

**Deloitte.**



**United Energy Distribution  
Australian Energy Regulator**  
Ring-Fencing Guideline  
Compliance Report  
30 April 2019

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## 1. Background

The Australian Energy Regulator (the "AER") published the Electricity Distribution Ring-Fencing Guideline on 30 November 2016 under the National Electricity Rules (the "NER") with amendments made on 17 October 2017 (the "Guideline"). The Guideline provides for functional separation of regulated and competitive business activities to promote competition in the provision of contestable electricity services. As required by clause 6.2.1a of the Guideline, United Energy Distribution Pty Ltd ("United Energy") must submit an annual Ring-Fencing compliance report to the AER by 30 April 2019. Under clause 6.2.1c of the Guideline the annual compliance report must be accompanied by an assessment of compliance by a suitably qualified independent authority.

To fulfil the requirements of clause 6.2.1 (c) of the Guideline, Deloitte has been engaged by United Energy (as the qualified independent authority to perform an assurance engagement over United Energy's Ring-Fencing Annual Compliance Report (the "Compliance Report") and to report on whether it has been prepared, in all material respects, in accordance with the requirements of the Guideline for the period from 1 January 2018 to 31 December 2018 (the "audit period").

In accordance with an engagement letter between United Energy and Deloitte dated 03 October 2018, we conducted the assurance engagement in accordance with the Standard on Assurance Engagements ASAE 3100 Compliance Engagements.

## 2. Summary of Findings

### 2.1. Overview

The following table summarises observations and recommendations against the obligations where an exception was identified. The rating of each obligation has been applied in accordance with *Section 2.2*.

No.	Description of Issue	Recommendation	Rating	Guideline section	Guideline obligation
1.	<p><b><u>Terms and conditions in supplier contracts:</u></b></p> <p>Per clause 4.4 of the guideline the DNSP is required to include a Ring Fencing clause in all new or varied agreements 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.</p> <p>During our procedures we noted that the DSNP has designed a preventative control to include a standard ring fencing clause in vendor contracts that relate to direct control services. However, we noted the following weaknesses in the implementation and execution of this control:</p> <ul style="list-style-type: none"> <li>• There is no consistent understanding between the procurement, legal and regulation teams as to when the clause is required to be included in contracts.</li> <li>• There are minimal documented processes to assess whether a contract requires the ring fencing clause</li> <li>• The ring fencing clause is generally not included in agreements with supplier terms and conditions</li> <li>• The clauses are not included in contracts for short form contracts and work orders.</li> <li>• We identified one contract entered into during the period relating to vendors who provided direct control services that did not include the ring fencing clause.</li> </ul> <p>An immaterial breach has been included in the United Energy Ring fencing Compliance Report for the year ended 31 December 2018.</p>	<p>We recommend that:</p> <ul style="list-style-type: none"> <li>• Management develop a decision framework to apply in procurement contract negotiations to identify when a contract with a supplier requires the clause.</li> <li>• Consult with the appropriate subject matter expert when it is not clear whether the agreement should include the clause.</li> </ul>	Exception	4.4.1 (a)(b)	Conduct of service providers

No.	Description of Issue	Recommendation	Rating	Guideline section	Guideline obligation
2.	<p><b><u>Staff sharing arrangement with affiliates</u></b></p> <p>A number of corporate staff are shared between United Energy and its affiliates, CitiPower/Powercor and Beon Energy Services (contestable services provider) ("Beon").</p> <p>These staff are primarily employed by Powercor, and have roles across the DSNP and its affiliates. These staff have not been recorded on the United Energy Staff sharing register in all instances.</p> <p>An immaterial breach has been included in the United Energy Ring fencing Compliance Report for the year ended 31 December 2018.</p>	<p>We recommend that United Energy update the staff sharing register to include shared staff with affiliated entities.</p>	Exception	4.2.2 (a) 4.2.4 (a), (b)	<p>Staff sharing</p> <p>Office and Staff sharing register</p>
3.	<p><b><u>Office Sharing Register:</u></b></p> <p>A DNSP must establish, maintain and keep a register that identifies shared offices. From our audit, we noted that some United Energy functions and staff are located in the Market Street office (the offices of affiliate entities CitiPower/Powercor).</p> <p>As a result these offices should be included in the Office sharing register of United Energy.</p> <p>An immaterial breach has been included in the United Energy Ring fencing Compliance Report for the year ended 31 December 2018.</p>	<p>We recommend that United Energy update the office sharing register to include shared offices with affiliated entities.</p>	Exception	4.2.1(a) 4.2.4 (a), (b)	<p>Offices, staff, branding and promotions</p> <p>Office and Staff sharing register</p>

## 2.2. Rating Applied

The assessment of the results of our testing and the application of the rating based on the description below may involve the exercise of professional judgement in evaluating whether a particular obligation has not been met or only partially met and whether it results in an exception.

No Exception	Requirements of the DNSP condition have been met with no or only minor improvement opportunities. Findings noted are considered minor and require routine efforts to correct in the normal course of business.
Exception	The requirements of the DNSP condition have not been fully met, or key processes or controls that support the requirements may be inadequate for the compliance objective to be fully evidenced as being met. Findings noted require remedial action.

### 3. Detailed Audit Findings

#### 3.1. Overview

The following outlines our specific procedures, testing and observations against each obligation. The rating of each obligation has been applied in accordance with *Section 2.2*.

Category	Ref.	Obligation	Testing	Results of testing	Rating
Legal separation	3.1 (a)	A DNSP <b>must be a legal entity.</b>	<p><b>Discussions held with:</b></p> <ul style="list-style-type: none"> <li>Regulatory Projects Manager</li> </ul> <p><b>Key Control(s):</b></p> <ul style="list-style-type: none"> <li>United Energy's registered Australian Business Number (ABN)</li> </ul> <p><b>Information Obtained:</b></p> <ul style="list-style-type: none"> <li>ASIC ABN Search</li> <li>Distribution Network service provider Licence</li> </ul> <p><b>Test Performed:</b></p> <ul style="list-style-type: none"> <li>We performed a search of the ASIC register for United Energy Pty Ltd's ABN to verify they are separate legal entities.</li> <li>We cross checked the registered ABN against the Distribution Network Services Provider Licence.</li> </ul>	Based on the testing performed we have not identified any matters of exception against the obligation.	No Exception
Legal separation	3.1 (b)	A DNSP may provide distribution services and transmission services, but <b>must not provide other services.</b>	<p><b>Discussions held with:</b></p> <ul style="list-style-type: none"> <li>Head of Risk and Financial Control</li> <li>Manager Corporate Management Accounting</li> <li>Senior Corporate Management and Regulatory Accountant</li> </ul> <p><b>Key Control:</b></p> <ul style="list-style-type: none"> <li>A monthly review of general ledger accounts is performed by the finance and attestation is provided by the Financial Controller that no breaches in this requirement have occurred</li> </ul>	Based on the testing performed we have not identified any matters of exception against the obligation.	No Exception

Category	Ref.	Obligation	Testing	Results of testing	Rating
			<p><b>Other compliance measures:</b></p> <ul style="list-style-type: none"> <li>A waiver was obtained from the AER in relation to unclassified services that are provided by the DSNP</li> </ul> <p><b>Information Obtained:</b></p> <ul style="list-style-type: none"> <li>Audited financial statements for United Energy for the year ended 31 December 2018</li> <li>General ledger information recording revenue generated in the period by the DSNP</li> <li>AER approved waiver detailing unclassified services that may be provided by the DSNPs</li> </ul> <p><b>Test Performed:</b></p> <ul style="list-style-type: none"> <li>We have performed a review of the nature of each revenue stream recorded in the United Energy financial statements and assessed whether they relate to distribution services</li> <li>For "other services" revenue generated, we assessed whether the waiver approved by the AER included the services provided.</li> </ul>		
Separate accounts	3.2.1 (a)	A DSNP <b>must establish and maintain appropriate internal accounting procedures</b> to ensure that it can demonstrate the extent and nature of transactions between the DSNP and its affiliated entities.	<p><b>Discussions held with:</b></p> <ul style="list-style-type: none"> <li>Head of Risk &amp; Financial Control</li> <li>Manager Corporate Management Accounting</li> <li>Financial Controller</li> </ul> <p><b>Key Control:</b></p> <ul style="list-style-type: none"> <li>A separate general ledger is maintained for United Energy and its affiliates with separate GL accounts for transaction between affiliates</li> <li>A monthly review of general ledger accounts is performed by the finance and attestation is provided by the Financial Controller that no breaches in this requirement have occurred</li> </ul>	Based on the testing performed we have not identified any matters of exception against the obligation.	No Exception



Category	Ref.	Obligation	Testing	Results of testing	Rating
			<p><b>Information Obtained:</b></p> <ul style="list-style-type: none"> <li>Corporate Service agreements between United Energy and their affiliates</li> <li>Audited financial statements for United Energy Pty Ltd for the year ended 31 December 2018</li> <li>Balance sheet reconciliations and monthly attestation by Financial Controller</li> </ul> <p><b>Test Performed:</b></p> <ul style="list-style-type: none"> <li>We performed a process walk through to understand the key controls in place to maintain separate accounts and be able to demonstrate the extent of transactions between United Energy and its affiliates</li> <li>We tested the design and operating effectiveness testing of the key controls identified</li> <li>We reconciled the affiliate transactions disclosure in the Compliance report to underlying accounting records to assess accuracy.</li> </ul>		
Cost allocation and attribution	3.2.2 (a), (b) (c)	<p>A DNSP <b>must allocate or attribute costs to distribution services:</b></p> <ul style="list-style-type: none"> <li>- in a manner that is <b>consistent with the Cost Allocation Principles and its approved CAM</b>, as if the Cost Allocation Principles and CAM otherwise applied to the allocation and attribution of costs between distribution services and non-distribution services.</li> <li>- and must not allocate or <b>attribute other costs to the distribution services</b> it provides.</li> </ul> <p>A DNSP <b>must establish, maintain and keep records</b> that demonstrate</p>	<p><b>Discussions held with:</b></p> <ul style="list-style-type: none"> <li>Manager Corporate Management Accounting</li> <li>Financial Controller</li> </ul> <p><b>Key Control:</b></p> <ul style="list-style-type: none"> <li>Costs are allocated through the use of approved profit centres and function codes within the ERP system (SAP) in line with the AER approved United Energy's Cost Allocation Methodology (CAM)</li> <li>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</li> </ul> <p><b>Information Obtained:</b></p> <ul style="list-style-type: none"> <li>United Energy Cost Allocation Method</li> </ul>	Based on the testing performed we have not identified any matters of exception against the obligation.	No Exception

Category	Ref.	Obligation	Testing	Results of testing	Rating
		how it meets cost allocation and attribution obligations.	<ul style="list-style-type: none"> <li>Quarterly Finance Controller attestation of cost attribution</li> </ul> <p><b>Test Performed:</b></p> <ul style="list-style-type: none"> <li>We performed a process walk through to understand the key controls in place to ensure costs are allocated accurately and in line with CAM</li> <li>We obtained and reviewed the CAM, noting it addresses the allocation of costs between distribution services and non-distribution services</li> <li>We tested the design and operating effectiveness testing of the key controls identified.</li> </ul>		
Obligation not to discriminate	4.1(b)	<p><b>A DNSP must not discriminate</b> (either directly or indirectly) <b>between a related electricity service provider and a competitor</b> (or potential competitor) of a related electricity service provider in connection with the provision of:</p> <p>i. <b>direct control services by the DNSP</b> (whether to itself or to any other legal entity); and / or</p> <p>ii. <b>contestable electricity services</b> by any other legal entity.</p>	<p><b>Discussions held with:</b></p> <ul style="list-style-type: none"> <li>Regulatory Projects Manager</li> <li>Head of Design and Customer Programs</li> <li>Team Leader Engineering and Consulting</li> <li>Manager Customer Requests</li> </ul> <p><b>Key Control:</b></p> <ul style="list-style-type: none"> <li>Mandatory training of United Energy staff on the ring-fencing requirements is performed annually</li> <li>Approval of project costs and scheduling so that contestable services are not prioritised over direct control services</li> <li>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</li> </ul> <p><b>Information Obtained:</b></p> <ul style="list-style-type: none"> <li>Training materials</li> <li>Annual declaration by General Managers</li> </ul> <p><b>Test Performed:</b></p> <ul style="list-style-type: none"> <li>We tested the operating effectiveness testing of the project approvals</li> <li>We have obtained and reviewed the General Manager's annual compliance declaration</li> </ul>	<p>We identified the following opportunity for improvement to the control environment, noting that we do not consider this an exception:</p> <ul style="list-style-type: none"> <li>Approximately 20% of employees in the business did not complete the required ring fencing refresher training during the 12 month period to 31 December 2018 in accordance with the DSNP's ring fencing policy.</li> <li>The Governance team responsible for reviewing training attendance confirmed that this was due to employees with long term absences from the business (e.g. for maternity leave, leave of absences) not completing the training. However there is no completeness check of the training to employee records to ensure this is correct.</li> <li>Ring fencing training for the employees of the Group is a key preventative control and non-completion increases the risk of inadvertent breaches of the guideline.</li> </ul> <p>We recommend that controls to monitor training are strengthened to capture and record accurate completion data.</p>	No Exception

Category	Ref.	Obligation	Testing	Results of testing	Rating
			<ul style="list-style-type: none"> <li>We reviewed the training material and noted that the training included the requirement not discriminate</li> <li>We performed sample testing of training attendance register to assess wether it was accurate.</li> </ul>		
Offices, staff, branding and promotions	4.2.1(a)	A DNSP <b>must use offices that are separate from any offices from which a related electricity service provider</b> provides contestable electricity services.	<p><b>Discussions held with:</b></p> <ul style="list-style-type: none"> <li>Operations Manager Facilities Management Services</li> </ul> <p><b>Key Control:</b></p> <ul style="list-style-type: none"> <li>United Energy have a separate office in Pinewood which has physical access restrictions in place</li> <li>United Energy also share the CitiPower/Powercor office in Market Street, Melbourne, which Beon staff are physically restricted from accessing certain floors of United Energy office through the use of the Gallagher security system (through electronic access cards and security doors)</li> <li>For the Market Street office, on a monthly basis, the Operations Manager Facility Management Services, performs a review of physical access restriction to identify any Beon Staff who have inappropriate access</li> <li>An office sharing register is maintained by United Energy</li> </ul> <p><b>Information Obtained:</b></p> <ul style="list-style-type: none"> <li>Gallagher security system change log for restriction of Beon staff</li> <li>Staff and office sharing register</li> </ul> <p><b>Test Performed:</b></p> <ul style="list-style-type: none"> <li>We tested the design and operating effectiveness of the monthly review control of physical access of the Market Street building</li> <li>We tested a sample of Beon staff and reviewed the physical access restrictions for United Energy Pinewood building</li> </ul>	<p>We noted the following exception which has been disclosed as an immaterial breach in the United Energy Ring fencing Compliance Report for the year ended 31 December 2018:</p> <ul style="list-style-type: none"> <li>The Market Street office of CitiPower/Powercor is not included on the Office sharing register for United Energy.</li> </ul>	Exception identified

Category	Ref.	Obligation	Testing	Results of testing	Rating
			<ul style="list-style-type: none"> <li>We reviewed the office sharing register for completeness and accuracy and sighted evidence of the annual review performed in the period.</li> </ul>		
Staff sharing	4.2.2(a)	A DNSP <b>must ensure that its staff involved in the provision or marketing of direct control services</b> are not also involved in the provision or marketing of contestable electricity services by a related electricity service provider.	<p><b>Discussions held with:</b></p> <ul style="list-style-type: none"> <li>Regulations Project Manager</li> </ul> <p><b>Key Control:</b></p> <ul style="list-style-type: none"> <li>An annual review is performed by the Regulations Project Manager for any changes to job description or new roles to ensure that any shared staff are identified and that shared staff are not in breach of the ring-fencing requirements</li> </ul> <p><b>Information Obtained:</b></p> <ul style="list-style-type: none"> <li>Staff and office sharing register</li> <li>Sample of Employee contracts</li> </ul> <p><b>Test Performed:</b></p> <ul style="list-style-type: none"> <li>We tested the design and operating effectiveness of the annual review of the staff sharing arrangements</li> <li>We tested a sample of staff to review their role description in order to assess whether they are involved in provision of direct control services and contestable electricity services and if so that appropriate safeguards are in place</li> <li>We noted that all staff identified as "shared" were included in the register of shared staff.</li> </ul>	<p>We noted the following exception which has been disclosed as an immaterial breach in the United Energy Ring fencing Compliance Report for the year ended 31 December 2018:</p> <ul style="list-style-type: none"> <li>A number of corporate staff are shared between United Energy and affiliate entities, CitiPower/ Powercor and Beon. These staff are primarily employed by Powercor, and have roles across United Energy and its affiliates. These staff have not been recorded on the United Energy Staff sharing register in all instances.</li> </ul>	Exception identified
Staff sharing	4.2.2(c)	The remuneration, incentives and other benefits (financial or otherwise) a DNSP provides to a member of its staff <b>must not give the member of staff an incentive to act in manner that is contrary to the DNSP's obligations</b> under this Guideline.	<p><b>Discussions held with:</b></p> <ul style="list-style-type: none"> <li>Regulations Project Manager</li> <li>Head of Business Performance Management</li> </ul> <p><b>Key Control:</b></p> <ul style="list-style-type: none"> <li>On an annual basis the Head of business performance management reviews the remuneration, incentives and other benefits of staff working for United Energy</li> </ul>	Based on the testing performed we have not identified any matters of exception against the obligation.	No Exception

Category	Ref.	Obligation	Testing	Results of testing	Rating
			<p>to ensure that these do not incentivise them to breach the ring-fencing requirements</p> <ul style="list-style-type: none"> <li>Sample of Employee contracts and KPIs for 2018</li> </ul> <p><b>Test Performed:</b></p> <ul style="list-style-type: none"> <li>We tested the design and operating effectiveness of the annual review of the KPIs performed in the period</li> <li>We tested a sample of employees to review the incentives included in the employee contracts did not incentivise United Energy staff to breach their obligations under the Ring-fencing guideline.</li> </ul>		
Branding and cross-promotion	4.2.3(a)	<p>A DNSP:</p> <p>i. <b>must use branding for its direct control services</b> 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. <b>must not advertise or promote its direct control services and its contestable electricity services</b> that are not direct control services together (including by way of cross-advertisement or cross-promotion).</p> <p>iii. <b>must not advertise or promote contestable electricity services</b> provided by a related electricity service provider other than the DNSP itself.</p>	<p><b>Discussions held with:</b></p> <ul style="list-style-type: none"> <li>Manager Customer relations</li> <li>Contract Centre Manager</li> <li>Marketing and Community Partnership Manager</li> </ul> <p><b>Key Control:</b></p> <ul style="list-style-type: none"> <li>Contact centre scripts are utilised for scenarios where a customer requests contestable electricity services</li> <li>Phone calls to contact centre are monitored to detect any instances of cross-promotion. A monthly attestation is provided that this has occurred whether any breaches identified were reported</li> <li>An Annual review of the United Energy website and social media content for any inappropriate co-branding or cross promotion</li> <li>Mandatory training on the ring-fencing requirements is completed annually</li> </ul> <p><b>Information Obtained:</b></p> <ul style="list-style-type: none"> <li>Call centre scripts</li> <li>Monthly attestation of call centre monitoring</li> </ul>	Based on the testing performed we have not identified any matters of exception against the obligation.	No Exception

Category	Ref.	Obligation	Testing	Results of testing	Rating
			<ul style="list-style-type: none"> <li>• Training materials</li> </ul> <p><b>Test Performed:</b></p> <ul style="list-style-type: none"> <li>• We tested the design and operating effectiveness of the annual review of the website and social media content.</li> <li>• We tested the design and operating effectiveness of monthly attestation for the monitoring of contact centre phone calls</li> <li>• We performed a sample of “dummy calls” to the United Energy Contact centre for recommendations for a supplier for contestable work (such as installation services for Solar panels) to determine whether they would promote Beon or Zinfra</li> <li>• We inspected the United Energy website and social media for evidence of promotion of contestable service provider Beon or Zinfra</li> <li>• We reviewed the training content and it covered the branding and cross-promotion requirements.</li> </ul>		
Office and staff registers	4.2.4 (a), (b)	A DNSP <b>must establish, maintain and keep a register</b> that identifies: (a) the <b>classes of offices</b> to which it has not applied; and (b) the <b>nature of the positions (including a description of the roles, functions and duties) of its members of staff</b> and must make the register publicly available on its website.	<p><b>Discussions held with:</b></p> <ul style="list-style-type: none"> <li>• Regulatory Projects Manager</li> </ul> <p><b>Key Control:</b></p> <ul style="list-style-type: none"> <li>• Annual review of the Staff and Office sharing register</li> </ul> <p><b>Information Obtained:</b></p> <ul style="list-style-type: none"> <li>• Staff and office sharing register</li> </ul> <p><b>Test Performed:</b></p> <ul style="list-style-type: none"> <li>• We reviewed the Staff and Office register to determine whether it included the required information and was publically available on its website</li> </ul>	We noted the following exception which has been disclosed as an immaterial breach in the United Energy Ring fencing Compliance Report for the year ended 31 December 2018: <ul style="list-style-type: none"> <li>• We have identified that the Registers are not complete as they do not include all shared staff and shared offices.</li> </ul>	Exception identified

Category	Ref.	Obligation	Testing	Results of testing	Rating
Protection of confidential information	4.3.2 (a) (b)	A DNSP <b>must:</b> <b>(a) keep confidential information confidential</b> <b>(b) only use confidential information for the purpose for which it was acquired or generated</b>	<p><b>Discussions held with:</b></p> <ul style="list-style-type: none"> <li>IT and Security Analyst</li> </ul> <p><b>Key Control:</b></p> <ul style="list-style-type: none"> <li>Affiliate staff are restricted from accessing confidential electricity information through IT access controls</li> </ul> <p><b>Information Obtained:</b></p> <ul style="list-style-type: none"> <li>Information sharing protocol</li> </ul> <p><b>Test Performed:</b></p> <ul style="list-style-type: none"> <li>We obtained an IT user access listing for all United Energy systems that contain confidential information and compared to listing of Beon employee to determine whether there is any inappropriate access.</li> </ul>	<p>We identified the following observations and opportunity for improvement to the control environment, noting that we do not consider this an exception:</p> <ul style="list-style-type: none"> <li>A periodic review of IT user access is not performed to identify any affiliate staff that may have access to the IT systems that contain confidential information.</li> <li>United Energy has a service agreement with Zinfra (an affiliate entity) for the construction, maintenance and operation of its distribution network. Zinfra employees have access to IT systems that have confidential information and also have unrestricted access to the United Energy offices.</li> </ul> <p>Zinfra does not perform any contestable works within the United Energy distribution area (only work on behalf of United Energy's customers). However, we note that this is not specifically included in the service contract with Zinfra. We note that the standard ring fencing clause is included in this contract partially mitigating this risk.</p> <p>We recommend that United Energy amend the service contract with Zinfra to contractually restrict them from performing any contestable services within the United Energy Network.</p>	No exceptions noted
Disclosure of information	4.3.3 (a)-(g)	A DNSP <b>must not disclose confidential information to any person</b> , including a related electricity service provider, unless: <b>(a) the DNSP has first obtained the explicit informed consent</b> of the relevant customer, or prospective customer, to whom the confidential	<p><b>Discussions held with:</b></p> <ul style="list-style-type: none"> <li>Regulatory Projects Manager</li> <li>IT and Security Analyst</li> </ul> <p><b>Key Control:</b></p> <ul style="list-style-type: none"> <li>Information sharing protocol and information sharing register is publically available</li> </ul>	As noted above in section 4.3.2(a) (b).	No exceptions noted

Category	Ref.	Obligation	Testing	Results of testing	Rating
		<p>information relates;</p> <p>(b) the <b>disclosure is required by</b>, or for the purpose of complying with <b>any law</b>;</p> <p>(c) the <b>disclosure is necessary to enable the DNSP to provide its distribution services</b>, its transmission services or its other services (including by acquiring services from other legal entities);</p> <p>(d) the <b>information has been requested by or on behalf of a customer</b>, 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;</p> <p>(e) the <b>disclosure is solely for the purpose of providing assistance to another Network Service Provider</b> in response to an event (such as an emergency) that is beyond the other Network Service Provider's reasonable control;</p> <p>(f) the <b>disclosure is solely for the purposes of research by a legal entity</b> other than a related electricity service provider of the DNSP</p>	<ul style="list-style-type: none"> <li>Affiliate staff are restricted through IT access controls from confidential information</li> </ul> <p><b>Information Obtained:</b></p> <ul style="list-style-type: none"> <li>Information sharing protocol</li> <li>Information sharing register</li> </ul> <p><b>Test Performed:</b></p> <ul style="list-style-type: none"> <li>We obtained a IT user access listing for all United Energy systems that contain confidential information and compared to listing of Beon employee to determine whether there is any inappropriate access</li> <li>We have reviewed the information sharing protocol for consistency with the requirements of the Ring fencing guideline</li> <li>We sighted the information register is publically available on the United Energy website.</li> </ul>		
Sharing of information	4.3.4	<p>(a) Subject to clause 4.1(c)iv. and to this clause 4.3.4, where a <b>DNSP</b> shares <b>confidential information</b> with a <b>related electricity service provider</b>, or where confidential information that a <b>DNSP</b> has disclosed under clause 4.3.3(f) is then disclosed by any person to a <b>related electricity service provider</b> of the <b>DNSP</b>, the <b>DNSP</b> must provide access</p>	<p><b>Discussions held with:</b></p> <ul style="list-style-type: none"> <li>Regulatory Projects Manager</li> <li>IT and Security Analyst</li> </ul> <p><b>Key Control:</b></p> <ul style="list-style-type: none"> <li>Information sharing protocol and information sharing register is publically available</li> </ul>	<p>Based on the testing performed we have not identified any matters of exception against the obligation noting the following:</p> <ul style="list-style-type: none"> <li>United Energy has established and maintained an information sharing. protocol and information sharing register</li> <li>Based on enquiries we noted that no such information had been requested.</li> </ul>	No exceptions



Category	Ref.	Obligation	Testing	Results of testing	Rating
		<p>to that <b>confidential information</b> (including the derived information) to other <b>legal entities</b> on an equal basis.</p> <p>(b) A <b>DNSP</b> is only required by clause 4.3.4(a) to provide information to a <b>legal entity</b> where:</p> <p>i. the <b>legal entity</b> has requested that it be included on the <b>information register</b> in respect of information of that kind; and</p> <p>ii. the <b>legal entity</b> is competing, or is seeking to compete, with the <b>DNSP</b>, or a <b>related electricity service provider</b> of the <b>DNSP</b>, in relation to the provision of <b>contestable electricity services</b>.</p> <p>(c) A <b>DNSP</b> is not required by clause 4.3.4(a) to provide information to a <b>legal entity</b> where the <b>DNSP</b> has disclosed the information in the circumstances set out in clauses 4.3.3(a) to (e).</p> <p>(d) Without limiting clause 4.3.4(a), a <b>DNSP</b> 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 <b>legal entities</b>, and must make that protocol publicly available on its website.</p> <p>(e) Where a <b>DNSP</b> discloses information referred to in clause 4.3.4(a) to any other <b>legal entity</b> under this clause 4.3.4, it must do so on terms and conditions that require the other <b>legal entity</b> to comply with clause 4.3.2 and 4.3.3(a) to (d) in relation to that information as if the other <b>legal entity</b> was a <b>DNSP</b>.</p>	<p><b>Information Obtained:</b></p> <ul style="list-style-type: none"> <li>• Information sharing protocol</li> <li>• Information sharing register</li> </ul> <p><b>Test Performed:</b></p> <ul style="list-style-type: none"> <li>• We have reviewed the information sharing protocol for consistency with the requirements of the Ring-fencing guideline</li> <li>• We sighted the information register is publically available on the United Energy website</li> <li>• We made enquiry of the Regulatory Projects Manager and confirmed that there was no information requested in the period.</li> </ul>		

Category	Ref.	Obligation	Testing	Results of testing	Rating
Information register	4.3.5 (a) - (c)	<p>(a) A DNSP <b>must establish, maintain and keep a register</b> of all:</p> <ul style="list-style-type: none"> <li>i. related electricity service providers;</li> <li>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.</li> </ul> <p>(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:</p> <ul style="list-style-type: none"> <li>i. identify the kind of information requested by the legal entity; and</li> <li>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.</li> </ul> <p>(c) <b>A legal entity may request that the DNSP</b> 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.</p>	<p><b>Discussions held with:</b></p> <ul style="list-style-type: none"> <li>• Regulatory Projects Manager</li> <li>• IT and Security Analyst</li> </ul> <p><b>Key Control:</b></p> <ul style="list-style-type: none"> <li>• Information sharing protocol and information sharing register is publically available</li> </ul> <p><b>Information Obtained:</b></p> <ul style="list-style-type: none"> <li>• Information sharing protocol</li> <li>• Information sharing register</li> </ul> <p><b>Test Performed:</b></p> <ul style="list-style-type: none"> <li>• We have reviewed the information sharing protocol for consistency with the requirements of the Ring-fencing guideline</li> <li>• We sighted the information register is publically available on the United Energy website</li> <li>• We made enquiry of the Regulatory Projects Manager and confirmed that there was no information requested in the period.</li> </ul>	<p>Based on the testing performed we have not identified any matters of exception against the obligation noting the following:</p> <ul style="list-style-type: none"> <li>• United Energy has established and maintained an information sharing protocol and information sharing register</li> <li>• Based on enquiries we noted that no such information had been requested.</li> </ul>	No exceptions
Conduct of service providers	4.4.1 (a)(b)	<p>A DNSP:</p> <p>(a) <b>must ensure that any new or varied agreement between</b> 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</p>	<p><b>Discussions held with:</b></p> <ul style="list-style-type: none"> <li>• Procurement manager</li> <li>• Legal Counsel</li> </ul> <p><b>Key Control:</b></p> <ul style="list-style-type: none"> <li>• The standard terms and conditions for VPN supply contracts have been amended to include compliance with ring-fencing</li> </ul>	<p>Based on the control testing performed we have identified the following exceptions which have been disclosed as an immaterial breach in the United Energy Ring fencing Compliance Report for the year ended 31 December 2018:</p> <ul style="list-style-type: none"> <li>• Our testing indicated that there was not a clear understanding amongst the</li> </ul>	Exception identified

Category	Ref.	Obligation	Testing	Results of testing	Rating
		<p>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>A DNSP:</p> <p>(b) <b>must not, directly or indirectly, encourage or incentivise</b> a service provider to engage in conduct which, if the DNSP engaged in the conduct itself, would be contrary to the DNSP's obligations.</p>	<p>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> <p><b>Information Obtained:</b></p> <ul style="list-style-type: none"> <li>Standard term and conditions</li> <li>Sample of new and revised supplier contacts entered in the period</li> </ul> <p><b>Test Performed:</b></p> <ul style="list-style-type: none"> <li>We selected a sample of suppliers with new contracts entered into in the period to determine whether the Standard Terms and Conditions attached to the contract contained the requirement to comply with ring-fencing Guideline.</li> </ul>	<p>procurement team around when these standard terms and conditions must be included in a contract and we recommend that management develop a decision framework to apply in procurement contract negotiations to identify when a contract with a supplier requires the clause.</p> <ul style="list-style-type: none"> <li>We identified one contract entered into during the period relating to vendors who provided direct control services that did not include the ring fencing clause.</li> </ul>	
Waiver register	5.7 (a)	<p>A DNSP <b>must establish, maintain and keep a register of all waivers</b> (including any variation of a waiver) and must make the register publicly available on its website.</p> <p>The register established under clause 5.7(a) <b>must include:</b></p> <p>i. <b>the description of the conduct</b> to which the waiver or interim waiver applies; and</p> <p>ii. <b>the terms and conditions of the waiver or interim waiver;</b> 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>	<p><b>Discussions held with:</b></p> <ul style="list-style-type: none"> <li>Regulatory Projects Manager</li> </ul> <p><b>Key Control</b></p> <ul style="list-style-type: none"> <li>Waiver register</li> <li>Waiver review process</li> </ul> <p><b>Information Obtained</b></p> <ul style="list-style-type: none"> <li>Waiver register</li> <li>Ring-fencing Compliance Procedure</li> </ul> <p><b>Test Performed</b></p> <ul style="list-style-type: none"> <li>We sighted that the waiver register is publicly available on United Energy's website</li> <li>We cross-checked the details contained on the waiver register against the waiver decisions published on the AER website.</li> </ul>	<p>Based on the testing performed we have not identified any matters of exception against the obligation noting the following:</p> <ul style="list-style-type: none"> <li>The waiver register is publically available on the United Energy website.</li> <li>United Energy's waiver register is consistent with the AER waiver decisions.</li> </ul>	No Exception
Maintaining compliance	6.1	<p>A DNSP <b>must establish and maintain appropriate internal procedures to ensure it complies</b></p>	<p><b>Discussions held with:</b></p> <ul style="list-style-type: none"> <li>Regulatory Projects Manager</li> </ul> <p><b>Key Control</b></p>	<p>Based on the testing performed we identified that:</p> <ul style="list-style-type: none"> <li>United Energy have implemented controls to reduce the risk that it does not comply with its obligations under this Guideline</li> </ul>	No Exception

Category	Ref.	Obligation	Testing	Results of testing	Rating
		<b>with its obligations under this Guideline.</b>	<ul style="list-style-type: none"> <li>General Manager Annual Compliance review and declaration</li> <li>Mandatory training on the ring-fencing requirements</li> </ul> <p><b>Information Obtained</b></p> <ul style="list-style-type: none"> <li>N/a</li> </ul> <p><b>Test Performed</b></p> <ul style="list-style-type: none"> <li>We have obtained and reviewed the General Manager annual compliance declarations We reviewed the training material and the attendance register.</li> </ul>	<p>Additionally, we identified an opportunity for improvement to the control environment in relation to the completion of training. This is documented at reference 4.1(b).</p>	
Annual compliance report	6.2.1 (a), (b) (c)	<p>A DNSP <b>must prepare an annual ring--fencing compliance report each regulatory year.</b></p> <p><b>The annual compliance report must identify and describe,</b> in respect of the regulatory year to which the report relates:</p> <ol style="list-style-type: none"> <li><b>the measures the DNSP has taken</b> to ensure compliance with its obligations under this Guideline;</li> <li><b>any breaches of this Guideline by the DNSP,</b> or which otherwise relate to the DNSP; and</li> <li><b>all other services provided by the DNSP</b> in accordance with clause 3.1; and</li> <li><b>the purpose of all transactions between the DNSP and an affiliated entity.</b></li> </ol> <p><b>The annual compliance report must be accompanied by an assessment of compliance</b> by a suitably qualified independent authority.</p>	<p><b>Discussions held with:</b></p> <ul style="list-style-type: none"> <li>Regulatory Projects Manager</li> </ul> <p><b>Key Control</b></p> <ul style="list-style-type: none"> <li>Ring-fencing compliance report</li> <li>Deloitte has been engaged as the independent authority to assess United Energy's compliance with the Guideline</li> </ul> <p><b>Information Obtained</b></p> <ul style="list-style-type: none"> <li>United Energy Ring-fencing Compliance report</li> </ul> <p><b>Test Performed</b></p> <ul style="list-style-type: none"> <li>We reviewed the draft annual ring-fencing compliance report to assess whether it includes all required information required and that the disclosures are consistent with our expectation based on the reasonable assurance procedures performed.</li> </ul>	<p>Based on the testing performed we have not identified any matters of exception against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> <li>United Energy have prepared a compliance report that is consistent with the requirements of the AER Electricity Distribution Ring-Fencing Guideline – Compliance reporting best practice manual.</li> <li>The compliance report is accompanied by an assessment of compliance by a suitably qualified independent authority.</li> </ul>	No Exception

Category	Ref.	Obligation	Testing	Results of testing	Rating
Compliance breaches	6.3	A DNSP must <b>notify the AER in writing within 5 (five) business days of becoming aware of a material breach of its obligations</b> under this Guideline.	<p><b>Discussions held with:</b></p> <ul style="list-style-type: none"> <li>Regulatory Projects Manager</li> </ul> <p><b>Key Control</b></p> <ul style="list-style-type: none"> <li>Mandatory training on the ring-fencing requirements</li> <li>A mailbox is maintained by the Regulations team for United Energy to report any potential breaches</li> </ul> <p><b>Information Obtained</b></p> <ul style="list-style-type: none"> <li>Email correspondence received in the mailbox in the period.</li> </ul> <p><b>Test Performed</b></p> <ul style="list-style-type: none"> <li>We sighted the ring-fencing mailbox and reviewed the email correspondence received during the year</li> <li>We reviewed the training content and confirmed that this did include the process for reporting breaches through the ring-fencing inbox which is monitored by the regulations team.</li> </ul>	<p>Based on the testing performed we have identified the following:</p> <ul style="list-style-type: none"> <li>United Energy has established a mailbox for breaches identified within the business can be reported to the regulatory team on a timely basis.</li> <li>United Energy have implemented controls to ensure that staff are aware of the obligation to report breaches.</li> </ul> <p>We identified the following opportunity for improvement to the control environment, noting that we do not consider this an exception:</p> <ul style="list-style-type: none"> <li>There is no documented formal policy for reporting breaches to the compliance team.</li> <li>The materiality guidance adopted by the business is based on the AER compliance manual; therefore it is not tailored to suit the requirements of United Energy specifically.</li> <li>There is presently limited information on reporting breaches/suspected breaches on the intranet.</li> </ul> <p>We recommend that a documented policy is prepared which outlines the reporting requirement and procedures where a potential breach is identified. This procedure should be consistent across the business and the policy publicly available to all staff members to access on the intranet.</p>	No Exception

## 4. Independent Assurance Report to the Directors of United Energy

### Opinion

We have undertaken a reasonable assurance engagement on United Energy Distribution Pty Ltd's ("United Energy") Ring-Fencing Annual Compliance Report's (the "Compliance Report") compliance, in all material respects, with clause 6.2.1a of the Ring-Fencing Guideline for Electricity Distribution November 2016 including amendments made in October 2017 (the "Guideline") made under clause 6.17.2 of the National Electricity Rules (the "NER") as evaluated against clause 6.2.1b of the Guideline (the "Obligations") for the period from 1 January 2018 to 31 December 2018 for the purpose of reporting to the Australian Energy Regulator.

In our opinion, United Energy's Compliance Report has complied, in all material respects, with the Guideline as evaluated against the Obligations for the period from 1 January 2018 to 31 December 2018.

### Basis for Opinion

We conducted our engagement in accordance with Standard on Assurance Engagements ASAE 3100 *Compliance Engagements* ("ASAE 3100") issued by the Auditing and Assurance Standards Board.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### United Energy's Services Responsibilities

United Energy's management is responsible for:

- a. Providing a statement with respect to the outcome of the evaluation of the compliance activity against the Guideline, which accompanies this independent assurance report.
- b. The compliance activity undertaken to meet the Guideline;
- c. Identifying risks that threaten the Guideline identified above being met;
- d. Identifying suitable compliance requirements in the Guideline as required by the AER; and
- e. Identifying, designing and implementing controls to enable the Guideline to be met and to monitor ongoing compliance.

### Our Independence and Quality Control

We have complied with the independence and other relevant ethical requirements relating to assurance engagements, and apply Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements* in undertaking this assurance engagement.

### Assurance Practitioner's Responsibilities

Our responsibility is to express an opinion on whether United Energy's Compliance Report has been prepared, in all material respects, in accordance with the Guideline as evaluated against the Obligations for the period from 1 January 2018 to 31 December 2018. ASAE 3100 requires that we plan and perform our procedures to obtain reasonable assurance about whether United Energy has complied, in all material respects, with the Guideline as evaluated against the Obligations, for the period from 1 January 2018 to 31 December 2018.

An assurance engagement to report on United Energy's Compliance Report involves performing procedures to obtain evidence about the compliance activity and controls implemented to meet the Guideline. The procedures selected depend on our judgement, including the identification and assessment of risks of material misstatement in the Compliance report are likely to arise.

Our procedures included:

- Inquiring with United Energy's personnel what preventative, detective and corrective controls are in place to allow United Energy to comply with the Obligations;
- Evaluating whether the control is appropriate with consideration given to the competence of the person performing the control, frequency of the control and whether the control allows United Energy to comply with the Obligations;

- Selecting a sample of instances where we would expect the control to be performed, observing the control being performed, and inspect associated documentation to evidence the effectiveness of the control throughout the period;
- Checking that registers are publicly available, accurate and complete by ensuring any staff, office or information sharing and waivers obtained have been appropriately included in the registers. Checking that any inclusions in the registers are factually correct by discussing with management and assessing associated documentation; and
- Inquiring with management whether they are compliant with the Obligations.

#### **Inherent Limitations**

Because of the inherent limitations of an assurance engagement, together with the internal control structure it is possible that fraud, error, or exception with compliance requirements may occur and not be detected.

A reasonable assurance engagement for the period from 1 January 2018 to 31 December 2018 does not provide assurance on whether compliance with the Guideline will continue in the future.

#### **Restricted Use**

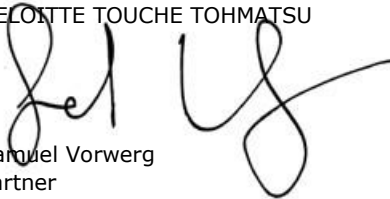
This report has been prepared for use by United Energy for the purpose of meeting the reporting requirements of the AER. We disclaim any assumption of responsibility for any reliance on this report to any person other than United Energy, or for any purpose other than that for which it was prepared.

However, we understand that a copy of the report has been requested by AER. We agree that a copy of the report may be provided to AER for their information in connection with this purpose but only on the basis that we accept no duty, responsibility or liability to any party, other than you, in connection with the report or this engagement.

It is our understanding that the AER may publish a copy of our report on their website. We accept no responsibility to any person or entity, apart from United Energy that is provided with, or obtains a copy of our report, without our written agreement. No other person or entity is entitled to rely, in any manner, or for any purpose, on this report. We do not accept or assume responsibility to anyone other than United Energy for our work, for this report, or for any reliance which may be placed on this report by any party other than United Energy.

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU



Samuel Vorweg  
Partner

Chartered Accountants  
Melbourne, 29 April 2019