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ICT Expenditure Assessment: Consultation Paper

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the Council of Australian Governments Energy Council in 2015, our objective is to promote the long-term interests of energy consumers with respect to price, quality, reliability, safety and security of supply.

We appreciate the opportunity to respond to the Australian Energy Regulator (AER) *Consultation Paper: ICT Expenditure Assessment* (the Consultation Paper). Information and communication technology (ICT) will be the nervous system of the future 'smart' grid. Many of the current revenue proposals include continued growth in ICT expenditure.

Our understanding is that past growth in ICT expenditure has largely been focused on 'modernising' the grid, to improve network efficiencies. Into the future we need to be confident that appropriate ICT expenditure is being made to enable the new task of unlocking of consumers' flexibility in their use of electricity, including addressing the challenges of managing a more distributed and diverse grid.

Consumers are telling us that they are willing to be more flexible in their energy use, that they are investing in solar, battery and home energy management technologies but that value for money of electricity supplied by the grid is poor compared with similar sectors. This means that all distribution network expenditure, including ICT expenditures, must be subject to a laser-like focus on affordability, at the same time as the electricity system needs to be configured to optimise investment on both sides of the meter.

In this context, our recent experience in revenue setting processes has highlighted the need for greater transparency and a dialogue about ICT expenditure. The way in which information on ICT expenditure is presented to stakeholders engaging in the development of a revenue proposal is often at a high level. Further, it can be difficult to consider the 'expenditure as a whole' because related expenditure that is required to achieve the overall benefits of the project is separately identified within other capital or operating expenditure line items.

As identified in the Consultation Paper we agree that there are two tasks in ensuring that expenditure on ICT is in the long-term interests of consumers.

- It is critical that the AER considers whether their assessment framework for ICT expenditure by distribution networks remains fit for purpose.
- Ensuring that any approach that is implemented by the AER enables distribution networks to demonstrate how a proposal reflects consumer expectations, and that the proposed ICT costs are in the long-term interests of consumers and are the prudent and efficient costs of delivering the network service.

While our primary focus in this submission is on the second of these tasks, we also offer some high level comments on the issues raised in the Consultation Paper.



AER assessment framework

In responding to the AER's preliminary thinking on its assessment framework, we ask that the AER consider how their approach can address the trust, transparency, affordability and broader ICT expenditure strategy concerns expressed by stakeholders to date.

In our view, the approach proposed in the Consultation Paper appears broadly workable in what is becoming an increasingly complex aggregation of expenditures under the one label of ICT expenditure.

We consider that the AER will need to develop some proficiency in understanding the nature of different categories of ICT expenditures, and may need to build in some flexibility and adaptability in its approach to ensure that ICT expenditures are not too narrowly defined, nor inappropriately assessed (subject to benchmarking or cost benefit analysis).

While there is an assessment task for ICT expenditure, it is critical that stakeholders and the AER are also able to assess 'expenditure as a whole' not just the ICT expenditure in isolation of other related capital and operating expenditures for the same project. This is particularly the case for all projects that are proposed to unlock greater demand side participation, and not just through generation technologies.

Demonstrating consumer benefits

Our approach to reviewing ICT expenditure proposals is to consider the following questions.

- What is the longer-term strategy for achieving a smarter grid, and achieving benefits for consumers?
- What is the purpose of the expenditure?
- How much will it cost in total?
- Are there risks associated with the expenditure?
- How often will the expenditure need to be made?
- What is the ongoing impact of this expenditure on revenue and what are the consumer benefits?
 - Will there be an impact on the regulated asset base (RAB), and are the asset lives appropriate and supported by evidence?
 - Will there be beneficial step-changes in operating expenditure?
 - How will the benefits be delivered to consumers, and when will this happen?

Energy Consumers Australia expects, as does the AER, that distribution networks will undertake and make available post-implementation reviews. The reviews should also report on the project as a whole, not solely the ICT expenditure.

Such reviews can demonstrate that the expenditure was justified as well as potential areas for savings in the next period, should additional expenditure be required. Post expenditure reviews can help track the underlying costs associated with the expenditure and movements in forecasts, feeding into continuous improvement practices; as well as track benefits to consumers (both expected and unforeseen).

Given the significant vast amount of amount of ICT expenditure that is proposed by network businesses, consideration should be given to the materiality of the project to ensure that post implementation reviews are not unnecessarily burdensome. We would be interested to engage with the AER further on how a materiality threshold could be defined.

As mentioned in the Consultation Paper, Energy Consumers Australia has engaged Dr Rob Nicholls, University of New South Wales Business School, to help improve our knowledge and capability on ICT and network transformation. Energy Consumers Australia and Dr Nicholls are holding a webinar on 3



July 2019 to discuss the basics of ICT expenditure and how other sectors have approached similar challenges and opportunities in an affordable and transparent way. The webinar will:

- shine a light on the drivers of cyber security costs;
- discuss expected benefits for consumers from ICT expenditure;
- explore the level, frequency and type of ICT expenditure; and
- provide a framework for how we can usefully think about uncertainty, costs and risks for consumers of ICT expenditure.

We are encouraged by the willingness of stakeholders from across the sector to work together to share knowledge and build capability in addressing ICT expenditure proposals by distribution networks.

The importance of this review

This review by the AER provides the opportunity for the regulatory framework to evolve how it considers the costs and benefits to consumers of ICT and related expenditures, so that these impacts remain at the forefront of network expenditure decisions.

While we are encouraged by the continuing improvement in how network businesses engage with consumers and their advocates, the AER review is an opportunity to set expectations about the need for greater clarity about the strategy and purpose of ICT expenditure and transparency of the benefits, and whether they have been realised.

If you have any questions about our comments in this submission, or require further detail, please contact Shelley Ashe, Associate Director – Networks, by email at shelley.ashe@energyconsumersaustralia.com.au or by phone on 02 9220 5514.

Yours sincerely,

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