



11 January 2022

Ms Samantha Scanlon  
Digital Planning & Performance Manager  
AusNet Services Pty Ltd  
Level 29, 2 Southbank Boulevard  
Southbank, Victoria 3006 Australia

Dear Samantha,

**AusNet Services' technology expenditure proposal for the FY2023-28 gas distribution network regulatory period**

In accordance with our Statement of Work CW2238757 *Technology GAAR FY22-26 - Submission*, PwC was engaged to assist AusNet Services to develop its technology expenditure forecast and inform the expenditure proposal for the next gas distribution regulatory period, commencing 1 July 2023.

Over the period from May 2021 to September 2021, we assisted your team in the definition of key programs of work based on AusNet Services' expected business requirements for the next regulatory period. In doing this, we have taken into account AusNet Services' current technology capabilities, business plan, customer requirements and technology developments, current as of September 2021.

Specifically, we worked collaboratively with your team in a virtual setting, conducting multiple stakeholder interviews and workshops with over 40 AusNet Services' staff to assist you to develop IT programs of work for the Gas business. This included the development of six (6) initiative briefs for Advanced Gas Distribution Management & Operations (Intelligent Networks), Metering Lifecycle (including Smart Metering), Customer Information Systems (CIS), Information Management, Corporate Enablement, and Workforce Collaboration. Development of these briefs involved elicitation of business and technology requirements, identification and analysis of solution options, and elicitation of cost and benefit inputs from AusNet Services' stakeholders in accordance with the AER's November 2019 *Guidance Note* on its non-network ICT capex forecast assessment approach.

AusNet Services' expenditure forecast consists of a number of programs which are described in the following ten (10) initiative briefs:

- Workforce Collaboration
- Corporate Enablement
- Corporate Communications
- Information Management
- Customer Information Systems (CIS)



- Technology Asset Management - Applications (TAM Apps)
- Technology Asset Management - Infrastructure (TAM Infra)
- Cyber Security
- Advanced Gas Distribution Management & Operations (Intelligent Networks)
- Metering Lifecycle

Workshops were held to:

- Identify current and future technology capabilities for the Gas business, which considered:
  - customer needs;
  - current and anticipated regulatory requirements;
  - accepted industry good practice;
  - vendor support;
  - asset age;
  - technology changes and security requirements; and
  - the state and capability of existing systems.
- Identify key technology requirements for customer management, distribution management, field mobility, digital metering, and information management capabilities.
- Develop and assess options to address the technology requirements for Distribution Management (Intelligent Networks), Smart Metering (Metering Lifecycle), CIS, Information Management, Corporate Enablement and Workforce Collaboration initiative briefs considering alternative service outcomes for the business and customers, timeframes, interdependencies, risks, existing strategic platforms, and the estimated costs and benefits of different options.
- Elicit cost and benefit inputs for the initiative briefs outlined above based on AusNet Services' stakeholder inputs. Stakeholder inputs were based on AusNet Services' experience in delivering similar programs of work previously (e.g. using internal and contract labour costs, materials costs and time estimates). The rationale for these estimates was reviewed by PwC to ensure that current assumptions, requirements and other contextual information had been considered.

We note that your team subsequently reviewed and refined the costs and benefits estimates based on further detailed analysis of requirements and testing of assumptions with stakeholders.

The TAM Apps, TAM Infra, Corporate Communications and Cyber Security initiative briefs and expenditure forecasts were separately developed by your team.

The above work was undertaken within the context of anticipated changes in the gas industry, driven by the decarbonisation agenda, market changes, and rapid technology advancement. While there is a degree of uncertainty about exactly how these changes will materialise and impact gas distribution businesses, it is recommended that AusNet Services ensures there is sufficient and targeted investment in aging and end-of-life systems to mitigate the operational risk that they present to the provision of safe and reliable gas services.



While our work considered anticipated changes in the industry it should be noted that developing technology investment forecasts over a 5+ year time horizon may result in the need for the forecasts to be refined in the future based on changing business and regulatory requirements. We expect that a robust technology (or digital) strategy, and corresponding IT programs of work, that modernise and simplify the technology landscape reduces the need for material changes, however investment is needed to achieve this modernisation and simplification in the first place.

Sections 79 and 91 of the National Gas Rules (version 59) outline the criteria for new capital expenditure and operating expenditure, which are summarised below.

- Capital expenditure must be such as would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of providing services.
- The overall economic value of the expenditure is positive; or
- The present value of the expected incremental revenue to be generated as a result of the expenditure exceeds the present value of the capital expenditure; or
- The capital expenditure is necessary:
  - to maintain and improve the safety of services; or
  - to maintain the integrity of services; or
  - to comply with a regulatory obligation or requirement; or
  - to maintain the service provider's capacity to meet levels of demand for services existing at the time the capital expenditure is incurred (as distinct from projected demand that is dependent on an expansion of pipeline capacity)
- Operating expenditure must be such as would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of delivering pipeline services.
- The forecast of required operating expenditure of a pipeline service provider that is included in the full access arrangement must be for expenditure that is allocated between:
  - reference services;
  - other services provided by means of the covered pipeline; and
  - other services provided by means of uncovered parts (if any) of the pipeline.

Having regard to the challenges in forecasting outlined above, and on the basis of the scope of our services, PwC considers that the process to forecast the operating and capital expenditure included in the Advanced Gas Distribution Management & Operations (Intelligent Networks), Metering Lifecycle (Smart Metering), CIS, Information Management, Corporate Enablement, and Workforce Collaboration initiative briefs for Gas considered all information available at the time of writing, and that the operating and capital expenditure forecasts achieve the requirements of Sections 79 and 91 of the National Gas Rules (version 59) and meet the requirements of the AER's *Guidance Note*.

In reaching this position, PwC is satisfied that:

- The drivers of expenditure for the initiative briefs outlined above reflect reasonable business requirements in the current context of AusNet Services' Technology assets and system landscape and are directly linked to the provision of standard control services (i.e. core gas distribution services). This expenditure is required in order to enable AusNet Services to deliver gas distribution services. This was assessed through workshops with AusNet Services' team members.



- The objectives of the initiative briefs are aligned to AusNet Services' broader business objectives, based on analysis of AusNet Services' business objectives and the Gas business plan.
- The cost inputs provided by AusNet Services were based on previous experience with materials and labour costs, and an awareness of relevant vendors. This includes greater awareness of cloud (IaaS, SaaS) costs developed through the planning and implementation of cloud related programs.
- Alternative options for each program have been reasonably developed, considered and compared, and where the lowest cost solution is not preferred, the reasons for the choice were documented. These were developed and tested through workshops with AusNet Services' staff and PwC subject matter experts.
- The allocation of costs to Gas follows AusNet Services' Cost Allocation Methodology and applies AusNet Services' established cost allocation principles as reviewed by AusNet Services' staff and regulatory team.
- Benefits estimates provided by AusNet Services stakeholders were based on information available at the time of writing.

While we consider that the forecasts are reasonable to the extent that they are based on information available at the time of writing and aligned to the requirements of the National Gas Rules, we note that the AER may take a different view. We make no warranties or representations that the AER will agree with our assessment of the forecast expenditure.

This letter sets out our views based on the work we have performed, and the circumstances we are aware of, as at 11 January 2022. Since forecasts or projections relate to the future, they may be affected by unforeseen events and they depend, in part, on the effectiveness of management's actions in implementing the forecasts or projections. Accordingly, actual results are likely to be different from those forecast or projected because events and circumstances frequently do not occur as expected, and those differences may be material.

Our work has been subject to the limitations contained in the Statement of Work.



## Disclaimer

We prepared this report solely for AusNet Services' use and benefit in accordance with and for the purpose set out in our engagement letter with AusNet Services signed 21st of July 2021. In doing so, we acted exclusively for AusNet Services and considered no-one else's interests.

We accept no responsibility, duty, or liability:

- to anyone other than AusNet Services in connection with this report
- to AusNet Services for the consequences of using or relying on it for a purpose other than that referred to above.

We make no representation concerning the appropriateness of this report for anyone other than AusNet Services. If anyone other than AusNet Services chooses to use or rely on it, they do so at their own risk.

This disclaimer applies:

- to the maximum extent permitted by law and, without limitation, to liability arising in negligence or under statute; and
- even if we consent to anyone other than AusNet Services receiving or using this report.

Liability limited by a scheme approved under Professional Standards legislation

Yours sincerely

A handwritten signature in black ink, appearing to read 'Jon Chadwick', written in a cursive style.

Jon Chadwick  
Partner