

Powercor and CitiPower | Ring Fencing Compliance Report April 2019

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Table of Contents

- 1 INTRODUCTION 4**
 - 1.1 Background.....5
 - 1.2 Purpose.....5
 - 1.3 Corporate overview6
 - 1.4 Definitions6
 - 1.5 Contact details.....7

- 2 MEASURES TO ENSURE COMPLIANCE 8**
 - 2.1 Introduction.....9
 - 2.2 Risk areas..... 10
 - 2.3 Our auditors..... 11
 - 2.4 Prevention of cross subsidies 12
 - 2.5 Staff Training 13
 - 2.6 Conduct of service providers..... 14
 - 2.7 Offices, staff, branding and promotions..... 14
 - 2.8 Information access and disclosure 15
 - 2.9 IT system controls..... 16
 - 2.10 Statement of Compliance..... 17

- 3 WAIVERS 18**
 - 3.1 Waivers..... 19

- 4 COMPLIANCE AND ENFORCEMENT 20**
 - 4.1 Compliance Framework..... 21

- 5 COMPLAINTS AND BREACH REPORTING 35**
 - 5.1 Complaints and investigations..... 36
 - 5.2 Non-material breaches..... 36
 - 5.3 Material breaches..... 38
 - 5.4 Other services provided 38

- 6 TRANSACTIONS WITH AFFILIATED ENTITIES 39**

1 Introduction

1.1 Background

On 30 November 2016 the Australian Energy Regulator (**AER**) released its Electricity Distribution Ring Fencing Guideline (**Guideline**) as made under clause 6.17.2 of the National Electricity Rules (**NER**). The Guideline commenced on 1 December 2016 and incorporates amendments made from time to time.

On 17 October 2017, the AER released a final amended Ring-fencing Guideline (version 2) and accompanying Explanatory Statement against which compliance has been assessed by CitiPower and Powercor. Under NER clause 6.17.1, the Guideline is binding on distribution network service providers (**DNSPs**) and seeks to prevent them from providing their affiliates, operating in unregulated markets, from having an unfair advantage, thus seeking to promote competition in the provision of electricity services.

The Guideline includes provisions in the following three broad areas:

- cross-subsidisation—preventing distributors from using regulated revenues to subsidise activities in unregulated markets
- discrimination—ensuring distributors treat affiliates and third parties equally
- information sharing—providing electricity information to all parties on an equal basis.

1.2 Purpose

The Guideline requires CitiPower and Powercor to prepare an annual Ring-fencing compliance report for submission to the AER each regulatory year.

This Annual Ring Fencing Compliance Report (**report**) has been prepared by CitiPower Pty Ltd (ACN 064 651 056) and Powercor Australia Ltd (ACN 064 651 109) (**CitiPower, Powercor, we, us, our**) for the year ended 31 December 2018 (regulatory calendar year). In accordance with the clause 6.2.1(a) of the Guideline, this report identifies and describes¹

- the measures we have taken to ensure compliance with our obligations
- all 'other services' we provided
- the purpose of all transactions between us and affiliated entities
- any breaches of the Guideline.

In accordance with section 6.2.2 of the Guideline, an annual compliance report must be submitted to the AER within four months of the end of the regulatory year to which the compliance report relates. For CitiPower and Powercor, this means the annual compliance report must be submitted by 30 April.

This report represents CitiPower and Powercor's Annual Ring-Fencing Compliance Report for the regulatory year ending 31 December 2018. This report covers the period from 1 January 2018 to 31 December 2018.

This annual compliance report is accompanied by an independent assessment of compliance conducted by Deloitte, a suitably qualified independent authority (Attachment A). The assessment has been prepared in accordance with Australian Standards on Assurance Engagements ASAE 3100 Compliance Engagements issued by the Australian Auditing and Assurance Standards Board. Deloitte has conducted its assessment on a

¹ AER, Ring fencing Guideline, version 2, October 2017, 6.2.1(b).

reasonable assurance basis in accordance with the AER's Ring fencing compliance reporting best practice manual.²

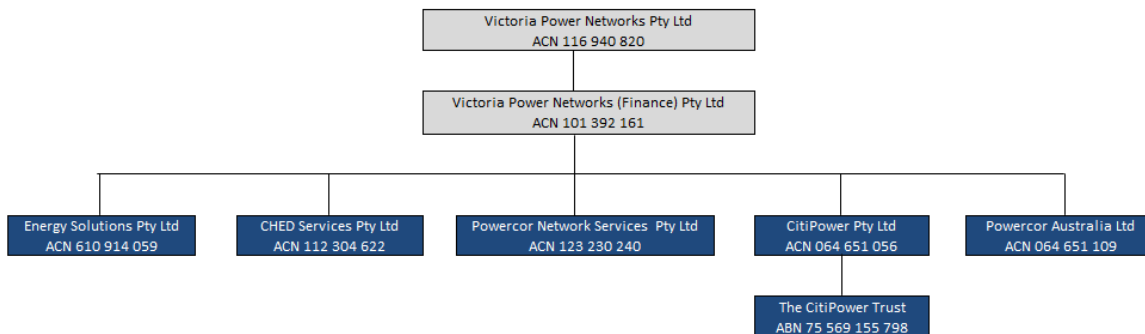
We are not aware of any material breach of the obligations outlined in the Guideline.

This report should be read together with our compliance strategy and waivers as published on our and the AER's websites.

1.3 Corporate overview

The figure below presents our corporate structure.

Figure 1 Corporate structure



Energy Solutions Pty Ltd trading as beon Energy Solutions (**Beon**) provides contestable energy services. We understand the relationship between the contestable service provider and us is the primary focus of ring fencing.

Other affiliated entities within our corporate structure include:

- CHED Services Pty Ltd who provides corporate services to us. It also provides corporate services to affiliates.
- Powercor Network Services Pty Ltd who provides design and field services to us, affiliates and third parties.

Beon, CHED Services and Powercor Network Services are direct affiliates to us.

Indirect affiliates do not appear in our corporate structure because they have other distinct parent ownership (or ownership shareholdings), or operate networks in distinct locations and with different management. Ring fencing still applies to our relationship with them, but is not of primary concern.

1.4 Definitions

Unless otherwise defined, terms used in this report have the meaning given to them in section 1.4 of the Guideline.

² AER, Ring-Fencing Guideline compliance reporting best practice manual, June 2018

1.5 Contact details

The contact person for further details in relation to this report is:

Brent Cleeve

Head of Regulation,

CitiPower, Powercor and United Energy

40 Market Street, Melbourne VIC 3000

Ph. (03) 9683 4465

2 Measures to ensure compliance

2.1 Introduction

Clause 6.2.1(b)(i) of the Guideline requires that the annual compliance report must identify and describe, in respect of the regulatory year, the measures the DNSP has taken to ensure compliance with its ring-fencing obligations.

We have applied the Guideline in accordance with our understanding of it as detailed in our compliance strategy.³

In preparation for the Guideline becoming fully enforceable on 1 January 2018, in 2017 we carried out a substantial program to implement ring fencing controls throughout the business. During the 2017 regulatory year we identified the following areas of higher potential risk:

- direct engagement with customers
- customers requiring a direct control service and a contestable service (which could be provided by an affiliate)
- shared staff and assets with affiliates

In recognition of the fact that compliance cannot be achieved immediately in the first year of the Guideline's operation, allowance was made in 2017 for a transitional period. Under this transition, distributors had to become fully compliant as soon as reasonably practicable and by no later than 1 January 2018.

In 2017, we developed a five step approach to ensure compliance as soon as practicable, as illustrated below.

Figure 2: Our transitional period compliance process



In the January of the transitional year (2017), we established a core project team to ensure the business was ready to implement the Guideline and achieve full compliance.

The team conducted extensive interviews with representatives from across our business to identify the risk of non-compliance based on each business unit's functions. The team then reviewed business documentation to identify additional potential issues, which included reviewing:

- accounts and accounting procedures
- business procedures and protocols
- information technology (IT) system access approvals
- staff position descriptions
- website material
- contact centre scripts

From these reviews, we developed a draft implementation approach consisting of actions to mitigate the risk of non-compliance. The team then re-consulted with each business unit around the feasibility of the proposed

³ <https://www.aer.gov.au/system/files/Compliance%20Plan%20-%20205%20May%202017.pdf>

actions. These actions were then implemented throughout 2017, and were maintained and expanded upon in 2018. As described later in this report, we have continued to review and update our procedures.

2.2 Risk areas

The 2017 ring fencing audit and feedback from the AER highlighted areas where our controls could be strengthened. In 2018 we focussed on addressing these areas via implementing new controls and strengthening existing controls.

The AER has requested we report on risk areas in this 2018 report. Below we outline in more detail the actions we have taken where we consider risks to be higher as identified in our 2017 audit and compliance report.

The key controls include:

- Assigning responsibilities—responsibility for obligations has been assigned to key staff in a position to ensure compliance or working in high risk areas. These staff provide periodic attestations of compliance to the Regulation team which centrally monitors compliance.
- IT access controls—automated access controls to a number of IT systems containing confidential electricity information (see 2.2.1 for more information)
- Training—conducted mandatory refresher training to corporate staff covering the ring fencing principles and obligations.
- Breach reporting process—reminded all staff of their ring fencing obligations and the process to report breaches or suspected breaches, including emailing the ring fencing central inbox. The Regulation team monitor the central inbox to address breaches and respond to internal queries as they arise.
- Periodic reviews—periodic reviews are conducted of contact centre scripts, website content, printed advertising material, staff sharing registers, information sharing protocol/register and financial accounts.
- Contact centre monitoring—a sample of recorded calls are reviewed for ring fencing compliance on a monthly basis (2.2.3 for more information)
- Building access controls—these continue to be in place to ensure Beon access passes do not grant unauthorised access (2.2.4 for more information)

Controls are continuing to evolve and will continue to be expanded upon and prioritised in 2019.

2.2.1 IT access controls

In 2017 we reported a non-material breach relating to IT access controls. Since then, we have strengthened our controls in the following ways:

- For staff transferring to Beon, automated the removal of inappropriate system access where the IT system allowed
- Where access removal automation was not supported by the IT system, automatically generated emails are sent to IT system owners to review access controls
- Included the ring fencing criteria in bi-annual user access reviews
- Reminded all relevant IT system owners of their ring fencing obligations
- Obtained monthly attestations from IT system owners
- Required IT staff to undergo refresher training

We are also considering ways to fully automate the IT access control process.

2.2.2 Financial reporting

In 2017 we identified two non-material breaches relating to financial reporting. Since then, we have strengthened our controls in the following ways:

- Required an attestation that financial balance sheets have been reviewed and accord with our obligations on a monthly basis
- Required an attestation that costs have been reviewed and allocated to the correct legal entity on a quarterly basis
- Required Finance staff to undergo refresher training

2.2.3 Contact centre

In 2017 we reported a non-material breach related to a contact centre referral. Given this and that the contact centre have regular interactions with customers, we have strengthened controls in the following ways:

- Required attestations that sample calls have been reviewed for ring fencing compliance on a monthly basis
- Reviewed contact centre scripts annually
- Required contact centre staff to undergo refresher training

In 2019, we will continue to implement mandatory training for contact centre staff. Contact centre staff will not be able to work in the contact centre until they have done the training.

2.2.4 Building access

In 2017 we reported a non-material breach related to building access. Since then we have strengthened controls in the following ways:

- Rectified the unexpected security access system operation that led to the non-material breach
- Established automatic notifications sent to Facilities Management identifying any staff transferring to Beon
- Required attestations from Facilities Management that Beon staff do not have inappropriate building access on a monthly basis

2.3 Our auditors

Deloitte's preparation for the compliance engagement began in 2018. The engagement was conducted over two periods, with Deloitte based on site at our office in November 2018, and in March 2019.

The scope of the engagement included but not limited to:

- Interviewed key staff members responsible for legal, accounting and operational activities
- Understood the process for identifying and reporting breaches of the Guideline
- Examined, on a test basis, the key controls that exist and the evidence supporting compliance
- Reviewed the compliance report prepared by management and confirmed that the report has been prepared in accordance with the Guideline.

Deloitte is a suitably qualified independent auditor in accordance with the Guideline and the AER's audit guidance note.

2.4 Prevention of cross subsidies

2.4.1 Legal separation

CitiPower Pty Ltd (ACN 064 651 056) and Powercor Australia Ltd (ACN 064 651 109) are registered in Australia by Australian Securities and Investment Commission (**ASIC**) under the *Corporations Act 2001* (Cth) and are, for the purposes of the Guideline, legal entities.

CitiPower and Powercor are stand-alone electricity distribution network service providers that only provide distribution services within our licensed distribution service area. Set out below are the categories of distribution services we provided during 2018. These are consistent with the Victorian electricity distribution network service provider's final determination 2016–2020:

- standard control services
- alternative control services
- negotiated and unclassified services as approved in our waiver application

We provided these distributed services to:

- electricity retailers
- end-use customers
- others—registered electrical contractors (**REC**), builders, developers, public lighting authorities including local councils and Vic Roads and other distribution network service providers

We have not provided any other material services as prescribed under the Guideline.

2.4.2 Establish and maintain accounts

Established documented work procedures are in place for Finance staff which provides instruction on how accounts are to be separated.

During the year we maintained a separate set of accounts for our businesses that are separate from our affiliate's accounts. Our 31 December 2018 financial statements were subject to an annual statutory audit engagement and our internal accounting procedures will be provided to the AER through the annual Regulatory Information Notice (**RIN**) responses in April 2019.

It is standard practice that monthly reviews of the financial balance sheets are undertaken to confirm that transactions have been allocated to the correct accounts. Discrepancies are immediately rectified. Established documented work procedures are in place for Finance staff which provides instruction on how costs are to be allocated amongst accounts.

During the year we have ensured that costs for distribution services have been allocated in accordance with the Cost Allocation Principles. Our Cost Allocation Methodology (**CAM**), as approved by the AER, is also the basis of our annual audit during the RIN process, the results of which will be provided to the AER in April 2019.

Responsibility for compliance with the CAM principally rests with CitiPower and Powercor's Chief Financial Officer. The day-to-day responsibility for the CAM, including updating, maintaining, applying, internally monitoring and reporting on its application, including ensuring compliance is the responsibility of the Corporate Finance Group.

Our integrated business management system (**SAP**) is used to collect and record expenses and revenues including:

- The Chart of Accounts classifies all expenses and revenues by General Ledger account numbers, which map to reporting categories on the balance sheet, and profit and loss statement.
- Each expense or revenue transaction is also assigned to a profit centre. Each cost item is assigned to a function code and in some cases an activity type.
- The records maintained in the SAP system, the processes for inputting records into the SAP system and corporate service break down of fees can be reviewed.

The basis of directly attributing costs in accordance with the CAM can therefore be readily verified by an independent third party and the outcome can be replicated.

2.5 Staff Training

Comprehensive training material was developed by the implementation team in 2017, with initial training conducted by our Learning and Development team, and with at least one member of the implementation team also in attendance to answer queries.

In 2018, an online training module was developed for ongoing refresher training. This refresher training was required to be completed by corporate staff and new employees as part of their induction training.

All corporate staff, including the following, received training:

- Finance
- Contact Centre
- Connections
- Corporate Affairs
- Network Services
- Program Delivery
- Construction and Maintenance
- Design
- Network Technologies
- IT
- Planning
- Regulation

The training covered the following topics and ring fencing clauses:

- Clause 3—Prevention of cross subsidies
- Clause 4.1—Obligation not to discriminate
- Clause 4.2—Offices, staff, branding and promotions
- Clause 4.3—Information access and disclosure
- Queries and breaches—the training discussed the importance of complying with ring fencing and the ramifications for not doing so. It also provided guidance for staff on the process to follow when they have ring fencing queries. This includes seeking guidance from managers and sending queries to an internal ring fencing mailbox to be answered by the Compliance Team

2.6 Conduct of service providers

Our existing set of standard terms and conditions for service providers has undergone legal review to ensure that any new or varied contracts are aligned with the Guideline. Procurement was trained on their application in September 2017 and implemented the amended terms and conditions as part of their contract management system. The amended terms and conditions are reviewed on a regular basis by Procurement.

A non-material breach was identified in relation to instances where the standardised ring-fencing clause was not included in new or revised vendor contracts that relate to provision of direct control services during 2018 (refer section 5.2).

To mitigate the risk of non-compliance with this clause, in 2019 a decision framework will be developed to apply in procurement contract negotiations to identify when a contract with a supplier requires the clause.

2.7 Offices, staff, branding and promotions

2.7.1 Physical separation/co-location

In 2017, the contestable service provider moved to a separate office location from the distribution business. Building accesses for these staff was restricted via deactivating access rights to restricted areas of the CitiPower and Powercor offices from their security passes. This arrangement was maintained throughout 2018. Any Beon staff seeking to obtain unauthorised access to the restricted areas of the CitiPower and Powercor offices need to sign in as guests.

Monthly reports have been developed by the Facilities team to demonstrate staff building access at a point in time. This report is reviewed by the Network Facilities Manager to ensure the accesses for the contestable service providers' staff remain restricted as appropriate for compliance with the Guideline, and any discrepancies are rectified.

2.7.2 Staff sharing

During the 2017 regulatory year the profiles of all CitiPower and Powercor staff were assessed to determine who had access to electricity information, who had an opportunity to use that information, and whether access was only granted to the extent necessary to perform non-electricity related services. This assessment led to the establishment of staff sharing arrangements which ensured that staff involved in the provision or marketing of direct control services, were not involved in the provision or marketing of contestable electricity services.

Following this assessment staff roles and position descriptions were reviewed and amended. The staff sharing arrangements and position descriptions are reviewed on an annual basis by the Compliance Team. This arrangement has been maintained during 2018.

2.7.3 Branding and cross promotion

During the 2018 regulatory period all of our affiliates had distinct branding with the exception of Powercor Network Services which is the subject of a waiver.

Powercor Network Services use equipment and uniforms branded with the CitiPower and Powercor logo. The materials and uniforms are used when undertaking work for us and unregulated work for other affiliates and third parties. This is the subject of a waiver.

We are working throughout 2019 to ensure that upon expiration of the waiver (31 December 2019), all branding will be compliant with the Ring-fencing Guideline.

2.7.4 Office and staff registers

To ensure CitiPower and Powercor do not confer an unfair advantage on affiliates, we are required to publish staff sharing and office sharing registers.

In accordance with the Guideline, certain staff are allowed to be used, or shared, by us and our affiliates. Staff must be included on the register if they are eligible to be shared provided they:

- do not have access to electricity information
- do not have the opportunity, in performing their the roles, functions or duties of their position, to use electricity information to engage in discriminatory conduct
- are an officer for us and an affiliate.

The staff sharing register comprises of a description of the shared staff's positions and the services they provide, with which entity they are shared and the reason they may be shared. The ring fencing compliance strategy published on our website describes the access to, and way in which, shared staff use electricity information in performing their roles in more detail.

The Guideline also allows certain offices to be shared. The office register includes a list of all offices where staff listed on the staff sharing register are located, or the location of staff that only have access to electricity information for the purpose of providing corporate services. Not all staff at the listed locations are shared.

The staff and office sharing registers are amended on an as needs basis, and can be found on our websites at <https://www.powercor.com.au/what-we-do/the-network/codes-and-guidelines/>.

2.8 Information access and disclosure

2.8.1 Protection of confidential information

We consider that the protection of confidential information is a key ring-fencing compliance risk. In accordance with the information sharing provisions, the ring fencing Guideline required CitiPower and Powercor to develop an information sharing protocol which outlines the circumstances under which we will provide information to affiliates and other legal entities. An information register was also developed to give effect to the principle of equal access to information. The operation of the register is described in the protocol.

2.8.2 Disclosure and sharing of information

For the period 1 January 2018 to 31 December 2018, no confidential information was shared by CitiPower and Powercor and its affiliated entities, and no requests for access to our information register by competitors or potential competitors was received.

2.8.3 Information register

The information register is one of the Guideline's mechanisms to ensure we provide eligible confidential electricity information to affiliates and third parties on an equal basis. Consistent with the Guideline, our register operates in the following way:

- affiliates, and non-affiliated entities that compete or are seeking to compete with our affiliates, who request access to confidential electricity information will be placed on the register (registered parties)
- registered parties must provide us with a description of the kind and purpose of confidential electricity information they would like to receive

- if an affiliate requests (and is provided with) information that matches the kind and purpose of information described by non-affiliated registered parties, that information will be provided to those non-affiliated registered parties on an equal basis
- if an affiliate has paid a fee to receive eligible confidential electricity information (in accordance with rules or procedures), then other registered party will receive a notification that they can receive the same information if the same fee is paid
- information will be provided to registered parties on terms and conditions that require them to comply with the obligation to protect the information and to only disclose it to third parties (including affiliates) only on the basis of clause 4.3.2 and 4.3.3 (a)-(d) of the Guideline.

Both the information sharing protocol and Information register are subject to an annual review by the Compliance Team, and can be found here - <https://www.powercor.com.au/what-we-do/the-network/codes-and-guidelines/>.

2.8.4 Website

In accordance with our current business practice, information for our corporate websites must be approved by Corporate Affairs prior to publication. Our training to Corporate Affairs has ensured these staff are aware of their obligations to not promote affiliates or their services on the website.

References to the contestable service provider have been removed from our websites and we have reviewed and removed material discussing other affiliates. An annual review process has been established by the Compliance Team to ensure such references do not appear in future.

2.8.5 Call centre and printed materials

We reviewed and amended scripts used by the Contact Centre staff to ensure there are no references to advantaging affiliated entities. These scripts are reviewed on an annual basis by the Compliance Team.

To date we have not identified printed material cross promoting us and the contestable service provider. This will continue to be monitored by the Compliance Team.

2.9 IT system controls

In 2017 the implementation team reviewed each IT system and whether it contained confidential electricity information. We then obtained lists of users with access to the system and cross checked this with staff that may not be shared between the contestable business and the distribution business. IT system owners were required to remove access to any staff identified by the implementation team and were provided with lists of staff they may not provide access to.

In 2018, we have worked further to strengthen our IT access controls significantly. Amongst other actions, this has included automating the removal of inappropriate system access for Beon staff, including the ring fencing criteria in bi-annual user access reviews, and requiring monthly attestations from IT systems owners.

A six-monthly review is then conducted by IT system owners to ensure that accesses to the various systems are appropriate. In conjunction with this approval process, Human Resources have an established process to remove system access when staff exits the business. This captures staff moving to external businesses and those moving to affiliate businesses.

2.10 Statement of Compliance

Other than the non-material breaches disclosed in section 5.2, we confirm that we are in compliance with the Australian Energy Regulation's (AER) Ring-fencing guideline (the Guideline) for the year-ended 31 December 2018.

3 Waivers

3.1 Waivers

Section 5 of the Guideline allows for a DNSP to seek a waiver of obligations under clauses 3.1, 4.2 and/or 4.4.1(a) if certain conditions are met.

We sought three waivers in respect to:

- the provision of negotiated and unclassified services until the end of the current regulatory period when these services will be reclassified
- use of the Powercor Network Services brand (which includes the term 'Powercor') when undertaking unregulated services for large commercial and industrial customers
- use of the CitiPower and Powercor brand when undertaking unregulated field services for large commercial and industrial customers

All waivers were granted by the AER, with an expiry date of 31 December 2019 for the branding waivers.

As required, projects remain underway to transition to full compliance with respect to our branding waiver by 31 December 2019.

Each of these waivers is maintained and kept in a register (including variations) in accordance with the Guideline and are publically available on our websites - <https://www.powercor.com.au/what-we-do/the-network/codes-and-guidelines/>

4 Compliance and enforcement

4.1 Compliance Framework

A corporate objective for CitiPower and Powercor is achieving full compliance with external obligations and audit requirements. Clause 6.1 of the Guideline requires a DNSP to establish and maintain appropriate internal procedures to ensure it complies with its obligations under the Guideline.

To this end, we have established frameworks, policies and processes designed to manage, monitor and report on compliance and to minimise the potential for breaches, fines or penalties, or loss of our distribution license. This has been prepared in accordance with the Australian Standard Compliance Programs (AS/ISO 19600:2015).

The Board has responsibility for ensuring the overall performance and has established a Risk Management and Compliance Committee (**RMCC**) to consider more complex issues in the areas of audit, risk management and compliance. The Executive Management Team (**EMT**) and the Chief Executive Officer are responsible for the effective management and compliance with all applicable regulation compliance obligations including ensuring all breaches are managed and reported appropriately.

Responsible Managers within our businesses have been assigned to, and are responsible for meeting compliance for specific economic regulation obligations. These obligations are allocated based on the activities of their position and include identification, management and reporting of any compliance breaches.

The Regulation Group is responsible for the overall regulatory compliance policy and framework, and ensures this policy is appropriate and effective in managing the economic regulation compliance risks of our businesses and that the status of our economic regulation obligations are monitored, reviewed and where applicable, reported to the EMT and RMCC.

CitiPower and Powercor have assigned Ring Fencing authorities and responsibilities to our staff/teams, as set out in Table 1 below.

Table 1 Assigned authorities and responsibilities

Staff/team	Authorities and responsibilities
Head of Regulation	Approval of ring-fencing strategy
Regulation/Compliance team	<ul style="list-style-type: none"> • Ensure the list of regional offices remains up-to-date by reconfirming the analysis that identified the offices, as appropriate, and updating the list, if the criteria in the Guideline change; • Maintain a list of all the services offered by CitiPower/Powercor and ensure the delivery of them remains compliant with the Guideline obligations; • Manage the Confidential Information disclosure and sharing process, including ensuring the information register and Information Sharing Protocol are up-to-date; • Manage the ring-fencing compliance monitoring and reporting process, including reporting to the Risk Management and Compliance Committee • Provide advice and support to Managers, who are responsible for the Ring Fencing obligations; and • Ensure the staff, office and waiver registers are kept up-to-date; and • Manage the breach reporting process
Finance team	<ul style="list-style-type: none"> • Create and maintain procedures that demonstrate the extent/nature of transactions between DNSP and Affiliated Entities; and • Maintain records that demonstrate the process for allocating costs between Distribution Services carried out by CitiPower/Powercor and non-distribution services provided by an Affiliated Entity.
HR team, Corporate Affairs and Call centre	<ul style="list-style-type: none"> • Ensure that CitiPower/Powercor’s approach to remuneration, incentives and benefits does not create an incentive for staff to act in a manner that is contrary to the Guideline. • Ensure that there is no printed material or call centre scripts cross promoting CitiPower/Powercor and contestable businesses
Procurement	<ul style="list-style-type: none"> • Ensure that new and varied supplier contracts incorporate the amended terms and conditions as part of their contract management system
Information technology	<ul style="list-style-type: none"> • Ensure that IT controls are effective to prevent access to confidential information by contestable businesses
All employees	<ul style="list-style-type: none"> • Notify their Manager and the Regulation Team of new commercial opportunities so ring-fencing implications can be considered; • Ensure CitiPower/Powercor’s competitors are not discriminated against, due to preferential treatment being given to their affiliates; • Refer any requests for Confidential Information by an affiliate or external party to the Regulation Team; and • Report any suspected breaches of the Guideline to the Compliance Reporting team or via email to the ring fencing mailbox

We use the Quantate Compliance software for assigning and tracking compliance responsibilities. The ring fencing obligations and compliance questionnaire are included in this system.

Table 2 below summarises the controls taken to comply with each ring fencing obligation.

Table 2 Controls for Guideline obligations

Guideline Clause	Guideline text	Preventative controls	Detective controls
3 Prevention of cross subsidies			
3.1 Legal separation	<p>(a) A DNSP must be a legal entity</p> <p>(b) Subject to this clause 3.1, a DNSP may provide distribution services and transmission services, but must not provide other services.</p>	<ul style="list-style-type: none"> • CitiPower and Powercor are separate legal entities with a registered Australian Business Number (ABN) which is distinct from its affiliated entities that provide "other services" • A separate affiliated entity Beon was established to perform "other services" outside distribution and transmission services which are performed by CitiPower and Powercor • A waiver was obtained from the AER in relation to unclassified services that are provided by the DNSP. 	<ul style="list-style-type: none"> • A monthly review of general ledger accounts is performed by the finance team and attestation is provided by the Financial Controller that no breaches in this requirement have occurred
3.2 Establish and maintain accounts	<p>(a) A DNSP must establish and maintain appropriate internal accounting procedures to ensure that it can demonstrate the extent and nature of transactions between the DNSP and its affiliated entities.</p>	<ul style="list-style-type: none"> • A separate general ledger is maintained for CitiPower/Powercor and its affiliates with separate GL accounts for transaction between affiliates 	<ul style="list-style-type: none"> • A monthly review of general ledger accounts is performed by the finance team and attestation is provided by the Financial Controller that no breaches in this requirement have occurred
3.2.1 Separate accounts			

3.2.2 Cost allocation and attribution

(a) A DNSP must allocate or attribute costs to distribution services in a manner that is consistent with the Cost Allocation Principles and its approved CAM, as if the Cost Allocation Principles and CAM otherwise applied to the allocation and attribution of costs between distribution services and non-distribution services.

(b) A DNSP must only allocate or attribute costs to distribution services in accordance with clause 3.2.2(a), and must not allocate or attribute other costs to the distribution services it provides.

(c) A DNSP must establish, maintain and keep records that demonstrate how it meets the obligations in clauses 3.2.2(a) and 3.2.2(b).

- Costs are attributed through the use of profit centres and function codes within the ERP system (SAP) in line with the approved CitiPower and Powercor's Cost Allocation Methodology (CAM)

- A quarterly review of cost attribution is performed by the finance team and attestation provided by the Financial Controller that this has been performed and whether any breaches have been identified

4 Functional separation

4.1 Obligation to not discriminate

(b) A DNSP must not discriminate (either directly or indirectly) between a related electricity service provider and a competitor (or potential competitor) of a related electricity service provider in connection with the provision of:

- i. direct control services by the DNSP (whether to itself or to any other legal entity); and / or
- ii. contestable electricity services by any other legal entity.

(c) Without limiting its scope, clause 4.1(b) requires a DNSP to:

- i. in dealing or offering to deal with a related electricity service provider, treat the related electricity service provider as if it were not a related electricity service provider (that is, as if it had no connection or affiliation with the DNSP);
- ii. in like circumstances, deal or offer to deal with a related electricity service provider and a competitor (or potential competitor) of the related electricity service provider on substantially the same terms and conditions;
- iii. in like circumstances, provide substantially the same quality, reliability and timeliness of service to a related electricity service provider and a competitor (or potential competitor) of the related electricity service provider;
- iv. subject to clause 4.3.3(b), not disclose to a related electricity service provider information the DNSP has obtained through its dealings with a competitor (or potential competitor) of the related electricity service provider where the disclosure would, or would be likely to, provide an advantage to the related electricity service provider.

- Mandatory online training of CitiPower and Powercor staff on the ring-fencing requirements is performed annually
- Approval of project costs and scheduling so that contestable services are prioritised over direct control services

- An annual review of ring fencing obligations by each Responsible Manager and General Manager and declaration of any breaches/no breaches occurring in relevant area of the business. This is then signed off by the relevant General Manager.

<p>4.2 Offices, staff, branding and promotions</p> <p>4.2.1 Physical separation / co-location</p>	<p>(a) Subject to this clause 4.2.1, in providing direct control services, a DNSP must use offices that are separate from any offices from which a related electricity service provider provides contestable electricity services.</p>	<ul style="list-style-type: none"> • CitiPower and Powercor have a separate office from Beon. • Beon staff are physically restricted from accessing certain floors of CitiPower and Powercor office through the use of the Gallagher security system (through electronic access cards and security doors) • An office sharing register is maintained and reviewed by CitiPower/Powercor 	<ul style="list-style-type: none"> • On a monthly basis, the Operations Manager Facility Management Services performs a review of physical access restriction for the CitiPower/Powercor building to identify any Beon Staff who have inappropriate access.
<p>4.2.2 (a) Staff sharing</p>	<p>(a) Subject to this clause 4.2.2, a DNSP must ensure that its staff involved in the provision or marketing of direct control services are not also involved in the provision or marketing of contestable electricity services by a related electricity service provider.</p>	<ul style="list-style-type: none"> • On an annual basis the Head of Business Performance Management reviews the remuneration, incentives and other benefits of staff working for CitiPower and Powercor to ensure that these do not incentivise them to breach the ring-fencing requirements 	<ul style="list-style-type: none"> • An annual review is performed by the Regulations Project Manager for any changes to job descriptions or new roles to ensure that any shared staff are identified, and that shared staff are not in breach of the ring-fencing requirements
<p>4.2.2 (c) Staff sharing</p>	<p>(c) The remuneration, incentives and other benefits (financial or otherwise) a DNSP provides to a member of its staff must not give the member of staff an incentive to act in manner that is contrary to the DNSP's obligations under this Guideline.</p>	<ul style="list-style-type: none"> • On an annual basis the Head of Business Performance Management reviews the remuneration, incentives and other benefits of staff working for CitiPower and Powercor to ensure that these do not incentivise them to breach the ring-fencing requirements 	

4.2.3 (a) Branding and cross-promotion	<p>(a) A DNSP:</p> <p>i. must use branding for its direct control services that is independent and separate from the branding used by a related electricity service provider for contestable electricity services, such that a reasonable person would not infer from the respective branding that the DNSP and the related electricity service provider are related;</p> <p>ii. must not advertise or promote its direct control services and its contestable electricity services that are not direct control services together (including by way of cross-advertisement or cross-promotion);</p> <p>iii. must not advertise or promote contestable electricity services provided by a related electricity service provider other than the DNSP itself.</p>	<ul style="list-style-type: none"> • Contact centre scripts are utilised for scenarios where a customer requests contestable electricity services • Phone calls to the contact centre are monitored to detect any instances of cross-promotion. • A monthly attestation is provided that this has occurred and whether any breaches identified were reported • Mandatory training on the ring-fencing requirements is completed annually 	<ul style="list-style-type: none"> • An Annual review of the CitiPower/ Powercor website and social media content for any inappropriate co-branding or cross promotion
4.2.4 Office and staff registers	<p>A DNSP must establish, maintain and keep a register that identifies:</p> <p>(a) the classes of offices to which it has not applied clause 4.2.1(a) by reason of clauses 4.2.1(b)i. or 4.2.1(b)iii.; and</p> <p>(b) the nature of the positions (including a description of the roles, functions and duties) of its members of staff to which it has not applied clause 4.2.2(a) by reason of clauses 4.2.2(b)i.a., 4.2.2(b)i.b., 4.2.2(b)iii. or 4.2.2(d);</p> <p>and must make the register publicly available on its website.</p>		<ul style="list-style-type: none"> • Annual review of the Staff and Office sharing register and verification it is publically available on the website
4.3 Information access and disclosure	<p>Subject to this clause 4.3, a DNSP must:</p> <p>(a) keep confidential information confidential; and</p> <p>(b) only use confidential information for the purpose for which it was acquired or generated.</p>	<ul style="list-style-type: none"> • Beon staff are restricted from accessing confidential electricity information through IT access controls 	<ul style="list-style-type: none"> • A monthly review of IT user access is performed by the system owner to monitor any inappropriate access to systems for Beon staff
4.3.2 Protection of confidential information			

4.3.3 Disclosure of information

A DNSP must not disclose confidential information to any person, including a related electricity service provider, unless:

(a) the DNSP has first obtained the explicit informed consent of the relevant customer, or prospective customer, to whom the confidential information relates;

(b) the disclosure is required by, or for the purpose of complying with any law;

(c) the disclosure is necessary to enable the DNSP to provide its distribution services, its transmission services or its other services (including by acquiring services from other legal entities);

(d) the information has been requested by or on behalf of a customer, or potential customer, of another legal entity, and the disclosure is necessary to enable the legal entity to provide its transmission services, contestable electricity services or other services to the customer or potential customer;

(e) the disclosure is solely for the purpose of providing assistance to another Network Service Provider to the extent necessary to respond to an event (such as an emergency) that is beyond the other Network Service Provider's reasonable control;

(f) the disclosure is solely for the purposes of research by a legal entity other than a related electricity service provider of the DNSP;

(g) where another DNSP is an affiliated entity of the DNSP, the disclosure is to the part of that other DNSP that provides that other DNSP's direct control services; or

(h) a related electricity service provider of the DNSP has requested the disclosure and the DNSP complies with clause 4.3.4 in relation to that confidential information.

- Information sharing protocol and information sharing register is publically available
- Beon staff are restricted through IT access controls from confidential information

- Monthly review of IT user access to monitor any inappropriate access to systems for Beon staff

4.3.4 Sharing of information

(a) Subject to clause 4.1(c)iv. and to this clause 4.3.4, where a DNSP shares confidential information with a related electricity service provider, or where confidential information that a DNSP has disclosed under clause 4.3.3(f) is then disclosed by any person to a related electricity service provider of the DNSP, the DNSP must provide access to that confidential information (including the derived information) to other legal entities on an equal basis.

(b) A DNSP is only required by clause 4.3.4(a) to provide information to a legal entity where:

- i. the legal entity has requested that it be included on the information register in respect of information of that kind; and
- ii. the legal entity is competing, or is seeking to compete, with the DNSP, or a related electricity service provider of the DNSP, in relation to the provision of contestable electricity services.

(c) A DNSP is not required by clause 4.3.4(a) to provide information to a legal entity where the DNSP has disclosed the information in the circumstances set out in clauses 4.3.3(a) to (e).

(d) Without limiting clause 4.3.4(a), a DNSP must establish an information sharing protocol that sets how and when it will make the information referred to in clause 4.3.4(a) available to legal entities, and must make that protocol publicly available on its website.

(e) Where a DNSP discloses information referred to in clause 4.3.4(a) to any other legal entity under this clause 4.3.4, it must do so on terms and conditions that require the other legal entity to comply with clause 4.3.2 and 4.3.3(a) to (d) in relation to that information as if the other legal entity was a DNSP.

- Information sharing protocol and information sharing register is publically available
- Beon staff are restricted through IT access controls from confidential information

- Monthly review of IT user access to monitor any inappropriate access to systems for Beon staff

4.3.5 Information register

(a) A DNSP must establish, maintain and keep a register of all:

- i. related electricity service providers;
- ii. other legal entities who provide contestable electricity services but who are not affiliates of the DNSP;

Who request access to information identified in clause 4.3.4(a), and must make the register publicly available on its website.

Ring-fencing Guideline Version 2 – October 2017 18

(b) For each legal entity that has requested that a DNSP provide access to information identified in clause 4.3.4(a), the DNSP's information register must:

- i. identify the kind of information requested by the legal entity; and
- ii. describe the kind of information requested by the legal entity in sufficient detail to enable other legal entities to make an informed decision about whether to request that kind of information from the DNSP.

(c) A legal entity may request that the DNSP include it on the information register in relation to some or all of the kinds of information that the DNSP is required to provide under clause 4.3.4(a), and the DNSP must comply with that request.

- Information sharing protocol and information sharing register is publically available

<p>4.4 Service providers</p> <p>4.4.1 Conduct of service providers</p>	<p>A DNSP:</p> <p>(a) must ensure that any new or varied agreement between the DNSP and a service provider, for the provision of services to the DNSP that enable or assist the DNSP to supply direct control services, requires the service provider to comply, in providing those services, with:</p> <p>i. clauses 4.1, 4.2.1, 4.2.2 and 4.3.2 of this Guideline; and</p> <p>ii. clause 4.2.3 of this Guideline in relation to the brands of the DNSP; as if the service provider was the DNSP.</p> <p>(b) must not, directly or indirectly, encourage or incentivise a service provider to engage in conduct which, if the DNSP engaged in the conduct itself, would be contrary to the DNSP’s obligations under clause 4 of this Guideline.</p>	<ul style="list-style-type: none"> Standard terms and conditions for CitiPower/Powercor supply contracts have been amended to include compliance with ring-fencing requirements. These standard terms and conditions are included in all new and amended contracts for suppliers involved in the provision of direct control services.
<p>5 Waivers</p>		
<p>5.7 Waiver register</p>	<p>(a) A DNSP must establish, maintain and keep a register of all waivers (including any variation of a waiver) granted to the DNSP by the AER under clause 5 of this Guideline, and must make the register publicly available on its website.</p> <p>(b) The register established under clause 5.7(a) must include:</p> <p>i. the description of the conduct to which the waiver or interim waiver applies; and</p> <p>ii. the terms and conditions of the waiver or interim waiver;</p> <p>as set out in the AER’s written decision, provided by the AER to the DNSP, to grant (or vary) the waiver or interim waiver.</p>	<ul style="list-style-type: none"> Waiver register is maintained and publically available.

6 Compliance and Enforcement

6.1 Maintaining compliance

A DNSP must establish and maintain appropriate internal procedures to ensure it complies with its obligations under this Guideline. The AER may require the DNSP to demonstrate the adequacy of these procedures upon reasonable notice. However, any statement made or assurance given by the AER concerning the adequacy of the DNSP's compliance procedures does not affect the DNSP's obligations under this Guideline.

- Mandatory training on the ring-fencing requirements

- General Manager Annual Compliance review and declaration

6.1 Compliance reporting

(a) A DNSP must prepare an annual ring-fencing compliance report each regulatory year in accordance with this clause 6.2.1, and submit it to the AER in accordance with clause 6.2.2.

- Mandatory training on the ring-fencing requirements
- A mailbox is maintained by the Regulations team for CitiPower/Powercor to report any potential breaches

6.2.1 Annual compliance reporting

(b) The annual compliance report must identify and describe, in respect of the regulatory year to which the report relates:

- i. the measures the DNSP has taken to ensure compliance with its obligations under this Guideline;
- ii. any breaches of this Guideline by the DNSP, or which otherwise relate to the DNSP;
- iii. all other services provided by the DNSP in accordance with clause 3.1; and
- iv. the purpose of all transactions between the DNSP and an affiliated entity.

(c) The annual compliance report must be accompanied by an assessment of compliance by a suitably qualified independent authority.

d) Annual compliance reports may be made publicly available by the AER.

6.2.1 Timing of Annual compliance reporting	(a) A DNSP must submit its annual compliance report to the AER within four months of the end of the regulatory year to which the compliance report relates.	<ul style="list-style-type: none"> Independent assessment of compliance conducted by Deloitte, a suitably qualified independent authority 	
6.3 Compliance breaches	A DNSP must notify the AER in writing within five business days of becoming aware of a material breach of its obligations under this Guideline. The AER may seek enforcement of this Guideline by a court in the event of any breach of this Guideline by a DNSP, in accordance with the NEL.	<ul style="list-style-type: none"> Mandatory training on the ring-fencing requirements A breach register is maintained and updated by the Regulations team 	<ul style="list-style-type: none"> General Manager Annual Compliance review and declaration

5 Complaints and breach reporting

5.1 Complaints and investigations

We have not received complaints about our compliance with the Guideline during the 2018 regulatory year.

In the event that a complaint was received, we have established internal policies and procedures for responding in a timely manner and ensuring a satisfactory outcome.

5.2 Non-material breaches

2017

In our 2018 compliance report, we outlined the following non-material breaches that were identified by the audit:⁴

- contact centre referred a regulated generation enquiry to Beon
- some Beon staff retained inappropriate building access
- some Beon staff had access to restricted IT systems
- a Beon related project and staff related expenses were reported in the statutory accounts

As these immaterial breaches were identified by the previous audit which was conducted in 2018, they persisted into 2018. Therefore, in this report we again report these same breaches, noting they were identified, rectified, and our controls strengthened in 2018. Refer Table 3 below.

2018

We are aware of the following issues and non-material breaches which occurred during the 2018 regulatory year. Refer Table 3 below.

⁴ CitiPower and Powercor, Ring Fencing Compliance Report April 2018.

Table 3 Non-material breaches during the 2017 and 2018 regulatory year

Obligation	Details	Remedy	Materiality assessment
Information access and disclosure - IT restrictions	<p>Non-material breach</p> <p>Beon employees had access to various IT systems in November 2018.</p> <p>Management confirmed that these Beon employees should not have access to the above under the information sharing protocol and were unable to confirm whether these employees have accessed the confidential information.</p>	Design of the IT review controls are to be reviewed to ensure that they can be executed effectively and on a timelier basis.	Moderate
Service Providers - Terms and conditions in supplier contracts	<p>Non-material breach</p> <p>There were five vendor contracts for services which enable or support direct control services, which did not include the ring-fencing terms and conditions.</p>	<p>Management to develop a decision framework to apply in procurement contract negotiations to identify when a contract with a supplier requires the clause</p> <p>Consultation with the appropriate subject matter expert when it is not clear whether the agreement should include the clause</p>	Moderate
Branding and cross promotion - Change in domain user names for Beon employees	<p>During the completion of prior year audit procedures in April 2018 there was of a delay in IT change requests relating to domain usernames for Beon employees.</p> <p>The issue has now been rectified. However, a non-material breach will be recognised in relation to the period up until the changes were made.</p>	The identified risk has been mitigated.	Low
Physical separation / co-location - Physical Restriction of Beon staff	<p>Prior year audit procedures in April 2018 found that Beon employees were identified as having access to restricted floors at Market Street.</p> <p>The issue has now been rectified. However, a non-material breach will be recognised in relation to the period up until the changes were made.</p>	The identified risk has been mitigated.	Low

<p>Separate Accounts - Separation of Beon projects</p>	<p>In April 2018 one instance of a Beon project (Hughenden Solar) being recorded in the general ledger and the 31 December 2017 statutory financial statements of Powercor was identified. The contract was negotiated with Powercor as a result of Queensland licencing requirements, and negotiated prior to the Guidelines release. An immaterial revenue amount was also recorded in 2018, as the project concluded in early 2018.</p> <p>For regulatory reporting to the AER, the revenue and expenses associated with this project have been appropriately excluded from the Powercor Annual RIN as at 31 December 2018.</p> <p>However, the recognition of this project in the accounts of Powercor is considered to be a breach (non-material) of the requirement to maintain separate accounts.</p>	<p>The identified risk has been mitigated. Low</p>
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5.3 Material breaches

We are not aware of any material breach of our obligations under the Guideline during the 2018 regulatory year. Pursuant to our obligations under the Guideline, we will notify the AER within 5 business days of becoming aware of a material breach of our obligations.

5.4 Other services provided

We are not aware of having provided 'other services'—being services that are not transmission or distribution services—over 2018.

6 Transactions with affiliated entities

A list of the transactions between the distributors and affiliates is provided in Tables 4 and 5 below.

Table 4 CitiPower transactions with affiliates

Affiliate	Transaction	Nature of transaction	Value in 2017 (\$000)	Value in 2018 (\$000)
CHED Services	Corporate services	For the provision of management, administration, back office and other business functions.	\$40,162	\$40,162
CHED Services	IT projects	For the provision of IT system enhancements.	\$8,366	\$8,027
CHED Services	Infill insurance	For the provision of insurance on excesses.	\$1,402	\$1,556
Powercor Network Services	Network services	For the provision of construction, maintenance, faults, emergency and related services.	\$144,459	\$162,484
Powercor Network Services	Depot maintenance	For the use of distributor owned depots.	\$120	\$104

Table 5 Powercor transactions with affiliates

Affiliate	Transaction	Nature of transaction	Value in 2017 (\$000)	Value in 2018 (\$000)
CHED Services	Corporate services	For the provision of management, administration, back office and other business functions.	\$87,203	\$87,203
CHED Services	IT projects	For the provision of IT system enhancements.	\$19,876	\$18,354
CHED Services	Infill insurance	For the provision of insurance on excesses.	\$4,557	\$4,903
Powercor Network Services	Management services	For the provision of management services.	\$108	\$300
Powercor Network Services	Network services	For the provision of construction, maintenance, faults, emergency and related services.	\$348,744	\$370,955
Powercor Network Services	Depot maintenance	For the use of distributor owned depots.	\$469	\$386
Powercor Network Services	Capex lease	For the use of distributor owned fleet.	\$680	\$2,205
Powercor Network Services	Corporate services	For secondment of staff to Beon through PNS. ⁵	\$2,505	\$2,505

⁵ The majority of Beon staff are contractually employed by Powercor, as they are seconded through our affiliated entity PNS. It was financially prohibitive to transfer employment contracts from Powercor to Beon when the ring fencing Guideline came into effect. Further, following the prior year audit, management disclosed the arrangement to the AER and it was not identified by the AER to be of concern.