Attachment G.14

SAPN_IT Resourcing and Deliverability

03 July, 2015

SAPN_G.14_PUBLIC_IT Resourcing and Deliverability

Original Proposal

SA Power Networks provided two key artefacts supporting the resourcing and deliverability of the portfolio of capital work contained in our Original Proposal[1], namely:

- The IT Sourcing and Resourcing Plan (Attachment 20.43)[2]
- IT Investment Plan 2015 – 2020 (Attachment 20.32)[3]

The IT Sourcing and Resourcing Plan detailed the capital and operational labour effort forecast for the 2015-20 Regulatory Control Period (**RCP**)[4]. This was accompanied by a review of the sourcing options to be employed, particularly in relation to the level of outsourcing vs in-sourcing. In addition, the IT Sourcing and Resourcing Plan outlined how SA Power Networks will leverage the post IT Transformation[5] IT Operating Model and the related IT Services Panel to deliver the forecast capital portfolio in the most efficient and effective manner possible.

In terms of the capital program specifically, SA Power Networks' preferred sourcing option proposed increased levels of outsourcing capped at 65% of total capital program effort. This cap was proposed in order to maintain an appropriate risk profile by limiting the inherent risks associated with outsourcing and ensuring we have a suitable contribution by internal staff in the delivery of capital projects. The outcome of the proposed sourcing distribution in terms of in-sourced vs outsourced FTEs and overall outsourcing levels are outlined in Table 1.

Table 1: Information Technology Capital Projects Resource Forecast Summary – Original Proposal, October 2014

	15/16	16/17	17/18	18/19	19/20
in-sourced IT capital program FTEs	74	66	66	69	66
outsourced IT capital works FTEs	136	112	103	126	112
Total capital program FTE effort	**210**	**178**	**169**	**195**	**178**
outsourced IT capital works %	65%	63%	61%	65%	64%
Total outsourced IT %	**51%**	**47%**	**46%**	**48%**	**46%**

The IT Investment Plan 2015-2020, 'Section 9 – IT Investment Plan Implementation'[6] described the organisational capabilities in place at SA Power Networks that are necessary for the successful implementation of the portfolio, namely:

- Vendor Performance and Risk Management;
- IT Delivery Management and Governance; and
- Corporate Governance; and

it presented a roadmap of specific improvements to these capabilities that SA Power Networks commenced in 2013 and planned to implement by the end of 2015. The main objectives of these

[1] SA Power Networks, *Regulatory Proposal 2015-20*, October 2014
[2] SA Power Networks, *Attachment 20.43 - SA Power Networks: IT Sourcing and Resourcing Plan,* October 2014
[3] SA Power Networks, *Attachment 20.32 - SA Power Networks: Information Technology Investment Plan 2015-2020,* October 2014
[4] The period from 1 July 2015 to 30 June 2020
[5] The IT Transformation program implemented by SA Power Networks in 2013-2014 established a new IT Operating Model to improve efficiency and provide the capability to deliver the enhanced program of work. Further details about IT Transformation can be found in *Attachment 20.43 - SA Power Networks: IT Sourcing and Resourcing Plan,* October 2014, Section 1.2.1, p.5
[6] SA Power Networks, *Attachment 20.32 - SA Power Networks: Information Technology Investment Plan 2015-2020,* October 2014, p.60

improvements were to ensure efficient and effective delivery of the IT capital program, maximise its benefits to the organisation and consumers, and reduce delivery risks.

AER Preliminary Determination

The AER performed a detailed portfolio review with a particular focus on resourcing and deliverability[7]. The AER assessed our proposed non-recurrent IT capital expenditure '*…from both a top down portfolio perspective and through a bottom up evaluation of the individual business cases to assess the prudence and efficiency of the proposed capex*'.[8]

The AER expressed concerns with the size and scale of our proposed non-recurrent capital portfolio, stating:

> *'SA Power Networks' forecast non-recurrent IT capex of $227.8 million ($2014-15) is an increase of $158.5 million or 229 per cent from actual and expected non-recurrent IT capex in the 2010–2015 regulatory control period.'*[8]

As a result of that assessment, the AER was not satisfied that our forecast capital expenditure reasonably reflected the efficient costs that a prudent operator would require to achieve the capital expenditure objectives. This view reflected the AER's conclusions that:[9]

> *'Based on our review, we are not satisfied that SA Power Networks' non-recurrent IT capex program is prudent, or that SA Power Networks is likely to deliver the full program in the 2015–20 regulatory control period as proposed. This view is based on our assessment of the information provided by SA Power Networks and reflects our conclusions that:*
>
> - *the proposed program is a large scale, complex and interdependent program of works which impacts broadly across core IT systems and business processes*
> - *the program is to be delivered in a relatively short timeframe for such a complex portfolio of works*
> - *SA Power Networks' IT service management capability is, at present, relatively immature*
> - *SA Power Networks' proposal to substantially increase its use of outsourced resources to deliver 63 per cent of the IT capex program presents delivery risks given SA Power Networks has not previously applied this level of outsourced service delivery in the IT area*
> - *the risks to the successful delivery of this program in the timeframe proposed, in terms of resourcing, implementation, business process changes and the realisation of benefits, appear high*
> - *a prudent operator would undertake such a portfolio of work over a longer timeframe to reduce delivery and resourcing risk.'*

[7] AER, *Preliminary Decision SA Power Networks determination 2015-16 to 2019-20*, Attachment 6 – Capital expenditure, Section B.6.3 p.6-114 thru p.6-118
[8] AER, *Preliminary Decision: SA Power Networks determination 2015-16 to 2019-20*, Attachment 6 – Capital expenditure, p 6-114.
[9] AER, *Preliminary Decision: SA Power Networks determination 2015-16 to 2019-20*, April 2015, p 6-118.

Our response to the AER's Preliminary Determination

Summary

SA Power Networks rejects the AER's conclusion[10] that our proposed non-recurrent IT capex program is not prudent and that we are unlikely to deliver the full program in the 2015-20 RCP as proposed. Our position is that we are capable of delivering the non-recurrent IT portfolio efficiently and effectively whilst maintaining business as usual operations. Nonetheless, for the reasons outlined in our Revised Proposal[11], we have proposed a revised non-recurrent IT portfolio, which requires a 26% lower capex in the 2015-20 RCP than that in our Original Proposal.

Supporting our position on deliverability of the revised IT portfolio are:

1. **A Demonstrated Track Record**: Our IT Transformation has been completed and we have demonstrated our ability to leverage our new IT Operating Model by delivering to plan a $52.9 (June 2015, $million) 2014/15 IT capital program.

2. **A Revised Prioritised IT Portfolio:** To address the AER's concerns, we have prioritised our proposed IT capital expenditure program by deferring lower priority initiatives to later in the 2015-20 RCP or to the 2020-25 RCP[12] (where appropriate), effectively extending the program over ten years instead of five. This has further reduced the deliverability risks due to:

   2.1. **Reduced volume of work.** The non-recurrent IT capital program to be delivered in the 2015-20 RCP has been reduced by 26% in expenditure terms. As a result, the uplift in the total labour effort required to deliver the IT capital program has also been reduced, and the average outsourcing levels on the capital program have been reduced from 63% to 51%. Combined with the operating effort forecast, our total forecast outsourcing levels have also been significantly reduced, from the average of 48% in our Original Proposal to 32% in our Revised Proposal (Table 2).

   Table 2: Levels of outsourcing for the IT capital program and the total (capital and operational) IT program over the 2015-20 RCP

	Outsourced IT capital works (%)	Total outsourced IT (%)
Original Proposal	63%	48%
Revised Proposal	51%	32%

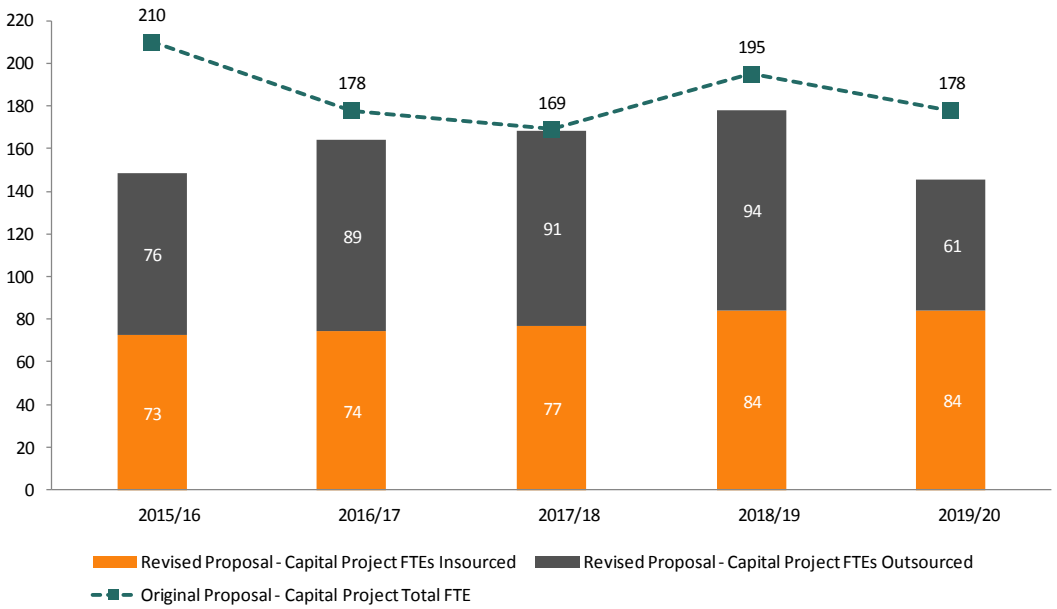
   2.2. **A more uniform expenditure profile.** We have adjusted the timing of the proposed initiatives to provide a more uniform distribution of expenditure and resources.

   2.3. **More consistent resource requirements.** The more uniform expenditure profile has resulted in a significant reduction in the variability of resource requirements from year to year, providing a more consistent view of resource and skill requirements. This also addresses the AER's concern[13] in relation to the 90 FTE uplift in effort from 2014/15 to 2015/16 in our Original Proposal because the 2015/16 effort is now reduced from 210 to 149 FTEs. We also note that the in-sourced labour effort for the capital program is kept at a steady level throughout the 2015-20 RCP. In contrast to the in-sourced FTEs, which are comprised of SA Power Networks employees and supplementary labour, the outsourced

[10] AER, *Preliminary Decision: SA Power Networks determination 2015-16 to 2019-20,* Attachment 6 – Capital expenditure. p 6-118.
[11] SA Power Networks, *Revised Regulatory Proposal*, Section 7.15, June 2015
[12] The period from 1 July 2020 to 30 June 2025
[13] AER, *Preliminary Decision: SA Power Networks determination 2015-16 to 2019-20,* Attachment 6 – Capital expenditure., p 6-116

FTE effort is delivered by vendors in the form of services and, therefore, is easily scalable. Figure 1 summarises the revised in-sourced effort and levels of outsourcing for the total capital program.

Figure 1: IT Capital Projects forecast resource requirements. Comparison of Original Proposal and Revised Proposal



2.4. **A Reduced Business Change Impact**: In adjusting the timing of the initiatives[14], we have focused our attention on the highest risk and highest business priority projects. The revised portfolio is focused on eight key programs, instead of the 24 originally proposed. This has reduced the volume of individual non-recurrent projects from 119 to 69 (or a 42% reduction). This will enable the business to better focus its attention on fewer change events, resulting in lower risk to benefit realisation.

3. IT and Organisational Improvements: As evident from the success of our 2014/15 capital program delivery, we have made significant improvements both within IT and across the business in areas critical to the successful delivery of the proposed portfolio. These include:

3.1. **More Effective IT Delivery Management and Governance.** Since our Original Proposal was submitted in October 2014, we have completed an IT Project Management Office (**ITPMO**) Capability Uplift with further targeted improvements in progress. We have established and embedded processes to ensure our ITPMO and Corporate Project Management Office (**CPMO**) are better aligned ensuring that everything we do from day-to-day project management and coordination activities to corporate portfolio governance is fully aligned with our strategic objectives and goals. We have simplified governance, removed duplication and standardised our approach.

3.2. **Capable Vendors and a Sound Vendor Management Capability**. We have demonstrated our ability to leverage our supplier partners more effectively than anticipated by actually delivering 74% of the labour component of the 2014/15 $52.9 (June 2015, $million) capital program via our IT Services Panel.

[14] The IT initiatives correspond to business cases provided as attachments to this Revised Proposal. They consist of one or more individual projects.

3.3. **An Increased IT Service Management Maturity.** Our IT Service Management (**ITSM**) maturity has improved since 2011 when the Solisma report quoted by the AER[15] was produced. We have many notable areas of improvement across service strategy, design, transition and operation, but we acknowledge there is further work to do. One should note, however, that whilst ITSM assists in maintaining IT operations and accommodating the changes that the non-recurrent IT capital program generates, it is not in itself an assessment of the IT delivery capability of SA Power Networks. Accordingly, it should not be used to assess the maturity or capability of SA Power Networks to effectively deliver the proposed capital program of work.

3.4. **A More Effective Business Change Management Function.** We have established an organisational change management group under our People and Culture function, with resources specifically dedicated to supporting the implementation and embedding of IT projects and other business initiatives.

3.5. **An Enhanced Enterprise Architecture Function.** Since our Original Proposal was submitted in October 2014, our Enterprise Architecture (**EA**) function has matured. The work produced by our EA function has provided the necessary visibility of the linkages between business processes, business objectives and the related IT initiatives, therefore ensuring we are doing the right work at the right time. It has also provided the visibility of dependencies between business processes, systems and technology thus giving us a better ability to understand, manage and implement change.

4. **A Commitment to Effective Change Management:** Our forecast includes a change management forecast representing 15% of total non-recurrent capital program effort. Gartner research[16] supports this by advocating that on average, 15 percent of the program budget should be allocated to organisational change management. The AER states that the size of our change management forecast is an indication of the risks that the portfolio presents. We, on the other hand, believe that this demonstrates our due consideration and commitment to ensuring that the portfolio delivers the expected outcomes and benefits.

Our response

Demonstrated Track Record

The combined recurrent and non-recurrent capital program for 2013/14 was $29 (Dec 2013, $million). With only one month of forecast remaining for 2014/15, we are on track to deliver to plan a $52.9 (June 2015, $million) program of capital work. This represents a significant increase on FY13/14 and is a testament to the ability of our new IT Operating Model to effectively respond to variations in demand for IT services. More importantly, we have delivered the planned business outcomes, which include:

- completion of our Enterprise Asset Management Blueprint, a critical design artefact for our Enterprise Asset Management program;
- a new SAP mobility enabled materials management solution for our warehouses;
- implementation of SAP Work Manager, replacing the current paper based asset inspection process for cubicle switchgear with a mobility solution that can be leveraged for other asset types in the future;
- rollout of collaboration tools for our employees and contractors;
- implementation of a Fire Danger Level monitoring tool so that SA Power Networks can take pre-emptive actions to minimise the risk of SA Power Networks' assets starting fires during periods of extreme weather;

[15] AER, *Preliminary Decision: SA Power Networks determination 2015-16 to 2019-20,* Attachment 6 – Capital expenditure, p. 6-117
[16] Lessons from 169 SAP Implementations Using Service Providers in North America, Gartner, March 2011

- implementation of a new streamlined accounts payable processes integrated with SAP;
- enhancement of our Vegetation Management IT tools;
- delivery of core components of our Enterprise Mobility and Integration platforms to mitigate dependencies for our strategic portfolio of work;
- commencement of strategic programs that will continue into the 2015-20 RCP such as:
    - Enterprise Information Security: the implementation of base level information security tools and acquisition of staff to build the information security function and commence improvements in security awareness for our staff;
    - Data Centre Consolidation: completed Phase 1 to establish the necessary facilities and infrastructure. The upcoming Phase 2 will focus on migration of applications and decommissioning of our existing facilities;
    - SAP Foundations: planning and design activities;
    - Financial Management: detailed requirements and commencement of design activities; and
    - Intelligent Design Management System: delivery of key dependent projects, namely, the enterprise design management solution for Substation Engineering, Telecommunications and Supervisory Control and Data Acquisition (**SCADA**) design artefacts.

A Revised Prioritised IT Portfolio

In the Preliminary Determination[17] the AER stated:

> '*The program is to be delivered in a relatively short timeframe for such a complex portfolio of works*.' [23]

We have prioritised our proposed IT capital expenditure program to address the AER's concerns by deferring lower priority projects to later in the RCP or to the 2020-25 RCP (where appropriate), effectively extending the program over ten years instead of five. This has further reduced the deliverability risks.

Reduced volume of work

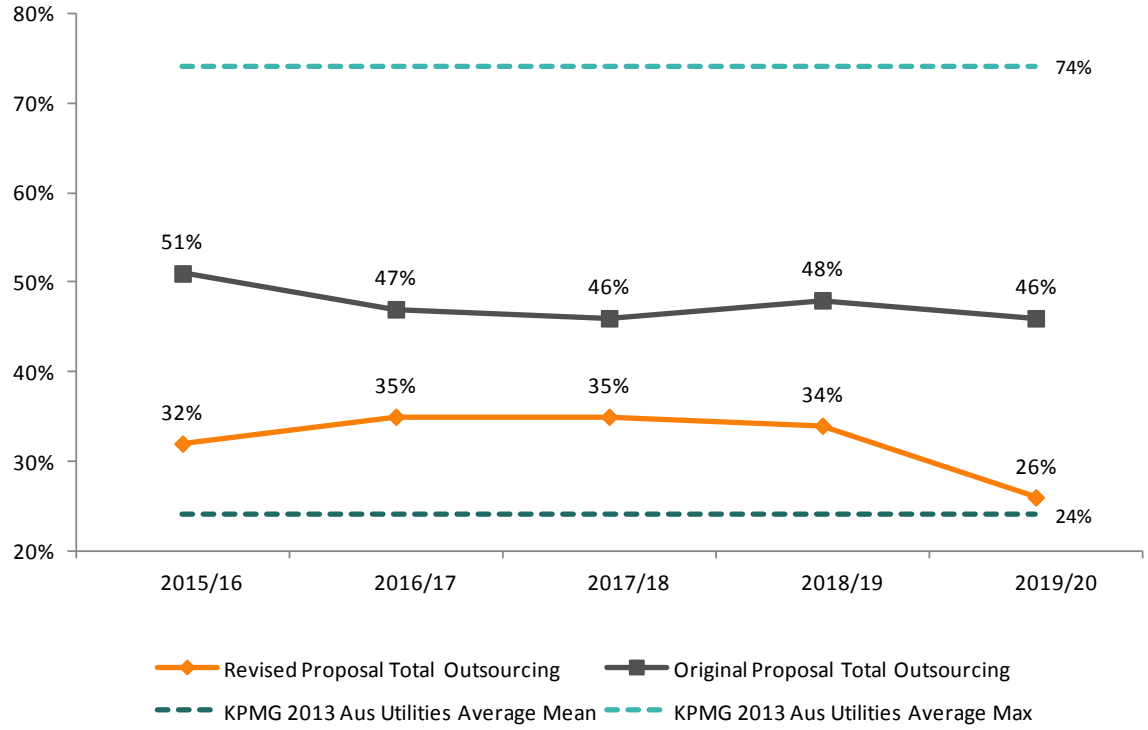
The non-recurrent IT capital program to be delivered within the 2015-20 RCP has been reduced by 26% in expenditure terms, reflecting a more prudent and risk averse approach to delivering the portfolio of work. This has simplified the portfolio to the extent possible without jeopardising our:

- ability to deliver extreme risk mitigating projects;
- ability to meet regulatory requirements, including RIN Reporting; and
- ability to leverage opportunities to deliver the highest priority organisational strategic objectives.

As a result, the uplift in the total labour effort required to deliver the IT capital program has also been reduced. Combined with the operating effort forecast, our total forecast outsourcing levels have been reduced to 32% on average over the RCP compared to 48% in our Original Proposal and the outsourcing levels for the capital program have been reduced to 51% from 63%, respectively. Figure 2 demonstrates that this reduction takes the total forecast outsourcing levels close to the average across the Utilities sector according to the KPMG 2013 benchmarks[18].

[17] AER, *Preliminary Decision on SA Power Networks determination 2015–16 to 2019–20*, April 2015
[18] KPMG, *2013 Utilities ICT Benchmarking*, 7 March 2014

Figure 2: Levels of IT outsourcing in the Revised Proposal compared with the Original Proposal and with the KPMG benchmarks for the total IT outsourcing levels across the Utilities sector



More Consistent Resource Requirements

The AER also highlighted concerns with the variability in the expenditure and labour forecast for the IT capital program, particularly from 2014/15 to 2015/16 stating:

> *'SA Power Networks has estimated that delivering the IT capex program will require between 169 and 210 full time equivalent (FTE) resources over the 2015–20 regulatory control period. This represents an increase of 90 FTEs in one year from 2014-15 to 2015-16.'*[19]

To address this concern, our review of the timing of investments also targeted the volatility from year to year in resourcing requirements. This also addresses the AER's concern in relation to the 90 FTE uplift in effort from 2014/15 to 2015/16 in our Original Proposal because the 2015/16 effort is now reduced from 210 to 149 FTEs. We also note that the in-sourced labour effort for the capital program is kept at a steady level throughout the 2015-20 RCP. In contrast to the in-sourced FTEs, which are comprised of SA Power Networks employees and supplementary labour, the outsourced FTE effort is delivered by vendors in the form of services and, therefore, is easily scalable. The revised in-sourced effort and levels of outsourcing for the total capital program is summarised in Figure 1 and Table 3.

This reduced labour demand variation reduces delivery risks for us and our suppliers by providing a more consistent forecast of resource and skill requirements and a more gradual increase in the amount of capital work to be delivered. Demand for IT capital projects resources peaks in our revised proposal at 178 FTEs in 2018/19 during the peak of the CIS OV Billing Engine replacement compared to 210 in 2015/16 in our original proposal.

Table 3: Information Technology Capital Projects Resource Summary – Revised Proposal, June 2014

	15/16	16/17	17/18	18/19	19/20

[19] AER, *Preliminary Decision: SA Power Networks determination 2015-16 to 2019-20,* Attachment 6 – Capital expenditure. p.6-116

in-sourced IT capital program FTEs	73	74	77	84	84
outsourced IT capital program FTEs (65% cap)	76	89	91	94	61
Total capital program FTE effort	149	164	168	178	145
outsourced IT capital program %	51%	55%	54%	53%	42%
Total outsourced IT %	32%	35%	35%	34%	26%

Reduced Business Change Impact

The AER expressed concerns regarding the ability of SA Power Networks to accommodate the level of proposed business change and the resulting risk to benefits realisation, stating:

> *'The proposed portfolio of projects is complex, interrelated, and affects a number of SA Power Networks' core IT systems'*[20]
>
> And,
>
> *'…it has not provided evidence that shows whether it has the capability to manage and accommodate the extent of changes required over this period.'*[21]

A consequence of the revised timing of the IT capital portfolio is a significantly reduced business change impact. Our Original Proposal included 119 individual projects to be executed over the 2015-20 RCP. Our revised forecast includes only 69 individual projects, a reduction of 42%. This reflects our focus on the larger extreme risk projects such as the CISOV replacement and the highest business priority projects such as Field Force Mobility. This will enable the business to better focus its attention on fewer change events, resulting in lower risk to benefits realisation.

IT and Organisational Improvements

As evident from the success of our 2014/15 capital program delivery, we have made significant improvements both within IT and across the business in the areas critical to the successful delivery of the proposed portfolio. The key improvements are described below.

More Effective IT Delivery Management and Governance

We have completed an ITPMO Capability Uplift, with further targeted improvements in progress. We have hired a skilled ITPMO specialist and established and embedded processes to ensure our ITPMO and CPMO are better aligned, ensuring that everything we do from day-to-day project management and coordination activities to corporate portfolio governance is fully aligned with our strategic objectives and goals.

Specifically, our ITPMO has:

- enhanced the inception and estimation stages for projects;
- developed a single project management methodology across all of IT;
- implemented an 'Investment Group' governance structure allowing for aligned projects to be grouped, thereby simplifying funding governance and enabling interdependent projects to be managed collectively;

[20] AER, *Preliminary Decision: SA Power Networks determination 2015-16 to 2019-20,* Attachment 6 – Capital expenditure. p.6-114
[21] AER, *Preliminary Decision SA Power Networks determination 2015-16 to 2019-20*, Attachment 6 – Capital expenditure. p.6-117

- enhanced the existing Project Stage Gate review process;
- implemented standardised monitoring and control procedures; and
- integrated processes and reporting with the CPMO.

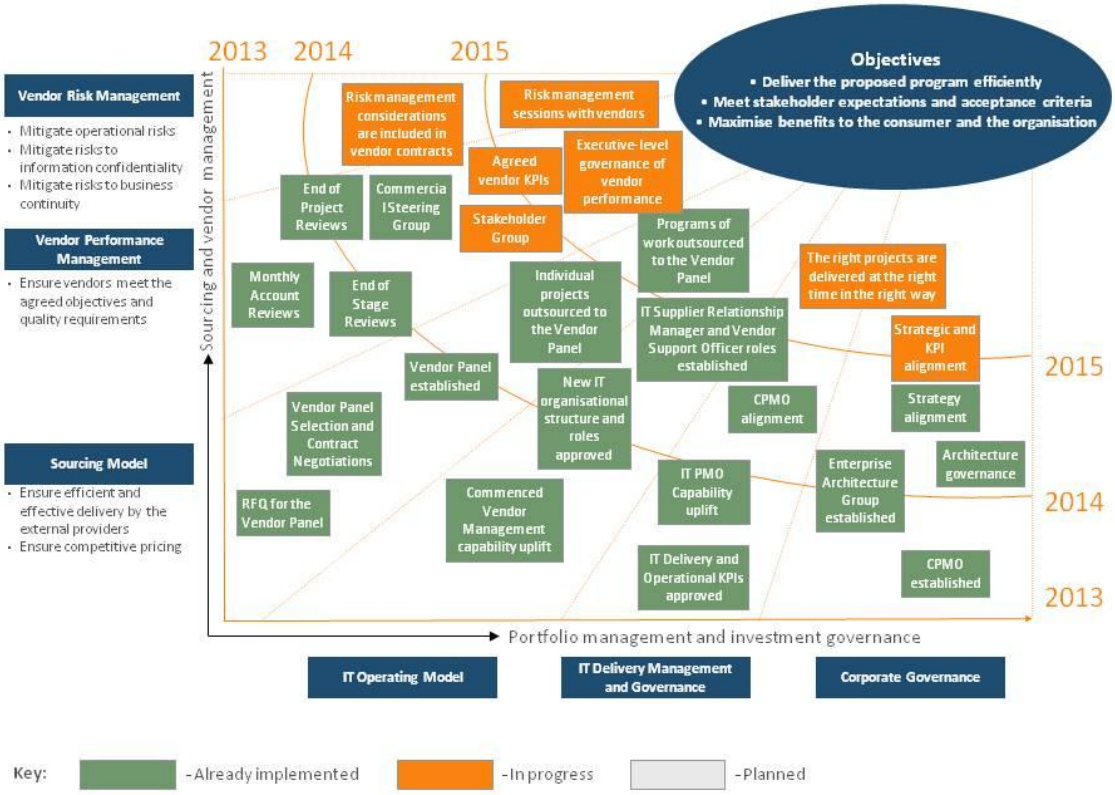
Additionally, our CPMO has:

- embedded the CPMO framework, project management governance, standards, templates and tools required;
- consolidated reporting and increased the visibility of project and portfolio status to the Executive Management Group (**EMG**) via the CPMO dashboard;
- implemented portfolio KPIs (lead indicators) of project financial and schedule performance;
- implemented Stage Gate reviews to better monitor and control project performance;
- indentified and initiated monitoring of factors that represent risks to the achievement of portfolio outcomes;
- standardised our project management methodology across business and IT domains;
- implemented improved project estimation tools and processes, including the use of risk based project contingency;
- established procedures for benefits identification, verification and tracking; and
- implemented project selection and prioritisation tools to ensure greater strategic alignment of projects.

Overall, the ITPMO and CPMO have collectively simplified governance, removed duplication and standardised our approach. In the IT Investment Plan 2015-2020[22] submitted with our Original Proposal, we outlined the necessary activities to achieve our long term sourcing, vendor management, portfolio management and governance objectives. Figure 3 outlines our progress in achieving these objectives. The remaining in-progress initiatives are being implemented in accordance with the agreed strategic framework across the enterprise.

[22] SA Power Networks: Information Technology Investment Plan 2015-2020 p.60 Figure 26

Figure 3: IT Capital Program Procurement and Delivery improvements



Capable Vendors and a Sound Vendor Management Capability

We have demonstrated our ability to leverage our supplier partners more effectively than anticipated by actually delivering 74% of the labour component of the 2014/15 $52.9 million capital program expenditure via our IT Services Panel.

The AER expressed concern with our proposed level of outsourcing for the capital program, stating:

> 'SA Power *Networks' proposal to substantially increase its use of outsourced resources to deliver 63 per cent of the IT capex program presents delivery risks given SA Power Networks has not previously applied this level of outsourced service delivery in the IT area."*[23]

Through a review of our proposed sourcing arrangements and the revised portfolio timing, the average level of outsourcing for our capital program in the revised submission is 51% compared to 63% in our original proposal. Additionally, we disagree with the AER's assertion that outsourcing increases the overall delivery risks. If implemented correctly, outsourcing can actually reduce delivery risks by reducing the reliance on a single key person within the organisation, providing scalability and ensuring the appropriate skills are available as required. Our efforts over 2014/15 demonstrate that our vendors have both the capacity and the necessary skills to work in partnership with our internal teams to deliver the capital program in the most efficient and effective manner. Underpinning this success:

- Our vendor panel has the required skills and was specifically selected in 2013 based on the skills and capacity required to deliver the proposed program of work.

[23] AER, *Preliminary Decision: SA Power Networks determination 2015-16 to 2019-20,* Attachment 6 – Capital expenditure. p.6-118

- We have improved the accuracy of cost forecasts due to agreed negotiated rates.
- We have more effective forward planning and bundling of projects with suppliers working together to deliver projects.
- Our suppliers bring intellectual property, knowledge of global trends and experience from organisations facing similar challenges.
- We now have shared risk exposure with IT Service Panel partners via fixed price packages and contract conditions.
- Our vendor panel has the capacity to scale up and down according to our labour requirements.
- We have a dedicated supplier relationship management function to leverage the best value from the IT Services Panel and to manage vendor related delivery risk.

At the time of writing, we have 83 active capital projects (recurrent and non-recurrent) of which only one project is tracking as 'red' or 'off-track'. More importantly four out of the top five strategic initiatives are tracking 'green' or 'on-track' (one tracking as 'amber') demonstrating that we are effectively managing the delivery risks associated with our new IT Operating Model at significantly increased outsourcing levels compared to 2013/14. Additionally our Executive Management Group (EMG) has expressed their confidence with our improved IT delivery capability, this being a reflection of our transformation, improved governance and other measures outlined in this paper.

The AER also made reference to our proposed levels of outsourcing compared to the Australian Utilities benchmark stating:

> '*In total, SA Power Networks has proposed to outsource the delivery of 63 per cent of the total IT capex program over the 2015–20 regulatory control period. This compares to the mean level of IT outsourcing for Australian utilities in 2013, for both capital and operational roles, of 24 per cent'.*

This is an incorrect comparison. The AER is comparing the capital program outsourcing (excluding operations) in our Original Proposal to the benchmark for total outsourcing levels. The total level of outsourcing in our Original Proposal was 51% in 2015/16 and then less than 50% for the remainder of the period. [24] In addition, whilst the AER references the benchmark mean of 24%, the benchmark maximum of 74% is not acknowledged. Our Revised Proposal places our total outsourcing levels at approximately 32% on average over the 2015-20 RCP. This places SA Power Networks only slightly above the benchmark mean and well below the maximum, an achievable level as evidenced by our actual levels of outsourcing over 2014/15.

An Increased IT Service Management Maturity

The AER has linked the assessed ITSM maturity level in 2011 (four years ago) with ability to deliver, stating:

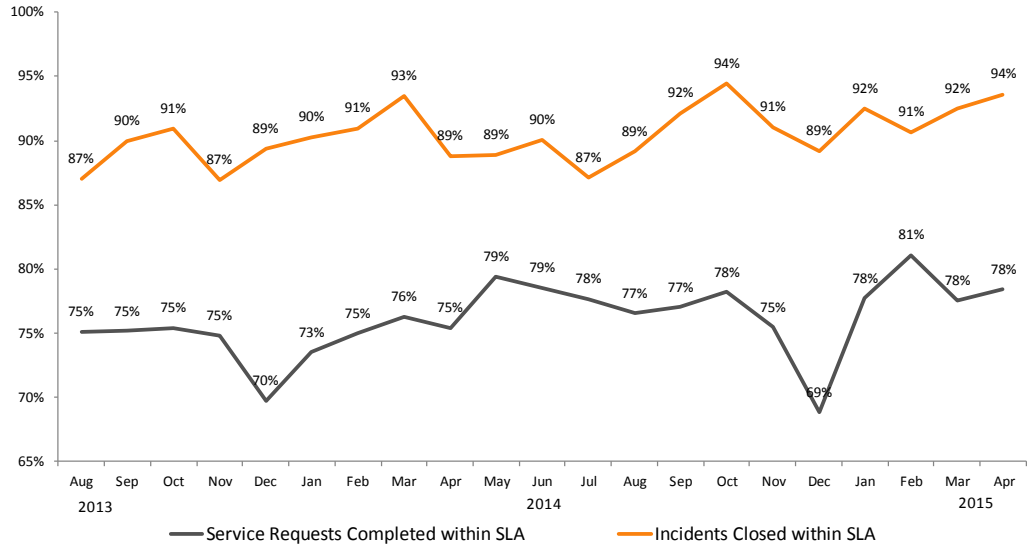
> *'In our view, this suggests that SA Power Networks' current IT service management capability is relatively immature and may struggle to deliver the proposed IT capital program in the timeframe proposed while also changing the way in which the IT function is resourced and maintaining ongoing IT operations.'*[25]

[24] SA Power Networks, *Resourcing and Sourcing plan 2015-2020,* p.20, Figure 14.
[25] AER, *Preliminary Decision: SA Power Networks determination 2015-16 to 2019-20,* Attachment 6 – Capital expenditure, p.6-117.

In response to this statement, it is our position that:

- Our ITSM maturity has improved since 2011 when the Solisma report quoted by the AER[26] was produced. We acknowledge there is further work to do, however, the Solisma report was generated four years ago and the IT Management and Operations business case[27] (in which current maturity is estimated at 2.5 on a five point scale) 15 months ago in the midst of the IT Transformation program.
- ITSM is not an assessment of IT delivery capability of SA Power Networks and therefore should not be used to assess the maturity or capability of SA Power Networks to deliver the proposed capital program of work.
- Our IT Transformation to the IT Operating Model was completed in 2014 and is now well embedded into the business as usual operations. Therefore, we are not 'changing the way in which the IT function is resourced' over the 2015-20 RCP in parallel with the delivery of the proposed IT portfolio.
- Our Information Technology KPIs highlight that during 2014/15, we have maintained or increased our IT Operations service levels whilst also successfully delivering a capital program significantly larger than in previous years. Figure 4 below provides a summary of some of our key IT Operations KPIs over the 2014/15 period supporting our position that we can maintain and improve on-going IT operations whilst delivering an increased capital program.

Figure 4: IT Operations KPI Summary 2014/15



Many of the capability uplifts outlined in the previous sections and other measures put in place over the last 18 months support our position that our IT Service Management maturity has increased, some notable improvements being:

- Service Strategy
    - An established Enterprise Architecture (**EA**) function with direct working relationships with IT Strategy and Architecture.
    - An established business relationship management (**BRM**) function with dedicated IT business engagement managers.
- Service Design

[26] AER, *Preliminary Decision: SA Power Networks determination 2015-16 to 2019-20,* Attachment 6 – Capital expenditure, p. 6-117.
[27] SA Power Networks, *BC29 - IT Management & Operations*, November 2014.

- An established and significantly improved supplier management capability.
- A significantly improved security management capability.

- Service Transition
  - An established Organisational Change Management (**OCM**) capability.

- Service Operation
  - Recognition of the importance of service management process owners and formal appointment of process owners for incident management, request fulfilment, problem management and event management.
  - Continual improvement of processes commenced during the IT Transformation programme:
    - Incident management improvements, including a new 'major incidents' procedure.
    - Request fulfilment process.
    - Introduction of a formal problem management process (to be completed in Q3 2015).

- Continual Service Improvement
  - Further enhancement of KPI definitions and measurements.
  - Deployment of the IT Dashboard showing in real-time our performance across all areas of IT.
  - Establishment of a dedicated IT Service Delivery function to monitor our performance and remediate areas for improvement.

A More Effective Business Change Management Function

As illustrated above, we have established an OCM group under our People and Culture function, with resources specifically dedicated to supporting the implementation and embedding of IT projects and other business initiatives. The change management function has developed a common approach and implemented standards[28] for using change management on every new project or business change initiative.

To build the change competency of employees, supervisors, managers, leaders, and project teams throughout the organisation, the OCM team has delivered training in organisational change tools. This training is complimentary to the organisational leadership training and ensures successful dealing with and embedding of change.

The OCM resources are working closely across all branches of IT and the business to increase the adoption, utilisation and proficiency of employees impacted by projects.

[28] SA Power Networks' Organisational Change Management Framework and Approach are based on PROSCI ADKAR Model.

SA Power Networks is committed to applying an appropriate level of change management to ensure our capital investments deliver the intended business outcomes. With respect to the $45.8 (June 2015, $ million) in business change costs included in our Original Proposal, the AER stated:

> *'The proposed works will have substantial implications for SA Power Networks' ongoing operations, as evidenced by the $45.8 million in business change costs included in the program. SA Power Networks proposes to implement these wide ranging business and system changes largely within a five year regulatory control period.'*[29]

This statement suggests that the AER regards the size of our change management forecast as an indication of the risks that the portfolio presents. We, on the other hand, believe this demonstrates our due consideration and commitment to ensuring that the portfolio delivers the expected outcomes and benefits. Our Revised Proposal includes non-IT costs of $38.2 (June 2015, $ million) of which change management and service transition costs account for approximately $25 (June 2015, $ million). This represents 15% of total non-recurrent capital program effort. Gartner research[30] supports this by advocating that, on average, 15 percent of the program budget should be allocated to organisational change management.

An Enhanced Enterprise Architecture Function

Over the course of the last 18 months, our Enterprise Architecture function has matured. We use a world-wide recognised architecture framework[31], and have certified Enterprise Architecture practitioners on the team. We have documented all level one to level three business processes, systems and technologies and mapped their dependencies using an EA tool, so when a change affects a component (business process, system or technology), we understand what the impact is across the entire business and IT landscape.

We have also mapped dependencies between business objectives, business processes and IT initiatives. From an IT program management perspective, this provides visibility of dependencies across the portfolios and ensures we are doing the right work at the right time.

By maturing our Enterprise Architecture function, we are in a much better position to understand, manage and implement change. Additionally, the SA Power Networks' enterprise roadmap will bring greater focus, intent and visibility of the things we have identified as essential to improve.

References / supporting documents

Ref Document Name	Date	Version	Author
Australian Energy Regulator, Preliminary Decision SA Power Networks determination 2015-16 to 2019-20, Attachment 6 – Capital expenditure	April 2015		AER
Attachment 20.32 - SA Power Networks: Information Technology Investment Plan 2015-2020	Oct 2014	1.1	SA Power Networks
Attachment 20.43 - SA Power Networks Resourcing and Sourcing plan 2015-2020	Oct 2014	2.0	SA Power Networks

[29] AER, *Preliminary Decision: SA Power Networks determination 2015-16 to 2019-20,* Attachment 6 – Capital expenditure. p.6-114
[30] Lessons from 169 SAP Implementations Using Service Providers in North America, Gartner, March 2011.
[31] TOGAF 9 (The Open Group Architecture Framework).