



SA Power Networks

Ring-Fencing Guideline Compliance Report

For the period 1 January 2018 to 30 June 2018

30 October 2018

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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. The Guideline is effective from 1 December 2016 and Distribution Network Service Providers (DNSP) are required to comply not later than 1 January 2018. As required by the Guideline, SA Power Networks ("SAPN") must submit an annual Ring-Fencing compliance report to the AER by the 31st of October 2018. The annual compliance report must be accompanied by an assessment of compliance by a suitably qualified independent authority.

Under clause 6.2.1 (c) of the Guideline, Deloitte has been engaged by SAPN as the qualified independent authority to perform an independent assurance of SAPN's Ring-Fencing Annual Compliance Report (the "Compliance Report") to determine if it has been prepared, in all material respects, in accordance with the requirements of the Guideline for the period from 1 January 2018 to 30 June 2018 (the "audit period"). Deloitte's assurance engagement has been conducted with the objective of expressing an opinion on SAPN's compliance with the Guideline.

In accordance with an engagement letter between SAPN and Deloitte dated 29 October 2018, Deloitte conducted the assurance engagement in accordance with the Standard on Assurance Engagements ASAE 3100 Compliance Engagements. The standard requires us to comply with ethical requirements applicable to assurance engagements, and plan and perform procedures to obtain reasonable assurance about whether SAPN have complied with the Guideline, in all material respects, as evaluated against the Guideline Obligations.

2. Summary of Findings

2.1. Rating Applied

No Exception	Most requirements of the Distribution Network Service Provider (“DNSP”) condition have been met with no or 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 met, or adequate, relevant and suitable information to form an objective determination on compliance was not available to demonstrate compliance. Findings noted are considered material in nature and require urgent remedial action.

2.2. Overview

The following table summarises observations and recommendations against the obligations where an exception is identified. All observations have been rated in accordance with **Section 2.1.**

Legal Separation	
Guideline Reference	3.1 (b)
Guideline Obligations	A DNSP may provide distribution services and transmission services, but must not provide other services.
Observations	<p>The AER granted SAPN a waiver from the obligation to comply with clause 3.1 of the Guideline from 18 December 2017 to 30 September 2018 so that it may continue to provide Other Services contracted out under 20 construction and maintenance contracts for a defined period. During this period 3 contracts concluded.</p> <p>At the time of the initial waiver submission, [REDACTED]. In August/September 2018 when SAPN applied for an extension to the waiver it was discovered that 4 contracts were not included in the original waiver. SAPN identified these four contracts to the AER on the waiver extension for other services, and reported them as a material breach. On 28 September 2018 the AER granted a waiver extension in relation to the 21 Other Services contracts until the contract expiry in 2021.</p> <p>Subsequently, SAPN identified one contract that was not included on the initial waiver or the waiver extension, and this contract was included on the material breach report to the AER. This contract will be transferred to Enerven. SAPN has disclosed this as part of the independent assessment.</p> <p>The implication of this observation is that 5 SAPN contracts to provide Other Services were not covered by a valid waiver from the obligation to comply with clause 3.1 of the Guideline.</p>
Recommendation	<p>We recommend that:</p> <ul style="list-style-type: none"> • [REDACTED] • [REDACTED] keep record of which Other Services contracts SAPN has been granted a waiver.
Management Response*	<p>[REDACTED]</p> <p>[REDACTED] They will ensure that any proposed amendments to the waived contracts are first discussed with the Regulation branch who will advise the AER as required by the waiver notice.</p> <p>We have included details of the breach in our Annual Compliance Report, and we have reported it to the AER according to their material breach process at their request.</p> <p>(Target Completion: Complete)</p>
Rating	Exception

Protection of Confidential Information	
Guideline Reference	4.3.2 (a) (b)
Guideline Obligations	A DNSP must: (a) keep confidential information confidential (b) only use confidential information for the purpose for which it was acquired or generated
Observations	<p>In December 2017 the Ring-fencing Project Management Office (“PMO”) identified IT applications that contain confidential information (“controlled applications”). The PMO classified 24 applications as controlled applications.</p> <p>Per clause 4.3 of the Guideline, ‘confidential information’ means electricity information generated by a DNSP in connection with its provision of direct control services that is not already publicly available. Electricity information includes information about the electricity network, electricity customers or electricity services, but does not include non-customer financial information or non-customer performance information.</p> <p>When determining which applications contained confidential information, SAPN initially applied a definition of confidential information that was restricted to customer information that is not publicly available. Network and service information was not included in the definition of confidential information against which IT systems were assessed. Resultantly, IT applications that contain network and services information were not initially classified as controlled applications.</p> <p>████ applications were not included in the original analysis. As a result, █████ applications containing confidential information were not included in the list of controlled applications.</p> <p>The list of controlled applications is integral to the operation of key IT controls such as the quarterly IT access review and the IT application access work instruction.</p> <p>Notwithstanding a number of mitigating controls such as extensive training and a quarterly management representations process, there is a risk that the controls that rely on the list of controlled applications will not operate correctly to prevent Enerven staff from accessing confidential information. We have not identified inappropriate access of information by Enerven staff during the audit period.</p>
Recommendation	<p>We recommend that:</p> <ul style="list-style-type: none"> • The list of controlled applications is reviewed to include IT applications that contain confidential information per the Guideline definition. This analysis should include █████ and non-████ applications. • Access to the newly identified controlled applications be reviewed and that Enerven staff have their access removed unless they meet one of the exemptions in the Guideline.
Management Response*	<p>An IT resource has been specifically assigned to coordinate IT ring-fencing activities, which has now included a review and expansion of the list of controlled applications that contain confidential information per the Guideline definition. The process is complete, and the affected applications have now been included on the controlled applications list. Enerven staff accesses have been removed where a Guideline exemption does not apply.</p> <p>Requests for Enerven access will be managed in accordance with the IT Application Access Work Instruction.</p> <p>For █████ transactions, the ability to restrict access between companies (SAPN and Enerven) is limited without having separate company codes. This work and associated costs will be included in a business case for the 2020-25 Regulatory Control Period. Creating a new company code in █████ application will create a new entity to facilitate formal accounting separation of the distribution and non-distribution functions.</p> <p>In the meantime, all staff are provided with training and aware of their obligation not to use █████ (confidential information) for any purpose (i.e. discriminatory) not allowed by the Guideline.</p> <p>(Target Completion: Complete, with exception of █████ transactions which will be further considered pending Regulatory Determination for 2020-2025)</p>
Rating	Exception

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 2.1*.

Legal Separation	
Guideline Reference	3.1 (a)
Guideline Obligations	A DNSP must be a legal entity.
Testing	<p>Discussions held with:</p> <ul style="list-style-type: none"> • Internal legal counsel • PMO <p>Key Control</p> <ul style="list-style-type: none"> • SAPN registered Australian Business Number (ABN) <p>Information Obtained</p> <ul style="list-style-type: none"> • SAPN Distribution Network Service Provider Licence • ASIC ABN Search • Sample of Enerven Invoices <p>Test Performed</p> <ul style="list-style-type: none"> • We performed a search of the ASIC register for SAPN’s ABN to verify that SAPN is a separate legal entity. • We crosschecked the registered ABN against SAPN’s Distribution Network Service Provider Licence.
Observations	Based on the testing performed we have not identified any matters of exception against the obligation, with key point(s) below: <ul style="list-style-type: none"> • SAPN is a separate legal entity.
Recommendation	NA
Management Response*	NA
Rating	No Exception
Legal Separation	
Guideline Reference	3.1 (b)
Guideline Obligations	A DNSP may provide distribution services and transmission services, but must not provide other services.
Testing	<p>Discussions held with:</p> <ul style="list-style-type: none"> • Internal legal counsel • PMO <p>Key Control</p> <ul style="list-style-type: none"> • Formal contract amendments to include Enerven as a party to the agreement • Purchase order transfer notification letter to inform suppliers that purchase orders were transferred to Enerven <p>Information Obtained</p> <ul style="list-style-type: none"> • SAPN Waiver Application dated 3 October 2017 • AER Waiver Decision dated 18 December 2017

	<ul style="list-style-type: none"> Formal contract amendments Purchase Order Transfer Notification Letter Selected Enerven invoices <p>Test Performed</p> <ul style="list-style-type: none"> We selected a sample of 5 Enerven suppliers and confirmed that signed formal contract amendments were obtained to include Enerven as a party to the agreement. We obtained the purchase order transfer notification letter to confirm that purchase orders were transferred to Enerven. We selected a sample of 10 SAPN revenue transactions to detect instances of other services being provided by the DNSP. We selected a sample of 5 Enerven receivable balances and obtained the invoices to check that services are performed against the Enerven ABN.
Observations	<p>We have not identified any further matters of exception against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> SAPN obtained signed formal contract amendments to include Enerven as a party to the contract. Purchase orders were transferred to Enerven and transfer notification letters were sent to suppliers. SAPN revenue consists of only distribution services. Enerven services are being delivered against the Enerven ABN. <p>Based on the testing performed we have identified the following exception:</p> <ul style="list-style-type: none"> The AER granted SAPN a waiver from the obligation to comply with clause 3.1 of the Guideline from 18 December 2017 to 30 September 2018 so that it may continue to provide Other Services contracted out under 20 construction and maintenance contracts for a defined period. During this period, 3 contracts concluded. At the time of the initial waiver submission, [REDACTED]. In August/September 2018 when SAPN applied for an extension to the waiver it was discovered that 4 contracts were not included in the original waiver. SAPN identified these four contracts to the AER on the waiver extension for other services, and reported them as a material breach. On 28 September 2018 the AER granted a waiver extension in relation to the 21 Other Services contracts until the contract expiry in 2021. Subsequently, SAPN identified one contract that was not included on the initial waiver or the waiver extension, and this contract was included on the material breach report to the AER. This contract will be transferred to Enerven. SAPN has disclosed this as part of the independent assessment. The implication of this observation is that 5 SAPN contracts to provide Other Services were not covered by a valid waiver from the obligation to comply with clause 3.1 of the Guideline.
Recommendation	<p>We recommend that:</p> <ul style="list-style-type: none"> [REDACTED] [REDACTED] keep record of which other services contracts SAPN has been granted a waiver.
Management Response*	<ul style="list-style-type: none"> [REDACTED] They will ensure that any proposed amendments to the waived contracts are first discussed with the Regulation branch who will advise the AER as required by the waiver notice. We have included details of the breach in our Annual Compliance Report, and we have reported it to the AER according to their material breach process at their request. (Target Completion: Complete)
Rating	Exception
Separate Accounts	
Guideline Reference	3.2.1 (a)
Guideline Obligations	A DNSP must establish and maintain appropriate internal accounting procedures to ensure that it can demonstrate the extent and nature of transactions between the DNSP and its affiliated entities.

Testing	<p>Discussions held with:</p> <ul style="list-style-type: none"> Regulatory Strategy Manager Financial Accounting Manager Enerven Finance Manager PMO <p>Key Control</p> <ul style="list-style-type: none"> ■■■■ accounting system which contains separate business units for recording transactions between SAPN and Enerven <p>Information Obtained</p> <ul style="list-style-type: none"> Consolidated Finance Blueprint Provision of Inter-Company Labour Services policy Work Order Quick Reference Guide AER Shared Asset Guideline Shared Assets Quick Reference Guide <p>Test Performed</p> <ul style="list-style-type: none"> We reviewed the Consolidated Finance Blueprint, Provision of Inter-Company Labour Services policy, Work Order Quick Reference Guide, AER Shared Asset Guideline and Shared Assets Quick Reference Guide. We performed a walkthrough of SAPN's internal accounting procedures.
Observations	<p>Based on the testing performed we have not identified any matters of exception against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> SAPN has internal accounting procedures in place that enable it to demonstrate the extent and nature of its transactions with Enerven.
Recommendation	NA
Management Response*	NA
Rating	No Exception
Cost Allocation and Attribution	
Guideline Reference	3.2.2 (a), (b)
Guideline Obligations	<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 other costs to the distribution services it provides.
Testing	<p>Discussions held with:</p> <ul style="list-style-type: none"> Regulatory Strategy Manager Financial Accounting Manager Enerven Finance Manager PMO <p>Key Control</p> <ul style="list-style-type: none"> Cost Allocation Methodology ("CAM") approved by the AER Cost Allocation Calculation <p>Information Obtained</p> <ul style="list-style-type: none"> Cost Allocation Calculation CAM approved by the AER

	<p>Test Performed</p> <ul style="list-style-type: none"> We reviewed the CAM to confirm that it addresses the allocation of costs to SAPN and Enerven. We reviewed the cost allocation calculation and checked that it is consistent with the AER approved CAM.
Observations	<p>Based on the testing performed we have not identified any matters of exception against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> The AER approved CAM addresses the allocation of costs to SAPN and Enerven SAPN's cost allocation calculation is consistent with the AER approved CAM.
Recommendation	NA
Management Response*	NA
Rating	No Exception
Cost Allocation and Attribution	
Guideline Reference	3.2.2 (c)
Guideline Obligations	A DNSP must establish, maintain and keep records that demonstrate how it meets cost allocation and attribution obligations.
Testing	<p>Discussions held with:</p> <ul style="list-style-type: none"> Regulatory Strategy Manager Financial Accounting Manager Enerven Finance Manager PMO <p>Key Control</p> <ul style="list-style-type: none"> Cost Allocation Calculation CAM approved by the AER <p>Information Obtained</p> <ul style="list-style-type: none"> Cost Allocation Calculation CAM approved by the AER <p>Test Performed</p> <ul style="list-style-type: none"> We obtained and reviewed SAPN's cost allocation calculation, which is consistent with the AER approved CAM.
Observations	<p>Based on the testing performed we have not identified any matters of exception against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> SAPN maintains cost allocation calculations that are consistent with the AER approved CAM and demonstrate how it meets cost allocation and attribution obligations.
Recommendation	NA
Management Response*	NA
Rating	No Exception
Obligation not to Discriminate	
Guideline Reference	4.1(b)
Guideline Obligations	<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> <ol style="list-style-type: none"> direct control services by the DNSP (whether to itself or to any other legal entity); and / or contestable electricity services by any other legal entity

Testing	<p>Discussions held with:</p> <ul style="list-style-type: none"> • Procurement Manager • Customer Relations Manager • CFO • PMO <p>Key Control</p> <ul style="list-style-type: none"> • Enerven Engagement Guideline process • Service agreements between SAPN and Enerven outlining the basis on which services will be provided • Ring-fencing training • Call centre script <p>Information Obtained</p> <ul style="list-style-type: none"> • Enerven Engagement Guidelines • Procurement Engagement Guidelines • Strategic Sourcing Framework • Signed service agreements between SAPN and Enerven • Ring-fencing training module and completion report • Call Centre Script <p>Test Performed</p> <ul style="list-style-type: none"> • We reviewed the Enerven Engagement Guidelines, Procurement Engagement Guidelines and Strategic Sourcing Framework to obtain an understanding of the policies and processes where Enerven is a potential supplier in SAPN sourcing activity. • We inquired of management whether Enerven tendered to provide services to SAPN during the audit period and checked whether the internal policies and procedures were adhered to during the tender process. • We reviewed the signed service agreements between SAPN and Enerven for evidence that they establish the basis on which services are performed between the entities. • We reviewed the online ring-fencing training module for evidence that the obligation not to discriminate is explained in clear terms. • We obtained the training report indicating the employees who completed the training and the overall rate of completion. • We reviewed SAPN call centre scripts to confirm that appropriate instructions are given in instances where a potential Enerven customer calls. • We called SAPN customer services on 3 occasions and inquired about contestable services to confirm they do not recommend Enerven as a provider. • We interviewed two customer relations representatives to verify their knowledge and understanding of the processes and procedures in place to prevent the disclosure of confidential information.
Observations	<p>Based on the testing performed we have not identified any matters of exception against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> • [REDACTED] • SAPN has established internal policies and procedures where Enerven is a potential supplier during sourcing activity. • SAPN has signed service agreements with Enerven to outline the basis on which services will be provided. • The ring-fencing training module explains the obligation not to discriminate in clear terms. • At 30 June 2018 the ring-fencing training module has been completed by 96% of employees. • On the 3 occasions we called the customer services centre and inquired about contestable services, the customer relations representatives did not recommend Enerven as a provider of contestable electricity services. • Customer relations representatives are aware of their obligations regarding the obligation not to discriminate.

	<p>We have identified 3 matters of improvement as follows:</p> <p><i>1. Procurement Information Access Restrictions</i></p> <ul style="list-style-type: none"> • Procurement staff members are a corporate service and are shared by SAPN and Enerven, as permitted under clause 4.2.2(b)(i)(c) of the Guideline. To perform their shared function, procurement staff members have access to █████ and other IT systems that contain confidential information such as current contract files and agreements. • When SAPN undertakes sourcing activity where Enerven is a potential supplier, a procurement team representative is appointed to support Enerven. The procurement team representative is required not to access confidential information during the sourcing activity, however there are no formal restrictions within █████ to prevent access to this information. • There is a risk that procurement staff will obtain information that gives Enerven an advantage during sourcing activity. <p><i>2. Call Centre Script refers to Enerven</i></p> <ul style="list-style-type: none"> • <u>Script 2 – Scenario 3: Non-Distribution Enquiries</u> Agent: Hello this is (Agent Name), how can I help you? Customer: Hi, I am looking to get solar put onto my house and I was wondering if you can recommend a company. Agent: I can certainly help with providing you some direction. There are multiple businesses that provide renewable products and services within South Australia. Searching the internet for these providers and conducting some research into what different providers are in the market would be the first step. For example, there is Enerven our sister company, who do provide renewable products. Customer: Ok, thanks. • The call centre script 2 suggests that a customer relations representative may state "For example, there is Enerven our sister company, who do provide renewable products" when a customer enquires about installing solar products. • There is a risk that call centre staff may breach the Guideline by recommending Enerven to a caller inquiring about contestable services. <p><i>3. Call Centre Quality Monitoring</i></p> <ul style="list-style-type: none"> • The Customer Relations Team Leader undertakes monthly call quality monitoring by randomly selecting 5 calls undertaken by each Customer Relations Representative in that month. • The call quality monitoring process does not consider compliance with the Guideline. • As there is no active process to detect instances of non-compliance with the Guideline by Customer Relations Representatives, there is a risk that breaches will not be identified and rectified. <p>From July 2018 The Customer Relations Team Leader has included the question "Ring-Fencing Compliant?" in the monthly call quality monitoring. The question prompts the Customer Relations Team Leader to consider whether a Customer Relations Representative has recommended Enerven to a caller and whether they have obtained informed consent prior to disclosing customer information.</p>
Recommendation	<p><i>1. Procurement Information Access Restrictions</i></p> <ul style="list-style-type: none"> • We recommend that formal access restrictions are implemented to ensure that procurement representatives supporting Enerven are not able to access information that gives Enerven an advantage during sourcing activity. • In the absence of █████ enabling this functionality, we recommend a review of the procurement team representative's system activity to identify any non-compliance. <p><i>2. Call Centre Script refers to Enerven</i></p> <ul style="list-style-type: none"> • We recommend that the reference to Enerven be removed from the call centre script. <p><i>3. Call Centre Quality Monitoring</i></p> <ul style="list-style-type: none"> • We recommend that the Customer Relations call quality monitoring include consideration of ring-fencing compliance to ensure that the Customer Relations Team Leader is actively checking for instances of non-compliance with the Guideline.

Management Response*	<p><i>1. Procurement Information Access Restrictions</i></p> <ul style="list-style-type: none"> The cost of applying formal access restrictions with creation of separate company codes for SAPN and Enerven in [REDACTED] will be significant. This IT project expenditure as noted above, will be proposed in the next Regulatory Reset Proposal for 2020-25. Creating a new company code in [REDACTED] application will create a new entity to facilitate formal accounting separation of the distribution and non-distribution functions. Procurement staff are 'corporate services' staff, and can be shared between Enerven and SAPN. All Procurement staff have been trained to not use tender, pricing, and other confidential information in a manner that will unfairly advantage Enerven. When a tender process is undertaken, folders within the network drive are locked so only the evaluation team have access to the relevant tender information. <p><i>2. Call Centre Script refers to Enerven</i></p> <ul style="list-style-type: none"> The call centre scripts in their entirety are as follows: <ul style="list-style-type: none"> <u>Script 1 – Scenario 1: Enerven Overflow & Scenario 2: Direct Enerven Enquiries</u> Agent: Hello this is (Agent Name), how can I help you? Customer: Hi, is this Enerven? Agent: Yes this is an answering service for Enerven, can I ask the nature of your enquiry? Customer: <Enquiry> Agent: I've captured your enquiry and will send through your details to someone within Enerven, who typically return your contact within (time frame to be provided by Enerven) Customer: Great, thanks. <u>Script 2 – Scenario 3: Non-Distribution Enquiries</u> Agent: Hello this is (Agent Name), how can I help you? Customer: Hi, I am looking to get solar put onto my house and I was wondering if you can recommend a company. Agent: I can certainly help with providing you some direction. There are multiple businesses that provide renewable products and services within South Australia. Searching the internet for these providers and conducting some research into what different providers are in the market would be the first step. For example, there is Enerven our sister company, who do provide renewable products. Customer: Ok, thanks. We believe that considering the complete scripts, there are no discrimination or promotional issues. The Call Centre will clearly advise any third party that they have options in the contestable market, while making a factual reference (not a recommendation) to Enerven. In addition, to date the Call Centre has not received any calls that require the scripting to be used. All staff complete training which mandates that Enerven cannot be promoted. We do not believe the factual reference to Enerven in the script needs to be removed. <p><i>3. Call Centre Quality Monitoring</i></p> <ul style="list-style-type: none"> This recommendation has been implemented by the Team Leader – Customer Response. The ring-fencing compliance question is now specifically included in the quality monitoring process. The call centre scripts will be adhered to; and informed customer consent is always obtained (as part of the existing process) prior to disclosing any confidential information to a caller. (Target Completion: Complete)
Rating	No Exception
Offices, Staff, Branding and Promotions	
Guideline Reference	4.2.1(a)
Guideline Obligations	A DNSP must use offices that are separate from any offices from which a related electricity service provider provides contestable electricity services

Testing	<p>Discussions held with:</p> <ul style="list-style-type: none"> Property Manager PMO Regulatory Analyst <p>Key Control</p> <ul style="list-style-type: none"> Separate offices for SAPN and Enerven Quarterly office sharing analysis <p>Information Obtained</p> <ul style="list-style-type: none"> Review Office Sharing Guideline Office Sharing Quick Reference Guide. Quarterly office sharing analysis Office sharing register <p>Test Performed</p> <ul style="list-style-type: none"> We performed a search of the SAPN and Enerven business addresses and visited each entity's offices to confirm that SAPN uses offices that are separate from the offices where Enerven provides contestable electricity services. We reviewed the Office Sharing Guideline and Office Sharing Quick Reference Guide. We reviewed office-sharing analysis performed by the PMO.
Observations	<p>Based on the testing performed we have not identified any matters of exception against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> SAPN have separate offices from Enerven. <p>We have identified a matter of improvement as follows:</p> <ul style="list-style-type: none"> Office sharing analysis is performed quarterly to identify instances where offices are shared and to determine whether this is appropriate under the Guideline. In quarter 1 2018 a member of the regulation team did not review the quarterly office sharing analysis. Where reviews are not documented, management and the Board of Directors are unable to monitor whether the control is operating effectively. The office sharing analysis was reviewed by the Regulatory Analyst in quarter 2 2018.
Recommendation	<ul style="list-style-type: none"> We recommend that the office sharing analysis is reviewed by a member of the regulation team and that this review is documented by attaching an electronic signature and review date to the workbook.
Management Response*	<ul style="list-style-type: none"> The staff and office sharing analysis is done by a Finance Analyst with the appropriate skill-set to extract the required data in order to update the office and staff sharing registers. Regulation will review the output of the quarterly analysis, and update the registers as required. Regulation will work with the Finance Analyst to ensure the analysis produces the required data output to do this.
Rating	No Exception
Staff Sharing	
Guideline Reference	4.2.2(a)
Guideline Obligations	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.
Testing	<p>Discussions held with:</p> <ul style="list-style-type: none"> HR Manager Corporate Communication Manager PMO Regulatory Analyst

	<p>Key Control</p> <ul style="list-style-type: none"> Quarterly staff sharing analysis <p>Information Obtained</p> <ul style="list-style-type: none"> Ring-fencing Staff Movement Directive Staff Sharing Guideline Staff Sharing Quick Reference Guide HR Induction Checklist Quarterly staff sharing analysis Staff sharing register <p>Test Performed</p> <ul style="list-style-type: none"> We reviewed the Ring-Fencing Staff Movement Directive, Staff Sharing Guideline, Staff Sharing Quick Reference Guide and the HR Checklist. We reviewed the staff sharing analysis performed by the PMO. We selected a sample of 5 staff that cannot be shared by SAPN and Enerven. We obtained their position descriptions and inquired of the employee to confirm that they are not performing work for both SAPN and Enerven.
Observations	<p>Based on the testing performed we have not identified any matters of exception against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> SAPN has established internal policies and procedures designed to prevent staff sharing in circumstances not allowed by the Guideline. <p>We identified 2 matters of improvement as follows:</p> <p><i>1. Review of Staff Sharing Analysis</i></p> <ul style="list-style-type: none"> Staff sharing analysis is performed quarterly to determine the staff members that are not able to be shared. In quarter 1 2018 a member of the regulation team did not review the quarterly staff sharing analysis. Where reviews are not documented, management and the Board of Directors are unable to monitor whether the control is operating effectively. The staff sharing analysis was reviewed by the Regulatory Analyst in quarter 2 2018. <p><i>2. Staff not informed that they are unable to be shared</i></p> <ul style="list-style-type: none"> Staff and office sharing analysis is performed quarterly by the PMO to determine the staff members that are not able to be shared between SAPN and Enerven. Staff that were assessed as not able to be shared were not informed of their obligations under the Guideline. There is the risk that staff that not able to be shared perform duties for both SAPN and Enerven as they are not aware of their obligations. We did not identify any instances of staff being inappropriately shared between SAPN and Enerven in the audit period.
Recommendation	<p><i>1. Review of Staff Sharing Analysis</i></p> <ul style="list-style-type: none"> We recommend that the staff sharing analysis is reviewed by a member of the regulation team and that this review is documented by attaching an electronic signature and review date to the workbook. <p><i>2. Staff not informed that they are unable to be shared</i></p> <ul style="list-style-type: none"> We recommend that upon completion of the staff sharing analysis, staff that are not able to be shared are informed that they are not able to perform duties for both SAPN and Enerven.
Management Response*	<p><i>1. Review of Staff Sharing Analysis</i></p> <ul style="list-style-type: none"> The staff and office sharing analysis is done by a Finance Analyst with the appropriate skill-set to extract the required data in order to update the office and staff sharing registers. Regulation will review the output of the quarterly analysis, and update the registers as required. Regulation will work with the Finance Analyst to ensure the analysis produces the required data output to do this. <p><i>2. Staff not informed that they are unable to be shared</i></p> <ul style="list-style-type: none"> This part of the process will be reviewed and if required relevant staff will be informed that they are unable to be shared.

Rating	No Exception
Branding and Cross-promotion	
Guideline Reference	4.2.3(a)
Guideline Obligations	<p>A DNSP:</p> <p>i) must use branding for its direct control services that is independent and separate from the branding used by a related electricity service provider for contestable electricity services, such that a reasonable person would not infer from the respective branding that the DNSP and the related electricity service provider are related.</p> <p>ii) must not advertise or promote its direct control services and its contestable electricity services that are not direct control services together (including by way of cross-advertisement or cross-promotion.</p> <p>iii) must not advertise or promote contestable electricity services provided by a related electricity service provider other than the DNSP itself.</p>
Testing	<p>Discussions held with:</p> <ul style="list-style-type: none"> • Corporate Communication Manager • Customer Engagement Manager • PMO • Operations Supervisor • Field Services Staff <p>Key Control</p> <ul style="list-style-type: none"> • Website governance procedure • Social media upload approval process • Call centre scripts <p>Information Obtained</p> <ul style="list-style-type: none"> • Branding Guideline • Branding Quick Reference Guide • Call centre scripts <p>Test Performed</p> <ul style="list-style-type: none"> • We reviewed the Branding Guideline and Branding Quick Reference Guide. • We inspected the SAPN website and social media pages for graphics or posts that would lead a reasonable person to infer that SAPN and Enerven are related or that show cross-advertisement, cross-promotion, or promotion of Enerven services. • We selected a sample of 5 updates to the SAPN website during the audit period and checked that the website governance procedure was adhered to for each of these changes. • We selected a sample of 10 social media posts made in the audit period and checked that the appropriate approval for the post was obtained. • We selected a sample of 5 customer complaints and investigated for instances of non-compliance with the branding and cross-promotion obligation. • We reviewed SAPN call centre scripts for evidence of promotion of contestable electricity services provided by Enerven. • We called SAPN customer services and inquire about contestable services for evidence that Enerven is not recommended as a provider. • We reviewed the customer complaints register for evidence of customer complaints regarding branding or cross-promotion.

Observations	<p>Based on the testing performed we have not identified any matters of exception against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> Distinctly separate Enerven branding has been developed for use when performing contestable electricity services. SAPN does not promote its direct control services and its contestable electricity services that are not direct control services together. <p>We have identified 2 matters of improvement as follows:</p> <p>1. <i>Call Centre Script refers to Enerven</i></p> <ul style="list-style-type: none"> The call centre script suggests that a customer relations representative may state "For example, there is Enerven our sister company, who do provide renewable products" when a customer enquires about installing solar products. There is a risk that call centre staff may breach the Guideline by recommending Enerven to a caller inquiring about contestable services. On the 3 occasions we called the customer services centre and inquired about contestable services, the customer relations representatives did not recommend Enerven as a provider of contestable electricity services.
Recommendation	<p>1. <i>Call Centre Script refers to Enerven</i></p> <ul style="list-style-type: none"> We recommend that the reference to Enerven be removed from the call centre script.
Management Response*	<p>1. <i>Call Centre Script refers to Enerven</i></p> <ul style="list-style-type: none"> The call centre scripts in their entirety are as follows: <u>Script 1 – Scenario 1: Enerven Overflow & Scenario 2: Direct Enerven Enquiries</u> Agent: Hello this is (Agent Name), how can I help you? Customer: Hi, is this Enerven? Agent: Yes this is an answering service for Enerven, can I ask the nature of your enquiry? Customer: <Enquiry> Agent: I've captured your enquiry and will send through your details to someone within Enerven, who typically return your contact within (time frame to be provided by Enerven) Customer: Great, thanks. <u>Script 2 – Scenario 3: Non-Distribution Enquiries</u> Agent: Hello this is (Agent Name), how can I help you? Customer: Hi, I am looking to get solar put onto my house and I was wondering if you can recommend a company. Agent: I can certainly help with providing you some direction. There are multiple businesses that provide renewable products and services within South Australia. Searching the internet for these providers and conducting some research into what different providers are in the market would be the first step. For example, there is Enerven our sister company, who do provide renewable products. Customer: Ok, thanks. We believe that considering the complete scripts, there are no discrimination or promotional issues. The Call Centre will clearly advise any third party that they have options in the contestable market, while making a factual reference (not a recommendation) to Enerven. In addition, to date the Call Centre has not received any calls that require the scripting to be used. All staff complete training which mandates that Enerven cannot be promoted. We do not believe the factual reference to Enerven in the script needs to be removed.
Rating	No Exception
Office and Staff Registers	
Guideline Reference	4.2.4 (a), (b)
Guideline Obligations	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.

Testing	<p>Discussions held with:</p> <ul style="list-style-type: none"> • PMO • Regulatory Analyst <p>Key Control</p> <ul style="list-style-type: none"> • Office and staff registers • Quarterly staff sharing analysis • Quarterly office sharing analysis <p>Information Obtained</p> <ul style="list-style-type: none"> • Office and staff registers • Quarterly staff sharing analysis • Quarterly office sharing analysis <p>Test Performed</p> <ul style="list-style-type: none"> • We sighted that the office and staff register is publicly available on the SAPN website. • We crosschecked the office and staff register against the results of the office/location and staff sharing analysis.
Observations	Based on the testing performed we have not identified any matters of exception against the obligation, with key point(s) below: SAPN maintains an office and staff register, which is publically available on its website and updated quarterly based on the results of the office sharing analysis and staff sharing analysis.
Recommendation	NA
Management Response*	NA
Rating	No Exception
Protection of Confidential Information	
Guideline Reference	4.3.2 (a) (b)
Guideline Obligations	A DNSP must: (a) keep confidential information confidential (b) only use confidential information for the purpose for which it was acquired or generated
Testing	<p>Discussions held with:</p> <ul style="list-style-type: none"> • PMO • Regulatory Analyst • IT Manager • HR Manager • Customer Relations Manager • Customer Relations Representatives <p>Key Control</p> <ul style="list-style-type: none"> • Information Classification and Handling Procedure • PMO IT Access Approval <p>Information Obtained</p> <ul style="list-style-type: none"> • Information sharing protocol • Information Classification and Handling Directive • Information Security Directive • IT Application Access Work Instruction

	<p>Test Performed</p> <ul style="list-style-type: none"> • We reviewed the Information Classification and Handling Directive, Information Security Directive, IT Application Access Work Instruction. • We interviewed two customer relations representatives to verify their knowledge and understanding of the processes and procedures in place to prevent the disclosure of confidential information. • We reviewed the customer complaints register for evidence of customer complaints that indicate the disclosure of confidential information. • We reviewed the list of controlled applications as determined by the PMO for completeness. • We reviewed the PMO's initial IT access review, which was performed prior to the compliance date, 1 January 2018. • We selected 1 Enerven staff member IT access request to test whether the request was approved by the PMO.
Observations	<p>Based on the testing performed we have not identified any further matters of exception against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> • SAPN has developed policies and procedures to ensure that confidential remains confidential and is only used for the purpose for which it was acquired. • Customer relations representatives are aware of their obligations regarding the protection of confidential information. <p>Based on the testing performed we have identified the following 2 control improvement opportunities which have been classified as exceptions:</p> <p><i>1. Staff Transfers and Secondments</i></p> <ul style="list-style-type: none"> • The HR department has developed an induction checklist that must be completed and returned when staff members are transferred to Enerven or seconded to Enerven for a period greater than 6 weeks. • When completing the induction checklist, hiring managers are required to ensure that staff access to controlled applications is restricted. • [REDACTED] • [REDACTED] • A ring-fencing checklist is not required where staff are seconded to Enerven for less than 6 weeks. • Without adequate monitoring, there is a risk that staff who are transferred or seconded to Enerven retain access to IT applications that contain confidential information without adequate consideration of ring-fencing compliance. • HR is currently designing controls that it will implement to monitor compliance with ring-fencing obligations. <p><i>2. Controlled Applications List</i></p> <ul style="list-style-type: none"> • In December 2017 SAPN identified 24 controlled applications. • Per clause 4.3 of the Guideline, 'confidential information' means electricity information generated by a DNSP in connection with its provision of direct control services that is not already publicly available. Electricity information includes information about the electricity network, electricity customers or electricity services, but does not include non-customer financial information or non-customer performance information. • When determining which applications contained confidential information, SAPN initially applied a definition of confidential information that was restricted to customer information that is not publicly available. Network and service information was not originally included in the definition of confidential information against which IT systems were assessed. Resultantly, IT applications that contain network and services information were not classified as controlled applications. • [REDACTED] applications were not included in the original analysis. As a result, [REDACTED] applications containing confidential information were not included in the list of controlled applications. • The list of controlled applications is integral to the operation of key IT controls such as the quarterly IT access review and the IT application access work instruction. • There is a risk that the controls that rely on the list of controlled applications will not operate correctly to prevent Enerven staff from accessing confidential information. <p>We have identified 4 matters of improvement as follows:</p> <p><i>3. IT Access Review</i></p> <ul style="list-style-type: none"> • The IT Access review performed prior to the compliance date, 1 January 2018 was not sufficient. The initial IT access review performed in December 2017, was restricted to contestable Enerven staff and two IT applications, [REDACTED]. These IT applications contain confidential customer data.

	<p><i>2. Controlled Applications List</i></p> <p>We recommend that:</p> <ul style="list-style-type: none"> The list of controlled applications is reviewed to include IT applications that contain confidential information per the Guideline definition. This analysis should include █████ and non-█████ applications. Access to the newly identified controlled applications be reviewed and that Enerven staff have their access removed unless they meet one of the exemptions in the Guideline. <p><i>3. IT Access Review</i></p> <ul style="list-style-type: none"> We recommend that a comprehensive review of all Enerven Staff IT application access be performed. <p><i>4. IT Access Approval</i></p> <p>We recommend that:</p> <ul style="list-style-type: none"> All applications for Enerven staff to receive access to controlled applications are reviewed and approved by a staff member with sufficient understanding of the Guideline. All applications for IT access be made through the █████ system and that staff who email or call the service desk requesting access to an IT application be directed to the █████ system. <p><i>5. Building Access</i></p> <p>We recommend that:</p> <ul style="list-style-type: none"> Management review Enerven staff access to the SAPN head office at Keswick. Access be restricted in areas or floors of the Keswick building where there is a higher risk of breaches to the Guideline and that Enerven staff access is only maintained where required to perform their roles. Areas where client facing staff operate or where confidential information is accessed and discussed frequently be restricted. <p><i>6. Procurement Access Restrictions</i></p> <ul style="list-style-type: none"> We recommend that formal access restrictions are implemented to ensure that procurement representatives supporting Enerven are not able to access information that gives Enerven an advantage during sourcing activity. In the absence of █████ enabling this functionality, we recommend a review of the procurement team representative's system activity to identify any non-compliance.
Management Response*	<p><i>1. Staff Transfers and Secondments</i></p> <ul style="list-style-type: none"> The HR Business Partner for Enerven has key visibility of staff movement from SAPN to Enerven. As an interim control, HR will ensure any secondments to Enerven are tracked and access to IT applications is restricted as required. HR are currently reviewing the need for business to advise of staff movements. This is not currently undertaken for staff who move for a period of less than 6 weeks. HR are developing an employee details form which will need to be used by managers to advise staff movements of less than 6 weeks. HR are also in the process of developing a digital new starter checklist form for the business and will include this aspect, as well as an auditing to ensure that we have the new starter checklist returned from managers. The employee details form and digital new starter checklist are expected to be completed and implemented by January 2019. The IT Service Desk will action any request for removal of access, as directed by an exiting Manager or HR, according to the HR process once implemented. <p><i>2. Controlled Applications List</i></p> <ul style="list-style-type: none"> An IT resource has been specifically assigned to coordinate IT ring-fencing activities, which has now included a review and expansion of the list of controlled applications that contain confidential information per the Guideline definition. The process is complete, and the affected applications have now been included on the controlled applications list. Requests for Enerven access will be managed in accordance with the IT Application Access Work Instruction. For █████ transactions, the ability to restrict access between companies (SAPN and Enerven) is limited without having separate company codes. This work and associated costs will be included in a business case for the 2020-25 Regulatory Control Period. Creating a new

	<p>company code in SA Power Networks' [REDACTED] application will create a new entity to facilitate formal accounting separation of the distribution and non-distribution functions.</p> <ul style="list-style-type: none"> In the meantime, all staff are provided with training and aware of their obligation not to use [REDACTED] (confidential information) for any purpose (i.e. discriminatory) not allowed by the Guideline. <p>3. <i>IT Access Review</i></p> <ul style="list-style-type: none"> This more comprehensive review was conducted by the PMO prior to finalisation, resulting in 150 access restrictions for Enerven staff. We understand this issue can now be closed. <p>4. <i>IT Access Approval</i></p> <ul style="list-style-type: none"> The IT Application Access Work Instruction, which is now owned by the IT Service Desk and Individual Team leads, requires that any access to an application containing confidential information is first approved by the business application owner, who has knowledge of ring-fencing obligations. To ensure that all business application owners are confident with the process and their obligations, the IT Application Support Services Manager ([REDACTED]) will be meeting with each of them formally to confirm. In addition to the Application Access procedure, the IT Service Desk have other controls in place to ensure access is not granted outside of the process. This includes a clear pop-up notification when any Enerven person is entered in the request management system, to ensure the IT Service Desk Analyst is aware that the request needs to go through the specific approval process; and a check-box which creates a specific workflow for Enerven access requests. While the quarterly IT access review will be a thorough check of Enerven access, the other controls mitigate inappropriate access. Management have also communicated to their teams that all requests for access to applications (including [REDACTED]) must be entered and managed via the IT service request system. <p>5. <i>Building Access</i></p> <ul style="list-style-type: none"> Confidential information is primarily stored (and protected) within IT systems which requires specific access controls. Other information retained within the head office is treated in accordance with our internal Information Management Directive. Information is not shared (as with any other third party) just through access to the building. [REDACTED] [REDACTED] [REDACTED] We believe the controls in place are sufficient, [REDACTED] <p>6. <i>Procurement Access Restrictions</i></p> <ul style="list-style-type: none"> The cost of applying formal access restrictions with creation of separate company codes for SAPN and Enerven in [REDACTED] will be significant. This IT project expenditure as noted above, will be proposed in the next Regulatory Reset Proposal for 2020-25. Procurement staff are 'corporate services' staff, and can be shared between Enerven and SAPN. All Procurement staff have been trained to not use tender, pricing, and other confidential information in a manner that will unfairly advantage Enerven. When a tender process is undertaken, folders within the network drive are locked so only the evaluation team have access to the relevant tender information.
Rating	Exceptions in relation to staff transfers/secondments and the controlled application list
Disclosure of Information	
Guideline Reference	4.3.3 (a)-(g)
Guideline Obligations	<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</p>

	<p>is necessary to enable the legal entity to provide its transmission services, contestable electricity services or other services to the customer or potential customer;</p> <p>(e) the 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> <p>(g) a related electricity service provider of the DNSP has requested the disclosure and the DNSP complies with clause 4.3.4 in relation to that confidential information.</p>
Testing	<p>Discussions held with:</p> <ul style="list-style-type: none"> • PMO • Regulatory Analyst • IT Manager • HR Manager • Customer Relations Manager • Customer Relations Representatives <p>Key Control</p> <ul style="list-style-type: none"> • Requests for Information Procedure <p>Information Obtained</p> <ul style="list-style-type: none"> • Information Classification and Handling Directive • Information Security Directive • Requests for Information Procedure • Information Sharing Guideline • Information Sharing Quick Reference Guide • Information Sharing Protocol • Information Sharing Web Form • Information Sharing Terms and Conditions • Information Register <p>Test Performed</p> <ul style="list-style-type: none"> • We reviewed the Information Classification and Handling Directive, Information Security Directive, Requests for Information Procedure, Information Sharing Guideline, Information Sharing Quick Reference Guide, Information Sharing Protocol, Information Sharing Web Form and Information Sharing Terms and Conditions. • We inquired of the regulatory analyst whether SAPN has disclosure any confidential information in the audit period. • We interviewed two customer relations representatives to verify their knowledge and understanding of the processes and procedures in place to ensure that explicit informed customer consent is obtained prior to the disclosure of confidential information.
Observations	<p>Based on the testing performed we have not identified any matters of exception against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> • SAPN has developed policies and procedures to ensure that confidential information is disclosed only where permitted under the Guideline. • SAPN has not disclosed confidential information in the audit period. • Customer relations representatives are aware of their obligations regarding the disclosure of confidential information.
Recommendation	NA
Management Response*	NA
Rating	No Exception

Information Register	
Guideline Reference	4.3.5 (a) - (c)
Guideline Obligations	<p>(a) A DNSP must establish, maintain and keep a register of all:</p> <ul style="list-style-type: none"> i. related electricity service providers; ii. other legal entities who provide contestable electricity services but who are not affiliates of the DNSP; who request access to information identified in clause 4.3.4(a), and must make the register publicly available on its website. <p>(b) For each legal entity that has requested that a DNSP provide access to information identified in clause 4.3.4(a), the DNSP's information register must:</p> <ul style="list-style-type: none"> i. identify the kind of information requested by the legal entity; and ii. describe the kind of information requested by the legal entity in sufficient detail to enable other legal entities to make an informed decision about whether to request that kind of information from the DNSP. <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>
Testing	<p>Discussions held with:</p> <ul style="list-style-type: none"> • Regulatory Analyst • PMO <p>Key Control</p> <ul style="list-style-type: none"> • Information Register <p>Information Obtained</p> <ul style="list-style-type: none"> • Information register • Information Classification and Handling Directive • Information Security Directive • Requests for Information Procedure • Information Sharing Guideline • Information Sharing Quick Reference Guide • Information Sharing Protocol • Information Sharing Web Form • Information Sharing Terms and Conditions <p>Test Performed</p> <ul style="list-style-type: none"> • We reviewed the Information Classification and Handling Directive, Information Security Directive, Requests for Information Procedure, Information Sharing Guideline, Information Sharing Quick Reference Guide, Information Sharing Protocol, Information Sharing Web Form and Information Sharing Terms and Conditions. • We sighted that the information register is publicly available on SAPN's website. • We inquired of the Regulatory Analyst whether there have been any disclosures of confidential information in the audit period. <p>We confirmed that there were no disclosures of confidential information in the audit period by sighting the results of the Information Sharing Web Form.</p>
Observations	<p>Based on the testing performed we have not identified any matters of exception against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> • SAPN has established an information register that is publically available on the SAPN website. • SAPN has in place a process to maintain the information register
Recommendation	NA
Management Response*	NA
Rating	No Exception

Conduct of Service Providers	
Guideline Reference	4.4.1 (a)
Guideline Obligations	A DNSP: (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: i. clauses 4.1, 4.2.1, 4.2.2 and 4.3.2 of this Guideline; and ii. clause 4.2.3 of this Guideline in relation to the brands of the DNSP; as if the service provider was the DNSP
Testing	<p>Discussions held with:</p> <ul style="list-style-type: none"> PMO Procurement Manager Internal legal counsel <p>Key Control</p> <ul style="list-style-type: none"> SAPN Standard Terms and Conditions Supplier Contract Amendment Letter PO Transfer Notification Letter SAPN's Relationship to Enerven communication. <p>Information Obtained</p> <ul style="list-style-type: none"> SAPN Standard Terms and Conditions Supplier Contract Amendment Letter PO Transfer Notification Letter SAPN's Relationship to Enerven communication <p>Test Performed</p> <ul style="list-style-type: none"> We reviewed the PO Transfer Notification Letter and SAPN's Relationship to Enerven communication. We reviewed the Supplier Contract Amendment Letter template and checked that it requires service providers to comply with clauses 4.1, 4.2.1, 4.2.2, 4.3.2 and 4.2.3 of the Guideline. We selected a sample of 5 suppliers and confirmed that a Supplier Contract Amendment Letter was signed and returned to SAPN. We selected a sample of 5 suppliers with new contracts entered into in the period and confirmed that the Standard Terms and Conditions attached to the contract contained the requirement to comply with clauses 4.1, 4.2.1, 4.2.2, 4.3.2 and 4.2.3 of the Guideline.
Observations	Based on the testing performed we have not identified any matters of exception against the obligation, with key point(s) below: <ul style="list-style-type: none"> SAPN has issued supplier contract amendments that require service providers to comply with clauses 4.1, 4.2.1, 4.2.2, 4.3.2 and 4.2.3 of the Guideline. Updated standard terms and conditions requires service providers to comply with clauses 4.1, 4.2.1, 4.2.2, 4.3.2 and 4.2.3 of the Guideline.
Recommendation	NA
Management Response*	NA
Rating	No Exception
Conduct of Service Providers	
Guideline Reference	4.4.1 (b)
Guideline Obligations	A DNSP: (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.

Testing	<p>Discussions held with:</p> <ul style="list-style-type: none"> • PMO • Procurement Manager • Internal legal counsel <p>Key Control</p> <ul style="list-style-type: none"> • SAPN Standard Terms and Conditions • Supplier Contract Amendment Letter <p>Information Obtained</p> <ul style="list-style-type: none"> • SAPN Standard Terms and Conditions • Supplier Contract Amendment Letter <p>Test Performed</p> <ul style="list-style-type: none"> • We reviewed the revised Standard Terms and Conditions and the Supplier Contract Amendment Letter template and checked that they do not directly or indirectly, encourage or incentivise service providers to engage in conduct which, if the SAPN engaged in the conduct itself, would be contrary to the DNSP's obligations. • We selected a sample of 5 suppliers and confirmed that a Supplier Contract Amendment Letter was signed and returned to SAPN. • We selected a sample of 5 suppliers with new contracts entered into in the period and confirmed that the revised Standard Terms and Conditions were attached.
Observations	<p>Based on the testing performed we have not identified any matters of exception against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> • SAPN has issued supplier contract amendments that require service providers to comply with clauses 4.1, 4.2.1, 4.2.2, 4.3.2 and 4.2.3 of the Guideline. • Updated standard terms and conditions requires service providers to comply with clauses 4.1, 4.2.1, 4.2.2, 4.3.2 and 4.2.3 of the Guideline.
Recommendation	NA
Management Response*	NA
Rating	No Exception
Waiver Register	
Guideline Reference	5.7 (a)
Guideline Obligations	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
Testing	<p>Discussions held with:</p> <ul style="list-style-type: none"> • Regulatory Analyst • PMO <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 SAPN's website. • We crosschecked the details contained on the waiver register against the waiver decisions published on the AER website.

Observations	Based on the testing performed we have not identified any matters of exception against the obligation, with key point(s) below: <ul style="list-style-type: none"> The waiver register is publically available on the SAPN website. SAPN's waiver register is consistent with the AER waiver decisions.
Recommendation	NA
Management Response*	NA
Rating	No Exception
Waiver Register	
Guideline Reference	5.7 (b)
Guideline Obligations	The register established under clause 5.7(a) must include: <ol style="list-style-type: none"> the description of the conduct to which the waiver or interim waiver applies; and 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.
Testing	<p>Discussions held with:</p> <ul style="list-style-type: none"> Regulatory Analyst PMO <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 crosschecked the details contained on the waiver register against the requirements of the Guideline.
Observations	Based on the testing performed we have not identified any matters of exception against the obligation, with key point(s) below: <ul style="list-style-type: none"> The details contained on SAPN's waiver register are consistent with the requirements of the Guideline.
Recommendation	NA
Management Response*	NA
Rating	No Exception
Maintaining Compliance	
Guideline Reference	6.1
Guideline Obligations	A DNSP must establish and maintain appropriate internal procedures to ensure it complies with its obligations under this Guideline.
Testing	<p>Discussions held with:</p> <ul style="list-style-type: none"> PMO Regulatory Analyst Learning and Development Manager <p>Key Control</p> <ul style="list-style-type: none"> Quarterly Internal Compliance Questionnaire Dedicated regulatory team Ring-Fencing Training

	<p>Information Obtained</p> <ul style="list-style-type: none"> • Regulation Ring-Fencing Compliance Procedure • Ring-Fencing Training module and completion report <p>Test Performed</p> <ul style="list-style-type: none"> • We reviewed the Regulation Ring-Fencing Compliance Procedure. • We reviewed the responses to the Regulation Ring-Fencing Quarterly Internal Compliance Questionnaire. • We reviewed the online ring-fencing training module for evidence that the ring-fencing obligations are explained in clear terms. • We obtained the training report indicating the employees who completed the training and the overall rate of completion.
Observations	<p>Based on the testing performed we have not identified any matters of exception against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> • SAPN has developed policies and procedures to ensure that it complies with the obligations under the Guidelines. • The ring-fencing training module explains the Guideline obligations in clear terms. • At 30 June 2018 96% of staff had completed the mandatory ring-fencing training. <p>We have identified 3 matters for improvement as follows:</p> <p><i>1. Review of Quarterly Compliance Questionnaire</i></p> <ul style="list-style-type: none"> • We were not able to obtain evidence of the Head of Regulation’s review of management’s responses to the quarterly compliance questionnaire. • Management’s responses to the compliance questionnaire are given at a high level and responses provide little detail regarding the key preventative or detective controls in place in their area of responsibility. • Where reviews are not documented, management and the Board of Directors are unable to monitor whether the control is operating effectively. • Without detailed response from management, the regulatory team is not able to perform a thorough review of the key controls in each key business area to ensure compliance with the Guideline. <p><i>2. Review of Ring-Fencing Training Attendance for new starters</i></p> <ul style="list-style-type: none"> • When new staff commence, it is the responsibility of the hiring manager to use the induction checklist to ensure that staff complete all mandatory training, including the ring-fencing training, within 3 months. • The learning and development team do not monitor staff attendance of the training. • We noted as part of our audit that hiring managers are not taking active steps to ensure that staff complete the training in a timely manner. • There is the risk that staff do not complete their training in a timely manner and are not aware of the ring-fencing obligations. This increases the risk of a breach of the Guideline. <p><i>3. PMO Handover</i></p> <ul style="list-style-type: none"> • The PMO was established to oversee the implementation plan and ensure compliance with the Guideline by 1 January 2018. • In some instances during the audit period, members of the PMO transitioned out of their roles without formal handover to explain key obligations and assign ownership and accountability for key compliance tasks to members of the business. • There is a risk that staff members in key business areas do not have a clear understanding of their ring-fencing obligations or the tasks required of them to maintain compliance with the Guideline.
Recommendation	<p><i>1. Review of Quarterly Compliance Questionnaire</i></p> <p>We recommend that:</p> <ul style="list-style-type: none"> • The review of the responses to the quarterly questionnaire is documented by attaching an electronic signature and review date to the document. • The regulatory team require management to provide greater detail in their responses to the quarterly questionnaire. • The regulatory team perform a robust review of the responses to the quarterly questionnaire to assess the adequacy of the internal controls in place to ensure compliance with the Guideline.

	<p><i>2. Review of Ring-Fencing Training Attendance</i></p> <p>We recommend that:</p> <ul style="list-style-type: none"> • A member of the learning and development team perform periodic reviews to identify staff who have not completed the mandatory ring-fencing training. • The learning and development team follow up with these staff members and their team leaders by sending email reminders to complete the training. • The timeframe in which to complete the ring-fencing training is reduced from 3 months to 1 month to ensure timely completion of the training. <p><i>3. PMO Handover</i></p> <p>We recommend that:</p> <ul style="list-style-type: none"> • Management develop policies that outline compliance tasks required by key areas of the business to ensure compliance with the Guideline. • The regulatory team meet with key areas of the business to ensure that they understand their obligations and the key tasks required of them to ensure compliance.
Management Response*	<p><i>1. Review of Quarterly Compliance Questionnaire</i></p> <ul style="list-style-type: none"> • The Questionnaire responses will continue to be reviewed quarterly, with any issues reported to Head of Regulation and CFO. Moving forward, email acknowledgement of these issues will be requested by the Regulatory Analyst. • Regulation will also implement a quarterly 'deep dive' for selected questions/obligations to verify controls. • A check of the adequacy of internal controls will be completed by the Internal Audit team as part of their rolling internal audit schedule. <p><i>2. Review of Ring-Fencing Training Attendance</i></p> <ul style="list-style-type: none"> • At the commencement of mandatory ring-fencing compliance, a comprehensive training program was developed and provided to all staff. This included an online training module, which we have a full record of completion for over 99% of staff in February 2018; face-to-face workshops; and numerous sessions at majority of depots. • As an interim control before systemised solutions are implemented, a gap analysis has been conducted to identify any staff who have not completed the training. Those staff (via their managers) have been instructed to complete the training within a 2-week timeframe. The following are improvements that will assist in embedding ongoing controls: <ul style="list-style-type: none"> • Human Relations are currently in the process of reviewing the onboarding program. One of the onboarding processes to be reviewed is the digitising of the induction checklist. This will allow us to ensure everyone has undertaken the immediate activities required as part of the induction program. It will also advise L&D of new starters. • Learning & Development will develop a dashboard in the Learning Management System to provide notification to hiring managers of their teams' incomplete training. The process will also consider escalation of incomplete training to relevant General Manager after a set period of time. (ETD 31 March 2019.) <p><i>3. PMO Handover</i></p> <ul style="list-style-type: none"> • Prior to the PMO finishing up at end August 2018, a meeting was held by the PMO and CFO with each key business area to confirm their obligations and transition activities moving forward. This was then followed up with an email to each area to confirm transition activities in writing. Areas have been advised to contact Regulation if they require any assistance. • There will be monthly meetings between Regulation (GMR, Head of Reg and Reg Analyst) and the CFO to address any ongoing issues by the end of 2018. • The Regulatory Analyst is meeting regularly with IT; and responding to queries from other areas as required. • Ring-fencing transition activities were individually closed out with each General Manager, who acknowledged and accepted accountability for activities assigned.
Rating	No Exception
Annual Compliance Report	
Guideline Reference	6.2.1 (a), (b)
Guideline Obligations	A DNSP must prepare an annual ring-fencing compliance report each regulatory year.

	The annual compliance report must identify and describe , in respect of the regulatory year to which the report relates: i. the measures the DNSP has taken to ensure compliance with its obligations under this Guideline; ii. any breaches of this Guideline by the DNSP , or which otherwise relate to the DNSP; and iii. all other services provided by the DNSP in accordance with clause 3.1; and iv. the purpose of all transactions between the DNSP and an affiliated entity .
Testing	Discussions held with: <ul style="list-style-type: none"> Regulatory Analyst Key Control <ul style="list-style-type: none"> Ring-fencing compliance report Information Obtained <ul style="list-style-type: none"> Ring-fencing compliance report Test Performed <ul style="list-style-type: none"> We reviewed the draft annual ring-fencing compliance report against the requirements of the AER Electricity Distribution Ring-Fencing Guideline – Compliance reporting best practice manual.
Observations	Based on the testing performed we have not identified any matters of exception against the obligation, with key point(s) below: <ul style="list-style-type: none"> SAPN has prepared a compliance report that is consistent with the requirements of the AER Electricity Distribution Ring-Fencing Guideline – Compliance reporting best practice manual.
Recommendation	NA
Management Response*	NA
Rating	No Exception
Annual Compliance Report	
Guideline Reference	6.2.1 (c)
Guideline Obligations	The annual compliance report must be accompanied by an assessment of compliance by a suitably qualified independent authority.
Testing	Discussions held with: <ul style="list-style-type: none"> Regulatory Analyst Key Control <ul style="list-style-type: none"> Ring-fencing compliance report Deloitte has been engaged as the independent authority to assess SAPN's compliance with the Guideline. Information Obtained <ul style="list-style-type: none"> Ring-fencing compliance report Test Performed <ul style="list-style-type: none"> We reviewed the draft annual ring-fencing compliance report for evidence that it is accompanied by an assessment of compliance by a suitably qualified independent authority.
Observations	Based on the testing performed we have not identified any matters of exception against the obligation, with key point(s) below: <ul style="list-style-type: none"> SAPN has 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.
Recommendation	NA
Management Response*	NA

Rating	No Exception
Compliance Breaches	
Guideline Reference	6.3
Guideline Obligations	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.
Testing	<p>Discussions held with:</p> <ul style="list-style-type: none"> Regulatory Analyst PMO <p>Key Control</p> <ul style="list-style-type: none"> Breach Management Governance Framework Ring-fencing training module <p>Information Obtained</p> <ul style="list-style-type: none"> Breach Management Governance Framework Breach Reporting Quick Reference Guide Ring-fencing Training module and completion report <p>Test Performed</p> <ul style="list-style-type: none"> We reviewed the Breach Management Governance Framework and Breach Reporting Quick Reference Guide. We selected a sample of 5 customer complaints to investigate for instances of non-compliance with the Guideline. We reviewed the online ring-fencing training module for evidence that employees are informed of the breach reporting process. We obtained the training report indicating the employees who completed the training and the overall rate of completion.
Observations	Based on the testing performed we have not identified any matters of exception against the obligation, with key point(s) below: <ul style="list-style-type: none"> SAPN has established processes to ensure material breaches are reported to the AER within 5 days.
Recommendation	NA
Management Response*	NA
Rating	No Exception
Transitional Arrangements	
Guideline Reference	7.1 (a)
Guideline Obligations	A DNSP must fully comply each of the obligations in clauses 3 and 4 of this Guideline in respect of its existing services as soon as reasonably practicable, having regard to the likely costs of having to fully comply with those obligations any sooner, but, in any event, must fully comply with those obligations by no later than 1 January 2018.
Testing	NA. SAPN has elected to comply with the Guideline from 1 January 2018.
Observations	NA. SAPN has elected to comply with the Guideline from 1 January 2018.
Recommendation	NA
Management Response*	NA
Rating	No Exception

Transitional Arrangements	
Guideline Reference	7.1 (b)
Guideline Obligations	Where a distribution determination applicable to a DNSP results in a change in the classification of a distribution service provided by the DNSP, and that change puts the DNSP in breach of an obligation under this Guideline, the DNSP must comply with that obligation within 12 months of the commencement date of the distribution determination.
Testing	NA. There is no distribution determination applicable to SAPN in the audit period.
Observations	NA. There is no distribution determination applicable to SAPN in the audit period.
Recommendation	NA
Management Response*	NA
Rating	No Exception

*The management response does not form part of the auditor's opinion.

4. Auditor Statement

Independent Assurance Report to the Partners of SA Power Networks

Qualified Opinion

We have undertaken a reasonable assurance engagement on SA Power Network's compliance, in all material respects, with Ring-Fencing Guideline for Electricity Distribution on 30 November 2016 in accordance with the National Electricity Rules (the "NER") including amendments made on 17 October 2017 (the "NER Guideline") as evaluated against the obligations under the NER Guideline (the "Obligations") for the period from 1 January 2018 to 30 June 2018.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, SA Power Networks has complied, in all material respects, with the NER Guideline as evaluated against the Obligations for the period from 1 January 2018 to 30 June 2018.

Basis for Qualified 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.

As explained in Section 3 of this report, SA Power Networks has not met guideline 3.1(b) relating to legal separation and guideline 4.3.2 (a) (b) relating to protection of confidential information.

Management of SA Power Network's Responsibilities

Management of SA Power Networks is responsible for:

- (a) The compliance activity undertaken to meet the NER Guideline;
- (b) Identifying risks that threaten the NER Guideline identified above being met;
- (c) Identifying suitable compliance requirements required by the Australian Energy Regulator (the "AER"); and
- (d) Identifying, designing and implementing controls to enable the NER 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 SA Power Networks' compliance, in all material respects, with the NER Guideline as evaluated against the Obligations for the period from 1 January 2018 to 30 June 2018. ASAE 3100 requires that we plan and perform our procedures to obtain reasonable assurance about whether, SA Power Networks has complied, in all material respects, with the NER Guideline as evaluated against the Obligations, for the period from 1 January 2018 to 30 June 2018.

An assurance engagement to report on SA Power Networks' compliance with the NER Guideline involves performing procedures to obtain evidence about the compliance activity and controls implemented to meet the NER Guideline. The procedures selected depend on our judgement, including the identification and assessment of risks of material non-compliance with the NER Guideline, as evaluated against the Obligations.

Our procedures included:

- Inquiring with SA Power Networks personnel what preventative, detective and corrective controls are in place to allow SA Power Networks 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 SA Power Networks 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;
- Obtaining transaction listings and testing for appropriate segregation between distribution services and contestable services provided; and
- Inquiring with management whether they are compliant with the Obligations.

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

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 reasonable assurance engagement for the period from 1 January 2018 to 30 June 2018 does not provide assurance on whether compliance with the NER Guideline will continue in the future.

Restricted Use

This report has been prepared for use by the Partners of SA Power Networks 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 the Partners of SA Power Networks 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, as will be made clear in the report, 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 SA Power Networks 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 SA Power Networks for our work, for this report, or for any reliance which may be placed on this report by any party other than SA Power Networks.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to be 'Darren Hall', with a long horizontal stroke extending to the right.

**Darren Hall
Partner
Chartered Accountant
30 October 2018**