

General IT compliance

**PAL BUS 7.14 - General IT compliance - Jan2020 -
Public**

Regulatory proposal 2021–2026

Contents

1	OVERVIEW	3
2	BACKGROUND	5
3	IDENTIFIED NEED	6
4	OPTIONS ANALYSIS.....	7
4.1	Option 0—do nothing.....	7
4.2	Option 1—ensure compliance.....	7
5	RECOMMENDATION.....	8

1 Overview

Business	CitiPower and Powercor
Title	General IT compliance
Project ID	PAL BUS 7.14 - General IT compliance - Jan2020 - Public
Category	IT capital expenditure—recurrent
Identified need	To continue to deliver a safe and reliable electricity supply, we need to adapt our IT systems to ensure compliance with anticipated new regulatory obligations during 2021–2026
Recommended option	Option 1—ensure compliance with all anticipated new regulatory obligations during 2021–2026
Proposed start date	2021/22
Proposed commission date	2025/26
Supporting documents	<ol style="list-style-type: none">1. PAL MOD 7.20 - General IT compliance - Jan2020 - Public2. PAL MOD 12.02 - Quoted services labour rate - Jan2020 - Public

We operate under a large number of rules and obligations that define our internal and external processes, including what data and support our IT systems must provide. These rules and obligations are periodically reviewed and amended by government bodies and regulators, to ensure aptness in a changing energy market. The majority of the amendments require us to make changes to our IT systems to ensure we remain compliant with new regulatory obligations. In this business case, we consider the smaller unidentified periodical updates to the National Electricity Rules (**the Rules**) and obligations. Larger structural changes, such as the 5-minute settlement of the National Electricity Market (**NEM**) rule change, are considered in individual business cases.

We anticipate that during 2021–2026 there will be a similar trend in amendments to regulatory obligations we have seen over the current regulatory period. The amendments since 2016 have mostly related to keeping up with technological change, and ensuring customer protections, in a fast-changing technological environment. As the energy market continues to evolve, we anticipate further amendments to our regulatory obligations. We will need to update our IT systems to ensure compliance with each new obligation, allowing us to continue to provide a safe and reliable electricity supply and meet our customers' expectations.

We have considered two options for addressing the identified need, as shown in table 1.

Table 1 Options analysis summary, total capital expenditure during 2021–2026 regulatory period (\$ million, 2021)

Option	IT capital expenditure
0 Do nothing—do not carry out necessary investment to meet new regulatory obligations	0
1 Ensure compliance with all anticipated new regulatory obligations during 2021–2026	9.2

Source: Powercor

Note Costs include CitiPower and Powercor

We recommend option 1—ensure compliance with all anticipated new regulatory obligations during 2021–2026. This option ensures we are able to meet our obligations and continue to provide a safe and reliable electricity supply at efficient cost. Our forecast expenditure is efficient as it is based on our historical expenditure over the current regulatory period that is based on market tenders and subject to capital efficiency sharing scheme incentives.

Our expenditure forecasts for our recommended option 1 are set out in table 2.

Table 2 Recommended option: expenditure forecast (\$ million, 2021)

IT capital expenditure	2021–2026
CitiPower	4.6
Powercor	4.6
Total IT capital expenditure	9.2

Source: Powercor

2 Background

We operate under an amalgamation of rules and obligations that define our internal and external processes, including what data and support our IT systems must provide.

Our regulatory obligations change regularly over time to ensure currency and aptness of the regulatory framework in an evolving energy market. The smaller unidentified period changes to our obligations that are the subject of this business case are administered by a number of government bodies and regulators including:

- The Australian Energy Markets Commission (**AEMC**)—responsible for the development of the Rules
- the Australian Energy Regulator (**AER**)—monitors and implements the Rules, including providing guidelines for the implementation of the Rules
- the Australian Energy Market Operator (**AEMO**)—governs what data must be provided for the operation of the NEM under the Rules with a number of guidelines and procedures
- the Essential Services Commission of Victoria (**ESCV**)—governs the services we must provide to customers, including frequency and type of notifications for outages
- the Victorian Government—governs the overall energy market in Victoria.

Other bodies that can review and change our regulatory obligations include the Council of Australian Governments (**COAG**) Energy Council and the Australian Competition and Consumer Commission (**ACCC**).

Since 2016, we have seen a number of smaller changes to our obligations that reflect the need to keep up with market changes and to ensure customer protection that we were required to implement. Table 3 summarises the key changes that have occurred since 2016, and the cost of implementation of IT systems to comply with new obligations.

Table 3 Changes in regulatory obligations during 2016–2020 (\$ million)

Change in obligation	Initiated by	IT capital expenditure
Customer access to data through a web portal	Victorian Government	0.7
Strengthening protection for life support customers	ESCV	2.1
MSATS procedure changes—CATS 4_6	AEMO	0.4
DER register	AEMO	2.0
B2B changes to SO's and MXN's (November 2020)	AEMO	1.0
MSATS changes (May 2020)	AEMO	0.5
NMI standing data changes (2020)	AEMO	1.0
Consumer data right (CDR) provision of consumer data (2020)	ACCC	1.0
Total IT capital expenditure		8.7

Note: MSATS=market settlement and transfer solutions; CATS=consumer administration and transfer solutions; DER=distributed energy resource; B2B=business to business; SO=service order; MXN=meter exchange notification; NMI=national meter identifier

Source: Powercor

3 Identified need

As the energy market continues to evolve, the Rules and obligations under which we operate will change to ensure currency and relevance of the regulatory framework. While the AEMC and other government and regulatory bodies will continue to make structural changes to the Rules, smaller unidentified period changes to regulated guidelines, procedures and obligations will also continue over time, to improve the implementation of the Rules and deliver best-practices processes.

We anticipate that during 2021–2026 there will be a similar trend in changes to regulatory obligations compared to the current regulatory period. We will need to update our IT systems to ensure compliance with each new obligation, allowing us to continue to provide a safe and reliable electricity supply.

4 Options analysis

4.1 Option 0—do nothing

Under option 0—do nothing, we would not make any changes to our IT systems after a change in a Rule or obligation. This is not a viable option as it does not enable us to meet our regulatory obligations and as such does not satisfy the capital expenditure objective of the Rules. Failure to comply with the Rules would result in penalties and may result in poorer customer outcomes or compromise safety, and in the worse-case, NEM disruptions. The advantages and disadvantages of this option are set out in table 4.

Table 4 Advantages and disadvantages of option 0

Advantages	Disadvantages
Low cost	Does not meet our regulatory obligations
	Does not achieve the safety and reliability outcomes our customers expect
	Could lead to NEM disruptions

Source: Powercor

4.2 Option 1—ensure compliance

Option 1—ensure compliance with all anticipated new regulatory obligations during 2021–2026 including the necessary investment in updating IT systems to allow us to meet our new obligations. With each new obligation, we develop prudent and efficient update solutions by working with the vendor to analyse various options, design the solution and conduct appropriate testing. Our solutions are market tested and compared between possible vendors. The timing of each solution is developed to maximise on the latest available technology (i.e. performing the update as late as possible) while managing the risk of late implementation.

The advantages and disadvantages of this option are set out in table 5.

Table 5 Advantages and disadvantages of option 1

Advantages	Disadvantages
Ensures compliance with the new obligation, allowing us to continue to provide safe and reliable electricity supply and meet our customers' expectations	Costs to customers
Reduces the risk of NEM disruptions	

Source: Powercor

5 Recommendation

We recommend option 1—ensure compliance with all anticipated new regulatory obligations during 2021–2026. This option ensures we are able to meet our obligations and continue to provide a safe and reliable electricity supply.

Option 0—do nothing, is not recommended as it is not in the long-term interest of consumers and it does not satisfy the capital expenditure objective of the Rules.

Table 6 summarises the expenditure proposal for our recommended option 1. We have allocated the costs to each network based on their customer number share.

Our forecast expenditure is efficient as it is based on recent historical spend that is market tested and subject to efficiency incentives under the regulatory framework. While we have not forecast each expected change in obligations, we anticipate a similar rate of change in obligations compared to the current regulatory period. We consider this to be a conservative estimate as the pace of technological change during 2021–2026, particularly with regard to data access, availability and use, is likely to exceed that of today.

Table 6 Recommended option: IT capital expenditure for 2021–2026 regulatory period (\$ million, 2021)

IT capital expenditure	2021/22	2022/23	2023/24	2024/25	2025/26	Total*
CitiPower	0.9	0.9	0.9	0.9	0.9	4.6
Powercor	0.9	0.9	0.9	0.9	0.9	4.6
Total IT capital expenditure	1.8	1.8	1.8	1.8	1.8	9.2

* Totals may not add up due to rounding.

Source: Powercor