



**CitiPower and Powercor
Australian Energy Regulator**

Ring-Fencing Guideline

Compliance Report

30 April 2019

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1. Background

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

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

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

2. Summary of Findings

2.1. Overview

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

No.	Description of Issue	Recommendation	Rating	Guideline section	Guideline obligation
1.	<p><u>Change in domain user names for Beon employees</u></p> <p>The ring fencing guideline requires that Powercor/CitiPower must use branding for its direct control services that is separate from the branding used by a related electricity service provider for contestable electricity services.</p> <ul style="list-style-type: none"> • There was a delay in IT change requests relating to domain usernames for Beon Energy Services ("Beon") employees. (Beon is an affiliate of the DSNP's that provides contestable electricity services). We identified 8 employees transferred from Powercor to Beon as at 31 December 2017 had Powercor domain usernames. • We were unable to obtain evidence of when the change was implemented by IT. However we note on the date of our audit procedures for the 31 December 2017 engagement (6 April 2018), 4 Beon staff had Powercor domain names. <p>An immaterial breach has been recognised in the CitiPower/ Powercor Ring fencing Compliance Report for the year ended 31 December 2018.</p>	No recommendation as this issue was resolved as at 31 December 2018.	Exception	4.2.3(a)	Offices, staff, branding and promotions
2.	<p><u>Physical Restriction of Beon staff</u></p> <p>The ring fencing guideline requires that Powercor/CitiPower must use offices that are separate from any offices from which a related electricity service provider provides contestable electricity services.</p>	No recommendation as this issue was resolved as at 31 December 2018.	Exception	4.2.1(a)	Offices, staff, branding and promotions

No.	Description of Issue	Recommendation	Rating	Guideline section	Guideline obligation
	<p>Beon staff are separated from the Powercor/CitiPower offices and are restricted from accessing a number of floors in the Market Street offices. The access was restricted for Beon staff in October 2017.</p> <p>Based on testing performed in April 2018 (as part of the 31 December 2017 engagement):</p> <ul style="list-style-type: none"> • 5 Beon employees were identified as having access to restricted floors at Market Street due to IT inheritance restrictions within the Gallagher system associated to their fibre room access. This was identified by IT staff on 21 February 2018 and rectified on 3 April 2018. • 13 Beon employees were identified that had access to restricted floors at Market Street due to IT inheritance restrictions within the Gallagher system associated to their carpark access. This was identified and rectified on 3 April 2018. <p>We performed further audit procedures in November 2018 and noted the issue has now been rectified and management had implemented monthly monitoring control of physical access to market street.</p> <p>An immaterial breach has been recognised in the CitiPower/ Powercor Ring fencing Compliance Report for the year ended 31 December 2018.</p>				
3.	<p><u>Separation of Beon projects</u></p> <p>The ring fencing regulation requires that Powercor/CitiPower maintain separate accounts from its affiliates that provide contestable works.</p> <p>As reported at 31 December 2017, there was one Beon project which was recorded in the statutory financial statements of Powercor. We understand that the contract was negotiated with Powercor as a result of Queensland building license requirements. This project was only finalised in 2018, and immaterial revenue amount was also recorded in the year ended 31 December 2018, as the project concluded.</p>	<p>No recommendation required, this was a transitional issue and the project has now been finalised.</p>	Exception	3.2.1 (a) 3.1 (b)	<p>Separate Accounts</p> <p>Legal Separation</p>

No.	Description of Issue	Recommendation	Rating	Guideline section	Guideline obligation
	<p>The recognition of this project in the accounts of Powercor is considered to be a breach of the requirement to maintain separate accounts.</p> <p>Through work performed in the current year we note the issue has now been rectified.</p> <p>An immaterial breach has been recognised in the CitiPower/ Powercor Ring fencing Compliance Report for the year ended 31 December 2018.</p>				
4.	<p><u>IT restrictions:</u></p> <p>We tested Beon employee access to various IT systems that contain confidential information in November 2018, noting the following IT accesses:</p> <ul style="list-style-type: none"> • 1 Beon staff has access to UIQ • 2 Beon staff has access to CIS • 3 Beon staff has access to Salesforce • 2 Beon staff has access to ZSS • 3 Beon staff has access to TrendSCADA • 2 Beon staff has access to SAP <p>Management confirmed that these Beon employees should not have access to the above under the information sharing protocol and were unable to confirm whether these employees have accessed the confidential information.</p> <p>Additionally, access to these systems by Beon employees indicate the IT controls implemented by the business are not operating effectively.</p> <p>An immaterial breach has been recognised in the CitiPower/ Powercor Ring fencing Compliance Report for the year ended 31 December 2018.</p>	<p>Management have now implemented a monthly review control, however, we have recommend that this control is performed on a timelier basis to reduce likelihood of inappropriate access not being identified and rectified.</p>	Exception	<p>4.3.2 (a) (b)</p> <p>4.3.3 (a)-(g)</p>	<p>Protection of Confidential information</p> <p>Disclosure of information</p>

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

2.2. Rating Applied

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

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

3. Detailed Audit Findings

3.1. Overview

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

Category	Ref.	Obligation	Testing	Results of testing	Rating
Legal separation	3.1 (a)	A DNSP must be a legal entity.	<p>Discussions held with:</p> <ul style="list-style-type: none"> Regulatory Projects Manager <p>Key Control(s):</p> <ul style="list-style-type: none"> CitiPower and Powercor's registered Australian Business Number (ABN) <p>Information Obtained:</p> <ul style="list-style-type: none"> ASIC ABN Search Distribution Network service provider Licence <p>Test Performed:</p> <ul style="list-style-type: none"> We performed a search of the ASIC register for CitiPower Pty Ltd and Powercor Australia Limited's ABN to verify they are separate legal entities We cross checked the registered ABN against the Distribution Network Services Provider Licence. 	Based on the testing performed we have not identified any matters of exception against the obligation.	No Exception
Legal separation	3.1 (b)	A DNSP may provide distribution services and transmission services, but must not provide other services.	<p>Discussions held with:</p> <ul style="list-style-type: none"> Head of Risk and Financial Control Manager Corporate Management Accounting Senior Corporate Management and Regulatory Accountant <p>Key Control:</p> <ul style="list-style-type: none"> A separate affiliated entity Beon was established to perform "other services" outside distribution and transmission services which are performed by CitiPower and Powercor 	<p>Based on the testing performed we have not identified any matters of exception against the obligation.</p> <p>Refer below to 3.2.1 (a) to finding regarding Beon project being recorded in the accounts of Powercor in the period.</p>	No Exception

Category	Ref.	Obligation	Testing	Results of testing	Rating
			<ul style="list-style-type: none"> A monthly review of general ledger accounts is performed by the finance and attestation is provided by the Financial Controller that no breaches in this requirement have occurred <p>Other compliance measures:</p> <ul style="list-style-type: none"> A waiver was obtained from the AER in relation to unclassified services that are provided by the DSNP <p>Information Obtained:</p> <ul style="list-style-type: none"> Audited financial statements for CitiPower and Powercor for the year ended 31 December 2018 General ledger information recording revenue generated in the period by the DSNP AER approved waiver detailing unclassified services that may be provided by the DSNPs <p>Test Performed:</p> <ul style="list-style-type: none"> We have performed a review of the nature of each revenue streams recorded in CitiPower/Powercor financial statements and assessed whether these are related to distribution services. For "other services" revenue generated, we assessed whether the waiver approved by the AER included the services provided. 		
Separate accounts	3.2.1 (a)	A DSNP must establish and maintain appropriate internal accounting procedures to ensure that it can demonstrate the extent and nature of transactions between the DSNP and its affiliated entities.	<p>Discussions held with:</p> <ul style="list-style-type: none"> Head of Risk & Financial Control Manager Corporate Management Accounting Financial Controller <p>Key Control:</p> <ul style="list-style-type: none"> A separate general ledger is maintained for CitiPower/Powercor and its affiliates 	<p>Based on the testing performed we identified the following:</p> <ul style="list-style-type: none"> CitiPower and Powercor have internal accounting procedures and systems in place that enable it to demonstrate the extent and nature of its transactions with affiliates. 	Exception identified

Category	Ref.	Obligation	Testing	Results of testing	Rating
			<p>with separate GL accounts for transaction between affiliates</p> <ul style="list-style-type: none"> A monthly review of general ledger accounts is performed by the finance and attestation is provided by the Financial Controller that no breaches in this requirement have occurred <p>Information Obtained:</p> <ul style="list-style-type: none"> Corporate Service agreements between CitiPower/Powercor and their affiliates Audited financial statements for CitiPower Pty Ltd and Powercor Australia Limited for the year ended 31 December 2018 Balance sheet reconciliations and monthly attestation by Financial Controller <p>Test Performed:</p> <ul style="list-style-type: none"> We performed a process walk through to understand the key controls in place to maintain separate accounts and be able to demonstrate the extent of transactions between CitiPower/Powercor and its affiliates We tested the design and operating effectiveness testing of the key controls identified We reconciled the affiliate transactions disclosure in the Compliance report to underlying accounting records to assess accuracy. 	<p>We noted the following exception which has been disclosed as an immaterial breach in the CitiPower/ Powercor Ring fencing Compliance Report for the year ended 31 December 2018:</p> <ul style="list-style-type: none"> In April 2018 we identified one instance of a Beon project (Hughenden Solar) being recorded as revenue in the general ledger of Powercor (and the 31 December 2017 statutory financial statements of Powercor). We understand that the contract was negotiated with Powercor as a result of Queensland building license requirements and it was negotiated prior to the ring-fencing guideline being issued by the AER. The project was finalised in early 2018 with an immaterial revenue amount being recorded in the year ending 31 December 2018, as the project concluded. 	
Cost allocation and attribution	3.2.2 (a), (b) (c)	<p>A DNSP must allocate or attribute costs to distribution services:</p> <ul style="list-style-type: none"> in a manner that is consistent with the Cost Allocation Principles and its approved CAM, as if the Cost Allocation Principles and CAM otherwise applied to the allocation and attribution of costs between distribution services and non-distribution services. and must not allocate or attribute 	<p>Discussions held with:</p> <ul style="list-style-type: none"> Manager Corporate Management Accounting Financial Controller <p>Key Control:</p> <ul style="list-style-type: none"> Costs are allocated through the use of approved profit centres and function codes within the ERP system (SAP) in line with the approved CitiPower and Powercor's Cost Allocation Methodology (CAM). 	<p>Based on the testing performed we have not identified any matters of exception against the obligation.</p>	No Exception

Category	Ref.	Obligation	Testing	Results of testing	Rating
		<p>other costs to the distribution services it provides.</p> <p>A DNSP must establish, maintain and keep records that demonstrate how it meets cost allocation and attribution obligations.</p>	<ul style="list-style-type: none"> A quarterly review of cost attribution is performed by the finance team and attestation provided by the Financial Controller that this has been performed and whether any breaches have been identified <p>Information Obtained:</p> <ul style="list-style-type: none"> Powercor and CitiPower Cost Allocation Method Quarterly Finance Controller attestation of cost attribution <p>Test Performed:</p> <ul style="list-style-type: none"> We performed a process walk through to understand the key controls in place to ensure costs are allocated accurately and in line with CAM We obtained and reviewed the CAM, noting it addresses the allocation of costs between distribution services and non-distribution services We tested the design and operating effectiveness testing of the key controls identified. 		
Obligation not to discriminate	4.1(b)	<p>A DNSP must not discriminate (either directly or indirectly) between a related electricity service provider and a competitor (or potential competitor) of a related electricity service provider in connection with the provision of:</p> <p>i. direct control services by the DNSP (whether to itself or to any other legal entity); and / or</p> <p>ii. contestable electricity services by any other legal entity.</p>	<p>Discussions held with:</p> <ul style="list-style-type: none"> Regulatory Projects Manager Head of Design and Customer Programs Team Leader Engineering and Consulting Manager Customer Requests <p>Key Control:</p> <ul style="list-style-type: none"> Mandatory training of CitiPower and Powercor staff on the ring-fencing requirements is performed annually Approval of project costs and scheduling so that contestable services are not prioritised over direct control services Annual review of ring fencing obligations by each Responsible Manager or General Manager and declaration of any breaches/no breaches occurring in relevant area of the business 	<p>Based on the testing performed we identified that:</p> <ul style="list-style-type: none"> CitiPower and Powercor have implemented controls to reduce the risk that there is a breach in the obligation not to discriminate. <p>We identified the following opportunity for improvement to the control environment, noting that we do not consider this an exception:</p> <ul style="list-style-type: none"> Approximately 20% of employees in the business did not complete the required ring fencing refresher training during the 12 month period to 31 December 2018 in accordance with the DSNP's ring fencing policy. 	No Exception

Category	Ref.	Obligation	Testing	Results of testing	Rating
			<p>Information Obtained:</p> <ul style="list-style-type: none"> • Training materials • Annual declaration by General Managers <p>Test Performed:</p> <ul style="list-style-type: none"> • We tested the operating effectiveness testing of the project approvals • We have obtained and reviewed each of the General Manager annual compliance declaration • We reviewed the training material and noted that the training included the requirement not discriminate • We performed sample testing of training attendance register to assess wither it was accurate • We performed a sample of employees that did not attend training to validate the reason. 	<ul style="list-style-type: none"> • The Governance team responsible for reviewing training attendance confirmed that this was due to employees with long term absences from the business (e.g. for maternity leave, leave of absences) not completing the training. However there is no completeness check of the training to employee records to ensure this is correct. • Ring fencing training for the employees of the Group is a key preventative control and non-completion increases the risk of inadvertent breaches of the guideline. <p>We recommend that controls to monitor training are strengthened to capture and record accurate completion data.</p>	
Offices, staff, branding and promotions	4.2.1(a)	A DNSP must use offices that are separate from any offices from which a related electricity service provider provides contestable electricity services.	<p>Discussions held with:</p> <ul style="list-style-type: none"> • Operations Manager Facilities Management Services <p>Key Control:</p> <ul style="list-style-type: none"> • CitiPower and Powercor have a separate office from Beon. • Beon staff are physically restricted from accessing certain floors of CitiPower and Powercor office through the use of the Gallagher security system (through electronic access cards and security doors) • On a monthly basis, the Operations Manager Facility Management Services, performs a review of physical access restriction for the CitiPower/Powercor building to identify any Beon Staff who have inappropriate access • An office sharing register is maintained by CitiPower/Powercor <p>Information Obtained:</p>	<p>Based on the testing performed we identified that:</p> <ul style="list-style-type: none"> • CitiPower and Powercor have a separate office from the Beon business • Beon staff are appropriately restricted from certain levels of the CitiPower and Powercor office • There are a 14 depots which are shared with affiliates and these have been recorded on the staff and office sharing register. <p>We note the following exception which has been disclosed as an immaterial breach in the CitiPower/ Powercor Ring fencing Compliance Report for the year ended 31 December 2018:</p> <ul style="list-style-type: none"> • As reported in the 2017 Compliance report, 18 Beon staff retained building access to the CitiPower and Powercor office when physical restriction access was initially set up in October 2017. This was not identified and corrected until April 	Exception identified

Category	Ref.	Obligation	Testing	Results of testing	Rating
			<ul style="list-style-type: none"> Gallagher security system change log for restriction of Beon staff from the CitiPower and Powercor office Staff and office sharing register <p>Test Performed:</p> <ul style="list-style-type: none"> We tested the design and operating effectiveness of the monthly review control of physical access We tested a sample of Beon staff and reviewed the physical access restrictions for CitiPower and Powercor building within Gallagher system We reviewed the office sharing register for completeness and accuracy and sighted evidence of the annual review performed in the period. 	2018. No further issues were identified in our testing in the current year.	
Staff sharing	4.2.2(a)	A DNSP must ensure that its staff involved in the provision or marketing of direct control services are not also involved in the provision or marketing of contestable electricity services by a related electricity service provider.	<p>Discussions held with:</p> <ul style="list-style-type: none"> Regulations Project Manager <p>Key Control:</p> <ul style="list-style-type: none"> An annual review is performed by the Regulations Project Manager for any changes to job description or new roles to ensure that any shared staff are identified and that shared staff are not in breach of the ring-fencing requirements <p>Information Obtained:</p> <ul style="list-style-type: none"> Staff and office sharing register Sample of Employee contracts <p>Test Performed:</p> <ul style="list-style-type: none"> We tested the design and operating effectiveness of the annual review of the staff sharing arrangements We tested a sample of staff to review their role description in order to assess whether they are involved in provision of direct control services and contestable electricity services and if so that appropriate safeguards are in place 	<p>Based on the testing performed we identified that:</p> <ul style="list-style-type: none"> The majority of Beon staff are contractually employed by Powercor, and are seconded to Beon on a permanent basis. When staff transfer between Powercor/ CitiPower and Beon their role description, building access and IT access are reviewed. There are a number of staff that are shared, however, they either do not have access to confidential information or are not directly involved in provision of contestable electricity services, these staff are appropriately included in the staff and office sharing register. 	No exception

Category	Ref.	Obligation	Testing	Results of testing	Rating
			<ul style="list-style-type: none"> We noted that all staff identified as "shared" were appropriately included in the register of shared staff. 		
Staff sharing	4.2.2(c)	The remuneration, incentives and other benefits (financial or otherwise) a DNSP provides to a member of its staff must not give the member of staff an incentive to act in manner that is contrary to the DNSP's obligations under this Guideline.	<p>Discussions held with:</p> <ul style="list-style-type: none"> Regulations Project Manager Head of Business Performance Management <p>Key Control:</p> <ul style="list-style-type: none"> On an annual basis the Head of business performance management reviews the remuneration, incentives and other benefits of staff working for CitiPower and Powercor to ensure that these do not incentivise them to breach the ring-fencing requirements Sample of Employee contracts and KPIs for 2018 <p>Test Performed:</p> <ul style="list-style-type: none"> We tested the design and operating effectiveness of the annual review of the KPIs performed in the period. We tested a sample of employees to review the incentives included in the employee contracts did not incentivise CitiPower and Powercor staff to breach their obligations under the Ring-fencing guideline. 	<p>Based on the testing performed we identified the following:</p> <ul style="list-style-type: none"> CitiPower and Powercor contracts do not include any incentives to breach the ring-fencing guidelines. The majority of Beon staff are contractually employed by Powercor. Management have advised that it was financially prohibitive to transfer employment contracts from Powercor to Beon when the ring fencing guideline came into effect. However, where Beon staff are employed by Powercor are incentivised to promote Beon this may result in a breach of the Ring-fencing guideline. We recommend that the contractual arrangement between Powercor and Beon for the secondment of staff should reflect obligations under the ring-fencing requirement. 	No Exception
Branding and cross-promotion	4.2.3(a)	A DNSP: <ul style="list-style-type: none"> must use branding for its direct control services that is independent and separate from the branding used by a related electricity service provider for contestable electricity services, such that a reasonable person would not infer from the respective branding that the DNSP and the related 	<p>Discussions held with:</p> <ul style="list-style-type: none"> Manager Customer relations Contract Centre Manager Marketing and Community Partnership Manager <p>Key Control:</p> <ul style="list-style-type: none"> Contact centre scripts are utilised for scenarios where a customer requests contestable electricity services Phone calls to contact centre are monitored to detect any instances of 	<p>Based on the testing performed we identified the following:</p> <ul style="list-style-type: none"> CitiPower and Powercor have a waiver for 4.2.3(a) of the guideline in relation to the use of CitiPower and Powercor brands until 31 December 2019. CitiPower/Powercor have implemented a number of monitoring controls for the detection inappropriate branding and cross-promotion. 	Exception noted

Category	Ref.	Obligation	Testing	Results of testing	Rating
		<p>electricity service provider are related.</p> <p>ii. must not advertise or promote its direct control services and its contestable electricity services that are not direct control services together (including by way of cross-advertisement or cross-promotion.</p> <p>ii. must not advertise or promote contestable electricity services provided by a related electricity service provider other than the DNSP itself.</p>	<p>cross-promotion. A monthly attestation is provided that this has occurred whether any breaches identified were reported</p> <ul style="list-style-type: none"> • An Annual review of the CitiPower/ Powercor website and social media content for any inappropriate co-branding or cross promotion • Mandatory training on the ring-fencing requirements is completed annually <p>Information Obtained:</p> <ul style="list-style-type: none"> • Call centre scripts • Monthly attestation of call centre monitoring • Training materials <p>Other compliance measures:</p> <ul style="list-style-type: none"> • CitiPower and Powercor have a waiver for 4.2.3(a) of the guideline in relation to the use of CitiPower and Powercor brands until 31 December 2019. <p>Test Performed:</p> <ul style="list-style-type: none"> • We tested the design and operating effectiveness of the annual review of the website and social media content. • We tested the design and operating effectiveness of monthly attestation for the monitoring of contact centre phone calls. • We performed a sample of “dummy calls” to the CitiPower/Powercor Contact centre for recommendations for a supplier for contestable work (such as installation services for Solar panels) to determine whether they would promote Beon. • We inspected the CitiPower/Powercor website and social media for evidence of promotion of contestable service provider Beon. 	<p>We note the following exception which has been disclosed as an immaterial breach in the CitiPower/ Powercor Ring fencing Compliance Report for the year ended 31 December 2018:</p> <ul style="list-style-type: none"> • As reported in 2017 Compliance report there was a delay in changing the domain name in email addresses for Beon staff meaning that for a period in 2018 there was still Beon staff with Powercor email addresses 	

Category	Ref.	Obligation	Testing	Results of testing	Rating
			<ul style="list-style-type: none"> We reviewed the training content and it covered the branding and cross-promotion requirements. 		
Office and staff registers	4.2.4 (a), (b)	A DNSP must establish, maintain and keep a register that identifies: (a) the classes of offices to which it has not applied; and (b) the nature of the positions (including a description of the roles, functions and duties) of its members of staff and must make the register publicly available on its website.	<p>Discussions held with:</p> <ul style="list-style-type: none"> Regulatory Projects Manager <p>Key Control:</p> <ul style="list-style-type: none"> Annual review of the Staff and Office sharing register <p>Information Obtained:</p> <ul style="list-style-type: none"> Staff and office sharing register <p>Test Performed:</p> <ul style="list-style-type: none"> We reviewed the staff and office register to determine whether it included the required information and was publically available on its website. 	<p>Based on the testing performed we identified the following:</p> <ul style="list-style-type: none"> CitiPower/Powercor has established and maintained an office and staff sharing register. 	No exceptions
Protection of confidential information	4.3.2 (a) (b)	A DNSP must: (a) keep confidential information confidential (b) only use confidential information for the purpose for which it was acquired or generated	<p>Discussions held with:</p> <ul style="list-style-type: none"> IT and Security Analyst <p>Key Control:</p> <ul style="list-style-type: none"> Beon staff are restricted from accessing confidential electricity information through IT access controls A monthly review of IT user access is performed by the system owner to monitor any inappropriate access to systems for Beon staff <p>Information Obtained:</p> <ul style="list-style-type: none"> Information sharing protocol <p>Test Performed:</p> <ul style="list-style-type: none"> We tested the operating effectiveness IT access controls We obtained a IT user access listing for all CitiPower and Powercor systems that contain confidential information and compared to listing of Beon employee to 	<p>We note the following exceptions which have been disclosed as an immaterial breach in the CitiPower/ Powercor Ring fencing Compliance Report for the year ended 31 December 2018:</p> <ul style="list-style-type: none"> In April 2018 33 Beon staff were identified as having access to CitiPower and Powercor IT systems and therefore had the opportunity to access confidential information. Note this was reported in the 31 December 2017 compliance report. User access testing as at November 2018, identified 11 Beon staff that had access to certain CitiPower and Powercor IT systems that contain confidential information. <p>We identified the following area for improvement to the control environment:</p> <ul style="list-style-type: none"> The monthly IT access review is not performed on a timely basis, with the 	Exceptions noted

Category	Ref.	Obligation	Testing	Results of testing	Rating
			determine whether there is any inappropriate access.	<p>control being completed up to two months after month end.</p> <ul style="list-style-type: none"> The bi-annual business IT access review, scheduled for November 2018 remained in progress at April 2019, and was therefore not completed within the period subject to audit. <p>We recommend that the design of the IT review controls are reviewed to ensure that they can be executed effectively and on a timelier basis.</p>	
Disclosure of information	4.3.3 (a)-(g)	<p>A DNSP must not disclose confidential information to any person, including a related electricity service provider, unless:</p> <p>(a) the DNSP has first obtained the explicit informed consent of the relevant customer, or prospective customer, to whom the confidential information relates;</p> <p>(b) the disclosure is required by, or for the purpose of complying with any law;</p> <p>(c) the disclosure is necessary to enable the DNSP to provide its distribution services, its transmission services or its other services (including by acquiring services from other legal entities);</p> <p>(d) the information has been requested by or on behalf of a customer, or potential customer, of another legal entity, and the disclosure is necessary to enable the legal entity to provide its transmission services, contestable electricity services or other services to the customer or potential customer;</p>	<p>Discussions held with:</p> <ul style="list-style-type: none"> Regulatory Projects Manager IT and Security Analyst <p>Key Control:</p> <ul style="list-style-type: none"> Information sharing protocol and information sharing register is publically available Beon staff are restricted through IT access controls from confidential information Monthly review of IT user access to monitor any inappropriate access to systems for Beon staff <p>Information Obtained:</p> <ul style="list-style-type: none"> Information sharing protocol Information sharing register <p>Test Performed:</p> <ul style="list-style-type: none"> We tested the design operating effectiveness testing of the key controls identified We obtained a IT user access listing for all CitiPower/Powercor systems that contain confidential information and compared to listing of Beon employee to determine whether there is any inappropriate access We have reviewed the information sharing protocol for consistency with the requirements of the Ring-fencing guideline. 	<p>Based on the testing performed we have identified the exceptions and control weaknesses in relation to this requirement. Both of these matters are reported in the point above.</p>	Exceptions noted

Category	Ref.	Obligation	Testing	Results of testing	Rating
		<p>(e) the disclosure is solely for the purpose of providing assistance to another Network Service Provider in response to an event (such as an emergency) that is beyond the other Network Service Provider’s reasonable control;</p> <p>(f) the disclosure is solely for the purposes of research by a legal entity other than a related electricity service provider of the DNSP</p>	<ul style="list-style-type: none"> We sighted the information register is publically available on the CitiPower/Powercor website 		
Sharing of information	4.3.4	<p>(a) Subject to clause 4.1(c)iv. and to this clause 4.3.4, where a DNSP shares confidential information with a related electricity service provider, or where confidential information that a DNSP has disclosed under clause 4.3.3(f) is then disclosed by any person to a related electricity service provider of the DNSP, the DNSP must provide access to that confidential information (including the derived information) to other legal entities on an equal basis.</p> <p>(b) A DNSP is only required by clause 4.3.4(a) to provide information to a legal entity where:</p> <p>i. the legal entity has requested that it be included on the information register in respect of information of that kind; and</p> <p>ii. the legal entity is competing, or is seeking to compete, with the DNSP, or a related electricity service provider of the DNSP, in relation to the provision of contestable electricity services.</p> <p>(c) A DNSP is not required by clause 4.3.4(a) to provide information to a legal entity where the DNSP has</p>	<p>Discussions held with:</p> <ul style="list-style-type: none"> Regulatory Projects Manager IT and Security Analyst <p>Key Control:</p> <ul style="list-style-type: none"> Information sharing protocol and information sharing register is publically available <p>Information Obtained:</p> <ul style="list-style-type: none"> Information sharing protocol Information sharing register <p>Test Performed:</p> <ul style="list-style-type: none"> We have reviewed the information sharing protocol for consistency with the requirements of the Ring-fencing guideline We sighted the information register is publically available on the CitiPower/Powercor website We made enquiry of the Regulatory Projects Manager and confirmed that there was no information requested in the period. 	<p>Based on the testing performed we have not identified any matters of exception against the obligation noting the following:</p> <ul style="list-style-type: none"> CitiPower and Powercor has established and maintained an information sharing protocol and information sharing register Based on enquiries we noted that no such information had been requested. 	No exceptions

Category	Ref.	Obligation	Testing	Results of testing	Rating
		<p>disclosed the information in the circumstances set out in clauses 4.3.3(a) to (e).</p> <p>(d) Without limiting clause 4.3.4(a), a DNSP must establish an information sharing protocol that sets how and when it will make the information referred to in clause 4.3.4(a) available to legal entities, and must make that protocol publicly available on its website.</p> <p>(e) Where a DNSP discloses information referred to in clause 4.3.4(a) to any other legal entity under this clause 4.3.4, it must do so on terms and conditions that require the other legal entity to comply with clause 4.3.2 and 4.3.3(a) to (d) in relation to that information as if the other legal entity was a DNSP.</p>			
Information register	4.3.5 (a) - (c)	<p>(a) A DNSP must establish, maintain and keep a register of all:</p> <p>i. related electricity service providers;</p> <p>ii. other legal entities who provide contestable electricity services but who are not affiliates of the DNSP; who request access to information identified in clause 4.3.4(a), and must make the register publicly available on its website.</p> <p>(b) For each legal entity that has requested that a DNSP provide access to information identified in clause 4.3.4(a), the DNSP's information register must:</p> <p>i. identify the kind of information requested by the legal entity; and</p> <p>ii. describe the kind of information requested by the legal entity in</p>	<p>Discussions held with:</p> <ul style="list-style-type: none"> Regulatory Projects Manager IT and Security Analyst <p>Key Control:</p> <ul style="list-style-type: none"> Information sharing protocol and information sharing register is publically available <p>Information Obtained:</p> <ul style="list-style-type: none"> Information sharing protocol Information sharing register <p>Test Performed:</p> <ul style="list-style-type: none"> We have reviewed the information sharing protocol for consistency with the requirements of the Ring-fencing guideline We sighted the information register is publically available on the CitiPower/Powercor website 	<p>Based on the testing performed we have not identified any matters of exception against the obligation noting the following:</p> <ul style="list-style-type: none"> CitiPower and Powercor has established and maintained an information sharing protocol and information sharing register Based on enquiries we noted that no such information had been requested. 	No exceptions

Category	Ref.	Obligation	Testing	Results of testing	Rating
		<p>sufficient detail to enable other legal entities to make an informed decision about whether to request that kind of information from the DNSP.</p> <p>(c) A legal entity may request that the DNSP include it on the information register in relation to some or all of the kinds of information that the DNSP is required to provide under clause 4.3.4(a), and the DNSP must comply with that request.</p>	<ul style="list-style-type: none"> We made enquiry of the Regulatory Projects Manager and confirmed that there was no information requested in the period. 		
Conduct of service providers	4.4.1 (a)(b)	<p>A DNSP:</p> <p>(a) must ensure that any new or varied agreement between the DNSP and a service provider, for the provision of services to the DNSP that enable or assist the DNSP to supply direct control services, requires the service provider to comply, in providing those services, with:</p> <p>i. clauses 4.1, 4.2.1, 4.2.2 and 4.3.2 of this Guideline; and</p> <p>ii. clause 4.2.3 of this Guideline in relation to the brands of the DNSP; as if the service provider was the DNSP.</p> <p>A DNSP:</p> <p>(b) must not, directly or indirectly, encourage or incentivise a service provider to engage in conduct which, if the DNSP engaged in the conduct itself, would be contrary to the DNSP's obligations.</p>	<p>Discussions held with:</p> <ul style="list-style-type: none"> Procurement manager Legal Counsel <p>Key Control:</p> <ul style="list-style-type: none"> The standard terms and conditions for VPN supply contracts have been amended to include compliance with ring-fencing requirements. These standard terms and conditions are included in all new and amended contracts for suppliers involved in the provision of direct control services <p>Information Obtained:</p> <ul style="list-style-type: none"> Standard term and conditions Sample of new and revised supplier contacts entered in the period <p>Test Performed:</p> <ul style="list-style-type: none"> We selected a sample of suppliers with new contracts entered into in the period to determine whether the Standard Terms and Conditions attached to the contract contained the requirement to comply with ring-fencing Guideline. 	<p>Based on the control testing performed we have identified the following exceptions which have been disclosed as an immaterial breach in the CitiPower/ Powercor Ring fencing Compliance Report for the year ended 31 December 2018:</p> <ul style="list-style-type: none"> Our testing indicated that there was not a clear understanding amongst the procurement team around when these standard terms and conditions must be included in a contract and we recommend that management develop a decision framework to apply in procurement contract negotiations to identify when a contract with a supplier requires the clause. We identified five contracts entered (or amended) in the period which did not include the standard ring-fencing compliance terms and conditions which related to provision of services related to direct control services. 	Exception identified

Category	Ref.	Obligation	Testing	Results of testing	Rating
Waiver register	5.7 (a)	<p>A DNSP must establish, maintain and keep a register of all waivers (including any variation of a waiver) and must make the register publicly available on its website.</p> <p>The register established under clause 5.7(a) must include:</p> <p>i. the description of the conduct to which the waiver or interim waiver applies; and</p> <p>ii. the terms and conditions of the waiver or interim waiver; as set out in the AER's written decision, provided by the AER to the DNSP, to grant (or vary) the waiver or interim waiver</p>	<p>Discussions held with:</p> <ul style="list-style-type: none"> Regulatory Projects Manager <p>Key Control</p> <ul style="list-style-type: none"> Waiver register Waiver review process <p>Information Obtained</p> <ul style="list-style-type: none"> Waiver register Ring-fencing Compliance Procedure <p>Test Performed</p> <ul style="list-style-type: none"> We sighted that the waiver register is publicly available on CitiPower/Powercor's website We cross-checked the details contained on the waiver register against the waiver decisions published on the AER website. 	<p>Based on the testing performed we have not identified any matters of exception against the obligation noting the following:</p> <ul style="list-style-type: none"> The waiver register is publically available on the CitiPower/Powercor website. CitiPower/Powercor's waiver register is consistent with the AER waiver decisions. 	No Exception
Maintaining compliance	6.1	<p>A DNSP must establish and maintain appropriate internal procedures to ensure it complies with its obligations under this Guideline.</p>	<p>Discussions held with:</p> <ul style="list-style-type: none"> Regulatory Projects Manager <p>Key Control</p> <ul style="list-style-type: none"> General Manager Annual Compliance review and declaration Mandatory training on the ring-fencing requirements <p>Information Obtained</p> <ul style="list-style-type: none"> N/a <p>Test Performed</p> <ul style="list-style-type: none"> We have obtained and reviewed the General Manager annual compliance declarations We reviewed the training material and the attendance register. 	<p>Based on the testing performed we identified that:</p> <ul style="list-style-type: none"> CitiPower/Powercor have implemented controls to reduce the risk that it does not comply with its obligations under this Guideline. <p>Additionally, we identified an opportunity for improvement to the control environment in relation to the completion of training. This is documented at reference 4.1(b).</p>	No Exception
		<p>A DNSP must prepare an annual ring--fencing compliance report</p>	<p>Discussions held with:</p> <ul style="list-style-type: none"> Regulatory Projects Manager 	<p>Based on the testing performed we identified that:</p>	No Exception

Category	Ref.	Obligation	Testing	Results of testing	Rating
Annual compliance report	6.2.1 (a), (b) (c)	<p>each regulatory year.</p> <p>The annual compliance report must identify and describe, in respect of the regulatory year to which the report relates:</p> <p>i. the measures the DNSP has taken to ensure compliance with its obligations under this Guideline;</p> <p>ii. any breaches of this Guideline by the DNSP, or which otherwise relate to the DNSP; and</p> <p>iii. all other services provided by the DNSP in accordance with clause 3.1; and</p> <p>iv. the purpose of all transactions between the DNSP and an affiliated entity.</p> <p>The annual compliance report must be accompanied by an assessment of compliance by a suitably qualified independent authority.</p>	<p>Key Control</p> <ul style="list-style-type: none"> Ring-fencing compliance report Deloitte has been engaged as the independent authority to assess CitiPower and Powercor's compliance with the Guideline <p>Information Obtained</p> <ul style="list-style-type: none"> CitiPower and Powercor Ring-fencing Compliance report <p>Test Performed</p> <ul style="list-style-type: none"> We reviewed the draft annual ring-fencing compliance report to assess whether it includes all required information required and that the disclosures are consistent with our expectation based on the reasonable assurance procedures performed. 	<ul style="list-style-type: none"> CitiPower/Powercor have prepared a compliance report that is consistent with the requirements of the AER Electricity Distribution Ring-Fencing Guideline – Compliance reporting best practice manual. The compliance report is accompanied by an assessment of compliance by a suitably qualified independent authority. 	
Compliance breaches	6.3	<p>A DNSP must notify the AER in writing within 5 (five) business days of becoming aware of a material breach of its obligations under this Guideline.</p>	<p>Discussions held with:</p> <ul style="list-style-type: none"> Regulatory Projects Manager <p>Key Control</p> <ul style="list-style-type: none"> Mandatory training on the ring-fencing requirements A mailbox is maintained by the Regulations team for CitiPower/Powercor to report any potential breaches <p>Information Obtained</p> <ul style="list-style-type: none"> Email correspondence received in the mailbox in the period <p>Test Performed</p>	<p>Based on the testing performed we have identified the following:</p> <ul style="list-style-type: none"> CitiPower/Powercor has established a mailbox for breaches identified within the business can be reported to the regulatory team on a timely basis. CitiPower/Power have implemented controls to ensure that staff are aware of the obligation to report breaches <p>We identified the following opportunity for improvement to the control environment, noting that we do not consider this an exception:</p>	No Exception

Category	Ref.	Obligation	Testing	Results of testing	Rating
			<ul style="list-style-type: none"> • We sighted the ring-fencing mailbox and reviewed the email correspondence received during the year • We reviewed the training content and confirmed that this did include the process for reporting breaches through the ring-fencing inbox which is monitored by the regulations team. 	<ul style="list-style-type: none"> • There is no documented formal policy for reporting breaches to the compliance team. • The materiality guidance adopted by the business is based on the AER compliance manual; therefore it is not tailored to suit the requirements of Powercor/CitiPower specifically. • There is presently limited information on reporting breaches/suspected breaches on the intranet. <p>We recommend that a documented policy is prepared which outlines the reporting requirement and procedures where a potential breach is identified. This procedure should be consistent across the business and the policy publically available to all staff members to access on the intranet.</p>	

4. Independent Assurance Report to the Directors of CitiPower and Powercor

Opinion

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

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

Basis for Opinion

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

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

CitiPower and Powercor's Services Responsibilities

CitiPower and Powercor's management is responsible for:

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

Our Independence and Quality Control

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

Assurance Practitioner's Responsibilities

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

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

Our procedures included:

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

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

Inherent Limitations

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

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

Restricted Use

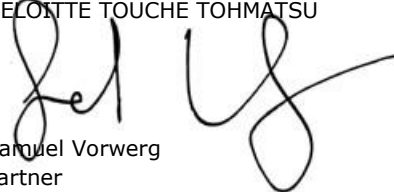
This report has been prepared for use by CitiPower and Powercor for the purpose of meeting the reporting requirements of the AER. We disclaim any assumption of responsibility for any reliance on this report to any person other than CitiPower and Powercor, or for any purpose other than that for which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

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

It is our understanding that the AER may publish a copy of our report on their website. We accept no responsibility to any person or entity, apart from 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

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Samuel Vorweg
Partner
Chartered Accountants
Melbourne, 29 April 2019