

Integration of Legacy ICT Assets

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Part of the Energy Queensland Group

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1. Background

Before 2016, information communication technology (ICT) services were provided by a jointly-owned subsidiary of Energex and Ergon Energy, SPARQ Solutions Pty Ltd (SPARQ). SPARQ's only customers were the entities within the two distribution network groups, including the unregulated entities. The program of work that SPARQ undertook was not split on an even basis, and SPARQ used an "Asset Usage Fee" model to appropriately recover its costs against each of the entities in the groups. This incorporated depreciation of the assets constructed as well as interest based on borrowings required to fund the asset construction. Essentially, this was a "software as a service" model with the assets being owned by SPARQ.

Following the creation of Energy Queensland on 30 June 2016, SPARQ ceased being owned by the two distribution network service providers (DNSP) and became a 100% subsidiary of Energy Queensland. As part of this transition, the employees of SPARQ became employees of Energy Queensland.

Energy Queensland continues to apply the Asset Usage Fee established by SPARQ for the current regulatory control period (2015-20), which treats ICT costs as an overhead in the DNSP businesses. These costs are then allocated across capex and opex projects without margin or profit.

On 1 July 2020, Energy Queensland will allocate the assets in SPARQ to the fixed asset register, and regulatory asset bases (RAB), of the appropriate entities in the group to which the relevant asset applies. Where assets are "shared" (i.e. they cannot be specifically assigned to one entity) the costs will be allocated in accordance with the Cost Allocation Method. Assets procured or constructed after 1 July 2020 will also be allocated using this methodology.

2. Asset Lives

Assigning these assets means that the effective life of ICT assets will be more accurately reflected in the accounts of Energex and Ergon Energy. It addresses the challenge of our current approach, where the ICT asset usage fee is not fully treated as an overhead by Energex and Ergon Energy. Where this occurs, the ICT asset, or a portion of it, can be depreciated over a 40-year life.

Assets procured or constructed after 1 July 2020 will have an effective life reflective of the expected useful life of the asset. For most ICT assets this will be 5-years. For the portfolio of assets procured or constructed before 1 July 2020 we also considered utilising a 5-year effective life. However, reflective of the potential short term impact on distribution network usage charges, we also considered longer periods. With the support of customers through our engagement program we are proposing to assign these assets a 10-year effective life.

3. Consultation

We consulted on this matter through our customer engagement program. There was broad support for transitioning away from our current ICT approach. This support extended to assigning a useful life of ten years for those assets transferred over on 1 July 2020, rather than five year as is normal for most ICT assets, as a way of lessening the impact on distribution network charges.

4. Systems being transferred

The major systems included in the assets being transferred into our RAB include the Unified Enterprise Resource Planning and Enterprise Asset Management (Unified ERP EAM), the ICT & Digital Enterprise Building Blocks (DEBBs) and Capital Works in Progress programs. These systems support sustainable and secure core systems and consistent work practices across several key business functions, and support Power of Choice (POC) reforms and other market-based reforms.

Table 1 Systems being transferred

Asset	Energex	Ergon Energy
Written down value of assets completed and implemented in 2015-2020 period <ul style="list-style-type: none"> • Unified ERP EAM • CRM & Omni-Channel communications • Distribution Market Systems CIS and Meter Data Management • Power of Choice Changes 	\$76m	\$83m
ICT Work in Progress 30 June 2020 <ul style="list-style-type: none"> • Market systems changes for 5-minute settlement 	\$3m	\$3m
DEBBs Capital work in progress <ul style="list-style-type: none"> • Unified distribution management system • Unified geospatial information system • Asset works management • Regulatory information notice sustainability 	\$68m	\$68m

5. Asset valuation

The asset values are initially recorded at cost and useful life is derived. The Energy Queensland policy requires useful lives to be reviewed on an annual basis to ensure they are current at the end of the reporting period. Any change in the useful life or depreciation/amortisation method as a result of the review is made prospectively from the date of the approved change and is reflected in the financial year of the change. This is in line with Accounting Standards.

The legacy ICT assets will continue to be subjected to annual impairment testing to ensure the carrying amount of the asset is not overstated. This process ensures that the book value will not materially differ from the fair value of the assets. Table 2 provides the legacy ICT asset values as at 1 July 2020.

Table 2 Asset Values at 1 July 2020

DNSP	Legacy ICT Asset Value (\$M, Nominal)
Energex	\$146.68
Ergon Energy	\$153.96