AusNet Electricity Services Pty Ltd

Electricity Distribution Price Review 2022-26

Appendix 3O: Deep Dive 5 - ICT - Summary Report

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Seed Advisory

Deep Dive Workshop Five – Summary Report

AusNet Services Electricity Distribution Price Review
2021 – 2025

20 August 2019

Information and Communications Technology Expenditure

Contents

Disclaimer

This report is only a summary of key items discussed at the deep dive workshop held on 30 May 2019.

The information in this report is not necessarily reflective of the views of each attendee at the workshop, AusNet Services or Seed Advisory.

1. Introduction

1.1. Background

AusNet Services owns and operates a regulated electricity distribution network delivering electricity to more than 750,000 customers in Melbourne's north, east and across all of eastern Victoria.

Regulated electricity network businesses must periodically (typically every five years) submit a Regulatory Proposal which outline their plans and proposed expenditure to the Australian Energy Regulator (AER) for assessment. AusNet Services is currently developing its 2021 – 2025 Regulatory Proposal. On 12 February 2019 AusNet Services released its draft Regulatory Proposal.

As part of developing its Regulatory Proposal, AusNet Services is undertaking an extensive customer engagement program. One component of this engagement program is a series of 'deep dive' workshops with attendees including customer representatives, consumer advocates, Customer Forum members, AER representatives, consumer challenge panel representatives and other stakeholders.

These workshops are designed to:

- share detailed information;
- consult on and enable open and frank discussion of AusNet Services draft Regulatory Proposal and plans with attendees; and
- enable AusNet Services to consider the feedback and views of attendees while developing its plans and respond accordingly.

AusNet Services engaged Seed Advisory to assist in the preparation and facilitation of these workshops and to develop a summary report for each workshop.

At the time of publishing this report, AusNet Services will have held the following five workshops:

- Workshop 1: Overview of the draft Regulatory Proposal, customer experience, operating expenses and innovation;
- Workshop 2: Public Lighting;
- Workshop 3: Replacement Capital Expenditure;
- Workshop 4: Innovation and Distributed Energy Resources; and
- Workshop 5: Information and Communications Technology expenditure.

1.2. Purpose of this report

This report summarises the key items of discussion from Workshop Five which was held on 30 May 2019 in Melbourne. The names and organisations represented by the attendees at the workshop are included in Appendix A and the complete agenda for the workshop is included in Appendix B.

In brief, the workshop agenda covered three broad areas:

- An overview and discussion of the overall Information and Communications Technology (ICT) program;
- A discussion on the Customer Information Management (CIM) program; and
- A discussion on the Outage Management (OM) program.

It is important to note that the information in this report is not necessarily reflective of the views of each attendee at the workshop, AusNet Services or Seed Advisory. This report is only a summary of key items discussed at the workshop. The workshop was held under "Chatham House" rules, so no comments from attendees have been attributed to any one attendee. AusNet Services responses or comments in relation to matters raised by attendees has been noted as such.

1.3. Other related documents

This report should be read in conjunction with three key documents which are co-located on the same page of the AusNet Services website that contains this report. The documents will provide important information and context when reading this report, the documents are:

- Pre-reading materials developed by AusNet Services for the relevant workshop – this document contains background and other information provided to workshop attendees to prepare them for their workshop attendance;
- Presentation materials developed by AusNet Services for the relevant workshop – this document contains the material presented at the workshop; and
- AusNet Services draft Regulatory Proposal for the 2021 – 2025 period – this document contains the full draft Regulatory Proposal published by AusNet Services on 12 February 2019.

2. Key discussion items

This section contains the key items discussed at the workshop and broadly follows the flow of the agenda. AusNet Services responses or perspectives provided either during or post the workshop are included where relevant and required in the shaded boxes.

2.1. Overview of the ICT program

The discussion on the overall ICT program covered the following areas:

- There was recognition of the 'substantial uncertainty' in the future of the energy sector. As a result transparency and openness are important between the network businesses and customers. Some suggested that network businesses should convey that they 'don't know all the answers' during this transformation. This will help customers appreciate and understand the context behind the investment decisions being made.
- Some stated that it may be beneficial for AusNet Services to further explain the demands on the business to meet new growing requests/issues and the need for ICT investment. This should also include demonstrating how the investment will translate into improved outcomes for customers, for example highlighting a clear path between the proposed investment in ICT and better time responses for outages.
- There was a clear request for further information and the need to be more transparent what the total expenditure trend is, as the current capital expenditure information does not present the full picture.
- There is a concern from some on the need for high recurrent costs of ICT. Better and clearer explanation is required to support this cost trend.
- There were some specific questions on the forecast expenditure provided:
  — Why was the capital expenditure lower in 2016?
  — Why was there a slight bump in expenditure in 2023?
- There were a number of comments and questions raised on the work undertaken by Deloitte:
  — What was the specific scope of work and approach?
  — How did their work influence the final ICT proposals?
  — Whether the letter from Deloitte was written before the Australian Energy Regulator's ICT guideline finalised?
  — If so, how will the new guideline impact any findings?
  — Will the current Deloitte report and any revised report be publicly available?
  — Are there any Deloitte internal reports or work papers challenging the AusNet calculations and deliverables?
- It was noted that it isn't clear or necessarily evident how ICT investment solves some "cultural" related problems with ICT, an example was given where people 'in the field' would always provide conservative time estimates for work to be completed to not overpromise to customers.
- Further information on the customer engagement during the development of the ICT proposals and how this information influenced any final decisions. This includes:
  — The discussions with the Customer Forum
  — Details on the customer journey mapping and information such as how many customers were involved and were / are all customer segments represented?

AusNet Services noted the comments made and discussed that:

- There is a lag between investment and avoided costs. There is a short term increase in total expenditure due to the need to maintain legacy infrastructure whilst embedding new infrastructure, it can not be immediately decommissioned.
- A more detailed explanation of the nature and benefits of ICT related costs will be included in the Final Regulatory Proposal.
- The further information requested such as actual and forecast total expenditure information, customer journey mapping details and a copy of the Deloitte report will be provided.
- In relation to the two specific questions on expenditure:
  — The 2016 capital expenditure was lower as there were capacity constraints in the team who were focused on embedding prior period investments such as the large investment in 2014-2016 on enterprise resource planning.
  — The increase in 2023 is due to the need to replace a number of systems reaching their end of life in 2023.
- The Deloitte report was completed prior to the finalisation of the AER's ICT Guideline, however the work will be updated to reflect the Guideline's requirements.
- There is a need to address "cultural" behaviours in parallel with any ICT related expenditure. This is a focus and priority for the business.

2.2. Customer Information Management

The discussion on the Customer Information Management (CIM) program covered the following areas:

- Stakeholders noted that there is a clear need for good customer information. However they also noted that in a competitive market, the absence of good CIM would result in customers switching providers. In such an environment, this project would get funded by the business.
- In this regard, there was a request for more specific cost and benefit information for the key functionalities of the CIM. The extra information should also include:
  — Clearer descriptions of the customer benefits and describing outcomes from the customer and not the business viewpoint.
  — What is being specifically done for vulnerable and high needs customers (e.g. life support)?
  — Outlining if the CIM will improve business productivity and how this will be treated / captured as part of any overall productivity benefits.
  — Describing the cultural change required and how will the CIM be used.
  — Noting the dependency on the need for retailers to provide some information and how this could be addressed.
- Some questioned if the proposed approach was the most efficient way to meet customer needs. For example, concerns were raised over not making larger investments now which may result in poorer outcomes the future. Would this result in:
  — The risk of 'kicking the can down the road too far'.
  — Avoiding capital expenditure now which will need to be made in the future?
  — Which if put off for too long, will any spend need to be larger in the future?
- Whilst not necessarily CIM focused, there was a question raised on the high spend in 2015 and what customer benefits have been realised? Providing this information

may assist in demonstrating the businesses ability to execute these types of projects, and how this results in better customer outcomes.

- More generally, there were strong concerns raised on why the business needs to keep upgrading software every period?
  — There is a need to better demonstrate the improvement is necessary and that replacement is required.
  — Others noted the need to further explain the nuance between 'upgrade' and 'replacement' in the ICT sector. An 'upgrade' in the ICT sector is the same as a 'replacement' in the utilities sector, the assets have reached their end of life and need to be replaced as many ICT assets have a shorter life of 5 years.
  — There is also a need to convince and convey to customers whether networks are 'hostage' to ICT providers such as SAP. Is there a significant lock-in risk by suppliers?
  — Some questioned if the business can replace ICT assets more cheaply? This is in light of general technology costs trending downwards is it not reasonable to expect it to be cheaper to replace existing systems with the same level of functionality, not more expensive ones over time?

AusNet Services noted the comments made and discussed that:

- Further information on the costs and benefits of CIM requested above will be provided as part of the Final Regulatory Proposal. However it is important to appreciate that it is (at times) difficult to put financial values on the benefits of improved customer experience.
- Some of the outcomes from ICT investment is a 'fit-for-purpose' and well operating network, not all benefits are customer experience related.
- We will also be clearer in our discussion on lifecycle costs to address concerns regarding the need for ICT upgrades/replacements.
- In relation to the CIM:
  — The platform is being developed modularly, to ensure the development uses capital efficiently and is designed around customer (and business) needs.
  — CIM will help improve productivity across the board generally, in many other business processes.
- In relation to the reliance on retailer data, this platform will improve customer data overall, offering a direct line to gain data from customers and a 'double check' of the data provided by the retailer.

2.3.   Outage Management

The discussion on the Outage Management (OM) program covered the following areas:

- There was appreciation for the information provided by AusNet Services to support the narrative on OM. In particular the historic trends and graphs on outages and the potential drivers of these outages. This helped provide context for the customer problem and why action may be required. Further information on a comparison / benchmarking against Powercor was identified as a potential helpful addition.
- There were some specific comments and queries on the proposal:
  — Some queried why investment in OM had not already been made?
  — Others queried if it will provide the optimal time for outages at a community level and also how is it that the IT spend will give more information about outage time?
  — Others requested further detail on the inter-relationships between OM and CIM?
  — A question was asked on what choices are there for customers without smartphones/computers?
  — Whilst others queried on why the business still send out letters of outages and can't there be a digital only option? However it was noted that posting outage notices is mandated by the regulators.
  — Some queried why Option 3 was not preferred over Option 2? The marginal cost was identified as only $0.5m, with better outcomes for life support customers and it was labelled as low risk.
- A comment was made that the current proposal reads as a cost reduction initiative from automating processes. If this is the case, it raised some questions:
  — What are the customer functionality and benefits?
  — There is a need to breakout how much is customer benefits and how much is business cost reduction?
  — If it is only a cost saving measure, this shouldn't be funded by customers.
- Similar to the discussion on CIM, there was discussion on:
  — The lifecycle costs of ICT and the increasing costs for ICT.
  — The cultural and behavioural aspect of the system with operators being more conservative and saying a longer time for restoration of service.
  — The need for obtaining accurate information through retailers. If retailers aren't providing such information and inputs, then system benefits won't be realized.

AusNet Services noted the comments made and discussed that:

- As detailed in the graphs and charts of the presentation and pre-reading materials, outages are now more often (up to 10x increase), so now it is significantly more important to have better communications with customers on outages.
- Over time, the outages are expected to reduce, however AusNet Services are still expected to have more planned outages than other networks including Powercor.
- This OM change requires functionalities that depend on all platforms and databases working correctly and together. In other words, the OM and CIM need to be completed together, the OM will not operate without a reasonable CIM.   This is why it is currently being proposed.
- In relation to the query on why Option 3 was not chosen over Option 2:
  — It was likely mislabeled as 'low risk'. This option does impacts critical systems, and hence is of higher risk than Option 2.
  — This choice is not ruled out completely, it may be rolled out in 5 years, when the change related risk will be far lower
- In relation to the community wide outage planning and more sophisticated outage planning (probabilistic perspectives):
  — That is more of an artificial intelligence and analytics capability. That isn't the intention of this stage of development.
  — The current systems also can't provide a probabilistic time of outage, such as 'there is a 90% chance that outage will be 4 hours, and a 10% chance of 8 hours'.
  — However, the proposed OM platform provides an opportunity for such functionality to be investigated in the future.
  — From a practical perspective, dealing with the vast majority (e.g.95%) of customers first, will then enable limited resources to better serve the exceptions (e.g. the 5%).

A.   Workshop attendees

Name	Organisation
Mark Grenning	Energy Users Association of Australia
David Headberry (by phone)	Major Energy Users
Catherine O'Neil (by phone)	Energy Consumers Australia
Ashley Bradshaw	Australian Energy Regulator
Mark McLeish	Australian Energy Regulator
Cameron Smith	Australian Energy Regulator
David Prins (by phone)	Consumer Challenge Panel
John Mumford	AusNet Services Customer Forum
Di Rule	AusNet Services Customer Forum
Tony Robinson	AusNet Services Customer Forum
Peter Cacaviello	AusNet Services
Tom Hallam	AusNet Services
Greg Hannan	AusNet Services
David Jilla	AusNet Services
Ian McNicol	AusNet Services
Priya Nellaiappan	AusNet Services
Namrata Powale	AusNet Services
Deirdre Rose	AusNet Services
John Hancock	Signature Consulting
Peter Eben	Seed Advisory
Tom Strawhorn	Seed Advisory

B. Workshop Agenda

AGENDA

Workshop:	AusNet Services ICT Deep Dive		
Date:	Thursday, 30 May 2019	Time:	9.30am – 1.00pm
Location:	Freshwater Place 2 Southbank Blvd, Southbank, Victoria 2006	Security:	Public
Pre-Reading:	Background reading – Technology pack		
Chairperson:	Peter Eben (Seed Advisory)		

Time	Item	Presenter
9.30 (10 min)	Welcome and Introductions	Peter Eben
9.40 (15 mins)	General program introduction	Peter Caccaviello
9.55 (30 mins)	Open discussion - Initial reaction	All
10.25 (10 mins)	Customer Information Management (CIM)	Priya Nellaiappan
10.35 (60 mins)	Open Discussion on CIM Any questions on: - our approach - the options we considered - the costs/risks and/or benefits of our options - our preferred option?	All
11.35 (10 mins)	Morning tea	
11.45 (10 min)	Outage management	David Jilla
11.55 (60 mins)	Open discussion on outage management - our approach - the options we considered - the costs/risks and/or benefits of our options - our preferred option?	All
12.55 (5 mins)	Next Steps	Peter Eben
1.00 pm	Meeting Close & Lunch	

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