

Annual Ring-fencing Compliance Report for 2017/18 SA Power Networks October 2018

1. Introduction

The Australian Energy Regulator (**AER**) released a new draft Ringfencing Guideline in November 2016, and the current Ringfencing Guideline (**Guideline**) in October 2017. In 2017, SA Power Networks (also **we, us**) undertook a significant ring-fencing implementation program, overseen by an Executive Steering Committee, to:

- Interpret Guideline requirements;
- Assess areas of the business impacted by the new obligations;
- Develop/modify policies and procedures to ensure compliance;
- Train staff on the new requirements; and
- Implement other necessary changes.

The Guideline required us to comply with the obligations by no later than January 2018. We implemented significant changes to comply within the required timeframes, and have undertaken work to ensure we comply with the Guideline with the lowest cost to our customers and minimum impact to service delivery.

The implementation program included establishing a structure which included Work Streams, a Working Group, and a Steering Committee. One of the first steps we took towards compliance was to establish a new affiliate, Enerven. The term 'affiliate' and Enerven are used interchangeably throughout our Ring-fencing Annual Compliance Report (**Report**).

This Report provides details of the actions that we undertook to ensure compliance with the Guideline. The period for which the Report relates is 1 January 2018 to 30 June 2018, as compliance was mandatory from 1 January 2018. Future reports will be for the full regulatory year concerned.

Throughout this Report, there are references to documents created ('new'), 'updated', or 'existing', that support ring-fencing compliance. The references align with those in Appendix A, which appear as '[alphabetic reference].[document number]'. Appendix A provides a brief description for each document referred to.

1.1 Key Interpretations

Some key interpretations were outlined in our Ring-fencing Implementation Plan in August 2017, and these interpretations have remained consistent throughout our implementation process.

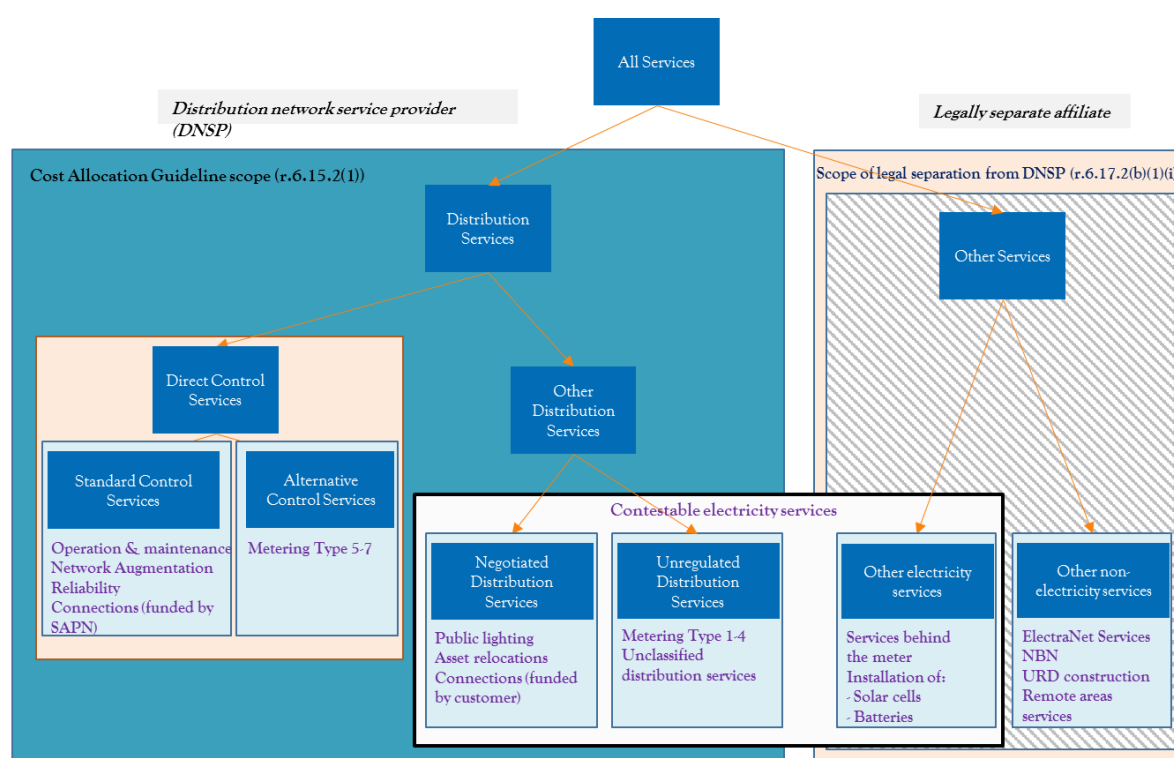
Compliance implementation was guided by our general interpretations of the guideline, as follows:

1. Only services provided in connection with our own distribution network are distribution services—work on, or for, other networks must therefore be undertaken by our affiliates (except where an exemption applies under the Guideline).
2. If an affiliate provides services on our behalf we must ensure it complies with ring-fencing obligations just as any service provider must. However, where an affiliate undertakes work for a different party, ring-fencing does not apply to the affiliate; this is except to the extent that the affiliates' provision of services to the other party affects its relationship with us.¹

¹ If our affiliate provides services to a party other than SA Power Networks, we must ensure our affiliate is not using SA Power Networks' regulated funds to cross-subsidise its activities.

3. Staff involved in providing our direct control services may also be involved in the provision of services by our affiliate, subject to meeting certain conditions:
 - The roles and activities of any shared staff must accord with one of the exclusions listed in the Guideline; or
 - The services in question are ‘other non-electricity services’², typically construction, maintenance and metering infrastructure services provided to customers that are not connected to our distribution network and include property developers and other electricity and telecommunications utilities. For the avoidance of doubt, where any of our affiliate’s customers provide electricity services, our affiliate is providing an input to these services and is not providing services direct to their customers—that is, our affiliate is not providing electricity services in these circumstances. Figure 1 overlays a non-exhaustive list of these and other services that we provide, onto the diagram from the AER’s Explanatory Statement.

Figure 1: Mapping ring-fencing to distribution services



1.2 Implementation approach

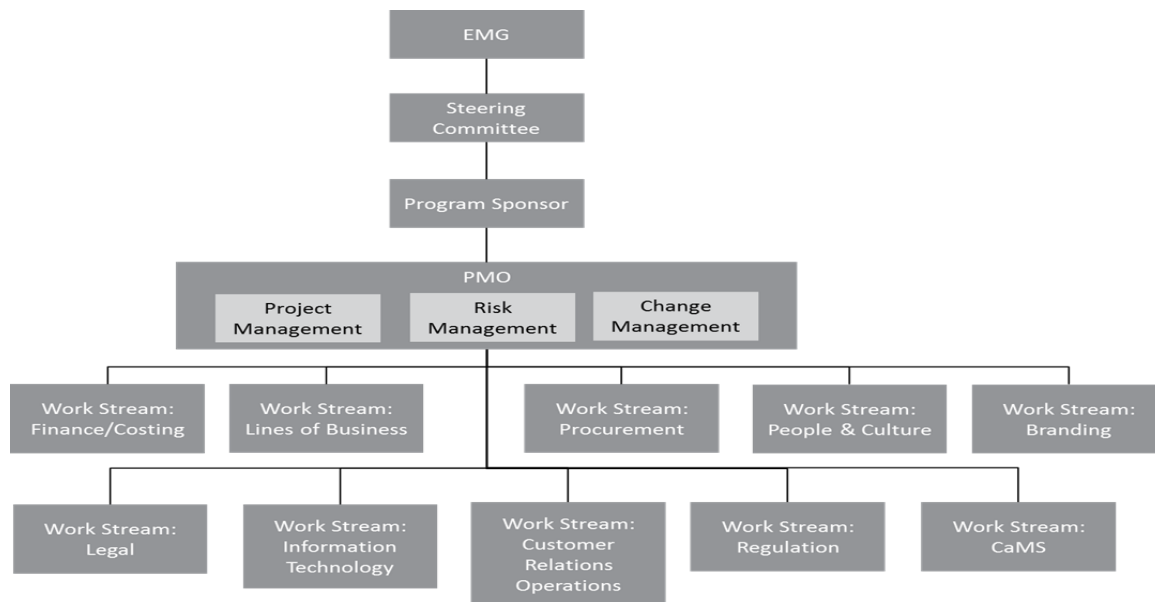
In late 2016, we established an implementation program to review the Guideline’s impact on our business and the compliance actions required. Key activities included:

- The Executive Management Group (EMG) conducted an initial ‘desk-top’ review of the Guideline’s requirements against key lines of business.
- An Executive steering committee was established to oversee compliance decision-making. Decisions were guided with a view to minimising implementation costs and disruption to our customers.

² AER, *Electricity distribution ring-fencing guideline – Explanatory statement*, November 2016, Figure 1, page 14.

- A dedicated project management office (**PMO**) was established to undertake administrative activities including project documentation, milestone identification, maintenance of issues/decision registers, and assistance with developing and implementing controls.
- Several divisional work streams were established to identify the detailed impact of the Guideline and implementation tasks required for our individual lines of business.

Figure 2: Implementation project management structure



2. Compliance measures

Key documents related to our compliance activities are summarised at the end of this Report in Appendix A alongside each Guideline obligation.

Information provided in this Report is not exhaustive, but provides some detail on key compliance controls implemented and activities undertaken during the 2017/18 regulatory year.

In addition to controls specific to certain obligations, we undertook a number of high-level activities to ensure a broad understanding of ring-fencing across the business. These are discussed below first, before moving on to obligation-specific controls.

2.1 Additional information on compliance measures

2.1.1 Training and awareness activities

A ring-fencing training module (Appendix A, **G.1**) was developed and issued to all SA Power Networks Group staff (including Enerven) in December 2017. It is mandatory for all staff (new and existing) to complete the training, and by February 2018, 99.7 per cent of staff are recorded as having completed it. (The staff who had not completed the training were on extended leave.) The training highlights the Guideline obligations, includes a high-level overview of each section, and provides some examples and case studies.

Regular company-wide communications (**G.2**) have been released with 'Quick Reference Guides' to remind all staff of their obligations in respect to specific areas, such as staff and office sharing restrictions, branding and cross promotion obligations, and breach reporting requirements.

To ensure our more remote locations were provided with support in understanding and complying with their obligations, staff from our ring-fencing Program Management Office visited 30 depots across the state. This involved presenting training in a verbal format with the opportunity for questions and answers.

We also held a series of targeted sessions for managers (**G.2**), to introduce them to their obligations and explain compliance requirements. There were five sessions held over December 2017 to early February 2018, with a total of 125 managers attending.

2.1.2 Directives, policies and procedures

A review of our existing directives, policies and procedures was completed in 2017. Several new documents were developed to support Guideline compliance and many existing documents were updated to incorporate specific ring-fencing content. A table of these documents is provided in Appendix A.

2.1.3 Internal compliance reports

An internal compliance questionnaire (**C.2**) is issued to managers in all SA Power Networks departments on a quarterly basis. The first questionnaire was issued in April 2018, for quarter one (January to March 2018), and a second one in July 2018 for quarter two (April to June 2018). It lists the obligations assigned to individual managers, along with reference documentation and explanatory notes where appropriate. The managers must review and complete the questionnaire, declaring they are 'compliant' (or otherwise) against each obligation. They are also asked to state their mechanism/s for compliance, and any other relevant comments including actions to address any non-compliances.

The quarterly questionnaire serves as a mechanism to regularly remind managers of their ring-fencing obligations, and to identify areas of potential concern including risk areas; requirements for follow up conversations; and training requirements, and to highlight implemented controls.

2.2 Legal Separation

2.2.1 Considerations

The legal separation obligations in the Guideline require that SA Power Networks only undertake distribution services, and prevent SA Power Networks from using regulated funds to subsidise affiliates. The obligations do not prevent affiliates from providing non-distribution services.

Our review of our business lines recognised that we did have an existing large business in providing non-distribution services. These services principally related to 'other non-electricity services' and potential new and emerging (competitive) business.

2.2.2 Compliance actions

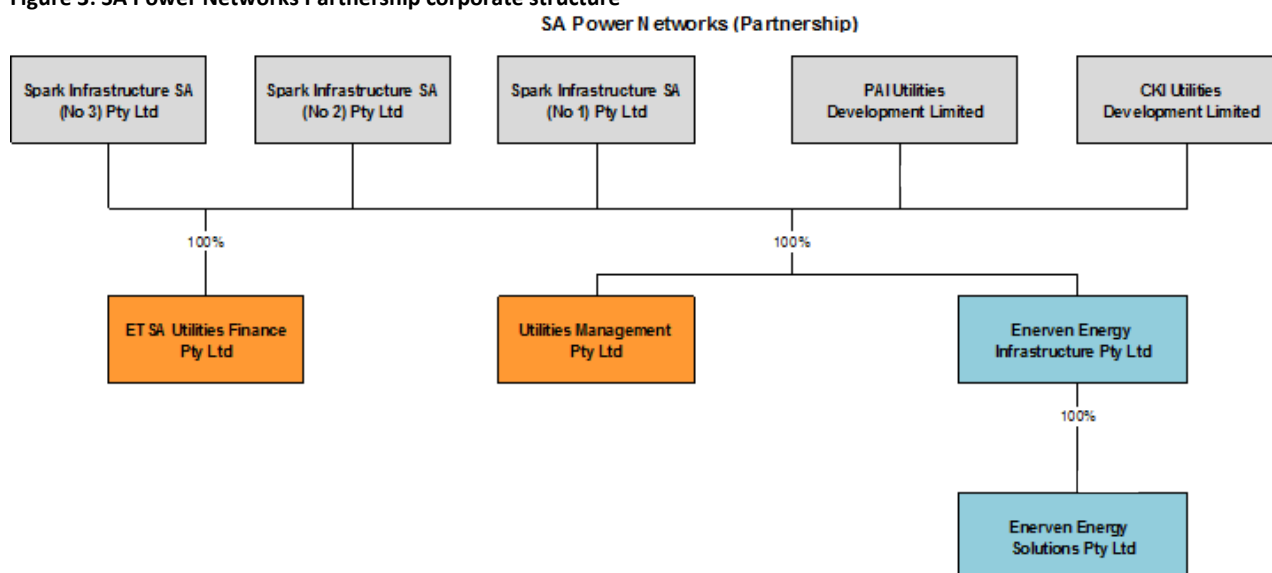
In 2017, the SA Power Networks Board agreed to establish new legal entities (known as ‘Enerven’) to provide non-distribution services. The corporate structure became effective 1 January 2018 and is set out in Figure 3.

SA Power Networks is a partnership comprising five corporate entities. The Guideline defines legal entity to include a partnership. The SA Power Networks partnership is the Registered DNSP (**L.1**). All staff are employed by Utilities Management Pty Ltd (**UMPL Group**).

From 1 January 2018, and subject to waivers granted by the AER, ‘other services’ are no longer provided by SA Power Networks, but by Enerven.

Formal contract amendments letters were issued to suppliers for novation of relevant contracts to include Enerven as a party to the contract (**SP.2 and SP.3**). This is further discussed below in section 2.12.

Figure 3: SA Power Networks Partnership corporate structure



2.3 Establish and maintain accounts

2.3.1 Considerations

We must establish and maintain appropriate internal accounting procedures to ensure that we can demonstrate the extent and nature of transactions with our affiliates. Further, we must allocate or attribute costs in accordance with our AER-approved Cost Allocation Method (**CAM**).

Prior to the Guideline implementation, we already accounted for and reported most of our unregulated business activities in a separate business unit. These activities were therefore already effectively ring-fenced from an accounting perspective from our distribution services. Costs are attributed or allocated to regulated and unregulated activities in accordance with the CAM, which also identified how corporate costs are allocated between each function.

Separate financial accounts have been established for our affiliate entities.

To facilitate compliance with the Guideline, a review of financial processes was undertaken and actions to comply with the Guideline are identified and documented in a 'Consolidated Finance Blueprint' (F.1).

2.3.2 Compliance actions

To comply with the Guideline, the following activities were completed prior to 1 January 2018:

- Reviewed costing procedures to verify no cross-subsidisation exists between us and our affiliates;
- Developed processes, protocols and guidelines for transactions between us and affiliates, including service-level agreements where appropriate;
- Created inter-company general ledger accounts to identify transactions between us and our affiliates;
- Reviewed labour costing to ensure appropriate distribution of employee costs from Utilities Management Pty Ltd to distribution and non-distribution services, including transparent identification of inter-company transactions (F.3);
- Created inter-company transactions for corporate costs allocated in accordance with the CAM;
- Identified and implemented IT changes to facilitate any revision to accounting procedures in the most efficient manner;
- Updated documentation and trained key personnel in accounting processes and protocols between us and our affiliates; and
- Reviewed and updated the CAM (F.2) to incorporate structural organisation changes arising from legal separation, and cost allocation changes that were required to comply with the Guideline.

2.4 Obligation to not discriminate

2.4.1 Considerations

We must not discriminate in favour of affiliates or the customers of affiliates. This obligation applies generally, but also with specific reference to the terms and conditions, timeliness, and quality of services that we offer and provide to other parties.

Situations that we previously highlighted as warranting attention included contracting and partnering with affiliates; and connections work. These areas are discussed below, with inclusion of the general controls implemented that relate to the obligation to not discriminate.

2.4.2 Compliance actions

Contracting and partnering with Enerven

A new internal guideline specifically developed for ring-fencing compliance is the Procurement Enerven Engagement Guidelines (D.1) This guideline provides information and advice on how to engage with Enerven when procuring goods and/or services on behalf of SA Power Networks' regulated business.

The governance framework in the guideline requires multiple steps to ensure no discrimination occurs. This includes an Engagement Matrix that includes the entire procurement context, including value, market assessment, and complexity assessment.

Service Agreements (**F.7**) have also been established to provide the basis on which certain services (including corporate services) are provided.

The corporate Procurement Directive (**D.2**) and Procurement Strategic Sourcing Framework (**D.3**) also provide business-wide direction on procurement activities, which includes engaging with any third party including Enerven.

Connections

Our Implementation Plan highlighted potential discrimination in relation to connections in the form of price or timeliness of the connection process.

Our Connection Policy (available on our website) sets out the overarching governance and principles that we apply regarding:

- Timeliness and requirements for provision of customer connection offers; and
- The methodology for determining customer contributions (charges) relating to the connections.

We also have a Network Department Quality Management System (**QMS**) certified to industry standards (ISO 9000:2015 series) where we have established processes that ensure that all customers seeking connections to our network are treated fairly throughout the connection process. The QMS documents the connection processes used by our Customer Service Managers for all types of connections. To ensure adherence to these processes, they are externally audited in line with industry accreditation requirements (i.e. as per ISO9000). The established QMS ensures that Enerven is treated equally with all accredited contractors in the connections field.

Managers and staff are regularly reminded of their ring-fencing obligations, including to not discriminate, through training and the quarterly reporting process. To-date, Managers have confirmed that no discrimination has occurred in relation to connections.

2.5 Physical separation/co-location and Staff sharing

2.5.1 Considerations

Restrictions on staff sharing and co-location first require consideration of the service in question. Our direct control services staff are disallowed from being shared and co-located with the staff of affiliates where the affiliates are providing 'contestable electricity services'. Staff providing 'other non-electricity services' may be shared, as displayed in Figure 1 above.

The second consideration is in relation to the nature of the staff role in question. Some of our direct control services staff can still be co-located with staff of our affiliates in circumstances where our affiliates are providing contestable electricity services, if these staff:

- Do not have access to electricity information;
- Have access to electricity information but cannot use that information to engage in discriminatory conduct in performing their role;
- Only use electricity information to provide corporate services;
- Are located in a regional office; or
- Are providing assistance to another network service provider in response to an emergency or uncontrollable event.

2.5.2 Compliance actions

Physical separation

Location sharing analysis was conducted in 2017 and further verified this year. The process involved using organisational data from our HR system which detailed all staff roles and their locations, and building a tool that assisted with analysis. The analysis highlighted locations where both regulated and contestable services were provided. Further detailed analysis then assessed the duties of each staff member in shared locations and whether an exemption under the Guideline applied. These shared locations and the exemptions applicable are listed in our Office Sharing Register (**R.2**).

All location sharing is compliant with the Guideline.

An Office Sharing Guideline (**O.1**) and Office Sharing Quick Reference Guide (**O.2**) were developed and provided to all staff via the training module and a corporate communication bulletin (respectively). These documents provide guidance and practical examples for staff on where they can and cannot co-locate.

Staff sharing

Staff sharing analysis was also conducted in 2017 and further verified this year. The process involved using organisational data from our HR system which detailed all staff and their positions, and building a tool that assisted with analysis. A service description was assigned to each member of staff, which involved liaison with all areas of the business. Analysis was conducted at the role level. Further detailed analysis then looked at the duties of each role and whether an exemption under the Guideline could be applied. These shared staff positions are listed in our Staff Sharing Register (**R.1**).

A Staff Sharing Guideline (**S.2**) and Staff Sharing Quick Reference Guide (**S.3**) were developed and provided to all staff via the training module and a corporate communication bulletin (respectively). These documents provide guidance and practical examples for staff on where they can and cannot be shared between the regulated business and Enerven. A Staff Movement Directive (**S.1**) was also developed to ensure the obligations are appropriately considered and adhered to by all staff.

Areas of special consideration

Two areas that required more focus in our analysis process were our (previously, now Enerven) Metering team and our Network Innovations Centre. These areas are considered higher risk due to the nature of the work performed by these groups.

Metering

With the introduction of metering contestability from December 2017, we were required to cease providing certain metering services. The way in which we now deliver non-contestable and contestable metering services is summarised below:

Provision of services for non-contestable meters:

- All staff involved are UMPL Group employees that work for SA Power Networks.
- SA Power Networks holds AEMO metering coordinator registration for type 5-7 meters.
- UMPL Group holds AEMO meter data agent accreditation for type 5-7 meters.
- UMPL Group holds AEMO metering provider accreditation for type 5-6 meters. [Note, there is no metering provider accreditation for Type 7 meters as these are unmetered metering installations.]
- Metering technicians are shared staff. They provide meter type testing on type 5-6 meters. They also provide contestable meter services under the Enerven brand. Controls are in place

to ensure they do not access electricity information (i.e. SAPN's metering and other network databases) for these contestable meter services.

Provision of services for contestable meters:

- As these are unregulated distribution services, they only need to be functionally separated. However, SA Power Networks has chosen to deliver these contestable metering services through Enerven, meaning that delivery of these services is both functionally and legally separated.
- All staff involved are UMPL Group employees that work for Enerven.
- Retailers appoint their own Metering Coordinators who engage MDPs and MPs.
- UMPL Group holds the metering provider accreditation for Type 1-4 meters. [Enerven does not have its own separate MP accreditation.]
- Interface with AEMO's MSATS is through SA Power Networks' IT systems. Note:
 - It is not cost effective to establish a separate IT system to interface with MSATS for the relatively few meters that Enerven provides to ElectraNet.
 - MSATS information that transfers between AEMO is entered into SA Power Networks' IT system and is handled through that system.
 - SA Power Networks back-office staff are doing a manual work around to ensure that the correct metering information in MSATS goes to/from Enerven.
- Metering technicians are shared staff (see above).
- Cost allocations apply.

Network Innovation Centre

Our Network Innovation Centre (**NIC**) provides regulated network services for the distribution business. The centre was established in response to significant disruptive changes in the electricity industry, and provides a facility in which to trial and test new technologies to benefit the regulated business and customers. These projects and outcomes could also be of interest to third parties in the contestable market (eg Enerven). To specifically address staff sharing in these circumstances and ensure no unfair advantage is conferred on Enerven, we have developed a guide specific for the NIC (**S.6**). We have also provided targeted training and advice throughout the implementation process.

2.6 Branding and cross-promotion

2.6.1 Considerations

We must have independent and separate branding from our affiliates, and not advertise or promote (or cross-advertise or promote) the services of affiliates.

Where affiliates are providing 'other non-electricity services', it is permissible (and efficient) for our staff in question to use uniforms and vehicles that are branded with our logo (rather than that of our affiliate).

2.6.2 Compliance actions

The Branding work stream developed the new Enerven brand. This was governed, in part, by the Ring-fencing Steering Committee, who ensured that the Enerven brand did not resemble the SA Power Networks brand. The new and distinct Enerven brand ensures that it will not be inferred, by a reasonable person, that SA Power Networks and Enerven are related.

Logos

Enerven have two logos available to use.

The Standard logo does not reference Enerven's relationship to SA Power Networks. This logo only contains the Enerven design, and is used for branding associated with the delivery of Other Electricity Services (**OES**).



The Endorsed logo below factually references Enerven's relationship to SA Power Networks. This logo is used for branding associated with the delivery of Other Non-Electricity Services (**ONES**).



An internal Branding Guideline (**BC.1**) and Branding Quick Reference Guide (**BC.2**) were developed and issued to all staff in a corporate communication bulletin, to remind them of their obligations and provide examples of what is and is not allowed. Specific controls are discussed below.

Documentation

Internal documentation including operational forms and corporate directives, policies and procedures are co-branded as they are not marketing material. Any external marketing documentation including tender documents will not be co-branded, unless a supplier is bidding to supply to both SA Power Networks and Enerven in a joint tender. Corporate Services documentation such as Work, Health and Safety policies and procedures may remain SA Power Networks branded.

Call Centre Scripts

Occasionally, our Customer Relations call centre receives customer enquiries for contestable services. New scripts (**BC.3**) for the call centre were developed through workshops and vetted by the Ring-fencing Steering Committee prior to implementation. The scripts ensure that call centre staff who may receive queries about contestable services do not discriminate in favour of Enerven.

Website and social media

A new website was created for Enerven in 2017, and is managed wholly by the Enerven Commercial Team. As part of ring-fencing implementation, the Customer Relations work stream removed any references to the business unit who previously provided contestable services from the SA Power Networks website. It now makes no mention of Enerven in an advertising or promotional manner. The Website Governance Procedure (**BC.4**) implemented and managed by the Customer Relations Department ensures that approved publishers identify content suitability prior to publication on the website.

SA Power Networks has social media pages on Facebook, Twitter and LinkedIn. Any social media posts by SA Power Networks are managed by the Customer Relations, Customer Engagement branch. There is an approvals process in place for any external communications, to ensure that no promotional material for Enerven is posted by SA Power Networks on our social media pages.

Other Branding Controls

There are several branding controls that are used at times where UMPL Group employees are shared between the regulated business and Enerven projects (where allowed under our staff sharing provisions). These include the following:

- Separate Enerven email addresses for individuals, teams or projects. The implementation best suited to the business context is chosen.
- Enerven branded Personal Protective Equipment (PPE) and clothing.
- Enerven branded vehicle magnets are used in two separate scenarios:
 - Where a SA Power Networks vehicle is used (as a shared asset) on an Enerven project; or
 - An Enerven vehicle with the endorsed branding is used (as a shared asset) on a contestable project.
- Where artefacts require a branded stamp and signature to denote acceptance, an Enerven stamp will be used for Enerven projects.

2.7 Office and staff registers

2.7.1 Considerations

We must establish, maintain and keep a register available on our website that identifies the classes of offices to which we have not applied physical separation/co-location obligations; and the nature of the positions (including a description of the roles, functions and duties) of our staff to which we have not applied staff sharing obligations.

2.7.2 Compliance actions

The process to determine appropriate office and staff sharing is described in section 2.5 above.

The registers (**R.1** & **R.2**) are published on our website, and will be reviewed on a quarterly basis and updated in accordance with internal procedures.

2.8 Protection of confidential information

2.8.1 Considerations

We must keep confidential information confidential, and only use it for the purpose for which it was acquired or generated.

2.8.2 Compliance actions

Confidential information, as defined in the Guideline, is protected by SA Power Networks controlling access to IT applications that contain it. Analysis was performed which involved a review of IT applications, and whether they contain confidential information. A list of applications was developed, and for each of those applications, a review of all staff that have access was conducted. This was done with an initial view of high-risk staff, based on the nature of their role within Enerven and the opportunity they have to use confidential information for commercial benefit.

The IT Department has an Application Access Work Instruction (**I.6**) for management of any new access requests to systems with confidential information. This Work Instruction requires approval from the application owner before access will be provided. All business application owners are aware of ring-fencing obligations, specifically in relation to protection of confidential information.

A quarterly review of access to each application containing confidential information has been conducted and verified by IT Management, to ensure the process and controls are being adhered to.

Further procedures are discussed in the following sections, which strengthen controls around protection of confidential information.

2.9 Disclosure of information

2.9.1 Considerations

We must not disclose confidential information to any person including Enerven, unless an exemption applies.

2.9.2 Compliance actions

General controls including staff training and Code of Conduct applicable to all staff, ensure staff are aware of their obligation not to disclose any confidential information to a third party, including Enerven. Specific ring-fencing comments have been added to our Code of Conduct eLearning training module (**G.3**). Additional high-level controls include the Information Classification and Handling Directive (**I.1**), and the Information Security Directive (**I.2**). The Information Classification and Handling Directive ensures that we have a process for classifying information to ensure it is produced, stored, distributed and destroyed in accordance with the risks related to that information. It also defines how information can be shared with external organisations, and what levels of permission need to be obtained prior to disclosing information to an external organisation. In some cases, the type of information shared may need to be included on an information register, published on the SA Power Networks website in accordance with the AER's ring-fencing guideline.

The Ring-fencing Requests for Information Procedure (**I.3**) provides specific direction where third-party requests for confidential information are received. The Information Sharing Guideline (**I.4**) and Information Sharing Quick Reference Guide (**I.5**) provide staff with an overview of obligations and the process that must be followed when requests for information are received from a third party, including Enerven.

Certain exemptions apply to disclosure of information. Those most relevant to us are discussed briefly below. These activities are 'business as usual' and existed prior to release of the Guideline. Confidential information is always treated in accordance with privacy obligations, however we now also consider Enerven as a third party, and treat their requests for confidential information like any other third party.

Customer consent

Our Customer Relations Department receives requests for confidential information, most commonly from the customers themselves. Customer consent is recorded. This often relates to connection of embedded generation systems, or other connections.

Customers also provide their explicit consent for Enerven to provide them with contestable metering services. Where consent is received, the relevant information is obtained and used solely for the purpose requested by the customer to enable Enerven to provide its contestable or other services.

Distribution services

Staff who provide distribution services access confidential information to provide these services. The information is used solely to enable the provision of those distribution services.

2.10 Sharing of information

2.10.1 Considerations

Where we share confidential information with Enerven, or where we disclose confidential information to a legal entity solely for the purposes of research which is then disclosed to Enerven, we must provide access to that information (including the derived information) to other legal entities on an equal basis.

We are only required to provide information to a legal entity if they have requested to be on our information register for that information; and where they are competing or seeking to compete with Enerven in relation to contestable electricity services. Sharing obligations do not apply if we disclose information where an exemption applies.³

We must establish and make available on our website an information sharing protocol, and where we disclose information we must do so on terms and conditions that require the other legal entity to comply with 'protection of confidential information' and 'disclosure of information' obligations.

2.10.2 Compliance actions

As provided above, we do not share information with any legal entity, including Enerven, unless a valid exemption applies.

We have established and published an Information Sharing Protocol (**Protocol**) (**I.8**) which sets out the process for legal entities to follow in respect of being added to our Information Register. The Protocol includes the circumstances required for a valid request, and a link to our information register request web form (**I.9**). The Information Protocol and information register request web form are located on our website, on the Corporate Information page.

We have developed a specific non-disclosure agreement (**I.10**) which we will provide to any third party when we are required to provide confidential information. The agreement includes ring-fencing obligations they must adhere to as part of the disclosure. Confidential information will not be provided without these terms being officially agreed.

2.11 Information register

2.11.1 Considerations

We must establish, maintain and keep a register of all legal entities (including Enerven) who provide contestable electricity services, who request access to confidential information, and must make the register publicly available on our website.

2.11.2 Compliance actions

We have developed an Information Sharing Register (**I.7**) which is published on our website. Our internal Information Sharing Procedure (**I.3**) specifies when and what details we must add information to the register. The process includes regular (daily) checking of our mailbox to ensure

³ AER Ring-fencing Guideline 4.3.3 lists the circumstances where we can disclose information without the need to provide it equally to other legal entities.

information requests are captured. To date, we have received no requests from third parties, including Enerven, to be added to the register.

2.12 Conduct of service providers

2.12.1 Considerations

We must ensure that any new or varied agreement between us and a service provider requires the service provider to not act contrary to the Guideline's requirements. We must also not directly or indirectly encourage or incentivise a service provider to engage in conduct contrary to the Guideline.

2.12.2 Compliance actions

We undertook extensive activities in 2017 and early 2018 to communicate and implement changes required by the Guideline. This included holding a supplier briefing session to provide the top 40 affected suppliers with an overview of ring-fencing and service provider obligations. Following this session, formal contract amendments were issued which included additional clauses required by the 'conduct of other service providers' Guideline provisions⁴. To date, 99 per cent of contract amendments have been accepted (**SP.2**). Purchase orders were also transferred to Enerven where required, and suppliers were notified of this via a letter (**SP.3**).

New supply agreement templates (terms and conditions) were for any new or amended contractual arrangements. The new templates include the obligations required by the Guideline for other service providers. For example, our standard agreement for the supply of services to SA Power Networks (**SP.1**) includes a new section 29 'Ring-fencing compliance'.⁵

A letter (**SP.4**) was issued to all suppliers in early 2018 providing information on our obligations under the Guideline and the role of the Procurement branch as a shared corporate service function to all parts of the SA Power Networks group, including Enerven.

2.13 Waiver register

2.13.1 Considerations

The Guideline allows us to apply for waivers in respect of the legal and functional separation obligations. We must also establish and maintain a register of all waivers that are granted.

We will only apply for waivers in very limited circumstances where the cost of complying with the Guideline is likely to outweigh the benefits.

We have been granted three waivers in respect of the following:

- A temporary generation project we are undertaking on behalf of the South Australian Government.
- Our current Negotiated Distribution Services, all of which will be reclassified as Direct Control Services from 1 July 2020.

⁴ AER Ringfencing Guideline 4.4.1, A DNSP 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: clauses 4.1, 4.2.1, 4.2.2 and 4.3.2 of this Guideline; and clause 4.2.3 of this Guideline in relation to the brands of the DNSP; as if the service provider was the DNSP.

⁵ (a) To the extent that the Ring-Fencing Guideline applies to the provision of any Services or Goods under this Agreement, the Supplier will comply with clauses 4.4, 4.2.1, 4.2.2, 4.3.3 and, in relation to the Supplier's branding, clause 4.2.3 of the Ring-Fencing Guideline as if the reference in such clauses to "DNSP" was a reference to the Supplier.

- Existing construction and maintenance contracts which if transferred to Enerven could incur significant tax liabilities.

2.13.2 Compliance actions

We have developed a register to list waivers granted by the AER, which is published on our website (**W.1**). The register details the Guideline obligations to which the waiver applies, and the terms and conditions of the waiver.

Our Ringfencing Compliance Procedure (**C.1**) lists our current waivers and expiry dates. Part of this Procedure is to review any waiver three months from expiration, and action accordingly. Our existing waivers are also set out below.

Temporary Generation Waiver

In April 2017 we applied for a waiver from legal and functional separation, to enable us, on behalf of the SA Government to design, construct, commission and operate a temporary generation project.

The AER approved our waiver application, and the conditional waiver is not expected to be required beyond the end date of 1 June 2020, as the requirements under the contract with the SA Government conclude by that time.

Negotiated Distribution Services Waiver

In August 2017 we applied for a waiver for our negotiated distribution services (**NDS**) from functional separation obligations, until 30 June 2020. The AER approved our waiver application, as set out in their Decision⁶ in December 2017.

The AER Framework and Approach for SA Power Networks 2015-2020 regulatory period sets out the classification of our current NDS. These services will be reclassified as Direct Control Services for the 2020-2025 regulatory period, from 1 July 2020. Any non-distribution services will not be provided by SA Power Networks beyond the waiver end date. The new Framework and Approach classifications are effective from 1 July 2020. This waiver will not require an extension, and it is intended that Guideline obligations in relation to these services will be complied with from 1 July 2020.

Existing Construction and Maintenance Contracts Waiver

In October 2017 we applied for a waiver for 'other services' (maintenance and construction contracts) from legal separation. This waiver applied to 20 contracts which were not novated from SA Power Networks to Enerven. The waiver was due to expire on 30 September 2018. We were granted a waiver extension for an amended list of 21 'other services' contracts in September 2018. The Waiver Register is updated on the SA Power Networks website.

2.14 Compliance and enforcement

2.14.1 Considerations

To ensure ongoing compliance with the Guideline, we must

- Establish and maintain appropriate internal procedures, noting that the AER may require us to demonstrate the adequacy of these procedures upon reasonable notice;
- Provide annual compliance reports by 31 October each year, accompanied by an independent compliance assessment; and

⁶ AER Decision 'DNSP applications for waivers from the Electricity Distribution Ring-fencing Guideline' December 2017.

- Report material compliance breaches within five business days of becoming aware of a breach.

2.14.2 Compliance actions

Several internal procedures and other documents have been developed to support ring-fencing compliance. These documents are identified and referenced throughout this report, and summarised in Appendix A.

The Ring-fencing Compliance Procedure (**C.1**) provides our internal process for preparing the Annual Compliance Report, and the independent compliance assessment (**C.3**). It includes a timeline for engaging with the independent assessor, through to report completion and submission. This process is managed by the Regulation branch.

Our Breach Management Governance Framework (**B.1**) ensures that breaches reported to Regulation Branch are appropriately considered and managed. Staff must report any potential breach of the Guideline as soon as they become aware. The Breach Reporting Quick Reference Guide (**B.2**) provides all staff with guidance including what they must do and specific contact details for Regulation staff who can advise further action as required. Material breaches will be reported to the AER within the required timeframe, and all breaches are reported in the Annual Compliance Report.

2.15 Transitional arrangements

2.15.1 Considerations

We were required to comply with the Guideline for any existing services as soon as reasonably practicable, and fully comply with obligations by no later than 1 January 2018.

2.15.2 Compliance actions

As set out above, an implementation program was established to ensure compliance with the Guideline by no later than 1 January 2018.

Many activities were achieved and controls implemented before 1 January 2018, and we complied in full by 1 January 2018. We continue to refine our processes and procedures where opportunities for improvements arise.

Examples of controls implemented by 1 January 2018 include:

- Established Enerven as a legally separate affiliate to provide other services;
- Developed the Enerven brand: separate and distinct from the SA Power Networks brand;
- Analysis of lines of business to determine services provided by Enerven;
- Removed promotional references to the contestable services branch (CaMS, now Enerven) from the SA Power Networks website;
- Established mechanisms in our enterprise system (SAP) to correctly allocate (and report on) costs between regulated and unregulated businesses;
- Established staff and office sharing registers following detailed staff and location analysis, which were published on our website in December 2017;
- Established the waiver register including all approved waivers, and published on our website in December 2017;
- Removed staff access to certain IT systems;

- Developed and published our Information Sharing Protocol, and our information request web form;
- Business-wide roll out of ring-fencing training to all staff; and
- Review and update of key Directives to include ring-fencing obligations.

3. Breaches of the Guideline

3.1 Additional information on breaches

We have used the materiality considerations provided in the AER's Ring-fencing Guideline Compliance Reporting Best Practice Manual to evaluate any identified breaches. The following provides details on three breaches (two immaterial) identified in the period from 1 January 2018 to 30 June 2018.

3.1.1 Material breaches

We identified one material breach which has been reported to the AER.

Other services contracts

When undertaking a review of our existing waiver for other services contracts, five contracts were identified by Enerven that were not on our initial waiver. These five contracts were reported to the AER as a material breach at their request, on 26 September 2018. While this breach was not discovered until after the 2017/18 regulatory year end, we have included it in this Annual Report as the contractual arrangements to which the breach relates were in place from 1 January 2018.

Legal separation (3.1(b)) was not applied to five contracts prior to 1 January 2018. We applied for a waiver (initial waiver) for Other Services contracts in October 2017, which was approved by the AER. Five contracts were not included on the initial waiver, and therefore SA Power Networks remained the party to these contracts for other services, without a waiver being in place. We subsequently applied to the AER on our waiver extension for other services contracts to include four of these additional contracts, which was approved. They are now part of the waiver for other services contracts until they conclude. The waiver section of this report provides some further detail on waiver conditions. The fifth contract is being transferred to Enerven.

Enerven now have controls in place to ensure contracts are appropriately recorded and managed. All new contracts for Other Services are executed by Enerven.

3.1.2 Immaterial breaches

There were two immaterial breaches identified between 1 January 2018 and 30 June 2018. These are discussed below. Our independent assessment of compliance raised three exceptions. One of these is the material breach concerning other services contracts discussed above. The other two are further discussed in Attachment 3.

Overheads

Due to an implementation oversight, material on-costs were not applied to Enerven material sales in January 2018. Material on-costs were correctly applied for stock materials booked directly to Enerven orders, but not for stock materials acquired for on-sale to customers. The amount of material on-cost not applied to these material sales was approximately \$23,400.

The oversight was detected and corrected within a small timeframe. The breach was discovered in February following a check to ensure the required change was implemented. The mechanism to ensure overheads are correctly charged is configured in our enterprise-wide SAP system, and once set does not need to be adjusted. In this instance, SAP was not updated to reflect the required change to overheads in time.

SAP has been adjusted to ensure on-costs for material sales are applied correctly to Enerven material sales from February.

Provision of Other Services – High Voltage Test Van (HV Test Van)

A team within our regulated business provided other services on behalf of the contestable business. Over time prior to the Ring-fencing Guideline, this team became known to a select number of third parties. These third parties would at times contact the team directly to engage their services. The services provided are high voltage test services, where underground cable faults are located and tested.

Under staff sharing exemptions, these staff are permitted to be shared to deliver this service, but the regulated business cannot offer the service or represent themselves as SA Power Networks. In this instance, the shared staff that provide the high voltage test services, did so after the customer engaged them directly. While functional separation was not applied for delivery of the service, legal separation including cost allocation was applied. The staff allocated their time correctly to Enerven, and Enerven invoiced the customer and received the revenue for the service provided. Therefore, there was no cross subsidy of other services. The value of the work was \$3,666.

This team has been trained on the provision of other services, and controls have been implemented to ensure functional separation, which include:

- Referring any requests for contestable services to ‘contestable service providers’ (a standard script has been developed and provided to the team)
- If being used as shared staff for contestable work, no SA Power Networks branding is used on vehicles or clothing
- Any communications once work is assigned will be from an Enerven-branded email.

4. Other services provided by the DNSP

SA Power Networks is not permitted to provide ‘other services’, as defined by the Guideline.

In one instance, we were listed as an Accredited Service Provider on a NSW Government website, however this was an oversight and no ‘other services’ were provided by SA Power Networks. The issue has been rectified. It has not been recorded as a breach, as no other services were provided.

The waiver for other services contracts allows SA Power Networks to legally provide 21 other services contracts.

5. Transactions between the DNSP and affiliated entities

For the period 1 January 2018 to 30 June 2018, SA Power Networks has contracted one of its affiliated entities, Enerven Energy Infrastructure Pty Ltd (Enerven), to perform various capital and operating works for its distribution network business. Services have been completed either in accordance with applicable works or service agreements between SA Power Networks and Enerven.

Transactions between Enerven and SA Power Networks are captured against individual capital and operating job/work orders in SAP, SA Power Networks' integrated business management system. These job/work orders capture costs for distinct items of work which, for example, may be job specific or program specific.

Job/work orders are assigned an SA Power Networks' functional area when created in SAP. They are assigned to one functional area only. Functional areas are the link to identify regulatory costs as they measure the costs of different lines of business for each of SA Power Networks' distribution service types.

Specific General Ledger accounts in SAP enable the reporting of individual job/work orders (transactions) generated and charged by Enerven Energy Infrastructure Pty Ltd to SA Power Networks grouped by functional area. The table at confidential Appendix 1 summarises the outputs of this report.

6. Attachments

Attachment 1: CONFID Transactions between the DNSP and affiliated entities

Attachment 2a: CONFID Deloitte Independent Assessment Report

Attachment 2b: PUBLIC Deloitte Independent Assessment Report

Attachment 3: CONFID Exception (breach) further information

Attachment 4: Confidentiality Claim

7. Appendix A – Key SA Power Networks Ring-fencing compliance documents

Document Reference	Document Name (these are all internal SAPN documents, unless otherwise stated)	Purpose/Description
GENERAL		
G.1	Ringfencing Training Module (eLearn), including Depot visits (New)	Provides all staff (SAPN and Enerven) with an overview of ringfencing and associated obligations. The training is mandatory for existing and new staff. (Across all staff the eLearn module is 99.7% complete.)
G.2	Other training activities (Leaders presentations; Bulletin releases (QRGs); specific guidance to individual areas to address concerns / questions) (New)	Provides further guidance to staff and managers.
G.3	Code of Conduct (and Code of Conduct eLearn training) (Updated)	Provides all staff with examples of the standards of behaviour expected of them. Includes a section on confidentiality and the proper handling of information.
G.4	Ringfencing Corporate Compliance Directive (New)	Contains information relating to the responsibilities of all staff and contractors to appropriately adhere to the AER Ringfencing Guideline.
LEGAL SEPARATION		
L.1	Registration and Licensing of SA Power Networks (Existing)	SA Power Networks is licensed as a Distribution Network Service Provider. The license can be viewed on the ESCoSA website .
ESTABLISH AND MAINTAIN ACCOUNTS		
F.1	Consolidated Finance Blueprint (Updated)	Documents financial processes incorporating changes required to comply with the Ringfencing Guideline.
F.2	Cost Allocation Method (CAM) (Updated)	Sets out the Cost Allocation Method adopted in SA Power Networks Regulatory reporting. The CAM was updated to incorporate changes required by ringfencing and published on the SAPN website.
F.3	Provision of Inter-Company Labour Services (New)	Defines the accounting treatment for labour services provided between SA Power Networks' entities, including those provided to Enerven by employees that normally undertake regulated work.

Document Reference	Document Name (these are all internal SAPN documents, unless otherwise stated)	Purpose/Description
F.4	Work Order Quick Reference Guide (New)	Provides guidance to staff on how to accurately allocate their time in a range of scenarios.
F.5	INTENTIONALLY LEFT BLANK	
F.6	AER Shared Asset Guideline (Existing)	Provides the rules and mechanism for shared assets.
F.7	SAPN – Enerven/Enerven - SAPN Service Agreements (New)	Formal service agreements for supply of services between SAPN and Enerven/Enerven and SAPN.
F.8	Shared Assets Quick Reference Guide (New)	Provides staff with scenarios where sharing of assets is allowed under ringfencing (and the Shared Asset Guideline).
OBLIGATION TO NOT DISCRIMINATE		
D.1	Enerven Engagement Guidelines (New)	Provides information and advice on how to engage with Enerven when procuring goods and/or services on behalf of SA Power Networks' regulated business.
D.2	Procurement Directive (Existing)	Promotes procurement practices that (among other things) maintain ethical conduct with consideration to probity and accountability.
D.3	Strategic Sourcing Framework (Existing)	Provides guidance and structure for undertaking sourcing activities.
PHYSICAL SEPARATION/CO-LOCATION		
O.1	Office Sharing Guideline (New)	General guideline to assist staff to understand their responsibilities regarding the sharing of locations/offices between SA Power Networks and Enerven.
O.2	Office Sharing Quick Reference Guide (New)	A quick reference guide to assist staff to understand their responsibilities regarding the sharing of office locations between SA Power Networks and Enerven.
O.3/S.5	Office/Location Sharing Analysis (New)	Data extracted from enterprise system SAP to determine and analyse locations and where they are shared.
STAFF SHARING		
S.1	Ring-fencing Staff Movement Directive (New)	Provides direction for scenarios relating to staff moving between the regulated business and the unregulated parts of the business

Document Reference	Document Name (these are all internal SAPN documents, unless otherwise stated)	Purpose/Description
		providing contestable electricity services, including Enerven, either on a seconded or permanent basis. It also contains information relating to the responsibilities of all SAPN staff and contractors (eg supplementary labour) to appropriately protect the information they use and manage as part of their roles whenever they move between these entities.
S.2	Staff Sharing Guideline (New)	General guideline to assist staff to understand their responsibilities regarding the sharing of staff between SA Power Networks and Enerven.
S.3	Staff Sharing Quick Reference Guide (New)	A quick reference guide to assist staff to understand their responsibilities regarding the sharing of staff between SA Power Networks and Enerven.
S.4	HR Secondment Checklist (Updated)	
O.3/S.5	Staff Sharing Analysis (New)	Data extracted from enterprise system SAP to determine and analyse staff positions and where they are shared.
S.6	Network Innovation Centre (NIC) Quick Reference Guide	
BRANDING AND CROSS-PROMOTION		
BC.1	Branding Guideline (New)	General guideline to assist staff to understand obligations in relation to branding, advertising, and promotion/ cross-promotion.
BC.2	Branding Quick Reference Guide (New)	A reference for staff which provides examples and case studies in relation to branding, advertising and promotion/cross-promotion.
BC.3	Customer Relations Call Centre Scripts (New)	Provides call centre staff with standard scripts for two scenarios: <ol style="list-style-type: none"> 1. When the call centre provide an overflow function for Enerven; and 2. When customers call to enquire about contestable services.
BC.4	Website Governance procedure (New)	

Document Reference	Document Name (these are all internal SAPN documents, unless otherwise stated)	Purpose/Description
OFFICE AND STAFF REGISTERS		
R.1	Staff Sharing Register (New)	Provides the nature of the positions (including a description of the roles, functions and duties) of our staff to which we have not applied staff sharing obligations due to a valid exemption.
R.2	Office Sharing Register (New)	Provides the classes of offices to which we have not applied physical separation/co-location obligations due to a valid exemption.
INFORMATION ACCESS & DISCLOSURE		
I.1	Information Classification and Handling Directive (Updated)	The purpose of this directive is to ensure that we have a process for classifying information to ensure it is produced, stored, distributed and destroyed in accordance with the risks related to that information. It also defines how information can be shared with external organisations, and what levels of permission need to be obtained prior to disclosing information to an external organisation. In some cases, the type of information shared may need to be included on an information register, published on the SA Power Networks website in accordance with the AER's ring-fencing guideline.
I.2	Information Security Directive (Updated)	Contains information relating to the responsibilities of all SA Power Networks employees and contractors and other third parties to appropriately protect the information they use and manage as part of their daily roles, and applies to information in electronic format.
I.3	Requests for Information Procedure (New)	To guide SA Power Networks Group personnel employed by Utilities Management and working in the regulated business, including contractors, in the provision of confidential electricity information to requestors external to SA Power Networks. This includes requests from affiliates (ie Enerven).
I.4	Information Sharing Guideline (New)	General guidelines to assist staff in understanding responsibilities regarding the sharing of information between SA Power Networks and other entities, including our affiliate (ie Enerven).

Document Reference	Document Name (these are all internal SAPN documents, unless otherwise stated)	Purpose/Description
I.5	Information Sharing Quick Reference Guide (New)	A quick reference guide for all staff to assist in identifying information sharing obligations, exemptions, and process requirements.
I.6	IT Application Access Work Instruction (New)	Provides IT Service Desk staff and application owners the process to follow where staff working primarily for Enerven request access to a system containing confidential information.
I.7	Information Sharing Register (New)	The register is currently blank, but will be used to record requests to be added to the register as required.
I.8	Information Sharing Protocol (New)	The protocol outlines the circumstances under which an entity can request to be added to the Information Sharing Register, and the process for submitting a request.
I.9	Information Sharing Web form (New)	A form to enable third parties to submit a request to be added to our Information Register. The form is available on our website .
I.10	Information Sharing Terms and Conditions (Confidentiality agreement) (New)	A specific confidentiality agreement for ring-fencing. Where we share confidential information with a third party, they must agree to these terms prior to the information being provided.
SERVICE PROVIDERS		
SP.1	Standard Terms and Conditions (Updated)	The terms and conditions issued for varied or new agreements now include the ringfencing provisions that service providers must comply with.
SP.2	Supplier Contract Amendment Letter (New)	Provides existing suppliers with information about ringfencing and their obligations, along with resultant amendments to their contract.
SP.3	PO Transfer Notification Letter (New)	Provides existing suppliers with information about ringfencing and their obligations, along with resultant amendments to their purchase order/s.
SP.4	SA Power Networks' Relationship to Enerven communication (New)	Provided suppliers information on our requirements under the Ring-fencing Guideline, and the role of the Procurement team as a shared service function to all parts of the SA Power Networks group (including Enerven).

Document Reference	Document Name (these are all internal SAPN documents, unless otherwise stated)	Purpose/Description
WAIVERS		
W.1	Waiver Register (New)	A register of waivers approved by the AER which is published on the SAPN website.
COMPLIANCE AND ENFORCEMENT		
C.1	Regulation Ringfencing Compliance Procedure (New)	Provides the ringfencing procedures managed by the Regulation branch, including breach reporting, annual compliance reporting, updating of registers, and internal quarterly reporting.
C.2	Regulation Ringfencing Quarterly Internal Compliance Questionnaire (New)	Confirms obligations with General Managers and Level 3 Managers and checks for compliance and appropriate controls.
C.3	Annual Compliance Report and Independent Assessment (New)	As required by Guideline section 6.2.
B.1	Breach Management Governance Framework (New)	Provides the framework for breach reporting, including treatment of material breaches and the involvement of the Breach Management Committee.
B.2	Breach Reporting Quick Reference Guide (New)	Guides staff on the breach reporting process and highlights the importance of reporting any potential breach.