

**CitiPower and Powercor
Ring Fencing Compliance
Report
April 2018**

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1 Overview

1.1 Background

On 30 November 2016 the Australian Energy Regulator (**AER**) released its Electricity Distribution Ring Fencing Guideline (**guideline**) as made under clause 6.17.2 of the National Electricity Rules. The guideline commenced on 1 December 2016 and incorporates amendments made from time to time as required. A transitional period of 12 months was granted with full compliance expected by 1 January 2018.

The guideline is binding on distributors and seeks to prevent them from providing their affiliates, operating in unregulated markets, from having an unfair advantage. The guideline includes provisions in the following three broad areas:

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

1.2 Purpose

This Annual Ring Fencing Compliance Report (**report**) has been prepared by CitiPower Pty Ltd (ACN 064 651 056) and Powercor Australia Ltd (ACN 064 651 109) (**CitiPower, Powercor, we, us, our**) and is provided to the AER in accordance with clause 6.2.1(a) of the guideline.

This report has been prepared by CitiPower and Powercor for the 2017 regulatory year. This report identifies and describes:

- an explanation of the services currently provided
- the measures taken to ensure compliance with the obligations set out in the guideline
- breaches of the guideline
- a description of transactions between CitiPower, Powercor and its affiliates

We have implemented a compliance program during the relevant period that ensures:

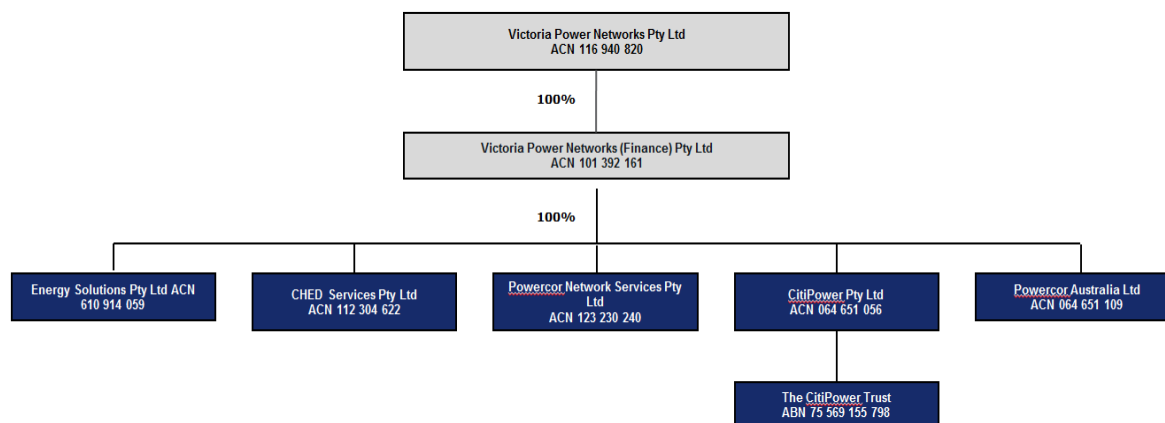
- appropriate internal procedures have been established and maintained to ensure compliance with the obligations in the guideline
- Executive Management is made aware of material breaches of the obligations
- remedial action is taken as soon as possible to rectify breaches of the obligations and completion of actions is reported to Executive Management
- the compliance program is reviewed regularly and as necessary.

We are not aware of any material breach of the obligations outlined in the guideline other than as detailed in this report.

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

1.3 Corporate overview

The figure below presents our corporate structure.



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

Other affiliated entities within our corporate structure include:

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

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

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

1.4 Independent assessment

Accompanying this report is an independent Assurance Report issued by Deloitte Touche Tohmatsu (**Deloitte**). This assessment is provided in Annexure A.

The assessment has been prepared in accordance with Australian Standards on Assurance Engagements ASAE 3100 Compliance Engagements issued by the Australian Auditing and Assurance Standards Board.

1.5 Definitions

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

1.6 Contact details

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

Brent Cleeve

Head of Regulation, CitiPower Powercor and United Energy

40 Market Street, Melbourne VIC 3000

Ph. (03) 9683 4465

2 Our understanding and approach

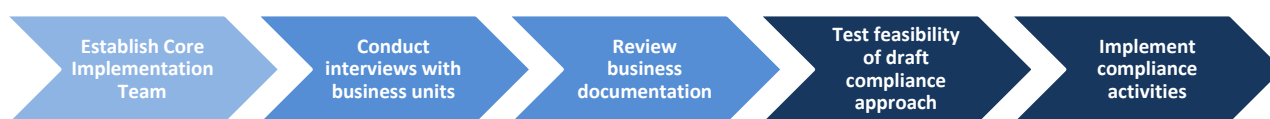
2.1 Our understanding of the guideline's operation

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

2.2 Our approach for the 2017 transitional year

In recognition that compliance cannot be achieved immediately, the guideline made allowance for 2017 to be a transitional year. Under this transition, distributors must become fully compliant as soon as reasonably practicable and by no later than 1 January 2018. This is the year subject to this report.

We developed a five step approach to ensure compliance as soon as practicable, as illustrated below.



In January 2017 we established a core team to implement the guideline. The team conducted extensive interviews with representatives from across our business to identify the risk of non-compliance based on each business unit's functions. The team then reviewed business documentation to identify additional potential issues, which included reviewing:

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

From these reviews, we developed a draft implementation approach consisting of actions to mitigate the risk of non-compliance. The team then re-consulted with each business unit around the feasibility of the proposed actions. These actions were then implemented throughout 2017.

The meetings conducted within the business also promoted ring fencing compliance. During the meetings, the team has explained and clarified the ring fencing obligations to each business unit and promoted general guideline awareness.

2.3 Deloitte's approach

For this transitional year, compliance was assessed at a point time, being 31 December 2017. Deloitte's preparation for the limited assurance compliance engagement began in 2017. The engagement was conducted over a five week period in 2018, with Deloitte based on site at our offices.

The scope of Deloitte's engagement included:

- reviewed the detailed project plan prepared and executed by management to confirm that it has been prepared in accordance with the compliance obligations
- interviewed key staff members responsible for legal, accounting and operational activities
- understood the process for identifying and reporting breaches of the guideline
- examined, on a test basis, the key controls that exist and the evidence supporting compliance

- reviewed the compliance report prepared by management and confirm that the report has been prepared in accordance with the ring fencing guideline.

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

3 Our compliance measures

3.1 Introduction

We have used a broad range of measures to achieve guideline compliance.

The extent of the measures reflects our key potential risk points where we have identified that there may be a higher chance of non-compliance due to the nature of the work and involvement with an affiliate. During the 2017 regulatory year we identified the following areas of higher potential risk:

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

In addition to the specific ring fencing compliance measures discussed below, there are a number of existing controls and incentives to comply with ring fencing principles. For example:

- consistent with the fundamental basis of incentive based regulation, our business practice is to select service providers on the basis of efficient service provision, or 'best value for money'. The regulatory framework already requires and incentivises this
- our statutory and regulatory financial statements are audited annually
- calls to the contact centre are monitored
- IT user accesses are reviewed periodically

Existing controls are also discussed in our compliance strategy.

We also recognise to achieve robust and lasting ring fencing compliance, it is imperative that it becomes embedded within our culture.

Staff from around the business are sending ring fencing queries to the Compliance Team and have been arranging meetings with the implementation team to test current and proposed actions against the guideline.

3.2 Legal separation and service provided

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

CitiPower and Powercor are stand-alone electricity distribution network service providers that only provide distribution services within our licensed distribution service area. Set out below are the categories of distribution services we provided during 2017, these are consistent with the Victorian electricity distribution network service provider's final determination 2016–2020:

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

We provided these distributed services to:

- electricity retailers
- end-use customers

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

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

3.2.1 Separate accounts

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

During the 2017 regulatory year we maintained a separate set of accounts for our business that are separate to our affiliate's accounts. Our 31 December 2017 accounts were subject to an annual statutory accounts audit and our internal accounting procedures which will be provided to the AER through the annual Regulatory Information Notice (**RIN**) responses in April 2018.

3.2.2 Cost allocation

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

During the 2017 regulatory year we have ensured that costs for distribution services have been allocated in accordance with the Cost Allocation Principles. Our Cost Allocation Methodology (**CAM**) is also the basis of our annual audit during the RIN process, the results of which will be provided to the AER in April 2018.

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

Our integrated business management system (**SAP**) is used to collect and report on costs and revenues. The Chart of Accounts classifies all costs and revenues by General Ledger account numbers which map to reporting categories on the balance sheet and profit and loss statement. Each cost or revenue transaction is also assigned to a profit centre. Each cost item is assigned to a function code and in some cases an activity type. The records maintained in the SAP system, the processes for inputting records into the SAP system and corporate service break down of fees can be reviewed. The basis of directly attributing costs in accordance with the CAM can therefore be readily verified by an independent third party and the outcome can be replicated.

The implementation team conducted meetings and made the Head of Financial Control aware of the ring fencing obligations. Additionally, as discussed below, a comprehensive training program was made available to staff from the Finance team in August and September 2017 which included a particular focus on the requirement for separate accounts and worked examples on the cross subsidisation principle.

3.3 Staff training

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

Face-to-face training was provided to 420 staff members over 49 sessions. The teams trained included:

- Finance

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

The training covered the following topics and ring fencing clauses:

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

In addition to the abovementioned training, field crews received a simplified version of the training. The implementation team identified these staff had a low risk of breaching the guideline due to their role and their limited awareness of the contestable service providers. The message to field crews was that they must not mention or discuss the contestable service providers with customers.

The development of online refresher training is being finalised. Employees will be required to complete the refresher on an annual basis. New employees to the business are required to complete online training at induction.

3.4 IT system controls

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

Below is a list of systems to which the contestable service provider's staff access was removed or restricted (from any confidential information within the system):

- Click

- GIS Access
- IEE
- OMS Access
- Map insights
- Salesforce (non-user account)
- SAP HANA
- TrendSCADA
- ZSS
- SAP
- UIQ
- MTS
- CIS-OV

Ongoing system access will be monitored via a two-staged approval process. The first of which involves approval of system access by direct managers when on-boarding staff. A six-monthly review is then conducted by IT system owners to ensure that accesses to the various systems are appropriate. In conjunction with this approval process, Human Resources have an established process to remove system access when staff exit the business. This captures staff moving to external businesses and those moving to affiliate businesses.

As a further measure, Human Resources have developed a monthly report which is sent to the Compliance Team and lists staff who have transferred to the contestable service provider. Upon receipt, the Compliance Team request a review of system accesses by IT Security to ensure that accesses are appropriate and comply with the guideline. Any discrepancies will be rectified immediately.

3.5 Building access controls

In 2017, the contestable service provider moved to a separate office location from the distribution business. Building accesses for these staff was restricted via deactivating access rights to restricted areas of the CitiPower and Powercor offices from their security passes.

Monthly reports have been developed by the Facilities team to demonstrate staff building access at a point in time. This report is validated by the compliance officer to ensure the accesses for the contestable service providers' staff remain restricted as appropriate for compliance with the guideline. Any discrepancies are raised and rectified with Facilities.

3.6 Staff role changes

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

Following this staff assessment staff roles and position descriptions were reviewed and amended. The staff sharing arrangements and position descriptions are scheduled to be reviewed on an annual basis by the Compliance Team.

We note most staff that undertake work only for the contestable service provider hold an employment agreement with CitiPower or Powercor. They are seconded to the contestable service provider. This is a legacy from when the contestable service provider was integrated with the distributor. The cost of these staff are paid for by the contestable service provider, these staff are not located in our offices and are not shared with us. Therefore this arrangement does not give rise to issues of cross subsidies, sharing confidential information or misalignment of incentives (i.e. staff undertaking work for us are not incentivised to promote the contestable service provider).

3.7 Promotional material review

During the 2017 regulatory period all of our affiliates had distinct branding with the exception of Powercor Network Services which is the subject of a waiver.

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

3.7.1 Website

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

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

3.7.2 Materials and equipment

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

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

3.8 Registers

The guideline permits distributors to apply for waivers on specified obligations set out in the guideline.

We sought three waivers in respect to:

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

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

Each of these waivers is maintained and kept in a register (including variations) in accordance with the guideline and are publically available on our websites - <https://www.powercor.com.au/about-us/electricity-networks/codes-and-guidelines/> and <https://citipower.com.au/about-us/electricity-networks/codes-and-guidelines/>.

A description of all shared roles has been recorded in our Staff Register which is published on our websites at <https://citipower.com.au/about-us/electricity-networks/codes-and-guidelines/> and <https://www.powercor.com.au/about-us/electricity-networks/codes-and-guidelines/>.

An information sharing protocol was developed during the period which set out the procedures to be followed when information is to be made available to third party entities. The protocol has been published on each respective website and is subject to annual review by the Compliance Team. The protocol can be found here - <https://www.powercor.com.au/about-us/electricity-networks/codes-and-guidelines/> and <https://citipower.com.au/about-us/electricity-networks/codes-and-guidelines/>.

3.9 Conduct of service providers

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

New and varied contracts that do not use standard terms and conditions will be subject to review by Legal for compliance.

4 Complaints and breach reporting

4.1 Complaints

We have not received and are not aware of receiving any complaint from the AER during the 2017 regulatory year.

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

4.2 Non-material breaches

Obligation	Date	Details	Remedy	Materiality assessment
Cross promotion	October 2017	Issue: Contact Centre referred a regulated generation enquiry to Beon <ul style="list-style-type: none"> The enquiry was referred to the legacy email address: energysolutions@powercor.com.au that linked to Beon staff Due to the @powercor domain, the implementation team had not identified this email address during its first review of contact centre scripts 	<ul style="list-style-type: none"> De-activated the email address Undertook a further review of contact centre scripts Took the opportunity to re-affirm the ring fencing training by providing all Contact Centre staff with a fact sheet reminding them to not mention Beon Powercor and Beon determined that Beon would not act on any knowledge obtained about the generator proponent The enquirer was referred to the correct Powercor staff member and an apology was made. 	Non-material: No market harm
Staff location	October 2017 - April 2018	Issue: 18 Beon staff retained building access <ul style="list-style-type: none"> Due to unexpected building security system operation, Beon staff retained access to certain allowable areas of the distributors' office, such as the carpark, retained full building access 	<ul style="list-style-type: none"> Corrected building accesses for these staff 	Non-material: No market harm
Confidential information	2017	Issue: 33 Beon staff have access to a number of CitiPower and Powercor IT systems. This was due to unexpected IT validation processes meaning Beon staff retained access to certain IT systems which contain confidential electricity information.	<ul style="list-style-type: none"> Correct system accesses for these staff 	Non-material: No market harm

Obligation	Date	Details	Remedy	Materiality assessment
Separate accounts	2017	<p>Issue: A Beon related project was reported in Powercor's statutory accounts</p> <ul style="list-style-type: none"> The project was not included in Powercor's regulatory accounts i.e. the project costs were not recovered by Powercor and no cross subsidy occurred 	<ul style="list-style-type: none"> Finance was reminded that their obligations for separate accounting appear to extend to statutory accounts as well as regulatory accounts 	Non-material: No market harm
Separate accounts	2017	<p>Issue: Beon staff related expenses were reported in Powercor's statutory accounts</p> <p>The expenses were not included in Powercor's regulatory accounts i.e. the expenses were not recovered by Powercor and no cross subsidy occurred</p>	<ul style="list-style-type: none"> Finance was reminded that their obligations for separate accounting appear to extend to statutory accounts as well as regulatory accounts 	Non-material: No market harm

4.3 Material breaches

We are not aware of and have not been made aware of any material breach of our obligations under the guideline during the 2017 regulatory year.

We will, pursuant to our obligations under the guideline and under the National Electricity Law and Rules, notify the AER immediately upon becoming aware of a material breach or potential material breach of our obligations under the National Electricity Law and Rules.

Independent Assurance Report to the Directors of CitiPower Pty Ltd and Powercor Australia Ltd

Conclusion

We have undertaken a limited assurance engagement relating to the Annual Ring Fencing Compliance Report (the "Compliance Report") of CitiPower Pty Ltd ("CitiPower") and Powercor Australia Ltd ("Powercor") as outlined in Section 6.1 of the Electricity Distribution Ring Fencing Guideline issued under clause 6.17.2 of the National Electricity Rules dated 30 November 2016 (the "Notice") as at 31 December 2017. The Compliance Report will accompany our assurance report, for the purpose of reporting to the Australian Energy Regulator (the "AER").

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that CitiPower Pty Ltd and Powercor Australia Ltd's Compliance Report does not present fairly, in all material respects, compliance with the Notice ("requirements") as evaluated against the requirements of clause 6.2.1 of the Notice ("suitable criteria") as at 31 December 2017.

Basis for Conclusion

We conducted our engagement in accordance with Standard on Assurance Engagements ASAE 3100 Compliance Engagements 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 conclusion.

Management's Responsibility for the Report

Management is responsible for:

- Ensuring that the Compliance Report is prepared in accordance with the provisions of the Notice.
- Confirming the measurement or evaluation of the underlying subject matter against the applicable criteria, including that all relevant matters are reflected in the subject matter information;
- Determining that the Compliance Report is appropriate to meet the needs of the directors and the reporting requirements of the Australian Energy Regulator ("AER").
- Designing, establishing and maintaining internal controls to ensure that the Compliance Report is prepared in accordance with the provisions of the Notice.

Assurance Practitioner's 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 Responsibility

Our responsibility is to express a conclusion on whether CitiPower and Powercor's Compliance Report presents fairly, in all material respects, compliance with the requirements as evaluated against the suitable criteria as at 31 December 2017. ASAE 3100 requires that we plan and perform our procedures to obtain limited assurance about whether anything has come to our attention that causes us to believe that CitiPower and Powercor Australia's Compliance Report does not present fairly compliance with the requirements as evaluated against the suitable criteria as at 31 December 2017.

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

Inherent Limitations

Because of the inherent limitations of an assurance engagement, together with the internal control structure it is possible that fraud, error, or non-compliance with compliance requirements may occur and not be detected. A limited assurance engagement as at 31 December 2017 does not provide assurance on whether compliance with the requirements will continue in the future.

Limitations of use

This report is made solely to directors of CitiPower and Powercor and the AER in accordance with our engagement letter dated 5 April 2018, for the purpose of assisting CitiPower and Powercor meet the reporting requirements of the AER. We disclaim any assumption of responsibility for any reliance on this report to any person other than the directors of CitiPower and Powercor and the AER or for any purpose other than that for which it was prepared.

We understand that the AER may publish a copy of our report on their website. We accept no responsibility to any person or entity, apart from CitiPower and Powercor, 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 CitiPower and Powercor for our work, for this report, or for any reliance which may be placed on this report by any party other than CitiPower and Powercor.

DELOITTE TOUCHE TOHMATSU
DELOITTE TOUCHE TOHMATSU



Samuel Vorwerg
Partner
Melbourne, 27 April 2018