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Lodged by email: AERinquiry@aer.gov.au

## ICT Expenditure Assessment – Consultation Paper

EnergyAustralia welcomes the opportunity to make this submission to the AER's consultation on ICT Expenditure Assessment.

EnergyAustralia is one of Australia's largest energy companies with around 2.6 million electricity and gas accounts in New South Wales, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own, operate and contract an energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 4,500MW of generation capacity in the National Electricity Market (NEM).

### ICT expenditure interaction with the business

We seek clarification that the scope of the AER's review applies to a distribution network service provider's (DNSP) customer facing systems or organisational enterprise systems (such as for payroll, accounting, etc.) and not operational systems associated with network assets, which should be considered under network asset expenditure.

In practice, these can overlap significantly; for example, a customer facing system used to inform customers of network outages has to be linked to network asset systems that detect the physical outages; systems that measure consumption also need to be linked to network billing and corporate accounting and reporting systems. Furthermore, there is also a cost associated with systems "talking" or interfacing with each other within an organisation.

Often, the driver for an increased push for automation (and increased ICT expenditure) is efficiencies in staffing levels. This can occur both in relation to physical network assets (for example, an outage monitoring system which reduces the need for field crew to physically attend a site), and customer facing systems (such as the processing of B2B transactions and service orders for field work being automated).

It is important, therefore, that the AER takes a holistic view of Totex not just in terms of Opex and Capex, but also in terms of the overlaps between physical network assets and non-network asset ICT and how these systems interact across the regulated businesses.

**Regulatory changes and market impacts**

As you would be aware, significant regulatory changes are taking place in the energy market. The IT system changes needed to adapt to these regulatory changes not only impact individual entities, but the way industry participants (retailers, metering parties, and distributors) systems interact with each other through the B2B framework.

The cost of ICT expenditure in relation to regulatory changes can vary significantly due to uncertainty in rules and compressed timeframes for implementing regulatory changes dictated by external factors, such as changes to market procedures. We believe that it is important for the AER to consider regulatory change impacts on the efficiency of implementing ICT changes.

In the context of significant mandatory ICT changes due to regulation, and DNSPs seeking efficiency in their ICT systems, particularly in the B2B framework, DNSPs can dictate how a retailer or metering party market participant interacts with its systems. At the worst case, this can result in one-sided efficiency benefits, with retailers and metering providers being given short notice to constantly revise processes or IT systems to suit DNSP legacy systems or system issues, and subsequently having to create separate processes for specific DNSPs, resulting in multiple processes or interfaces. This results in a higher "total system cost" of delivering services to the customer; anything the AER can do to lower costs for retailers and other participants would be passed on to customers in lower prices. This also results in reduced risk of a stranded IT system asset on the DNSP's end.

In addition, DNSP IT outages often also have monetary impacts on retailers and the market from increased staffing levels required from manual workarounds, potential breaches, and lost customer sales or reduced customer satisfaction borne by the retailer. We therefore recommend that the AER considers the impact DNSP ICT investment has on the market and consumers, and whether this could be reflected in the investment risk premium of the ICT asset.

Our responses to selected questions in the consultation paper are provided below.

**Responses to Questions:**

*Question 2: What other methodologies can we use to benchmark ICT capex? What are the benefits and disadvantages of each approach? What other benchmarking normalising factors do you consider appropriate? For example, Regulatory Asset Base (RAB) could be used as a proxy for asset size.*

We consider the disadvantage of revealed costs and using past actuals in respect to non-recurrent ICT expenditure is that it doesn't incorporate learnings from IT implementation and delivery that can be built in from previous experience and incorporates inefficiencies. ICT expenditure is normally spent on a few large, established service providers (e.g. Oracle, SAP), who not only provide systems and services to DNSPs but large organisations within and outside of the energy industry. It might be appropriate to consider benchmarking ICT costs to wider industry standards.

*Question 3: We note the difficulty in assessing the efficiency of implementing a compliance driven step-change ICT projects. What information do you consider is required to assess the efficiency of these projects?*

The timing and uncertainty around a regulatory change can significantly impact the efficiency of ICT implementation. There is a balance between starting an IT system change early when regulations are being consulted on, and awaiting final determinations and technical specifications to be determined by the relevant authority. Changes to regulations (or their interpretation) by regulators can require significant re-scoping, re-coding, and re-testing of systems, and the re-assessment of impacts on existing systems at significant cost; on the other hand, in the latter scenario, compressed timeframes require significant delivery efforts and resources.

*Question 5: What is your opinion on us requesting DNSPs provide post implementation reports from historical ICT investments?*

We support this broadly in-principle as a good governance and accountability measure but note that there are also costs involved in conducting post implementation reviews and suggest that an appropriate threshold be considered.

We also suggest that the AER consider how the costs of conducting the reviews is recovered, and whether recommendations from the review are incorporated into future investments or into productivity adjustments. The latter can be challenging as recommendations are often not easy to quantify with precision.

*Question 6: What do you consider is required to demonstrate that DNSPs have incorporated benefits into its overall proposal?*

We recommend that the AER consider whether there have been overall benefits to consumers and market participants, or whether these are one-sided benefits accruing to the DNSP's IT systems that have negative impacts on market participants and consumers, and how this is reflected within the DNSP's risk premiums.

If you would like to discuss this submission, please contact Shawn Tan at +61 3 8628 1512 or Shawn.Tan@energyaustralia.com.au.

Yours sincerely

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