

Appendix 2

**Capital Expenditure Access Arrangement
Period Variances**

Final Plan 2023/24 – 2027/28

July 2022

Capital expenditure in the Current Access Arrangement Period

Supporting Information

Requirement 3.3 (a) (i) variations to approved capital expenditure

Table 1: Variations to Approved Nominal Capital Expenditure by purpose (\$ million nominal)

Actual							
	2018	2019	2020	2021	2022	Total	
Growth assets	25.610	26.801	23.299	23.062	25.877	124.650	
Mains replacement	42.363	41.315	41.923	38.658	31.259	195.518	
Meter replacement	3.519	2.987	3.552	2.969	1.491	14.518	
Augmentation	6.572	1.123	1.275	0.210	7.340	16.520	
Telemetry	0.529	0.567	3.427	-1.250	1.391	4.664	
Other assets	2.776	2.000	2.976	7.232	2.970	17.953	
IT	10.857	8.769	3.821	11.059	9.007	43.513	
Overheads	4.592	5.017	6.065	5.551	4.148	25.374	
GROSS TOTAL CAPITAL EXPENDITURE	96.819	88.580	86.337	87.491	83.482	442.709	
Benchmark							
	2018	2019	2020	2021	2022	Total	
Growth assets	22.518	21.952	21.503	21.935	23.395	111.303	
Mains replacement	49.844	43.000	42.576	34.060	34.783	204.263	
Meter replacement	3.071	0.772	2.157	1.107	1.159	8.266	
Augmentation	4.181	5.199	3.719	2.554	0.000	15.653	
Telemetry	1.263	1.061	0.675	0.651	0.654	4.303	
Other assets	10.365	9.004	9.952	8.457	10.320	48.098	
IT	4.716	4.646	9.772	10.990	10.436	40.559	
Overheads	5.605	5.002	5.277	4.658	4.716	25.258	
GROSS TOTAL CAPITAL EXPENDITURE	101.562	90.634	95.632	84.412	85.463	457.70	
Variance							
	2018	2019	2020	2021	2022	Total	%
Growth assets	3.092	4.849	1.795	1.127	2.483	13.347	12.0%
Mains replacement	-7.481	-1.685	-0.653	4.599	-3.525	-8.745	-4.3%
Meter replacement	0.448	2.215	1.394	1.861	0.333	6.251	75.6%
Augmentation	2.391	-4.076	-2.444	-2.344	7.340	0.867	5.5%
Telemetry	-0.734	-0.493	2.752	-1.901	0.737	0.361	8.4%
Other assets	-7.589	-7.004	-6.976	-1.226	-7.350	-30.145	-62.7%
IT	6.141	4.124	-5.952	0.069	-1.429	2.953	7.3%
Overheads	-1.012	0.016	0.788	0.893	-0.569	0.116	0.5%
GROSS TOTAL CAPITAL EXPENDITURE	-4.743	-2.054	-9.296	3.079	-1.981	-14.994	-3.3%

Positive variations signify overspending.

E5. Connections (Growth Assets)

New connections overspend to date has mainly been driven by higher than expected growth in residential housing developments in Southbank/South Melbourne, Doncaster and Tooronga networks.

Unit rates per connection trended higher than benchmark over the access arrangement due to connections being more complex than envisaged in the original forecasts as we moved into higher density areas with more unknowns. This included work such as multiunit development requiring manifolds to split single into multiple services and connections requiring more substantial restoration and traffic management (driveway cross-overs and other property features).

Later in the period the impact of the global pandemic on supply chain costs placed additional upward pressure on unit rates, both in terms of higher labour and material costs generally. Also, additional administrative and safety standards (including access and permit requirements, third party approval processes, etc.) gave rise to higher contractor costs.

Additionally, upon review we found that the residential, industrial and commercial unit rate forecast for meter installation in the current AA neglected to include the labour costs associated with the meter installation.

E2. Mains Replacement

Variance is within 10 per cent and so not considered material.

E4. Meter Replacement

Meter replacement overspend mainly resulted from higher than forecast numbers of residential, industrial and commercial meters being replaced across the regulatory period with new instead of refurbished meter families. This is because fewer used meter families that can be economically refurbished are available.

E3. Mains Augmentation

Variance is within 10 per cent and so not considered material.

E6. Non-network (Telemetry)

Variance is within 10 per cent and so not considered material.

E13. Other

Other capex presented in the approved benchmark here includes large recoverable works. The costs of such work are allocated to and recovered from the party who requests the work. Accordingly, our forecasts of recoverable work capex do not affect reference tariffs.

After excluding recoverable works from the benchmark, underspending in 'Other capex' is largely a result of underspend on regulators, valves and equipment enclosures and pipeline modifications and associated expenditure to accommodate pigging.

We prioritised the safety and risk reduction driven mains replacement program over the regulator replacement programs. The regulator replacement programs were deferred by

Capital expenditure in the Current Access Arrangement Period

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establishing regulator settings to operate over the current five year period. Additionally, the replacement of a supply regulator has been eliminated where there is a mains replacement project planned for the near future that will result in the site being decommissioned during LP to HP upgrades. This reduces the total number of regulators requiring replacement.

The Pigging program underspent because we deferred remaining minor works on the three pipelines we have completed in the current AA period (T76, T21 and T07) and smoothed delivery by deferring the more complex and potentially costly works on the T40 system to the following period. Also, there is generally a scarcity of specialist skills on transmission asset sites due to the level of infrastructure activity in Victoria which was also exacerbated by the pandemic.

E12. Information and Communication Technology (ICT)

Variance is within 10 per cent and so not considered material.

E10. Capitalised network overheads

Variance is within 10 per cent and so not considered material.

Capital expenditure in the Current Access Arrangement Period

Supporting Information

Requirement 3.3 (a) (ii) variations to proposed capital expenditure

Table 2: Variations to Proposed Nominal Capital Expenditure by purpose (\$million nominal)

Actual							
	2018	2019	2020	2021	2022	Total	
Growth assets	25.610	26.801	23.299	23.062	25.877	124.650	
Mains replacement	42.363	41.315	41.923	38.658	31.259	195.518	
Meter replacement	3.519	2.987	3.552	2.969	1.491	14.518	
Augmentation	6.572	1.123	1.275	0.210	7.340	16.520	
Telemetry	0.529	0.567	3.427	-1.250	1.391	4.664	
Other assets	2.776	2.000	2.976	7.232	2.970	17.953	
IT	10.857	8.769	3.821	11.059	9.007	43.513	
Overheads	4.592	5.017	6.065	5.551	4.148	25.374	
GROSS TOTAL CAPITAL EXPENDITURE	96.819	88.580	86.337	87.491	83.482	442.709	
Initial Proposal							
	2018	2019	2020	2021	2022	Total	
Growth assets	23.107	22.552	22.115	22.547	24.031	114.352	
Mains replacement	54.787	50.293	52.619	55.960	50.212	263.870	
Meter replacement	3.705	1.420	2.817	1.327	1.158	10.427	
Augmentation	4.179	5.196	3.717	2.553	0.000	15.644	
Telemetry	1.842	1.652	1.192	1.168	1.138	6.992	
Other assets	10.357	8.998	9.946	8.452	10.314	48.067	
IT	10.636	5.848	9.997	11.211	10.667	48.358	
Overheads	6.933	6.125	6.536	6.588	6.225	32.407	
GROSS TOTAL CAPITAL EXPENDITURE	115.547	102.084	108.938	109.805	103.745	540.119	
Variance							
	2018	2019	2020	2021	2022	Total	%
Growth assets	2.504	4.249	1.183	0.515	1.847	10.298	9.0%
Mains replacement	-12.424	-8.978	-10.696	-17.301	-18.954	-68.353	-25.9%
Meter replacement	-0.186	1.567	0.735	1.642	0.333	4.091	39.2%
Augmentation	2.393	-4.073	-2.442	-2.342	7.340	0.876	5.6%
Telemetry	-1.313	-1.085	2.235	-2.418	0.253	-2.328	-33.3%
Other assets	-7.581	-6.998	-6.970	-1.220	-7.344	-30.114	-62.6%
IT	0.221	2.922	-6.176	-0.152	-1.660	-4.846	-10.0%
Overheads	-2.340	-1.108	-0.471	-1.038	-2.077	-7.033	-21.7%
GROSS TOTAL CAPITAL EXPENDITURE	-18.728	-13.504	-22.602	-22.315	-20.262	-97.410	-18.0%

Positive variations signify overspending.

E5. Connections

Variance is within 10 per cent and so not considered material.

E2. Mains Replacement

The main driver of underspend to initial proposal is an efficient contracting process securing favourable rates. There are slightly less kilometres forecast compared to the original proposal (638 versus 688.5km) although this is close to 100 kilometres more than the quantities underlying the final decision mains replacement capex (543km).

E4. Meter Replacement

Around \$2.1 million was disallowed for the digital gas metering pilot study in the initial proposal. Funds that would have been allocated to this project have been redirected to higher risk projects from a safety perspective and connections growth, while keeping in line with allowances used in the capital expenditure sharing scheme framework.

E3. Mains Augmentation

Variance is within 10 per cent and so not considered material.

E6. Non-network (Telemetry)

Around \$2.5 million was disallowed for regulator step control in the initial proposal. It has proven difficult to secure field expertise for this type of work. Funds that would have been allocated to this project have been redirected to higher risk projects from a safety perspective and connections growth, while keeping in line with allowances used in the capital expenditure sharing scheme framework.

E13. Other

The variance here is not materially different from that comparing actual to benchmark above because the initial proposal and approved benchmark are not materially different. Therefore, the explanation for E3 with reference to the approved benchmark applies.

E12. ICT

Around \$7.5 million was disallowed for non-recurrent ICT expenditure in the initial proposal. Funds that would have been allocated to these disallowed projects have been redirected to higher priority IT projects including the United Energy Separation and control room relocation, higher risk projects from a safety perspective and connections growth, while keeping in line with allowances used in the capital expenditure sharing scheme framework.

E10. Capitalised network overheads

A key driver here is the lower total capex spent compared to the initial proposal which incurs less overheads.