

Technology Document ICT Program Brief Corporate Enablement

2023-27 Transmission Revenue Reset

PUBLIC

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Program Brief

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1 Document Background

1.1 Purpose of this document

The purpose of this document is to outline a business case for a proposed program of work that will form part of AusNet Services' Technology TRR submission.

1.2 References

Document	Version	Author
Digital Utility Strategy	V1.3	S Scanlon
FY21 Electricity Transmission Business Plan	V0.3	A Hill
TRR Technology Strategy	V0.21	S Scanlon

1.3 Document History

Date	Version	Comment	Person
21/10/2020	V1.0	Published version	S Scanlon

1.4 Approvals

Position	Date
Technology Leadership Team	

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2 Executive summary

2.1 Program summary

The table below provides a summary of the program discussed in this brief. Additional information is provided throughout the brief.

Table 2-1 Summary table

Key objective(s) of the program	Allow AusNet Services to continue to provide reliable service to Transmission customers by ensuring ongoing supportability and sustainability of core business systems (Finance, HR and Supplier Management) and enabling an improved partner network across the enterprise.						
Key benefits to customers	<ul style="list-style-type: none"> Continued provision of reliable services to customers by maintaining support and functionality of core enterprise systems Prudent expenditure related to core enterprise systems (finance and HR), and limited risk of system failure by ensuring appropriate planning is complete and supported by vendors. This represents a decrease of risks to customers Ensuring expenditure (costs) are minimised by providing AusNet Services a consolidated view of vendor performance and ability to inform decision making and negotiate contracts Provide streamlined services to Transmission customers by sharing information readily and collaborating with teams and partners with minimal integration effort to ensure efficient services. 						
Cost allocation	Electricity Distribution	49%	Electricity Transmission			31%	
	Gas Distribution	20%					
Program type	Recurrent					<input checked="" type="checkbox"/>	
	Non-Recurrent					<input checked="" type="checkbox"/>	
	Client Devices					<input type="checkbox"/>	
Program timings	Program duration:	5 years					
Expenditure forecast	(\$m)	FY23	FY24	FY25	FY26	FY27	Total
	CAPEX						\$5.70
	Opex (Incl. Step Change)						\$0.75
	Electricity Transmission Cost	[C-I-C]					\$6.45
	Total program cost						\$19.40
Estimated life of system	The estimated life of the implementation is 5 years with a refresh, which is typical for this type of system.						

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Customer Engagement	<p>This program has been proposed as part of AusNet Services Electricity Distribution Price Reset (EDPR) submission and this brief pertains to the TRR allocation of these costs.</p> <p>As part of the EDPR process, we have held deep dive workshops with stakeholders including the Customer Panel, on ICT. In that engagement we described the importance and need for ICT expenditure to meet our customers' evolving needs and to support compliance with regulatory and legal obligations. Material associated with all our deep dives is available on AusNet Services' website.</p> <p>A key theme of our engagement with the Customer Forum was the need for us to provide clarity on what we were proposing and what the expected customer benefits were. This information has been also presented to the Customer Advisory Panel (CAP)</p> <p>We acknowledge the feedback received from both sessions and have taken it into consideration when proposing the most appropriate option for this business case.</p>
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With significant advancements in technology, both consumers and electricity transmission businesses have an opportunity to evolve and adopt advancing digital practices. The enterprise application landscape and related integrations underpin the continuity of all operational processes and delivery of electricity to customers. As such, AusNet Services must ensure these core functionalities of enterprise applications are adaptable in an increasingly changeable environment while also being robust, and reliable solutions, for all employees and therefore perform optimally for customers.

Vendors developing enterprise Finance, HR and Procurement systems are already building digital technologies like automation, block chain, and cognitive tools into their products. As more companies move to cloud based solutions, a proliferation of specialised applications and micro-services that integrate with Enterprise Resource Planning (ERP) platforms are also emerging. Therefore, instead of building customised systems, AusNet Services will be able to utilise a marketplace of applications, encouraging standardisation of business processes and incorporation of innovative products to deliver insights. This will ultimately increase the efficiency of operations at AusNet Services and delivery of value to customers.

Currently, AusNet Services runs [C-I-C] as an enterprise resource planning software. [C-I-C] core enterprise processes of the organisation. Modules within the systems create a fully integrated solution, customised to suit current business processes. Within the ERP includes modules such as Financials and Human Capital Management.

[C-I-C]
[C-I-C]
[C-I-C]
[C-I-C]

[C-I-C]
[C-I-C]
[C-I-C]
[C-I-C]
[C-I-C]
[C-I-C]
[C-I-C]
[C-I-C]

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AusNet Services' operating model incorporates an increasing number of contractors, vendors and third party suppliers. Currently, tracking of performance, risk exposure and quality of work is completed on an ad-hoc basis and is inconsistent across business units. Given the limited ability to form a consolidated view of vendors across the business, AusNet Services does not have the appropriate analysis available to negotiate contracts and review supplier performance holistically meaning many supplier relationships and contracts may not be optimal. This will be addressed by implementing a Supplier Relationship Management solution to consolidate all supplier information, allowing for more informed decision making by leadership and generate costs savings by increasing negotiating power across the enterprise.

Finally, AusNet Services has recognised the need to share information seamlessly between internal systems and their partners. When working with vendors it is often a requirement that data is accessible by multiple parties to complete business as usual operations or analysis. There is currently no integration outside of AusNet Services own technology stack and all data is manually entered, even between larger long-term partners. As the number of partners are expected to increase into the future, particularly to address smaller niche capabilities, the ability to integrate quickly and collaborate will become critical to operational efficiency and innovation, as outlined above, when the business is able to operate more effectively it underpins a more robust and reliable network for customers.

The following activities will ensure AusNet Services mitigates risks and ensures prudent expenditure.

- [C-I-C]
- [C-I-C]
- [C-I-C]
- [C-I-C]
- [C-I-C]

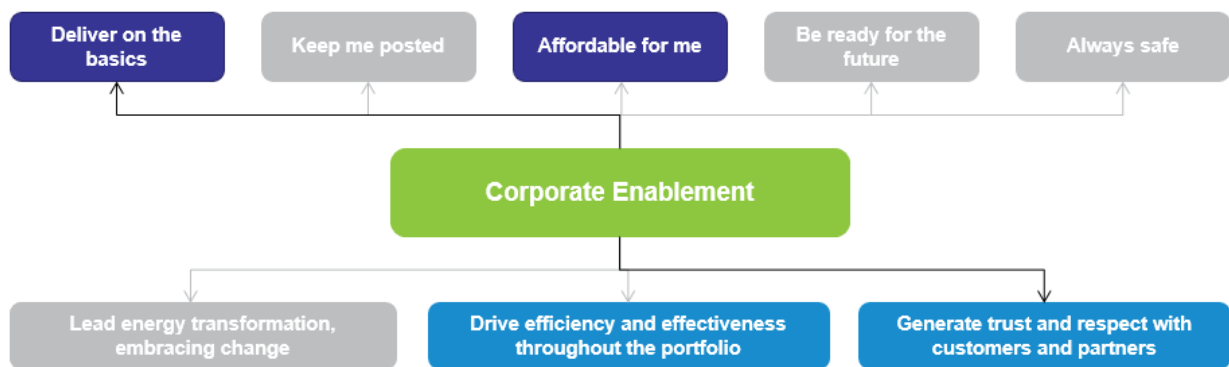
This investment will enable AusNet Services to continue to deliver reliable, affordable electricity to its transmission customers and its broader customer base. Primarily continuity of enterprise applications will allow AusNet Services to **deliver the basics**. In turn, the efficiencies gained will generate future cost savings for customers 'affordable for me'. This is explored in more detail in section 3.4, focused on customer outcomes.

From a business perspective, the program of work will **drive efficiency and effectiveness throughout the portfolio** and **generate trust and respect with customers and partners** by providing the following benefits to enterprise functions:

- Ensuring prudent expenditure by conducting sufficient planning prior to implementing a cloud based solution, on a needs basis and where it is prudent to do so
- Maintaining system support across critical business functions
- Provide a digital core (critical data and systems architecture) that can be leveraged for Machine Learning, Predictive Analytics and Back Office Automation in the future
- Improved compliance, particularly for the frequent legislative changes that are costly to implement and test individually
- Improve transparency of commercial partnerships
- Improve ability to negotiate on large scale contracts, where suppliers span multiple areas of the business
- Improve efficiency and collaboration in sharing data between the partner network, avoiding human error and manual effort

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Figure 2-1 Summary of customer and business drivers of this program



Alignment with AER ICT expenditure assessment framework

In accordance with the framework outlined in the AER – Guidance Note – Non-network ICT capex assessment approach for electricity distributors (28 November 2019), the majority of this program is recurrent expenditure, on the basis that a majority relates to ongoing refresh of AusNet Services' core business systems, a cost that must be incurred periodically. We have identified 30% of programme activities as non-recurrent, on the basis that these activities will result in new and improved capabilities.

Because of the non-recurrent component of the programme, we have also undertaken NPV analysis in support of the project, as well as developed a detailed business case in support of the recommended option.

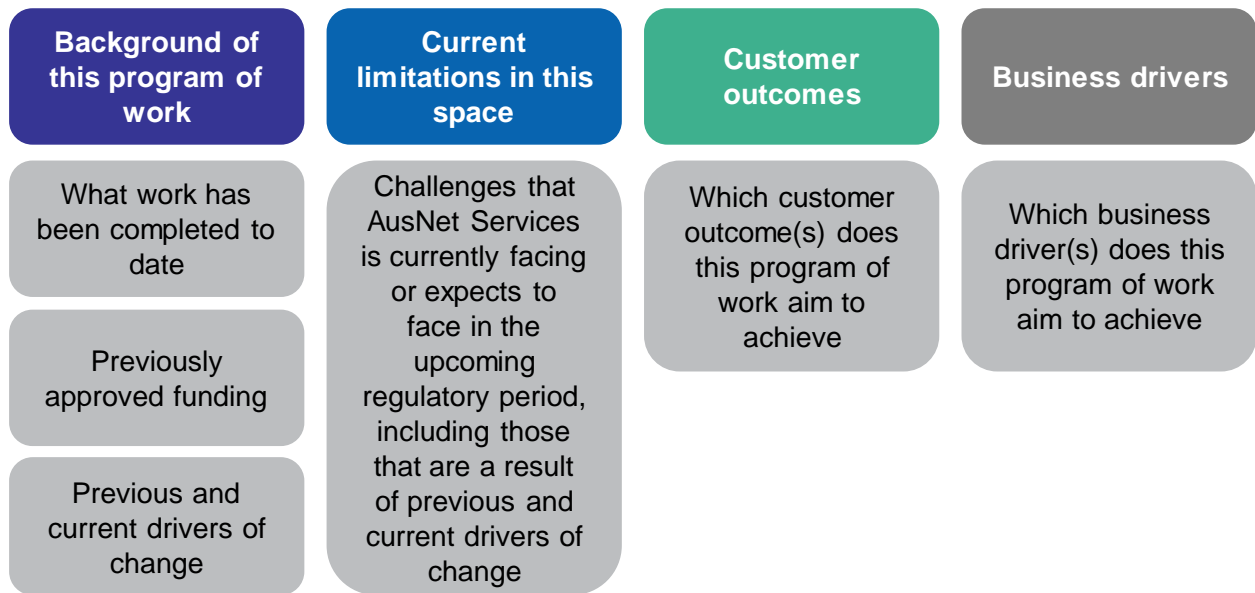
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3 Context

This program of work includes investments related to the cost of enterprise applications and the addition of a supplier relationship management tool alongside improved partner integration.

Investments in the recommended program of work would result in the following outcomes by the end of the regulatory period.

Figure 3-1 Key areas of the context to be discussed



3.1 Background

AusNet Services run a number of enterprise applications to support day-to-day operations, as outlined these include HR, payroll, finance and vendor management. Currently [C-I-C] supports

[C-I-C]
[C-I-C]
[C-I-C]

[C-I-C] solution set. At present payroll is executed through the on premise [C-I-C] solution. This solution must cater for over 2,000 employees and includes a number of industrial agreements, changing award provisions, flexible working arrangements and ongoing legal and statutory changes to Tax, Super, which are continuously updated to reflect up to date information in their respective domains. Reporting capabilities for HR and Payroll, and also the management of HR Support Desk function is provided through [C-I-C]

[C-I-C]
[C-I-C]
[C-I-C]
[C-I-C]

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To commence the journey to cloud, [C-I-C] was implemented enabling modules to be deployed in line with human management capabilities required by the business. Modules implemented to date include; compensation, talent, performance and goals and learning. The greatest benefits were seen in recruitment and on boarding which was previously a manual process across multiple systems.

[C-I-C] has further developed the capability of [C-I-C] and made both available as a public cloud offering, meaning any refreshes or further lifecycle management will require a move to the cloud offering. To implement this in the current period would mean AusNet Services would be an early adopter of the technology and would create undue risk on operation, as early adoption implies limited use testing of the product and early versions are often followed by critical updates and bug fixes. Hence, the decision to implement [C-I-C] and postpone the remainder until the solution has matured.

Finally, AusNet Services' operating model incorporates an increasing number of contractors, vendors and third party suppliers. Currently, tracking of performance, risk exposure and quality of work is done on an ad-hoc basis and is inconsistent across business units. Given the limited ability to form a consolidated view of vendors across the business, AusNet Services does not have the appropriate analysis available to negotiate contracts and review supplier performance holistically meaning many supplier relationships may not be optimised.

AusNet Services has also recognised the need to share information seamlessly between internal systems and their partners. There is currently no integration outside of AusNet Services own technology and all data is manually entered even for larger ongoing partners. As the number of partners is expected to increase into the future, particularly for smaller niche capabilities, the ability to integrate quickly and collaborate will become critical to operational efficiency in an increasingly complex environment. Currently a library of API's alongside a management framework are being built to enable standard patterns to be deployed with key partners in the upcoming regulatory period. The purpose of these programs is to simplify the overall technology environment, avoid technology obsolescence and achieve economies of scale across AusNet Services' transmission business, goals that remain relevant for the upcoming period.

In the forecast regulatory period, transition to the strategic future state will continue, incorporating a larger set of cloud based products. To prepare for a migration to a cloud based ERP post 2027, a detailed analysis of capability requirements and business case will be developed. Proof of concepts will be run on high value functions, to test functionality and substantiate the business benefit. Employee Central will be implemented as a cloud solution to align with current [C-I-C] modules, including integration with Time Entry and Works Management modules. Payroll options will be assessed, including shifting to cloud or looking to alternative outsourced payroll service providers

A solution to improve transparency and accountability of supplier's contractual obligations, performance and quality of work will be implemented, including costs for integration with existing and future partners in any area of the business where data is shared. Together these solutions will provide an improved oversight of partners, suppliers and vendors and allow the business to make informed decisions to create strategic and efficient partnerships.

Therefore, this program of work includes initiatives to the themes above including:

- [C-I-C] by:
 - [C-I-C]
 - [C-I-C]
 - [C-I-C]
 - [C-I-C]
 - [C-I-C]
 - [C-I-C]
 - [C-I-C]

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- [C-I-C]
 - [C-I-C]
 - [C-I-C]
 - [C-I-C]
-
- [C-I-C]

3.2 Current limitations

Despite simplifications in the technology landscape over the previous and current regulatory periods, several limitations remain:

1. [C-I-C]
2. [C-I-C]
3. [C-I-C]
4. [C-I-C]
5. [C-I-C]
6. [C-I-C]
7. [C-I-C]
8. [C-I-C]
9. [C-I-C]
10. [C-I-C]
11. [C-I-C]
12. [C-I-C]

Therefore, as well as uplifting capabilities in the FY2023-27 regulatory period, it is critically important that all core enterprise applications remain supported to ensure the stability and dependability of systems. Where appropriate risk mitigation initiatives are not carried out, AusNet Services could be left stranded with massive failures in an unsupported environment, representing a critical risk to the transmission of electricity to customers, per the limitations detailed above. To ensure this does not occur, initiatives should be implemented in a timely manner.

3.3 Objective(s)

The objectives of this proposed program of work include an uplift in both technology and solutions including:

- Enabling AusNet Services to continue to provide reliable services to customers by maintaining support and uplifting functionality of core enterprise systems
- Ensuring prudent expenditure related to core enterprise systems (finance and HR), and limited risk of system failure by ensuring appropriate planning is complete and supported by vendors
- Providing a consolidated view of vendor performance and ability to inform decision making and negotiate contracts
- Developing internal capability to share information readily and collaborate with partners with minimal integration effort

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3.4 Customer outcomes

Through customer research carried out by AusNet Services, a succinct list of key customer values and priorities were identified. These customer outcomes are:

- delivering basic services – “deliver on the basics”
- keeping customers informed – “keep me posted”
- affordable services – “affordable for me”
- adaptability – “be ready for the future”
- safety – “always safe”.

Additional information on each of these customer outcomes is provided in the overarching Technology TRR submission FY2023-27.

All expenditure programs identified and proposed by AusNet Services will have regard to the customer outcomes and can be directly linked to at least one of these five outcomes. This investment will enable AusNet Services to continue to deliver reliable, affordable electricity to its customers. Primarily continuity of enterprise applications will allow AusNet Services to **deliver the basics** whilst improving the system. In turn, the efficiencies gained will generate future cost savings for customers for **affordable for me**, as upgrading to a cloud solution will allow AusNet to capture additional value for customers through the flexibility, agility and capacity of cloud services. Furthermore, with a cloud based ERP solution, AusNet’s technology will be more adaptable through migrating from a monolithic ERP system to a more extensible system to meet future changes as SAP or other cloud ERP vendors mature without drastic change costs to integrating future features.

Another benefit realised in improving SRM is that more transparency and accountability of third-party suppliers. AusNet will be able to track and ensure that vendors are meeting service level benchmarks that translate into better service for AusNet Services’ customers and improved accountability across suppliers.

3.5 Business drivers

In the face of significant industry disruption resulting in a period of substantial uncertainty and increasing complexity across the industry, AusNet Services has selected four key business drivers which set the direction for the business.

These business drivers are:

- Maintaining current service performance in a disrupted environment where risks are changing due to the increasingly complex nature of the grid.
- Updating and implementing new technologies to enable AusNet Services to respond to changes within the growing renewable generation market;
- Complying with new obligations; and
- Delivering improvements requested by our customers regarding sustainability and cost.

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This program of work will be most relevant to maintaining current service performance in a disrupted environment where risks are changing due to the increasingly complex nature of the grid, as the new systems will result in efficiencies within AusNet Services' network management, maintenance and support, as well as improve efficiencies across different teams through greater communication and collaboration technologies.

Additionally, this program is relevant to updating and implementing new technologies to enable AusNet Services to respond to changes within the growing renewable generation market, by building and implementing a number of integrations with key partners; AusNet Services will enable greater collaboration between teams as well as enable a more agile future partner network.

3.6 Approach to developing expenditure forecast

For each program brief, a consistent approach is used to develop programs of work and the associated expenditure forecast for the regulatory period FY2023-2027.

A full overview of the approach can be found in section 3.2 of the "*AusNet Services – Transmission Revenue Review – Technology Strategy Document*".

To develop each program of work and associated expenditure, the following steps were taken:

- Needs analysis to identify areas of the network and business processes that require investment over the upcoming regulatory period,
- Bottom up discussion with business and technology architects and delivery leads to develop options to address the investment need, including scope, key objectives, and drivers influencing the requirement for the programs,
- Consideration of different options to achieve the objectives of the program and analysis of their relative costs, benefits and risks, and
- Top down view to ensure that the Technology Strategy investment portfolio represents prudent and efficient expenditure for the upcoming period, relative to AusNet Services' previous expenditure and also benchmarked against other comparable Transmission businesses.

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4 Options

4.1 Overview

This section provides an overview of a select number of options, which may feasibly alleviate the current limitations. Each option represents a combination of initiatives within the program of work.

Brief overview of each of the options	
Option 1	Maintaining business as usual and remaining on ECC6 will carry the 'out of support risk', maintain current system complexity and also forego the benefit from SAP's significant investment in new capability in new cloud products.
Option 2 (recommended option)	<p>ERP</p> <ul style="list-style-type: none"> • Continuity of critical business systems, ensuring operations continue without disruption, maintaining reliability of supply • Pre-work required in preparing for migration to the desired future state platform post 2027, <ul style="list-style-type: none"> • Generate business case for optimisation opportunities • Generate business case for Cloud based ERP • Assess vendor and migration options • Transformation enablement piece (System verification, proof of concept created to verify low cost refresh process). <p>HR</p> <ul style="list-style-type: none"> • Migrate remainder of Employee modules • Payroll Option analysis and implementation, cloud/outsourced/ manage service etc. <p>SRM</p> <ul style="list-style-type: none"> • Options analysis for product / vendor that best aligns with business requirements • SRM Implementation <p>Partner Integration</p> <ul style="list-style-type: none"> • Standardise the use of data between AusNet Services and their suppliers, avoiding duplicates and inconsistencies across data sets • Allow increased access to real time data and greater collaboration between AusNet Services and suppliers
Option 3	[C-I-C]

4.2 Option #1 Business as Usual

Option 1 involves AusNet Services continuing with current 'business as usual'. Costs associated with this brief are for additional licensing and ongoing training for recently implemented HR modules within [C-I-C]. This will also include support costs of shifting [C-I-C] to 3rd party providers.

Maintaining patching and enhancement updates in line with the standard technology lifecycle plan will support AusNet Services in business continuity of corporate functions, without implementing

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additional capabilities or modules. Costs associated with basic enhancements for ECC are captured within the Technology Asset Management (TAM) Applications lifecycle brief.

This option is not recommended due to the increased risk of system failure and the probable consequences of this option, including:

- Inefficiencies and higher costs of implementation/migrations in current and future regulatory periods due to outdated technology
- Misalignment with AusNet Services strategic technology objectives
- Increased risk of system failure due to unsupported products
- Inability to handle increased load of data and new data sets due to immature integration development
- Increased risk of delayed critical regulatory reporting due to system malfunctions or outages on the systems which are critical for this reporting

Alignment to objectives

We do not consider that this option achieves all of the intended objectives of this program of work, as shown in Table 4-1 below.

Table 4-1 Objectives analysis of option 1

Objective		Comments
Enable AusNet Services to continue to provide reliable, service to customers by maintaining support and uplifting functionality of core enterprise systems	✘	While solutions will be supported through alternative support providers there is not uplift to functionality beyond basic maintenance outlined in the TAM Applications lifecycle brief.
Prudent expenditure related to core enterprise systems (finance and HR), and limited risk of system failure by ensuring appropriate planning is complete and supported by vendors	✘	While this option involves the least expenditure, the costs will be deferred and eventual migration/implementation projects could become more costly due to outdated technology, a greater degree of customisation or in the case of SAP, scarce technical resources as all SAP customers migrate to S/4HANA during the same time period.
Provide a consolidated view of vendor performance and ability to inform decision making and negotiate contracts	✘	This option does not provide an uplift in Supplier Management capability.
Developing internal capability to share information readily and collaborate with partners with minimal integration effort	✘	This option does not provide any uplift in partner integration capabilities.

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Costs

Table 4-2 Costs of option 1

(\$m)	FY23	FY24	FY25	FY26	FY27	Total
Capex	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	\$0.26
Opex	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	\$0.03
Electricity Transmission Cost	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	\$0.28
Total program cost	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	\$0.95

Benefits

By sweating assets and delaying replacement or lifecycle expenditure AusNet Services will be more prudent with its expenditure. However, this apparent saving can be easily off set by the risk of system failure and increased capex required to augment the environment to support dated technology. For example, avoiding refreshes now would require increased investment in the future should an unsupported system failure occur. This could cause serious disruption and risk to customers and business in taking on this option.

Risks

There are a number of risks associated with the implementation of this particular option, as highlighted in the table below. Based on the consequence and likelihood of each risk, we have rated each of the individual risks blue, green, yellow, orange or red (order of severity). See Attachment 1 – Risk level matrix for additional information on this rating system.

Table 4-3 Risks of option 1

	Risks	Consequence	Likelihood	Risk rating
R1.1	Unsupported systems may fail, and no support or maintenance services will be available to call upon.	Level 2. Customer / community affected by loss of service	Unlikely	D
R1.2	Reduced or loss of employee productivity and business functions.	Level 1. Impact of event absorbed through normal activity	Likely	D
R1.3	Risks associated with solution design, implementation, budgeting, planning, integration, future maintenance, refreshes and support.	Level 1. An impact that would have otherwise required minor management attention	Possible	E

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We consider that overall this option is rated low risk.

Alignment to customer related drivers of expenditure

As discussed in Section 3.4, five key customer outcomes have been identified through discussions with customers. The table below highlights how this option will achieve these outcomes. Where we consider that a customer outcome is not directly achievable by the option or irrelevant, 'N/A' is applied.

Table 4-4 Customer related drivers of option 1

Customer outcome	How this program achieves this
Deliver on the basics	While solutions will be supported through alternative support providers there is no uplift to functionality beyond basic maintenance outlined in the TAM Applications lifecycle brief. AusNet Services will be able to 'deliver the basics' however with no improvements in service or efficiency.
Keep me posted	N/A
Affordable for me	N/A
Be ready for the future	N/A
Always safe	N/A

Alignment to business related drivers of expenditure

As discussed in Section 3.5, there are four Transmission business drivers that AusNet Services has identified and is focussing on over the next regulatory period. The table below highlights how this option will input into the initiatives where relevant. Where we consider that a business driver is not directly relevant to the option, 'N/A' is applied.

Table 4-5 Business related drivers of option 1

Business drivers	How this program achieves this
Maintaining current service performance in a disrupted environment where risks are changing due to the increasingly complex nature of the grid;	Business as usual (no new applications or systems, only refreshing current applications)
Updating and implementing new technologies to enable AusNet Services to respond to changes within the growing renewable generation market;	N/A - No uplift from existing capabilities
Complying with new obligations	N/A - No uplift from existing capabilities
Delivering improvements requested by our customers regarding sustainability and cost.	N/A - No uplift from existing capabilities

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4.3 Option #2 Ensure ongoing supportability and sustainability of core business systems (RECOMMENDED)

To ensure prudent expenditure in the FY2023-27 regulatory period, AusNet Services will complete pre-work to ensure the migration to a cloud based ERP (post 2027) is successful and realises all the desired benefits. By waiting to migrate in the next TRR period, AusNet Services will fully utilise the useful life of their ERP solution, across the whole business, and ensure business risk is minimised as cloud based solutions mature in the market.

This option includes investment in a detailed, system driven and future looking business case, to select components of the cloud based ERP solution that will drive value by early delivery. Examples where an earlier investment may have a business case are:

- Phased approaches to roll outs in areas where the saving is significant to demonstrate clearly to the business how the new platform can drive value and thereby create the case and momentum for change
- Establishing a finance core to build the capability, start the drive for simplification and start building automations and predictive analytic applications

Following business case approval, a vendor/product analysis will be completed, including an assessment of implementation partners. Despite waiting to migrate, the business case will highlight key functional, system agnostic pain points which can be addressed and standardised within the regulatory period. This will prepare AusNet Services for the less customised nature of cloud solutions and improve the simplicity of the implementation post 2027.

To determine the greatest value payroll solution, a detailed impact assessment would need to occur to assess the risk and benefit of migrating payroll to an alternative solution or simplify existing payroll design and process. An option analysis during this period will cover the following:

- Simplification of the existing [C-I-C] payroll
- Move payroll to [C-I-C] /other cloud based solution in line with overarching cloud first strategy
- Outsource payroll to a third party provider

A Supplier Relationship Management (SRM) solution will look to improve transparency and accountability of commercial relationships, including monitoring performance and quality of work completed by partners. To enhance this further an investment in building and implementing standard integrations with partners in any area of the business where data is shared will create greater operational efficiency as well as improving collaboration between internal and external teams. Potential initiatives for this period include:

- Options analysis for SRM product/vendor that best aligns with business requirements
- SRM Implementation
- Establish and implement standard API patterns with partners
- Standardise the use of data between AusNet Services and their suppliers, avoiding duplicates and inconsistencies across data sets
- Allow increased access to real time data and greater collaboration between AusNet Services and suppliers

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Alignment to objectives

We consider that this option achieves all of the intended objectives for this program of work, as shown in Table 4-6 below.

Table 4-6 Objectives analysis of option 2

Objective		Comments
Enable AusNet Services to continue to provide reliable, service to customers by maintaining support and functionality of core enterprise systems	✓	By migrating Employee central and payroll to updated solutions AusNet Services ensures all core functions are supported, by either the vendor or an alternative provider. By postponing the migration to an upgraded ERP, the business has time to prepare and appropriately test the solution to ensure minimal disruption to daily operations.
Prudent expenditure related to core enterprise systems (finance and HR), and limited risk of system failure by ensuring appropriate planning is complete and supported by vendors	✓	By postponing the migration to an upgraded ERP, the business will ensure full utilisation of the useful life of the ERP solution and ensure business risk is minimised as cloud-based solutions mature.
Provide a consolidated view of vendor performance and ability to inform decision making and negotiate contracts	✓	The SRM solution will provide an overarching view of all AusNet Services commercial relationships, allowing leaders to make more informed decisions about strategic partnerships at an enterprise level.
Developing internal capability to share information readily and collaborate with partners with minimal integration effort	✓	By building and implementing a number of integrations with key partners, AusNet Services will enable greater collaboration between teams as well as enable a more agile future partner network.

Costs

Table 4-7 Costs of option 2

(\$m)	FY23	FY24	FY25	FY26	FY27	Total
Capex	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	\$5.70
Opex (Incl. Step Change)	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	\$0.75
Electricity Transmission Cost	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	\$6.45
Total program cost	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	\$19.40

Option 2 involves moving off an on-premise HR solution into a cloud service. This effectively replaces the capital expenditure of a lifecycle refresh for the on-premise solution with new operating costs related to the cloud service.

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Given that the SRM solution is being provisioned in the cloud for the first time then its costs will be operating costs. The combined step change in opex of these initiatives is \$126k per annum from the time the new services are commissioned.

Benefits

This option will deliver benefits in the following areas:

HR & Payroll

By migrating HR and payroll to cloud based services through this initiative, AusNet will minimise disruption to continue delivering its services for customers reliably. Furthermore, by leveraging the elasticity of cloud services, AusNet Services' technology cost can better scale with usage, instead of overspending on technology assets that are not fully utilised – further ensuring the costs passed on to customers are prudent.

- Given that AusNet Services' implementation of [C-I-C] is relatively new, extending the useful life of the ERP solution to minimise business risk as cloud based solutions mature
- Maintaining reliability of supply by ensuring the operational continuity of critical business systems
- Reducing delivery risk to future cloud based ERP solutions as the business has time to prepare and appropriately plan for the delivery of these systems
- Reducing development and maintenance costs in favour of a subscription model for HR solutions
- Improving analytics and reporting capabilities across both HR and SRM
- Satisfying compliance requirements, particularly those that relate to frequent legislative changes which are costly to implement and test individually
- Improving the transparency of commercial partnerships and tracking the performance of suppliers against critical Service Levels
- Improving the ability of the organisation to negotiate large scale contracts where suppliers span multiple areas of the business
- Improving the capture and sharing of information across the partner network
- Enabling the business to leverage new functional capabilities that will be offered through these emerging platforms
- Ensuring the scalability and operability of these new solutions to satisfy current and future business requirements
- Reducing the manual effort associated with maintaining the existing Payroll solution (changing award provisions, flexible working arrangements and the legal and statutory changes to Tax and Superannuation)
- Providing a digital core (critical data and systems architecture) that can be leveraged for Machine Learning, Predictive Analytics and future Back Office Automation.

SRM

Supplier Management

- Improving the ability of the organisation to negotiate large scale contracts where suppliers span multiple areas of the business, driving efficiencies across our portfolio of Managed Services
- Improving the transparency of commercial partnerships and tracking the performance of suppliers against critical Service Levels
- Achieving cost avoidance through monitoring and improving the performance of Managed Services providers to achieve improvements in SLA delivery across the organisation

Partner Integration

- Improving the capture and sharing of information across the partner network

Program Brief

Risks

There are risks associated with this particular option, as highlighted in the table below. Based on the consequence and likelihood of each risk, we have rated each of the individual risks blue, green, yellow, orange or red (order of severity). See Attachment 1 – Risk level matrix for additional information on this rating system.

Table 4-8 Risks of option 2

	Risks	Consequence	Likelihood	Risk rating
R 2.1	Unsupported systems may fail and no support or maintenance services will be available to call upon.	Level 2. Customer / community affected by loss of service	Unlikely	D
R 2.2	Reduced or loss of employee productivity and business functions.	Level 1. Impact of event absorbed through normal activity	Unlikely	E
R 2.3	Risks associated with solution design, implementation, budgeting, planning, integration, future maintenance, refreshes and support.	Level 1. An impact that would have otherwise required minor management attention	Unlikely	E

As we have identified a small number of low risk options, we consider that overall; this option is rated low risk.

Alignment to customer related drivers of expenditure

As discussed in Section 3.4, five key customer outcomes have been identified through discussions with customers. The table below highlights the how this option will achieve these outcomes. Where we consider that a customer outcome is not directly achievable by the option or irrelevant, 'N/A' is applied.

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Table 4-9 Customer related drivers of option 2

Customer outcome	How this program achieves this
Deliver on the basics	This program will ensure all core enterprise functions are supported, minimising the risk of system failure and ensuring AusNet Services is able to reliably distribute electricity to our customers.
Keep me posted	N/A
Affordable for me	By creating operating efficiencies, such as by leveraging the elasticity of cloud, future cost savings will be passed onto our customers, as AusNet Services' ERP costs can scale with usage unlike with on-premise technology assets.
Be ready for the future	N/A
Always safe	N/A

Alignment to business related drivers of expenditure

As discussed in Section 3.5, there are four Transmission business drivers that AusNet Services has identified and is focussing on over the next regulatory period. The table below highlights how this option will input into the initiatives where relevant. Where we consider that a business driver is not directly relevant to the option, 'N/A' is applied.

Table 4-10 Business related drivers of option 2

Business drivers	How this program achieves this
Maintaining current service performance in a disrupted environment where risks are changing due to the increasingly complex nature of the grid;	Refreshing current applications and upgrading where prudent.
Updating and implementing new technologies to enable AusNet Services to respond to changes within the growing renewable generation market;	By migrating the remaining [C-I-C] HR to [C-I-C] and implementing a new Payroll system, efficiencies in maintenance and support will be realized. Additionally, building and implementing a number of integrations with key partners; AusNet Services will enable greater collaboration between teams as well as enable a more agile future partner network.
Complying with new obligations	N/A
Delivering improvements requested by our customers regarding sustainability and cost.	AusNet Services will generate trust by postponing the migration to a cloud based ERP to the next regulatory period FY2027-2031, through displaying prudent expenditure and ensuring the product is mature and able to provide service reliably within the period.

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4.4 Option #3 [C-I-C]

[C-I-C]

Program Brief

[C-I-C]

Alignment to objectives

[C-I-C]

Table 4-11 Objectives analysis of option 3

Objective		Comments
[C-I-C]	✓	[C-I-C]
[C-I-C]	X	[C-I-C]
[C-I-C]	✓	[C-I-C]
[C-I-C]	✓	[C-I-C]

Costs

Table 4-12 Costs of option 3

(\$m)	FY23	FY24	FY25	FY26	FY27	Total
Capex	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	\$16.41
Opex (Incl. Step Change)	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	\$2.46
Electricity Transmission Cost	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	\$18.87
Total program cost	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	[C-I-C]	\$60.80

[C-I-C]

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Benefits

[C-I-C]

- [C-I-C]

- [C-I-C]
- [C-I-C]

- [C-I-C]

- [C-I-C]
- [C-I-C]

- [C-I-C]

- [C-I-C]

- [C-I-C]

- [C-I-C]

- [C-I-C]

- [C-I-C]
- [C-I-C]
- [C-I-C]
- [C-I-C]

[C-I-C]

Risks

[C-I-C]

	Risks	Consequence	Likelihood	Risk rating
R 3.1	[C-I-C]	Level 2. Customer / community affected by loss of service	Unlikely	E
R 3.2	[C-I-C].	Level 4. Significant business disruption caused by a lack of core business functionality [C-I-C]	Possible	B

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	Risks	Consequence	Likelihood	Risk rating
R 3.3	Risks associated with solution design, implementation, budgeting, planning, integration, future maintenance, refreshes and support.	Level 3. Effectively stall all initiatives related to project overrun and locking the business into the option 1 footprint until implementation risks remedied.	Possible	C

We consider that overall this option is rated high risk.

Alignment to customer related drivers of expenditure

[C-I-C].

Table 4-13 Customer related drivers of option 3

Customer outcome	How this program achieves this
[C-I-C].	[C-I-C].
[C-I-C].	[C-I-C].
[C-I-C].	[C-I-C].
[C-I-C].	[C-I-C].
[C-I-C].	[C-I-C].

Alignment to business related drivers of expenditure

[C-I-C]

Table 4-14 Business related drivers of option 3

Business drivers	How this program achieves this
[C-I-C]	[C-I-C]

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Business drivers	How this program achieves this
[C-I-C]	[C-I-C]
[C-I-C]	[C-I-C]
[C-I-C]	[C-I-C]

Program Brief

5 Assessment and recommended option

5.1 Assessment of the options

To identify a recommended option for this program of work, we have selected a number of criteria to assess each of the options. We consider that these criteria represent a comprehensive view of each option, in achieving AusNet Services' business and customer objectives as well as requirements of the AER in ensuring that any expenditure is both prudent and efficient.

The table below summarises our assessment of each of the options against the criteria.

Table 5-1 Summary table of the assessment of the options

	Option 1	Option 2	Option 3
Alignment to objectives	Does not achieve objectives	Aligned with program objectives	Aligned with program objectives
Costs (\$m)	\$0.29	\$6.45	\$18.87
Overall risk rating	Low	Low	High
Alignment to customer related drivers of expenditure	Low alignment (1/5)	Low alignment (2/5)	Low alignment (2/5)
Alignment to business related drivers of expenditure	No alignment (1/4)	Medium alignment (3/4)	Medium alignment (2/4)

Based on this assessment, Option 2 is recommended for the following reasons.

Option 1 provides no option to uplift capability and involves [C-I-C] becoming unsupported without any forward planning or future strategic decision.

In the long term migrating to the cloud (option 3) has a number of additional benefits over option 2:

Reduced amount of technical debt; integrations established between [C-I-C] and HR/ payroll and any other new applications including the partner network during the 2023-2027 period will require rework

- Reduced risk of resource restrictions; given AusNet Services will be migrating earlier than many other large enterprises the technical expertise is more likely to be available in the market
- Cheaper migration; migration from [C-I-C] that is still in [C-I-C] support in comparison to a post 2027 scenario where [C-I-C] is supported by an alternative third party will result in a cost saving

Despite this, the costs and risks of completing the [C-I-C] does not align to overarching business objectives. It does not represent prudent expenditure, and has significantly higher delivery risk, as the solution is not yet mature. We have however provided for investigation and planning work to be completed to allow AusNet Services to [C-I-C] as soon as practicable in the TRR period FY2028-2032.

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By ensuring appropriate planning is completed prior to 2027, the Cloud based ERP will be mature, delivery risk minimised and the full value of our on-premise solution would have been realised.

NPV analysis

As this program includes 30% non-recurrent expenditure, **Table 5-2**, below shows the NPV analysis for this program, further demonstrating the cost effectiveness of Option 2, the recommended option.

Table 5-2 NPV analysis

	Costs (NPV)	Benefit (NPV)	Net benefit (NPV)
Option 1	\$0.25	\$0	-\$0.25
Option 2	\$1.68	\$9.29	\$7.61
Option 3	\$4.93	\$10.21	\$5.28

We have captured four primary benefits for this program:

- Improved employee productivity in human resource management
- Improved employee productivity in supplier relationship management (SRM) and managed services
- Risks relating to productivity in the event of a system failure due to lack of investment
- Consolidation of the vendor pipeline

As Option 1 includes continuing business as usual, we have used this as a baseline to calculate the benefits for Option 2 and Option 3. That is, any benefits identified for Option 2 and Option 3 are in addition to any impact from Option 1.

By far the largest benefit relates to avoiding the risk to corporate productivity in the event of a systems failure given how fundamental the tools incorporated in the corporate enablement program are to AusNet Services' employees and partners. Mitigating this risk is what justifies recurrent expenditure on regular updates and refreshes. Option 1 does not manage this risk.

The other three benefits relate to new capabilities and are associated with the program of work which will improve AusNet Services' HR systems as it includes both migration of the remainder of Employee Central and also Payroll Option analysis and implementation to cloud-based services, therefore we have estimated cumulative productivity savings of \$0.7m across 2023-27 for both Option 2 and \$0.8m for Option 3, as a result of automation and streamlining of processes.

Options 2 and 3 will also improve AusNet Services' SRM, ensuring more transparency and accountability of third-party suppliers. Therefore, AusNet will be able to track and ensure that vendors are meeting service level benchmarks (which translate into better service for AusNet Services' customers) – improving employee productivity more easily. We estimate that will result in cumulative productivity savings of \$0.7m for Option 2 and \$0.8M for Option 3 across 2023-27.

We would also expect that due to this increased transparency, this will result in a more efficient vendor cost base and would expect a \$13.19M saving in total vendor expenditure.

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There has also been consideration of productivity benefits that would be realised as a result of a move to [C-I-C] cloud based ERP solution, (Option 3) which would result in a circa 1.12% productivity improvement to [C-I-C] users. This the only option that would achieve these benefits.

This program will also address lifecycle management of critical systems i.e. [C-I-C] by this program. Failure to make this investment, incrementally increases the risk of potential system failure and the subsequent productivity issues that this would present. The risks associated with this potential failure would accumulate to be an approximated \$8.83m pertaining to Options 2 and 3 over the 2023-27 period.

Based on the described analysis, Option 2 is the only option with a positive NPV and therefore this is the recommended option.

5.2 Recommended option

Option 2 is the recommended option for AusNet Services for the Corporate Enablement program of work. Table 5-3 confirms what is in scope and out of scope for this program of work, as well as the other programs of work on which the successful delivery of this program is dependent on.

Table 5-3 Confirmation of scope of recommended option

In scope	Out of scope	Dependencies
[C-I-C]	[C-I-C]	[C-I-C]
[C-I-C]	[C-I-C]	[C-I-C]
[C-I-C]	[C-I-C]	[C-I-C]
[C-I-C]	[C-I-C]	[C-I-C]

Below in Table 5-4, we have identified techniques or actions to mitigate the risks identified for this option.

Program Brief

Table 5-4 Option 2 risks and mitigation actions

	Risk	Rating	Likelihood	Risk rating	Mitigation
R 2.1	Unsupported systems may fail and no support or maintenance services will be available to call upon	Level 2. Customer / community affected by loss of service	Unlikely	D	The changes to the support environment and migration to cloud represented by option 2 already mitigate this risk.
R 2.2	Reduced or loss of employee productivity and business function.	Level 1. Impact of event absorbed through normal activity	Unlikely	E	This risk will be alleviated by implementation of option 2 however should be tracked going forward
R 2.3	Risks associated with solution design, implementation, budgeting, planning, integration, future maintenance, refreshes and support.	Level 1. An impact that would have otherwise required minor management attention	Unlikely	E	Option 2 represents the least implementation risk while preserving access to future vendor released and therefore minimises the risk associated with achieving business outcomes.

Program Brief

6 Attachment 1 – Risk level matrix

The figure below shows the risk level matrix to which we have assessed each of risks within the options. Risks of highest concern are rated red, whereas those of lowest concern are rated blue.

Figure 6-1

		Consequence				
		1	2	3	4	5
Likelihood	Almost Certain	C	C	B	A	A
	Likely	D	C	B	B	A
	Possible	E	D	C	B	A
	Unlikely	E	D	D	C	B
	Rare	E	E	D	C	C

Consequence Rating	
5	Catastrophic
4	Major
3	Moderate
2	Minor
1	Insignificant

Overall Risk Rating	
A	Extreme
B	High
C	Medium
D	Low
E	Very Low