

14 June 2019

Chris Pattas
General Manager, Networks
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001



Dear Mr Pattas,

Submission to ICT expenditure assessment consultation paper

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to the Australian Energy Regulator's (AER) consultation paper.

The growing concern regarding ICT expenditure

As noted in the AER's consultation paper, DNSP expenditure on Information and Communication Technology (ICT) has been growing markedly while other expenditure categories and overall expenditure is declining.

PIAC understands the importance of improving the security of networks' ICT systems against cyber-attack and is cognisant of the improvements in business efficiency and customer experience that it may unlock.

While we can generally, and in-principle, support investment in this area, it is essential that it be subject to efficiency and prudence assessments, and not become a blank cheque.

In order to deliver sustainable and affordable network prices to consumers a balance must be struck between the expenditure allowed (and hence borne by consumers) and the risks the investment mitigates or benefits it provides.

Approach to assessing ICT expenditure

Given the increasing impact ICT will play in determining the efficiency and quality of a DNSPs' service delivery and the growing quantum of ICT expenditure overall, it is essential the businesses, the AER and consumers have clear visibility of the benefits and costs of any investment in this area.

The AER has put forward a proposal for assessing ICT expenditure proposals which is consistent with the current regulatory framework for assessing other categories of DNSP expenditure. Given the growing importance of ICT expenditure assessment, we recommend the AER should instead take a more first-principles approach by asking "What is the best way to assess this expenditure regardless of the current framework?"

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If this results in a method that is consistent with the current framework all the better.

If not, this would point to a shortcoming of the current framework and suggest there is scope for positive reform, for example, as a part of the AEMC's annual Electricity Network Economic Regulatory Framework (ENERF) review.

Other matters

It is essential that any operational cost savings as a result of ICT investment must be incorporated into expenditure proposals so as not to be double-recovered through incentive schemes such as the EBSS and CESS. We support the AER having the necessary discretion to ensure this is the case.

We support the onus being placed on DNSPs to provide robust justification that their proposed ICT expenditure is both necessary and prudent. If this is not done, the AER has suggested the expenditure could either be considered self-funded by the DNSP or the AER apply a productivity adjustment to the overall expenditure proposal. At this stage, we cannot comment on whether one method is preferable to the other. However, we would encourage the AER, as an expert regulator, to retain the discretion to apply whichever method it deemed most appropriate in considering the DNSP revenue proposal as a whole.

PIAC supports DNSPs conducting post-implementation reviews of their ICT investments and sharing these with the AER and stakeholders as appropriate. PIAC acknowledges that demonstrating performance improvements from the technological investment may not be a trivial task, however, it remains an important outcome and one worth pursuing. We note that post-implementation reviews of any investment or transformation project should be part of good business practice.

Continued engagement

PIAC would welcome the opportunity to meet with the AER and other stakeholders to discuss these issues in more depth. PIAC notes we are also participating in the work being done by Energy Consumers Australia (ECA) and other stakeholders reviewing ICT transformation and expenditure and welcomes the AER's participation in this.

Yours sincerely,

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