



Security of Critical Infrastructure

Revised regulatory proposal 2021 – 2026

PAL RRP BUS 9.01 – Security of critical infrastructure – Dec2020

December 2020



Executive Summary

Original proposal

Our original proposal included an operating expenditure step change for the costs of meeting compliance the new Security of Critical Infrastructure Act (SCIA) system and data control requirements. Under the new requirements we need to ensure that:

- our network control systems, including information and communications technology (ICT) network control systems, are accessible, and operated and maintained, only from within Australia, and incorporate appropriate protections
- customer, employee and electricity consumption data are hosted in Australia and is accessible only within Australia.
- For CitiPower, Powercor and United Energy - the ICT component of our operating expenditure step change forecast was based on quotes provided by our incumbent vendors to become compliant with the new system and data control requirements
- For United Energy – the back-office component of our operating expenditure step change was based on a bottom up build of our labour requirements to insource the services within Australia, taking account of synergies in labour volumes and labour rates sourced from an independent Hayes report.

AER draft determination

- For CitiPower, Powercor and United Energy - the draft determination accepted the ICT component of our SCIA step change with an adjustment for labour price escalation. The draft determination stated an expectation we would undertake a market testing process for our revised proposal.
- For United Energy – the draft determination accepted our back-office component of the SCIA step change with adjustments for inflation and labour price escalation and to:
 - update labour rates to a more recent Hayes report and source salaries from the regional locations
 - update the labour on-cost rates
 - rounded FTE numbers to the next integer
 - updated transitions costs.

Executive Summary

Revised proposal

For our revised proposal SCIA operating expenditure step change we have:

- For CitiPower, Powercor and United Energy – updated the value of the ICT component of our SCIA step change based on the outcomes of a recent competitive tender process (refer to Part A).
 - The competitive tender was led by an independent party, Hamilton Shaw, on our behalf. Hamilton Shaw undertook an evaluation of the vendor responses to assess technical competencies and approaches, as well as commercial criteria.
 - Our revised SCIA step change forecast is based on the average of the costs from two vendors, as we have not yet selected the preferred vendor. The tender costs are to deliver the SCIA requirements for all three network as a combined package. We have applied cost allocation to apportion costs across the networks, 30% CitiPower, 30% Powercor and 40% United Energy
 - Our revised step change is \$13.9 million lower than our original proposal.
- For United Energy – we have accepted the AER draft determination in relation to the costs to on-shore and insource our back-office services in compliance with the SCIA requirements. We have undertaken a market testing process to validate the competitiveness of our insource approach relative to the alternative option of outsourcing the services to a third party through an SCIA compliant on-shore delivery model (refer Part B).

SCIA step change \$m 2021, incl. escalation	Original proposal	Draft determination	Revised proposal	Difference between original and revised
CitiPower	14.4	13.4	8.9	-5.5
Powercor	14.5	13.4	8.9	-5.6
United Energy	39.7*	32.4	31.2	-8.5

* UE original proposal value adjusted to correct for a calculation error identified following submission.

Tender approach

The following approach was used:

- Invitation to tender issued to vendors
- Tender materials set out scope of services required to meet the SCIA system and data control requirements
- Tender responses required to include:
 - technical capability to deliver scope of services through an onshore model
 - costs per year including ongoing and transition costs
 - resources required from us including technology, accommodation and support
- Hamilton Shaw led an evaluation of tender responses against key criteria
- Hamilton Shaw applied price normalisation to allow for complete and accurate comparison of costs – a standard approach which corrects for errors, omissions and incorrect assumptions (refer appendix A)

Criteria	Description
Implementation capability	Demonstrated capability and plan to: <ul style="list-style-type: none"> - Build (or partner) to enable all in-scope services to be delivered onshore - Transition services onshore covering team structure, risk management, tools/interface and knowledge transfer approach
Commercial	<ul style="list-style-type: none"> - Market competitive and inclusive pricing, compliant with CHED's requirements - Acceptance of proposed contract terms
Operational capability	Overall solution approach, compliance with CHED's requirements and SLAs and evidence of experience for in-scope services of: <ul style="list-style-type: none"> - Service management and common services + SLAs - End user computing services - Microsoft Office365 and mobility services - Server and storage management (on-premise) services - Infrastructure and platform management (Cloud) services - Network management and security infrastructure (firewalls, load balancers) - Unified communications management services
Technical leadership	Demonstrated evidence of: <ul style="list-style-type: none"> - Thought leadership and innovation in similar industries - Insights to improve CHED's current IT environment - Expertise and accreditations (skill depth)
Strategic alignment	Demonstrated evidence of: <ul style="list-style-type: none"> - Alignment with CHED's strategic direction and objectives - Collaborative and flexible when working with CHED and other providers in the eco-system - Focus on governance, risk and compliance

Price normalisation

Price normalisation was performed by Hamilton Shaw.

Price normalisation is a standard part of any tender evaluation process, to ensure a fair and accurate comparison of responses and form a realistic view of the expected total contract value (TCV).

Price normalisation of tender responses is done for the following reasons:

1. Errors – where the tenderer makes an arithmetic error in their response such as failing to apply the volumes correctly as issued in the tender documentation, these need to be corrected during the evaluation step.
2. Omissions – in the event a tenderer fails to price a particular service intentionally or in error, or no volumes are initially issued and are later compiled. In the instance where the tenderer fails to price a service altogether, they should neither be advantaged or disadvantaged relative to other tenderers for this service, so the normalisation usually takes the service price to the same value of the highest alternative tender response. In the instance of missing volumes, these are equivalently applied to all tenderers unit prices to form part of the TCV.
3. Incorrect assumptions – when tenderers submit their pricing, it is often accompanied by a series of assumptions outlining what is and is not included in their price. On occasion these assumptions are incorrect and thus their pricing (most often) is understated. The assumptions may be formally listed in the pricing response template but may also be embedded in their solution response and a detailed review across the commercial and technical responses is required. The basis of any normalisation in this regard, is usually to apply industry knowledge on the value if the missing component (e.g. such as software licence costs, hardware costs, telecommunication link costs etc.) or where the same item is specifically highlighted in another response, apply that same price.

