



Non-network ICT Ex Post Review

In support of the Ergon Energy Network
Regulatory Proposal 2025-30

January 2024

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Part of Energy Queensland

Non-network ICT Ex Post Review

1 EXECUTIVE SUMMARY

In 2016, the Energy Queensland Limited (Energy Queensland) merger between Ergon Energy Corporation Limited (Ergon Energy Network) and Energex Limited (Energex), and subsidiaries, focused on organisational structure merging and short-term efficiencies. At this time, Ergon Energy Network's information, communications and technology (ICT) projects were deferred unless they fulfilled compliance obligations, such as Power of Choice. The merger activities did not perform the complex merging of major operational processes, data structures, and applications across Ergon Energy Network and Energex.

In 2018, late in the 2015-20 regulatory control period, the 'Digital Enterprise Building Blocks (DEBB) Enterprise Resource Planning (ERP) Enterprise Asset Management (EAM) Components Suite of Initiatives' was initiated to merge the major operational processes, data, and applications. As critical interdependencies with major processes were identified and deemed to require management, additional initiatives (UGIS,¹ UDMS² and ECM³) were included in this major portfolio of work (the 'DEBBs portfolio'). The 2020-25 regulatory control period projects dependent on the DEBBs portfolio were brought forward and managed in parallel.

Further, during the 2018-23 period, Energy Queensland made unplanned investments in cyber security to meet new compliance obligations, such as the amendments to the *Security of Critical Infrastructure Act 2018* (SOCI), pending changes to the Australian Energy Sector Cyber Security Framework (AECSCF), and on-going changes to privacy legislation.

During the ex post review period, the DEBBs portfolio and the cyber security initiatives encountered the following challenges, resulting in a forecast overspend of \$113.5 million (\$ real 2024–25, refer to Table 1 below) above the Australian Energy Regulator's (AER's) capital expenditure (capex) forecast for standard control services (SCS):

- Increases in labour rates during Covid-19 (and beyond) drove higher than forecast costs for workforce labour. Some workforce categories have experienced increases, in real terms, of over 30 per cent (some around 40 per cent) between 2018 and 2023
- Higher than forecast spend in cyber security due to the rapidly evolving threat landscape and new compliance obligations (e.g. AECSCF and SOCI). These obligations and the associated costs to meet them were not known at the time of our regulatory proposal for the 2020–25 regulatory control period
- Higher than expected levels of interdependencies, technical complexity, and business change in transforming legacy ERP and EAM applications that were heavily customised to contemporary, commercial off-the-shelf application suites
- The change in delivery approach relied on a large workforce of specialist resources that were impacted by Covid-19 lockdowns and closures of state and international borders.

In January 2023, the Energy Queensland Board stopped delivery of the DEBBs portfolio and approved the recommendation to re-plan the portfolio, looking at how to deliver the remaining items with a simplified solution design, simplified governance arrangements, improved end user experience, and minimised impacts on the delivery of the distribution network service providers' (DNSPs') integrated works program. This is evidence of a considered and prudent approach and

¹ Unified Geographical Information Systems

² Unified Distribution Management Systems

³ Enterprise Content Management System

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proof of a willingness to learn and adapt to ensure successful deployment and integration of services.

Table 1: Ergon Energy Network non-network ICT capital expenditure (SCS)

| \$m, real 2024-25 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | Ex post Review |
|---|------------|------------|---------------|---------------|---------------|----------------|
| AER capex forecast (SCS) | 3.1 | 7.7 | 41.3 | 40.8 | 39.9 | 132.7 |
| Actual/Estimate (as per RIN) ⁴ | 2.8 | 0.2 | 96.9 | 83.6 | 62.8 | 246.3 |
| Difference⁵ | 0.3 | 7.6 | (55.6) | (42.8) | (22.9) | (113.5) |

Overall, the non-network ICT lessons learned are:

- The multi-year business-led complex major business transformation program to consolidate and replace major interdependent legacy applications has been more challenging than anticipated. Business transformation, data transformation, and organisational change from legacy applications have been the most challenging aspects
- Mastering fundamental processes before automating them is necessary to ensure a solid foundation for efficient and effective automated workflows
- Dealing with business transformation and consolidation of legacy applications becomes exponentially more challenging the longer it is left. In addition, operating legacy applications continuously increases our security risk posture. Regular recurrent upgrade cycles for core applications are more prudent, lowering cyber security and delivery risks
- For the non-network ICT portion of the 2025-30 regulatory control period submission, we have consciously planned for a continuous recurrent cycle of regular upgrades to non-network ICT applications and technologies (we call this 'Evergreening'), as part of the 'Base Case (Keep the Lights On)' option of the non-network ICT business cases.

Despite the delivery challenges experienced, it is our intention that most capabilities described in the 18 business cases for the 2020-25 regulatory control period will be delivered by 30 June 2025. The right systems and processes are essential for enabling the broader organisational strategy to deliver electricity services in the most efficient and affordable way. Our non-network ICT for the ex post review period has been transformational and put in place the foundational 'building blocks' for enablement of the 2025-30 regulatory control period's outcomes.

Our aim is to only invest what is necessary to meet the energy needs of regional Queensland and, in so doing, minimise price increases for our customers. We understand that a potential request to include the forecast overspend in our regulatory asset base (RAB) for the 2025-30 regulatory control period will have an immediate impact on our future revenue and our tariffs.

While a portion of the non-network ICT capex should be included in the RAB, in consideration of potential affordability impacts for our customers we propose to use the AER forecast for ICT capex as the value of non-network ICT assets when establishing the opening RAB for the 2025-30 regulatory control period.

⁴ Includes in-house software and ICT systems categories of RIN

⁵ Due to rounding some totals may not correspond with the sum of the separate figures

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Consequently, we will self-fund \$121.3 million of ICT capex that we incurred above the AER forecast for the last three years (2020-21 to 2022-23), recognising that we underspent against the AER forecast for the first two years of the ex post period.

While the focus during 2020-25 was on major business transformation of significant interdependent legacy applications, these contemporary applications now shift into an ongoing maintenance and continuous evolution focus for the 2025-30 period. The major transformation areas for 2025-30 are in the areas of Customer and Cyber Security. Overall, the forecast level of non-network ICT capex will significantly decrease, reducing overall risk.

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2 INTRODUCTION

Clause 6.12.2(b) of the National Electricity Rules (NER) requires the AER to include in any draft or final distribution determination, a statement on the extent to which the roll forward of the RAB meets the capex incentive objective (defined in clause 6.4A). This statement will be for the regulatory control period just ending. In making this decision, the AER is required to have regard to the criteria as set out in S6.2.2 of the NER, including whether the distributor undertook the capex in a manner consistent with good business practice so as to practicably achieve the lowest sustainable cost and whether the relevant capex project satisfied the regulatory investment test for distribution.

All capex spend across the review period can be examined by the AER, though, as set out in the AER's *Better Regulation Capital Expenditure Incentive Guideline for Electricity Network Service Providers*, the AER will examine the drivers of the capex overspend more closely. As outlined in the *Ergon Energy Network Capex Ex Post Justification Overview Paper (Attachment 5.1.01)*, Ergon Energy Network has significantly overspent the AER's capex forecast over the review period⁶ from 2018-19 to 2022-23. One of the drivers of this overspend was non-network ICT capex.

This paper relates solely to Ergon Energy Network's non-network ICT capex over the previous and current regulatory control periods, with particular focus on the review period of 2018-19 to 2022-23. This paper outlines the AER decisions for non-network ICT capex, our actual costs, key drivers of the overspend and lessons learnt. The paper concludes with our preferred treatment of non-network ICT capex for the review period.

⁶ The review period as defined in NER S6.2.2A(a1).

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3 AER DECISIONS

3.1 Non-network ICT capex for 2015-20

3.1.1 Treatment of ICT Expenditure in 2015-20

During 2015-20 (and prior to this) ICT services for Ergon Energy Network were provided by SPARQ Solutions Pty Ltd (SPARQ). SPARQ was a jointly owned subsidiary of Ergon Energy Network and Energex. SPARQ's operating expenditure (opex) and capex for the provision of ICT services was charged to Ergon Energy Network in the form of ICT service fees. The total ICT expenditure incurred by SPARQ associated with the provision of ICT services to Ergon Energy Network was treated as indirect opex and allocated to services consistent with Ergon Energy Network's approved Cost Allocation Method (CAM).

Non-network ICT capex incurred directly by Ergon Energy Network relates only to end user devices such as desktop computers, laptops, tablets, handheld devices, smartphones and printers.

3.1.2 AER Decision for 2015-20

The AER accepted Ergon Energy Network's revised forecast of SPARQ ICT capex of \$226.1 million, including \$23.7 million for Ergon Energy Network for end user devices (\$ real 2012-13). The break-down of this funding is in Table 1.

Table 1: AER Final Decision for ICT Capex for 2015-20 (\$m, real 2012-13)

| ICT Architecture Segment | Program | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | Total |
|----------------------------------|--------------------------------------|-------------|-------------|-----------|-------------|-------------|--------------|
| SPARQ | | | | | | | |
| Network Asset management | Enterprise Asset Management | 0.0 | 0.0 | 17.5 | 32.6 | 0.0 | 50.1 |
| Network Asset management | Network Information Enablement | 11.2 | 0.9 | 1.6 | 0.8 | 3.1 | 17.5 |
| Network Operations | Distributed Workforce Automation | 0.3 | 0.3 | 1.5 | 1.5 | 0.3 | 4.1 |
| Corporate Services | Administrative ERP | 3.8 | 15.5 | 15.5 | 0.0 | 0.0 | 34.8 |
| Customer Services | Market System Modernisation | 15.4 | 0.0 | 0.0 | 0.0 | 0.0 | 15.4 |
| Enterprise Services | Business Analytics Renewal | 0.0 | 5.1 | 5.0 | 0.0 | 0.0 | 10.1 |
| Enterprise Services | Information Security Enhancements | 0.0 | 2.1 | 0.0 | 0.0 | 0.0 | 2.1 |
| Enterprise Services | Integration Platform Renewal | 1.4 | 1.4 | 5.1 | 1.4 | 1.4 | 10.7 |
| ICT Infrastructure | Desktop and Productivity Thin Client | 0.0 | 0.0 | 2.4 | 1.2 | 0.0 | 3.6 |
| ICT Infrastructure | Infrastructure | 6.9 | 6.6 | 3.1 | 8.1 | 10.3 | 35.0 |
| All Segments | Application Replacement and CI | 3.8 | 3.8 | 3.8 | 3.8 | 3.8 | 19.0 |
| Ergon Energy Network | | | | | | | |
| ICT Infrastructure | End User Devices | 2.5 | 5.6 | 7.5 | 2.3 | 5.8 | 23.7 |
| Total Capital Expenditure | | 45.3 | 41.3 | 63 | 51.7 | 24.7 | 226.1 |

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3.2 Non-network ICT capex for 2020-25

3.2.1 Treatment of ICT Expenditure in 2020-25

Following the merger of Ergon Energy Network and Energex (and subsidiaries) in 2016, digital services were transferred from SPARQ Solutions to Energy Queensland. This necessitated changes in the financial treatment of non-network ICT costs, however, as described above, for the 2015-20 regulatory control period we continued to use the ICT service fee model of SPARQ. This is because the merger occurred mid-regulatory control period. Accordingly, only end user devices was treated as capex, with all other ICT costs treated as indirect opex.

For the 2020-25 regulatory control period, non-network ICT was treated the same as other capex cost categories. Consequently, there is a significant increase in non-network ICT capex as all capital costs are now captured in our reported capex for the period.

3.2.2 AER Decision for 2020-25

All dollars in this section are in \$ real 2019-20.

The AER's draft decision provided for a 24 per cent (\$50.4 million) reduction of Ergon Energy Network's proposed ICT capex of \$210.1 million. The reason for this reduction was primarily based on the view that while the AER endorsed the overall objectives of the non-recurrent ICT program, the AER considered that it was not a prudent and efficient capex forecast and that Ergon Energy Network was unlikely to deliver the program in the timeframe proposed.⁷

Ergon Energy Network suggested a minor modelling adjustment to the AER's substitute estimate for recurrent ICT capex. The AER accepted Ergon Energy Network's revised ICT capex forecast of \$164.4 million.⁸ The annual break-down of the approved capex is in Table 2.

Table 2: AER Final Decision for ICT Capex for 2020-25 (\$m, real 2019-20)

| (\$m, real 2019-20) | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | Total |
|----------------------------------|---------|---------|---------|---------|---------|--------------|
| ICT – Regulatory Proposal | 44.4 | 43.9 | 42.8 | 37.8 | 41.3 | 210.1 |
| ICT – AER Final Decision | 34.2 | 34.0 | 33.3 | 29.6 | 33.3 | 164.4 |

⁷ AER Draft Decision – Ergon Energy 2020-25 Attachment 5 capex Decision, p. 5-52.

⁸ AER Final Decision – Ergon Energy 2020-25 Attachment 5: Capital expenditure, p. 5-31.

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4 OUR COSTS

4.1 Ex Post Review Period

The non-network ICT capex for Ergon Energy Network is forecast to be \$113.5 million (\$ real 2024-25) above the AER capex forecast for SCS for the ex post review period (2018-23) (refer to Table 3). These figures exclude the SPARQ ICT expenditure that was approved by the AER for the 2015-20 regulatory control period because these costs were treated as indirect opex by Ergon Energy Network and therefore are not part of the overall capex overspend.

Table 3: Ergon Energy Network non-network ICT capital expenditure (SCS)

| \$m, real 2024-25 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | Ex post Review |
|---|------------|------------|---------------|---------------|---------------|----------------|
| AER capex forecast (SCS) | 3.1 | 7.7 | 41.3 | 40.8 | 39.9 | 132.7 |
| Actual/Estimate (as per RIN) ⁹ | 2.8 | 0.2 | 96.9 | 83.6 | 62.8 | 246.3 |
| Difference¹⁰ | 0.3 | 7.6 | (55.6) | (42.8) | (22.9) | (113.5) |

⁹ includes in-house software and ICT systems categories of RIN

¹⁰ due to rounding some totals may not correspond with the sum of the separate figures

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5 OUR PERFORMANCE

5.1 Non-network ICT Program for 2015-20

As described above, the treatment of non-network ICT capex for the 2015-20 regulatory control period was based on an ICT services fee model where Ergon Energy Network paid SPARQ a service fee for our portion of capital and operating costs for non-network ICT. This service fee was treated as indirect opex and covered the majority of the capital costs associated with the provision of non-network ICT services. As such, for the 2015-20 regulatory control period, only the capex associated with end user devices is captured in the AER non-network ICT capex forecast. We underspent over the period by \$7.8 million due to a change in policy to stop replacing devices based on age and moving to a 'fix on fail' policy, and due to laptops and desktops being capitalised as corporate Energy Queensland assets.

While the capital costs associated with the majority of non-network ICT works is not included in the AER forecast or our capex for regulatory reporting purposes, the key ICT programs of work that were being undertaken during 2015-20 are important context to what occurred during the 2020-25 regulatory control period.

During the 2015-20 regulatory control period, significant ICT projects were deferred until the later years of the period, resulting in a shift of costs into the last two years of 2015-20. This deferral was due to prioritisation of ICT projects to fulfil compliance obligations, such as Power of Choice, and due to the complexities of the merger mid-period.

An important part of any organisational merger is consolidating core systems and business processes. The business transformation, consolidation and replacement of two major systems – ERP and EAM – was required. The Energy Queensland organisational merger activities focussed on organisational structure and short-term merger efficiencies, so the ERP EAM replacement activities were deferred to later in the 2015-20 period. This ERP EAM replacement work was initially referred to as 'DEBB ERP EAM Components Suite of Initiatives' or the 'ERP EAM portfolio'. This work commenced in the later years of 2015-20 and continued into the 2020-25 regulatory control period.

5.2 Non-network ICT Program for 2020-25

A key focus for the first few years of the 2020-25 regulatory control period was the ERP EAM replacement. As critical interdependencies needed to be managed, additional initiatives (UGIS¹¹, UDMS¹², and ECM¹³ initiatives) were included into this major portfolio of work. This evolved to be known as the 'DEBBs portfolio'. Those 2020-25 projects that were dependent on the DEBBs portfolio were brought forward into the early years of 2020-25, resulting in higher than forecast spending in the 2018-23 ex post review period. The 2018-23 review period aligns with the life of the DEBBs portfolio.

In addition to these brought forward projects, we had unplanned investment in our cyber security. New compliance obligations were introduced, such as the amendments to the SOCI Act, pending changes to the AESCF and on-gong changes to privacy legislation. These changes are occurring in the context of increased risk of cyber attacks across Australia and targeting of critical infrastructure providers. It was imperative that we strengthened our cyber security posture during this period so we are well positioned to respond to this increased threat and maintain security

¹¹ Unified Geographical Information Systems.

¹² Unified Distribution Management Systems.

¹³ Enterprise Content Management System.

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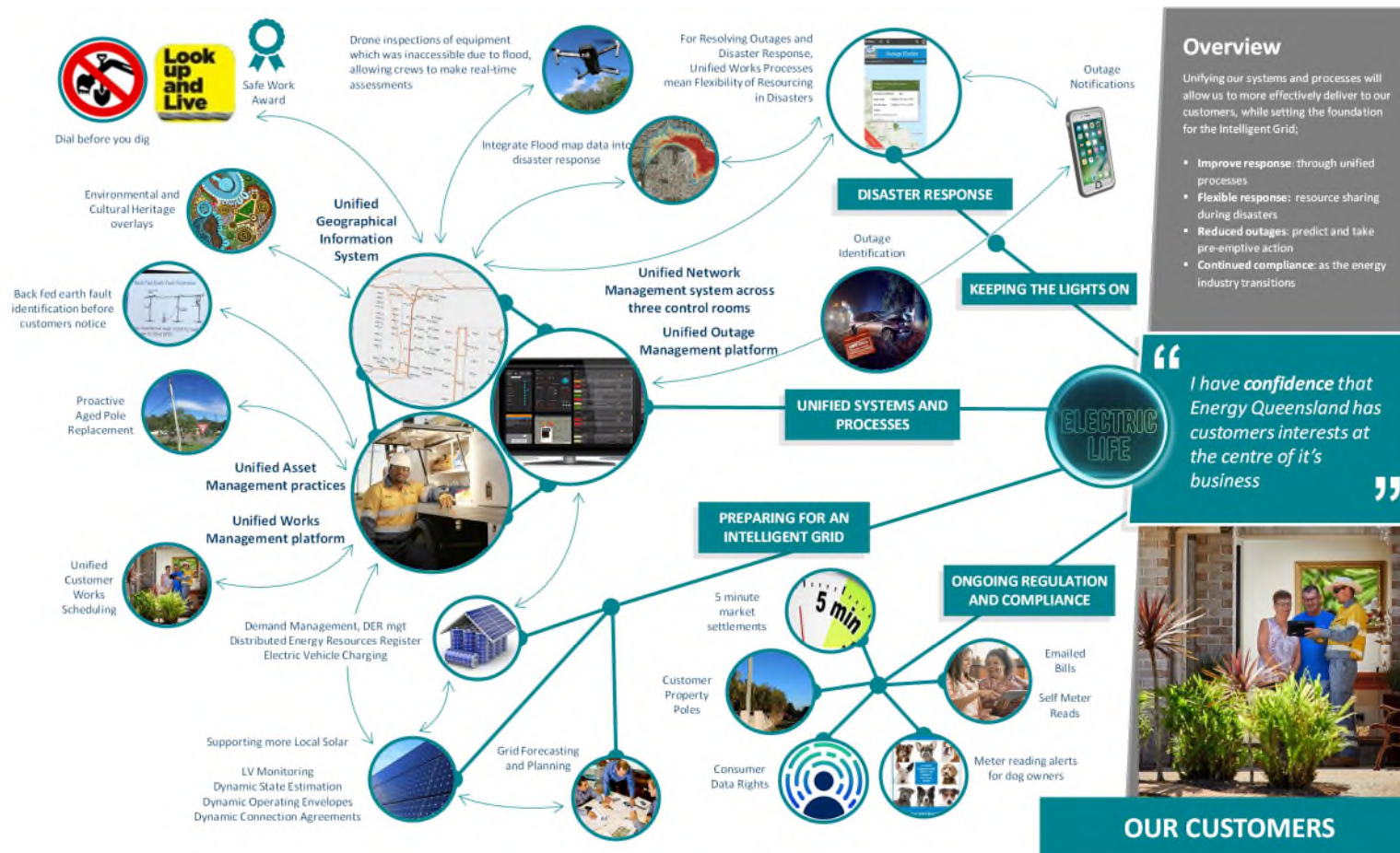
during a period of significant transformation in the energy industry. These obligations and the associated costs to meet these obligations were not known at the time of our regulatory proposal for the 2020-25 regulatory control period.

Despite the reduction in the AER forecast and the delivery challenges experienced with the program of work, it is our intention that most capabilities described in the 18 business cases for the 2020-25 regulatory control period will be delivered by 30 June 2025. It is critical that we get the right systems and processes in place as they are essential in enabling the broader organisational strategy. Implementing efficient, resilient and scalable solutions enable ongoing business efficiencies and enable customer outcomes.

Figure 1 summarises the major outcomes for the 2020-25 regulatory control period.

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Figure 1: Major Outcomes for the 2020-25 period



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6 EXPLANATION OF OVERSPEND

Ergon Energy Network's summary position is as follows:

- A portion of the non-network ICT capex is justifiable and should be included in the RAB
- Non-network ICT for the ex post review period was transformational and put in place the foundational 'building blocks' for enablement of the next regulatory control period's outcomes
- Non-network ICT spend was undertaken in as prudent and efficient manner as possible considering the size and magnitude of the Cyber Security Uplift program and DEBBs portfolio
- There were some overall portfolio delivery issues (such as business deferrals, economic factors, cyber security obligations, complications due to Covid-19, complexities and business change issues, and lack of suitable technical specialists) which resulted in some inefficiencies
- While some of the delivery issues were outside of our control and some were within our control, we acknowledge these issues resulted in some inefficient spend
- The non-network ICT program was delivered and governed within the organisation's governance and risk processes.

6.1 Need for expenditure

In the 2015-20 regulatory control period, we had a significant interdependent legacy application portfolio that was overdue for replacement and had made conscious prudent decisions to minimise continuous improvement on these aged legacy applications. Resolving and unifying these significant interdependent legacy application portfolios became part of the DEBBs portfolio activities (for background information on DEBBs portfolio refer to Section 5.2.1).

These legacy applications had significant functional dependency among them. These interdependencies create high levels of project delivery dependencies and managing this complexity was a significant part of the DEBBs portfolio.

The Energy Queensland organisational merger process focused on merging the organisational structures and short-term merger efficiencies. It did not perform the required complex merging of major operational processes, data structures and applications across the DNSPs. Resolving these significant business change activities became part of the DEBBs portfolio activities.

6.2 Drivers of overspend

The key drivers of the non-network ICT capex over the AER's forecast are:

- **Business priorities:** conscious deferral of commencement of the ERP and EAM replacement to commence at the end of the previous regulatory control period (i.e. start of ex post period) due to competing business priorities (Power of Choice reforms, Ergon Energy Network merger with Energex and transition to Energy Queensland)
- **Economic factors:** such as substantial labour rate increases during Covid-19 (and beyond) driving higher than forecast costs for workforce labour. Some workforce labour categories have experienced increases in real terms of over 30 per cent (some around 40 per cent) between 2018 and 2023

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- **Cyber security obligations:** higher than forecast spend in Cyber due to the rapidly evolving threat landscape and new compliance obligations (AECSF and SOCI)
- **Complexities and business change:** there was a high level of interdependencies, complexity and business change in transforming legacy ERP and EAM applications that were heavily customised to contemporary, commercial-of-the-shelf application suites
- **Scale of Portfolio:** relied on a large workforce of specialist resources, many sourced from interstate and overseas. Covid-19 lockdowns and closures of state and international borders (throughout the review period) impacted the ability to have key resources onsite.

The DEBBs portfolio was a material part (about 70 per cent) of the overall non-network ICT capex for the ex post period. The drivers of overspend at the overall non-network ICT portfolio level are consistent with the drivers of overspend for the DEBBs portfolio.

6.2.1 DEBBs portfolio

The DEBBs portfolio was a multi-year business-led complex major business transformation. Its scope approaches and governance materially evolved over time. It started as an ERP EAM portfolio of projects with an initial budget that was aligned with the AER's allocation for that investment stream for the 2015-20 regulatory control period. This 'DEBBs portfolio' later evolved into a broader portfolio of ICT works across the business, including ERP, EAM, UGIS, UDMS and ECM. The DEBBs portfolio operated through a period of significant organisational change.

There has been significant misinformation around what the DEBBs portfolio encompassed, with some stakeholders referring to it as a 'Computer System Upgrade' or as one 'project'. These misperceptions significantly oversimplify the scope and change impact of this business transformation portfolio. A summary of common viewpoints of the DEBBs portfolio and the accuracy of these viewpoints is provided at Figure 2.

Figure 2: Misperceptions of DEBBs Portfolio

| Common view on the DEBBs portfolio | | What the DEBBs portfolio really was | |
|------------------------------------|------------------------|-------------------------------------|---|
| × | A single project | ✓ | Portfolio of 48 projects |
| × | An IT project | ✓ | Business-led transformation involving unification of processes, data and systems |
| × | Ungoverned | ✓ | Significant multi-level, regular, active business governance with Energy Queensland Board, Executive and external assurance |
| × | Unnecessary | ✓ | Legacy duplicated systems that were outdated and needed replacing |
| × | Fixed budget and scope | ✓ | Scope grew materially to manage dependencies |
| × | ERP EAM replacement | ✓ | Initially started as an ERP EAM replacement but became a replacement of ERP, EAM, UGIS, UDMS, ECM and more |
| ✓ | Over budget | ✓ | Materially overspent AER forecast |
| × | Not delivered | ✓ | Delivered ERP, ECM, UGIS, UDMS, Governance Risk and Compliance, Safety systems and Payroll |
| | | ✓ | Delivered under the revised governance model |
| | | ✓ | Remaining will be delivered in the 2020-25 regulatory control period |

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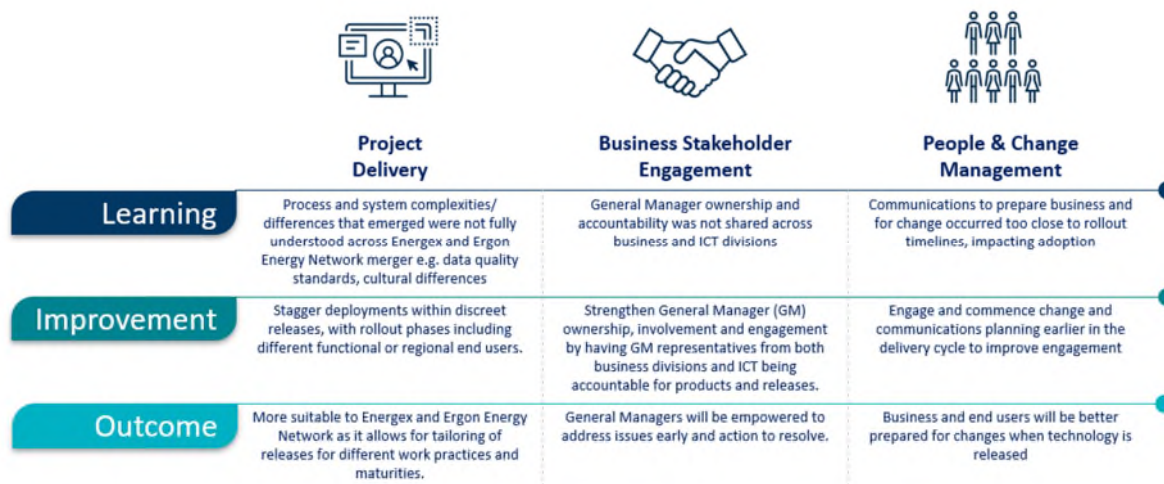
All elements of the DEBBs portfolio program had strong executive sponsorship with significant governance, risk review and assurance, including:

- Significant and regular active engagement with the Energy Queensland Board and Executive Leadership Team across the entire life of the portfolio
- Its own portfolio management office to manage this significant governance, which included a DEBBs portfolio director who reported to the business-led Executive Steering Committee and then up to the Energy Queensland Board
- The Energy Queensland Board’s Risk and Audit Committee engaged an assurance partner to perform an independent assurance role through the portfolio life, reporting directly to the Energy Queensland Board.

In January 2023, the Energy Queensland Board stopped the DEBBs portfolio and approved the recommendation to commence a re-planning phase. The RePlan program looked at how to deliver the remaining items with a simplified solution design, simplified governance, improved end user experience and minimising impacts on delivery of the DNSPs’ integrated works program.

As part of this RePlan, three key themes of lessons learned were identified (refer to Figure 3) and these were applied to the RePlan of the Transformation portfolio activities (remaining activities from the DEBBs portfolio) for the remainder of the 2020-25 regulatory control period.

Figure 3: DEBBs Lessons Learned



Taking the change impact into account and to ensure successful deployment and integration of services, Energy Queensland has decided to restructure the final delivery of the portfolio of projects in stages over the next few years.

6.3 Lessons Learned

Significant time and energy have been invested in reviewing and learning from the implementation of our large-scale, business transformational ICT program. The willingness of the Energy Queensland Board to stop the DEBBs portfolio in early 2023 and perform a replan is evidence of a considered and prudent approach with continuous learning to ensure the ongoing delivery of safety and reliability outcomes. A portfolio of this scale is unprecedented and complex.

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While this work is on-going the decision to restructure the final delivery of the portfolio of projects in stages over the next few years is further proof of a willingness to learn and adapt to ensure successful deployment and integration of services. We have considered these learnings in setting the expenditure forecast for non-network ICT for the 2025-30 regulatory control period. Overall, the non-network ICT lessons learned are:

- The multi-year business-led complex major business transformation program in 2020-25 to consolidate and replace major interdependent legacy applications has been more challenging than expected
- The business standardisation, data transformation and organisational change from legacy applications has been the most challenging aspects
- Mastering fundamental processes before automating them is necessary to ensure a solid foundation for efficient and effective automated workflows
- Dealing with business transformation and consolidation of legacy applications becomes exponentially more challenging the longer it is left. In addition, operating legacy applications continuously increases our security risk posture. Regular recurrent upgrade cycles for core applications are more prudent, lowers Cyber Security risk and lowers delivery risks
- For the non-network ICT portion of the 2025-30 regulatory control period submission, we have consciously planned for a continuous recurrent cycle of regular upgrades to non-network ICT applications and technologies (we call this 'Evergreening'), as part of the 'Base Case (Keep the Lights On)' option of the non-network ICT business cases.

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7 WAY FORWARD

7.1 Treatment of non-network ICT capex for 2018-23

A key investment priority for the 2025-30 regulatory control period is to deliver electricity services in the most efficient and affordable way. Our aim is to only invest what is necessary to meet the energy needs of regional Queensland, and in so doing minimise price increases for our customers. As part of this priority, we have identified ways we can reduce the overall cost impact on customers.

We acknowledge that a variety of factors, some of which are beyond our control, contributed to the overall portfolio of non-network ICT capex being above the AER's forecast over the ex post review period.

We understand that a potential request to include the additional value of these non-network ICT assets (above the approved AER forecast) in our RAB for the next regulatory control period will have an immediate impact on our future revenue and our tariffs.

This is in part due to the fact that ICT are relatively short-lived (typically five years) as compared to network assets that we typically recover over very long periods (of up to 60 years).

In consideration of potential affordability impacts for our customers, we propose to use the AER's forecast as the value of non-network ICT assets when establishing the opening RAB for the 2025-30 regulatory control period.

Consequently, we will self-fund \$121.3 million of ICT capex that we incurred above the AER's forecast for the last three years of the ex post period (i.e. 2020-21 to 2022-23), recognising that we underspent against forecast for the first two years of the ex post period.

7.2 Non-network ICT capex for 2025-30

It is our intention that the major capabilities of the 18 business cases for the 2020-25 regulatory proposal will be delivered by the end of this regulatory control period.

We have been continuously revising our corporate investment, governance and risk frameworks over the 2020-25 regulatory control period, in response to lessons learned and required organisational change. We will continue to revise our corporate investment, governance and risk frameworks over the 2025-30 regulatory control period.

While during 2020-25 the focus was on major business transformation of significant interdependent legacy applications, these contemporary applications now shift into an ongoing maintenance focus for the 2025-30 period. The major transformation areas for 2025-30 are in the areas of Customer and Cyber Security. Overall, the forecast level of non-network ICT investment capex will significantly decrease, reducing overall risk.

After careful consideration of our experience with implementing a major business transformational program of work over the last few years, for the non-network ICT component of the 2025-30 Regulatory Proposal, we have consciously planned an Evergreening approach where we will implement a continuous recurrent cycle of regular upgrades to non-network ICT applications and technologies.

For 2020-25, with the significant major business transformations, the largest category of non-network ICT capex was 'Non-Recurrent – New / Enhanced'. The largest categories for 2025-30 are 'Recurrent' and 'Non-recurrent – Maintain' which will have a significantly lower delivery risk profile than the major business transformation programs during the 2020-25 period.

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8 GLOSSARY

| Term | Meaning |
|---|---|
| AECSEF | Australian Energy Cyber Security Framework |
| Capex | Capital expenditure |
| Current regulatory control period or current period | The regulatory control period commencing 1 July 2020 and ending 30 June 2025 |
| DEBBs | Digital Enterprise Building Blocks portfolio of projects |
| DNSP | Distribution Network Service Provider |
| ECM | Enterprise Content Management System |
| Energy Queensland | Energy Queensland Limited |
| NER (or Rules) | National Electricity Rules |
| Next regulatory control period or forecast period | The regulatory control period commencing 1 July 2025 and ending 30 June 2030 |
| Opex | Operating expenditure |
| Previous regulatory control period or previous period | The regulatory control period commencing 1 July 2015 and ending 30 June 2020 |
| Regulatory proposal | Ergon Energy Network's regulatory proposal for the next regulatory control period submitted under clause 6.8 of the NER |
| \$ nominal | These are nominal dollars of the day |
| \$ real 2012-13 | These are dollar terms as at 30 June 2013 |
| \$ real 2019-20 | These are dollar terms as at 30 June 2020 |
| \$ real 2024-25 | These are dollar terms as at 30 June 2025 |
| SOCI | Security of Critical Infrastructure Act 2018 |
| SPARQ | SPARQ Solutions Pty Ltd |
| Totex | Total expenditure |
| UDMS | Unified Distribution Management System |
| UGIS | Unified Geographical Information System |
| Unified ERM EAM | Unified Enterprise Resource Planning and Enterprise Asset Management system |