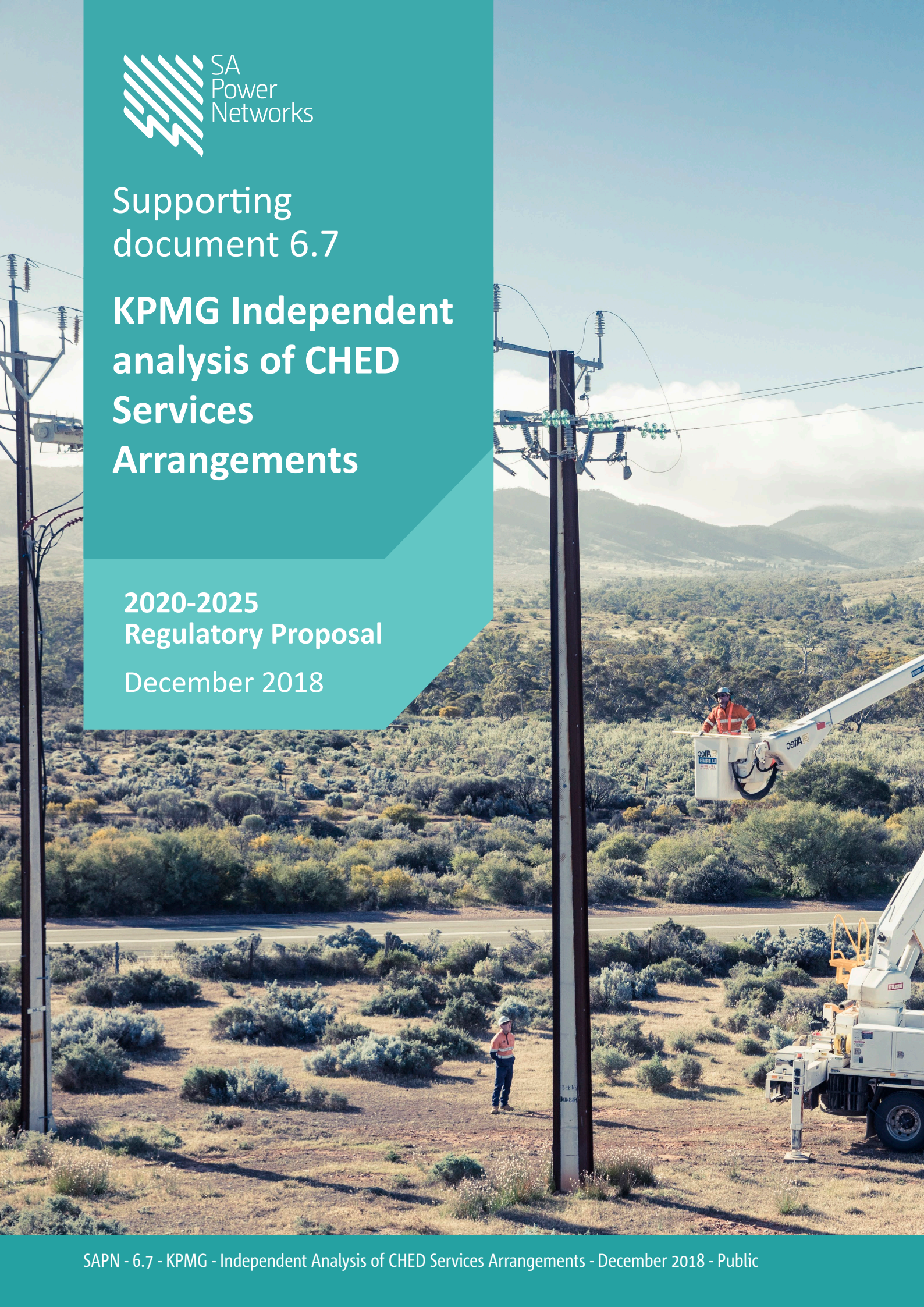




Supporting
document 6.7

KPMG Independent analysis of CHED Services Arrangements

2020-2025
Regulatory Proposal
December 2018





SA Power Networks

Independent Analysis of Service Arrangements

December 2018

This report contains 40 pages

Independent Analysis of Arrangements between SA Power
Networks and CHED Services Final - 14 December 2018

Document review and approval

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Contents

1	Executive Summary	1
1.1	Key findings	1
1.1.1	Nature of Services	1
1.1.2	Total Annual Fees	2
1.1.3	Benchmarking of Services Fees	2
1.1.4	Benchmarking of IT operating expenditure	3
1.1.5	Benchmarking of Network operating expenditure	3
1.1.6	Summary observations on the efficient costs of CHED contracts	4
2	Background	5
2.1	Background and objectives	5
2.2	CHED Services	5
2.3	Scope of analysis	6
3	Service agreements	7
3.1	FRC Shared Services Agreement	7
3.1.1	Scope of services	7
3.1.2	Service Level Arrangements (SLAs)	8
3.1.3	Alignment to good industry practice	10
3.2	FRC IT Services Agreement	10
3.2.1	Scope of services	11
3.2.2	Service Level Arrangements (SLAs)	11
3.2.3	Alignment to good industry practice	13
3.3	Contact Centre Services Agreement	14
3.3.1	Scope of services	14
3.3.2	Service Level Arrangements (SLAs)	15
3.4	Service agreements review summary	16
4	Total annual fees	18
4.1	Fixed fees	18
4.2	Additional fees	19
4.3	Total fees	20
4.4	Fees comparison	21
5	Benchmarking	22
5.1	FRC IT services benchmarking	22
5.2	FRC shared services benchmarking	22
5.3	Contact centre benchmarking	22
5.3.1	Customer services operating expenditure per customer	23
5.3.2	Call Centre operating expenditure per customer	23

6	Efficiency of SAPN IT Operating Expenditure	24
6.1	Non-network IT operating expenditure per customer	25
6.2	Non-network IT operating expenditure per kilometre circuit length	26
6.3	Non-network IT operating expenditure as a % of network operating expenditure	27
6.4	Summary of the IT Operating Expenditure Benchmarking Results	27
7	Efficiency of SAPN Distribution Network Operating Expenditure	29
7.1	Distribution network operating expenditure per customer	30
7.2	Distribution network operating expenditure per kilometre of circuit length	31
7.3	Summary of the Distribution Network Operating Expenditure Benchmarking Results	31
8	Appendix A – Documents received	32
9	Appendix B – Benchmark Data Description	35

Important Notice

This report has been prepared as outlined in the Scope Section. The services provided in connection with this engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Australian Auditing and Assurance Standards Board and, consequently no opinions or conclusions intended to convey assurance have been expressed.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by SA Power Networks management and personnel consulted as part of the process.

KPMG have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report.

KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form.

The findings in this report have been formed on the above basis.

Third Party Reliance

This report has been prepared at the request of SA Power Networks in accordance with the terms within the KPMG Engagement Letter, dated 13 September 2018 and the SA Power Networks, QT1864D – Provision of Professional Services, KPMG – Agreement for the Periodic Supply Provision of Professional Services, dated 18th September 2014 and the QT1864 – Professional Services Panel Contract Amendment, dated 29th September 2017.

This report is solely for the purpose set out in the Approach Section and for SA Power Networks information, and is not to be used for any other purpose or distributed to any other party other than SA Power Networks without KPMG's prior written consent.

In that regard, KPMG consent to the release of this report, to the Australian Energy Regulator (the AER), on the conditions set out below, to the maximum extent permitted by law:

- a. KPMG is not responsible to SA Power Networks or any other party for any loss SA Power Networks or any other party may suffer in connection with the release or use of this report by the AER;
- b. SA Power Networks agree to release and forever discharge KPMG, its affiliated entities, and their partners, officers and employees from, and not assert against them, any action, liability, claim, suit, demand, claims for costs or other expenses or any other proceedings arising out of, or in connection with, the release of this report.
- c. SA Power Networks will indemnify KPMG and its affiliated entities and their partners, officers and employees against any loss, actin, liability, claim, suit, demand, claim for costs or expenses or any other proceeding they may suffer arising out of, or in connection with, the release of this report to the AER.

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1 Executive Summary

In September 2018, KPMG was engaged to assist SA Power Networks (SAPN) with an independent analysis of specified commercial terms and conditions of the shared services agreements currently in place with CKI/HEI Electricity Distribution Services Pty Ltd (CHED).

CHED and SAPN are related parties through their parent companies. CHED has provided the specialised services to SAPN since 2005. The services, with slight changes in scope, will continue into the 2020-2025 period. CHED provides similar back office services to other businesses including CitiPower and Powercor Australia which are Victorian based Network Service Providers (NSPs). CHED's provision of these services enable the leveraging of common specialised technology used in the sector and to achieve economies of scale in providing these services.

In accordance with our letter of engagement, we have examined the areas of service agreements, total annual fees, prudence and efficiency of services expenditures, and benchmarking of IT operating expenditure and network operating expenditure across the three current contracts.

Our assessment is based upon the information supplied to KPMG by SAPN and CHED. Our scope excluded detailed financial analysis and performance of the services contained in the three contracts.

1.1 Key findings

1.1.1 Nature of Services

There are three arms-length contracts in place between SAPN and CHED. Namely:

- FRC Shared Services Agreement – for connections, data management, revenue management and reporting, dated 17 December 2013;
- FRC IT Support Systems Services Agreement – for supporting applications and other IT requirements, dated 20 December 2016; and
- Contact Centre Services Agreement, dated 1 January 2014.

Since 2005, SAPN has outsourced services to CHED in order to leverage specialist expertise. Originally, SAPN did not seek to tender in the open market given the specialised nature of the services. SAPN instead looked to leverage CHED's systems and other market system customisations that were already developed and functioning for the specialised FRC business processes.

Each of the three contracts has a defined scope detailing the type of activities to be performed by CHED and established key performance indicators (KPI) that are being reported regularly to SAPN. The contracts have been renewed at five-year intervals, the current contracts are the fourth iteration of the original agreements and will expire at the end of December, 2018.

The renewal cycle enables SAPN to review changes in CHED services requirements and to confirm competitive rates, whilst having the flexibility to review and refresh the contracts in-line with good industry practice. Shorter renewal periods are proposed for

the next contracts to increase this flexibility to consider any changes in regulatory obligations and / or operating model.

As part of the renewal planned for January 2019, SAPN Management sought to reduce the scope and the related fees for the FRC Shared Service Agreement. The changes are results of industry impact of Metering Contestability and the opportunity for SAPN to streamline its internal processes. Some of the services will be performed internally by SAPN and the related service fees expenditure will be re-allocated to SAPN operating expenditure.

As part of SAPN's governance processes, a RFI process was undertaken during May / June 2018 to assess the market competitiveness of the current Contact Centre agreement. From the responses received, SAPN Management confirmed that the rates, KPI's and suite of services provided by CHED were market competitive. As such, SAPN are currently in the process of extending the contact centre agreement with CHED from January 2019.

We found that the KPIs and contract management practices are broadly consistent with good industry practice for outsourcing arrangements. Within the SLA, there is, provision for dispute steps, right of law and withholding payments process and impacts if appropriate.

1.1.2 Total Annual Fees

Each of the three contracts clearly states the fixed fee for the services provided. The contract fees escalate annually at CPI based on the formulae stipulated within the contracts. There is provision within the contracts for CHED to charge additional fees for services performed outside the agreed contracted services. This has been utilised by SAPN in the IT services for regular IT upgrades for IT technical changes, scheduled each year.

Total fees for the three CHED services (including GST) and the percentage of each service fee of the total fee are provided below and in further details in section 4:

Total Fees for Current Regulatory Period (\$ nominal millions)				
Agreement	2015-2020	%	2020-2025	%
FRC IT Services	████	████	████	████
FRC Shared Services	████	████	████	████
Contact Centre	████	████	████	████
Total	████		████	

A lower total fee has been proposed for the next regulatory period due predominantly to revision of service scope for the FRC Shared Services contract.

1.1.3 Benchmarking of Services Fees

Fees are fixed for the three services contracts, these are priced for the total suite of activities rather than based upon costs for individual service offerings. As such, detailed benchmarking analysis for each of the CHED services has not been possible, we have taken the following approach to compare the three CHED contract fees in section 5:

- Benchmark SAPN's IT operating expenditure as an indication of FRC IT services fees, as the contract services support SAPN in providing the required DNSP functions.
- Benchmark SAPN's network operating expenditure as an indication of FRC Shared services, as the contract service support SAPN in providing the specialised core business functions of a DNSP services provider.
- Compare the Call Centre service fees to the DNSP group through Economic Benchmarking RIN operating expenditure data for customer services and call centre expenditure. SAPN's results are comparably low and below the mean, for both customer services operating expenditure per customer and call centre operating expenditure per customer.

1.1.4 Benchmarking of IT operating expenditure

DNSP organisations generally provide the equivalent activities of the FRC IT services as part of their IT operating activities and as IT operating expenditure.

The FRC IT services provide the application support services for SAPN's core DNSP business functions. Whilst the services are of IT services nature, they are managed as outsourced services, as such, SAPN categorises the FRC IT service fees as part of outsource operating expenditure and not IT operating expenditure.

In order to provide a comparison on IT operating expenditure, we have added the FRC IT service costs to the SAPN IT operating expenditure, as a reasonable IT operating expenditure industry comparison.

The FRC IT Service fee, at an annual average of [REDACTED] % is a significant component of the IT operating expenditure for industry comparison.

The benchmark analysis in section 6 compare SAPN's IT operating expenditure to the industry from 2011 to 2017, using three benchmarks:

- Non-network IT operating expenditure per customer;
- Non-network IT operating expenditure per kilometre circuit length; and
- Non-network IT operating expenditure as a % of network operating expenditure.

The results have shown that SAPN's IT operating expenditure has been consistently below the industry mean and was the minimum for 2015 and 2016. The results suggest SAPN's IT operating expenditure, including the FRC IT service costs, is one of the lowest amongst the DNSP organisations.

The results indicate efficient IT operating expenditure in comparison to industry and can be an indication of efficient CHED FRC IT services costs.

1.1.5 Benchmarking of Network operating expenditure

The fees of the three CHED service agreements form part of SAPN's network operating expenditure. The total fee, at an annual average of 5.9%, is a small component of SAPN's network operating expenditure.

The benchmark analysis in section 7 compare SAPN's network operating expenditure to the industry from 2006 to 2017, using two benchmarks:

- Distribution network operating expenditure per customer; and
- Distribution network operating expenditure per kilometre of circuit length.

The results have shown that SAPN's network expenditure has been consistently below the industry mean, close to the minimums and was the industry minimum for several years. The results suggest SAPN's network operating expenditure is one of the lowest amongst the DNSP organisations.

Benchmarking analysis results indicate efficient network operating expenditure in comparison to industry and is an indication of efficient CHED services costs.

1.1.6

Summary observations on the efficient costs of CHED contracts

- Whilst SAPN and CHED Services are related parties through their parent companies, the three services agreements are administered and managed as arms-length agreements;
- The three services provided by CHED are of specialist industry services and not readily provided by general services providers in open markets;
- We found that the KPIs and contract management practices are broadly consistent with good industry practice for outsourcing arrangements;
- The fees have not been broken down per activity due to the whole of service approach to developing the charges associated with the CHED services contract. This makes it difficult to assess the proposed fee reduction separately for the proposed changes in connection services;
- On the basis of favourable benchmarking results for Contact Centre, Customer Services, IT and network operating expenditure, we have not found evidence to indicate that the total fees of the three contracts are not efficient and therefore by inference, that the CHED services fees would materially impact the efficiency of the determination of prudent expenditure costs;
- CHED's cost allocation method for the SAPN services fees are based on call volumes and customer numbers. We found the cost allocation approach reasonable and consistent with industry practices;
- CHED has advised that service margins are applied in line with independently sourced margins for IT and Corporate services; and
- Further, CHED has advised that the margins have generally decreased from 2015 to 2018 and will further decrease for the proposed 2019 contracts. The margin reductions represent services fees efficiency and will result in SAPN operating expenditure efficiency.

2 Background

In September 2018, KPMG was engaged to assist SA Power Networks (SAPN) with an independent analysis of specified commercial terms and conditions within three shared services agreements currently in place with CKI/HEI Electricity Distribution Services Pty Ltd Services Pty Ltd (CHED). Namely:

- FRC Shared Services Agreement (dated 17 December 2013);
- FRC IT Support Systems Services Agreement (dated 20 December 2016); and
- Contact Centre Services Agreement (dated 1 January 2014).

The analysis is performed as part of SAPN's 2020-25 regulatory submission to the Australian Energy Regulator (AER) and as such, focused on related party services as outlined within the AER's Expenditure Forecast Guidelines.

2.1 Background and objectives

SA Power Networks (SAPN), the South Australian distribution network service provider, currently receives services from CHED. SAPN and CHED are related parties through their parent companies.

SAPN has a formal contractual agreement in place with CHED Services to provide the services listed in the three services agreements:

- FRC Shared Services Agreement – for connections, data management, revenue management and reporting;
- FRC IT Support Systems Services Agreement – for supporting applications and other IT requirements; and
- Contact Centre Services Agreement.

All three agreements are arms-length contracts and are due for renewal at the end of December 2018, SAPN Management is reviewing the proposed 2019 contracts. This renewal cycle enables SAPN to secure competitive rates with CHED Services, whilst also having the flexibility to reliably review and refresh contracts in line with good industry practice.

SAPN is currently preparing its 2020-25 forecasts for regulatory submission to the AER. As such, SAPN requires an independent report detailing the nature of the related party services and providing an assessment of the prudence and efficiency of the contracts in place.

2.2 CHED Services

CHED Services is a service provider to three electricity distribution companies in south eastern Australia including Powercor, CitiPower and SAPN. CHED Services charges the three businesses for services provided, leveraging economies of scale to deliver better outcomes for its clients. SAPN has three contracts in-place with CHED Services, with these contracts operating on a fixed fee, which is indexed to inflation and growth in the SAPN customer base. Within the contracts there is allowance for additional charges to be incurred for additional activity, as required.

CHED Services provide IT, market contestability services, and contact centre services to SAPN that are described in further detail in section 3 of this report. The IT contract scope covers the application and infrastructure support for FRC (full retail contestability) related applications. All other application and infrastructure support is the responsibility of SAPN.

2.3

Scope of analysis

The scope of this report is as follows:

- **Nature of services:** Provide an overview of the services provided by CHED Services and comment on whether the service agreements are in line with good industry practice;
- **Total annual fees:** Quantify the total operating expenditure annual service fees paid by SAPN for the three services agreements over the current and forthcoming regulatory periods;
- **Prudence and efficiency of services expenditure:** Where industry benchmarks are available, comment on the prudence and efficiency of the services expenditure. Otherwise, provide commentary on the prudence and efficiency of SAPN's broader IT operating expenditure in relation to the CHED services expenditures; and provide commentary on the prudence and efficiency of SAPN's network operating expenditure in relation to the CHED services expenditures.

3 Service agreements

SAPN has three agreements in place with CHED Services. These agreements encompass a range of services and are included in the following agreements:

- FRC Shared Services Agreement;
- FRC IT Support Systems Services Agreement; and
- Contact Centre Services Agreement.

SAPN has had shared services agreements in place with CHED Services since 2005 that are updated and renewed as required. Throughout the years, the agreements have not materially changed in scope.

3.1 FRC Shared Services Agreement

This section of the report describes the FRC Shared Services Agreement and the services provided by CHED Services to SAPN. Under this agreement, CHED provides billing, data management and connection functions on behalf of SAPN.

Variations of this agreement have been in place since 2005, with the current agreement being the fourth iteration and is due to expire at the end of December 2018. SAPN Management is currently reviewing the proposed 2019 contract, a variation of the current service agreement will be renewed, commencing January 2019, for a duration of two years, with a management review at the end of the first year, for options to extend of the following year. A lower service fee has been proposed for the 2019 contract, in line with the variations in the scope of services.

Due to the industry impact of Metering Contestability and the opportunity to streamline SAPN's internal process, SAPN Management has indicated that some of the connection functions currently provided by CHED, will be provided internally by SAPN from January 2019. Further, SAPN Management has indicated the internally provided connection functions will be at equivalent costs of the CHED service fee.

3.1.1 Scope of services

Since 2005, the services provided by CHED Services have remained relatively static, with no significant changes cited in documents.

SAPN Management has indicated there will be some changes to the scope of services for this contract in the next renewal. The following table provides a summary of the services functions within the current contract, to end December 2018 and those within the proposed contract, from January 2019.

Table 1: FRC Shared Services scope

FRC Shared Services Agreement			
Service Function	Description of services	Current CHED Contract (to end Dec 2018)	Proposed CHED Contract (from Jan 2019)
Connection Services	Connections involve requests from retailers for the following typical tasks: - Re-energisations; - De-energisations; - Special Reads; - New Connections; - Meter Alterations/Additions; - Meter Abolishment; - Meter Test; and - Meter Reconfiguration.	Included in the current contract.	Excluded from proposed contract.
Revenue management	Revenue management involves managing the following typical tasks: - Network billing and credits; - Billing adjustments; - Meter data provision; and - Transfer and B2B.	Included in the current contract. Transfer and B2B was part of Connection Services.	Remain unchanged in proposed contract.
Complaint Notification	Compliant notification involves the management of the notification process which applies to situations where either CHED or SAPN receives a customer complaint that relates to the other party.	Included in the current contract.	Remain unchanged in proposed contract.
Customer and Market Compliance	Customer and market compliance function is responsible for working with stakeholders in development of business requirements, solution design, testing and implementation of minor enhancements or IT projects.	Included in the current contract. An additional function, business improvement also in the current contract.	Largely unchanged in proposed contract.
Reporting	CHED will provide SAPN the following reporting in regards to services functions performance: - CHED Management reports; - Performance reports; - Reporting as required due to NEM market changes / rule changes.	Included in the current contract. An additional report, CHED Control Reports also in the current contract.	Largely unchanged in proposed contract.
Dispute Resolution	Management of process in relation to the reporting, resolution and escalation of issues in relation to the services functions.	Included in the current contract.	Remain unchanged in proposed contract.

3.1.2 Service Level Arrangements (SLAs)

SLAs have been documented within the FRC Shared Services agreement for the services described above. The following table summarises the SLAs in place per the current FRC Shared Services agreement and the SLAs within the proposed 2019 agreement. SAPN Management has indicated there will be slight changes to the SLAs for this contract in the next renewal, in line with the changes in the scope of services.

Table 2: FRC Shared Services SLA summary

FRC Shared Services Agreement				
Service Level	Description	Current contract target (to end Dec 2018)	Proposed contract target (from Jan 2019)	Comment
Contract management meeting schedule	All management meetings between CHED and SAPN take place with agreed schedule	100% with agreed meetings schedule	100% with agreed meetings schedule	No change to SLA
Monthly report	Monthly report delivered by the 10th business day	Delivered by 10th business day	Delivered by 10th business day	No change to SLA
Connection request	Connection requests from retailers are processed within 1 business day of receipt	98% processed within 1 business day	SLA not applicable	SLA removed due to exclusion of function
Monthly Process audits	Non-conformance less than 10 from monthly audit on no less than 50 processes	<10 non-conformances on monthly process audit	SLA not applicable	SLA removed due to exclusion of function
Cancellations and manual creation	100% of cancellation requests and manual account creations are processed within 2 business days	100% processed within 2 business days	SLA not applicable	SLA removed due to exclusion of function
DMG NTMS AQs	Data Management Group, Network Transaction Market System, Activity Queue. Market transactions support	100% with 5 business days	SLA not applicable	SLA removed due to exclusion of function
Meter Reader Trouble Reports	Initiate corrective action for any Trouble Reports on Meter Readings	100% within 10 business days	100% within 10 business days	No change to SLA
Late Bills	Less than 400 late bills issued per month	< 400	< 400	No change to SLA
Retailer accounts	At the end of each month, outstanding in Accounts Receivable	<\$300,000 outstanding for accounts receivable > 30 days	<200 retailer accounts receivable > 30 days	Slight change to SLA
Data delivery to retailer	Data reads are performed daily and sent to retailers.	>= 98% within 10 days	98% within 10 days	No change to SLA

FRC Shared Services Agreement				
Service Level	Description	Current contract target (to end Dec 2018)	Proposed contract target (from Jan 2019)	Comment
Settlement data	% of settlement data each week delivered to AEMO in calendar month	>= 98.5%	97.9%	Slight change to SLA
Provide meter data request	% of request for meter data delivered within 1 business day	99.8% within 1 business day	98.8% within 1 business day	Slight change to SLA
Verify meter data request	Verify meter data when requested within 5 business days for 90% of requests	90% within 5 business days	90% within 5 business days	No change to SLA

3.1.3 Alignment to good industry practice

Within the group of Distribution Network Services Providers (DNSP), business activities relating to the National Electricity Market procedures for Settlement, Business-to-Business (B2B) and Metering are typically managed in-house and not outsourced. However, the SLAs and associated KPIs documented are within good industry practice tolerances based on KPMG's experience within the Australian Energy Market. Further, from review of the monthly SLA reports SAPN receives, we note that CHED Services consistently meets the prescribed SLAs.

Due to SAPN's unique services agreement with CHED Services, it is difficult to find comparable data on key performance metrics.

3.2 FRC IT Services Agreement

This section of the report details the FRC IT Support Systems Services Agreement. This agreement has been in place since 2005 and has undergone four renewals within that time period. The current agreement has been in effect since December 2016 and is due to expire at the end of December 2018. The service agreement provides opportunities for annual contract and SLA review. Following a recent management review, SAPN will re-new the FRC IT Service Agreement from January 2019, for the term of one year, with options to extend to the following year.

Based on the agreements provided, CHED Services have provided IT support for a number of applications for SAPN. As SAPN's application portfolio evolves, the number and type of applications supported by CHED Services largely remain the same as stated within the current contract. The table below summarises these changes and documents the applications supported by CHED Services in the current and proposed contracts.

Table 3: Applications supported by CHED Services

Applications supported by CHED						
Application	2005-07	2008-09	2010-12	2013-15	2016-18	2019-2020
Customer Information System (CIS/OV)	✓	✓	✓	✓	✓	✓
Market Data System (MDS)	✓	✓	✓	✗	✗	✗
MV-90	✓	✓	✓	✗	✗	✗
Business Objects	✓	✓	✓	✗	✗	✗
Itron Enterprise Edition (IEE)	✗	✗	✓	✓	✓	✓
Market Transaction System (MTS)	✗	✗	✓	✓	✓	✓
Utility Service Bus (USB)	✗	✗	✓	✓	✓	✓
SAP Business Warehouse	✗	✗	✓	✓	✓	✓
Customer Access to Data Platform (CAD)	✗	✗	✗	✗	✓	✓

Key: ✓ Application supported; ✗ Application not supported

3.2.1 Scope of services

For each of the applications identified in table 3 above, CHED Services provides the following IT support services.

Table 4: Scope of IT Services

FRC IT Support Agreement Services	
Service	Description of Service
UNIX / Windows	CHED Services provides services supporting the UNIX / Windows hardware, FRC system software and databases, network connectivity and support services necessary to run the FRC applications.
Application Maintenance	CHED Services provides application maintenance services for the applications which are supported under the IT Services contract.
Application Development	CHED Services provides application development services for the applications which are supported under the IT Services contract.
Disaster Recovery Services	CHED Services provides disaster recovery services for the applications which are supported under the IT Services contract.
Documentation and Training	CHED Services provides FRC application training and documentation for those applications which are supported under the IT contract as soon as practicable after receiving a written request from SAPN.
Security	CHED Services is responsible for providing information security administration for the FRC systems, FRC services, FRC applications and FRC data.
Audit and Review	CHED Services provides SAPN's auditor with access to CHED Services' systems which are used to provide services to SAPN.

3.2.2 Service Level Arrangements (SLAs)

Due to the non-reportable nature of the services, only two of the seven services summarised in table 4 have SLA's and KPI's attributed to them. The SLAs summarised below are based on the most recent and proposed FRC IT Support Systems Services Agreements (i.e. 2016-18 and draft 2019-20).

Table 5: FRC IT Support SLAs

FRC IT Support SLAs		
Service	Category	SLA Definition
UNIX / Windows	Production environment availability	<ul style="list-style-type: none"> Production environment unavailable for no more than 90 minutes per month. Production environment unavailable for no more than 375 minutes per year.
	Production environment reliability	<ul style="list-style-type: none"> Production environment has no more than 2 outages greater than 15 minutes in length per month. Production environment has no more than 6 outages greater than 15 minutes in length per year.
	Production environment backups	<ul style="list-style-type: none"> A backup of the production environment will be performed each business day before the commencement of business.
Application Maintenance	IEE / MTS meter data processing within timeframe	<ul style="list-style-type: none"> 100% of meter data processing (including dispatch) will be completed by 1:30pm CST each business day.
	IEE / MTS network bill distributed to retailer	<ul style="list-style-type: none"> Each month, the Network Bill will be delivered to SAPN by the 9th business day.
	IEE / MTS application support availability	<ul style="list-style-type: none"> 100% availability during business hours. Call out support for 'critical' incidents.
	IEE / MTS availability	<ul style="list-style-type: none"> IEE / MTS unavailable for no more than 90 minutes per month. IEE / MTS unavailable for no more than 375 minutes per year.
	CIS / OV Batch processing for billing	<ul style="list-style-type: none"> Batch processing will be completed according to system calendar, with all scheduled jobs completed each business day.
	CIS / OV support availability	<ul style="list-style-type: none"> 100% availability during business hours. Call out support for 'critical' incidents.
	CIS / OV online availability	<ul style="list-style-type: none"> CIS / OV unavailable for no more than 90 minutes per month. CIS / OV unavailable for no more than 375 minutes per year.
	SAP BI online availability	<ul style="list-style-type: none"> SAP BI unavailable for no more than 90 minutes per month. SAP BI unavailable for no more than 375 minutes per year.
	General problem resolution	<ul style="list-style-type: none"> 100% of all calls are responded to within 30 minutes. Depending on the severity of the problem, the following SLAs apply: <ul style="list-style-type: none"> Severity 1 – 95% resolved within 4 hours. Remaining 5% resolved within 8 hours.

FRC IT Support SLAs	
	<ul style="list-style-type: none"> Severity 2 – 95% resolved within 6 hours. Remaining 5% to be resolved within 12 hours. Severity 3 – 95% to be resolved within 1 business day. Remaining 5% to be resolved within 2 business days. Severity 4 – 95% to be resolved within 3 business days. Remaining 5% to be resolved within 6 business days.

3.2.3

Alignment to good industry practice

A comparison of the FRC IT Support Systems Services Agreement has been made to the international services management framework, ITILv3. The ITIL framework documents a range of common service operations which are considered to be good industry practice when structuring IT service management. Given CHED Services provide a number of IT service management capabilities to SAPN, it would be reasonable to expect that the FRC IT Support Systems Services Agreement would be aligned to the ITIL framework. The table below summarises the common activities and how the FRC IT Support Systems Services Agreement does, or does not, align with the activities.

Table 6: ITILv3 Comparison

Comparison of FRC IT Support Systems Services Agreement to ITILv3	
Common Service Operation Activity	Evidence`
Monitoring and Control	KPIs are evident within the IT services contract. From information available, these KPIs are reported monthly. SAPN Management has indicated that, where a KPI is not achieved as a result of a system outage, CHED provides a Major Incident Review Report to outline the nature of the event and remediation activities, outside of the governance forum.
IT Operations	CHED Services monitors and controls the status and availability of the FRC applications: all other applications are out of scope for CHED Services providing IT Operations support.
Mainframe Management	From information available, there is no evidence that SAPN or CHED Services utilise a mainframe environment, therefore this item is out of scope for the IT Services contract.
Server Management and Support	The IT Services contract has several services relating to the management support of the physical and virtual servers which the FRC applications are hosted. This includes monitoring performance, availability, capacity, procurement advice and any ongoing maintenance that is required.
Storage and Archive	As part of the Windows and Unix services, CHED Services provides backup storage and archiving services for the FRC applications listed in the contract.
Database Administration	As part of the Windows and Unix services, CHED Services provides database administration (physical and logical) for all FRC applications listed in the contract.
Directory Services Management	CHED Services manages user access to FRC applications only on behalf of SAPN.

Comparison of FRC IT Support Systems Services Agreement to ITILv3	
Desktop Support	As CHED Services is providing support for FRC applications only, the desktop environment is not in scope.
Middleware Management	CHED Services supports and maintains the middleware associated with the FRC applications.
Internet / Web Management	As CHED Services is providing support for FRC applications, internet and web management is not in scope.
Data Centre Management	As part of the Windows and Unix services, CHED Services provides Data Centre and facilities management.
Information Security	There is a dedicated scope item within the IT Services contract which has a comprehensive range of IT security services CHED Services will provide.
Continuous Improvement	From review of this contract, there is no evidence of assured continuous improvement. Furthermore, there are no improvement incentive clauses evident.

From review of the ITIL framework and the FRC IT Services Agreement, we note that the majority of activities that should be included within an outsourced IT services contract have been incorporated. Due to the unique structuring and nature of services provided by CHED Services, not all ITIL activities are required to be incorporated into the contract as they are not relevant.

3.3 Contact Centre Services Agreement

This section of the report documents the services and supporting SLAs provided under the Contact Centre Services Agreement. Variations of this agreement have been in place since 2005, with the current contract due to expire at the end of December 2018.

As part of SAPN's governance processes, a RFI process was undertaken during May / June 2018 to assess the market competitiveness of the current agreement with CHED Services. From the responses received, SAPN confirmed that the rates, KPI's and suite of services provided by CHED were market competitive. As such, SAPN are currently in the process of extending the contact centre agreement with CHED from January 2019.

Variations of this agreement have been in place since 2005, with the current agreement being the fourth iteration and is due to expire at the end of December 2018. SAPN Management is reviewing the proposal 2019 contract with CHED and plans to renew a variation of this service agreement for the term of one year.

3.3.1 Scope of services

Throughout the lifespan of the contact centre agreements, the services provided by CHED Services have remained relatively static. The following table summarises the types of calls CHED Services receives and processes on behalf of SAPN.

Table 7: Contact Centre service summary

Contact Centre services summary	
Service	Description of Service
Fault and Emergencies	CHED Services accepts calls from SAPN customers and creates call logs recording the fault and customer details. The Fault and Emergency line is available 24x7, including public holidays.
Street Light Faults	CHED Services provides an automated message system to capture and record all street faults reported by SAPN customers. In the event that the customer cannot use the automated service, CHED Services answers calls for street light faults from 8am to 6pm.
Tier 2 After Hours Re-Energisations	CHED Services accepts calls from SAPN Tier 2 retailers between 5:00pm and 10:00pm, Monday to Friday. CHED Services records the required information and enables the process for re-energisation as appropriate.

3.3.2 Service Level Arrangements (SLAs)

As per the latest Contact Centre agreement, there are a number of tangible SLAs which CHED Services is required to meet. The SLAs and their targets for both the current and proposed contracts are summarised in the following table:

Table 8: Contact Centre SLAs

Contact Centre Services Agreement				
Service Level	Description	Current contract target (to end Dec 2018)	Proposed contract target (from Jan 2019)	Comment
Grade of Service (Faults and emergencies)	Grade of service is the percentage of calls answered in 30 seconds	67.8% of calls answered in 30 second	74.05% of calls answered, with best endeavour to answer 80.3%, in 30 seconds	Change to SLA
Grade of Service (Street light outage)	Grade of service is the percentage of calls answered in 30 seconds	88.7% of call answered in 30 seconds	90.0% of calls answered in 30 seconds	Slight change to SLA
Grade of Service (Life threatening calls)	Measured on life threatening skill sets	100% in 4 minutes	99% in 4 minutes	Slight change to SLA
Number of abandoned calls	All calls offered to agents that are abandoned prior to the CSA answering the call	5% per annum <8% per calendar month	Not applicable	SLA removed from proposed contract
Average speed of answer	Use best endeavours to ensure average speed of answer over period of a major event	Not applicable	2 minutes	New SLA

Contact Centre Services Agreement				
Service Level	Description	Current contract target (to end Dec 2018)	Proposed contract target (from Jan 2019)	Comment
Number of customer complaints relating to CSA service	Complaints relating to advice or attitude of CSAs. Measured and reported for each line	< or = 1 per month per line	< or = 1 per month per line	No change to SLA
Escalated feedback complaints	Based on CSA call handling ability	< or = 1 per month	< or = 1 per month	No change to SLA

Unlike the FRC IT Services and FRC Shared Services agreements, it is noted that the Contact Centre Agreement has specific clauses relating to Service Credit bonuses and rebates. These bonuses are tied to ensuring that CHED meets the Grade of Service (GOS) metrics within a given year. In the event CHED is unable to meet the minimum GOS metric, SAPN will not pay CHED the Service Credit bonus. Per the current and proposed contracts, this Service Credit bonus is valued at \$100,000.

When comparing the Contact Centre SLAs and subsequent KPIs to other good industry practice, we note that SLAs included are typical of these agreements seen elsewhere. However, whilst the indicators are in alignment with good industry practice, some of the KPIs are not. Specific observations include:

- Grade of Service – The industry standard for Grade of Service is 80% in 30 seconds which is lower than the target for CHED. However, this can vary dependent on sector. A higher target service level usually equates to an increased fee. The target has changed from 100% to 99% in the new contract, as this is for Life Threatening Calls this target is reasonable. However this can be sustained if there is a fall back process just before the 4 minute mark kicks in such as an automated response which is counted as the call being “handled” or a re-routing of the call to a hunt group of additional contact points such as Team Leader mobiles;
- Customer complaints – This target is essentially 0% customer complaints which would be unlikely to be achieved. The targets for this area can vary immensely as some contact centres are set up purely to handle customer complaints.
- Escalated feedback complaints – As above this is a zero complaint target, even at a target of 1 per month it would be unlikely to be achieved with the volume of calls they are receiving.

3.4 Service agreements review summary

Overall, the Services Agreements between SAPN and CHED incorporate the majority of the metrics that would be expected in an outsourced arrangement for the services being reviewed.

Due to the nature of the relationship between SAPN and CHED, the Service Agreements appear to have been constructed to perform more of an oversight function than to be used as a tool to manage performance of the outsource provider (CHED).

Some of the challenges associated with this type of Service Agreement structure include:

- The CHED fees and costs in providing the services are not structured for assessment of detail services activities;
- The CHED call centre services are specialised industry services, which are not comparable to general market service providers;
- There is no clause within the contract to allow CHED to charge for higher volume of work received under these contracts (e.g. increasing call volumes or increasing requests for metering services), however SLAs targets and call volumes are subject to annual review and are expected to be reflected in future contracts;
- No opportunity for SAPN to reduce the fees where volume of work are reducing; and
- No explicit requirement for incentive to undertake continuous improvement activities. However, it was noted that the contract does include an innovation clause, whilst this does not directly relate to a continuous improvement scheme, it enables SAPN and CHED to discuss opportunities for improvements on a regular basis.

4 Total annual fees

The three contracts in place between CHED Services and SAPN have a detailed costing formula to calculate the monthly cost of each agreement. The contracts do not break the cost down by service and only provide an aggregate total for all services. As such, SAPN has fixed monthly fees which only change annually based on CPI increases. There are provisions to allow for additional services to be performed by CHED Services on behalf of SAPN, these additional services are charged on an ad-hoc basis as required.

4.1 Fixed fees

The fixed fees for the current FRC Shared Services and Contact Centre contracts commenced on 1 January 2014 and will end on 31 December 2018.

The monthly fee for the first year of the two contracts are stated within Schedules 1 of the two agreements, the fixed fees and service levels of the first year are based provision of services to support SAPN's customer base (in terms of customer numbers), at the commencement date. The fees for consecutive years of these two contracts are calculated based on the following formula:

FRC Shared Services and Contract Centre Annual fee

$$= \text{previous annual fee} + (\text{previous annual fee} \times (\text{change in CPI} + 1.5\%))$$

In addition to CPI increase, an annual increase at 1.5% is included for service provisions to support SAPN's increase in customer base.

The fixed fee for the current FRC IT Support Systems Services contract commenced on 1 July 2016 and will end on 31 December 2018. As with the FRC Services and Contact Centre contracts, the IT services contract has the monthly fee for the first year of the contract stated in the agreement, the fees for the consecutive years are calculated using a slightly different formula as detailed below:

IT Shared Services Annual fee

$$= \text{previous annual fee} + (\text{previous annual fee} \times \text{change in CPI})$$

The fixed fee for the current FRC IT services contract commenced on 1 January 2016 and will end on 31 December 2018.

The change in CPI for the three contracts mean the percentage change in CPI (National CPI, Weighted Average of Eight Capital Cities), published by the Australian Bureau of Statistics for the period. The aggregate total fixed fees paid (excluding GST), by SAPN and forecasts in the current regulatory period have been summarised in the table below.

Table 9: Current regulatory period fixed fees

Fixed Fees for Current Regulatory Period (\$ nominal millions)						
Agreement - Fixed Fee	2015-16	2016-17	2017-18	2018-19 forecast	2019-20 forecast	Total
FRC IT Services	█	█	█	█	█	█
FRC Shared Services	█	█	█	█	█	█
Contact Centre	█	█	█	█	█	█
Total	█	█	█	█	█	█

The actual fixed fees are presented for FY2015/16 to FY2017/18, whilst forecasts are presented for FY2018/19 and FY2019/20.

Invoices and summary of accounting data provided to KPMG for the years FY2015/16 to FY2017/18 are consistent with the total fixed fees outlined for the contracts.

Fixed fees for the final two years of the current regulatory control period, FY2018/19 and FY2019/20, are forecasted based on the following:

- New contracts for the three agreements will commence 1 January 2019;
- Fixed fee for FRC Shared Services will be reduced due to the planned changes for connection services; and
- No CPI increase on fixed fees for all three contracts for the six months, from January to June 2020.

For the next regulatory control period, from FY 2020/21 to FY2024/25, forecasts for the aggregate total fixed fees (excluding GST) for the three contracts are summarised in the table below:

Table 10: Fixed Fee for Next Regulatory Period

Fixed Fees for Next Regulatory Period (\$ nominal millions)						
Agreement - Fixed Fee	2020-21 forecast	2021-22 forecast	2022-23 forecast	2023-24 forecast	2024-25 forecast	Total
FRC IT Services	█	█	█	█	█	█
FRC Shared Services	█	█	█	█	█	█
Contact Centre	█	█	█	█	█	█
Total	█	█	█	█	█	█

The fixed fees forecasts have been calculated based on the following:

- New contracts terms commencing 1 January 2019; and
- Annual CPI increase at 2.5%.

The aggregate total fixed fees forecast for the next regulatory period at █ is a reduction from the current period of █, note that the reduction would be of greater value when compared in real terms.

The fixed fees will reduce mainly as a result of planned reduction in the scope of FRC Shared Services.

4.2 Additional fees

In addition to the fixed fees above, the three contracts state that additional services can be provided to SAPN. From review of the available documentation and data, we are not aware of any additional fees charged to SAPN under the Contract Centre or the Shared Services contracts.

For the FRC IT Support Services contract, we observed a provision for CHED Services to charge SAPN an additional software and maintenance fee for the CIS/OV and IEE/MTS applications. SAPN has provided evidence of invoice data on the additional fees payable by SAPN for the software and maintenance support fees. The annual additional fee in total (excluding GST), is summarised in the table below:

Table 11: Additional Fee for Current Regulatory Period

Additional Fees for Current Regulatory Period (\$ nominal millions)						
Agreement - Additional Fee	2015-16	2016-17	2017-18	2018-19 forecast	2019-20 forecast	Total
FRC IT Services	█	█	█	█	█	█
FRC Shared Services	0	0	0	0	0	\$0.00
Contact Centre	0	0	0	0	0	\$0.00
Total	█	█	█	█	█	█

For the next regulatory period, there are no additional fees forecast for the FRC Shared Services and Contact Centre contracts, SAPN anticipates additional fees in relation to software and maintenance fee for the CIS/OV and IEE/MTS applications. Annual additional fee forecast (excluding GST), for the next regulatory period is summarised in the table below.

Table 12: Additional Fee for Next Regulatory Period

Additional Fees for Next Regulatory Period (\$ nominal millions)						
Agreement - Additional Fee	2020-21 forecast	2021-22 forecast	2022-23 forecast	2023-24 forecast	2024-25 forecast	Total
FRC IT Services	█	█	█	█	█	█
FRC Shared Services	0	0	0	0	0	0
Contact Centre	0	0	0	0	0	0
Total	█	█	█	█	█	█

An annual increase of 2.5% in CPI have been assumed in the forecast calculation for the additional fee from FY2020/21 to FY2024/25.

4.3 Total fees

The total fees paid by SAPN to CHED Services, include fixed fees, additional fees and GST are summarised in the tables below, for both the current and next regulatory periods:

Table 13: Total Fees for Current Regulatory Period

Total Fees for Current Regulatory Period (\$ nominal millions)						
Fees	2015-16	2016-17	2017-18	2018-19 forecast	2019-20 forecast	Total
Fixed	█	█	█	█	█	█
Additional Fees	█	█	█	█	█	█
GST	█	█	█	█	█	█
Total	█	█	█	█	█	█

Table 14: Total Fees for Next Regulatory Period

Total Fees for Next Regulatory Period (\$ nominal millions)						
Fees	2020-21 forecast	2021-22 forecast	2022-23 forecast	2023-24 forecast	2024-25 forecast	Total
Fixed	██████	██████	██████	██████	██████	██████
Additional Fees	██████	██████	██████	██████	██████	██████
GST	██████	██████	██████	██████	██████	██████ ⁸
Total	██████	██████	██████	██████	██████	██████

Over the current regulatory period, the total fee payable by SAPN to CHED Services for the three contracts are estimated at ████████ for the current period and will reduce to ████████ for the next regulatory period.

4.4 Fees comparison

KPMG performed an independent analysis of the three CHED Services contracts in 2014, we note the following on the comparison of fees:

- The contracts fixed fees for the current period were estimated at ████████ in our 2014 analysis. The actual fixed fees as outlined in section 4.1 is comparably lower at ████████; and
- The additional annual fees for IT services have decreased from ████████ in our 2014 analysis to ████████ as outlined in section 4.2.

CHED Services have provided details of costs and margins for the three contracts for the years, from 2015 to 2018, as well as those projected for the proposed 2019 contracts. In analysing the information provided, we note the following:

- The direct and indirect costs have been allocated to SAPN for each of the three services based on the volume of calls and customer numbers. We note this method of allocation is reasonable and common industry allocation approach;
- CHED has advised that the service margins are applied in line with independently sourced margins for Corporate Services, for the FRC Shared Services and Contact Centre contracts. Similarly, the service margin for the FRC IT Service contract has been applied in line with independently sourced margins for IT Services;
- Further, the margins have generally decreased from 2015 to 2018 and will further decrease for the proposed 2019 contracts. The decreases support ongoing contract efficiencies, resulting in lower fees paid by SAPN and directly lower SAPN operating expenditure.

5 Benchmarking

The service agreements between SAPN and CHED are fixed rate all inclusive contract priced for the total suite of activities rather than based upon costs for individual service offerings. As such, it has not been possible to undertake detailed benchmarking analysis on each of the CHED services.

The three CHED services fees are components of SAPN's network operating expenditure, a comparison of SAPN's operating expenditure to the DNSP industry group provides indication on the efficiency of the total CHED services fees. Benchmarking analysis of network operating expenditure is detailed in Section 7.

5.1 FRC IT services benchmarking

This service provides the critical applications support services for SAPN's core business functions as a distribution network services provider. Whilst the services are of IT service nature, SAPN manages the services as outsourced services and outsourced services operating expenditure.

DNSP organisations generally provide the equivalent activities of the FRC IT services as their IT operating activities and generally categorise the expenditure as IT operating expenditure.

In order to provide reasonable comparison to industry, we have added the FRC IT service costs to SAPN's IT operating expenditure and compared the combined expenditure to the industry IT operating expenditure.

Benchmarking analysis of IT operating expenditure is detailed in Section 6.

5.2 FRC shared services benchmarking

This service supports SAPN on connection, data management, revenue management and reporting, which are specialised core business functions of a distribution network services provider.

This service fee forms a component of SAPN's network operating expenditure, comparison of SAPN's network operating expenditure to the DNSP industry group provides indication on the efficiency of the service fee.

5.3 Contact centre benchmarking

CHED provides contact centre service to support SAPN on a range of calls including:

- Streetlights;
- Faults;
- Life threatening calls; and
- Retailer related issues.

Due to the complex nature of the types of calls, required responses, duration and operations, comparison of call centre service fee are limited to the DNSP industry group.

Based on the 2016 and 2017 Economic Benchmarking RIN operating expenditure data:

- Eight of the fourteen DNSP organisations, including SAPN, provided operating expenditure in relation to customer services, which include call centre services; and
- Of the eight DNSP organisations above, three organisations, including SAPN, have additionally provided operating expenditure for their call centre services.

5.3.1 Customer services operating expenditure per customer

A comparison of SAPN, to the mean, minimum and maximum of the eight DNSP organisations, in customer services operating expenditure per customer are provided in the table below:

Table 15: Customer Services operating expenditure per customer

Customer Services Operating Expenditure per Customer (\$ Dec 2017)		
	2015-16	2016-17
SAPN	\$12.4	\$12.8
Mean	\$32.0	\$23.0
Minimum	\$11.0	\$9.0
Maximum	\$33.3	\$28.4

The comparison indicates SAPN's customer services per customer operating expenditure are below the mean of the eight DNSP organisations and are closer to the minimum for both years.

The results suggest SAPN's customer service operating expenditure are comparably efficient to the DNSP organisations.

5.3.2 Call Centre operating expenditure per customer

Further, three of the eight DNSP organisations, including SAPN, have provided their operating expenditure for their call centre services.

A comparison of the call centre operating expenditure per customer for these three DNSP organisations, are provided in the table below:

Table 16: Call Centre operating expenditure per customer

Call Centre Operating Expenditure per Customer (\$ Dec 2017)		
	2015-16	2016-17
SAPN	\$3.9	\$3.8
DNSP A	\$4.4	\$3.8
DNSP B	\$9.3	\$7.4

SAPN's call centre operating expenditure per customer and the CHED call centre service fee is comparably lower than two other DNSP organisations.

6 Efficiency of SAPN IT Operating Expenditure

For industry expenditure, we utilise data from AER annual RIN. DNSPs have been reporting their non-network IT operating expenditure as part of the AER annual RIN reporting process, the list of DNSPs and the scope of RIN data used in the benchmarking analysis are outlined in Appendix B.

DNSP organisations generally provide the equivalent activities of the FRC IT services as part of their IT operating activities and categorise the costs as IT operating expenditure.

The FRC IT services provide the critical applications support services for SAPN's core business functions as a distribution network services provider. Whilst the services are of IT service nature, SAPN manages the services as outsourced services and outsourced services expenditure.

For a reasonable industry comparison, we have added the FRC IT service costs to SAPN's IT operating expenditure and compared the combined expenditure to the DNSP IT operating expenditure.

The fees for FRC IT Services, data storage and non-network IT operating expenditure are summarised in the table below. The services fees, as a percentage of the total IT operating expenditure for industry comparison, range from 18.2% to 27.5% from 2010/11 to 2016/17. The FRC IT Services fee, at annual average of 23.6%, is a significant component of the combined IT operating expenditure for industry comparison.

Table 17: FRC IT Services, Data Storage Fee and IT Operating Expenditure as a % of Total ICT Operating Expenditure for industry comparison

FRC ICT Services Fee as a % of ICT Operating Expenditure (\$AUD, millions Nominal)							
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
FRC IT Services	█	█	█	█	█	█	█
Data Storage	█	█	█	█	█	█	█
IT operating expenditure	█	█	█	█	█	█	█
Combined IT operating expenditure for industry comparison	█	█	█	█	█	█	█
Percentage	█	█	█	█	█	█	█

Note: a - From 2015-16 onwards, FRC IT Services and Data Storage have been combined into a single fee.
 FRC IT Services and Data Storage Fees – from 2010-11 to 2014-15, referenced from KPMG report, 2014, Independent analysis of arrangements between SA Power Networks and CHED Services.
 IT operating expenditure – SAPN Category Analysis RIN from 2010/11 to 2016/17.
 Combined ICT operating expenditure for industry comparison – the sum of FRC IT Services, Data Storage and ICT Operating Expenditure, this expenditure, equivalent in scope to industry IT operating expenditure is used in the benchmarking analysis of SAPN IT operating expenditure to the DNSP group.
 Percentage – the sum of FRC IT Services and Data Storage, divided by the Combine IT operating expenditure for industry comparison, represented in percentage.

The DNSPs IT operating expenditure is reported either in total or as separate expenditure categories for client devices, recurrent, or non-recurrent. As such, industry expenditure data for comparing expenditure in the equivalent scope and details of the FRC IT Services is not available.

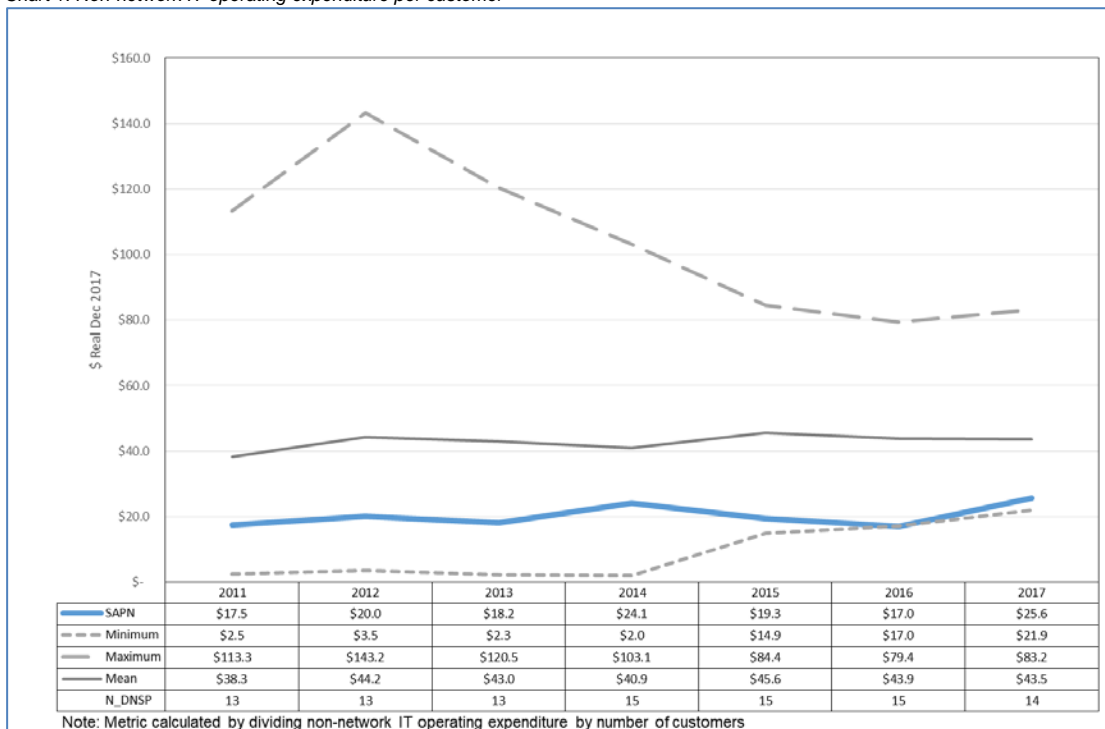
Benchmarking SAPN's IT operating expenditure to the DNSP group can provide an indication on expenditure efficiency. The following three benchmarks have been selected:

- Non-network IT operating expenditure per customer;
- Non-network IT operating expenditure per kilometre circuit length; and
- Non-network IT operating expenditure as a % of network operating expenditure.

6.1 Non-network IT operating expenditure per customer

SAPN's IT operating expenditure per customer from 2011 to 2017 is presented against the industry mean, minimum and maximum in the chart and table below:

Chart 1: Non-network IT operating expenditure per customer



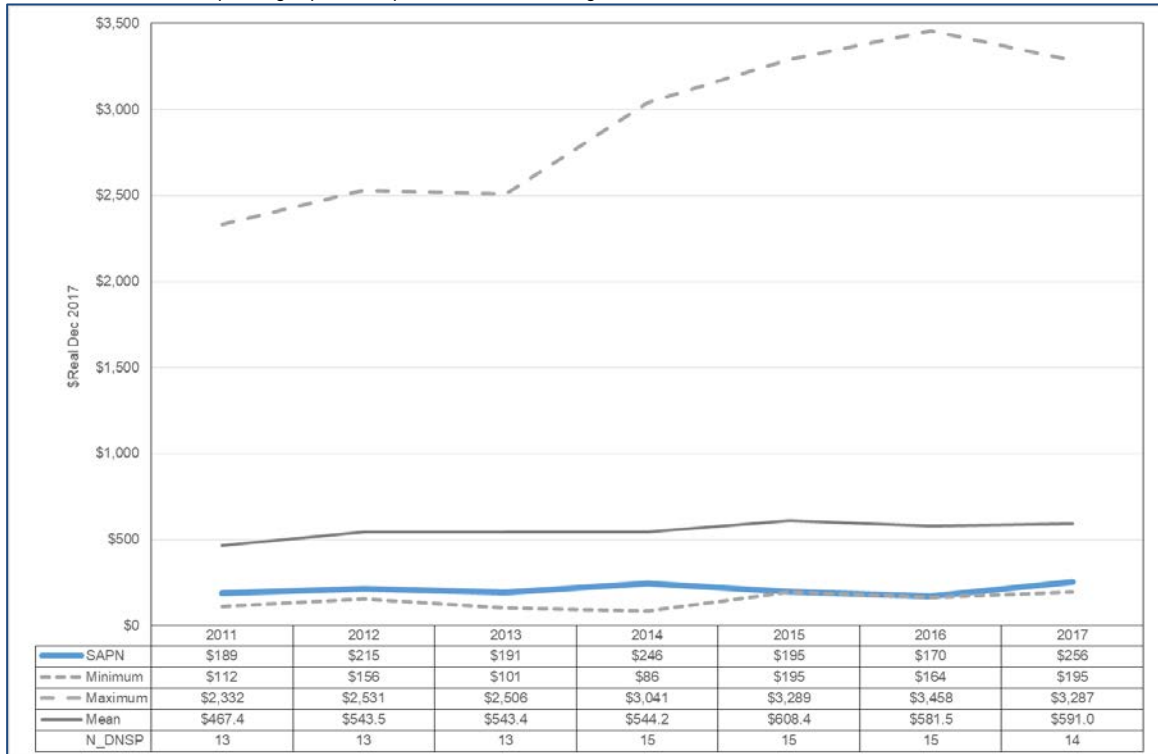
SAPN's IT operating expenditure per customer:

- has been consistently below the industry mean, either close to the industry minimum or the minimum from 2011 to 2017; and
- was the industry minimum for 2016.

6.2 Non-network IT operating expenditure per kilometre circuit length

SAPN's IT operating expenditure per kilometre of circuit length from 2011 to 2017 is presented against the industry mean, minimum and maximum in the following chart and table.

Chart 2: Non-network IT operating expenditure per kilometre circuit length



SAPNs IT operating expenditure per kilometre of circuit length:

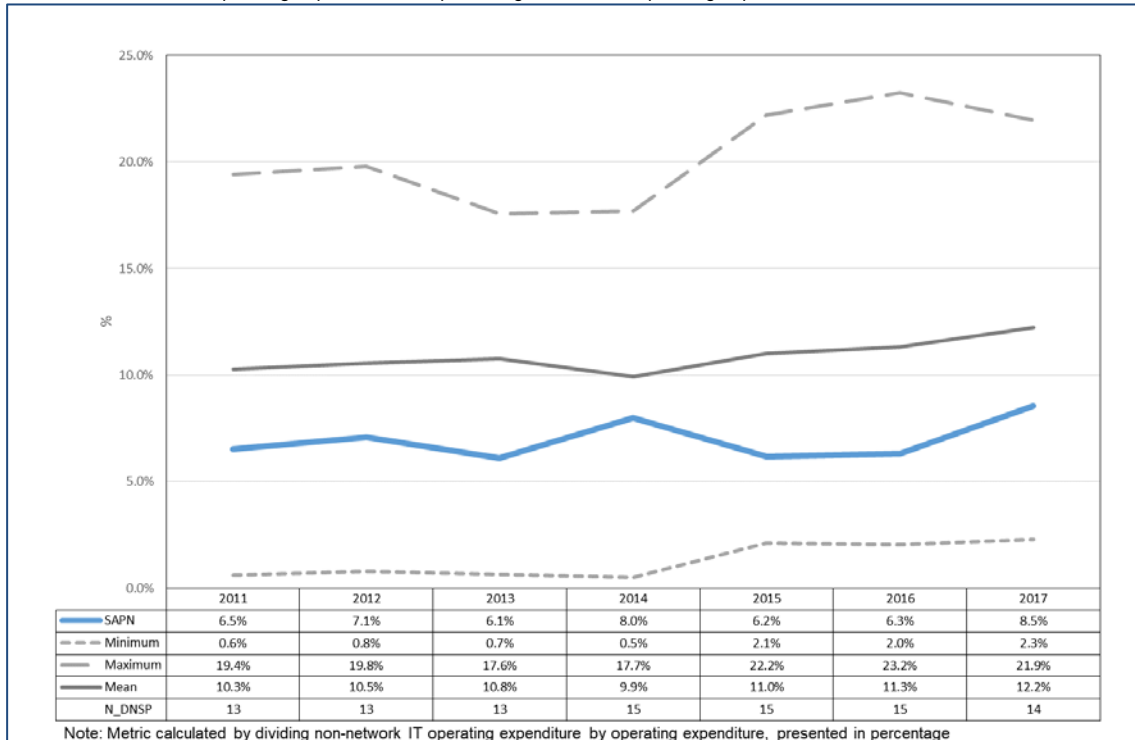
- has been consistently below the industry mean, close to the industry minimum or the industry minimum from 2011 to 2017; and
- was the industry minimum, in 2015.

6.3

Non-network IT operating expenditure as a % of network operating expenditure

SAPN’s non-network IT operating expenditure as a percentage of network operating expenditure from 2011 to 2017 is presented against the industry mean, minimum and maximum in the following chart and table.

Chart 3: Non-network IT Operating Expenditure as a percentage of Network Operating Expenditure



SAPN’s operating expenditure allocated to IT:

- has been consistently below the industry mean from 2011 to 2017;
- has increased in line with industry trend over the same period; and
- has increased in the percentage of network operating expenditure for two years, in 2014 and 2017, however the increases were not related to the fee for FRC IT services and data storage.

6.4

Summary of the IT Operating Expenditure Benchmarking Results

The benchmarking analysis compared SAPN’s industry equivalent IT operating expenditure to the DNSP group. The industry equivalent IT operating expenditure being the sum of the FRC IT services and data storage fees and the Non-Network IT operating expenditure.

The FRC IT services and data storage fee, at an annual average of ██████%, is a significant component of SAPN’s total IT operating expenditure used for industry comparison.

The benchmarking results have shown that SAPN’s IT expenditure has been consistently below industry means, close to the minimums and were the industry minimum for some



years. The results suggest SAPN's IT operating expenditure is one of the lowest amongst the DNSP group.

Results from benchmarking indicate efficient IT operating expenditure in comparison to industry and can be an indication of efficient costs for the CHED FRC IT and data storage services.

7 Efficiency of SAPN Distribution Network Operating Expenditure

The fees of the three CHED service agreements form part of SAPN's network operating expenditure. The total fee as a percentage of SAPN's network operating expenditure ranged from 5.5% to 6.7% from 2010-11 to 2016-17.

The total CHED fee, at annual average of 5.9%, is a small component of SAPN's network operating expenditure.

Table 18: CHED Services Fee as a % of Network Operating Expenditure

Total CHED Services Fees as a % of Network Operating Expenditure (\$AUD, millions Nominal)							
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Total CHED Services Fee	████	████	████	████	████	████	████
Network Operating Expenditure	████	████	████	████	████	████	████
Percentage	6.1%	6.0%	5.6%	5.5%	5.7%	6.7%	5.8%

Total CHED Services Fees – KPMG, October 2014, Independent analysis of arrangements between SA Power Networks and CHED Services

Network Operating Expenditure – SA Power Networks, Category Analysis RIN, 2.1 Expenditure Summary

DNISP organisations have been reporting their expenditure as part of the AER annual RIN reporting process, as part of the process, the DNISP is able to nominate the categories for operating expenditure. As such, comparing expenditure in the equivalent scope of the CHED services has not been possible.

Benchmarking SAPN's network operating expenditure to the DNISP group can provide indication on expenditure efficiency. The following two benchmarks have been selected:

- Distribution network operating expenditure per customer; and
- Distribution network operating expenditure per kilometre of circuit length.

The benchmarks results are calculated for each year from 2006 to 2017, based on the data submitted by the 14 DNISPs, including the Power Water Corporation of Northern Territory, SAPN's results are then compared to the mean, minimum and maximum of the DNISP group.

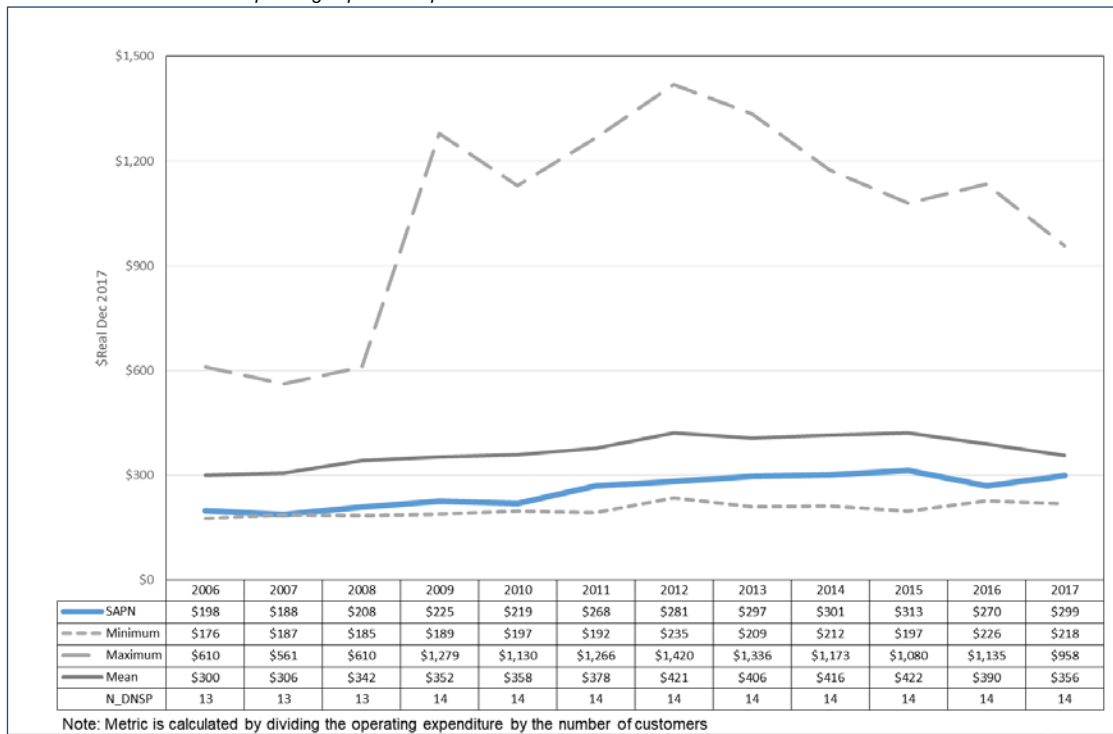
An outline of the DNISP organisations and the scope of RIN data used in the benchmarking analysis has been included in Appendix B.

7.1

Distribution network operating expenditure per customer

SAPN’s network operating expenditure per customer from 2006 to 2017 is presented against the DNSP group mean, minimum and maximum in the chart and table below:

Chart 4: Distribution network operating expenditure per customer



SAPN’s distribution network operating expenditure per customer:

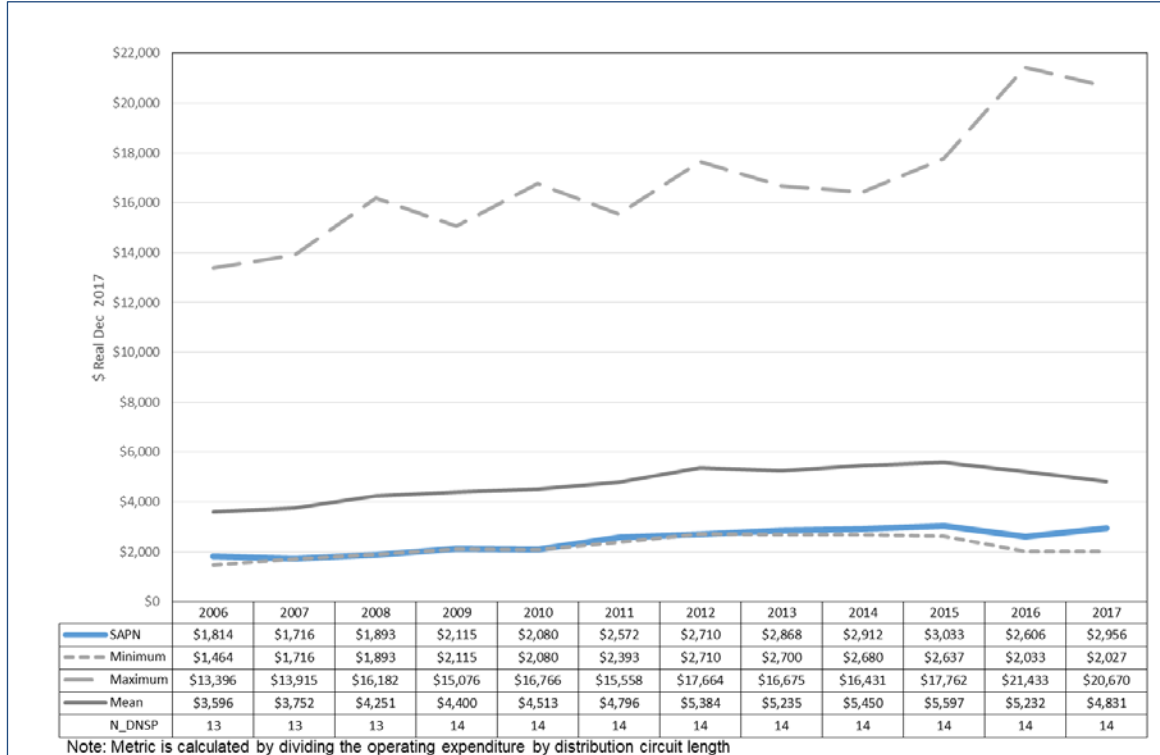
- has been consistently below the industry mean and close to the industry minimum, from 2006 to 2017; and
- has increased in line with increasing industry trend over the same period.

7.2

Distribution network operating expenditure per kilometre of circuit length

SAPN’s network operating expenditure per kilometre of circuit length from 2006 to 2017 is presented against the industry mean, minimum and maximum in the chart and table below:

Chart 5: Distribution operating expenditure per kilometre circuit length



SAPN’s distribution network operating expenditure per customer:

- has been consistently below the industry mean and close to the industry minimum, from 2006 to 2017;
- was the industry minimum for six years, from 2007 to 2010 and in 2012; and
- has increased in line with increasing industry trend over the same period.

7.3

Summary of the Distribution Network Operating Expenditure Benchmarking Results

The total CHED Service fee, at an annual average of 5.9%, is a small component of SAPN’s network operating expenditure.

The benchmarking results have shown that SAPN’s network expenditure has been consistently below industry means, close to the industry minimum and was the industry minimum for several years. The results suggest SAPN’s network operating expenditure is one of the lowest amongst the DNSP group.

Results from benchmarking indicate efficient network operating expenditure in comparison to industry and can be an indication of efficient costs for the CHED services.

8

Appendix A - Documents received

Table 19: List of SA Power Networks received by KPMG

Description	Document Name	File Name	Date
Contact Centre Services Agreement	QT2044 Contact Centre Services Agreement: 2014 - 2018, CHED Services Pty Ltd and SA Power Networks	Contact Centre SLA 2014-2018 Signed Copy (final).pdf	21/09/2018
Contact Centre Services Agreement schedule amendment	QT2044 Contact Centre Services Agreement Schedule 2 2014-2018	2015 Amendment Final SAPN - CHED Contact Centre 2014 SLA Schedule 2.docx	21/09/2018
Contact Centre Services Invoice	Invoice Summary, August 2018, Contact Centre Services	90394563.pdf	21/09/2018
FRC IT Support Systems Services Agreement	QT1696 FRC IT Support Systems Services Agreement: Dated 20 December 2016, CHED Services Pty Ltd and SA Power Networks	Signed FRC IT Support Systems Services Agreement.pdf	21/09/2018
FRC IT Support Systems Services Invoice	Invoice Summary, August 2018, IT SLA and Data Storage Fee	90394562.pdf	21/09/2018
FRC Shared Services Agreement	QT1815 FRC Shared Services Agreement, CHED Services Pty Ltd and SA Power Networks	Shared Services Agreement 2014-2018 Signed Copy (final).pdf	21/09/2018
FRC Shared Services Invoice	Invoice Summary, July 2018, Provision of Full Retail Contestability Services: Connection Services, Data Management, Revenue Management	90392518.pdf	21/09/2018
Contact Centre Services monthly SLA KPI Reports	SA Power Networks SLA KPIs August 2018	August 2018 - SAPN KPI Report.pdf	26/09/2018
Contact Centre Services monthly SLA KPI Reports	SA Power Networks SLA KPIs December 2017	December 2017 - SAPN KPI Report.pdf	26/09/2018
Contact Centre Services monthly SLA KPI Reports	SA Power Networks SLA KPIs December 2016	December 2016 - SAPN KPI Report.pdf	26/09/2018
FRC Services SLA monthly report	Revenue Management Monthly Report August 2018	SA Power Networks August 2018 Report.doc	26/09/2018
FRC Services SLA monthly report	Connection Services Report August 2018	SA Power Networks August 2018.doc	26/09/2018
Monthly KPI file for Contact Centre and FRC Services SLAs	SA Power Networks Report September 2017	SA Power Networks Monthly Report September 2017.xls	27/09/2018
Monthly KPI file for Contact Centre and FRC Services SLAs	SA Power Networks Report October 2017	SA Power Networks Monthly Report October 2017.xls	27/09/2018
Monthly KPI file for Contact Centre and FRC Services SLAs	SA Power Networks Report November 2017	SA Power Networks Monthly Report November 2017.xls	27/09/2018
Monthly KPI file for Contact Centre and FRC Services SLAs	SA Power Networks Report January 2018	SA Power Networks Monthly Report January 2018.xls	27/09/2018
Monthly KPI file for Contact Centre and FRC Services SLAs	SA Power Networks Report February 2018	SA Power Networks Monthly Report February 2018.xls	27/09/2018
Monthly KPI file for Contact Centre and FRC Services SLAs	SA Power Networks Report March 2018	SA Power Networks Monthly Report March 2018.xls	27/09/2018
Monthly KPI file for Contact Centre and FRC Services SLAs	SA Power Networks Report April 2018	SA Power Networks Monthly Report April 2018.xls	27/09/2018
Monthly KPI file for Contact Centre and FRC Services SLAs	SA Power Networks Report May 2018	SA Power Networks Monthly Report May 2018.xls	27/09/2018

Description	Document Name	File Name	Date
Monthly KPI file for Contact Centre and FRC Services SLAs	SA Power Networks Report June 2018	SA Power Networks Monthly Report June 2018.xls	27/09/2018
Monthly KPI file for Contact Centre and FRC Services SLAs	SA Power Networks Report July 2018	SA Power Networks Monthly Report July 2018.xls	27/09/2018
Monthly KPI file for Contact Centre and FRC Services SLAs	SA Power Networks Report August 2018	SA Power Networks Monthly Report August 2018.xls	27/09/2018
Email explaining public RFQ process for Contact Centre - 3 Oct 2018	RFI Outsourced Call Centre Services	RFI Outsourced Call Centre Services.msg	2/10/2018
Due diligence market comparison for Contact Centre Services	Request for Information QT2794 Outsourced Call Centre Services Cover Letter	QT2794 RFI - Covering Letter.pdf	2/10/2018
Due diligence market comparison for Contact Centre Services	Scope of Requirements Procurement Part B of QT2794 Request for Information (RFI)	QT2794 RFI - Part B SOR.pdf	2/10/2018
Due diligence market comparison for Contact Centre Services	Response Concentrix Business Overview and Initial Observations	Concentrix Overview and Draft Approach - SA Power Final.pdf	2/10/2018
Monthly SLA KPI report for FRC IT support services	SAPN IT Governance Forum August 2018	SAPN Governance Forum Aug 2018 v1.0.pdf	3/10/2018
Monthly SLA KPI report for FRC IT support services	SAPN IT Governance Forum July 2018	SAPN Governance Forum July 2018.pdf	3/10/2018
SLA KPI report for FRC IT support services	Minutes from SAPN IT Governance Forum August 2018	SAPN IT Governance Forum Minutes 17Aug.pdf	3/10/2018
SLA KPI report for FRC IT support services	Minutes from SAPN IT Governance Forum July 2018	SAPN IT Governance Forum Minutes August v1.0.pdf	3/10/2018
Summary of payments to CHED for the three years, FY2015/16 to FY2017/18 of the current regulatory period.	Fees paid to CHED Services July 2015 to July 2018	CHED Payments Jul_15 to Jun_18.xlsx	9/10/2018
Forecast of CHED Services fees for the remainder of the current regulatory period, 2015-20 and for the next regulatory period 2020-25.	CHED Services fees forecast July 2018 to June 2025	CHED Payments Forecast Jul_18 to 2025.xlsx	10/10/2018
Summary of Services Fees from 2015 to 2019	CHED Services to SAPN SLA	SAPN SLA - KPMG Data 26 10 18	26/10/2018
Description of FRC Shared Service - DMG NTMS AQs	FRC Shared Services	Email - DMG NTMS AQ	2/11/2018
Description of the reduction in Connection Services from the Shared Services Agreement	FRC Shared Services	Email – Change of Scope to the FRC Shared Services SLA	6/11/2018
Draft Contact Centre Services Agreement	Draft Contact Centre Services Agreement: 2019, CHED Services Pty Ltd and SA Power Network	SAPN - CHED Contact Centre 2018 SLA Agreement (261018).docx	14/11/2018
Draft Contact Centre Services Agreement	Draft Contact Centre Services Agreement: 2019, Schedule 2, CHED Services Pty Ltd and SA Power Networks	SAPN - CHED Contact Centre 2018 SLA Schedule 2 (210818).docx	14/11/2018

Description	Document Name	File Name	Date
Draft Contact Centre Services Agreement	Draft Contact Centre Services Agreement: 2019, Schedule 3, CHED Services Pty Ltd and SA Power Networks	SAPN - CHED Contact Centre 2018 SLA Schedule 3 (210818).docx	14/11/2018
Draft FRC Shared Services Agreement	Draft FRC Shared Services Agreement: 2019, CHED Services Pty Ltd and SA Power Networks	SAPN CHED Services FRC Agreement 2018 (261018).docx	14/11/2018
Draft FRC Shared Services Agreement Schedule 2	Draft FRC Shared Services Agreement: 2019, Schedule 2, CHED Services Pty Ltd and SA Power Networks	SAPN CHED Services FRC Schedule 2 - 2018 (210818).docx	14/11/2018
Draft FRC Shared Services Agreement Schedule 3	Draft FRC Shared Services Agreement: 2019, Schedule 3, CHED Services Pty Ltd and SA Power Networks	CHED to SAPN FRC Transition Out Schedule 3 - 2018 (210818).docx	14/11/2018
Draft FRC IT Support Systems Services Agreement	Draft FRC IT Support Systems Services Agreement, CHED Services Pty Ltd and SA Power Networks	2019 FRC IT Services - BASE DOCUMENT for update - 5 Oct 2018.docx	14/11/2018
Update to report on draft IT SLA	Feedback on FRC IT Support Systems Services Agreement review	Email - Independent Analysis of Service Agreement Report Feedback from SAPN IT	14/11/2018
Update to report on draft Shared Services and Contact Centre Services SLA	Feedback on FRC Shared Services and Contact Centre Services review	Email - SAPN Independent Analysis of Service Agreement	15/11/2018

9 Appendix B - Benchmark Data Description

The industry benchmarking analysis is based on publicly available Regulatory Information Notices (RIN) data of the 14 electricity Distribution Network Services Providers (DNSP) under the Australian Energy Regulator (AER) jurisdiction.

Under AER requirements, the DNSPs, including SA Power Networks annually submit a set of RIN to report the performances of their regulated network businesses, including revenues, expenditure, network services performance, customer numbers and other business data. The most up to date RIN data available at the time of this report have been used in this analysis.

Specifically, the RIN data, including the data for SA Power Networks, have been sourced from the Economic Benchmarking RIN and Category Analysis RIN

Table 20: AER RIN data

RIN	States	DNSPs	Years
Economic Benching RIN	Victoria	Ausnet Services CitiPower Jemena Powercor United Energy	2006 -2017 Calendar Years
	ACT, NSW, Queensland, South Australia, Northern Territory	Ausgrid Endeavour Energy Energy Queensland (Energex) Energy Queensland (Ergon Energy) Essential Energy Evoenergy (ActewAGL) PowerWater SA Power Networks TasNet Distribution	2006 – 2017 Financial Years
Category Analysis RIN	Victoria	Ausnet Services CitiPower Jemena Powercor United Energy	2009 – 2017 Calendar Years
	NSW, ACT, Queensland, South Australia, Northern Territory	Ausgrid Endeavour Energy Energy Queensland (Energex) Energy Queensland (Ergon Energy) Essential Energy Evoenergy (ActewAGL) PowerWater SA Power Networks TasNet Distribution	2009 – 2017 Financial Years