



# **ATTACHMENT 3 - VARIANCE ANALYSIS**

## **REGULATORY INFORMATION NOTICE (APRIL 2022)**

---

**GAS DIVISION**

PUBLIC

For the regulatory year 2022

31/05/2023

---

# Contents

<b>1.</b>	<b>DOCUMENT OUTLINE.....</b>	<b>1</b>
<b>2.</b>	<b>DEMAND .....</b>	<b>2</b>
2.1	HAULAGE REFERENCE SERVICES DEMAND OVERVIEW.....	2
2.2	HAULAGE REFERENCE SERVICES CUSTOMER NUMBERS .....	2
2.3	HAULAGE REFERENCE SERVICES USAGE .....	2
2.4	ANCILLARY REFERENCE SERVICES .....	3
<b>3.</b>	<b>OPERATING EXPENDITURE .....</b>	<b>4</b>
3.1	CORPORATE.....	4
3.2	IT.....	5
3.3	ANCILLARY SERVICES.....	5
3.4	UAFG .....	6
3.5	NEW/AMENDED OPEX COST CATEGORY .....	7
<b>4.</b>	<b>CAPITAL EXPENDITURE.....</b>	<b>8</b>
4.1	NETWORK GROWTH .....	8

---

## 1. DOCUMENT OUTLINE

This document is the Variance Analysis that explains the variances between the AA5 Final Decision and actuals.

ATCO has prepared this variance analysis for the variances in demand, operating expenditure and capital expenditure in accordance with the variance requirements specified in the Microsoft Excel workbook. This document details the variances for the regulatory year 2022.

ATCO has structured the Variance Analysis as follows:

- Section 2 – This section provides information on the variances for demand, in particular the variances identified in tab “4a-Demand” in the Microsoft Excel workbook
- Section 3– This section provides information on the variances for operating expenditure, in particular the variances identified in tab “5-Opex” in the Microsoft Excel workbook
- Section 4– This section provides information on the variances for capital expenditure, in particular the variances identified in tab “6b-Capex” in the Microsoft Excel workbook

With regard to the data presented in this document:

- All dollar values are expressed in nominal dollars unless otherwise stated.
- Some tables may not add up due to rounding.
- Dollar amounts are presented as millions of dollars rounded to 1 decimal place.

## 2. DEMAND

In this section ATCO has provided reasons for the variance between the AA5 final decision and actual where the variance is greater than the following specified amounts:

- For haulage reference services: +/- 5%
- For ancillary reference services: +/- 25% and more than 1000 units of activity (in absolute value)

### 2.1 Haulage reference services demand overview

The Demand section of the RIN provides information on pipeline services; haulage services and ancillary services.

The demand information is provided in the following sheets of the RIN excel template:

- 4a Demand – This section provides information on average customer numbers, usage (Volumes) by tariff class and information on ancillary services
- 4b Demand – This section provides annual information on min, max and average haulage volumes (TJ per day).
- 4c Demand – This section provides annual information on average customer numbers and usage split by tariff by band.

Variance explanations are required for section 4a Demand and are outlined below

### 2.2 Haulage reference services customer numbers

Haulage reference service customer numbers were within variance limits.

### 2.3 Haulage reference services usage

ATCO has provided reasons for the variance for haulage reference service usage only for the services where the applicable variance threshold has been reached.

#### 2.3.1 A2 tariff class

In 2022, usage for the A2 tariff was 8% higher than the AA5 final decision predominantly driven by new A2 customers (one was transferred from the B1 tariff class) and higher consumption from two existing A2 customers. One existing A2 customer consumed 22TJ more than forecast as activity in their industry continued to grow in 2021-2022.<sup>1</sup> The other existing A2 customer had a boiler upgrade which contributed to higher consumption in 2022.

**Table 2-1:** A2 tariff class consumption variance 2022

A2 TARIFF CLASS	AA5 Final Decision	Actual	Variance	Variance %
Usage (TJ)	1,784	1,918	134	8%

<sup>1</sup> [https://www.dmp.wa.gov.au/Documents/About-Us-Careers/Stats\\_Digest\\_2021-22.pdf](https://www.dmp.wa.gov.au/Documents/About-Us-Careers/Stats_Digest_2021-22.pdf)

### 2.3.2 B2 tariff class

In 2022, usage for the B2 tariff class was 7% lower than the AA5 final decision due to a combination of lower actual customers and lower average consumption, which is a continuation of the trend seen from prior years of reducing customer numbers and reducing average usage.

**Table 2-2:** B2 tariff class consumption variance 2022

B2 TARIFF CLASS	AA5 Final Decision	Actual	Variance	Variance %
Customers	12,796	12,429	-367	-3%
Average Consumption (GJ)	109.75	105.48	-4.27	-4%
Usage (TJ)	1,404	1,311	-93	-7%

## 2.4 Ancillary reference services

In the section below ATCO provides reasons for the variance for ancillary reference service usage only for the services where the applicable threshold has been reached.

### 2.4.1 Meter locks and disconnections

The following table compares the AA5 Final Decision with the actual 2022 demand for meter lock and disconnection ancillary services showing the decrease in activity.

**Table 2-3:** 2022 demand for ancillary services (Number of units of activity)

ANCILLARY SERVICE	AA5 Final Decision	Actual	Variance	Variance %
Applying a Meter Lock (AML)	9,563	813	-8,750	-91%
Removing a Meter Lock (RML)	8,280	720	-7,560	-91%
Disconnecting a Delivery Point (MRM)	3,737	219	-3,518	-54%
Reconnecting a Delivery Point (MTN)	3,001	357	-2,644	-88%

The 2022 variance in these services is driven by the continued general decrease in activity by retailers.

As part of the response to COVID-19 retailers voluntarily paused disconnections in the 2020/21 year. The pause in disconnections was lifted in the 2021/22 year but retailers have not used the disconnection process at pre-pandemic levels.

In addition to the above, although hardship cases are at the highest recorded level due to the debts accrued during the disconnection pause there appears to be more success by customers completing hardship plans including the use of instalment plans leading to a reduction in disconnections due to non-payment.<sup>2</sup>

<sup>2</sup> <https://www.erawa.com.au/cproot/23107/2/Final-for-publication---Energy-Retailers-Annual-Data-Report-202122.PDF>

### 3. OPERATING EXPENDITURE

In this section ATCO has provided reasons for the variance between the final decision forecast and actual where the variance is greater than +/- 10% and more than \$0.5 million (in absolute value).

The section provides the reasons for the variance by expenditure category only where the above variance criteria is met.

#### 3.1 Corporate

Corporate opex includes the costs that are associated with enterprise-wide support functions. The support functions are provided locally where the expertise and capacity exist or through our corporate support services. This includes human resources, finance, legal and regulatory, executive, administration and governance, risk and compliance, insurance, corporate affairs, marketing, business improvement and communication.

##### 3.1.1 2022

ATCO's corporate operating expenditure (opex) for the year ending 31 December 2022 was \$6.3 million higher than the AA5 Final Decision. The key drivers in relation to the higher than planned spend are illustrated in Table 3-1 below.

**Table 3-1: 2022 Corporate opex (\$ million nominal)**

Corporate OPEX 2022	AA5 Final Decision	Actual	Variance	Variance %
Corporate Support	5.6	11.1	5.5	98%
Legal	1.4	2.1	0.7	50%
Finance & Other	10.2	10.4	0.2	2%
<b>Total Corporate Opex</b>	<b>17.2</b>	<b>23.6</b>	<b>6.3</b>	<b>37%</b>

The explanation for the variance for each of the categories of corporate opex is:

- **Corporate Support:** These costs include recharges from the Australian and Canadian head offices which provide finance, treasury, IT and HR support to ATCO. ATCO's actual Corporate Support Costs were \$5.5 million higher than the AA5 Final Decision due to:

- Governance and Support – As noted in the 2020 variance analysis previously submitted, there is an increase in the support costs of approximately \$2.3 million following a correction made to the ATCO group allocation methodology under the Massachusetts formula.

Between 2011 and 2019 corporate support costs had been allocated based on net labour costs (following capitalisation to projects), whereas they should have been allocated based on gross labour costs, this error resulted in ATCO Gas Australia receiving a lower allocation of corporate costs than it should have.

Therefore, as a result consumers have benefited from this under allocation of corporate support costs to ATCO Gas Australia, as this error resulted in lower Opex and therefore lower tariff charges across AA4 and AA5.

A further increase of \$0.9m is attributed to general cost increases associated with a return to pre-pandemic work conditions including costs associated with staff turnover and business travel.

- Short term incentive plan (STIP) payments were \$2.4 million higher than the AA5 Final Decision. STIP payments have been relatively stable over the past 3 years, 2020 – 2022 and is part of our strategy to retain staff and reduce turnover. This is reflective of structural changes in the tight labour market in WA driven by low levels of unemployment and positive economic conditions driving growth in the resources industry leading to a high level of competition for skilled labour.
- **Legal:** Costs were \$0.7m higher compared to the AA5 Final Decision forecast due to an increased requirement for legal advice, which can vary significantly from year to year. 2022 included a re-negotiation of our Enterprise Agreement, ongoing tax reform changes, single touch payroll (STP) requirements, Securities of Payments (SPOA) legislation and introduction of the Modern Slavery Act all requiring substantial external legal support.
- **Finance & Other:** Costs were \$0.2m higher than the AA5 Final Decision driven predominantly by higher business improvement costs used to deliver online streamlined services to customers partially offset by lower employee costs in finance driven by delayed filling of vacancies due to the tight labour market.

## 3.2 IT

Information technology expenditure involves IT systems at an operational and corporate level that enable ATCO to provide services to customers and more strategic initiatives such as the digital transformation of ATCO's business.

### 3.2.1 2022

ATCO's IT expenditure for the year ending 31 December 2022 was \$3.4 million lower than the AA5 Final Decision forecast as shown in Table 3-2.

**Table 3-2:** IT opex 2022 (\$ million nominal)

IT OPEX	AA5 Final Decision	Actual	Variance	Variance %
2022	7.9	4.5	3.4	-43%

The AA5 Final decision reflects ATCO's 2018 base year 2018 IT costs. Coinciding with a change in IT service provider in 2022 ATCO was able to adopt a method of allocating IT costs directly associated with users and their activities to those activities and relevant cost centres. As a result, the 2022 IT expenses recorded in the IT cost centre are reduced while costs for cost centres using IT services are increased to reflect their use of IT services. An additional amount of \$2.9 million was allocated out under this new IT cost reporting method. Had this new method not been adopted then the variance to AA5 final decision forecast of the actual IT costs for 2022 would have been \$0.5 million or 7% below the AA5 forecast.

## 3.3 Ancillary services

Ancillary services opex is the operating costs associated with providing the ancillary reference services.

### 3.3.1 2022

Overall ancillary services costs were \$2.9 million below the AA5 final decision forecast in 2022 with the main contributor being a \$1.2 million underspend in special meter read costs as shown in Table 3-3.

**Table 3-3: 2022 Ancillary services costs (\$ million nominal)**

	AA5 Final Decision	Actual	Variance	Variance %
Applying a Meter Lock	0.5	0.0	-0.5	-96%
Removing a Meter Lock	0.2	0.0	-0.2	-96%
Deregistering a Deliver Point	0.3	0.2	-0.1	-47%
Disconnecting a Delivery Point	0.4	0.0	-0.4	-97%
Reconnecting a Delivery Point	0.5	0.0	-0.4	-95%
Special meter reads	1.8	0.6	-1.2	-65%
<b>TOTAL</b>	<b>3.8</b>	<b>0.9</b>	<b>-2.9</b>	<b>-77%</b>

The variance is primarily due to a reduction in the demand for ancillary services as discussed in section 2.4. The slowdown in special meter reads reflects a maturing of the market as new retailers have obtained market share reducing churns.

## 3.4 UAFG

Unaccounted for gas (UAFG) is the difference between the measurement of the quantity of gas delivered into the gas distribution system in a given period and the measurement of the quantity of gas delivered from the gas distribution system during that period. ATCO incurs costs to purchase gas to replace UAFG.

### 3.4.1 2022

AA5 Forecast UAFG expenditure was \$5.1 million for the year ended 31 December 2022. The actual expenditure for the year was \$3.1 million, a variance of \$1.9 million. The sources of the variance are listed in Table 3-4.

**Table 3-4: UAFG 2022**

	AA5 Final Decision	2022 Actual	Variance	Variance %
Gate station throughput (TJ)	27,425	27,886	461	-2%
UAFG %	2.40%	1.14%	-1.26%	-53%
UAFG (TJ)	658	318	-340	-52%
UAFG \$million nominal	5.1	3.1	-1.9	-37%

The 2022 actual unaccounted for gas loss has remained below the AA5 forecast due to the cumulative impact of UAFG management initiatives such as leak repair and measurement enhancement. The ongoing improvement efforts continue to yield positive outcomes in reducing UAFG.



---

### 3.5 New/Amended Opex Cost Category

The RIN allows for new or amended opex cost categories. ATCO have included a new category for a once-off item.

█ [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

## 4. CAPITAL EXPENDITURE

In this section ATCO has provided reasons for the variance between the approved forecast and actual where the variance is greater than +/- 10% and more than \$1 million (in absolute value).

The section provides the reasons for the variance by expenditure category only where the above variance criteria is met.

### 4.1 Network growth

Network growth capital expenditure involves complying with regulatory obligations and ensuring ATCO can meet forecast growth in demand for services through expansion of the network.

#### 4.1.1 2022

In 2022, the actual expenditure was \$5.4 million lower than forecast in the AA5 Final Decision. Reduced expenditure is mainly relating to:

- Greenfield and Brownfield works;
- Network extension and Commercial & Industrial (C&I) connections

Table 4-1 below shows the categories of variances in growth expenditure.

**Table 4-1:** 2022 Growth capex (\$ million nominal)

	AA5 Final Decision	Actual	Variance	Variance %
Greenfield and Brownfield works	30.0	26.7	-3.3	-10%
Network extension and new C&I connections	4.8	3.8	-0.9	-20%
Meter Upgrades	0.7	0.2	-0.5	-70%
Other	0.5	0.0	-0.5	-100%
Customer contributions	-1.7	-1.9	-0.2	12%
<b>Total</b>	<b>30.4</b>	<b>28.9</b>	<b>-5.4</b>	<b>-15%</b>

#### Greenfield and Brownfield Growth

Greenfield and Brownfield works consists of both new B2 and B3 connections and network expansion by mains installations into greenfield areas.

New connections are below the AA5 final decision forecast mainly attributed to COVID impacted resourcing challenges and construction delays in the building industry impacting both B2 and B3 connections.

Network expansion (mains in new greenfields developments) was also below the AA5 final decision. In 2022, Greenfield growth experienced a decline in lot sales, impacted by rising interest rates and the normalisation of the property market following government stimulus in 2020 and 2021. These factors resulted in reduced network expansion which is likely to result in lower customer connections in future years.

---

### **Network extension and new Commercial & Industrial (C&I) connections**

The variance between actual expenditure and the amount forecast in the AA5 Final Decision for network extensions is mainly because the majority of new connections were on line of main and didn't require network extensions.

### **Meter Upgrades**

The main driver for the variance is relating to the Sub Meters to Master Meters program (\$0.4M). This is a customer initiated program to convert sub-meters to master-meters at existing multistorey buildings. A lower number of suitable properties for this program have been found compared to the forecast.

### **Other**

A medium pressure regulator (MPR) upgrade project was forecast in the AA5 Final Decision (\$0.2M), however this was not required following updated network modelling. The balance of expenditure forecast for reconnections (\$0.3million) was forecast as Growth in the Final Decision, but has been recorded as Sustaining actual expenditure as it has not increased gas haulage.