



19 June 2019

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Sent by email: AERInquiry@aer.gov.au

ICT Expenditure Assessment Consultation Paper

Major Energy Users Inc (MEU) is pleased for the opportunity to provide its views on the ICT expenditure assessment approach prepared by the Australian Energy Regulator (AER).

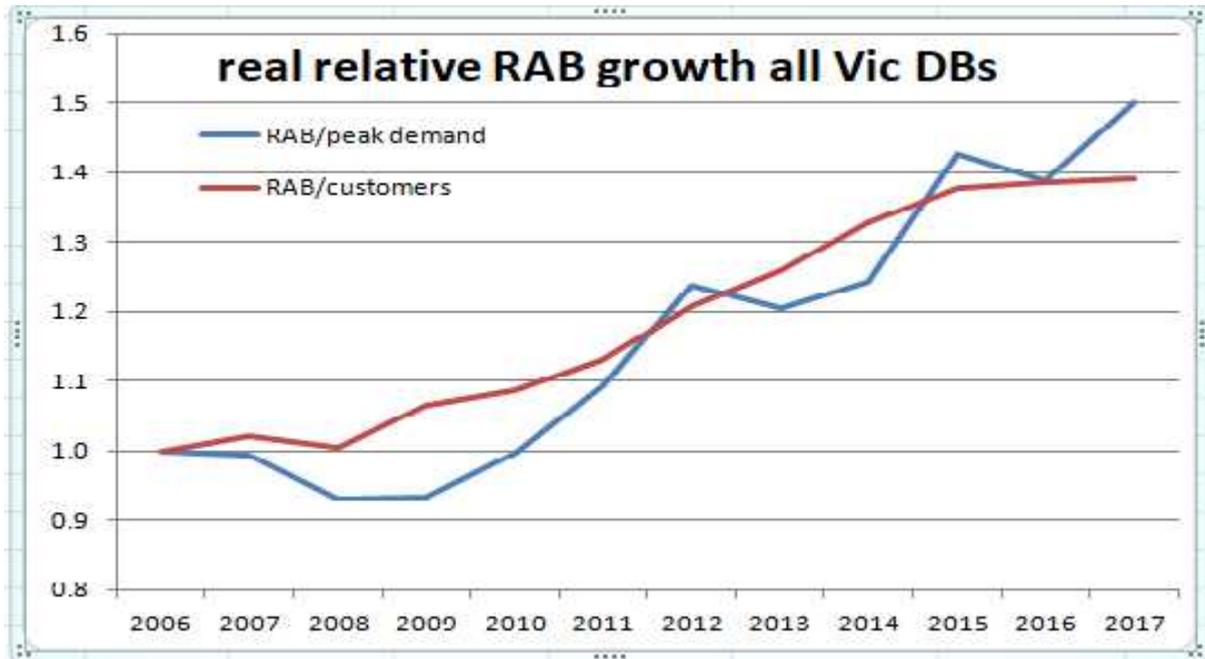
The MEU was established by very large energy using firms to represent their interests in the energy markets. As most of the members are located regionally and are the largest employers in these regions, the MEU is required by its members to ensure that its views also accommodate the needs of their suppliers and employees in those regional areas. It is on this basis the MEU and its regional affiliates have been advocating in the interests of energy consumer for over 20 years and it has a high recognition as providing informed comment on energy issues from a consumer viewpoint with various regulators (ACCC, AEMO, AEMC, AER and regional regulators) and with governments.

The MEU stresses that the views expressed by the MEU in this response are based on looking at the issues from the perspective of consumers of electricity but it has not attempted to provide significant analysis on how the proposed changes might impact other stakeholders.

As an overarching observation, the MEU is concerned that the regulatory asset base (RAB) for all networks has increased over the last decade in real relative terms. For example, in Victoria where there have been perhaps better controls on the growth of the RAB than in other states, consumers have seen the value of the RAB increase considerably as is shown on the following chart.

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ABN 71 278 859 567



Source: economic benchmarking RIN data

The MEU points out that much of the growth in the Victorian networks RAB occurred at times of declining consumption of electricity and little growth (if any) in peak demand. Over the same period, the MEU has observed that the amounts of capex (and opex) related to new Information and Communications Technology (ICT) has also grown considerably, adding to this unacceptable growth in the RAB.

Because of its concerns about this growth in ICT capex (and opex), the MEU is pleased to see that the AER has implemented a more robust approach to assessing the amounts of ICT that are needed by electricity networks.

Generally, the MEU supports the proposed approach to assessing ICT expenditure but considers that the AER approach outlined in its consultation paper needs to be enhanced to reflect:

- 1. A greater emphasis of consumer needs.** While the AER approach does make some reference for an ICT proposal to meet the needs of consumers, the MEU considers that greater emphasis on the value that consumers get from the ICT capex is essential. For too long, consumers have been levied with the costs of ICT that the networks consider is appropriate with little reference as to whether the capex (and opex) will provide consumers with a better outcome and whether the arguments for this increase were proven to be valid.

With this in mind, the MEU considers that all ICT capex (and opex) has to demonstrably provide direct and observable value to consumers. In this regard, the MEU is very concerned that there is little “back casting” of

capex/opex to assess whether the investment actually delivered the benefits that were stated by the networks as providing value to consumers, especially for ICT capex (and opex). The MEU considers that at each reset, the network should be required to demonstrate that the consumer benefits asserted at the time of seeking the ICT allowance have been delivered to consumers, and if this hasn't occurred, then the AER will adjust ICT allowances to reflect this shortfall in benefit¹.

2. **A better use of historical data.** The AER proposes that it will use historical data to help inform on recurrent ICT expenditure but the MEU considers that the proposed approach implies that only the most recent 5 year data would be used (ie effectively over the current regulatory period). The MEU considers that at least 10 years of historical data should be used, noting that while ICT experiences a high growth rate of enhancement, the networks are still comprised of "old" technology where ramping up the ability of the ICT tools might only deliver a modest benefit to the consumers that are paying for the network services.
3. **Depreciation of existing tools.** The MEU is concerned the AER has effectively accepted that the ICT assets will be depreciated over 5 years. While the MEU accepts that some ICT equipment and software does have a limited shelf life, not all ICT falls into this category. The MEU considers that in replacing any ICT the networks have to demonstrate that the existing ICT can no longer provide the service that is required, rather than accepting that any ICT that has been depreciated needs immediate replacement as soon as it is depreciated.

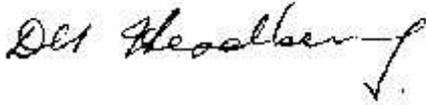
The MEU has consulted with its members about this issue and they point out that many ICT applications they use have much longer operating lives than 5 years and continue to provide a useful purpose well beyond any 5 year depreciation period.

4. **New ICT has new features but higher cost.** The MEU is aware that replacement ICT often costs more but provides in compensation more features than previous models. The MEU questions whether consumers would be better served by not having to replace existing tools which demonstrably provide for the needs of consumers without the need for replacement with new tools that have enhancements that do not provide value to consumers.

¹ The MEU is aware that the National Electricity Rules only allow the AER to assess the prudence of capex where the actual capex exceeds the allowance. The MEU considers that in the case of ICT capex, the AER needs to act more aggressively to limit excessive allowances

The MEU is happy to discuss the issues further with you if needed or if you feel that any expansion on the above comments is necessary. If so, please contact the undersigned at davidheadberry@bigpond.com or (03) 5962 3225

Yours faithfully

A handwritten signature in black ink, appearing to read "David Headberry". The signature is written in a cursive style with a long, sweeping tail on the final letter.

David Headberry
Public Officer