

**United Energy  
Ring Fencing Compliance  
Report  
April 2018**

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# 1 Overview

## 1.1 Background

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

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

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

## 1.2 Purpose

This Annual Ring Fencing Compliance Report (**report**) has been prepared by United Energy Distribution Pty Limited (ACN 70 064 651 029) (**United Energy, we, us, our**) and is provided to the AER in accordance with clause 6.2.1(a) of the guideline.

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

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

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

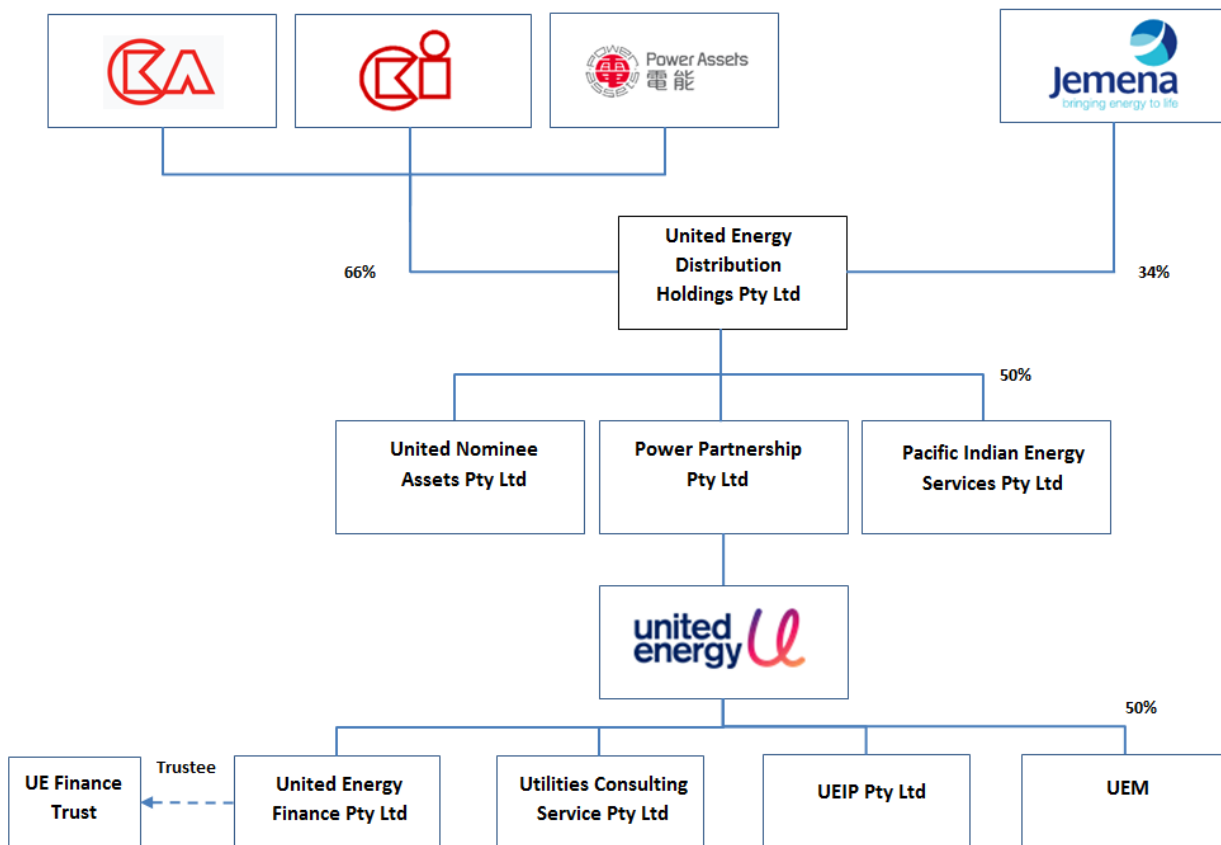
- appropriate internal procedures have been established and maintained to ensure compliance with the obligations in the guideline
- Executive Management is made aware of material breaches of the obligations
- remedial action is taken as soon as possible to rectify breaches of the obligations and completion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

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

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

### 1.3 Corporate overview

The figure below presents our high level group structure.



United Energy changed ownership in May 2017, during the transition period. This follows the purchase by a consortium comprising Cheung Kong Infrastructure Holdings Limited, Cheung Kong Property Holdings Limited and Power Assets Holdings Limited of the DUET Group, which held a 66 per cent share of United Energy.

The remaining 34 per cent of United Energy continues to be owned by SGSP (Australia) Assets Pty Ltd (SGSPAA). SGSPAA is 60 per cent owned by State Grid International Development Australia Investment Company Limited, a wholly owned subsidiary of State Grid Corporation of China via State Grid International Development Limited. The remaining 40 per cent is owned by Singapore Power International Pty Ltd, a wholly owned subsidiary of Singapore Power Limited.

United Energy operates through a hybrid insource / outsource business model that optimises the mix of services to be provided internally and those to be procured through outsourced contracts. As part of this arrangement, we have a service agreement with Zinfra for the construction, maintenance and operation of our distribution network. Zinfra is owned by SGSPAA.

Zinfra does not itself provide distribution services or other electricity services in United Energy's service area. It only provides services to customers for, and on behalf of, United Energy (in its service area) and other distributors (in their service areas).

Other affiliated entities by virtue of the common ownership with CitiPower and Powercor include:

- Energy Solutions Pty Ltd trading as beon Energy Solutions (**Beon**), which provides contestable energy services
- CHED Services Pty Ltd who provides corporate services to us. It also provides corporate services to affiliates
- Powercor Network Services Pty Ltd who provides design and field services to us, affiliates and third parties

United Energy's relationship with Beon, as an affiliate, commence in May 2017. As a result and unlike CitiPower and Powercor, United Energy does not have legacy operational or business practices in respect to Beon that need to be changed to comply with ring fencing.

## **1.4 Independent assessment**

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

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

## **1.5 Definitions**

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

## **1.6 Contact details**

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

Brent Cleeve

Head of Regulation, CitiPower Powercor and United Energy

40 Market Street, Melbourne VIC 3000

Ph. (03) 9683 4465

# 2 Our understanding and approach

## 2.1 Our understanding of the guideline's operation

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

## 2.2 Our approach for the 2017 transitional year

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

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



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

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

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

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

## 2.3 Deloitte's approach

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

The scope of Deloitte's engagement included:

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



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

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

# 3 Our compliance measures

## 3.1 Introduction

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

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

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

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

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

Existing controls are also discussed in our compliance strategy.

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

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

## 3.2 Legal separation and service provided

United Energy Distribution Pty Limited (ACN 70 064 651 029) is registered in Australia by Australian Securities and Investment Commission (**ASIC**) under the *Corporations Act 2001* (Cth) and is, for the purposes of the guideline, a legal entity.

United Energy is a stand-alone electricity distribution network service provider that only provides distribution services within its licensed distribution service area. Set out below are the categories of distribution services we provided consistent with the Victorian electricity distribution network service provider's final determination 2016–2020.

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

We provided these distributed services to:

- electricity retailers
- end-use customers

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

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

### 3.2.1 Separate accounts

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

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

### 3.2.2 Cost allocation

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

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

Responsibility for updating, maintaining and applying the CAM is with the Chief Financial Officer (**CFO**). The CFO is responsible for internally monitoring and reporting on the application of the CAM.

United Energy utilises SAP as its financial management and works management system. United Energy's SAP system is structured to comply with statutory reporting requirements and with this CAM. It is also able to provide a database of information for management reporting purposes.

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

## 3.3 Staff training

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

Face-to-face training was provided to approximately 140 staff members over 14 sessions in addition to staff providing corporate services. The teams trained included:

- Finance
- Contact Centre
- Connections
- Corporate Affairs

- Design
- Network Technologies
- IT
- Planning
- Procurement
- Regulation

The training covered the following topics and ring fencing clauses:

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

In addition to the abovementioned training, Zinfra field crews received a simplified version of the training. The implementation team identified these staff had already been trained by Jemena - Zinfra is a related party to both United Energy and Jemena and so must comply with both companies ring fencing requirements. The message to field crews was that when carrying out unregulated work (i.e. work for other service providers or in locations outside United Energy's network), Zinfra employees must not display United Energy logos, including vehicles, plant and company workwear. Also that when carrying out regulated work on behalf of United Energy or when displaying a United Energy logo, Zinfra employees must not recommend Zinfra for other work. Finally when carrying out regulated work on behalf of United Energy, Zinfra staff must refer any requests for solar (PV) system installers to an industry body i.e. Clean Energy Council.

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

### **3.4 IT system controls**

Zinfra has retained accesses to IT systems which is not restricted by ring fencing because Zinfra does not provide contestable electricity services within United Energy's network (unless a waiver has been granted) and would not be able to use any confidential information for discriminatory purposes.

### **3.5 Physical separation**

The office locations of United Energy and its affiliates were separate prior to commencement of the guideline. Zinfra maintains separate offices to United Energy, however, some Zinfra staff have access to United Energy's offices. This is not restricted by ring fencing because Zinfra does not provide contestable electricity services within United Energy's network (unless a waiver has been granted) and would not be able to use any confidential information for discriminatory purposes.

## 3.6 Staff role changes

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

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

## 3.7 Promotional material review

### 3.7.1 Website

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

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

### 3.7.2 Materials and equipment

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

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

## 3.8 Registers

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

We sought waivers in relation to the following services:

- public lighting and watchman lights (this includes: new stand alone and green field public lighting; alteration and relocation of public lighting assets, and; installation, repair and maintenance of watchman lighting)
- reserve feeder construction
- possum guards
- minor and legacy metering services (this includes: metering time switch adjustment for customers with non-AMI meters; customer access to metering data, type 1-4 metering installations; legacy type 5-6 metering services for customers who consume more than 160MWh per annum; and transitional metering service arrangements for customers who consume more than 160MWh per annum and embedded network customers)
- non-standard connections, customer-requested supply enhancements, and augmentations

All waivers were granted by the AER with an expiry date of 31 December 2020.

Each of these waivers is maintained and kept in a register (including variations) in accordance with the guideline and are publically available on our websites - <https://www.unitedenergy.com.au/industry/mdocuments-library/>.

A description of all shared roles has been recorded in our Staff Register which is published on our websites at <https://www.unitedenergy.com.au/industry/mdocuments-library/>.

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

### **3.9 Conduct of service providers**

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

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

# 4 Complaints and breach reporting

## 4.1 Complaints

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

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

## 4.2 Non-material breaches

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

## 4.3 Material breaches

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

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

## **Independent Assurance Report to the Directors of United Energy Distribution Pty Ltd**

### *Conclusion*

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

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

### *Basis for Conclusion*

We conducted our engagement in accordance with Standard on Assurance Engagements ASAE 3100 Compliance Engagements issued by the Auditing and Assurance Standards Board. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

### *Management's Responsibility for the Report*

Management is responsible for:

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

### *Assurance Practitioner's Independence and Quality Control*

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



## *Assurance Practitioner's Responsibility*

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

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

## *Inherent Limitations*

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

## *Limitations of use*

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

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

DELOITTE TOUCHE TOHMATSU  
DELOITTE TOUCHE TOHMATSU



Samuel Vorwerg  
Partner  
Melbourne, 27 April 2018