have instead considered it as part of the Major Stations program. After updating the economic modelling to account for updated information including the 2026 demand forecasts, the economic timing of this project was revised to be 2036. Thus, it is prudent to defer this project beyond the upcoming period.

3.11.3.1.2. Overview of the forecast

Dederang Terminal Station (DDTS) is in northern Victoria. It is an important switching station as it forms part of the 330 kV interconnector between Victoria and NSW. DDTS has 220 kV connections to the major hydro power stations (Darthmouth, McKay Creek, West Kiewa, Eildon and Bogong) and the regional 220 kV network in Victoria.

AusNet has identified the H3 transformer is in poor condition. The H3 transformer was commissioned in 1979 and it is 45 years old. The H1 has been installed in 1979 and the H2 in 2003. The H1 and H2 transformers are in satisfactory condition.

The following options were assessed to identify the preferred solution:

- **Do nothing:** This option would entail no mitigating action beyond existing measures to address the identified risk.
- **Option 1 Replace H3 transformer and selected 330kV switchgear:** Replacement of H3 transformer and selected switchgear. Use the old H3 transformer as a spare transformer.
- **Option 2 Replace H3 transformer and selected 330kV switchgear, and procure a spare transformer:** Replacement of H3 transformer and selected switchgear. A new transformer to be also procured and used as a cold spare.
- **Option 3 Deferred replacement of H3 transformer:** Same as option 1 but with the investment deferred with 5 years

Replacement of the H3 transformer (option 1) was found to be the preferred solution because it maximised the NPV of the options assessed, including under different sensitivity scenarios.

This project has been deferred beyond the upcoming regulatory period following the update to reflect the 2026 demand forecasts.

3.12. Total capex forecast

Our revised total capex forecast for the 2027-32 regulatory control period is $2,420M in real 2026-27 dollars. This is $20M lower than the capex forecast in the Initial Proposal. The table below provides our actual and forecast capital expenditure in the 2022-27 period, and the proposed capital expenditure for the 2027-32 period.

Table 3-47: Revised capital expenditure forecast ($M, real 2026-27)

	2022-23	2023-24	2024-25	2025-26	2026-27	Total 2022-27	2027-28	2028-29	2029-30	2030-31	2031-32	Total 2027-32
	Actual	**Actual**	**Actual**	**Actual**	**Forecast**		**Proposed**	**Proposed**	**Proposed**	**Proposed**	**Proposed**	
Major Station Projects	58	88	74	140	178	**539**	270	268	280	246	127	**1,190**
Asset Replacement Programs	42	56	89	64	113	**364**	106	174	151	80	81	**592**
Compliance & Resilience	9	2	2	7	15	**35**	60	58	47	48	40	**252**
Digital (ICT)	16	17	29	30	55	**148**	70	69	46	47	49	**282**
Other non-network	2	4	2	4	29	**43**	70	15	9	6	3	**103**
Total	**128**	**167**	**197**	**246**	**391**	**1,129**	**576**	**583**	**534**	**427**	**300**	**2,420**

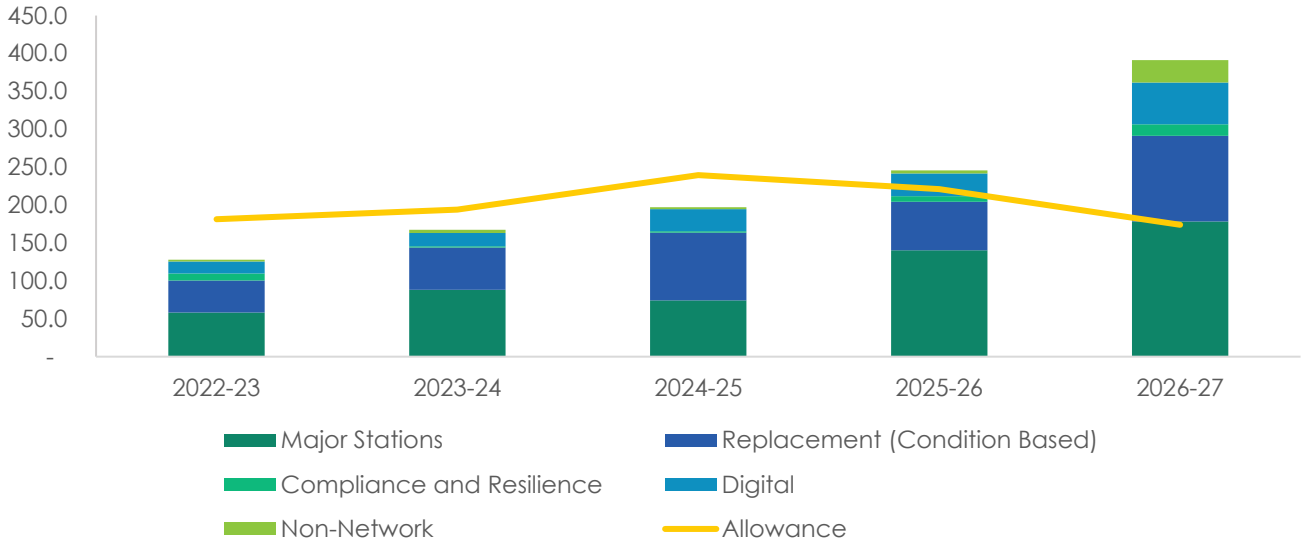
Source: AusNet

In this section, we also provide commentary on current and forecast period capital expenditure, to fulfill requirements 4.4.4 and 4.4.5 of the Regulatory Information Notice issued in July 2025.

Much of this information has remained unchanged from what was included in Chapter 4 of the Initial Proposal, as AusNet's capital expenditure program has remained stable, and actual performance for 2025-26 was generally in line with the forecast included in the Initial Proposal. Material changes compared to the Initial Proposal are **shown in bold and underlined**.

3.12.1. Current period capital expenditure

Figure 3-20: Current period capital expenditure ($M, real 2026-27)



Our capex in the current regulatory period is expected to reach $1,129M. This is 12% or $120M (real 2026-27) higher than the AER's regulatory allowance. Below we provide an explanation for why expected capex is above the AER's allowance:

- We expect to incur $539M for major station projects, that is $10 million (2%) below the approved major station allowance largely due to economic deferral. While all forecast major projects remain necessary and have all largely commenced, various factors have contributed to the deferral of works including revisions to project delivery forecasts that have occurred, with 4 project undergoing major scope revisions, project delivery challenges in the early years of the period (due to Victorian Covid-19 restrictions), and changes to align with the timing of the large augmentation programs underway. In addition, unprecedented and sector-wide labour and material cost increases have occurred during the period, which have deferred the economic timing of many projects relative to the original forecast. Details on projects that have experienced revisions in project delivery forecasts and have been deferred in the current regulatory period are provided below:
  - Keilor Terminal Station 500/220kV transformer replacement has undergone a major scope revision from one to three 500/220kV transformers (A2, A3 and A4), one 220/66kV transformer, one 220kV LTCB and 220kV bus uprate. The RIT-T has also concluded that upgrade rather than simple like for like replacement should occur for the A transformers and this has been approved by AEMO and incorporated into the VTP. Consultation with VicGrid has confirmed that AusNet will continue to carry out this asset renewal project as part of the TRR proposal. The forecast delivery of the project in the upcoming regulatory period is consistent with the new economic timing. **The Revised Proposal also includes a further addition to the Keilor Terminal Station scope, to include ground wire works that are required to address fault level issues. This is further explained in Chapter 3 of the Revised Proposal, and in the KTS Cost Update Summary.**
  - South Morang Terminal Station 330/220kV transformer replacement has undergone a scope revision to include an additional 700 MVA 330/220 kV transformer bank and associated protection and secondary systems (the single phase cold spare unit in the original project has been descoped). This decision was made in consultation with AEMO Victoria Planning and VicGrid. The project is underway.
  - South Morang Terminal Station 500kV GIS replacement has been changed from a staged approach to the replacement of the entire 500kV switchyard and of the F2 500/330kV transformer and control building due to rapidly deteriorating condition.[19] The forecast delivery of the project is consistent with the new economic timing.
  - Moorabool Terminal Station Circuit Breaker Replacement currently underway, is now forecast to be completed in the second year of the upcoming regulatory period instead of the final year of the current regulatory period. This in part reflects increasing labour and material costs contributing to a later economic timing for project delivery.
  - Red Cliffs Terminal Station transformer and switchgear replacement currently underway, has undergone a scope revision from one 220/66kV 150MVA transformer to two 220/66kV 150MVA and two 66/22kV 33MVA transformers given further deterioration. Completion is now forecast to be in the upcoming regulatory

[19] Previously, the proposed replacement consisted of two independent projects to replace the outdoor 500kV GIS with modern AIS. The first stage was proposed to be undertaken in the current regulatory period.

period instead of the current regulatory period. **The Revised Proposal also includes an update to the cost for this project, and supporting Project Change Request documentation.**

- Loy Yang Power Station and Hazelwood Terminal Station 500kV circuit breaker replacement stage 2 is now forecast to be in the upcoming regulatory period instead of the current regulatory period. This in part reflects the timing of the Yallourn closure, alongside increasing labour and material costs that has resulted in a later economic timing for project delivery. **We have also accepted the AER's Draft Decision to delay the Hazelwood Terminal Station replacements that were included in this project. Instead, we are proposing to conduct only the Loy Yang Power Station scope in the 2027-32 period, and defer the Hazelwood Terminal Station scope to the 2032-37 period. Further information is provided in Chapter 3 of the Revised Proposal, including risk management actions that will be undertaken at Hazelwood.**
- Sydenham Terminal Station 500kV GIS replacement currently underway, is now forecast to be completed in the second year of the upcoming regulatory period instead of the second last year of the current regulatory period. This project was impacted by delays experienced by the Western Renewables Link (WRL) project. To address these challenges, the scope was revised to include procurement of extended easements for the project to support project delivery whilst approval for WRL is pending.
- Shepparton Terminal Station B2 and B3 transformer replacement is now forecast to be delivered in the second year of the upcoming regulatory period instead of the final year of the current regulatory period. This in part reflects increasing labour and material costs contributing to a later economic timing for project delivery. **The Revised Proposal also includes an update to the cost for this project, and supporting Project Change Request documentation.**
- Glenrowan Terminal Station 66kV circuit breaker replacement, Frankston Terminal Station 66kV circuit breaker replacement, and Horsham Terminal Station 66kV circuit breaker replacements are now forecast to be in the upcoming regulatory period instead of the current regulatory period, included as part of the asset replacement program. Some refurbishment has been undertaken in the current period to prudently manage costs and support deferral to the upcoming period.

- We expect to incur $364M ($2027) for asset replacement, that is $109M (42%) higher than the AER's regulatory allowance. This reflects increasing labour and material costs due to market-driven cost pressures affecting the whole industry. It also reflects the inclusion of program expenditure that was not forecast in the allowance approved for the current period such as the replacement of towers along the Heywood to Alcoa Portland lines. Furthermore, we have categorised expenditure in the current period in relation to insulators in the current period under the asset replacement programs. The allowance in relation to insulators in the current period was categorised as safety, security and compliance (now named compliance and resilience). In addition, the following projects were approved an allowance to be delivered in the current regulatory period, and have now been revised to be completed in the upcoming regulatory period:
  - In relation to the communications program, there are three projects that are now forecast to be completed in the upcoming regulatory period instead of the current period:
    - The North East Network Communications Replacement is now forecast to be delivered by the first year of the upcoming regulatory period. This project has been impacted by challenges related to the implementation of new communications technology, including interface issues between the new equipment and legacy devices. In addition, a firmware change has also contributed to the delay.
    - The South West Network Communications Replacement project is now forecast for delivery in the second year of the upcoming regulatory period. This project involves installing fibre on Powercor's distribution network poles, which requires establishing agreements and complying with Powercor's standards. Progress has been delayed to allow for the development of a collaborative, lower-cost design solution with Powercor.
    - The VNSC & Communications Sites Battery Replacement project is now forecast to be delivered by the first year of the upcoming regulatory period. This site has been impacted by the strict site constraints associated with the VNSC (Richmond control centre).
- We expect to incur $35M ($2027) for compliance and resilience (previously named safety, security and compliance), that is $42M or 54% lower than the AER's regulatory allowance, with several factors contributing to this. Firstly, AusNet was approved an allowance in relation to insulators and communications under the compliance and resilience category in the current period.[20] The expenditure incurred in the current period in relation to insulators and communications has instead been categorised under asset replacement programs. Secondly, higher expenditure has been incurred in relation to physical security due to the introduction of the Security of Critical Infrastructure (Critical infrastructure risk management plan) Rules. Thirdly, it reflects expenditure in relation to low span remediation activity (not included in the allowance approved for the current regulatory period). Fourthly, we have expenditure in relation to PMU installation in the current period. The AER approved a pass through in relation to PMU capex in October 2025.

[20] There was an allowance for communications expenditure in the current period was proposed under both the compliance and resilience category and the replacement programs category.

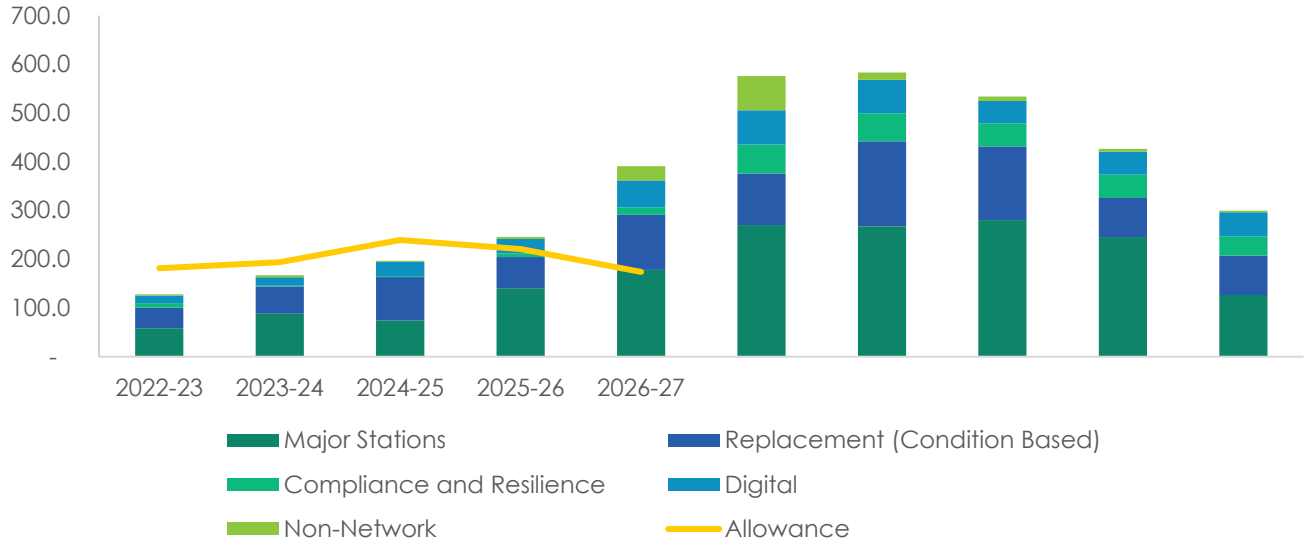
- We expect to incur $148M ($2027) for ICT, that is $46 million or 45% above the AER's regulatory allowance. This outcome is driven by program expenditure not reflected in the allowance approved in the current period. Firstly, we have accelerated the development of our cyber security maturity in the current period following the release of AEMO's enhanced industry framework in 2023 (AESCSF Version 2). Secondly, we have undertaken initial investment to enhance our energy management systems including access and switching management and ratings management. Thirdly, we brought forward our ERP migration into the current period to address resiliency and cyber security risks, and provide platform for internal systems enhancements.
- We expect to incur $43M ($2027) for other non-network, that is $18M or 70% above the AER's regulatory allowance. This reflects unforeseen program expenditure in relation to tools and equipment and also on property, reflecting the signing of a new lease and fit out requirements for the Customer Energy Operations Team (CEOT).

Despite some material deferral, AusNet is still expecting to spend more than its current capex allowance and is not forecasting any capital efficiency scheme payments, that is, customers are not paying for deferred projects twice.

3.12.1.1. Next period capital expenditure, compared to current period

We are proposing $2,419M (real 2026-27) capital expenditure over the 2027-32 regulatory period. This is 2.1 times or $1,296M (real 2026-27) higher than our expected capex for the current 2022-27 regulatory period.

Figure 3-21: Current and next period capital expenditure ($M, real 2026-27)



Major Station Projects

In the current regulatory period, the focus of major stations asset replacement work has been on aged network backbone switching stations and rural connection stations with increasing criticality. This includes a shift in replacement expenditure away from 220kV system assets to replacement of more complex and expensive 500kV assets. In the upcoming regulatory period, the focus will remain on these critical parts of the network.

Our forecast major stations replacement capex for the next regulatory period is $1,193M. This is 121% or $654 million higher than the expected actual expenditure for the current period. A substantial portion of this investment is allocated to the replacement of 500kV transformers, gas insulated lines and switchgear at the Keilor, Moorabool, South Morang, Rowville and Sydenham terminal stations, as well as at Loy Yang Power Station. These assets are critical parts of the network, and if left unaddressed, pose unacceptable levels of risk on key supply points to the Victorian network. Furthermore, the increase in materials and labour costs that occurred since the pandemic has not abated.

Asset Replacement Programs

In the current regulatory period, the focus has been on assets that were installed in the 1970s and 80s that are displaying signs of deterioration, are approaching the end of their technical lives and, based on their condition, need to be replaced. This focus will remain in the upcoming regulatory period.

Our forecast expenditure on asset replacement programs for the next regulatory period is $594M. This is 63% or $229M higher than the expenditure we expect to incur in the current period. This is driven in part by material and labour cost escalations. The increase also reflects several large programs within the lines category of programs. In particular, the insulator program and stage 2 of the Portland tower replacement program are key contributors to the increased expenditure proposed. These programs have been developed following investigations that have found faster than anticipated deterioration for select assets on our network work due to locational and/or external factors (for example, highly corrosive zones near the coast).

Compliance and Resilience

Our capex forecast in the compliance and resilience category is $253M. This is $218M higher than the amount of expenditure we expect to incur in the current regulatory period. The primary driver of the increase in expenditure is the inclusion of new programs of expenditure including low span remediation and tower resilience. These programs reflect the expectations communicated by safety regulators and have been developed in close consultation with stakeholders. In addition, the release of the Security of Critical Infrastructure Rules 2023 have resulted in significant increases for the physical security program. There is also increased expenditure for the environmental program, reflecting the findings of recent assessments of condition and criticality against our environmental legislative obligations (these assessments were flagged and forecast in the current TRR).

Digital

Our forecast digital expenditure for the next regulatory period is $282M. This is 91% or $134 million higher than the expenditure we expect to incur in the current period. This uplift in digital expenditure reflects the need to respond to a number of external drivers that pose risks to the network if left unaddressed. In particular, significant investments to uplift digital capability are proposed under the Advanced Energy Management System (AEMS) capex program, Cyber Security capex program, and Asset Management and Field Enablement capex program. **The Revised Proposal also includes four new programs to enable compliance to the June 2026 SOCI CIRMP Amendment Rules, which contribute materially to the uplift in Digital expenditure in the next period.**

Non-Network

Our forecast for non-network capex over the next regulatory period is $103M. This is 143% or $61M higher than the expenditure we expect to incur in the current period. The primary driver of this increase is property expenditure, **driven by the recognition of a new 10-year lease for AusNet's head office. Chapter 3 of the Revised Proposal contains further information about updated lease costs.** There is also an increase in vehicles expenditure which has been approved in the Draft Decision, and an increase in other non-network capex driven by the planned replacement of several ageing high-voltage test units.

3.13. Compliance to NER requirements

In the table below, we have considered how each expenditure category is required to achieve the capital expenditure objectives and criteria set out in Rules. Taken together, we are confident that our capex forecasts comply with the Rules requirements and consider that they should be accepted by the AER.

The regulatory framework requires us to meet the capital expenditure objectives prudently and efficiently, with the objectives being to:

- meet or manage the expected demand for prescribed transmission services over that period;
- comply with all applicable regulatory obligations or requirements associated with the provision of prescribed transmission services;
- to the extent that there is no applicable regulatory obligation or requirement in relation to:
  - the quality, reliability or security of supply of prescribed transmission services; or
  - the reliability or security of the transmission system through the supply of prescribed transmission services,
- to the relevant extent:
  - maintain the quality, reliability and security of supply of prescribed transmission services; and
  - maintain the reliability and security of the transmission system through the supply of prescribed transmission services; and
- maintain the safety of the transmission system through the supply of prescribed transmission services.
- contribute to achieving emissions reduction targets through the supply of prescribed transmission services.

Table 3-48: How our capex forecast accounts for the criteria in 6A.6.7(c) of the NER?

Criteria	Response
The efficient costs of achieving the capital expenditure objectives	In this response, we first detail how the proposal addresses each of the capital expenditure objectives, then provide commentary on the efficiency of costs. **Achieving capital expenditure objectives:** • **To meet or manage the expected demand for prescribed transmission services over that period:** The economic analyses that underpin our Major Station Projects are based on demand forecasts prepared by jurisdictional planners. For the Initial Proposal, AEMO's 2024 forecasts were used, and in the Revised Proposal, updated economic models use VicGrid's 2026 Victorian Connection Point forecasts. As our proposal is based on the best available demand forecasts, our capital expenditure is designed to meet or manage expected demand for the 2027-32 period. • To comply with all applicable regulatory obligations or requirements associated with the provision of prescribed transmission services: Our Compliance & Resilience program details where expenditure has been proposed in response to regulatory obligations or requirements. For example, the Environmental program (including the Rework line item) is required for compliance with the Environment Protection Act 2017, and the Physical Security program is required for compliance with various aspects of the Security of Critical Infrastructure (SOCI) legislation and regulations. Many of our Digital programs are also required to support compliance, including the Cybersecurity program which will allow AusNet to comply with the applicable security profile under the AESCSF Version 2, and the four new programs which have been included in the Revised Proposal to support compliance with the SOCI CIRMP Amendment Rules. As such, our proposal has been designed to support compliance with applicable regulatory obligations. • To maintain the quality, reliability and security of supply of prescribed transmission services; and maintain the reliability and security of the transmission system through the supply of prescribed transmission services: Our Major Station Projects, Asset Replacement Programs, and Compliance & Resilience programs have been designed based on analyses that consider the impacts of asset failure on the network. The risks considered include those that relate to reliability (through a VCR calculation), market impact, and system security. Work is proposed where the cost of the replacement outweighs the benefits from reducing these risks. As such, our capital expenditure proposal has been designed to fulfil this capital expenditure objective. AusNet's proposed digital expenditure is also essential to support the achievement of the capital expenditure objectives by enabling us to monitor and control the stability of the power system in real time, assist us to efficiently manage transmission assets and network performance, and secure the network against external threats. • **To maintain the safety of the transmission system through the supply of prescribed transmission services**: Our Compliance & Resilience program details where expenditure has been proposed to support the safety of the transmission system. For example, the Low Spans program addresses safety risks associated spans that have low ground clearance, and the groundwire compliance program considers the safety risks associated with under rated conductors. The resilience program also considers the safety risks associated with tower collapse near roads. Our Major Station Projects also consider safety risks, for example where asset failure may result in high velocity shrapnel, which can threaten personnel safety. These safety risks are considered in cost benefit analyses using appropriate disproportionality factors. As such, our capital expenditure proposal has been designed to fulfil this capital expenditure objective. • **To contribute to achieving emissions reduction targets through the supply of prescribed transmission services**: Under the Victorian planning arrangements, VicGrid (previously AEMO) is responsible for planning augmentations required to meet emissions reductions targets, not AusNet. However, by maintaining the performance of the existing network, AusNet sets the foundations that enable augmentation. In this way, our operating expenditure therefore contributes to the achievement of emissions reduction targets

Criteria	Response
	Efficiency of costs • In relation to replacement capital expenditure, AusNet's approach is focused on replacing assets on a as 'needs basis', having regard to the performance of each asset class and the risk and consequences of asset failure. The approach is an economic one, in which our economic assessment framework is designed to achieve the optimal long-term outcomes for consumers. • AusNet's approach does not, however, simply rely on a bottom up forecasting method driven by the economic assessment framework, but also considers the opportunities for synergies and efficiencies across projects and programs of work, and the overall profile of the proposed expenditure to achieve savings where possible. This is evidenced in the consideration of 'bundled' replacement in the Asset Replacement Programs, and in the top-down adjustments made to support deliverability, for example. • For each of our replacement programs, our approach relies on understanding the condition and performance of our assets by utilising our data and risks assessments, including condition assessments, and undertaking detailed analysis to identify the expenditure plans that optimise the outcome for consumers in terms of the scope of work and the optimal timing. Our expenditure forecasts are also informed by benchmarking, including a consideration of historical expenditure, so that our total capital expenditure is reasonable having regard to the best available information, including the views of our stakeholders. • Digital expenditure has also been subject to cost-benefit analyses and risk assessment, to ensure that programs deliver net benefits to Victorians. The efficiency of costs is further supported by benchmarking costs against similar projects, and market testing where possible, to ensure that proposed costs are not higher than necessary. • AusNet's other non-network capital expenditure takes a similar approach, where we have considered options that will provide the lowest total life cycle costs. For example, an NPV analysis was conducted to select the lowest cost option for the head office location. • Furthermore, the AER's latest benchmarking analysis shows that our cost performance compares well with our peers and, therefore, our forecasts reflect efficient unit rates, planning and delivery processes. This was explained in our Initial Proposal.
The costs that a prudent operator would require to achieve the capital expenditure objectives	Our approach for each program of work and asset class has regard to the prudency considerations, most notably in relation to assessing the potential consequences of deferring a replacement decision. Our approach is detailed in the asset management strategies that were provided with the Initial Proposal, and in some cases updated for the Revised Proposal.
A realistic expectation of the demand forecast, cost inputs and other relevant inputs required to achieve the capital expenditure objectives	Our project cost estimates have been prepared in accordance with specific project execution procedures and practices on a P50 basis. A description of the inputs and assumptions was provided in the Initial Proposal, with the key change in the Revised Proposal being the use of 2026 Victorian Connection Point demand forecasts, which are provided by VicGrid and are therefore aligned to the inputs used by the jurisdictional planner.

Table 3-49: How our capex forecast accounts for the factors in 6A.6.7(e) of the NER?

Factor	Response
The most recent annual benchmarking report that has been published under rule 6A.31 and benchmark capital expenditure that would be incurred by an efficient Transmission Network Service Provider over the relevant regulatory control period;	The AER's benchmarking analysis shows that our cost performance compares well with our peers and, therefore, our forecasts reflect efficient unit rates, planning and delivery processes. This was explained in detail in the Initial Proposal.
The actual and expected capital expenditure of the Transmission Network Service Provider during any preceding regulatory control periods	We have considered the forecast capital expenditure compared to actuals and expected capital expenditure for the current and previous regulatory periods. This is one of a number of factors that are considered in developing our forecast capital expenditure, noting that our forecasts must ultimately reflect the emerging risks and needs relevant to the forthcoming regulatory period, which are likely to differ from historical requirements. Section 3.10 explains a number of top-down adjustments that have been made to "smooth" the capital expenditure profile between the current and forthcoming regulatory control periods.
The extent to which the capital expenditure forecast includes expenditure to address the concerns of electricity consumers as identified by the Transmission Network Service Provider in the course of its engagement with electricity consumers	We have undertaken extensive stakeholder engagement in relation to forecast capital expenditure, and we have modified our proposal to reflect that feedback. For details, see chapter 1 and section 3.4 of this chapter.
The relative prices of operating and capital inputs;	The relative prices of operating and capital inputs are taken into account in our economic assessment framework, which examines alternative options with different mixes of operating and capital expenditure to address each identified need.
The substitution possibilities between operating and capital expenditure	The potential substitution possibilities between operating and capital expenditure are reflected in our asset management strategies and our economic assessment framework. Non-network options are considered as an integral part of our investment plans, ensuring that alternatives to capital expenditure are considered in our expenditure plans.
Whether the capital expenditure forecast is consistent with any incentive scheme or schemes that apply to the Transmission Network Service Provider under clauses 6A.6.5A, 6A.7.4, 6A.7.5 or 6A.7.6;	AusNet's approach to capital expenditure is to maintain reliability, security and quality of supply. This approach is consistent with the design of the incentive mechanisms, including STPIS which sets performance targets based on historical performance. Our forecasting approach also reflects a P50 assessment of our requirements, which is consistent with the design of the Capital Expenditure Sharing Scheme.
The extent to which the capital expenditure forecast is referable to arrangements with a person other than the Transmission Network Service Provider that, in the opinion of the AER, do not reflect arm's length terms;	AusNet's capital expenditure forecasts have been developed on an arm's length basis, and reflect the efficient costs of delivering the required works.
Whether the capital expenditure forecast includes an amount relating to a project that should more appropriately be included as	AusNet's capital expenditure forecast does not contain an amount that should be treated as a contingent project. No contingent projects are proposed in the Revised Proposal.

Factor	Response
a contingent project under clause 6A.8.1(b);	
The most recent Integrated System Plan, and any submissions made by AEMO, in accordance with the Rules, on the forecast of the Transmission Network Service Provider's required capital expenditure;	AusNet has considered the interactions with the Integrated System Plan in preparing the capital expenditure forecasts. It is important to note, however, that AusNet is not the network planner, so our capex forecasts do not include augmentation expenditure. As such, the interactions with the Integrated System Plan are more limited compared to other TNSPs.
The extent to which the Transmission Network Service Provider has considered and made provision for efficient and prudent non-network options ;	AusNet routinely considers non-network options in its business case assessments. The opportunities for non-network options were highlighted in the Initial Proposal, where relevant. As no new network replacement projects or programs are proposed in the Revised Proposal, the considerations in the Initial Proposal continue to apply. In accordance with the RIT-T guidelines, non-network options will be considered in further detail during the RIT-T process for particular projects.
Any relevant project assessment conclusions report required under clause clauses 5.16.4 or 5.16A.4;	Where new RIT-Ts have been completed for AusNet's proposed projects since the Initial Proposal, these have been noted in the chapter.
Any other factor the AER considers relevant and which the AER has notified the Transmission Network Service Provider in writing, prior to the submission of its revised Revenue Proposal under clause 6A.12.3, is a capital expenditure factor.	Not applicable.

We also confirm that proposed capital expenditure has been prepared in accordance with AusNet's approved cost allocation methodology (CAM), which was included with our Initial Proposal. For network expenditure, assets are wholly owned by AusNet's Transmission business and provide prescribed transmission services, and as such are 100% allocated to transmission. For shared Digital systems, costs have generally been allocated between AusNet's networks based on the utilisation of the resource or service, or the relative contribution to the underlying driver for investment. The same is true for property costs, with cost allocation for the head office leases explained in detail in this chapter and in the supporting NPV model.

3.14. Supporting documents

We have included the following documents in support of this chapter:

- AusNet - Appendix 3A Revised Unit Rates - 1 Sep 2026 - CONF
- AusNet - Appendix 3B Revised Unit Rate Buildups - 1 Sep 2026 - CONF
- AusNet - AMCL - Appendix 3C Revised Unit Rate Review - 1 Sep 2026 - PUBL
- AusNet - Appendix 3D VAPR Forecast Summation Tool - 1 Sep 2026 - PUBL
- AusNet - Appendix 3E Asset Replacement and Compliance Update - 1 Sep 2026 - CONF
- AusNet - Appendix 3F Resilience Update - 1 Sep 2026 – CONF
- AusNet - Appendix 3G Risk Allowance Summary - 1 Sep 2026 - PUBL
- AusNet - Appendix 3H CIRMP Amendment Rules Non-Digital - 1 Sep 2026 - SOCI ACT PROTECTED
- AusNet - VicGrid - Appendix 3I Planning Advice for AusNet Regulatory Proposal - 1 Sep 2026 - PUBL
- The capital expenditure model

A significant number of other documents and models are also provided in the Supporting Document folders, including Technical Documents, Technical Asset Management Strategies, Technical Project Documents, Technology Documents, and Engagement Documents.

04

Operating expenditure

4. Operating expenditure

4.1. Key points

The key points of this chapter are:

- Our Initial Proposal used the AER's standard base-trend-step approach to forecasting operating expenditure. In accordance with this approach, our Initial Proposal included a forecast of operating expenditure that was based on:
  - Forecast operating expenditure for the base year (2025-26), based on AusNet's internal budgets
  - A placeholder forecast of labour cost escalation taken from consultant reports that informed AusNet Distribution's Draft Decision
  - The latest available information on AEMO participant fees, easement land tax (ELT), and growth assets
- Since the Initial Proposal, new information has become available for these three categories of operating expenditure:
  - Audited actuals are now available for operating expenditure in the base year through the 2025-26 Annual Information Order. We have therefore updated the base opex in the Revised Proposal to reflect actual expenditure
  - We have commissioned an updated report on labour cost escalation from BIS Oxford Economics and have received updated Deloitte Access Economics forecasts through the Draft Decision. These reports have been used to update the rate of change parameters in the Revised Proposal
  - AEMO's FY27 Budget and Fees, AusNet's 2026 Land Tax Assessment notice, and an additional 10 months of excluded prescribed project information are now available. We have therefore updated the step changes and category specific forecasts in the Revised Proposal to reflect these inputs
- We are proposing operating and maintenance expenditure (opex) excluding debt raising costs of $2,120 million for the next regulatory period. This is:
  - 1% lower than that approved in the AER's Draft Decision; and
  - 2% lower than that proposed in our Initial Proposal.
- We welcome the AER's acceptance of more than 99% of the operating expenditure in the Initial Proposal. The primary reductions to operating expenditure made in the Draft Decision related primarily to:
  - **Reductions to the Digital step change**: The AER accepted the need for the majority of our proposed digital programs, but made reductions in some areas. In the Revised Proposal, we have accepted the removal of opex associated with Customer Engagement, and some reductions to operating expenditure for Metering Systems. For programs where we are not accepting the Draft Decision, we have provided further information to support the prudency and efficiency of our step changes, showing that they will deliver genuine customer benefits
  - **Landholder engagement step change:** The AER did not accept the proposed Landholder Engagement step change, considering that these activities could be funded from other components of the operating expenditure allowance. We have accepted this aspect of the Draft Decision, but would emphasise we remain committed to delivering an uplift in landholder engagement service levels in the 2027-32 regulatory period
- We have also identified and proposed two additional step changes:
  - We are proposing a new step change to enable AusNet to comply with the SOCI CIRMP Amendment Rules which came into force in June 2026; and
  - We are proposing an opex step change relating to network operations responsibilities delegated from AEMO/VicGrid to AusNet. This potential step change was mentioned in our Initial Proposal but shown in the opex model at zero value. As the delegation of responsibilities has now been confirmed, we are now including this step change in the Revised Proposal
- We presented our Revised Proposal opex step changes to the Transmission Stakeholder Advisory Panel (TSAP) at a meeting held on 6 August 2026. Our stakeholders did not raise objections to the identified need for these step changes on the assumption the AER would assess the cost and scope in detail

4.2. Chapter Structure

The remainder of this chapter is structured as follows:

- Section 4.3 provides an overview of our forecast opex in our Initial Proposal, the AER's Draft Decision and our Revised Proposal;
- Section 4.4 summarises customer preferences and feedback that we have incorporated;
- Section 4.5 considers our proposed base year expenditure;
- Section 4.6 outlines our proposed rate of change;
- Section 4.7 sets out our proposed step changes;
- Section 4.8 outlines our category specific forecasts;
- Section 4.9 provides a brief description of our debt raising cost forecasting approach;
- Section 4.10 provides a summary of our Revised Proposal opex forecast;
- Section 4.11 explains why our opex forecasts satisfy the NER requirements; and
- Section 4.12 sets out our supporting documents for this chapter.

4.3. Overview

4.3.1. Our Initial Proposal

We proposed a total opex forecast of $2,169 million over the 2027-32 regulatory control period inclusive of debt raising costs. This amount was 57% higher than our opex allowance for the 2022-27 regulatory period. However, if we exclude easement land tax and debt raising costs, our Initial Proposal opex forecast was $720 million which was 61% higher than our approved opex allowance (excl. ELT & debt raising costs) for the 2022-27 regulatory control period.

In addition to providing a detailed explanation of our opex forecasts, our Initial Proposal noted that the base year opex (2025-26) would be updated in our Revised Proposal to reflect our actual expenditure for that year. We had also explained that our forecast Wage Price Index (WPI) would be updated in our Revised Proposal to reflect the latest data.

4.3.2. Draft Decision

The Draft Decision approved an opex allowance for the 2027-32 regulatory control period of $2,149 million, representing a reduction of $20 million or 0.9% compared to the Initial Proposal.

This reduction primarily reflects the AER's position that insufficient evidence was provided at the Draft Decision stage to establish the efficient costs of our digital step changes. The AER also did not accept the proposed Landholder Engagement step change, considering that the expenditure was not driven by a new or changed regulatory obligation.

In addition, the AER made a number of adjustments to other components of the opex forecast, including the base year, step changes relating to AEMO participant fees and growth assets, and category specific forecast components. These adjustments are discussed in the relevant sections below.

4.3.3. Response to the AER's Draft Decision

We accept the AER's Draft Decision with respect to:

- The choice of the base year and approach to applying Software-as-a-Service adjustments;
- The landholder engagement step change;
- The component of the Digital step change associated with the Digital Resilience – Applications, Digital Resilience – Infrastructure, Cybersecurity, Asset Management & Field Enablement, and Customer Engagement programs;
- The productivity trend parameter; and
- DAE's updated WPI forecast.

Our Revised Proposal re-proposed the components of the Digital opex step change associated with the Advanced Energy Management System (AEMS) and Metering Systems programs, and, in support of these programs, provides additional information to address the queries and concerns raised by the AER.

Since the Initial Proposal, we have also become subject to a number of new regulatory requirements and externally imposed responsibilities, resulting in the need for 2 additional opex step changes:

- Delegated network operations responsibilities; and
- Security of Critical Infrastructure (SOCI) Enhanced Critical Infrastructure Risk Management Program (CIRMP) Rules.

In addition to the above changes, we have also updated BISOE's WPI forecast, easement land tax, the growth assets step change, and AEMO participant fees based on the latest data.

4.3.4. Revised Proposal

4.3.4.1. Summary of operating expenditure forecast

Our Revised Proposal includes an updated operating expenditure forecast of $2,133 million over the 2027-32 regulatory control period. The annual opex forecast by category is set out below.

Table 4-1: Revised Proposal – Total opex forecasts ($M, real 2027)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Opex excl. ELT, Growth assets and debt-raising cost	142.4	151.5	151.9	154.4	156.1	756.2
Easement land tax	261.6	264.4	267.2	270.1	273.0	1,336.2
Growth assets	5.3	5.3	5.3	5.3	5.3	26.3
Debt-raising cost	2.5	2.7	2.8	3.0	3.0	13.9
Total	**411.7**	**423.7**	**427.2**	**432.7**	**437.3**	**2,132.6**

Source: AusNet

The main drivers of change in operating expenditure between the Initial and Revised Proposals are:

- A decrease in forecast easement land tax, based on the 2026 Land Tax Assessment notice
- A decrease in the base component of opex, based on actual opex for 2025-26 that is lower than the forecast included in the Initial Proposal
- A decrease in the size of the Digital opex step change, reflecting the acceptance of some of the reductions made in the Draft Decision
- An increase in forecast AEMO participant fees, based on AEMO's FY27 Budget and Fees
- The addition of step changes relating to the SOCI CIRMP Amendment Rules and delegated network operations responsibilities

The application of the base-step-trend approach to our efficient base year opex produces a total opex forecast that is prudent and efficient, and consistent with the AER's usual approach and the expenditure objectives in the NER. With customers focusing on affordability, our proposed opex minimises costs while also meeting new regulatory obligations without compromising the reliability and safety of our network services.

4.3.4.2. Forecasting approach

We continue to apply the forecasting approach used in our Initial Proposal, which is the revealed cost base-step-trend approach set out in the AER's Expenditure Forecast Assessment Guideline. This is an appropriate methodology to forecast opex requirements for an efficient transmission network service provider.

It is important to note that the opex forecast is designed to be sufficient to maintain current service performance levels, rather than to deliver improvements beyond the existing standards except where those standards have been lifted (e.g. SOCI requirements). That is, the current level of reliability risk, monetised using the value of customer reliability, will be maintained over the forthcoming period. This approach is consistent with AusNet's network planning framework and the design of the AER's Service Target Performance Incentive Scheme (STPIS).

4.3.4.3. Cost Allocation Methodology

Our base year costs and the costs used to develop the opex forecast have been allocated in accordance with AusNet's approved Transmission Cost Allocation Methodology (CAM). AusNet's application of the CAM is audited annually during the regulatory accounts approval process.

For step changes included in the Revised Proposal, where costs are wholly or predominantly attributable to Transmission, they have been allocated entirely to Transmission. Where resources are shared across multiple parts of the business, costs have been allocated between the relevant networks based on the utilisation of the underlying

resource or service. Detailed allocation factors and assumptions are provided in the supporting cost models and documentation.

4.4. Incorporating customer preferences and feedback

AusNet undertook an extensive program of stakeholder engagement prior to the submission of the Initial Proposal. This included substantial time spent understanding stakeholders' preferences, and how we could align our operating expenditure proposal with these preferences.

Following the submission of the Initial Proposal in October 2025, AusNet conducted a further 3 meetings with the Transmission Stakeholder Advisory Panel (TSAP) which discussed recent industry developments relevant to the Transmission Revenue Reset, progress on actions that were committed to in 2025, the AER's Draft Decision, and our plans for the Revised Proposal. This is explained in further detail in Chapter 1, with meeting minutes provided in the Engagement Documents.

In the table below, we summarise how engagement has influenced the Revised Proposal, including any deviations from the engagement-supported decisions that informed the Initial Proposal. As shown below, all material changes made in the Revised Proposal have been discussed with the TSAP.

Table 4-2: Engagement on Revised Proposal opex topics

Topic	Initial Proposal engagement	Revised Proposal engagement
Landholder Engagement	**Feedback received:** During the 4th TSAP Meeting on 8 April 2025 and the dedicated Landholder Engagement Deep Dive held on 1 May 2025, stakeholders expressed broad support for improving the experience of landholders who host existing transmission infrastructure. Stakeholders recognised the importance of effective engagement in supporting project delivery, maintaining community trust and supporting the energy transition. Landholders were identified as a critical stakeholder whose ongoing support and cooperation contribute to the operation, maintenance and future development of Victoria's transmission network. Through this engagement, multiple options for landholder engagement service uplifts were presented to stakeholders, and a preferred option was selected. **How we responded:** The preferred option selected in consultation with stakeholders was included in the Initial Proposal as an opex step change.	**Feedback received:** The Draft Decision to remove the landholder engagement step change was discussed briefly with the TSAP on 6 August. AusNet confirmed that we remain committed to delivering the proposed initiatives by funding the associated expenditure through its base and trend opex allowances. No concerns were raised with this approach. **How we have responded:** While accepting the AER's Draft Decision not to include Landholder Engagement as a step change, AusNet remains committed to delivering the proposed initiatives by funding the associated expenditure through its base opex allowance. AusNet considers effective landholder engagement supports better customer outcomes by improving project deliverability, reducing disputes and access constraints, and facilitating the efficient delivery of transmission investments.
Digital	**Feedback received:** During the 5th TSAP Meeting held on 5 June 2025, stakeholders acknowledged the increasing complexity of operating Victoria's transmission network and the growing importance of digital and cyber security capabilities in supporting system security and the energy transition. Stakeholders also emphasised the importance of clearly demonstrating customer value and how proposed digital investments would deliver tangible benefits for Victorian energy users. **How we responded:** We included the Digital opex step change in the Initial Proposal. We provided business cases that explained the benefits of digital investments.	**Feedback received:** The Draft Decision on the Digital step change was discussed with the TSAP on 6 August. AusNet explained the intention to re-propose opex step changes in the Revised Proposal. Members questioned how achievement of the target state for cybersecurity would be demonstrated, and AusNet responded by confirming that audits and benchmarking activities would be undertaken. Another member questioned whether some investments should be delivered sooner given current cyber risks. **How we have responded:** The Digital opex step change in the Revised Proposal reflects the position presented to the TSAP on 6 August. In response to the Draft Decision AusNet has strengthened the customer value proposition

Topic	Initial Proposal engagement	Revised Proposal engagement
		underpinning its proposed Digital investments and provided clearer articulation of the customer, operational and system resilience benefits associated with key programs. This includes strengthening the explanation of how the Advanced Energy Management System (AEMS) supports the management of emerging system risks and improves customer outcomes. This is in line with the outcomes of the Initial Proposal engagement.
SOCI CIRMP Amendment Rule Requirements	N/A – this program was not included in the Initial Proposal, as rules were not put into force until June 2026	**Feedback received:** An update on the Physical Security program and upcoming legislative reforms relating to SOCI were discussed with the TSAP on 21 May 2026. Members asked questions on drone-based threats, the types of assets included in the expenditure, and whether costs proposed by AusNet were in line with other TNSPs. Following the release of the CIRMP Amendment Rules in June 2026, the full suite of related expenditure that would be included in the Revised Proposal was discussed with the TSAP on 6 August. Members engaged in detailed discussion on the scope and timing of these investments. Members raised concerns that systems that provide outage and service information to customers might be disrupted if IT and OT systems were isolated. AusNet confirmed that maintaining critical customer communications would remain an important consideration for business continuity planning. No other material concerns were raised. TSAP members also raised concerns about whether proposed SOCI investments would provide sufficient resilience against future threats. AusNet confirmed that the program was designed in response to increasing cyber security expectations from the Australian Signals Directorate (ASD), Home Affairs and other agencies, recognising that threat environments continue to evolve and require continual improvement. **How we have responded:** Our Revised Proposal reflects what was presented to the TSAP on 6 August.
Delegated Network Operations Responsibilities	**Feedback received:** AusNet engaged the TSAP on the potential transfer of network operations responsibilities, in a TSAP Meeting on 8 April 2025. In this meeting, AusNet flagged that the exact timing of a decision and delineation of responsibilities had not been confirmed. Panel members discussed how fees for these services were currently being recovered from customers by AEMO, and how this might change if the service were performed by VicGrid or AusNet. The network operations step change was included in the Draft Proposal, which was published in July 2025 for stakeholder consultation.	**Feedback received:** Through ongoing discussions with AEMO, VicGrid and other stakeholders, the scope of the proposed responsibilities has now been clarified. We therefore engaged the TSAP on this step change again through TSAP Meetings 10 and 11 on 21 May 2026 and 6 August 2026. Stakeholders sought assurance that the costs of providing these services would only be recovered from customers once, and how the changes would impact the NEM more broadly. AusNet confirmed that costs for existing services would stop being recovered by AEMO to avoid duplication, and that the changes would align Victoria more closely to

Topic	Initial Proposal engagement	Revised Proposal engagement
	Throughout engagement prior to the Initial Proposal, the TSAP were clear in their preference for AusNet not to include projects where the need had not been confirmed. Therefore, at a TSAP meeting on 18 September 2025, AusNet confirmed that the transfer had not yet been formalised and that the step change would not be included in the Initial Proposal. **How we responded:** AusNet committed not to propose a step change until there was greater certainty regarding the responsibilities to be transferred. Consistent with the position presented to the TSAP, we did not include costs for this step change in the Initial Proposal, though the possibility of a step change in the Revised Proposal was flagged to the AER.	operational practices in other parts of the NEM. **How we have responded:** Consistent with stakeholder feedback received through Initial and Revised Proposal engagement, the Revised Proposal includes only those responsibilities that have subsequently been confirmed for transition to AusNet as part of Victoria's evolving governance arrangements.

4.5. Base year expenditure

4.5.1. Our Initial Proposal

We nominated 2025-26 as the base year for forecasting opex, which involved using a placeholder forecast (as audited actuals were not available at the time of our Initial Proposal). Adjustments were also applied to remove operating expenditure associated with category-specific forecasts (such as easement land tax), and to remove non-recurrent digital expenditure.

Our approach resulted in a base opex of $625 million for the 2027-32 regulatory control period.

4.5.2. Draft Decision

The AER accepted that 2025-26 is an appropriate base year, as it represents an efficient starting point for the purpose of forecasting opex for the 2027-32 regulatory control period. The AER also accepted our adjustment for easement land tax, which is forecast on a category-specific basis.

The Draft Decision updated the 2025–26 base year opex using the latest inflation data to express costs in real 2026–27 dollars. Consistent with AusNet's Initial Proposal, the AER excluded both non-recurrent ICT project implementation expenditure ($2.4 million) and SaaS implementation costs ($3.5 million) from the forecast base year opex. However, the AER adopted a different approach to applying these adjustments, reducing proposed base year opex by $2.4 million to remove non-recurrent ICT project implementation expenditure and removing SaaS implementation costs directly from reported base year opex, rather than implementing both adjustments through separate base year adjustments.

The AER also provided detailed analysis on our benchmarking efficiency performance and found:

- When assessing opex Multilateral Partial Factor Productivity (MPFP), we perform relatively efficiently compared to our peers, being the most efficient in recent years;
- When assessing Multilateral Total Factor Productivity (MTFP), we are grouped with the bottom performers over time. However, the AER relies more heavily on our opex MPFP rather than MTFP results when assessing the efficiency of our base year opex;
- Our partial performance indicator (PPI) results are strong compared to peers in most aspects, but the AER noted these results are to be expected given the characteristics of our network. We have the lowest total cost per end user, likely driven by our denser transmission network relative to other TNSPs. On the other hand, the AER considered our higher cost per kilometre of transmission circuit length to be reasonable, as we have the lowest circuit length amongst the 5 TNSPs.

4.5.3. Revised Proposal

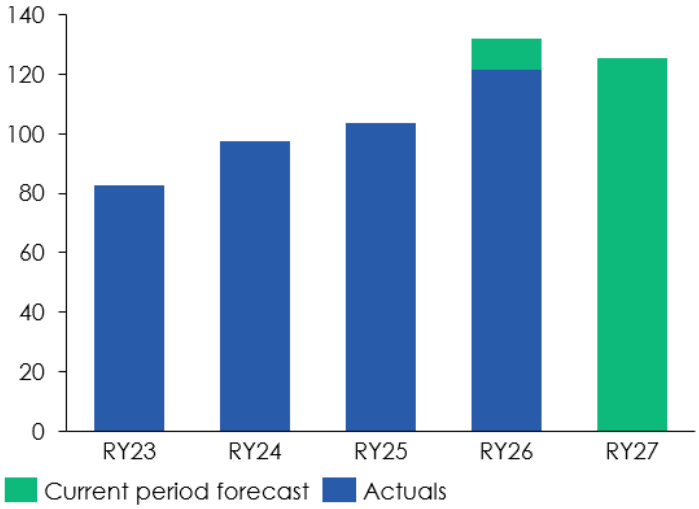
We welcome the AER's acceptance of the efficiency of our base year 2025-26. However, as stated in our Initial Proposal, we have updated our 2025-26 reported opex to reflect actual expenditure.

In its Draft Decision, the AER revised the treatment of digital expenditure reflected in the base year. While our Initial Proposal removed both SaaS costs and non-recurrent ICT project implementation opex through a base year adjustment, the AER excluded SaaS costs ($3.5 million) directly from reported base year opex and retained only the non-recurrent ICT project implementation opex ($2.4 million) as a base year adjustment. The AER considered this

approach would provide greater consistency between reported opex, Efficiency Benefit Sharing Scheme (EBSS) calculations and regulatory accounting treatment. We have accepted and reflected this treatment in the Revised Proposal.

Our actual reported opex excluding easement land tax for 2025-26 was $120.9 million, which is $6.4 million (5%) below the forecast opex of $127.3 million included in the Initial Proposal. This underspend was primarily driven by increased capitalisation as resources were deployed to support AusNet's growing capital delivery program. As a result, expenditure that would otherwise have been recorded as opex was capitalised, reducing reported opex. Despite this outcome, the planned capability and expenditure uplifts for 2025-26 were delivered as intended, further supporting the AER's acceptance of the prudency and efficiency of the 2025-26 base year expenditure.

Figure 4-1: Operating expenditure excluding easement land tax 2023-27 ($M, real 2026-27)

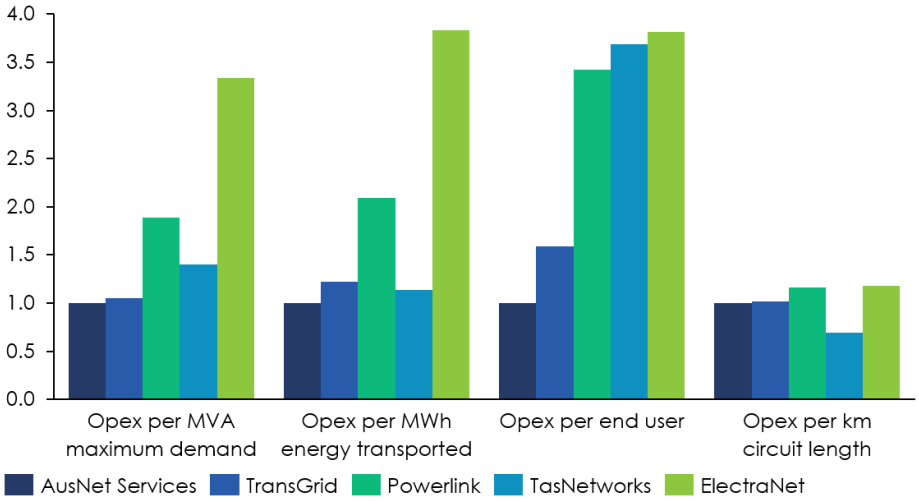


Source: AusNet

In the Initial Proposal, we discussed opex benchmarking results from the AER's 2024 Benchmarking Report, which included opex data until and including 2023. The AER's 2025 Benchmarking Report is now available, which includes opex data until and including 2024.

The 2025 report continues to show that AusNet's operating expenditure is efficient relative to our peers. A comparison of TNSP performance on the Partial Performance Indicators (PPIs) for the latest year included in the 2025 report (2024) is provided below, For ease of presentation, each PPI is indexed such that AusNet's value is equal to 1.00.

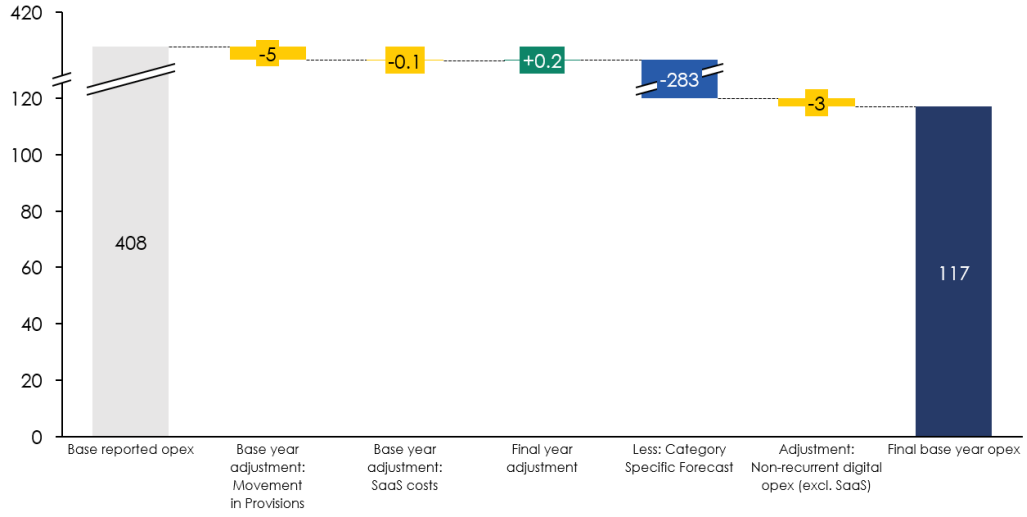
Figure 4-2: Partial performance indicators based on 2024 operating expenditure ($/unit comparison, index where AusNet = 1.00)



Source: AusNet

The above graph shows that AusNet is the best performing network on 3 of the 4 metrics and has industry average performance on the 4th metric. This further validates the conclusion reached in our Initial Proposal that our operating expenditure is efficient and provides a sound foundation for our 2027-32 opex forecast.

Figure 4-3: Final base year opex ($M, real 2026-27)



Source: AusNet

As shown in the waterfall chart above, this results in a base year opex of $117 million for the 2027-32 regulatory control period, compared to $125 million in our Initial Proposal. The approximately $8 million reduction is primarily driven by lower 2025-26 actual opex excluding category specific forecast, including lower actual SaaS implementation costs and non-recurrent digital implementation expenditure, as well as updated movements in provisions.

4.6. Rate of change

4.6.1. Our Initial Proposal

In our Initial Proposal we outlined our proposed rate of change parameters and the underlying calculations used to derive them, relying on the information available at that time and the AER's standard methodology. The inputs into the proposed rate of change, outlined in the table below, include:

- **Output growth:** The opex forecast for the upcoming regulatory control period did not account for system growth as these costs are initially handled outside of the revenue cap because of the division of TNSP functions in Victoria. Therefore, consistent with the AER's Final Decision for the current regulatory period, we have not included an output growth component in our opex forecast.
- **Real price growth:** We used the average of DAE's WPI forecast and BISOE's WPI forecast that was produced for our EDPR 2026-31 Revised Proposal to calculate our labour escalators. We flagged that this was a placeholder, and that an updated WPI forecast would be commissioned for the Revised Proposal. We forecasted that our materials costs would increase at the same rate as CPI, i.e. no real change in non-labour costs for the forthcoming regulatory period.
- **Productivity growth:** Consistent with the AER's preferred methodology and the views of the TSAP, we included a forecast of productivity improvements of 0.52% per annum in our forecast opex. The forecast growth in productivity reflected the annual productivity growth rate that the transmission industry has been able to achieve over the long term (as reported in the 2024 Benchmarking Report) and as such is a reasonable estimate of productivity growth over the 2027-32 regulatory control period.

Table 4-3: Initial Proposal - Rate of change

	2027-28	2028-29	2029-30	2030-31	2031-32
Output growth	0.00%	0.00%	0.00%	0.00%	0.00%
Real price growth	0.67%	0.82%	0.85%	0.78%	0.78%
Productivity change	0.52%	0.52%	0.52%	0.52%	0.52%
Rate of change, YoY	**0.15%**	**0.31%**	**0.33%**	**0.27%**	**0.26%**
Rate of change, cumulative	**0.15%**	**0.46%**	**0.79%**	**1.06%**	**1.32%**

Source: AusNet

4.6.2. Draft Decision

The AER noted that we broadly applied their standard approach to forecasting the rate of change. However, the AER did not accept the rate of change submitted in the Initial Proposal and instead proposed an alternative forecast, as detailed below.

4.6.2.1. Output growth

The AER accepted our output growth of 0% real increase.

4.6.2.2. Real price growth

The AER accepted the approach of averaging the DAE and BISOE's WPI forecasts. However, the AER have updated DAE's WPI forecast published in March 2026 and applied the data series to March to align with AusNet's regulatory period.

4.6.2.3. Productivity growth

The AER accepted our productivity growth forecasting methodology. While the AER accepted our methodology for forecasting productivity growth, they proposed an updated productivity growth of 0.42% instead of 0.52% in our initial proposal. This adjustment reflects the latest Annual Quantonomics Benchmarking results published in November 2025.

4.6.2.4. Overall rate of change

Given the changes identified above, the AER rejected our overall rate of change and considered that the rate of change outlined in the table below was appropriate.

Table 4-4: Draft Decision - Rate of change

	2027-28	2028-29	2029-30	2030-31	2031-32
Output growth	0.00%	0.00%	0.00%	0.00%	0.00%
Real price growth	0.60%	0.74%	0.78%	0.74%	0.72%
Productivity change	0.42%	0.42%	0.42%	0.42%	0.42%
Rate of change, YoY	**0.17%**	**0.31%**	**0.36%**	**0.32%**	**0.29%**
Rate of change, cumulative	**0.17%**	**0.49%**	**0.85%**	**1.17%**	**1.46%**

Source: AER

4.6.3. Revised proposal

4.6.3.1. Output growth

We accept the AER's draft decision on output growth, which adopted our Initial Proposal.

4.6.3.2. Real price growth

While we the accept the AER's Draft Decision on real price growth, we have the DAE WPI forecast consistent with the Draft Decision figures and refreshed the BISOE forecast using the latest report prepared for the Revised Proposal. We consider both forecasts to provide a reasonable basis for forecasting real price growth. The updated forecasts are summarised in the table below. See Appendix 4B for BISOE's report.

Table 4-5: Revised Proposal – WPI forecast comparison

	2027-28	2028-29	2029-30	2030-31	2031-32
BISOE – Draft Decision	0.97%	1.25%	1.35%	1.20%	1.19%
BISOE – Revised Proposal	0.31%	1.19%	1.17%	1.31%	1.36%
Variance	**(0.66%)**	**(0.06%)**	**(0.18%)**	**0.11%**	**0.17%**
DAE – Draft Decision	0.72%	0.85%	0.87%	0.91%	0.84%
DAE – Revised Proposal	0.72%	0.85%	0.87%	0.91%	0.84%
Variance	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**

Source: AusNet

4.6.3.3. Productivity growth

We accept the AER's Draft Decision on productivity growth.

4.6.3.4. Overall rate of change

The changes identified above, result in an updated cumulative rate of change of 1.25% by the end of the period, which is reflected in the opex model accompanying our Revised Proposal. This is an increase compared to the Initial Proposal, primarily driven by higher real price growth and lower productivity change.

Table 4-6: Revised Proposal - Rate of change

	2027-28	2028-29	2029-30	2030-31	2031-32
Output growth	0.00%	0.00%	0.00%	0.00%	0.00%
Real price growth	0.37%	0.72%	0.72%	0.78%	0.78%
Productivity change	0.42%	0.42%	0.42%	0.42%	0.42%
Rate of change, YoY	**(0.06%)**	**0.30%**	**0.30%**	**0.36%**	**0.35%**
Rate of change, cumulative	**(0.06%)**	**0.24%**	**0.54%**	**0.90%**	**1.25%**

Source: AusNet

4.7. Step changes

4.7.1. Our Initial Proposal

We proposed the following step changes in our Initial Proposal:

- Digital (inc. SaaS, cyber security, etc.) – to uplift digital capability to meet business requirements and keeping our digital ecosystem reliable and resilient from cyber threats to enable us to support the energy transition. This step change broadly consisted of the ongoing costs associated with the Digital capex programs also included in the Initial Proposal
- Landholder Engagement – to deliver uplifts designed in consultation with landholder advocates and customer representatives, noting the increasing importance of social license in the context of the growing scale of replacement and augmentation works required to support the energy transition.

As well, we flagged that our Revised Proposal may include an additional step change:

- Network Operations - to enable AusNet to undertake potential delegated network operations responsibilities that will be transferred from VicGrid (previously AEMO).

The table below shows the step changes we proposed in our Initial Proposal.

Table 4-7: Initial Proposal – Step changes ($M, real 2026-27)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Digital (incl. SaaS, cyber security, etc)	15.2	14.0	9.6	11.2	12.1	62.1
Landholder Engagement	1.4	1.3	1.2	1.1	1.1	6.2
Total	**16.6**	**15.3**	**10.8**	**12.4**	**13.2**	**68.3**

Source: AusNet

4.7.2. Draft Decision

The AER rejected our proposed landholder engagement step change. While the AER acknowledged the support expressed by landholder and customer representatives for improved engagement, they were not satisfied that the proposed step change is driven by a new or changed regulatory requirement, and therefore contended that AusNet should fund such uplifts from base and trend allowances.

While the AER accepted the need for our digital programs, reductions were made to opex associated with several programs. The AER requested further information in the Revised Proposal to enable it to assess the efficiency of costs associated with each step change.

The AER also determined that forecast AEMO participant fees should be included as an opex step change, rather than a category specific forecast, as these costs are intended to remain subject to the incentive-based regulatory framework and the EBSS.

As a result, the AER's Draft Decision only approved a subset of our proposed step change opex, as shown in the table below.

Table 4-8: Draft Decision – Step changes ($M, real 2026-27)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Digital (incl. SaaS, cyber security, etc)	6.2	10.0	6.5	7.6	8.4	38.6
Landholder Engagement	0.0	0.0	0.0	0.0	0.0	0.0
AEMO participant fees	4.1	4.3	4.4	4.5	4.7	22.0
Total	**10.3**	**14.2**	**10.9**	**12.1**	**13.0**	**60.6**

Source: AusNet

4.7.3. Revised proposal

We accept the AER's decision on the landholder engagement step change and the reclassification of AEMO participant fees from category specific forecast to step change as per the Draft Decision. In accordance with the Draft Decision, we have provided additional information on opex for digital programs and recalculated the step change amounts to reflect the latest information available. We have provided updated and new information to support our step changes which addresses the AER's concerns described in its Draft Decision. Additionally, we have included a step change associated with delegated network operations responsibilities that have now been confirmed, and a new step change to allow AusNet to comply with the SOCI Enhanced CIRMP requirements.

We presented our Revised Proposal for opex step changes to stakeholders and consumers at our eleventh collaboration workshop held on 6 August 2026. Our stakeholders accepted that the majority of our opex step changes are driven by external factors and, therefore, outside of our control. On this basis, they did not raise objections to the position we are presenting in this Revised Proposal.

Table 4-9: Revised Proposal - Step changes ($M, real 2026-27)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Digital (incl. SaaS, etc.)	7.4	10.9	8.4	10.0	10.9	47.7
Landholder Engagement	-	-	-	-	-	0.0
AEMO participant fees	9.1	9.5	9.8	10.2	10.7	49.3
SOCI enhanced CIRMP requirements	5.5	10.3	12.6	12.6	12.6	53.7
Delegated network operations responsibilities	3.7	3.7	3.7	3.7	3.7	18.7
Total	**25.8**	**34.4**	**34.6**	**36.6**	**37.9**	**169.3**

Source: AusNet

4.7.3.1. Digital (incl. SaaS, etc.)

AusNet accepts the Draft Decision in relation to the components of the Digital opex step change associated with the Digital Resilience – Applications, Digital Resilience – Infrastructure, Cybersecurity, Asset Management & Field Enablement, and Customer Engagement programs. We have reflected these outcomes in the Revised Proposal, with the only change from the Initial Proposal being an update to inflation.

For the remaining Digital programs, AusNet has provided additional supporting information, refreshed cost estimates and Business Case Addendums in response to the AER's Draft Decision.

Given the close relationship between digital operating expenditure and the digital capex programs, updates to program scope, timing and delivery approach generally impact both capital and operating expenditure. Therefore, this section should be read in conjunction with Section 3.8 of the Capital Expenditure chapter, and the detailed Business Case Addendums contained in the Technology Documents.

In this section, we provide a summary of the changes made in the Revised Proposal for the two programs included in the Initial Proposal where AusNet does not accept the Draft Decision on operating expenditure.

Table 4-10: Digital opex step change in Revised Proposal vs. Initial Proposal and Draft Decision ($M, real 2026-27)

Program	Initial Proposal	Draft Decision	Revised Proposal	Explanation of change
No change vs. Draft Decision				
Digital Resilience – Applications	3.3	3.4	3.4	No change
Digital Resilience – Infrastructure	0.4	0.4	0.4	No change
Cybersecurity	19.0	19.3	19.3	No change
Asset Management & Field Enablement	9.4	9.6	9.6	No change
Customer Experience	4.1	-	-	No change
Re-proposed				
Advanced Energy Management System	15.9	8.8	14.8	We are accepting the removal of 3 initiatives, relating to PMU data for incident response & investigation, TASM Phase 3, and UAV/Drone inspection. We are continuing to propose the 5 other initiatives which were removed in the Draft Decision. In support of these initiatives, we are providing a Business Case Addendum and updated cost benefit analysis which: • Provide further explanation on the scope of each initiative, to clarify that there is no duplication or overlap between initiatives • Better explain the link between each initiative and customer benefits • Map these initiatives to the Draft Transmission System Operator Capability Framework (TSOCF) being developed by AEMO, which was not yet available when the Initial Proposal was submitted One new initiative has been added to the AEMS program to establish TNSP ICCP links. This initiative has been added as requirement to meet new Instrument of Delegation between AEMO and AusNet requirements. These new regulatory requirements became effective 1 July 2026, as flagged to the AER through post-lodgement engagement.
Metering Systems	9.9	-	0.3	We accept the Draft Decision to remove the initiative relating to meter reading software and the meter management solution. We partially accept the Draft Decision to remove the 2 initiatives relating to meter data storage and enhancing meter data integrity & analytics. While we have not removed these initiatives, we are proposing a new combined solution design which leverages existing systems. This reduces the cost of delivering these initiatives materially. We have provided a Business Case Addendum which provides further justification of the Meter Asset Register initiative which was removed in the Draft Decision. The Business Case Addendum also explains a small amount of new expenditure added to this program in response to the AER's concerns with the meter replacement program (which was included in "Replacement – Other" in the Initial Proposal). We agree that the need to replace Mk6e meters was not sufficiently justified by incompatibility with EziView software. However, following further engagement with the vendor EDMI we have confirmed that work is required to ensure the continued functionality of meter testing and recalibration in the Windows 11 version of EziView. Therefore, instead of replacing the Mk6e meters, we propose to undertake a relatively small digital initiative to maintain the compatibility of the Mk6e meters with EziView, working with EDMI.
Total	**62.1**	**41.5**	**47.8**	

Source: AusNet, AER

4.7.3.2. Landholder Engagement

We accept the AER's Draft Decision not to include Landholder Engagement as an opex step change. Notwithstanding this outcome, the proposal received strong support from stakeholders, including landholder representatives and the Transmission Stakeholder Advisory Panel. AusNet continues to recognise the critical role that effective landholder engagement plays in supporting the energy transition and maintaining strong relationships with affected communities. Accordingly, AusNet remains committed to delivering these engagement activities and will fund the associated expenditure through its base opex allowance.

Over the last 10 months, AusNet has continued to implement initiatives to improve the experience of landholders who host existing transmission infrastructure. These initiatives include strengthening land access arrangements through enhanced biosecurity requirements and property-specific management plans, improving dispute resolution and escalation pathways, and adopting a more proactive approach to minimising and remediating impacts on agricultural land and business operations. AusNet has also enhanced the consistency and quality of landholder interactions through dedicated points of contact and the implementation of a comprehensive Working on Private Land guide for employees and delivery partners, which establishes clear expectations for respectful property access, communication, privacy, biosecurity management and issue escalation.

In addition, AusNet has continued to invest in safety education and awareness initiatives, including the development of new materials to support landholders operating around transmission infrastructure and broader community safety awareness campaigns. AusNet has also strengthened the support available to landholders affected by project activities, including compensation arrangements for significant disruptions arising from survey and construction activities on private land, which were implemented for the first time on the Heywood Terminal Station to Portland Alcoa 500 kV tower restoration project in 2025.

These initiatives demonstrate AusNet's ongoing commitment to improving landholder outcomes and incorporating stakeholder feedback irrespective of the funding treatment of the proposed step change.

4.7.3.3. Delegated Network Operations Responsibilities

We outlined in our Initial Proposal that we may include a step change in our Revised Proposal to support potential delegated network operations responsibilities arising from the transition of planning responsibilities from AEMO to VicGrid. This was also discussed with stakeholders at a TSAP meeting in April 2025. We confirmed with stakeholders in September 2025 that the step change would be excluded from our Initial Proposal, as no delegation had been confirmed at the time.

Since then, the allocation of network operations responsibilities to AusNet has been confirmed, enabling us to assess the capability and resources that are required to support these functions.

As highlighted in our Initial Proposal, the Victorian transmission network is becoming increasingly complex to operate. The energy transition is driving unprecedented changes in power flows, generation mix and network utilisation, meaning operators must manage increasing renewable generation, declining system strength, minimum system load conditions, growing outage volumes and a significant increase in connection activity. Together, these factors increase the complexity of maintaining power system security and reliability, and place greater demands on network controllers, who must process increasing volumes of information and make more complex operational decisions in real time.

At the same time, reforms to Victoria's transmission governance arrangements have altered the roles and responsibilities of key industry participants. On 1 November 2025, responsibility for planning Victoria's declared shared transmission network formally transferred from AEMO to VicGrid. As part of the transition to the new planning framework, planners have initiated consideration of how operational responsibilities should be allocated, including the delegation of some network operations functions to AusNet.

AusNet is well positioned to undertake additional network operations functions given our role as the primary Declared Transmission System Operator (DTSO) for Victoria's transmission network, our extensive operational experience, and our existing control room, emergency response and network operations capabilities. As the owner and operator of the majority of Victoria's shared transmission network assets, AusNet already maintains the operational systems, processes, expertise and personnel required to safely operate the network and respond to changing system conditions. The proposed functions are, therefore, closely aligned with activities already undertaken by AusNet, allowing existing operational knowledge and capabilities to be leveraged rather than duplicated elsewhere. Importantly, the delegation of these functions has been confirmed by key stakeholders, including AEMO, the Victorian Government and VicGrid.

The confirmed responsibilities that have been transferred/delegated to AusNet are explained in the sections below. The expenditure associated with them will provide the capability and resources required for AusNet to undertake these delegated functions while continuing to maintain the safe, secure and reliable operation of the Victorian transmission network.

Table 4-11: Summary of responsibilities delegated to AusNet and its associated costs

[C-I-C]

Source: AusNet

It is important to note that the majority of these functions are already performed today by AEMO/VicGrid are funded through existing operational arrangements. As such, the proposal largely reflects the transfer or delegation of existing responsibilities to AusNet rather than the creation of entirely new services for customers. The following sections discuss each responsibility in more detail, and the supporting cost build-up model outlines the associated expenditure.

4.7.3.3.1. Develop Contingency Plans

As part of the transition of Victorian transmission planning responsibilities from AEMO to VicGrid in November 2025, AEMO identified responsibility for developing contingency plans for planned transmission outages as an outstanding function requiring reassessment. AEMO has subsequently proposed that this responsibility be transferred to AusNet and has formally sought VicGrid's endorsement to facilitate the transfer, which was supported by VicGrid. AEMO has also proposed a transition program and committed to providing training and support to enable the transfer of the function.

The proposed transfer reflects the close alignment between contingency planning and AusNet's existing outage management responsibilities. AusNet already works closely with AEMO in relation to planned outages, including the provision of outage information through AEMO's Network Outage Scheduler (NOS), outage management activities and network outage coordination across Victoria. AEMO's proposal notes that the function is complementary to AusNet's existing outage management activities and that AusNet is willing and capable of undertaking the responsibility.

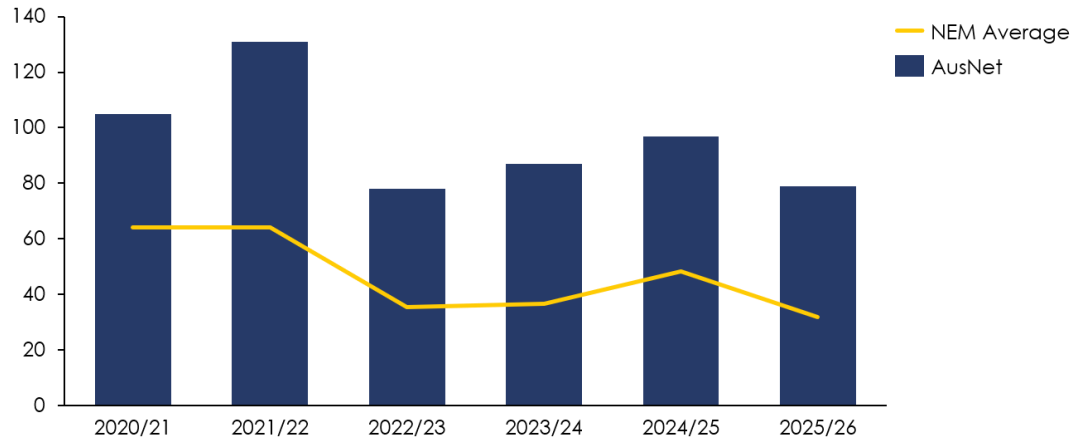
Transferring this function to AusNet is expected to benefit consumers by improving coordination between outage planning and operational activities, reducing interfaces between organisations and supporting more efficient decision-making during planned outages. AusNet already develops contingency plans for unplanned outages and undertakes network modelling and outage assessments as part of its existing network operations activities.

The proposed arrangement would also enable AusNet to develop contingency plans for other Victorian DTSOs as a centralised service, avoiding the need for multiple organisations to establish and maintain equivalent capability. By leveraging AusNet's existing systems, expertise and operational processes, the proposal avoids duplication of capability and unnecessary costs while supporting a more coordinated approach to outage management across Victoria's transmission network.

Continued delivery under the current arrangement would not be sustainable, as the responsibilities are currently distributed across existing personnel in addition to their core operational duties, increasing workload demands and cognitive burden on key staff.

As shown in the figure below, AusNet's High Impact Outage remains elevated than the NEM average, increasing the requirement for contingency planning and outage assessments. This further reinforces the need for dedicated resources to sustainably undertake the function and support the safe and reliable operation of Victoria's transmission network.

Figure 4-4: Number of High Impact Outages[21]



Source: AEMO, Statistics of Network Outage Submission (March 2026)

We confirm that this component of the step change is not a new service or cost to Victorian customers and only represents a change in "where" the cost is paid (from AEMO to AusNet).

4.7.3.3.2. Coordinate Emergencies

As part of the transition of Victorian transmission responsibilities, the Victorian Government transferred the National Electricity Market Responsible Officer (RO) role in Victoria from AEMO to AusNet, effective 1 November 2025. The transfer was undertaken to address AEMO's legacy delivery of the role and reflects the view that AusNet is best positioned to coordinate emergency communications and response activities across Victoria's transmission network. Prior to the transfer, the Victorian Government, AEMO, VicGrid and DEECA worked closely with AusNet to support the transition and ensure AusNet was appropriately equipped to undertake the function.

The RO is a key coordination role under the National Electricity Market emergency management framework and is responsible for facilitating the flow of information between industry participants, AEMO and the Victorian Government before and during electricity emergencies. This includes acting as the primary emergency contact point for AEMO, coordinating communications during network incidents, and supporting the activation and operation of the Power System Emergency Management Plan (PSEMP) where required.

Formalising and resourcing this function within AusNet is expected to benefit consumers through more coordinated emergency response arrangements, clearer operational accountability and improved information sharing during network events. Centralising these responsibilities within AusNet reduces operational interfaces and supports more efficient communication and decision-making during emergency situations.

The benefits of effective emergency coordination have become increasingly important as Victoria's transmission network grows in size and complexity. Lessons from major network events, including severe weather incidents such as the Anakie storm event, demonstrate the importance of having a single party with detailed network knowledge able to coordinate information flows and operational responses across stakeholders. AusNet has effectively been undertaking these coordination responsibilities since November 2025 following the Ministerial direction transferring the RO function. As the function was assumed part-way through the 2025-26 base year and the associated activities were initially absorbed within existing resources, the full cost of undertaking the role is not reflected in the base year expenditure.

While AusNet has temporarily absorbed these costs during the transition period, continuing to perform the function on an ongoing basis without dedicated resourcing would not be sustainable over the long term. The responsibilities are currently shared across several personnel in addition to their existing operational duties, increasing cognitive load and reliance on key individuals. The proposed expenditure, therefore, reflects the efficient resources required to support the role on a permanent basis, including on-call arrangements, procedures, training and ongoing operational readiness.

We confirm that this component of the step change is not a new service or cost to Victorian customers and only represents a change in "where" the cost is paid (from AEMO to AusNet).

[21] High Impact Outages are transmission network outages identified by AEMO as having the potential to materially affect power system security, reliability, or market outcomes

4.7.3.3.3. Instrument of Delegation

AEMO has identified the need to strengthen operational resilience by reducing reliance on a single organisation to undertake critical power system security functions. To address this risk, AEMO has requested AusNet develop the capability to undertake power system security and generation dispatch functions in circumstances where AEMO is unable to perform those activities. This initiative is being pursued at AEMO's request and is not a discretionary proposal developed by AusNet. AEMO's Board has approved the arrangement and the contractual documentation has been executed by all parties (AEMO, VicGrid, and AusNet) as of August 2026. The arrangement also aligns Victoria with the Instrument of Delegation arrangements adopted across other National Electricity Market jurisdictions, providing a consistent approach to maintaining power system security and operational resilience.

AusNet is uniquely positioned to undertake this role due to its operation of Victoria's transmission network, existing control room capability and detailed understanding of network conditions. The capability provides an additional layer of operational resilience for Victoria's power system and reduces the risks associated with a single point of failure for critical system operation functions. In the event that AEMO is unable to perform these responsibilities, for example due to a cyber-attack or other security threat, AusNet would be able to support continuity of operations and help maintain the secure operation of the power system.

The proposed expenditure supports controller training, procedural development, system enhancements and operational readiness activities required to establish this capability. AusNet will also continue to absorb a range of supporting operational costs associated with maintaining network operations capability.

We confirm that this component of the step change establishes a delegated operational capability for AusNet to perform an existing service currently provided by AEMO, in the event that AEMO is unable to do so.

4.7.3.3.4. Summary of step change

Collectively, the proposed network operations functions reflect the evolving governance arrangements for Victoria's transmission network following the transfer of planning responsibilities from AEMO to VicGrid. Importantly, these functions are not discretionary, and have been driven by key industry stakeholders, including AEMO, the Victorian Government and VicGrid, and represent either the transfer or delegation of existing operational responsibilities rather than the creation of new services for consumers. Together, they seek to improve operational resilience, strengthen coordination and support the safe, secure and reliable operation of Victoria's electricity network.

The proposed expenditure of each function reflects the efficient costs required for AusNet to undertake the additional network operations responsibilities described above. Detailed cost breakdowns, assumptions and supporting calculations are provided in the Step Change Cost Build-up Model in Appendix 4C.

Table 4-12: Revised Proposal – Delegated Network Operations Responsibilities step change ($M, real 2026-27)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Delegated Network Operations Responsibilities	3.7	3.7	3.7	3.7	3.7	18.7

Source: AusNet

4.7.3.4. SOCI CIRMP Amendment Rules Requirements

Our Initial Proposal noted that we may include a step change in our Revised Proposal for additional costs related to the new CIRMP Amendment Rules requirements. For the avoidance of doubt, the terms Enhanced CIRMP Rules and CIRMP Amendment Rules are used interchangeably throughout this proposal and refer to the same legislative amendments.

The CIRMP Amendment Rules came into force in June 2026. The CIRMP Amendment Rules increase requirements in relation to all SOCI hazard vectors including cyber and information security, physical, personnel and supply chain management for Critical Infrastructure assets. The CIRMP Amendment Rules build upon the existing CIRMP framework. They apply to a sub-set of high-risk asset classes already required to maintain a CIRMP under Part 2A of the Security of Critical Infrastructure Act 2018 (SOCI Act). AusNet's regulated distribution, transmission and gas networks fall within these requirements. As these reforms emerged, AusNet informed stakeholders of the potential implications through the March 2026 TSAP session.

Prior to the commencement of the CIRMP Amendment Rules, the Department of Home Affairs consulted with industry on proposed enhancements to the CIRMP Rules through a public consultation process and provision of an exposure draft between December and May 2026.

Following the commencement of the CIRMP Amendment Rules, AusNet undertook a review of the requirements to identify compliance gaps and determine the capabilities, resources and expenditure required to achieve compliance. This review assessed each applicable rule requirement and considered the extent to which existing controls, systems, processes and operating arrangements satisfied the enhanced obligations. The review found that a number of requirements were already being addressed through existing programs and initiatives included within the Initial Proposal.

However, it also identified several residual risks and capability gaps that were not fully addressed through the existing investment program. In identifying the required investments, AusNet mapped each Enhanced CIRMP requirement to the relevant compliance activities, ensuring that obligations were addressed efficiently while avoiding duplication or overlap between programs. Engagement with the Department of Home Affairs, the Australian Signals Directorate (ASD), AEMO and other industry stakeholders also provided greater clarity regarding the enhanced compliance obligations and cyber security expectations applicable to critical infrastructure operators. This highlighted a heightened focus on operational resilience, consequence management and demonstrable security outcomes that were not fully captured when the Initial Proposal was developed.

As the scope of the additional requirements became clearer, AusNet further engaged with stakeholders at the August 2026 TSAP session, providing an update on the final rule requirements, the gaps between current posture and future requirements identified through our assessment, and the proposed initiatives and expenditure required to achieve compliance once the new requirements apply.

Where gaps were identified between current posture and future requirements, we developed initiatives to address the relevant requirements and undertook risk assessments, options analysis and, where appropriate, conducted cost-benefit analysis to identify the most efficient compliance pathway. This process was applied across both digital and non-digital initiatives to ensure the proposed response achieves compliance with the CIRMP Amendment Rules at the lowest reasonable cost to consumers.

The assessment identified a range of initiatives required to address enhanced obligations relating to additional material risks, cyber security, personnel security, supply chain and physical security. These initiatives comprise both digital and non-digital compliance activities.

- The majority of cost associated with compliance to the CIRMP Amendment Rules relates to four Digital programs: Foreign Ownership, Control and Influence (FOCI) & Supply Chain, Patching, Artificial Intelligence (AI) Defence and Critical Infrastructure (CI) Fortify. These programs require capital expenditure (discussed in Chapter 3) as well as operating expenditure [SOCI ACT PROTECTED].

  All four of these new programs are accompanied by a Business Case and a quantitative options analysis that demonstrate that our proposal **reflects an "as far as reasonably practicable" approach**.

- In addition to these digital initiatives, AusNet has identified several non-digital initiatives necessary to comply with the enhanced requirements. [SOCI ACT PROTECTED]

  For these non-digital expenditures, we have identified and proposed **the lowest-cost pathway capable of achieving compliance**. Accordingly, we developed and assessed several implementation options based on their ability to satisfy the enhanced requirements whilst minimising cost to consumers.

Table 4-13: SOCI CIRMP Amendment Rules opex step change

Program name	High-level scope	Capex	Opex
Critical Infrastructure (CI) Fortify	The CI Fortify program will establish the architecture, infrastructure and workforce capability required for AusNet to meet the Department of Home Affairs and Australian Signals Directorate objectives of maintaining critical operational technology (OT) functions for up to 3 months while isolated from IT and the internet. This program involves: [SOCI ACT PROTECTED] **This program supports the continued supply of electricity to Victorian customers in the event of a major cyber security incident through the ability to separate (from IT and the internet) and maintain continuity of critical OT functions.**	16.9	17.2
Foreign Ownership Control & Influence (FOCI) and Supply Chain	The FOCI & Supply Chain program will implement the required controls to appropriately manage risks associated with AusNet's suppliers and functions performed offshore. This program involves: [SOCI ACT PROTECTED]	3.4	11.4

Program name	High-level scope	Capex	Opex
	[SOCI ACT PROTECTED] **This program supports the continued supply of electricity to Victorian customers by minimising the risk of disruption caused by an insider / supplier threat event.**		
Patching	As cyber threats evolve, patching timeframes must reduce to ensure that AusNet can address cyber risks in a timely manner. By implementing the Patching program, AusNet will align our patching speed to CISA targets. This program will drive improvements across the patching lifecycle, including scanning, prioritising, testing & approving, and deploying. This program involves: [SOCI ACT PROTECTED] **This program supports the continued supply of electricity to Victorian customers by reducing the risk of disruption caused by the emergence and exploitation of cyber security vulnerabilities in AusNet's applications and systems.**	3.1	1.0
Artificial Intelligence (AI) Defence	The AI Defence program manages the risk of growing cyber threats, including AI-enabled attacks. This program involves: [SOCI ACT PROTECTED] We recognise that there is greater uncertainty associated with benefit realisation where networks propose the use of new technologies. Therefore, the AI Defence program proposes only the use of proven technologies, where there are established industry use cases. We have also engaged the Department of Home Affairs, the Australian Signals Directorate, and AEMO on this program, to ensure that the proposed scope is not misaligned with the latest government guidance and consistent with current industry implementations. **This program supports the continued supply of electricity to Victorian customers by better protecting the network against AI-related cyber risk.**	5.7	11.6
Non-digital expenditure	The CIRMP Amendment Rules impose new specific requirements for the way we must manage additional material risks, personnel hazards, supply chain hazards, and physical security and natural hazards. To effectively comply with these requirements, AusNet must: • Undertake short-term uplift activities, such uplifting supplier risk management • Introduce new long-term measures, which require additional resourcing for teams that focus on managing these risks **This program supports the continued supply of electricity to Victorian customers by improving AusNet's ability to prevent and manage risks associated security of supply of electricity and gas.**	-	7.9
TOTAL		**29.1**	**49.0**

Source: AusNet

To support the proposed expenditure associated with the CIRMP Amendment Rules, the Technology Documents, Appendix 3H, and Appendix 4C provide a mapping of each relevant compliance requirement to AusNet's proposed activities, cost build-ups, and options analysis. Together, these supporting documents demonstrate that the proposed expenditure represents the prudent and efficient costs required for AusNet to comply with the CIRMP Amendment Rules. The proposed expenditure is broadly consistent with or below the levels proposed by other TNSPs for similar initiatives responding to the CIRMP Amendment Rules requirements.

Table 4-14: Revised Proposal – SOCI Enhanced CIRMP Requirement step change ($M, real 2026-27)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
SOCI CIRMP Enhanced Requirement	5.5	10.3	12.6	12.6	12.6	53.7

Source: AusNet

4.7.3.5. AEMO Participant Fees

We accept the AER's Draft Decision to reclassify AEMO participant fees from a category specific forecast to a step change. Consistent with the Draft Decision, the Revised Proposal reflects the forecast costs as a step change and updates the expenditure using the latest available information from AEMO's FY27 Budget and Participant Fee Forecast. As these fees are externally determined by AEMO, the forecast reflects AusNet's best estimate of the costs expected to be incurred over the 2027-32 regulatory control period.

Table 4-15: Revised Proposal – AEMO participant fees step change ($M, real 2026-27)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
AEMO Participant Fees	9.1	9.5	9.8	10.2	10.7	49.3

Source: AusNet

4.8. Category specific forecasts

4.8.1. Our Initial Proposal

In our Initial Proposal, we proposed the following category specific forecasts:

- **Easement land tax:** Our easement land tax forecast was based on a simple extrapolation of historical costs. Over the period, any positive or negative variation between the actual tax paid and the forecast approved by the AER will be recovered from, or reimbursed to, customers via the pass-through mechanism outlined in NER 6A.7.3. This arrangement ensures that AusNet will only recover the actual tax paid over the period.
- **Growth assets:** Growth assets, or augmentations to the transmission network (formerly referred to as Group 3 roll-in assets), are non-contestable capital expenditure works that AusNet undertakes at the direction of VicGrid (previously AEMO) in its capacity as the Victorian transmission network planner or the Victorian distribution businesses as the planners of transmission connection assets. At each revenue reset, the growth assets constructed since the last revenue reset are rolled in to the RAB for the first time. As a consequence, the operating expenditure allowance must increase to manage the higher volume of assets that must be inspected, condition assessed and maintained. We forecast the opex related to these growth assets in accordance with current recovery rates specified under existing contracts with AEMO/VicGrid and Victorian distribution businesses.

The table below summarises our category specific forecasts in our Initial Proposal.

Table 4-16: Initial Proposal – Category specific forecasts ($M, real 2026-27)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Easement land tax	277.1	280.0	282.9	285.8	288.8	1,414.6
Growth assets	4.4	4.4	4.4	4.4	4.4	22.0
Debt-raising costs	2.3	2.5	2.6	2.7	2.8	12.9
AEMO participant fees	4.1	4.3	4.4	4.5	4.7	22.0
Total	**287.9**	**291.1**	**294.3**	**297.5**	**300.7**	**1,471.5**

Source: AusNet

4.8.2. Draft Decision

The AER accepted our easement land tax and growth asset forecasts. While the AER accepted our methodology for forecasting debt-raising costs, it applied a factor of 8.6 basis points per annum to the debt raised (instead of 8.0 basis points).

Table 4-17: Draft Decision – Category specific forecasts ($M, real 2026-27)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Easement land tax	277.1	280.0	282.9	285.8	288.8	1,414.6
Growth assets	4.4	4.4	4.4	4.4	4.4	22.0
Debt-raising costs	2.5	2.6	2.7	2.7	2.7	13.1
Total	**283.9**	**286.9**	**290.0**	**292.9**	**295.9**	**1,449.7**

Source: AER

4.8.3. Revised proposal

We accept the AER's Draft Decision on easement land tax and debt-raising costs and welcome the AER's Draft Decision to accept the proposed growth assets opex.

- **Easement land tax:** We accept the AER's Draft Decision on easement land tax. In preparing the Revised Proposal, AusNet has updated the forecast using the latest available information from the 2026 Land Tax Assessment Notice. This has resulted in a lower easement land tax forecast compared to the Initial Proposal.
- **Growth assets:** In this Revised Proposal, AusNet has updated the growth asset opex step change to reflect the latest available information, including an updated cut-off date to accommodate a significant project expected to reach practical completion prior to the end of the current period. Further detail on the updates made to growth assets is provided in Chapter 6. The main change that relates to operating expenditure is the inclusion of several projects which were missed in the Initial Proposal:
  - In reviewing the list of growth assets in consultation with the Victorian DNSPs, it was identified that some projects with a roll-in value of 0 had been inadvertently excluded in the Initial Proposal
  - While these assets do not impact the RAB, they do impact the operating expenditure forecast, as the operations & maintenance costs included in the executed contracts for these projects should be included in the growth assets category-specific opex forecast
  - We have therefore updated the revised growth assets list (Appendix 4A) and growth assets category-specific opex forecast to include these projects

  As a result of the update, there has been an increase in the annual growth assets opex of less than <$1M.

Our category specific forecasts for the 2027-32 regulatory control period are shown in the table below.

Table 4-18: Revised Proposal – Category specific forecasts ($M, real 2026-27)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Easement land tax	261.6	264.4	267.2	270.1	273.0	1,336.2
Growth assets	5.3	5.3	5.3	5.3	5.3	26.3
Total	**266.8**	**269.6**	**272.5**	**275.3**	**278.2**	**1,362.5**

Source: AusNet

4.9. Debt raising cost

4.9.1. Our Initial Proposal

In our Initial Proposal, our debt raising costs were forecasted by applying 8.00 basis points per annum to the debt raised in accordance of the methodology set out in the report by Allen Consulting Group, Debt and equity raising transaction costs: final report to the ACCC, December 2004.

Table 4-19: Initial Proposal – Forecast debt raising cost ($M, real 2026-27)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Debt raising cost	2.3	2.5	2.6	2.7	2.8	12.9

Source: AusNet

4.9.2. Draft Decision

The AER adopted a debt raising cost forecast of 8.6 basis points per annum using its standard benchmarking approach to forecast debt raising costs. The AER considered this approach to be consistent with the methodology used to forecast the cost of debt within the rate of return building block.

Table 4-20: Draft Decision – Forecast debt raising cost ($M, real 2026-27)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Debt raising cost	2.5	2.6	2.7	2.7	2.7	13.1

Source: AER

4.9.3. Revised Proposal

We accept the AER's Draft Decision approach on debt raising costs and have updated our forecast accordingly. Consistent with the Draft Decision, we have applied 8.6 basis points per annum to forecast the debt raising cost in the Revised Proposal.

Table 4-21: Revised Proposal – Forecast debt raising cost ($M, real 2026-27)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Debt raising cost	2.5	2.6	2.8	2.9	3.0	13.9

Source: AusNet

4.10. Total opex forecast

Our revised total opex forecast for the 2027-32 regulatory control period is $2,120 million excluding debt raising costs, or $2,133 million including debt raising cost. This is $36 million lower than the opex forecast in the Initial Proposal.

Table 4-22: Revised Proposal – Total opex forecasts ($M, real 2026-27)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Base opex	116.7	116.7	116.7	116.7	116.7	583.6
Real price change	0.4	1.3	2.1	3.0	4.0	10.8
Output growth	0.0	0.0	0.0	0.0	0.0	0.0
Productivity change	-0.5	-1.0	-1.5	-2.0	-2.5	-7.4
Step changes	25.8	34.4	34.6	36.6	37.9	169.3
Category specific forecasts	266.8	269.6	272.5	275.3	278.2	1,362.5
Total excluding debt raising cost	**409.2**	**421.1**	**424.4**	**429.7**	**434.3**	**2,118.8**
Debt raising cost	2.5	2.7	2.8	3.0	3.0	13.9
Total	**411.7**	**423.7**	**427.2**	**432.7**	**437.4**	**2,132.6**

Source: AusNet

4.11. Why our opex forecasts satisfy the NER requirements

As explained throughout this Chapter, we consider each of the forecast opex categories complies with the operating expenditure criteria. Therefore, we consider the total opex forecast for the 2027-32 regulatory control period must necessarily also comply with the NER requirements because the forecast reasonably reflects each of the operating expenditure criteria, namely:

- The efficient costs of achieving the operating expenditure objectives set out in NER 6A.6.6(a):
  - meet or manage the expected demand for prescribed transmission services over that period;
  - comply with all applicable regulatory obligations or requirements associated with the provision of prescribed transmission services;
  - to the extent that there is no applicable regulatory obligation or requirement in relation to:
    - the quality, reliability or security of supply of prescribed transmission services; or
    - the reliability or security of the transmission system through the supply of prescribed transmission services,
  - to the relevant extent:
    - maintain the quality, reliability and security of supply of prescribed transmission services; and
    - maintain the reliability and security of the transmission system through the supply of prescribed transmission services; and
  - maintain the safety of the transmission system through the supply of prescribed transmission services.
  - contribute to achieving emissions reduction targets through the supply of prescribed transmission services.
- The costs that a prudent operator would require to achieve the operating expenditure objectives; and
- A realistic expectation of the demand forecast and cost inputs required to achieve the operating expenditure objectives.

As such, the AER's obligation to make decisions that are consistent with the achievement of the NEO as they pertain to a prudent transmission network service provider are satisfied by its acceptance of the opex forecasts presented in this chapter.

In addition, as noted in section 4.3.4.3, the cost inputs used to develop the opex forecast have, where required, been allocated to our transmission business in accordance with AusNet's approved Transmission cost allocation methodology (CAM).

In satisfaction of NER S6A.1.2(7), which requires a Revenue Proposal to contain actual opex for the first three regulatory years of the current regulatory control period, and expected opex for the last two regulatory years of that regulatory control period categorised in the same way as the opex forecast, we provide the following table. We note, however, that actual opex is provided for the first *four* years of the current period, rather than three, as 2025-26 is now complete and audited actuals are available in the 2025-26 Annual Information Order.

In accordance with NER S6A.1.2(1)(iv), we note that easement land tax is relevant to shared network services, and that all other categories shown relate to a combination of entry services, exit services, and shared network services.

Table 4-23: Operating expenditure in the current and next regulatory control periods ($M, real 2026-27)

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Opex excl. ELT & AEMO participant fees	96.5	98.8	110.0	119.8	128.6	138.8	147.5	147.6	149.7	150.9
Easement land tax	223.2	275.3	278.1	281.1	258.8	261.6	264.4	267.2	270.1	273.0
AEMO participant Fees	0.0	1.8	1.9	2.1	2.2	9.1	9.5	9.8	10.2	10.7
Movements in provisions	1.5	7.9	0.5	4.8	0.0	0.0	0.0	0.0	0.0	0.0
Total	**321.2**	**383.8**	**390.5**	**407.8**	**389.5**	**409.5**	**421.3**	**424.6**	**430.0**	**434.5**

Source: AusNet

4.12. Supporting documentation

Additional documents provided as part of our Revised Proposal to support this chapter:

- Operating Expenditure Model;
- Growth Assets Model;
- Business Case Addendums, Business Cases, NPV model, and cost-related documents provided in the Technology Documents;
- Appendix 4A – Growth Assets Roll-In List;
- Appendix 4B – Oxford Economics Labour Cost Escalation Forecasts to FY2032;
- Appendix 4C – Step Change Cost Build-up Model;
- Appendix 4D – Minister Appointment of VIC Responsible Officer;
- Appendix 4E – Instrument of Delegation;
- Appendix 4F – Contingency Plan Letter from AEMO;
- Appendix 3H – CIRMP Amendment Rules Non-Digital; and

Several other documents, including our calculation spreadsheets, have been provided to support our updated opex forecast.

05

Incentive schemes & shared assets

5. Incentive schemes & shared assets

5.1. Key points

The key points of this chapter are the following:

- We accept the Draft Decision's approach to calculating the Service Component targets, caps and floors and have updated these parameter values to reflect the latest available information.
- We accept the Draft Decision on the approach to calculating the Demand Management Innovation Allowance and have updated the proposed values based on the revised annual building block revenue requirement.
- We accept the Draft Decision's approach to calculating the Efficiency Benefit Sharing Scheme carryover amount and have updated it to reflect the latest available information.
- We accept the Draft Decision with respect to the Capital Expenditure Sharing Scheme and have updated the carryover amount to reflect the latest available information.

5.2. Chapter structure

The remainder of this chapter is structured as follows:

- Sections 5.3 to 5.7 respond to the Draft Decision by providing updated information in relation to:
  - The Service Target Performance Incentive Scheme (STPIS);
  - The Demand Management Innovation Allowance Mechanism (DMIAM);
  - The Efficiency Benefits Sharing Scheme (EBSS);
  - The Capital Expenditure Sharing Scheme (CESS); and
  - The shared assets revenue decrement
- Section 5.8 sets out our supporting documents for this chapter.

5.3. Service Target Performance Incentive Scheme

The Service Target Performance Incentive Scheme (STPIS) comprises the following three components:

- The Service Component (SC);
- The Market Impact Component (MIC); and
- The Network Capability Component (NCC).

We discuss each of these components below.

5.3.1. Service Component

5.3.1.1. Draft Decision

Performance Targets

The AER's Draft Decision determined targets for each SC parameter for the 2022-27 regulatory control period based on average performance from 2020-24. However, the AER explained that its Final Decision will be based on 2021-25 performance data.

Caps and floors

The AER's draft decision calculated AusNet's cap and floor values using its risk model. The results were contained in Table 7.3 of the Draft Decision.

5.3.1.2. Response to AER's Draft Decision

AusNet has included the 2025 STPIS actual performance data in its revised revenue proposal.

5.3.1.3. Revised Proposal

Performance against the STPIS in 2021-25

Table 5-1 shows our performance against each individual parameter over the five years to 2025.

Table 5-1: Performance against the STPIS in 2021-25

Parameter	Sub-parameter	2021	2022	2023	2024	2025	2021-25 average
Unplanned outage circuit event rate	Lines event rate - fault	18.25%	6.35%	5.30%	9.09%	4.38%	**8.68%**
	Transformer event rate - fault	19.84%	7.14%	4.80%	7.63%	6.98%	**9.28%**
	Reactive plant event rate – fault	21.43%	4.17%	12.33%	5.41%	10.39%	**10.74%**
	Lines event rate - forced	25.40%	5.56%	2.27%	0.76%	4.38%	**7.67%**
	Transformer event rate – forced	13.49%	8.73%	5.60%	6.87%	3.10%	**7.56%**
	Reactive plant event rate – forced	10.00%	5.56%	6.85%	4.05%	2.60%	**5.81%**
Loss of supply event frequency	Number of events greater than 0.05 minutes per annum	0.00	2.00	0.00	1.00	0.00	**0.60**
	Number of events greater than 0.30 minutes per annum	0.00	0.00	0.00	0.00	0.00	**0.00**
Average outage duration	Average outage duration	37.00	2.00	47.85	169.50	84.75	**68.22**
Proper operation of equipment	Failure of protection system	16.00	6.00	1.00	0.00	1.00	**4.80**
	Material failure of SCADA	3.00	2.00	1.00	4.00	0.00	**2.00**
	Incorrect operation isolation of primary or secondary equipment	3.00	0.00	1.00	0.00	3.00	**1.40**

Source: AusNet

Proposed performance targets, floors and caps and weightings

Our proposed performance targets, caps and collars for the service component parameters, are set out in the table below. AusNet has selected appropriate distributions (bounded from below at zero) for continuous data based on mechanical selection of the lowest Kolmogorov-Smirnov (K-S) statistic for 2021-25 underlying input data, consistent with the methodology employed by the AER in its Draft Decision. For discrete data, AusNet has selected appropriate distributions with the lowest Akaike Information Criterion (AIC) statistic for 2021-25 underlying data, consistent with the AER's methodology in its Draft Decision.

We have addressed the AER's concerns about the incorrect labelling of caps and floors and incorrect STPIS data in 2022.

In calculating the proposed performance targets for these parameters, we have complied with the requirements of clause 3.2 of Version 6 of the STPIS. Weightings of parameters are per clause 3.4 of Version 6 of the STPIS. Supporting calculations are contained in the file 'AusNet – STPIS – 1 Sep 2026'.

For 'Number of events greater than 0.3 minutes per annum', historical data was 0 for all five years from 2021-25. This made the target, floor and cap methodology challenging. We have inserted the values from the AER's final decision for the 2022-27 period. We believe this is appropriate as AusNet has had exceptional performance on this sub-parameter and these targets still remain higher than for most or all of our peer networks.

Table 5-2: Proposed Service Component targets, cap, floors and weightings

Parameter	Sub-parameter	Preferred distribution	Target	Floor (95th percentile)	Cap (5th percentile)	Weighting
Unplanned outage circuit event rate	Lines event rate – fault	InvGauss	8.68%	21.93%	4.37%	0.20
	Transformer event rate – fault	InvGauss	9.28%	21.34%	4.79%	0.20
	Reactive plant event rate - fault	Pert	10.74%	21.97%	4.57%	0.10
	Lines event rate – forced	InvGauss	7.67%	29.44%	0.75%	0.10
	Transformer event rate - forced	Lognorm	7.56%	14.70%	2.97%	0.10
	Reactive plant event rate – forced	Lognorm	5.81%	11.19%	2.48%	0.05
Loss of supply event frequency	Number of events greater than 0.05 minutes per annum	Poisson	0.60	2.00	0.00	0.15
	Number of events greater than 0.30 minutes per annum	Poisson	1.00	2.00	0.00	0.15
Average outage duration	Average outage duration	Lognorm	68.22	200.41	1.26	0.20
Proper operation of equipment	Failure of protection system	Geomet	4.80	15.00	0.00	0.00
	Material failure of SCADA	Poisson	2.00	5.00	0.00	0.00
	Incorrect operation isolation of primary or secondary equipment	Geomet	1.40	5.00	0.00	0.00

Source: AusNet

5.3.2. Market Impact Component

Draft Decision

The AER noted in the Draft Decision that under STPIS version 6, the MIC has been suspended. No specific decision relating to the MIC has therefore been made.

The AER also noted that a rule change was made in May 2026 to allow the AER to apply a revised STPIS before the end of a TNSP's regulatory control period. Therefore, should a replacement for the MIC be included in STPIS version 7, there is a possibility that it may apply to AusNet before the end of the 2027-32 period.

Response to AER's Draft Decision

As the MIC has been suspended, there is no requirement to include it in our proposal.

AusNet is happy to engage with the AER on any replacement for the MIC which may be included in future versions of the STPIS, and in the potential early application of any such scheme.

5.3.3. Network Capability Component

Draft Decision

The AER's Draft Decision was to apply the NCC to AusNet for the 2027-32 regulatory period.

Response to AER's Draft Decision

We accept the AER's Draft Decision to apply the NCC for the 2027-32 regulatory period.

Under STPIS version 6, which will apply in the 2027-32 regulatory period, AusNet will identify priority projects from VicGrid's Victorian Annual Planning Report (which is the relevant TAPR in Victoria) and propose them annually for inclusion in the NCC.

5.4. Demand Management Innovation Allowance Mechanism

5.4.1. Our Initial Proposal

Our Initial Proposal included a Demand Management Innovation Allowance Mechanism (DMIAM) expenditure amount of $5.8M for the 2027-32 regulatory control period. We also included a negative adjustment of $4.1M in regulatory year 2028-29 for the DMIAM carryover amount, which intended to return the unspent DMIAM allowance from the current 2022-27 period to customers.

5.4.2. Draft Decision

The Draft Decision was to apply the DMIAM to AusNet for the 2027-32 period. However, the AER made the following changes from our proposal:

- Updated the DMIAM expenditure amount to $4.7M, using inputs from the Draft Decision PTRM
- Removed the DMIAM carryover amount, stating that the AER can only apply the carryover amounts once all relevant information for a regulatory control period becomes available, including actual CPI and all annual compliance reports

5.4.3. Response to AER's Draft Decision

We accept the Draft Decision to apply the DMIAM in the 2027-32 period. We have updated the DMIAM expenditure amount in our Revised Proposal to reflect the updated PTRM. This results in a DMIAM expenditure amount of $4.8M, which differs from the Draft Decision due to an update in the calculation of the base component, updated CPI, and unsmoothed annual building block revenue requirement (ABBRR).

We accept the Draft Decision to remove the DMIAM carryover amount. While this amount is not reflected in our Revised Proposal, we do anticipate that a carryover amount will be deducted from AusNet's maximum allowed revenue (MAR) in regulatory year 2028-29, to return unspent allowance to customers. This is because no projects have been completed under the DMIAM in the first four years of the current regulatory period, and we do not anticipate that any will be completed in the final year (2026-27).

Nevertheless, AusNet will submit an annual compliance report for 2026-27 following the conclusion of that regulatory year, which will allow the AER to conduct the carryover calculation and adjust our revenue in 2028-29. This will ensure that customers do not pay for the unspent allowance.

5.5. Efficiency Benefits Sharing Scheme

5.5.1. Our Initial Proposal

5.5.1.1. 2022-27 regulatory control period EBSS carryover amount

In our Initial Proposal, we proposed an EBSS carryover amount of negative $92.4 million from the application of the EBSS in the 2022-27 regulatory control period. We excluded the following costs categories from our EBSS calculation:

- Debt raising costs;
- Easement land tax;
- AEMO participant fees;
- Movements in provisions related to opex.

The table below outlines how the EBSS carryover amount from the 2022-27 regulatory control period will be recovered over the forthcoming regulatory period.

Table 5-3: EBSS carryover amount from the 2022-27 regulatory control period

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
2022-23	36.6					
2023-24	(4.4)	(4.4)				
2024-25	(12.0)	(12.0)	(12.0)			
2025-26	(21.0)	(21.0)	(21.0)	(21.0)		
2026-27	0.0	0.0	0.0	0.0	0.0	
Total carryover amount	**(0.9)**	**(37.5)**	**(33.0)**	**(21.0)**	**0.0**	**(92.4)**

Source: AusNet

5.5.1.2. Application of the EBSS in the 2027-32 regulatory control period

We proposed to apply the same treatment to the EBSS in the forthcoming period as outlined for the 2022-27 regulatory control period above. This involves excluding, where applicable:

- Easement land tax;
- Debt raising costs;
- AEMO participant fees; and
- Movements in provisions related to opex.

5.5.2. Draft Decision

5.5.2.1. 2022-27 regulatory control period EBSS carryover amounts

The AER's Draft Decision approved an EBSS carryover amount of negative $78.5 million from the application of the EBSS in the 2022-27 regulatory control period. This is $13.9 million greater than our Initial Proposal, as a result of the following adjustments:

- The AER adjusted our actual opex by removing non-recurrent SaaS costs
- The AER adjusted our forecast opex to include AEMO participant fees, reflecting their reclassification as a step change under the AEMC rule change.
- The AER updated actual inflation figures for 2025-26 and forecast inflation for 2026-27

Table 5-4 below shows how the AER's Draft Decision EBSS carryover amount from the 2022-27 regulatory control period will be recovered over the 2027-32 regulatory period.

Table 5-4: EBSS carryover amount from the 2022-27 regulatory control period

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
EBSS carryover amount	3.3	(33.9)	(30.1)	(17.8)	0.0	(78.5)

Source: AER

5.5.2.2. Application of the EBSS in the 2027-32 regulatory control period

In relation to the application of the EBSS for the 2027-32 regulatory control period, the AER's Draft Decision confirmed that it will continue to apply version 2 of the EBSS. In accordance with the terms of the scheme, the AER noted that it will exclude debt raising costs and easement land tax on the basis that they are category-specific forecasts and are expected to remain so over the 2027-32 regulatory control period. However, the Draft Decision was not to exclude AEMO participant fees from the EBSS for the 2027-32 regulatory period, reflecting the intent of the AEMC rule change regarding the recovery of these fees.

The AER's Draft Decision also noted that other adjustments will be made as permitted by the EBSS, such as removing movement in provisions related to opex, adding approved opex for pass throughs to forecast opex, adjusting forecast and actual opex for inflation, and making any necessary service classification adjustments.

5.5.3. Revised proposal

5.5.3.1. 2022-27 regulatory control period EBSS carryover amount

We accept the adjustments outlined in the AER's Draft Decision. However, we have updated the EBSS calculation to reflect our 2025-26 actuals and the latest inflation data from the ABS and RBA. We have also made minor corrections to our opex actuals to reflect the small discrepancies that the AER identified through information request #16. The table below presents our updated EBSS calculation.

Table 5-5: EBSS carryover amount from the 2022-27 regulatory control period

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
2022-23	37.0					
2023-24	(3.8)	(3.8)				
2024-25	(12.3)	(12.3)	(12.3)			
2025-26	(9.5)	(9.5)	(9.5)	(9.5)		
2026-27	0.0	0.0	0.0	0.0	0.0	
Total carryover amount	**11.5**	**(25.5)**	**(21.7)**	**(9.5)**	**0.0**	**(45.2)**

Source: AusNet

5.5.3.2. Application of the EBSS in the 2027-32 regulatory control period

While we accept the AER's Draft Decision on how the EBSS will apply over the 2022-27 regulatory control period.

5.6. Capital Efficiency Sharing Scheme

5.6.1. Our Initial Proposal

Our Initial Proposal included a CESS revenue decrement that reduced forecast revenue by $35.5M, reflecting the carryover amount based on our performance in 2022-27.

Our October submission inadvertently did not include a true-up adjustment for actual capital expenditure in 2021-22 (final year of the previous regulatory control period). Through the Information Request process, an updated PTRM was submitted to the AER on 10 December 2025 which included this adjustment. The final year true-up adjustment increased forecast revenue by $10.4M, reflecting the fact that actual capital expenditure in 2021-22 was lower than the forecast used in the 2022-27 determination.

5.6.2. Draft Decision

The Draft Decision adjusted the CESS carryover amount and final year true-up for:

- More recent inflation figures
- Updated WACC
- Adjustments to actual/estimated capex to remove an NCC project and include Software-as-a-Service implementation expenditure in line with the Roll Forward Model

The CESS carryover amount and final year true-up included in the Draft Decision are shown below.

Table 5-6: Draft Decision CESS carryover amount and final year true-up ($M, real March 2027)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
CESS carryover amount	(7.29)	(7.29)	(7.29)	(7.29)	(7.29)	**(36.43)**
Final year (2021-22) true up	2.02	2.02	2.02	2.02	2.02	**10.10**

Source: AER

The Draft Decision was also to apply the CESS, as set out in the 2025 Guidelines, in the 2027-32 regulatory control period. The guidelines exclude from the CESS any capex incurred in delivering an NCC project, and this is reflected in the Draft Decision.

5.6.3. Revised Proposal

5.6.3.1. CESS carryover amount and final year true-up

We accept the approach taken by the AER to calculating the CESS carryover amount and final year true up. However, in this Revised Proposal, we have proposed an updated CESS revenue decrement which reflects:

- More recent inflation figures
- Updated WACC, including the Draft 2026 RORI
- Actual capex for 2025-26, including an updated adjustment value to reflect Software-as-a-Service implementation expenditure as capex in line with the Roll Forward Model

Actual expenditure for 2025-26 is $1.2 million greater than the forecast that was included in the Initial Proposal. This leads to a small decrease in the penalty calculated through CESS carryover amount.

Table 5-7: Net capital expenditure applicable to the CESS ($M, nominal)

	2022-23	2023-24	2024-25	2025-26	2026-27
Draft Decision	113.57	140.35	183.85	245.97	**382.02**
Revised Proposal	113.57	140.35	183.66	243.23	**381.97**

Source: AusNet

Our proposed CESS carryover amount and final year true up are shown below.

Table 5-8: Revised Proposal CESS carryover amount and final year true-up ($M, real March 2027)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
CESS carryover amount	(7.05)	(7.05)	(7.05)	(7.05)	(7.05)	**(35.27)**
Final year (2021-22) true up	2.01	2.01	2.01	2.01	2.01	**10.06**

Source: AusNet

5.6.3.2. CESS application in the 2027-32 period

We accept the AER's Draft Decision to apply the CESS as set out in the 2025 Guidelines for the 2027-32 regulatory control period.

Our proposed net capex for the application of the CESS in the 2027-32 period is $2,417M (real March 2027), as shown in the table below. This updated amount is consistent with our net capex forecast in this Revised Proposal. A key difference from the current period arrangements is that Software-as-a-Service implementation expenditure will be treated as operating expenditure in the 2027-32 period, consistent with the statutory accounting treatment at the time of the AER's Final Determination. In the net capex forecast below, no Software-as-a-Service implementation expenditure is included. We also note that any pass through amounts approved should be included in the final year 2026-27 true-up calculation at the next regulatory period.

Table 5-9: Revised Proposal capex applicable to the CESS ($M, real March 2027)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Gross capital expenditure	576.05	583.12	533.92	426.63	299.80	**2,419.53**
Asset disposals	0.45	0.47	0.49	0.52	0.54	**2.47**
Net capital expenditure	**575.60**	**582.65**	**533.43**	**426.12**	**299.25**	**2,417.05**

Source: AusNet

5.7. Shared assets

5.7.1. Our Initial Proposal

Our Initial Proposal included a revenue decrement relating to shared assets of $10.2M. This was calculated as 10% of the forecast shared asset revenue over the 2027-32 period.

5.7.2. Draft Decision

The Draft Decision accepted our proposed revenue decrement relating to revenue from shared assets.

5.7.3. Response to Draft Decision

We accept the Draft Decision and have not made any changes to the shared asset decrement in the Revised proposal.

5.8. Supporting documentation

The following documents are provided in support of this chapter:

- AusNet - Capital Expenditure Sharing Scheme - 1 Sep 2026 - PUBL
- AusNet - Efficiency Benefit Sharing Scheme - 1 Sep 2026 - PUBL
- AusNet - CESS Final Year True-Up Model - 1 Sep 2026 – PUBL
- AusNet - DMIAM calculation - 1 Sep 2026 - PUBL

06

Regulatory asset base

6. Regulatory asset base

6.1. Key points

The key points in this chapter are:

- Our Initial Proposal adopted the standard regulatory approach to setting the RAB, which was largely accepted by the AER in its Draft Decision. As explained in our Initial Proposal, we anticipated that updates would be made to our RAB to reflect the latest data, such as our actual capex for 2025-26 and inflation.
- The AER's Draft Decision made several relatively minor adjustments to our opening RAB for the latest data, to correct the treatment of Software-as-a-Service implementation expenditure, and to address the residual values of legacy asset classes. We accepted these changes through the Information Request process following submission of the Initial Proposal.
- In this Revised Proposal, we accept the AER's approach to setting the opening RAB, and make the adjustments that reflect our actual data. Most notably, we have updated the calculated roll-in value of growth assets to reflect the latest available data.
- In making the Draft Decision on the Opening RAB, the AER considered whether an ex-post review would be required for the 2020-25 period. The Draft Decision confirmed that the overspending requirement had not been met over these years, meaning that an ex-post review is not required. However, it noted that AusNet is overspending capex allowances in the final two years of the current period, which may trigger an ex-post review for the 2025-30 period.
- In this Revised Proposal, we provide commentary on the non-controllable drivers of overspend in the current period, and which are likely to impact the 2027-32 period. We contend that under these circumstances, an ex-post review introduces unnecessary uncertainty for investors
- The AER also adjusted our closing RAB to reflect its Draft Decision in relation to forecast capex, depreciation and inflation.
- Our RAB calculations differ from those presented in the Draft Decision by applying the latest available data and forecast capex, depreciation and inflation as explained in this Revised Proposal. As a result of this updated information:
  - Our opening partially as-incurred RAB is $4,790.2 million (nominal) as at 1 April 2027
  - Our closing partially as-incurred RAB is $3,946.7 million (nominal) as at 31 March 2032

6.2. Chapter structure

The remainder of this chapter is structured as follows:

- Section 6.3 explains our opening RAB and the relevant components of this calculation.
- Section 6.4 sets out the calculation of the forecast RAB over the 2027-32 regulatory control period and our forecast closing RAB as at 31 March 2032.
- Section 6.5 lists the relevant supporting documents.

6.3. Opening RAB

6.3.1. Our Initial Proposal

In our Initial Proposal, we calculated an opening RAB of $4,716.4 million as at 1 April 2027. Our Initial Proposal explained that this calculation requires the following steps:

1. Adopt the approved opening RAB as at 1 April 2022.
2. Add actual and forecast capex (net of disposals) for the 2022-27 regulatory control period.
3. Deduct forecast straight-line depreciation for the 2022-27 regulatory period.
4. Add RAB indexation for the 2022-27 regulatory period.
5. Adjust for the difference between actual and forecast capex (net of disposals) in 2021-22.
6. Add in the final year asset adjustments, including roll-in of growth assets on 1 April 2027, a "true-up" for the difference between actual and forecast growth assets roll-in at the last reset, capitalised lease asset adjustments relating to the current period, and removal of legacy asset classes.

Our Initial Proposal explained that the opening RAB would be updated in our Revised Proposal to reflect actual data that becomes available, namely our actual capex for 2025-26 and the latest inflation forecast.

After lodgement of our Initial Proposal, we engaged with the AER on the accounting treatment of Software-as-a-Service (SaaS) implementation costs, which were treated as capital expenditure in the determination for the current period, but treated as operating expenditure in regulatory accounts reflecting the IFRIC guidance published in April 2021. Through this engagement, we have agreed that SaaS implementation costs should be treated as capital expenditure in the current period for the purposes of establishing the opening RAB, in accordance with the AER's approach of avoiding mid-period accounting changes. Therefore, on 20 March 2026, an updated Roll Forward Model and Depreciation Tracking Model were submitted to the AER reflecting updated SaaS accounting treatment.

6.3.2. Draft Decision

The AER largely accepted our proposed method for calculating the opening RAB, but made the following adjustments:

- Updated the CPI inputs to reflect more recent data.
- Include Software-as-a-Service (SaaS) implementation costs as capex in the actual and estimated capex inputs for 2021-2022 and the 2022-27 period, reflecting the statutory accounting treatment in place at the time of the previous determination.
- Rejected the removal of selected legacy asset classes, as they considered the total residual value of $0.9M to be material, instead includes a new asset class in the PTRM with a 1-year asset life to depreciate the residual value of these assets.
- Made minor corrections to movements in provisions and asset disposals.

As a result, the Draft Decision calculated an opening RAB value of $4,769.5M as at 1 April 2027, which is $53.1M or 1.1% higher than our Initial Proposal.

The Draft Decision also assessed our capex over 2020-25 to assess if an ex-post review should be applied. The AER confirmed that AusNet's total actual capex incurred from 2020-21 to 2024-25 is below the forecast allowance set in those years, meaning the overspending threshold for an ex-post review is not satisfied.

The Draft Decision noted that AusNet expects to overspend capex in the current period, primarily due to overspends in the final two years (2025-26 and 2026-27). The Draft Decision recognised that "a majority of this step up is because of increased labour and material costs"[22].

6.3.3. Response to the Draft Decision

6.3.3.1. Opening RAB

Our Initial Proposal applied the standard regulatory approach to setting the opening RAB, which has been accepted in the Draft Decision. Through the Information Request process, we have accepted the changes made by the AER relating to SaaS implementation costs, the removal of selected legacy asset classes, and the treatment of movements in provisions.

We also agree with the AER's approach of including the latest available information. In our Revised Proposal, we have updated the RFM to reflect:

- The latest available actual CPI.
- Actual net capex for 2025-26, by replacing the placeholders included in the Initial Proposal.
- Updated roll-in value of growth assets to reflect the latest project information.

We have also included two new forecast final year (2026-27) asset adjustments relating to capitalised leases, identified post the Draft decision and were not previously included in our Initial Proposal. These adjustments are explained further in section 6.3.4.3 below.

6.3.3.2. Ex-Post review

The AER conducts ex-post reviews to assess if a network service provider's (NSP) capital expenditure overspends are efficient, ensuring consumers only pay for prudent costs. Updated 2025 guidelines now differentiate between Integrated System Plan (ISP) projects and other non-ISP projects for targeted reviews. Ex-post reviews are triggered when total capex over the five-year review period (or specific lifetime for ISP projects) exceeds the forecast capex. The review period covers the first three years of the current regulatory period and the last two years of the previous one.

While the overspend over the current period is relatively minor, AusNet will have significantly overspent our capital expenditure allowance in the final two years. In these two years, AusNet is forecasting to spend $637M of capex (real 2026-27), which is $242M or 61% higher than the approved allowance of $395M. The two most relevant factors driving this profile have been:

[22] AER - Draft decision - AusNet Services transmission determination 2027-32 - Overview - June 2026, p18

- Disruption of program delivery by COVID-19 restrictions and supply constraints in the early years of the period requiring catch up in the final years; and
- Post-COVID cost escalation later in the current period.

Therefore, this overspend is largely attributed to back ended cost escalation in the current period, which has been experienced across the industry and the wider construction sector, and has been largely out of AusNet's control. This is evidenced by:

- AEMO's transmission cost database (TCD) is a national benchmark for cost reporting in the sector and reports approximately 60-80% real cost escalation between the 2021 TCD and the 2025 TCD. AEMO reports this reflects sustained supply chain pressures (on materials, equipment and workforce), market competition driven in the NEM, project complexity, social license and landholder engagement factors, and additional contracting costs.
- Individual NSPs have also called out this significant recent cost escalation. For example, Powerlink referred to '*unprecedented increases in the costs of major plant items, materials and skilled resources which were outside our control*'.[23]
- This recent cost escalation has reflected the inflationary impact of COVID-19 and the Russia-Ukraine War. COVID-19 led to major disruptions to supply chains as well as inflationary economic policies to combat the initial economic downturn.

In addition to cost escalation, AusNet has also undertaken high-priority work within the period that was not forecast in the previous determination. This includes the following projects:

- AusNet undertook a **tower strengthening project on the Dederang-Murray 330kV line**, which connects the Victorian network to NSW. This was done to reduce the risk of tower failure during high-intensity wind events, following identification of structural vulnerabilities in specific tower types. This was a critical safety program, and the subject of a direction from Energy Safe Victoria.
- AusNet has **replaced corroded towers on the Heywood to Alcoa Portland line**, which provides constant supply to the Portland aluminium smelter. The highly corrosive coastal environment in this area led to accelerated deterioration of the towers. While AusNet conducted several refurbishment projects in previous periods and up to 2024, the extent of the deterioration necessitated full replacements in the current period[24]. The risk associated with towers on this line has also been the subject of scrutiny by Energy Safe Victoria, which is detailed in AMS 10-77 Line Structures —a supporting document submitted with our Initial Proposal.

We have made prudent and efficient decisions to manage external cost pressures, including utilising competitive procurement processes and deferring capex where it is economic to do so. However, with the scale of rising costs and the need to "fit in" work that was not previously forecast, we still ultimately have had to overspend to meet the capital expenditure objectives; that is, ensuring efficient, safe, quality, reliable and secure energy delivery while meeting demand and regulatory requirements.[25] While deferrals can be prudent in some cases where increased costs delay the economic timing for work, a more challenging operating environment with extreme weather and widening extremes in demand has meant AusNet could not indefinitely defer investment as costs rose.

In the next regulatory period, more events outside AusNet's control, such as the Iran War, continue to impact equipment costs and supply in uncertain ways. The inflationary impact flows directly from the higher cost of crude oil (as seen in petrol prices) as well as indirectly through prices for goods such as fertilisers and plastics, as well as transport costs. This is likely to affect equipment that relies on petroleum products and materials and construction contracts through higher transport costs.

Given the non-controllable nature of these events, the consistent industry-wide experience of cost escalation, and the actions already undertaken to manage cost pressures, we consider that **if these remain the main drivers of the overspend over the RY26-30 period, an ex-post review would not be required**.

We recognise that the regulatory regime must incentivise NSPs to maximise the efficiency of capital expenditure, pursuing investment only when it is in the best long-term interests of consumers. However, an ex-post review when overspend is driven by pressures that are out of a NSPs' control brings about excessive risk to investors, who require certainty on returns before they commit to funding projects. This is a particularly critical issue in the context of the energy transition, where capital works need to be undertaken on time to support the achievement of emissions reduction targets, as required under the National Electricity Objective.

Therefore, we are pleased to see that, in the Draft Decision, the AER has recognised that a majority of the step up in capex in the current period is "because of increased labour and material costs"[26]. We would welcome further recognition of these pressures in the Final Decision, and commentary on the reasonableness of overspending capital expenditure allowances in this situation. This would provide the required comfort and certainty to investors on the risks surrounding their proposed future investments.

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[23] Powerlink 2026, *Powerlink 2027-32 Revenue Proposal,* page v.
[24] Stage 1 of the works on this line is largely being completed in the current period, with Stage 2 approved in the Draft Decision to progress in the 2027-32 period
[25] National Electricity Rules, Cl 6A.6.7.
[26] AER - Draft decision - AusNet Services transmission determination 2027-32 - Overview - June 2026, p18

6.3.4. Revised Proposal

Our calculation of the opening RAB as at 1 April 2027 is $4,790.2 million, as set out below.

Table 6-1: Regulatory asset base roll forward, partially as incurred, to 1 April 2027 ($M, nominal)

	2022-23	2023-24	2024-25	2025-26	2026-27
Opening RAB (1 April)	3,575.1	3,769.3	3,938.2	4,039.8	4,208.0
Capex (net of disposals)	119.1	146.2	188.3	250.0	392.6
Forecast straight-line depreciation	-184.7	-179.9	-197.4	-212.4	-226.1
RAB indexation	249.5	193.7	104.5	121.6	122.5
Difference between actual and forecast capex from 2021-22					-20.9
Forgone return on difference					-8.0
Final year adjustments					309.9
Closing RAB (31 March)	**3,769.3**	**3,938.2**	**4,039.8**	**4,208.0**	**4,790.2**

Source: AusNet

The following sections explain the key components of the above calculation.

6.3.4.1. CAPEX (net of disposals)

The RAB roll forward calculation requires a combination of actual and forecast gross capex and asset disposals. This is because actual capex for the final year of the period is not available at the time of the Final Determination.

In the Revised Proposal, we have updated actual gross capex and asset disposals for regulatory year 2025-26, which was not available at the time of our Initial Proposal. We also confirm that the values shown below reconcile with the nominal values reported in the adjusted annual Regulatory Information Notices and Annual Information Order that were re-submitted to the AER in January 2026, and subsequently in July 2026.

The net capex recognised in the RAB in our Revised Proposal RFM is provided below.

Table 6-2: Capex net of disposals ($M, nominal, as incurred)

	2022-23	2023-24	2024-25	2025-26	2026-27
Gross capex	114.9	141.3	183.8	243.4	382.4
Asset disposals	1.1	0.4	0.1	0.1	0.4
Capex net of disposals	113.8	140.9	183.7	243.2	382.0
Net capex recognised in RAB (includes half-year timing adjustment)	**119.1**	**146.2**	**188.3**	**250.0**	**392.6**

Source: AusNet

6.3.4.2. Regulatory depreciation

We have sourced straight-line depreciation forecasts (in 2021-22 dollars) by asset class from the most recent PTRM for the current regulatory control period. This PTRM incorporates the 2026-27 annual return on debt update, together with approved expenditure allowances for the February 2024 storm event and the 2025 AEMO direction to install Phasor Measurement Units (PMUs). Accordingly, the Revised Proposal RFM depreciation forecast inputs reflect the latest available PTRM inputs, including these approved pass-through amounts..

Clause 6A.6.1(e)(3) of the NER requires that the RAB be adjusted for actual outturn inflation consistent with the method that was used in its transmission determination. We have therefore updated the RAB indexation to reflect actual lagged inflation, which is now available for all years of the 2022-27 regulatory period. This has been done in accordance with the approach outlined in the AER's determination for this period.

Using the above approach, we have calculated our proposed regulatory depreciation amounts for the current period, which are set out below.

Table 6-3: Regulatory depreciation ($M, nominal)

	2022-23	2023-24	2024-25	2025-26	2026-27
Forecast straight-line depreciation	-184.7	-179.9	-197.4	-212.4	-226.1
RAB indexation	249.5	193.7	104.5	121.6	122.5
Regulatory depreciation	**64.8**	**13.9**	**-92.9**	**-90.8**	**-103.6**

Source: AusNet

6.3.4.3. Final year adjustments

We have generally accepted the AER's changes reflected in its Draft Decision final year adjustments.

However, we have updated the final year roll-in adjustments relating to the roll-in of growth assets and capitalised leases. These key updates are discussed further below.

6.3.4.3.1. Forecast Growth Assets

AusNet's standard approach is to update the roll-in of growth assets in the Revised Proposal, to reflect new information that becomes available after the Initial Proposal. In this Revised Proposal, we have made the following updates:

- **Updates to the CPI** tables contained in the growth assets model document, reflecting the latest available actual ABS quarterly CPI data.
- **Removal of three projects** from the list included in our Initial Proposal. Two projects have been removed due to delays in their completion dates, while the third project, which was in progress, has been cancelled following the customer's decision not to proceed with the proposed investment.
- **Updated the "cutoff date" for project completion** from 30 September 2026 to 31 October 2026, meaning that projects forecast to be completed by 31 October 2026 are considered eligible for inclusion in the growth assets roll-in. This has been done to accommodate one large project at Cranbourne Terminal Station (CBTS) to install a fourth transformer.
  - We typically allow 6 months of buffer between the cutoff date and the end of the current regulatory period, to avoid rolling in projects that may be delayed beyond the end of the period. However, in this case, a cutoff date of 30 September 2026 would mean the CBTS project, which is scheduled for practical completion in October 2026, would be excluded.
  - We see this as a detrimental outcome, as it is a large project, which would be sitting "outside the RAB" for 5 years before the next opportunity to roll-in through the 2032-37 determination. By including this large project in the roll-in for March 2027, customers and stakeholders will have a more accurate and transparent view of the size of the RAB at the start of the 2027-32 period.
  - Our Regulated Connections team have confirmed that the 5-month buffer between the updated cutoff date of 31 October 2026 and the start of the new period remains sufficient. They have also confirmed that the 66kV works variation that was mentioned in our Initial Proposal has been resolved.
- In reviewing the list of growth assets in consultation with the Victorian DNSPs, it was identified that some projects with a roll-in value of $0 had been inadvertently excluded in the Initial Proposal. While these assets do not impact the RAB, they do impact the operating expenditure forecast, which is discussed in the Operating Expenditure chapter. For completeness, these projects are also referenced here and included in our growth assets model document.

Collectively, the amendments described above increase the total roll-in values as at 1 April 2027 by $16.3 million for the RAB (including associated escalation and depreciation impacts) and $13.3 million for the TAB, relative to the Draft Decision. Compared with the Initial Proposal, the revised roll-in values are $20.7 million higher for the RAB (including associated escalation and depreciation impacts) and $13.3 million higher for the TAB.

6.3.4.3.2. Capitalised Leases

We have proposed two new final year adjustments relating to capitalised leases that were omitted in the Initial Proposal and implemented some escalation amendments in relation to forecast final year adjustments for legacy lease asset classes. The first two adjustments are based on new information that became available to us following the Draft decision and are explained in further detail below.

1. [C-I-C]

[C-I-C]

The proposed transfer of $20.71 million (nominal) in closing RAB value to this new asset class is outlined in Table 6-4 below, presented on an as-incurred and as-commissioned basis. We have proposed a similar transfer of the closing TAB value which is discussed further in Chapter 9.

Table 6-4: Proposed transfer of opening Lease asset base values - Final year (2026-27) asset adjustments ($M)

Asset class	RAB - As-incurred / As-commissioned (real $2026-27)	TAB ($Nominal)	RAB remaining lives	TAB remaining lives
Lease L&B 2019-20 < 20 years rem life	-20.71	-13.97	41.2	41.2
Lease L&B 2019-20 > 20 years rem life – Adjusted	20.71	13.97	22.3	22.3
Total	**-**	**-**		

Source: AusNet

[C-I-C]

Our supporting calculations are contained in supporting models submitted alongside this regulatory proposal.

2. [C-I-C]

As the affected asset classes form part of the legacy lease asset classes approved in the 2018-22 regulatory control period, the proposed amendments also flow through to the final year (2026-27) asset adjustments included in the RFM inputs.

Table 6-5: Proposed Amended Lease Offsetting Adjustments (2024-25) ($M, nominal) – As-incurred / As-commissioned

Asset class	Initial Proposal	AER Draft Decision	Revised Proposal	Change from Draft Decision
Asset Disposal	$10.5	$10.5	$10.5	-
Lease Offsetting Adjustments	-	-	-$5.6	-$5.6
Net Asset Disposal	**$10.5**	**$10.5**	**$4.9**	**-$5.6**

Source: AusNet

For further details, refer to supporting model 'AusNet - Lease Offsetting Adjustments - 1 Sep 2026 – CONF', which updates the version submitted with the Initial Proposal and incorporates subsequent amendments reflected in the revised regulatory reporting templates submitted in early January 2026, as well as the additional changes outlined in **Table 6-5**.

3. **Escalation amendments associated with legacy lease asset classes:** In the Draft Decision RFM, we identified formula errors across multiple rows within the table '*Leases capitalised - to March 2022. Cost adjustments post March 2022*'. Specifically, four rows labelled '*Net Capex - $Mar 2027, incl half WACC*' contain formulas that convert nominal net capex values (including a half-year WACC timing adjustment) to real March 2027 dollars. While the inclusion of the half-year WACC adjustment is correct, the formulas subsequently apply an inflation

index that is inconsistent with the 1-year lagged inflation approach adopted for the current regulatory period. Accordingly, we have amended these formulas to apply the correct inflation adjustments for 2022-23 to 2026-27 in the relevant table within the *Inputs working* tab of the RFM.

Table 6-6 below summarises the changes incorporated in the Revised Proposal and their impact on opening RAB and TAB values as at 1 April 2027 compared with the Draft Decision.

Table 6-6: Final Year Adjustments Summary ($M)

Amendment	RAB Impact (partially as-incurred / as-commissioned) ($M, real $2026-27)	TAB Impact ($M, nominal)
Growth asset roll-in changes	$16.3	$13.3
[C-I-C]	[C-I-C]	[C-I-C]
[C-I-C]	[C-I-C]	[C-I-C]
Escalation adjustments associated with legacy lease asset classes (nominal to real March $2027)	$1.6	-
Other final year asset adjustments[2]	$0.4	$0.4
Total change vs. Draft Decision	**$23.9**	**$19.2**

Source: AusNet

[1]Transfer between asset classes only. No change to opening RAB or TAB values. Associated changes to remaining asset lives are reflected in table 6-4.

[2]Gross capex as-incurred / as-commissioned in 2025-26, associated with asset class 'Lease L&B 2019-20 < 20 years rem life', as sourced from the regulatory accounts. The RAB impact includes associated escalation adjustments.

6.4. Forecast RAB over the 2027-32 regulatory control period

6.4.1. Our Initial Proposal

In our Initial Proposal, we rolled forward the RAB over the 2027-32 regulatory control period to reflect our capex forecast, straight-line depreciation forecast, and the indexation of the RAB. We applied the AER's RFM and PTRM (Version 6) to calculate a closing value for the RAB of $6,612.0 million as at 31 March 2032.

6.4.2. Draft Decision

In the Draft Decision, the AER amended our forecast RAB to reflect other relevant components of its decision, including forecast capex, inflation and depreciation. Consequently, the AER calculated the closing RAB to be $5,889.3M as at 31 March 2027, which represents a reduction of $773.7 million (or 11.6%) compared to our Initial Proposal. This primarily reflects the reduction made to capital expenditure in the Draft Decision.

The Draft Decision regarding depreciation was to apply the forecast depreciation approach to establish the opening RAB at the commencement of the 2032-37 period.

6.4.3. Response to the Draft Decision

We accept the Draft Decision to apply forecast depreciation to establish the opening RAB at the commencement of the 2032-37 period.

Our Revised Proposal updates the calculation of the forecast RAB to reflect the other key changes incorporated in the proposal, including updates to forecast capital expenditure and depreciation. We anticipate that further inflation updates will be applied by the AER through the PTRM as updated forecasts become available from the Reserve Bank of Australia's *Statement on Monetary Policy*.

6.4.4. Revised Proposal

Our forecast RAB for the 2027-32 regulatory control period is set out in the table below.

Table 6-7: Forecast RAB roll forward ($M, nominal)

	2027-28	2028-29	2029-30	2030-31	2031-32
Opening RAB (1 April)	4,790.2	5,266.9	5,746.6	6,164.2	6,463.2
Capex net of disposals	600.4	622.8	584.4	478.7	344.8
Straight-line depreciation	-241.0	-272.2	-307.6	-330.8	-354.3
RAB indexation	117.4	129.0	140.8	151.0	158.3
Closing RAB (31 March)	**5,266.9**	**5,746.6**	**6,164.2**	**6,463.2**	**6,612.0**

Source: AusNet

In accordance with clause S6A.2.1(f)(4) of the NER, only actual and estimated capex properly allocated to the provision of prescribed transmission services in accordance with our approved CAM is included in the RAB.

6.5. Supporting documentation

We have included the following documents to support this chapter:

- AusNet - Post Tax Revenue Model - 1 Sep 2026 - PUBL.xlsm
- AusNet - Roll Forward Model - 1 Sep 2026 - PUBL.xlsm
- AusNet - Depreciation Tracking Model - 1 Sep 2026 - PUBL.xlsb
- AusNet - Growth Assets Calculation - 1 Sep 2026 - CONF.xlsx
- AusNet - Lease Offsetting Adjustments - 1 Sep 2026 - CONF.xlsx
- 4.3.07 AusNet - Head office NPV model - 1 Sep 2026 - CONF.xlsx
- AusNet - Remaining Lives for Short Life Leases - 1 Sep 2026 - CONF.xlsx
- AusNet - Transmission Leases greater than 20 years - Rem life adjustment RY27 – 1 Sep 2026 - CONF.xlsx

07
Depreciation

7. Depreciation

7.1. Key points

The key points in this chapter are:

- Our Initial Proposal applied standard regulatory practice in calculating our regulatory depreciation allowance for the 2027-32 regulatory control period. We also proposed new asset classes relating to capitalised leases, to simplify our modelling approach.
- The AER's Draft Decision accepted our methodology for calculating regulatory depreciation, including the new asset classes we proposed. The Draft Decision introduced a new asset class with a 1-year life, to remove the residual value of legacy asset classes. The calculation of our regulatory depreciation allowance was also updated by the AER to reflect its Draft Decision on various input parameters, including our opening RAB, forecast capex and inflation.
- Through the Information Request process and in this Revised Proposal, we have accepted the AER's position in relation to the new asset class to remove the residual value of legacy asset classes and the removal of the standard life for equity raising costs. We have updated the asset life of our Head Office Leases asset class to reflect the latest information on lease arrangements. We have introduced a new asset class to address a newly identified issue with a long-term lease, which is discussed in detail in Chapter 6.
- We have also updated our regulatory depreciation allowance for the 2027-32 regulatory control period to reflect the updated input parameters included in this Revised Proposal.
- In summary, our regulatory depreciation allowance for the 2027-32 regulatory control period is $809.3M (nominal) which is $67.5M or 9% greater than the AER's Draft Decision, which allowed $741.8M (nominal).

7.2. Chapter structure

The remainder of this chapter is structured as follows:

- Section 7.3 discusses the methodology for calculating the regulatory depreciation allowance and our revised depreciation forecast for the 2027-32 regulatory control period
- Section 7.4 lists the relevant supporting documents

7.3. Depreciation methodology and inputs

7.3.1. Our Initial Proposal

Our Initial Proposal adopted the following methodology and inputs to determine the regulatory depreciation allowance for the 2027-32 regulatory control period:

- Calculate the opening RAB as of 1 April 2027.
- Apply straight-line depreciation to assets contained in the opening RAB using the year-by-year tracking approach that applies the approved standard asset lives in the current transmission determination.
- Apply straight-line depreciation to new capex that will be added to the RAB over the 2027-32 regulatory period according to their standard asset lives. This includes approved standard lives in the current transmission determination, and our proposed asset lives for two proposed new asset classes, which consolidated capitalised lease asset classes to simplify our modelling approach.
  - The standard asset life for the new Head Office leases asset class was set at 6.1 years, reflecting the weighted average terms of multiple forecast head office leases
  - The standard asset life for the new Leases L&B – Short Lives asset class was set at 10.0 years, reflecting the weighted average term of multiple underlying leases
- Apply an inflation forecast of 2.62% p.a. for the 2027-32 regulatory control period, consistent with the AER's standard approach

7.3.2. Draft Decision

The Draft Decision accepted our approach to depreciation, including the year-by-year tracking method. The AER also accepted our proposed approach to standard asset lives and the introduction of two new asset classes to simplify the modelling approach for leases. The AER rejected our proposal to remove the residual value of legacy asset classes from the RAB through a final year adjustment at the end of the current regulatory period and instead introduced a new asset class with a 1-year remaining life to fully depreciate the residual value of these legacy asset classes as at 1 April 2027. The AER also removed the calculated standard life for equity raising costs, noting that no benchmark allowance was provided in the PTRM.

While largely accepting our proposed methodology, other aspects of the AER's Draft Decision are inputs to the depreciation calculation and, therefore, affect the regulatory depreciation allowance. In particular, the AER's Draft Decision adopted different values from those set out in our Initial Proposal for our opening RAB, forecast capex and inflation, each of which has an impact on regulatory depreciation.

The net effect of the AER's revisions in its Draft Decision increased the total allowance for regulatory depreciation by $30.8M (or 4.3%) to $741.8M ($nominal) over the 5-year regulatory control period, compared to our Initial Proposal. While several of the AER's revisions reduced our proposed depreciation allowance, these effects were more than offset by the reduction in forecast inflation from our Initial Proposal of 2.62% per annum to 2.45% in the AER's Draft Decision. As a result, lower forecast inflation increases regulatory depreciation, all else being equal.

7.3.3. Response to the AER's Draft Decision

The AER's Draft Decision accepted the methodology we proposed for calculating regulatory depreciation, which is consistent with standard regulatory practice. The revisions set out in the Draft Decision principally reflect the AER's different views on input parameters, such as the opening RAB, forecast capex and inflation, that affect the calculation of regulatory depreciation.

Through the Information Request process following the submission of the Initial Proposal, we accepted the AER's alternative approach to removing the residual values of legacy asset classes and have reflected the new combined asset class with a 1-year life in our Revised Proposal PTRM. We also accept the AER's Draft Decision to change the standard life for equity raising costs to not applicable.

In this Revised Proposal, we have adopted the AER's Draft Decision estimate of 2.45% for the 2027-32 period, reflecting the inflation forecasts contained in the RBA's Statement of Monetary Policy (May 2026). We discuss this aspect of our Revised Proposal in Chapter 8.

We have also made updates to other key input parameters in response to the AER's Draft Decision. These updates are mainly associated with changes in our proposed opening RAB as at 1 April 2027, including remaining lives adjustments for legacy asset classes, and the capex forecast for 2027-32. These changes are discussed further within the Regulatory Asset Base and Capital Expenditure chapters.

We have also updated the standard life of the 'Head Office leases' asset class to reflect the finalised lease arrangements, which were still being finalised at the time of the Initial Proposal. Consequently, the forecast regulatory depreciation reflected in this Revised Proposal differs from the amount set out in the AER's Draft Decision.

7.3.4. Revised Proposal

7.3.4.1. Standard asset lives

The table below shows our standard asset lives for new assets in this Revised Proposal. The proposed asset lives are identical to the Draft Decision, with two exceptions:

7.3.4.1.1. Head Office leases

Regarding the 'Head Office leases' asset class:

- In the Initial Proposal, the standard asset life of this asset class was set at 6.1 years, which was based on the weighted average terms of leases for AusNet's Southbank and Melbourne CBD offices.
- Since the Initial Proposal was submitted in late 2025, a different option for the location of our head office has been selected and approved by AusNet's Board. This is explained in more detail in the Capital Expenditure chapter.
- As foreshadowed in our Initial Proposal, our Revised Proposal now reflects our updated and finalised lease arrangements. The chosen option endorsed by the Board is to relocate and consolidate AusNet's head offices at a single location, resulting in a single lease with a 10-year life attributable to the 'Head Office Leases' asset class. As a result, the standard asset life for this asset class has been updated to 10.0 years from 6.1 years (that was based on a weighted average).

7.3.4.1.2. [C-I-C]

[C-I-C]

This approach is discussed in detail in Chapter 6 but is mentioned here for completeness.

We have proposed a standard life of 29.68 years for class 'Lease L&B 2019-20 > 20 years rem life – Adjusted' which is equal to the proposed standard tax life. This is based on the recalculated standard life that originated from legacy class 'Lease L&B 2019-20 > 20 years rem life' [C-I-C]. The standard life will apply to any new net capex associated with this asset class through the Annual Information Order process over the 2027-32 period. AusNet has not forecast

any such capex in the PTRM, as the nature and timing of future adjustments associated with legacy leases are difficult to predict.

Table 7-1: Standard asset lives for new capex

Asset Class Name	Standard Life (Year)
Secondary	15.0
Switchgear	45.0
Transformers	45.0
Reactive	40.0
Towers and Conductor	60.0
Establishment	45.0
Communications	15.0
Inventory	n/a
IT	5.0
Vehicles	7.0
Other (Non-Network)	10.0
Premises	10.0
Land	n/a
Easements	n/a
Equity raising costs (2003-08)	n/a
Polymeric Insulators	35.0
Lease L&B 2019-20 < 20 years rem life	n/a
Lease L&B 2019-20 > 20 years rem life	n/a
Lease L&B 2020-21	n/a
Lease L&B 2021-22	n/a
Head Office Leases	10.0
Leases L&B - Short Lives	10.2
Lease L&B 2019-20 > 20 years rem life - Adjusted	29.7
Removal of Small Residuals	1.0
Buildings - capital works	40.0
In-house software	5.0
Equity raising costs	n/a

Source: AusNet

7.3.4.2. Depreciation allowance

Based on the depreciation methodology consistent with the Draft Decision and updated inputs from our Revised Proposal, we have calculated a revised forecast straight-line depreciation for the 2027-32 regulatory control period.

Our calculation of the regulatory depreciation allowance appropriately removes the effects of indexation on the opening RAB. As a result, our revised total regulatory depreciation allowance for the 2027-32 regulatory control period is shown in the table below. Our proposed allowance of $809.3M (nominal) is 9% greater than the AER's Draft Decision.

Table 7-2: Revised proposal for regulatory depreciation ($M, nominal)

	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Forecast straight-line depreciation	241.0	272.2	307.6	330.8	354.3	1,505.8
RAB indexation	-117.4	-129.0	-140.8	-151.0	-158.3	-696.6
Regulatory depreciation	**123.7**	**143.2**	**166.8**	**179.7**	**195.9**	**809.3**

Source: AusNet

7.4. Supporting documentation

We have provided the following documents in support of this chapter:

- AusNet - Post Tax Revenue Model - 1 Sep 2026 - PUBL.xlsm
- AusNet - Roll Forward Model - 1 Sep 2026 - PUBL.xlsm
- AusNet - Depreciation Tracking Model - 1 Sep 2026 - PUBL.xlsb
- AusNet - Growth Assets Calculation - 1 Sep 2026 - CONF.xlsx
- AusNet - Capital Expenditure Model - 1 Sep 2026 - PUBL.xlsb
- 4.3.07 AusNet - Head office NPV model - 1 Sep 2026 - CONF.xlsx
- AusNet - Remaining Lives for Short Life Leases - 1 Sep 2026 - CONF.xlsx
- AusNet - Transmission Leases greater than 20 years - Rem life adjustment RY27 - 1 Sep 2026 - CONF.xlsx

08

Rate of return & forecast inflation

8. Rate of return & forecast inflation

8.1. Key points

The key points for this chapter are as follows:

- Our Initial Proposal estimated the return on capital in accordance with the 2022 Rate of Return Instrument (RORI). As a binding instrument, the Rate of Return Instrument sets out the key parameter values and the method to be applied in estimating the rate of return. It also establishes a gamma value of 0.57, which is applied in calculating the tax allowance for revenue setting purposes.
- The AER's Draft Decision continued to adopt the 2022 RORI and updated our estimates of the cost of equity and debt to reflect more recent market data. The Draft Decision also adopted an updated placeholder estimate for inflation of 2.45% for the forthcoming regulatory control period compared to our estimate of 2.62% in the Initial Proposal.
- In the Revised Proposal, we have instead adopted the Draft 2026 RORI, which is the latest information available at the time of submission. This includes updated market risk premium, equity beta, and gamma values. We have also adopted the risk free rate and cost of debt placeholders from the Draft Decision
- We note that the AER has accepted our averaging periods for both debt and equity. While these periods were defined based on the requirements of the 2022 RORI, as these requirements have not changed in the Draft 2026 RORI, we retain the same proposed averaging periods
- We have retained the AER's inflation figures due to timing of the Revised Proposal and expect the AER will update these values as part of their final decision when the September 2026 inflation figure becomes available along with the Reserve Bank of Australia's latest Statement of Monetary Policy.

8.2. Chapter Structure

The remainder of this chapter is structured as follows:

- Section 8.3 provides commentary on the Draft 2026 Rate of Return Instrument
- Section 8.4 provides our revised calculations and values for the rate of return
- Section 8.5 refers to the supporting documents related to this chapter

8.3. Rate of Return Instrument

In November 2018, the National Electricity Law was amended to require the AER to make a binding rate of return instrument (RORI). As a binding instrument, it must set out the precise value for the rate of return, or a method for calculating the rate of return that can be applied automatically without exercise of discretion. The AER published its Rate of Return Instrument 2022 and an accompanying explanatory statement in February 2023.

The next Rate of Return Instrument is to be published in December 2026 and will bind all regulatory determinations in the subsequent four years. We understand that the 2026 RORI will apply to the final determination on our transmission revenues, expected in January 2027. However, as the 2026 RORI was not available at the time of our Initial Proposal, we adopted placeholders based on the 2022 RORI. The Draft 2026 RORI has since been released, in late May 2026. For the purposes of this Revised Proposal, we have adopted the Draft 2026 RORI as placeholder, so it reflects the latest available information. This results in the changes below.

Table 8-1: Changes to Rate of Return Instrument

Parameter	Initial Proposal – 2022 RORI	Revised Proposal – Draft 2026 RORI
Equity beta	0.6	0.55
Market risk premium	6.2%	6.1%
Value of imputation credits (gamma)	0.57	0.58
Imputation credit payout ratio (distribution rate)	87.87%	89.87%

Source: AusNet, AER

We understand that the AER intends to update the rate of return inputs in their final decision based on the Final 2026 RORI.

In both the 2022 RORI and the Draft 2026 RORI, the AER maintains its long-standing regulatory approach of determining a nominal vanilla weighted average return on equity and debt, weighted by the gearing ratio. The AER's Rate of Return Instrument therefore defines the allowed rate of return as follows:

kt = (1-G) x ke + ktd x G

where:

kt is the rate of return in regulatory year t;

ke is the allowed return on equity for the regulatory period and is calculated in accordance with clause 4 of the instrument;

ktd is the allowed return on debt for the regulatory year t, and is calculated in accordance with clause 9 of the instrument; and

G is the gearing ratio and is set at a value of 0.6.

In accordance with the NER, this Revised Proposal calculates the allowed rate of return for each regulatory year of the 2027-32 regulatory control period.

8.4. Rate of return methodology and calculation

8.4.1. Initial Proposal

Our Initial Proposal adopted the AER's standard approach to calculate the rate of return in accordance with the 2022 RORI. The calculation used placeholder values for the risk-free rate and the cost of debt, which resulted in a nominal vanilla WACC of 6.04%.

Forecast inflation was based on the August 2025 Reserve Bank of Australia (RBA) Statement of Monetary Policy. June-ended and December-ended annual inflation values were averaged, to produce a proxy for a September-ended inflation forecast for the first two years of the next regulatory period. This was done to approximate mid-year to mid-year inflation for AusNet Transmission's March-ended regulatory years. The standard glide path to the RBA's long term inflation target was then used to forecast inflation for the last three years of the next regulatory period. This resulted in expected inflation for 2027-32 of 2.62% per annum.

8.4.2. Draft Decision

The Draft Decision did not raise any issues with the methodology used to calculate the rate of return in the Initial Proposal, with changes limited to updating the risk-free rate and cost of debt to reflect more recent market conditions. The Draft Decision also continued to adopt the 2022 RORI, though it noted that the 2026 RORI would apply for the Final Decision. These assumptions resulted in a nominal vanilla WACC of 6.34%, which is around 30 basis points higher than the Initial Proposal.

Expected inflation was updated to reflect the May 2026 RBA Statement of Monetary Policy, which was not available at the time of our Initial Proposal. In addition, the AER used a December-ended inflation forecast for the first year of the next regulatory period, rather than the proxy for a September-ended forecast which was used in the Initial Proposal. The AER also did not use the RBA's Statement of Monetary Policy for the second year of the period, instead adopting the glide path approach for that year. This resulted in expected inflation of 2.45%, or 17 basis points lower than the Initial Proposal.

A summary of the differences in the rate of return and inflation between the Initial Proposal and the Draft Decision is provided below, taken from page 15 of the Draft Decision overview document.

Table 8-2: Draft Decision on rate of return

Value	AusNet Initial Proposal	AER Draft Decision
Nominal risk-free rate	4.37%	5.01%
Market risk premium	6.20%	6.20%
Equity beta	0.6	0.6
Return on equity (nominal post-tax)	8.09%	8.73%
Return on debt (nominal pre-tax)	4.68%	4.74%
Gearing	60%	60%
Nominal vanilla WACC	6.04%	6.34%
Expected inflation	2.62%	2.45%

Source: AusNet, AER

8.4.3. Revised Proposal

8.4.3.1. Return on Equity

The AER's explanatory statement for the Draft 2026 RORI adopts the Sharpe-Lintner CAPM (SLCAPM) to calculate the return on equity. Within the SLCAPM formula, the AER sets fixed values for the market risk premium and equity beta and establishes a formula for calculating the risk free rate. Clause 4 of the Draft 2026 RORI defines the return on equity as follows:

ke = kf + β x MRP

where:

kf is the allowed risk free rate of return expressed as an effective annual rate percentage;

β is the allowed equity beta and is set to a value of 0.55; and

MRP is the allowed market risk premium and is set to a value of 6.1% per annum.

As the values of the equity beta and market risk premium are lower in the Draft 2026 RORI than in the 2022 RORI, adopting Draft 2026 RORI values results in a lower calculated return on equity.

The Draft 2026 RORI requires us to estimate the risk free rate using a formula based on yields on 10-year Commonwealth Government Securities (CGS). The formula requires the risk free averaging period to be:

- Over a period of between 20 and 60 business days;
- Start no earlier than 8 months prior to the commencement of the regulatory period; and
- Finish no later than 4 months prior to the commencement of the regulatory period.

These requirements are identical to those that were included in the 2022 RORI. As there has been no change in the requirements for the risk free rate averaging period, and the AER has accepted our proposed averaging periods in the Draft Decision, we have retained the same averaging periods for the Revised Proposal.

In our Initial Proposal, we provided an estimate of the risk free rates based on 60 consecutive business days ending 30 November 2026, which resulted in a risk free rate of 4.37%. In its Draft Decision, the AER updated the risk free rate to reflect more recent market conditions. For the purpose of this Revised Proposal, we have adopted the estimated risk free rate in the Draft Decision, noting that this will be updated in the Final Decision.

The table below summarises the return on equity calculation used for the Revised Proposal.

Table 8-3: Return on equity calculation

Parameter	Initial Proposal – 2022 RORI	Revised Proposal – Draft 2026 RORI	Basis of Revised Proposal parameter value
Risk free rate (nominal)	4.37%	5.01%	This is a placeholder value consistent with the Draft Decision, which reflects the yield on ten-year Commonwealth bonds measured over a 20-day period ending 31 March 2026. The risk free rate used in the AER's final Decision will be measured over the nominated periods selected in accordance with the Final 2026 RORI.
Equity beta	0.6	0.55	This value is consistent with clause 4(b) of the Draft 2026 RORI
Market risk premium	6.2%	6.1%	This value is consistent with clause 4(c) of the Draft 2026 RORI
Return on equity (nominal post-tax)	8.09%	8.37%	The cost of equity is estimated in accordance SLCAPM, as specified in clause 4 of the Draft 2026 RORI.

Source: AusNet, AER

8.4.3.2. Cost of debt

The cost of debt comprises the following key elements, under both the 2022 RORI and the Draft 2026 RORI:

- A benchmarking approach, based on debt yield data from third party data providers and benchmarks for term of debt and credit rating;
- A 10-year trailing average approach with an annual update; and
- A 10-year transition to the 10-year trailing average approach, noting that where a transition has commenced in a previous determination, the AER will continue that transition.

In its final decision for our 2017-22 regulatory control period, the AER adopted an 'on-the-day' approach for the first regulatory year and commenced a 10-year transition to a trailing average approach. The trailing average approach operates as follows:

- For 2017, the estimated cost of debt reflected the prevailing market rates near the commencement of the 2017-22 regulatory period.
- For each subsequent year, 10% of the return on debt is updated to reflect the prevailing market conditions in that year.

The transitional period will conclude at the end of the 2022-2027 current regulatory period. In accordance with the AER's Rate of Return Instrument, the transitional approach will not continue for the 2027–32 regulatory period. Therefore, in the Initial Proposal, we fully adopted the trailing average approach for calculating the return on debt, meaning the return on debt will reflect the average of market rates over the past 10 years.

In our Initial Proposal, we maintained this transitional approach in accordance with the Rate of Return Instrument, and proposed an average placeholder portfolio cost of debt of 4.68%, which incorporated a placeholder prevailing cost of debt of 5.70%. In its Draft Decision, the AER updated the cost of debt in accordance with the Rate of Return Instrument and using the averaging period for the risk free rate over a 20-day period ending 31 March 2026. For the purpose of this Revised Proposal, we have retained the AER's placeholder cost of debt. This will be updated in the Final Decision to reflect the actual cost of debt for the nominated averaging period relevant to the 2027-28 regulatory year, then updated each year within the next regulatory period.

The table below shows the cost of debt over the 2027-32 regulatory control period that is included in the Revised Proposal.

Table 8-4: Revised cost of debt

	2027-28	2028-29	2029-30	2030-31	2031-32
Nominal pre-tax return on debt	4.74%	4.87%	5.02%	5.31%	5.66%

Source: AusNet

8.4.3.3. Nominal vanilla WACC

The table below summarises the nominal vanilla WACC or the 'allowed rate of return', in accordance with clause 3 of the Rate of Return Instrument for this Revised Proposal. It should be noted that this estimate will be updated in the AER's Final Decision to reflect the averaging period and latest market data, and then updated annually to reflect movements in the cost of debt.

As noted above, we have adopted the AER's placeholder risk free rate and cost of debt in its Draft Decision for the purposes of this Revised Proposal, but we have updated the calculation of the rate of return to reflect the Draft 2026 RORI.

Table 8-5: Summary of revised proposal values

	2027-28	2028-29	2029-30	2030-31	2031-32
Return on equity	8.37%	8.37%	8.37%	8.37%	8.37%
Nominal pre-tax return on debt	4.74%	4.87%	5.02%	5.31%	5.66%
Gearing	60%	60%	60%	60%	60%
Nominal vanilla WACC	**6.19%**	**6.27%**	**6.36%**	**6.53%**	**6.74%**

Source: AusNet

8.4.3.4. Equity raising costs

Equity raising costs are the transaction costs incurred when network service providers raise new equity in order to fund capital investment. Accordingly, the AER provides a benchmark allowance to reflect the efficient costs of raising equity, if equity raising is required to maintain the benchmark gearing of 60%.

Our Initial Proposal explained that our equity raising costs are derived from the PTRM and the AER's benchmarking approach, which includes a distribution rate set out in the Rate of Return Instrument.

We explained in our Initial Proposal that our modelling showed that under the AER's approach, no external equity injection is required to maintain the benchmark capital structure over the 2027-32 regulatory control period. In its Draft Decision, the AER confirmed that no equity raising costs are required. In this Revised Proposal, we confirm that no equity raising costs are required in the 2027-32 regulatory control period.

8.4.3.5. Debt raising costs

Debt raising costs are transaction costs incurred each time debt is raised or refinanced. These costs may include arrangement fees, legal fees, company credit rating fees and other transaction costs.

The Draft Decision applied a debt raising cost of 8.57 basis points per annum, compared to 8.00 basis points per annum in our Initial Proposal. We accept the change made in the Draft Decision and apply a debt raising cost of 8.57 basis points per annum in the Revised Proposal.

8.4.3.6. Imputation Credit Value (Gamma)

Under the Australian imputation tax system, investors receive imputation credits for tax paid at the company level. For eligible shareholders, imputation credits offset their Australian income tax liabilities. The AER takes account of the value of imputation credits (known as gamma or 'γ') to recognise that imputation credits benefit equity holders, in addition to any dividends or capital gains they receive.

As the regulatory framework applies a post-tax WACC, the value of imputation credits is not a WACC parameter. Instead, the value of imputation credits is a direct input into the calculation of a network service provider's benchmark tax allowance. In accordance with the 2022 RORI, in our Initial Proposal we adopted a value for imputation credits of 0.57, which the AER accepted in its Draft Decision. In this Revised Proposal, we have updated this value to 0.58, reflecting the value contained in the Draft 2026 RORI.

Our calculation of our benchmark tax allowance for the 2027-32 regulatory control period for this Revised Proposal is provided in a separate chapter.

8.4.3.7. Forecast inflation

We expect the final decision to incorporate the actual September 2026 inflation figure along with the Reserve Bank of Australia's latest Statement of Monetary Policy once available.

8.5. Supporting documentation

The following documents are provided in support of this chapter:

- AusNet - Rate of Return Build Up Model - 1 Sep 2026 - PUBL.xlsx

09

Corporate tax allowance

9. Corporate tax allowance

9.1. Key points

The key points of this chapter are:

- Our Initial Proposal explained that the corporate tax allowance is a component of the annual building block revenue requirement. The estimated cost of corporate income tax is an output from the PTRM. In our Initial Proposal, we explained that we had adopted the standard regulatory approach to estimating corporate tax.
- In its Draft Decision, the AER accepted most elements of our tax calculation in our Initial Proposal, including our proposals in relation to:
  - The method to establish the opening tax asset base (TAB) as at 1 April 2027.
  - The year-by-year tracking method to calculate tax depreciation.
  - The standard tax asset lives for all asset classes for the 2027–32 regulatory control period.
  - The method to calculate forecast immediate expensing of capex.
- In accordance with the 2022 Rate of Return Instrument, in our Initial Proposal we adopted a value for imputation credits (gamma) of 0.57, which the AER accepted in its Draft Decision. In the Revised Proposal, we adopt a gamma of 0.58, consistent with the AER's Draft 2026 RORI.
- The net effect of the AER's Draft Decision was to increase our corporate tax allowance to $51.4M over the 2027-32 regulatory control period compared to our proposed allowance of $28.2M.
- In this Revised Proposal, we have updated our calculation of corporate tax allowance to reflect our updated annual revenue requirement as presented in this Revised Proposal. This includes our proposed changes to forecast capex, the opening tax asset base (TAB), depreciation and the cost of capital. Because of these changes, in this Revised Proposal our corporate tax allowance over the 2027-32 regulatory control period is $38.5M.

9.2. Chapter structure

The remainder of this chapter is structured as follows:

- Section 9.3 addresses the opening TAB as at 1 April 2027.
- Section 9.4 explains the tax depreciation approach, which is unchanged from the Initial Proposal.
- Section 9.5 provides the standard tax lives for the next regulatory period.
- Section 9.6 presents the company income tax rate, which is unchanged from the Initial Proposal.
- Section 9.7 presents the value of imputation credits (gamma).
- Section 9.8 summarises our forecast of immediately deductible capital expenditure for the 2027-32 period.
- Section 9.9 provides the proposed final year asset adjustments.
- Section 9.10 sets out the proposed tax allowance.
- Section 9.11 lists the supporting documentation for this chapter.

9.3. Opening tax asset base as at 1 April 2027

9.3.1. Our Initial Proposal

In our Initial Proposal, we explained that we used a combination of actual and forecast net capex and the year-by-year tracking depreciation approach to establish our opening TAB as at 1 April 2027. We highlighted that our depreciation approach included:

- Straight-line depreciation of the 1 April 2022 opening TAB based on the remaining tax lives sourced from the 2022-27 revenue determination PTRM.
- Diminishing value (DV) method depreciation of current period net capex based on approved standard tax lives and DV rates.

Our proposed opening TAB included several final year adjustments, primarily relating to the roll-in of Growth Assets.

We also noted that our placeholder net capex values for 2025-26 would be updated in our Revised Proposal.

9.3.2. Draft Decision

The Draft Decision accepted our proposed method to establish the opening TAB as at 1 April 2027. However, the Draft Decision included an opening TAB of $3,214.9M, which was $7.1M higher than our Initial Proposal. This was driven by:

- Amendments relating to the treatment of SaaS implementation costs as capital expenditure, consistent with the changes made to the RFM inputs for the current regulatory period.
- Amendments relating to final year adjustments associated with capitalised leases and legacy asset classes.

The Draft Decision accepted our proposal to roll forecast growth assets into the opening TAB, consistent with the decision for the opening RAB, and reflecting the long-standing approach historically applied in the AER's determinations for AusNet Transmission.

9.3.3. Revised Proposal

In this Revised Proposal, we have continued to apply the methodology described in our Initial Proposal to determine the opening TAB, noting that this approach has been accepted by the AER in its Draft Decision. That is, that the estimated cost of corporate income tax for each regulatory year (ETC_t) is estimated in accordance with the following formula stated in NER 6A.6.a:

$$ETC_t = (ETI_t \times r_t)\ (1 - \gamma)$$

where:

ETI_t is an estimate of the taxable income for that regulatory year that would be earned by a benchmark efficient entity as a result of the provision of prescribed transmission services if such an entity, rather than the Transmission Network Service Provider, operated the business of the Transmission Network Service Provider, such estimate being determined in accordance with the post-tax revenue model;

r_t is the expected statutory income tax rate for that regulatory year as determined by the AER; and

γ is the allowed imputation credits for the Transmission Network Service Provider for the regulatory year.

We also accept the amendments made by the AER to the treatment of SaaS implementation costs and legacy asset classes and have reflected these in the Revised Proposal.

In addition, we have updated:

- Actual capex for 2025-26 based on information consistent with the Annual Information Order.
- The final year adjustments relating to growth assets, reflecting the latest available information – this is explained further in the Regulatory Asset Base chapter.

Our revised calculation of the opening TAB as at 1 April 2027 is set out in the table below.

Table 9-1: Tax asset base roll forward ($M, nominal)

	2022-23	2023-24	2024-25	2025-26	2026-27
Opening TAB	2,816.7	2,750.3	2,689.8	2,628.8	2,614.8
Capex net of disposals	102.4	97.1	129.5	154.0	449.1
Straight-line depreciation	-168.8	-157.6	-190.5	-168.0	-186.8
Final year adjustments	-	-	-	-	245.0
Closing TAB	**2,750.3**	**2,689.8**	**2,628.8**	**2,614.8**	**3,122.1**

Source: AusNet

9.4. Tax depreciation

9.4.1. Our Initial Proposal

In our Initial Proposal, we proposed to use the year-by-year tracking method to calculate tax depreciation, as set out in the depreciation tracking module, to calculate tax depreciation for existing assets in the TAB as at 1 April 2027.

9.4.2. Draft Decision

The Draft Decision accepted AusNet's proposed approach to use the year-by-year tracking method.

9.4.3. Revised Proposal

The Revised Proposal continues to use the year-by-year tracking method to calculate tax depreciation. We made one amendment in the depreciation tracking module inputs relating to the current regulatory period that was not included in the Initial Proposal or Draft Decision. The change relates to applying the standard tax life of 5.5 years to legacy asset class '*Lease L&B 2021-22*'. This amendment ensures that actual net capex, on an as-commissioned basis of $0.26 million (nominal), from the final year of the previous regulatory period (2021-22) that was subsequently incorporated into the 1 April 2022 opening tax base in the RFM is depreciated over its standard tax life from 2022-23.

9.5. Standard tax lives

9.5.1. Our Initial Proposal

In our Initial Proposal, we maintained the standard tax lives that were adopted in the 2022-27 regulatory control period for existing asset classes. Our standard tax lives also reflect the tax lives contained in the ATO's tax ruling (TR 2020/3), except for polymeric insulators and capitalised leasing assets which align with their respective proposed standard RAB lives.

In addition, we proposed tax lives in relation to two new asset classes for capitalised leases which are equal to their RAB standard asset lives.

9.5.2. Draft Decision

The Draft Decision accepted AusNet's proposed standard tax asset lives for existing asset classes.

The Draft Decision also accepted the proposed standard tax asset lives for the two new asset classes relating to capitalised leases.

The Draft Decision also introduces a new 'Removal of small residuals' asset class to depreciate the residual values from legacy asset classes, consistent with the approach for the RAB. AusNet accepted this alternative approach through the Information Request process.

9.5.3. Revised Proposal

The standard tax asset lives in our Revised Proposal are consistent with the Draft Decision, except for the '*Head Office Leases*' asset class.

The standard tax asset life for this asset class has been updated from 6.1 years to 10.0 years to reflect the term of the underlying lease, which was finalised after submission of the Initial Proposal. This change is consistent with the updated standard life adopted in the RAB roll forward approach, as discussed in the Depreciation chapter. For more information on our head office leases, please refer to section 3.9.4.1.

The table below provides the standard tax asset lives included in our Revised Proposal.

Table 9-2: Standard tax asset lives

Asset Class Name	Standard Life (Year)	DV rate
Secondary	12.5	16.0%
Switchgear	40.0	5.0%
Transformers	40.0	5.0%
Reactive	40.0	5.0%
Towers and Conductor	47.5	4.2%
Establishment	40.0	5.0%
Communications	12.5	16.0%
Inventory	n/a	n/a
IT	3.5	57.1%
Vehicles	8.0	25.0%
Other (Non-Network)	10.0	20.0%
Premises	20.0	10.0%
Land	n/a	n/a
Easements	n/a	n/a
Equity raising costs (2003-08)	n/a	n/a
Polymeric Insulators	35.0	5.7%
Lease L&B 2019-20 < 20 years rem life	n/a	n/a
Lease L&B 2019-20 > 20 years rem life	n/a	n/a
Lease L&B 2020-21	n/a	n/a
Lease L&B 2021-22	n/a	n/a
Head Office Leases	10.0	20.0%
Leases L&B - Short Lives	10.2	19.6%
Lease L&B 2019-20 > 20 years rem life - Adjusted	29.7	6.7%
Removal of Small Residuals	1.0	200.0%
Buildings - capital works	40.0	5.0%
In-house software	5.0	40.0%
Equity raising costs	5.0	40.0%

Source: AusNet

We have proposed a standard tax life of 29.68 years for class '*Lease L&B 2019-20 > 20 years rem life – Adjusted*' which is equal to the RAB standard life. This is based on the recalculated standard life that originated from legacy class '*Lease L&B 2019-20 > 20 years rem life*' [C-I-C] described in the Depreciation chapter.

9.6. Company income tax rate

In accordance with clause 6A.6.4 of the NER, the expected statutory income tax rate is the rate as determined by the AER. The AER's latest PTRM model (version 5) defines the company income tax rate as 30%. Therefore, this parameter is unchanged from our Initial Proposal and the AER's Draft Decision.

9.7. Value of imputation credits (gamma)

The Revised Proposal uses the value of imputation credits (gamma) specified in the AER's Draft 2026 RORI of 0.58. This differs from our Initial Proposal, which was developed using the 2022 RORI and reflected a gamma value of 0.57.

We understand that the AER intends to apply the Final 2026 RORI to the Final Decision. This may result in a further change in the gamma value applied in the PTRM.

9.8. Forecast of immediately deductible expenditure

Our forecast of immediately deductible capital expenditure for the 2027-32 period in the Initial Proposal consisted of capitalised overheads. Since 2018-19, our capitalised overheads have included both labour and non-labour components.

For the 2022-27 period, immediately deductible capex for AusNet Transmission is claimed using a hybrid approach, consisting of:

- Direct project expenditure relating to government requested asset relocations and restoration of network assets damaged by extreme weather events like Anakie towers collapse cost pass-through. This treatment is supported by an ATO private ruling and are claimed on an as-commissioned basis.
- Capitalised overheads to be immediately expensed are claimed on an as-incurred basis.

Our approach to immediately deductible capital expenditure was discussed with the AER prior to submission of the Initial Proposal and was accepted in the Draft Decision. As such, we continue to apply a consistent approach in the Revised Proposal.

The table below provides the revised forecast of immediately deductible capital expenditure.

Table 9-3: Forecast of immediately deductible capital expenditure ($M, real 2026-27)

Asset Class Name	2027-28	2028-29	2029-30	2030-31	2031-32
Secondary	1.0	1.1	1.1	1.1	1.0
Switchgear	2.4	2.8	3.2	2.9	2.3
Transformers	4.4	3.5	2.8	3.0	1.4
Reactive	-	0.2	0.6	0.5	0.3
Towers and Conductor	2.4	4.7	4.0	1.9	1.9
Establishment	1.8	1.5	1.8	1.9	1.7
Communications	1.1	0.8	0.8	0.9	1.2
Inventory	-	-	-	-	-
IT	0.7	0.5	0.4	0.5	0.3
Vehicles	-	-	-	-	-
Other (Non-Network)	-	-	-	-	-
Premises	-	-	-	-	-
Land	-	-	-	-	-
Easements	-	-	-	-	-
Equity raising costs (2003-08)	-	-	-	-	-
Polymeric Insulators	1.0	0.9	1.0	1.1	1.4
Lease L&B 2019-20 < 20 years rem life	-	-	-	-	-
Lease L&B 2019-20 > 20 years rem life	-	-	-	-	-
Lease L&B 2020-21	-	-	-	-	-
Lease L&B 2021-22	-	-	-	-	-
Head Office Leases	-	-	-	-	-
Leases L&B - Short Lives	-	-	-	-	-
Lease L&B 2019-20 > 20 years rem life - Adjusted	-	-	-	-	-
Removal of Small Residuals	-	-	-	-	-
Buildings - capital works	-	-	-	-	-
In-house software	1.6	1.7	1.4	1.4	1.6
Equity raising costs	-	-	-	-	-
Total	**16.4**	**17.7**	**17.1**	**15.3**	**13.1**

Source: AusNet

9.9. Final year asset adjustments

As explained in Chapter 6, we have generally accepted the AER's changes reflected in its Draft Decision final year adjustments.

The Revised Proposal incorporates the same final year asset adjustments described in the Regulatory Asset Base chapter. These amendments have been reflected in the tax calculations through updates to the opening tax asset base, forecast tax depreciation and associated taxable income calculations.

Further details of the final year roll-in adjustments relating to growth assets and capitalised leases are provided in sections 6.3.4.3.1 and 6.3.4.3.2 of the Regulatory Asset Base chapter, respectively.

9.10. Summary of tax allowance

The table below summarises our revised forecast TAB roll forward for the 2027-32 regulatory control period.

Table 9-4: Proposed TAB roll forward ($M, nominal)

Asset Class Name	2027-28	2028-29	2029-30	2030-31	2031-32
Opening TAB	3,124.4	3,403.5	3,954.7	4,258.4	4,409.2
Net capex	520.2	835.2	627.5	467.7	300.3
Tax depreciation	-241.1	-284.0	-323.8	-317.0	-319.8
Closing TAB	**3,403.5**	**3,954.7**	**4,258.4**	**4,409.2**	**4,389.7**

Source: AusNet

The AER's Draft Decision was to increase our corporate tax allowance to $51.4M over the 2027-32 regulatory control period compared to our Initial Proposal allowance of $28.2M. This reflects changes to various inputs made by the AER across the proposal, including to forecast capex, the opening TAB, depreciation and the cost of capital. in our Revised Proposal, we have accordingly updated our forecast corporate tax allowance based on revised inputs for forecast capital expenditure, the opening tax base, remaining lives, and forecast tax depreciation.

The table below provides our proposed tax allowance for the 2027-32 regulatory control period.

Table 9-5: Proposed Tax Allowance ($M, nominal)

Asset Class Name	2027-28	2028-29	2029-30	2030-31	2031-32
Tax payable	12.0	12.2	12.1	23.7	31.7
Imputation credits	-6.9	-7.1	-7.0	-13.7	-18.4
Total	**5.0**	**5.1**	**5.1**	**9.9**	**13.3**

Source: AusNet

The above calculations reflect the inclusion of the tax loss carried forward from the 2022-27 period, which was omitted from the Initial Proposal and is sourced from the latest available return on debt PTRM, including the relevant approved cost passthroughs. This tax loss of $7.96 million as at 31 March 2027, is now reflected in our Revised Proposal PTRM and partially offsets tax payable arising from taxable income in the early years of the regulatory period, consistent with the approach adopted in the Draft Decision.

9.11. Supporting documentation

The following documentation is provided in support of this chapter:

- AusNet - Post Tax Revenue Model - 1 Sep 2026 - PUBL.xlsm
- AusNet - Roll Forward Model - 1 Sep 2026 - PUBL.xlsm
- AusNet - Depreciation Tracking Model - 1 Sep 2026 - PUBL.xlsb
- AusNet - Growth Assets Calculation - 1 Sep 2026 - CONF.xlsx
- AusNet - Lease Offsetting Adjustments - 1 Sep 2026 - CONF.xlsx
- AusNet - Immediate Expensing of Capex Summary (2023-27) - 1 Sep 2026 - CONF.xlsx
- 4.3.07 AusNet - Head office NPV model - 1 Sep 2026 - CONF
- AusNet - Remaining Lives for Short Life Leases - 1 Sep 2026 - CONF.xlsx
- AusNet - Transmission Leases greater than 20 years - Rem life adjustment RY27 – 1 Sep 2026 - CONF.xlsx

10

Pass through events

10. Pass through events

10.1. Key points

The key points of this chapter are:

- We have accepted the AER's Draft Decision to approve the following pass through events:
  - Insurance Coverage event;
  - Insurer credit risk event;
  - Natural disaster event;
  - Terrorism event; and
  - Victorian Minister's order event.
- We also accept the AER's Draft Decision not to approve the VicGrid direction event, which has been informed by further engagement with VicGrid undertaken after the submission of our Initial Proposal.
- Recent network events and Victorian regulatory changes have highlighted a gap in the insurance coverage event which we are proposing to close with a new specific pass-through event: the self-insured exclusion event

10.2. Chapter Structure

The remainder of this chapter is structured as follows:

- Section 10.3 addresses the insurance coverage event;
- Section 10.4 addresses the insurer credit risk event;
- Section 10.5 addresses the natural disaster event;
- Section 10.6 addresses the terrorism event;
- Section 10.7 addresses the Victorian Minister's order event;
- Section 10.8 addresses the VicGrid direction event.
- Section 10.9 addresses the new specific 3rd party lines damage pass-through event

10.3. Insurance coverage event

10.3.1. Our Initial Proposal

In our Initial Proposal, we explained the rationale for the inclusion of an insurance coverage event to mitigate the risk that we incur liability losses that exceed our insurance coverage. This event was also approved in the Final Determination for our current regulatory control period.

10.3.2. Draft Decision

The AER accepted the insurance coverage event we proposed, with a minor wording change to delete a duplicated sentence.

10.3.3. Response to the AER's Draft Decision

We accept the AER's Draft Decision with respect to the application of an insurance coverage event, including the minor wording change.

10.4. Insurer credit risk event

10.4.1. Our Initial Proposal

We proposed an insurer credit risk event to cover costs we may incur as a result of an insurer becoming insolvent. This event was also approved in the Final Determination for our current regulatory control period.

10.4.2. Draft Decision

The AER accepted the insurance credit risk event we proposed.

10.4.3. Response to the AER's Draft Decision

We accept the AER's Draft Decision with respect to the application of an insurance credit risk event.

10.5. Natural disaster event

10.5.1. Our Initial Proposal

We proposed a natural disaster event to provide cover against any losses caused by a natural disaster that are incurred above any amounts recovered through insurance cover or an insurance coverage event claim. This event was also approved in the Final Determination for our current regulatory control period.

10.5.2. Draft Decision

The AER accepted the natural disaster event we proposed.

10.5.3. Response to the AER's Draft Decision

We accept the AER's Draft Decision with respect to the application of a natural disaster event.

10.6. Terrorism event

10.6.1. Our Initial Proposal

We proposed a terrorism event to provide cover against any losses caused by terrorism that are incurred above any amounts recovered through insurance cover or an insurance coverage event claim. This event was also approved in the Final Determination for our current regulatory control period.

10.6.2. Draft Decision

The AER accepted the terrorism event we proposed.

10.6.3. Response to the AER's Draft Decision

We accept the AER's Draft Decision with respect to the application of a terrorism event.

10.7. Victorian Minister's order event

10.7.1. Our Initial Proposal

We proposed a Victorian Minister's order event to cover costs we may incur as a result of an Order made under the National Electricity (Vic) Act 2005 (NEVA) for network augmentation, augmentation services, and non-network services. This event was also approved in the Final Determination for our current regulatory control period – changes in our Initial Proposal were limited to minor wording updates.

10.7.2. Draft Decision

The AER accepted the Victorian Minister's order event we proposed.

10.7.3. Response to the AER's Draft Decision

We accept the AER's Draft Decision with respect to the application of a Victorian Minister's order event.

10.8. VicGrid direction event

10.8.1. Our Initial Proposal

We proposed a VicGrid direction event to cover costs we may incur as a result of a direction from VicGrid to carry out an augmentation to the declared shared network, or any part of the shared network.

10.8.2. Draft Decision

The AER did not accept the VicGrid direction event, citing that:

- There are existing cost recovery mechanisms available to AusNet for augmentation work directed by VicGrid (previously AEMO)

- The proposed event create uncertainty about the existing cost recovery mechanisms, and how payments under these existing mechanisms should be suspended or not occur if the assets were paid for by an earlier cost pass through
- There is a heightened risk of double counting across multiple cost recovery mechanisms
- Expenditure caused by VicGrid's direction of augmentation work can be mitigated by prudent planning and consultation with VicGrid and the Victorian government

10.8.3. Response to the AER's Draft Decision

We accept the AER's Draft Decision not to apply a VicGrid direction event.

Since the submission of our Initial Proposal, we have engaged further with VicGrid on the cost recovery mechanisms that are currently available and their suitability. This is in the context of the significant volume and size of works set out in the Victorian Transmission Plan, some of which may be delivered non-contestably by AusNet Transmission. As a result of this engagement, we have confirmed that a pass through event of this nature is not needed for the 2027-32 regulatory control period.

We will continue to engage with VicGrid on the cost recovery mechanisms for the Victorian Transmission Plan to support these projects in delivering the best long-term outcomes for Victorians.

10.9. Self-insured exclusion event

AusNet is proposing a new pass-through to close a gap in the pass-through protection provided for insurance coverage events that exceed the materiality threshold. This protection is provided, so networks are not incentivised to obtain an inefficient level of insurance cover.

This gap was demonstrated by a recent 3rd party damage incident and has since also been highlighted by developing government policy transferring risk back onto transmission operators. Accordingly, AusNet proposes the inclusion of a new pass-through event pursuant to clause 6A.7.3(a1)(5) of the NER. The event and consequences and the Guidelines are described below.

10.9.1. Context and issues

On 25 May 2026, a tractor towing a paddock roller struck Tower T83 on the Koorangie-Wemen 220 kV transmission line near Kerang, causing significant structural damage requiring the replacement of the tower. As a result, the circuit was de-energised, safety exclusion zones were established, and an Emergency Restoration Structure (ERS) bypass solution was selected to enable safe restoration while planning for permanent replacement.

We are now progressing permanent tower replacement within the current period. The expected cost of the incident is expected to be approximately $10M, well above the pass-through materiality threshold.

If these assets were insured by AusNet, this event would qualify under the Insurance Coverage event. However, AusNet Services does not hold insurance cover for damage caused to transmission network lines by a 3rd party. Given the mechanics of how an insurance coverage event is assessed, the absence of a policy with a defined cap renders that pathway unavailable.

AusNet suffers 3rd party damage to towers approximately once a year (11 incidents between 2015 and 2026). The most recent incident is the only one to have reached the materiality threshold.

10.9.2. New VicGrid Guidelines

In June 2026, VicGrid together with the Victorian Government, issued the Community Engagement and Social Value Guidelines (CESV Guideline). Under the CESV Guidelines transmission entities, such as AusNet, as now required to cover the cost of land holder public liability in addition to their own on new projects.

Specifically, the CESV Guidelines require that[27]:

"Renewable energy or transmission project developers are expected to release host and neighbouring landholders during the construction, operational and decommissioning phase from any claim arising from or in connection with loss or damage to project infrastructure, or any business interruption, to the extent that:

> *the landholder has caused or contributed to loss, damage or business interruption; and*
>
> *the value of the claim/loss exceeds the limit of indemnity of the public liability insurance effected by the relevant landholder, where such cover is in place."*

The CESV Guidelines assume that this risk will be covered through insurance and while this is the case for other types of loss, operational risk for towers and lines is self-insured. Forecast costs of associated liability during the operating

[27] CESV Guidelines, Appendix B, page 2

phase are anticipated to significantly increase the burden on self-insurance and thus the cost of providing prescribed transmission services if an event occurs and the landholder holds limited or no 3rd party damage insurance. While the Guideline applies only to new projects, they codify existing industry practice to not pursue landholder costs in excess of their insurance coverage and reflect Victorian government policy and VicGrid's expectations of how landholders are treated across the existing system.

10.9.3. Self-insurance remains efficient

AusNet maintains a level of insurance cover that is commensurate with the scale and size of its operations, the associated risks, and industry standards and practices. Self-insurance is maintained for lines and towers as it is currently the most cost-effective way to manage risk for these assets. Insurance cover for these assets is either unavailable in most markets or available on terms that are restrictive and not commercially viable.

There are several contributing reasons:

- The insurance capacity available is extremely low in comparison to the value of the assets, and the value that may be impacted by one event;
- The premium for insuring against damage to transmission towers and lines is a significant proportion of the payout cap, as is the deductible; and
- If a claim was made under such cover, the premium would be increased significantly across the network reflecting the insurer's assessment of the likelihood of this risk being realised. With an apparent increase in other events of nature, in particular wildfires, impacting environments around the world, it is not clear that such insurance cover would currently even be available.

The lack of insurance cover for transmission lines (and poles and wires of the electricity distribution networks in general) at economic rates was previously confirmed by our insurance broker, who detailed that none of their utility clients within Australia hold this form of cover. Underwriters attempting to write this form of cover experience re-insurance issues as reinsurers do not have an appetite. Concerns stem from loss scenarios such as catastrophic weather events (fire, storm and cyclone) which may result in large insurance payouts. The few underwriters who have previously quoted cover for poles and wires provide small aggregate limits with prohibitively expensive premiums.

Other network operators face similar 'whole of network' insurance considerations. We have previously checked the approaches of peer network operators and this confirms AusNet's practice of not insuring for this risk is consistent with those operators contacted. The AER has accepted this is prudent practice when assessing previous AusNet natural disaster pass-through applications, in particular, for the separate tower collapse events at Cressy and Anakie.

Self-Insurance together with pass-through cover in the regime remains the most prudent and efficient way to manage a low likelihood, high impact scenario of events or series of events relating to a claim that exceeds the materiality threshold and which would otherwise be able to be mitigated through insurance.

10.9.4. Proposed event definition

While not frequent, these events are high impact and are most appropriately managed as an uncontrollable event through pass-through protection to mitigate the risk to the end-user consumer rather than inefficient insurance cover. Therefore, AusNet proposes the following definition for the *self-insured exclusions event*.

Table 10-1: Proposed self-insured exclusions event definition

A *self-insured exclusions pass through event* occurs if:

- the event occurs in the regulatory control period;
- AusNet incurs costs that cannot otherwise be recovered through:
  - an insurance policy or set of insurance policies;
  - any other category of pass through event; or
  - the relevant landholder.; and
- the costs will materially increase the costs to AusNet of providing prescribed transmission services.

For the purposes of this self-insured exclusions event:

- 'event' means an event or series of events that resulted in damage to AusNet's towers or wires.
- 'costs' includes:
  - the costs to replace the towers and wires;
  - any work arounds required to mitigate the damage to AusNet's assets; and
  - any remediation works required to the land on which AusNet's assets are situated.

Note for the avoidance of doubt, in assessing a self-insurance exclusions event application under rule 6A.7.3(j), the AER will have regard to:

- whether self-insurance is efficient and prudent in respect of the event;
- any information provided by AusNet Services to the AER about AusNet Services' actions and processes; and
- any guidance published by the AER on matters the AER will likely have regard to in assessing any self-insurance coverage event that occurs.

10.9.5. Nominated pass through event considerations

NER 6A.6.9(b) requires the AER to take into account the nominated pass through event considerations in determining whether to accept the pass through events nominated by a transmission network service provider. These considerations are defined in Chapter 10 of the NER.

We provide below a summary of these considerations, as they relate to the proposed self-insured exclusion event.

Table 10-2: Nominated pass through event considerations

Nominated pass through event consideration (NER Ch10)	Information relevant to the proposed self-insured exclusion event
(a)whether the event proposed is an event covered by a category of pass through event specified in clause 6.6.1(a1)(1) to(4) (in the case of a distribution determination) or clause 6A.7.3(a1)(1) to(4) (in the case of a transmission determination);	The proposed self-insured exclusion event is not covered by any of the pass through events specified in clause 6A.7.3(1) to (4), as it does not meet the definition of a regulatory change, service standard, tax change, or insurance event. We confirm that while the proposed event contains mention of insurance arrangements, it is not covered by the insurance event specified in clause 6A.7.3(4), which requires that the event be subject of insurance taken out by or for the TNSP. The proposed event is also not covered by any of the nominated pass through events approved by the AER in the Draft Decision. In particular, it is not covered by the Insurance Coverage Event, which requires insurance to be held by AusNet for the relevant risk.
(b)whether the nature or type of event can be clearly identified at the time the determination is made for the service provider;	The proposed definition for the self-insured exclusion event is clear and specific with respect to the type of event and the relevant costs. We have also identified an actual event, the May 2026 tower collision incident, which exemplifies the type of event to which the self-insured exclusion event would apply.
(c)whether a prudent service provider could reasonably prevent an event of that nature or type from occurring or substantially mitigate the cost impact of such an event;	AusNet continues to undertake replacement, inspection & maintenance, and landholder engagement activities which support the safe and reliable operation of network assets, including towers and wires. However, in spite of these activities, events that are outside of AusNet's control may occur that damage towers and wires. For example, it is not possible for AusNet to prevent all potential 3rd parties from damaging our assets, nor would it be prudent to strengthen assets excessively in an attempt to prevent such damage. We also note that the proposed definition for the self-insured exclusion event states that in assessing a self-insurance exclusion event pass through application, the AER will have regard to information provided by AusNet about our actions and processes.
(d)whether the relevant service provider could insure against the event, having regard to: (1) the availability (including the extent of availability in terms of liability limits) of insurance against the event on reasonable commercial terms; or (2) whether the event can be self-insured on the basis that: (i) it is possible to calculate the self-insurance premium; and (ii) the potential cost to the relevant service provider would not have a significant impact on the service provider's ability to provide network services; and	As stated earlier in this section, insurance cover for tower and wire assets is either unavailable in most markets or available on terms that are restrictive and not commercially viable. We have previously checked the approaches of peer network operators, and confirmed that AusNet's practice of not insuring for this risk is consistent with those operators contacted. Furthermore, the events which we are seeking to cover with the proposed self-insured exclusion event are too infrequent and variable in impact to accurately calculate a self-insurance premium to be recovered from customers through the opex allowance. Therefore, a pass-through provides the most efficient recovery of costs over time and is in the best long-term interests of customers.
(e)any other matter the AER considers relevant and which the AER has notified Network Service Providers is a nominated pass through event consideration.	No such notification has been made.

10.9.6. Alternative solutions

There are potential alternative solutions to this issue which the AER may prefer, specifically:

- The insurance coverage event definition could be modified to explicitly deal with this situation: or
- The AER could agree to exclude the capex associated from such events from the CESS. The potential CESS penalty drives the material impact on AusNet.

AusNet would be happy to consider any alternative solution the AER may suggest.

11

Pricing methodology & negotiating framework

11. Pricing methodology & negotiating framework

11.1. Key points

The key points of this chapter are:

- Our Initial Proposal included a proposed pricing methodology that was similar to the approved methodology for the current period, with some minor changes.
- Subsequent to lodging our Initial Proposal, we engaged in discussions with the AER and as a result submitted an amended pricing methodology, adding clarification on cost recovery arrangements for shared exit services and satisfying information requirements in the current Pricing Methodology Guidelines
- The AER's Draft Decision accepted our amended pricing methodology. We accept this decision and do not propose any further changes
- Our Initial Proposal included a proposed negotiating framework that was materially the same as the approved negotiating framework for the 2022-27 regulatory control period, with light updates relating to the transfer of network functions from AEMO to VicGrid in November 2025
- The AER's Draft Decision did not accept our proposed negotiating framework, as it lacked explicit mention of the timeframes for negotiation. We accept the Draft Decision, and have provided an updated negotiating framework with this Revised Proposal that includes clarification of the timeframes for negotiation

11.2. Chapter Structure

The remainder of this chapter is structured as follows:

- Section 11.3 provides an overview of the accepted pricing methodology for 2027-32
- Section 11.4 provides an overview of the proposed negotiating framework for 2027-32
- Section 11.5 refers to the supporting documents related to this chapter

11.3. Pricing methodology

11.3.1. Our Initial Proposal

The pricing methodology initially submitted with our proposal was largely similar to the approved pricing methodology for the 2022-27 regulatory control period, with targeted updates to:

- Identify VicGrid as the appointed Coordinating Network Service Provider (CNSP), reflecting the transition of network functions from AEMO to Vicgrid on 1 November 2025
- Change how the AARR is allocated to categories of prescribed transmission services and the definition of attributable cost share, reflecting the updates to clauses 6A.22.3 and 6A.23.2 of the NER
- Revisions to section 4.2.2, to reflect the allocation of Connection Transformers to both prescribed entry and exit services (it was previously allocated to prescribed entry services only)
- Revisions to section 5.2.2 to clarify that storage assets (such as batteries) will be treated as load when they connect at 66kV

We engaged in discussions with the AER on the pricing methodology after the submission, which resulted in AusNet submitting an amended pricing methodology containing the following updates:

- Additional clarity on cost recovery arrangements for shared exit services
- Additions to satisfy the information requirements in the current Pricing Methodology Guidelines, including the definition of the AARR and additional example calculations

11.3.2. Draft Decision

The Draft Decision noted the issues with the originally submitted pricing methodology, and accepted the amended pricing methodology.

11.3.3. Response to the AER's Draft Decision

We accept the AER's Draft Decision on the amended pricing methodology.

11.4. Negotiating framework

11.4.1. Our Initial Proposal

The negotiating framework submitted with our Initial Proposal was materially the same as the approved negotiating framework for the 2022-27 regulatory control period, with light updates relating to the transfer of network functions from AEMO to VicGrid in November 2025.

11.4.2. Draft Decision

The Draft Decision did not accept the proposed negotiating framework. The AER considers that the negotiating framework requires further clarification on the time period in which AusNet will commence, progress, and finalise connection requests.

11.4.3. Response to the AER's Draft Decision

We accept the AER's Draft Decision relating to the negotiating framework. We are submitting an amended negotiating framework with our Revised Proposal, which contains a summary of relevant timeframes in Section 5 "Timeframe for Negotiations". The timeframes included are from version 109 of the National Electricity Rules, which continue to apply in Victoria by virtue of clause 11.98.8.

We confirm that this addition to the negotiating framework does not constitute a change in the timeframe for negotiations compared to our Initial Proposal, nor indeed from the approved framework for the current period. It is only a more explicit clarification of the longstanding timeframes that apply to AusNet Transmission.

There are no other changes to the negotiating framework.

11.5. Supporting documents

The supporting documents for this chapter are:

- AusNet - Appendix 11A Revised Negotiating Framework - 1 Sep 2026 - PUBL

List of appendices

List of appendices

Appendix ID	Document Title	Author
3A	Revised Unit Rates	AusNet
3B	Revised Unit Rate Buildups	AusNet
3C	Revised Unit Rate Review	AMCL
3D	VAPR Forecast Summation Tool	AusNet
3E	Asset Replacement and Compliance Update	AusNet
3F	Resilience Update	AusNet
3G	Risk Allowance Summary	AusNet
3H	CIRMP Amendment Rules Non-Digital	AusNet
3I	Planning Advice for AusNet Regulatory Proposal	VicGrid
4A	Revised Growth Assets	AusNet
4B	Revised WPI forecasts	Oxford Economics
4C	Step Change Cost Buildup	AusNet
4D	Minister Appointment VIC Responsible Officer	VicGov
4E	Instrument of Delegation	AEMO
4F	Contingency Plans Letter	AEMO
5A	Revised Service Component Values	AusNet
11A	Revised Negotiating Framework	AusNet

In addition to the appendices above, the following supporting documents are also provided through the AER's secure document portal:

- Cover letter and compliance documents
- Core regulatory models
- Supporting model documents
- Technology documents, which relate to the Digital programs
- Technical documents, which relate to the physical security, head office, environmental, and testing equipment programs
- Technical asset management strategy documents, which relate to the asset replacement, compliance, and resilience programs
- Technical project documents, which relate to the major station projects
- Engagement documents, which provide a summary of stakeholder engagement undertaken since the Initial Proposal

A similar suite of supporting documents was also submitted with the Initial Proposal and may be referenced in the Revised Proposal.

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