Date Prepared: 16 December 2022

Recommendation

That Essential Energy endorses this preliminary business case for investment in Payroll and Rostering, Time & Attendance Systems capability.

As a preliminary business case, this paper analyses the drivers for investment and the options to address those drivers. It identifies the likely costs, benefits, risks and impacts of the proposed investment in order to inform organisational planning and forecasting.

Consistent with Essential Energy's investment governance processes, prior to proceeding with the proposed investment a detailed delivery business case will be developed and evaluated.

Executive Summary

This business case proposes investment in renewal or replacement of Essential Energy's Payroll and Rostering, Time & Attendance (RTA) systems.

This capability is critical to managing the accurate and timely remuneration of Essential Energy's workforce in line with approved Enterprise Agreements and Award provisions, and compliant with Australian Tax Office (ATO) procedures and other legislative requirements. It is proposed that the renewal will also introduce electronic timesheeting, to provide efficiencies and accuracy in payroll and labour data capture associated with asset creation works and maintenance activities.

In the current Regulatory Control Period (RCP) the company has successfully implemented the current generation Oracle Cloud ERP system, including Human Capital Management (HCM). However the Oracle Cloud suite does not yet offer Payroll functionality configured and certified for use in Australia. Therefore, in the current RCP, it has been necessary to temporarily retain the Payroll and RTA functions of the legacy Oracle Peoplesoft ERP, integrated with the new Oracle Cloud ERP/HCM.

The Oracle Peoplesoft system was initially implemented in 2003, with the last major upgrade undertaken in 2015. In the coming RCP (FY25 to FY29) it is proposed to finalise the lifecycle renewal of our Payroll and RTA capabilities, to ensure sustainability, supportability and flexibility through the 2030s.

The proposed investment is required to address the following drivers:

- **Compliance and Risk:** Risk of non-compliance with future legislative requirements due to reducing support for the current Peoplesoft solution (e.g. potential for further changes to Single Touch Payroll or other payroll, taxation witholding or reporting requirements).
- **Productivity Improvement:** Opportunity for productivity improvements with the introduction of contemporary RTA capability including the ability for employees to directly enter timesheets avoiding re-keying effort and data accuracy issues.
- **Business Improvement:** Opportunity for business process improvements with the introduction of contemporary RTA capability that better supports payroll exception reporting and enables more effective project cost capture.

This business case considers two options, contrasted with the counterfactual base case:

- **Base Case:**
  Continue to operate the existing systems, with minimal incremental investment to meet business and legislative obligations.
- **Option 1: Lifecycle systems renewal - leveraging the Oracle Cloud ERP (Recommended)**
  Undertake lifecycle renewal of the existing Payroll and RTA systems through migration to Oracle's long-term cloud ERP/HCM Payroll and RTA solution, providing a roadmap for future sustainability, compliance and an enabler of productivity improvements.
- **Option 2: Lifecycle systems renewal - "best of breed" integrated with the Oracle Cloud ERP**
  Undertake lifecycle renewal of the existing Payroll and RTA systems with sustainable "best of breed" solutions that provide a roadmap for future compliance and productivity improvements, integrated to the new Oracle ERP/HCM solution.

Option 1 is recommended, with investment beginning in FY27. Total project expenditure is ███████████ ████████████████████████

This investment will support the customer and community through:

- Continued provision of timely and accurate payroll services, thereby avoiding potential customer service disruption through workforce dissatisfaction or industrial action; and
- Improved enterprise performance through payroll process automation and electronic timesheets, as well as through improved project/job costing.

Program/Project Summary

Preliminary Business Case – Payroll and RTA lifecycle renewal	
Investment Value	

Expenditure (Recommended Option)	$M FY24 Real Terms[1]
Seed funding (actual)	██
This approval:	
Project Capital Expenditure	██
Project Operating Expenditure	██
Total program/project expenditure	██
Ongoing Opex p.a.	██

Benefits	

Financial Benefits p.a. (Recommended Option)	$M FY24 Real Terms
Avoided hosting and support charges for existing legacy systems.	██
-	█
Ongoing Benefit Value (p.a.)	██

Corporate Strategy	• Resilience and Reliability • Other Essential Services
Business Drivers	• Compliance and Risk • Business Improvement
Date Needed	March 28

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[1] All figures presented in this document are provided in middle of the year 2023/24 real dollar terms and represent whole-of-business values prior to application of the Cost Allocation Model (CAM).

Contents

1. Business Drivers

As an Australian employer and as a Distribution Network Service Provider (DNSP) in the Australian Energy Market, Essential Energy must continue to meet its payroll and market obligations, including:

- Payroll in alignment with multiple Enterprise Agreements
- Leave entitlements (Annual, Sick, Long Service, etc)
- Workers Compensation and Superannuation entitlements
- Taxation (Tax withholding and reporting)
- Project costing

In the current RCP, the legacy Oracle Peoplesoft ERP system was integrated with the new Oracle Cloud ERP/HCM solution to provide continued interim Payroll and RTA capability as the Oracle Cloud suite is yet to offer payroll functionality configured and certified for use in Australia.

The Oracle Peoplesoft system was implemented in 2003, with the last major upgrade to version 9.2 undertaken in 2015. Since that time, Essential Energy has applied updates to maintain vendor support of the Peoplesoft HCM Payroll and RTA functions, and applied configuration changes and customisations to ensure compliance with the ATO's Single Touch Payroll procedures. This work has highlighted the diminishing availability of Peoplesoft resourcing within Australia and the need to complete the ERP transition to achieve a long-term sustainable Payroll and RTA solution.

The Oracle Cloud ERP/HCM platform represents Oracle's strategic direction, providing for future sustainability and extensibility. While Oracle has committed to supporting its acquired Peoplesoft product until 2033, it is forecast that they will use this timeframe to progressively transition clients to their strategic platforms.

By the end of the coming regulatory period (FY29), the Oracle Peoplesoft system will have been in place for 26 years. With the shifting focus towards the new generation Oracle Cloud ERP suite, further legislative changes in the coming RCP may not be directly accommodated or practical in the incumbent ageing system.

It is therefore proposed to leverage the Oracle Cloud ERP/HCM systems investment to undertake a lifecycle renewal of Payroll and RTA capabilities to provide ongoing compliance and to support productivity improvements through the 2030s.

1.1. Compliance Obligations

Through this investment, Essential Energy will ensure compliance with legislation, regulations, codes and standards as summarised below.

Instrument	Obligations	Investment relationship to obligation
Fair Work Act (and Fair Work Regulations) 2009 Corporation Act 2001 Superannuation Act 1976 Paid Parental Leave Act 2010	Employee Entitlements	The proposed investment will replace Essential Energy's Payroll and RTA systems for long-term supportability, enabling compliance with all legislative and other obligations.
New South Wales Workers Compensation Act 1987 No 70 New South Wales Workplace Injury Management and Workers Compensation Act 1998 New South Wales Return to Work Program	Workers Compensation	
New South Wales Workers Long Service Leave Act 1955	Long Service Leave	
Income Tax Assessment Act 1936,1997 Taxation Administration Act 1953, 1997 A New Tax System (Pay As You Go(Act 1999 Fringe Benefits Tax Act 1986	Federal Taxes	
New South Wales Payroll Tax Act 2007 New South Wales Tax Administration Act 1996	New South Wales State Taxes	

Instrument	Obligations	Investment relationship to obligation
State based instruments for Victoria, Queensland, South Australia and Western Australia	Equivalent to above (for interstate employees)	
Australian Privacy Act 1988 Australian Bureau of Statistics Act 1975 Workplace Gender Equality Act 2012 Archives Act 1983 Freedom of Information Act 1982	Other	

The proposed investment is aligned with the National Electricity Rules "capital expenditure objectives" (NER 6.5.7(a)) as described below[2].

NER Capital Expenditure Objectives	Alignment
6.5.7(a)(2) *the forecast capital expenditure complies with all applicable regulatory obligations or requirements associated with the provision of standard control services*	The proposed investment will ensure Essential Energy's ability to maintain compliance with legislative employer obligations, thereby enabling a stable and effective workforce to maintain compliance with its market obligations as a DNSP in the market.
6.5.7(a)(3) *the forecast capital expenditure maintains the quality, reliability and security of supply of standard control services*	Through effective and efficient payroll management, Essential Energy will maintain secure and reliable supply of standard control services to our customers.

The proposed investment addresses the NER "capital expenditure criteria" (NER 6.5.7(c)) as described below.

NER Capital Expenditure Criteria	Alignment
6.5.7(c)(1) **(i)** *the forecast capital expenditure reasonably reflects the efficient costs of achieving the capital expenditure objectives* **(ii)** *the forecast capital expenditure reasonably reflects the costs that a prudent operator would require to achieve the capital expenditure objectives* **(iii)** *the forecast capital expenditure reasonably reflects a realistic expectation of the demand forecast and cost inputs required to achieve the capital expenditure objective*	Investment costs have been forecast with reasonable estimates derived from industry analysis, historical expenditure, and cost planning using standard labour rates. Currently this document is a preliminary business case for investment planning purposes. Prior to investment, the costs will be further validated in preparation of the final business case, informed through competitive market tender processes. Delivery cost efficiency is further assured through the use of as-a-service (aaS) solutions. Essential Energy is focussed on the use of as-a-service market provisioned solutions. This includes software-as-a-service (SaaS) public and private cloud software, platform-as-a-service (PaaS) hosted operating systems and databases, and infrastructure-as-a-service (IaaS) server hosting.

1.2. Corporate Strategy Alignment

The table below describes how the proposed investment supports Essential Energy's business strategies.

Essential Energy strategic themes	Investment relationship to strategic themes
Resilience and Reliability shaping our investment decisions consistent with a prudent risk appetite	Modern Payroll and RTA systems capability will ensure Essential Energy has resilient and reliable workforce management and remuneration processes through the coming RCP and beyond.

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[2] Note that due to the International Financial Reporting Standards (IFRS) Interpretation Committee's 2021 decision on the accounting treatment of cloud computing investments, expenditure associated with implementing or upgrading Software-as-a-Service (SaaS) systems must now be expensed (i.e. treated as Opex). As a result a material portion of this proposed investment is forecast as Opex, rather than Capex as would traditionally have been the case for equivalent ICT investments. The Capex objectives remain relevant however, given the requirement for prudence and efficiency of the full investment to provision and maintain standard control services.

| **Other Essential Services** customer service and more	The proposed Payroll and RTA systems will uplift organisational capabilities and support productivity improvements that contribute to the maintenance and delivery of energy solutions for our customers.

1.3. Current State

In the current RCP, Essential Energy has undertaken a program to deliver new and improved business capabilities to better position the organisation in a rapidly changing energy industry. This has included the provision of contemporary ERP and HCM capability through the implementation of the Oracle Cloud ERP suite, (including HCM). As our people are key to delivering better service to our customers and communities, effective management of our workforce is critical to our success as a business. This includes:

- HR Information Management – central shared repository of core organisation and employee data (organisation structure, personal information, contact information, qualifications, leave entitlements, employment history, etc)

- Talent Management – capability to source, recruit, onboard, manage performance, develop careers and plan succession for employees

- Payroll – capability to pay employees compliant with applicable Australian federal and state legislation and relevant award / enterprise agreements provisions

- RTA – capability to manage rosters, capture time and attendance, leave and accruals, including project/job allocation

- Reporting and Analytics – insights to manage/improve decisions related to workforce planning, diversity, employee attrition and retention, talent acquisition, compensation

- Automation/Workflow – HR workflows, including Self-Service capabilities (Employee and Manager)

The above capabilities have been largely delivered through the Oracle Cloud ERP/HCM system, with the exception of Payroll and RTA, where the legacy Oracle Peoplesoft ERP has been retained as the Oracle Cloud ERP suite is yet to offer an Australian Payroll capability.

The current state of Essential Energy's Payroll and RTA systems is depicted in the following diagram.
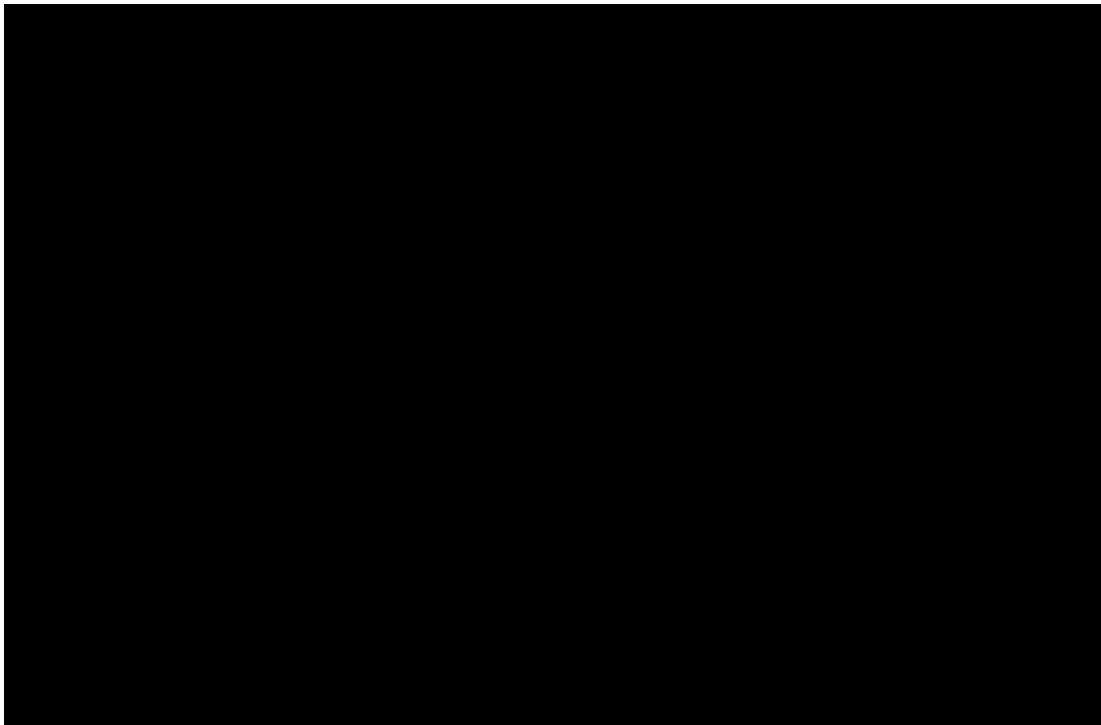
1.4. Existing Issues

Continued use of the legacy Oracle Peoplesoft ERP for Payroll and RTA limits the company's ability to make productivity improvements, and over time, increases the risk of failing to meet payroll compliance obligations.

System supportability and sustainability

As indicated in Section 1 (above), the Oracle Peoplesoft ERP which remains in use for Payroll and RTA, is heavily aged and due for lifecycle replacement based on established asset lifecycle management principles. In the current RCP, the Oracle Peoplesoft Update Manager maintenance process has been used to stay current with updates/patches for Peoplesoft HCM 9.2, and Oracle has maintained support for Australian legislative extensions including Single Touch Payroll.

Oracle has indicated support for the Peoplesoft ERP until 2033, however the Payroll and RTA functions of the system currently remain critical to Essential Energy in meeting its legislative obligations as an employer. Leaving this transition of Payroll and RTA from the Oracle Peoplesoft ERP until system support expires in the following RCP (FY30-FY34) would expose the organisation to additional risk due to potential limitations in development of new Australian extensions in the aged product, and project risks as a consequence of a more compressed migration/transition timeframe.

Manual timesheets

As depicted in Section 1.3 (above), paper timesheets are currently completed by a majority of Essential Energy's employee workforce, with these being subsequently entered into Oracle Peoplesoft by administrative staff across the organisation. This manual process carries inherent inefficiencies, and is prone to data accuracy issues and duplicated re-keying effort as timesheets are sent back to employees for clarification/rectification.

The existing system does not provide the capability to selectively enable electronic timesheet entry by specific workgroup(s). Further, the interface is not suitable for deployment on smaller form factor devices (such as smartphones). This restricts the organisation's ability to achieve efficiencies and improve data accuracy associated with direct entry of timesheets by employees.

Interfacing (one-way)

The current solution requires the duplication of core HR data and project cost codes from the Oracle Cloud ERP/HCM system into Oracle Peoplesoft to enable timesheet data entry by administrative staff and operation of the payroll functionality (pay calculation and bank/superannuation/taxation data streams). Interface failure or missing HR/Project data leads to delayed timesheet entry and/or cost allocation until refreshed data is available via the interface.

All leave entitlements remain in the Oracle Peoplesoft system, requiring employees to use "self-service" capabilities in the new Oracle Cloud ERP/HCM for updating personal/contact details and "self-service" in legacy Oracle Peoplesoft system for leave applications.

1.5. Inherent Risks

The table below summarises the inherent risks requiring mitigation through this investment, with likelihoods forecast as at the end of the coming RCP (i.e. 30 June 2029) if no remedial actions are taken.

Inherent Risk	Likelihood	Consequence	Risk Rating	Risk Impacts
Risk R1 **Vendor support risk** The vendor support for the product is withdrawn earlier than currently notified and/or a system outage is incurred.	**Unlikely** Oracle has a broad range of customers in Australia dependent on this product and it is considered unlikely that support would be terminated earlier than currently notified.	**Major** A prolonged systems outage is considered major, as it would necessitate the use of default pays. This would result in a significant backlog in timesheet entry and potential staff dissatisfaction or industrial action as default pays could be lower than actual pays	🟡 **Medium**	Costs of interim manual processing and subsequent retrospective adjustments. Industrial action leads to impacts on network reliability and/or delay in network projects and maintenance.

Inherent Risk	Likelihood	Consequence	Risk Rating	Risk Impacts
		for many employees (trade and field).		
Risk R2 **New payroll/super/tax obligations risk** Inability to meet legislative compliance requirements (new/updated) due to lack of available Australian product extensions in the required timeframe, given the current system's age.	**Possible** Further changes to support revised tax, superannuation and enterprise agreements are possible prior to the end of the RCP, noting changes to the industrial environment over the past 5 years.	**Major** Potential for non-compliance penalties. Interim measures are required to meet or demonstrate progress towards compliance. Inability to correctly pay employees leads to industrial action.	🟠 **High**	Costs of potential non-compliance penalties and corresponding reputational impacts. Costs of interim manual processing and subsequent retrospective adjustments. Industrial action leads to impacts on network reliability and/or delay in network projects and maintenance.
Risk R3 **Cyber security risk** Aged software platforms fall subject to a successful cyber security attack, resulting in breach of data privacy.	**Unlikely** While it is possible given the age of the software, it is rated as unlikely as the hosted environment includes security patching of the technology stacks servicing the software.	**Major** Exposure of employee data, in breach of the Australian Privacy Act and DNSP Licence conditions in NSW.	🟡 **Medium**	Societal impacts associated with exposure of sensitive employee data. Costs of potential non-compliance penalties and corresponding reputational impacts. Costs associated with needing to urgently implement a remediated solution.

Table 1: Inherent Risks

Figure 1 (below) depicts the above inherent risks requiring mitigation through this investment.

		CONSEQUENCE				
		Insignificant	**Minor**	**Moderate**	**Major**	**Severe**
LIKELIHOOD	**Almost Certain** > 5 times per year	Low	Medium	High	Extreme	Extreme
	Likely 1-5 times per years	Low	Medium	High	High	Extreme
	Possible Once every 1-3 years	Low	Medium	Medium	R2 High	High
	Unlikely Once every 3-10 years	Low	Low	Medium	R1 R3 Medium	High
	Rare Once every 10 -100 years	Low	Low	Low	Medium	Medium
	Very rare < once every 100 years	Low	Low	Low	Low	Low

🔵 Rn   **Inherent Risks R1 to R3, with likelihoods forecast as at the end of the coming RCP** mapped to the Essential Energy Risk Framework

⚪ Rn   **Residual Risks R1 to R3** only shown if different to the Inherent Risk

Figure 2: Inherent Risks

2. Options Analysis

The following options have been considered to address the investment drivers.

Options Considered:	Assessment
Base Case	Continue to operate the existing systems, with minimal incremental investment to meet business and legislative obligations.
1. Lifecycle systems renewal - leveraging the Oracle Cloud ERP	Undertake lifecycle renewal of the existing Payroll and RTA systems through migration to Oracle's long-term cloud ERP/HCM Payroll and RTA solution, providing a roadmap for future sustainability, compliance and an enabler of productivity improvements.
2. Lifecycle systems renewal – "best of breed" integrated with the Oracle Cloud ERP	Undertake lifecycle renewal of the existing Payroll and RTA systems with sustainable "best of breed" solutions that provide a roadmap for future compliance and productivity improvements, integrated to the new Oracle ERP/HCM solution.

Table 2: Business Case Options

Each of these options is evaluated in the sections which follow.

2.1. Base Case: Continue to operate the existing systems, with minimal incremental investment

The base case represents a "counterfactual" assessment of Essential Energy's likely expenditure if none of the proposed options proceed.

Without investment to transition from the Oracle Peoplesoft ERP for Payroll and RTA functions, there would be minimal change in systems capability to enable productivity improvements.

2.1.1 Assumptions – Base Case Option

The following assumptions apply for this option:

- In the coming RCP, the Oracle on-demand hosting (PaaS) and support agreements must be re-negotiated for the continued use of the Oracle Peoplesoft HCM Payroll and RTA functions (i.e. at an incremental cost of ▮▮▮▮▮▮▮▮▮▮▮). No other costs have been assumed, as the existing Oracle Peoplesoft instance is already hosted within the Oracle's Cloud environment.

- Additional legislatives changes may result in further Peoplesoft HCM Payroll and RTA Australian extension enhancements and/or developments. This may also include Peoplesoft configurations, extensions, modifications, localisations, and integrations (CEMLI). A cost of ▮▮▮▮▮ has been assumed based on similar experience with the Single Touch Payroll changes in the current RCP.

- In this scenario, the legacy Oracle Peoplesoft ERP is not replaced in the coming RCP (FY25-29). However, this does not allow the system to operate indefinitely into the future as Oracle has only committed to support until 2033. Therefore the renewal investment would be deferred to instead occur five years later, i.e., in the following RCP, with assumed costs equivalent to those in Option 1 (in real terms).

2.1.2   Residual Risks – Base Case Option

Inherent Risk at end-RCP (FY29) from business drivers - see section 1.5		Mitigated Risk for this Option I.e. residual risk				
Inherent Risk	Inherent Risk Rating	Mitigation	Likelihood	Consequence	Residual Risk Rating	
Risk R1 **Vendor support risk** The vendor support for the product is withdrawn earlier than currently notified and/or a system outage is incurred.	🟡 Medium	None	Unlikely	Major	🟡 Medium	
Risk R2 **New payroll/super/tax obligations risk** Inability to meet legislative compliance requirements (new/updated) due to lack of available Australian product extensions in the required timeframe, given the current system's age.	🟠 High	None	Possible	Major	🟠 High	
Risk R3 **Cyber security risk** Aged software platforms fall subject to a successful cyber security attack, resulting in breach of data privacy	🟡 Medium	None	Unlikely	Major	🟡 Medium	

Table 3: Residual Risks - Base Case

		CONSEQUENCE				
		Insignificant	**Minor**	**Moderate**	**Major**	**Severe**
LIKELIHOOD	**Almost Certain** > 5 times per year	Low	Medium	High	Extreme	Extreme
	Likely 1-5 times per years	Low	Medium	High	High	Extreme
	Possible Once every 1-3 years	Low	Medium	Medium	(R2) High	High
	Unlikely Once every 3-10 years	Low	Low	Medium	(R1) (R3) Medium	High
	Rare Once every 10 -100 years	Low	Low	Low	Medium	Medium
	Very rare < once every 100 years	Low	Low	Low	Low	Low

(Rn) **Inherent Risks R1 to R3, with likelihoods forecast as at the end of the coming RCP** mapped to the Essential Energy Risk Framework

(Rn) **Residual Risks R1 to R3** only shown if different to the Inherent Risk

Figure 3: Residual Risks - Base Case

2.2. Option 1: Lifecycle systems renewal - leveraging the Oracle Cloud ERP (Recommended)

Through this option, Essential Energy will finalise transition away from the ageing Oracle Peoplesoft ERP, through migration of the Payroll and RTA system functions to leverage the recently implemented Oracle Cloud ERP/HCM.

The new Payroll and RTA capabilities will enable productivity improvements through:

- Introduction of electronic timesheets;
- Consolidation of employee/manager "self-service" capability for personal details and leave Management; and
- Enablement of further payroll process workflows (e.g. pay exception reporting).

This option mitigates the elevated risks associated with operating on ageing software and ongoing support for product extensions (new or modified) to comply with Australian employment obligations.

With this transition Essential Energy will have established an integrated commercially supported solution for long term sustainability, business process efficiency and cyber security of all ERP functions including Finance, Supply Chain, HCM, Payroll and also Asset Management.

2.2.1 Assumptions – Option 1

The following assumptions apply for this option:

- The existing Oracle Peoplesoft Payroll and RTA functions will continue operating with current business processes, until transition to the new solution in FY28. Negotiation of the existing Oracle hosting arrangement would be required to minimise incremental cost increases through to FY28 given the proposed transition to Oracle's strategic solution.

- While the Oracle Cloud ERP/HCM system is not currently Australian payroll compliant, it is anticipated that by the time of the planned investment (in FY27-28) Oracle will either have achieved Australian compliance or provided an alternative compliant add-on solution integrated with the Cloud ERP. Prior to that time, Essential Energy will monitor Oracle's product development roadmap and engage with the company to validate the availability and long-term sustainability of a payroll solution for use in Australia.

- On the basis that an integrated Oracle Cloud ERP/HCM-based solution is deployed for payroll and RTA, the overall procurement complexity will be relatively low. However, licence procurement and implementation negotiations must still be undertaken to ensure prudent and efficient project delivery and operations expenditure.

- The initiative will be delivered as a coordinated project, incorporating data migration trial conversions and parallel payroll runs to ensure successful transition of critical systems capability.

Payroll and RTA systems leveraging Oracle Cloud solution					
Duration	Plan / Procure			3	Months
	Design			3	Months
	Construct / Test			12	Months
	Deploy / Hypercare			3	Months
	Total			**21**	**Months**
Project Expenditure	$M FY24 Real Terms	Capex	Opex		Totex
	Labour (Direct)	■	■		■
	Vendor Services	┃	■		■
	Software & Hardware	┃	■		■
	Total	■	■		■
Support Costs	$M FY24 Real Terms				Opex p.a.
	Payroll & RTA SaaS fees p.a.				■
	Total				■

2.2.2 Benefits – Option 1

The table below summarises the benefits which will be enabled through selection of this option. Financial benefits are provided as the "ongoing per annum (p.a.)" amounts which will be achieved following implementation of the investment.

Benefit	Type and Value
Avoided hosting and support charges for the legacy Oracle Peoplesoft solution (Assumed to begin in the year following implementation of the new solution)	**Tangible Cost Reduction** ▇▇▇▇▇▇▇
Productivity improvement arising from introduction in electronic timesheets	**Contributor to Productivity Improvement Target**
Productivity improvement arising from improved workflows and self-service capability of modern Payroll and RTA software	**Contributor to Productivity Improvement Target**
Risk mitigation benefits (see section 2.2.3 below)	**Non-Financial**

2.2.3 Residual Risks – Option 1

The table below summarises the risk position at the end of the coming RCP (FY29) in the event that this option is selected. Note that the risks included within this table, and the Inherent Risk ratings are as identified in section 1.5 (Page 8).

Inherent Risk at end-RCP (FY29) from business drivers - see section 1.5		Mitigated Risk for this Option I.e. residual risk				
Inherent Risk	**Inherent Risk Rating**	**Mitigation**	**Likelihood**	**Consequence**	**Residual Risk Rating**	
Risk R1 **Vendor support risk** The vendor support for the product is withdrawn earlier than currently notified and/or a system outage is incurred.	🟡 Medium	Moving to the latest generation Oracle Cloud ERP/HCM – Payroll and RTA capability reduces the likelihood of this risk. Should an outage occur, operating on current generation software would support faster recovery and reduce its potential impact.	Rare	Moderate	🟢 Low	
Risk R2 **New payroll/super/tax obligations risk** Inability to meet legislative compliance requirements (new/updated) due to lack of available Australian product extensions in the required timeframe, given the current system's age.	🟠 High	Moving to the latest generation Oracle Cloud ERP/HCM – Payroll and RTA capability reduces the likelihood of this risk. Should an outage occur, operating on current generation software would support faster recovery and reduce its potential impact.	Rare	Moderate	🟢 Low	

Inherent Risk at end-RCP (FY29) from business drivers - see section 1.5		Mitigated Risk for this Option I.e. residual risk			
Inherent Risk	Inherent Risk Rating	Mitigation	Likelihood	Consequence	Residual Risk Rating
Risk R3 **Cyber security risk** Aged software platforms fall subject to a successful cyber security attack, resulting in breach of data privacy	🟡 Medium	Moving to the latest generation Oracle Cloud ERP/HCM – Payroll and RTA capability reduces the likelihood of this risk. Should an outage occur, operating on current generation software would support faster recovery and reduce its potential impact.	Rare	Moderate	🟢 Low

Table 4: Residual Risks - Option 1

Figure 4: Residual Risks - Option 1

2.2.4   Project Delivery Risks – Option 1

The table below summarises the project delivery risks associated with implementation of this option.

Inherent Project Risk	Inherent Project Risk	Controls	Residual Project Risk
Project Risk 1 **Project Delivery Complexity** Payroll and RTA system projects can have significant employee impacts and are recognised for	🟠 High	In the current RCP, Essential Energy has established strong program delivery governance and management practices which have successfully guided delivery of the Oracle ERP and	🟡 Medium

Inherent Project Risk	Inherent Project Risk	Controls	Residual Project Risk
their complexity and delivery risk, requiring high accuracy, traceability and auditability.		EAM program. This same governance and delivery experience will be leveraged to mitigate the delivery risks associated with this initiative.	
Project Risk 2 **Award / Enterprise Agreement (EA) Changes During Project Delivery** There is potential for Award and/or EA changes during the delivering the project. These changes may impact the solution design, configuration or delivery timeline.	🟠 High	The project will be planned conscious of likely award and potential future EA changes, and the need to assess and apply changes at key checkpoints within the project lifecycle.	🟡 Medium
Project Risk 3 **Skills Availability** The project will require a highly skilled delivery team, with knowledge and experience of Award and Enterprise Agreement provisions, the incumbent and selected software platform(s) and Essential Energy's existing processes. Internal expertise will be limited in capacity, while external skills are reliant on market availability.	🟠 High	The project will be strictly planned, scheduled and governed, consistent with the Enterprise Program Management Office (EPMO) practices which have matured through delivery of the ERP and EAM projects in the current RCP. Program and project plans will be scheduled to identify and minimise scarce resourcing conflicts, to ensure necessary resourcing is available for the chosen product(s), platform(s) and delivery method.	🟡 Medium

Table 5: Project Delivery Risks - Option 1

2.3. Option 2: Lifecycle systems renewal – "best of breed" integrated with the Oracle Cloud ERP

Through this option, Essential Energy will replace the ageing Oracle Peoplesoft Payroll and RTA functions with "best of breed" commercially available Payroll and RTA systems for long term sustainability, business process efficiency and cyber security. These systems will be integrated with the recently implemented Oracle Cloud ERP/HCM solution.

While this option addresses the business drivers and mitigates the inherent risks similar to Option 1 (section 2.2), it introduces additional independent systems and integrations into the portfolio, with associated service fees and support costs.

2.3.1 Assumptions – Option 2

The following assumptions apply for this option:

- The existing Oracle Peoplesoft Payroll and RTA functions will continue operating with current business processes, until transition to the new solution in FY28. Negotiation of the existing Oracle hosting arrangement would be required to minimise incremental cost increases through to FY28 given the proposed transition to non-Oracle solution(s).

- The replacement Payroll and RTA systems will be selected through a market evaluation and formal procurement process, to ensure prudent and efficient project delivery and operations expenditure.

- Additional integrations would be required between the Oracle Cloud ERP/HCM platform, and the new Payroll and RTA systems. This will include replication of core HR employee and project information to support labour and project costing processes (similar to the current Peoplesoft solution).

- The initiative will be delivered as a coordinated project, incorporating data migration trial conversions and parallel payroll runs to ensure successful transition of critical systems capability.

"Best of breed" Payroll and RTA systems integrated with the Oracle Cloud ERP			
Duration	Plan / Procure	6	Months
	Design	3	Months
	Construct / Test	12	Months
	Deploy / Hypercare	3	Months
	Total	**24**	**Months**

Project Expenditure	$M FY24 Real Terms	Capex	Opex	Totex
	Labour (Direct)	▮	▮	▮
	Vendor Services	▮	▮	▮
	Software & Hardware	▮	▮	▮
	Total	▮	▮	▮

Support Costs	$M FY24 Real Terms	Opex p.a.
	Payroll SaaS fees p.a.	▮
	RTA SaaS fees p.a.	▮
	▮▮▮▮▮	▮
	Total	▮

2.3.2 Benefits – Option 2

The table below summarises the benefits which will be enabled through selection of this option. Financial benefits are provided as the "ongoing per annum (p.a.)" amounts which will be achieved following implementation of the investment.

Benefit	Type and Value
Avoided hosting and support charges for the legacy Oracle Peoplesoft solution (Assumed to begin in the year following implementation of the new solution)	**Tangible Cost Reduction** ▮▮▮▮▮

Productivity improvement arising from introduction in electronic timesheets	**Contributor to Productivity Improvement Target**
Productivity improvement arising from improved workflows and self-service capability of modern Payroll and RTA software	**Contributor to Productivity Improvement Target**
Risk mitigation benefits (see section 2.2.3 below)	**Non-Financial**

2.3.3   Residual Risks – Option 2

The table below summarises the risk position at the end of the coming RCP (FY29) in the event that this option is selected. Note that the risks included within this table, and the Inherent Risk ratings are as identified in section 1.5 (Page 8).

Inherent Risk at end-RCP (FY29) from business drivers - see section 1.5		Mitigated Risk for this Option I.e. residual risk			
Inherent Risk	**Inherent Risk Rating**	**Mitigation**	**Likelihood**	**Consequence**	**Residual Risk Rating**
Risk R1 **Vendor support risk** The vendor support for the product is withdrawn earlier than currently notified and/or a system outage is incurred.	🟡 Medium	Moving to "best of breed" Payroll and RTA reduces the likelihood of this risk. Should an outage occur, operating on current generation software would support faster recovery and reduce its potential impact.	Rare	Moderate	🟢 Low
Risk R2 **New payroll/super/tax obligations risk** Inability to meet legislative compliance requirements due to lack of available Australian product extensions in the required timeframe, given the current system's age.	🟠 High	Moving to "best of breed" Payroll and RTA reduces the likelihood of this risk. Should an outage occur, operating on current generation software would support faster recovery and reduce its potential impact.	Rare	Moderate	🟢 Low
Risk R3 **Cyber security risk** Aged software platforms fall subject to a successful cyber security attack, resulting in breach of data privacy	🟡 Medium	Moving to "best of breed" Payroll and RTA reduces the likelihood of this risk. Should an outage occur, operating on current generation software would support faster recovery and reduce its potential impact.	Rare	Moderate	🟢 Low

Table 6: Residual Risks - Option 2

		CONSEQUENCE				
		Insignificant	Minor	Moderate	Major	Severe
LIKELIHOOD	**Almost Certain** > 5 times per year	Low	Medium	High	Extreme	Extreme
	Likely 1-5 times per years	Low	Medium	High	High	Extreme
	Possible Once every 1-3 years	Low	Medium	Medium	(R2) High	High
	Unlikely Once every 3-10 years	Low	Low	Medium	(R1) (R3) Medium	High
	Rare Once every 10 -100 years	Low	Low	(R2)(R1)(R3) Low	Medium	Medium
	Very rare < once every 100 years	Low	Low	Low	Low	Low

(Rn) Inherent Risks R1 to R3, with likelihoods forecast as at the end of the coming RCP mapped to the Essential Energy Risk Framework

(Rn) Residual Risks R1 to R3 only shown if different to the Inherent Risk

Figure 5: Residual Risks - Option 2

2.3.4 Project Delivery Risks – Option 2

The table below summarises the project delivery risks associated with implementation of this option.

Inherent Project Risk	Inherent Project Risk	Controls	Residual Project Risk
Project Risk 1 **Project Delivery Complexity** Payroll and RTA system projects can have significant employee impacts and are recognised for their complexity and delivery risk, requiring high accuracy, traceability and auditability.	🟠 High	In the current RCP, Essential Energy has established strong program delivery governance and management practices which have successfully guided delivery of the Oracle ERP and EAM program. This same governance and delivery experience will be leveraged to mitigate the delivery risks associated with this initiative.	🟡 Medium
Project Risk 2 **Award / Enterprise Agreement (EA) Changes During Project Delivery** There is potential for Award and/or EA changes during the delivering the project. These changes may impact the solution design, configuration or delivery timeline.	🟠 High	The project will be planned conscious of likely award and potential future EA changes, and the need to assess and apply changes at key checkpoints within the project lifecycle.	🟡 Medium

Inherent Project Risk	Inherent Project Risk	Controls	Residual Project Risk
Project Risk 3 Skills Availability The project will require a highly skilled delivery team, with knowledge and experience of Award and Enterprise Agreement provisions, the incumbent and selected software platform(s) and Essential Energy's existing processes. Internal expertise will be limited in capacity, while external skills are reliant on market availability.	🟠 High	The project will be strictly planned, scheduled and governed, consistent with the Enterprise Program Management Office (EPMO) practices which have matured through delivery of the ERP and EAM projects in the current RCP. Program and project plans will be scheduled to identify and minimise scarce resourcing conflicts. Selection and procurement of the target solution will occur together (or in coordination) with the acquisition of external skills, experience and capacity, thereby ensuring that the necessary resourcing is available for the chosen product(s), platform(s) and delivery method.	🟡 Medium

Table 7: Project Deliver Risks - Option 2

3. Financial Comparison

The table below provides a comparison of the Net Present Value (NPV) for each option.

Option	NPV
Base Case	███████
Option 1 (Recommended) Lifecycle systems renewal - leveraging the Oracle Cloud ERP	███████
Option 2 Lifecycle systems renewal - "best of breed" integrated with the Oracle Cloud ERP	███████

Table 8: Financial NPV Comparison

The above NPV comparison has been performed using the NPV calculation workbook, with the following parameters.

- Discount Rate: 2.74% (Post-tax Real)
- Company Tax Rate: 30%
- Investment Modelling Period: 10 Years
- Asset Life: 7 years

4. Dependencies

Project Name	Nature of Dependency
Mobile WFM Upgrade Project	The roadmap for the coming RCP plans the Payroll & RTA Renewal project commencing in FY27 and then running in parallel with the Mobile Workforce Management in FY28. The Payroll and RTA renewal project will be seeking to implement improvements in labour/project/job cost capture that may impact work assignment and close out practices/procedures in the field. Changes by the respective projects will be assessed in advance to agree outcomes that can be incorporated and delivered in the respective projects.

5. Organisational Change Impacts

A stakeholder assessment and impact analysis will detail the groups/roles impacted (internal and external), the nature of the change and the level of impact. The impact assessment will articulate the change in the following dimensions for each stakeholder grouping.

- Process: Procedures, work practices, reference guides, work instructions, standard operating guides
- Organisation: Accountabilities, reporting lines, position profiles, KPI, behaviours/cultural attributes
- Technology: Systems, infrastructure, tools, support resourcing and contracts
- Information: Data and reporting.

The impact assessment informs the interventions required, with tailoring to suit the nature of the change and the stakeholder groupings – a one size fits all approach is not appropriate.

Business Area	Nature of Impact
All employees	Changed work practices for timesheet entry
All managers / supervisors	Changed work practices for timesheet approvals
HR Support Service	Responding to enquiries resulting from changes across systems use, payroll / timesheet practices and processes
HR Payroll Staff	Software configuration / rules to support future Award and Enterprise Agreement provisions
eTech ICT Support	Level 1 Help Desk support and triage training. Development of vendor management practices for Level 2 to 3 support. DevOps work practices for coordination and management of enhancement and market change releases.

6. Conclusion

The preceding sections of this preliminary business case summarise the business drivers for investment, the options to address those drivers, and the corresponding likely costs, benefits, risks and impacts.

On this basis, the recommended option ("Option 1 - Lifecycle systems renewal - leveraging the Oracle Cloud ERP") is proposed for the purposes of organisational planning and forecasting.

Prior to the investment in FY27-28, Essential Energy will monitor Oracle's product development roadmap and engage with the company to validate the availability and long-term sustainability of an integrated compliant payroll solution for use in Australia – be that compliance within the core Oracle Cloud ERP solution or through a certified add-on. In the event that such a solution is unavailable at that time, the alternative option ("Option 2 - Lifecycle systems renewal – 'best of breed' integrated with the Oracle Cloud ERP") will be chosen.

Consistent with Essential Energy's investment governance processes, prior to proceeding with the proposed investment a detailed delivery business case will be developed and evaluated.

ATTACHMENT 1: Glossary of Terms

The following terms or abbreviations are used within this document.

Term	Description
aaS	As a Service
AEMC	The Australian Energy Market Commission
AEMO	Australian Energy Market Operator
ALM	Asset Lifecycle Management
Capex	Capital Expenditure
DNSP	Distribution Network Service Provider
EA	Enterprise Agreement
EAM	Enterprise Asset Management
ERP	Enterprise Resource Planning
GIS	Geographic Information System
HCM	Human Capital Management
HR	Human Resource
ICT	Information & Communication Technology
IaaS	Infrastructure as a Service
NPV	Net Present Value
LNSP	Local Network Service Provider
Opex	Operating Expenditure
PaaS	Platform as a Service
RCP	Regulatory Control Period
RTA	Rostering, Time and Attendance
SaaS	Software as a Service
Totex	Total Expenditure (Capital + Operating)
WACC	Weighted Average Cost of Capital