

02 August 2017

Mr Chris Pattas  
General Manager  
Australian Energy Regulator

Dear Mr Pattas

## SA Power Networks Ring-fencing implementation plan

SA Power Networks is pleased to provide the Australian Energy Regulator (**AER**) with our ring-fencing implementation plan, as requested by your letter of 17 February 2017. Our implementation plan is also available on our website (<http://www.sapowernetworks.com.au>) under 'Corporate Information'.

Our implementation plan provides an overview of the actions that we are currently taking to ensure compliance with the AER's ring-fencing guideline (**guideline**) by 1 January 2018. The plan sets out our:

- Implementation approach – the internal processes that we have underway to identify and implement measures required to ensure compliance with the guideline, and the key interpretations guiding our internal review of compliance requirements;
- Key compliance areas – our views on how each of the guideline's key requirements affect our business and the compliance actions that we plan to implement;
- Waivers – very limited areas where we are applying for waivers from certain ring-fencing obligations;
- Compliance maintenance / monitoring – the approach by which we intend to review our compliance with the guideline on an ongoing basis; and
- Cost pass-through matters pertaining to the regulatory costs of implementing the guideline.

Our contact officer is Bruno Coelho who can be contacted on 08 8404 5676.

Yours sincerely



Wayne Lissner  
**A/General Manager Corporate Strategy**



# Ring-fencing implementation plan

2 August 2017

**SA Power Networks**  
[www.sapowernetworks.com.au](http://www.sapowernetworks.com.au)

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# 1. Overview

## 1.1 Background

On 30 November 2016, the Australian Energy Regulator (**AER**) published a final Ring-Fencing Guideline (**guideline**) for electricity distribution network service providers (**distributors**). The guideline aims to prevent distributors providing any affiliates operating in unregulated markets from having unfair advantages. The guideline includes provisions in the following 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; and
- Information sharing – providing electricity information acquired in providing monopoly services to all parties on an equal basis.

Distributors must comply with the guideline as soon as possible and no later than 1 January 2018. Applications for waivers from the guideline’s obligations are allowed in certain circumstances.

This Plan sets out our approach to implementing changes to meet the new guideline requirements. At the time of preparing this Plan, the AER was consulting on minor amendments to the guideline. Based on the AER’s draft amended guideline, we do not anticipate changes being required to the actions set out in our Plan, but this will need confirmation when the AER concludes its consultation.<sup>1</sup>

## 1.2 Current corporate structure

SA Power Networks holds the South Australian distribution licence issued by the Essential Services Commission of South Australia and a National Electricity Market registration with the Australian Energy Market Operator as a distributor—these allow us to provide distribution services to our customers.

Figure 1: SA Power Networks’ current corporate structure

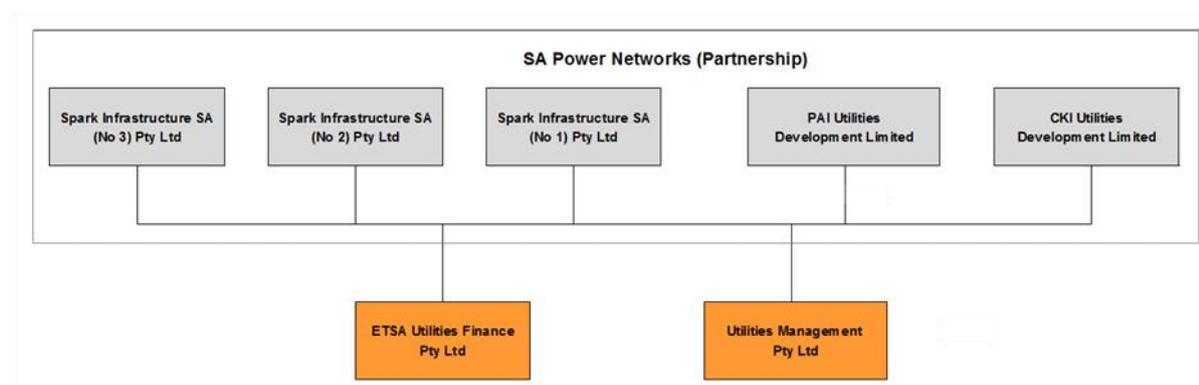


Figure 1 presents our current corporate structure:

- SA Power Networks is a partnership of five incorporated entities. Spark Infrastructure owns a minority (49 percent) interest via three individually incorporated entities. CKI Utilities Development Limited and PAI Utilities Development Limited own the remaining 51 percent.
- Existing affiliates of SA Power Networks include:
  - ETSA Utilities Finance Pty Ltd – which provides funding for SA Power Networks.
  - Utilities Management Pty Ltd – which provides labour resources for SA Power Networks (all staff are employed by Utilities Management Pty Ltd).

<sup>1</sup> AER, Draft – Amended ring-fencing guideline: Electricity Distribution, July 2017.

## 2. Implementation approach

### 2.1 Internal review and decision making

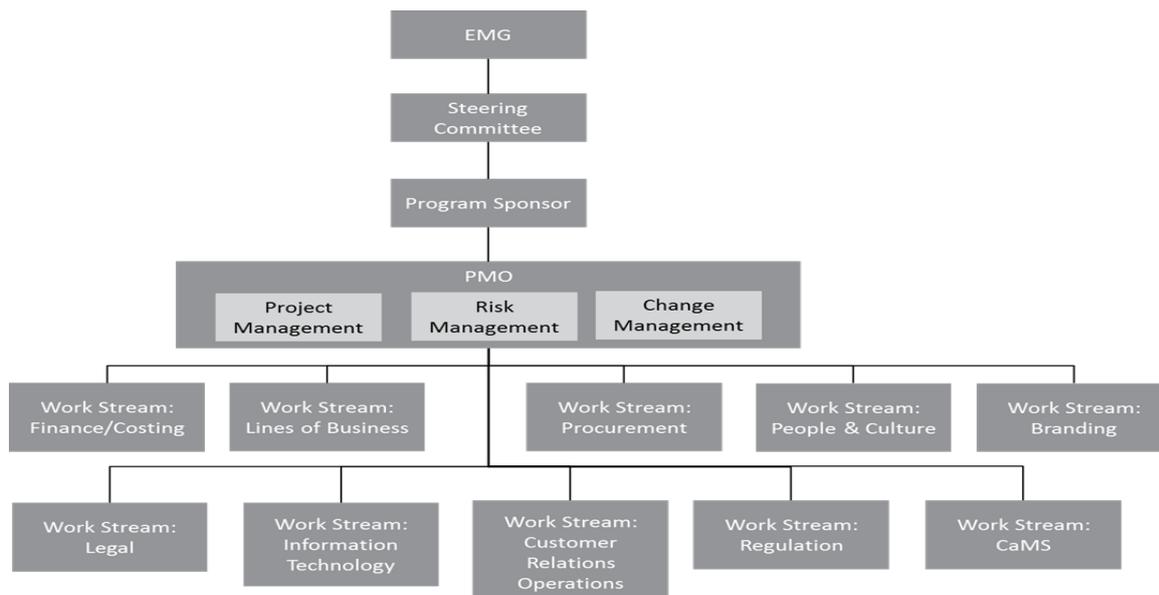


We have established a significant implementation project and dedicated teams to review the guideline’s impact on our business and the compliance actions required, as follows:

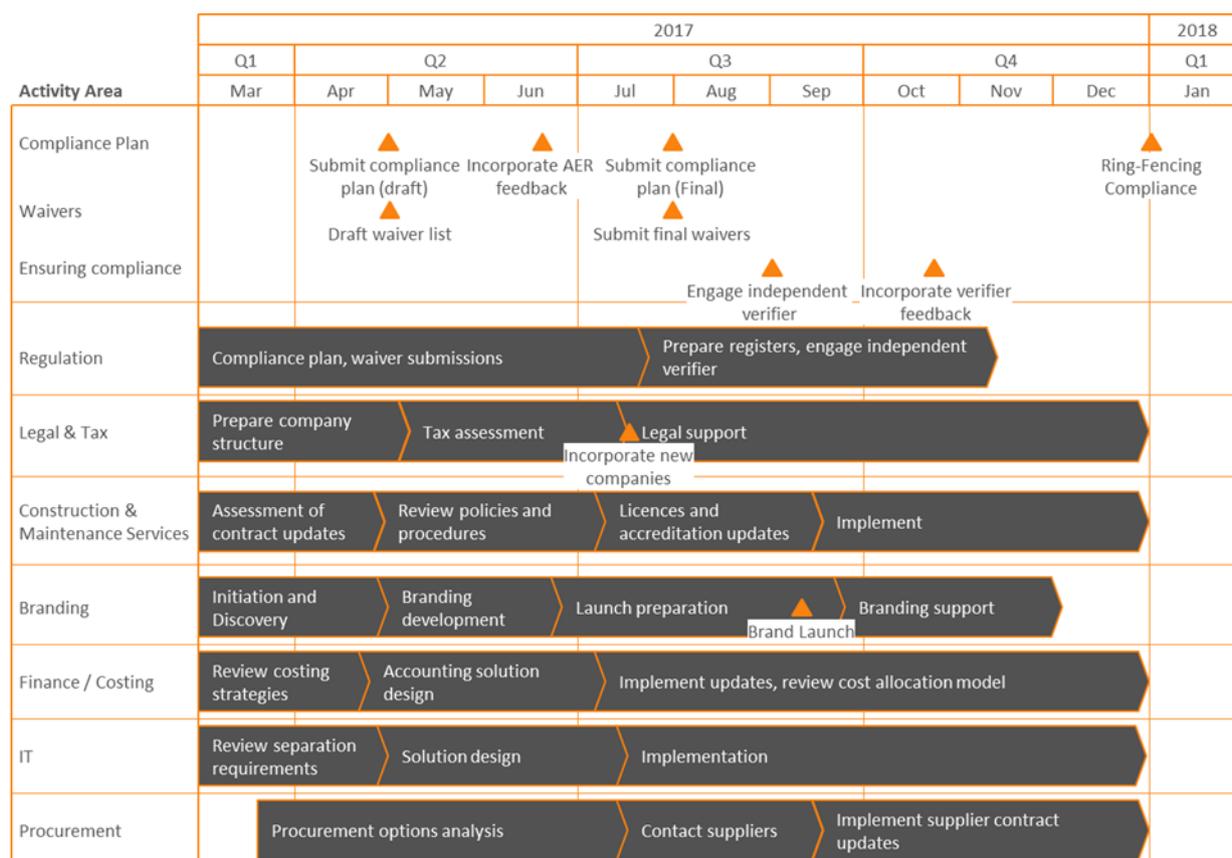
- To commence our review, our Executive Management Group (EMG) conducted an initial ‘desk-top’ review of the guideline’s requirements against key lines of business (December 2016). This review identified that there would be significant impacts across our operations.
- To oversee compliance decision-making, an implementation steering committee comprising members of our EMG was established (January 2017). Decisions are guided with a view to minimising implementation costs and disruption to our customers and business.
- To manage the significant administration involved in reviewing operations and implementing the guideline, a dedicated project management office (PMO) was established (February 2017). These tasks include project documentation, milestone identification, project scheduling, interdependency identification, maintenance of issues / decision registers, and cost estimation.
- To identify the detailed impact of the guideline and implementation tasks required of our individual lines of business, several divisional work streams were established (February 2017).
- To help interpret the guideline and advise on the complex procedures for establishing new legal entities, external legal and consulting resources have been engaged. Further, external resources will be engaged to provide audit review.
- Given the significance of the required changes to our business, our Board is and will continue to be engaged to approve key aspects of our implementation plan.

Figure 2 illustrates our implementation project structure and figure 3 our project schedule.

Figure 2: Implementation project management structure



**Figure 3: Implementation project schedule**



## 2.2 Compliance methods

We are using a broad range of methods by which to comply with the guideline, including:

- Creating new legal entities (affiliates);
- Developing a new brand and associated materials for these entities;
- Transferring existing contracts to new legal entities;
- Separating certain business activities from regulated activities;
- Seeking waivers from some obligations on a temporary basis;
- Altering information technology (IT) systems and access controls where required;
- Implementing information protocols;
- Reviewing employees’ role descriptions and functions;
- Delivering compliance awareness and procedural training; and
- Establishing an ongoing compliance monitoring and reporting system.

## 2.3 Key interpretations

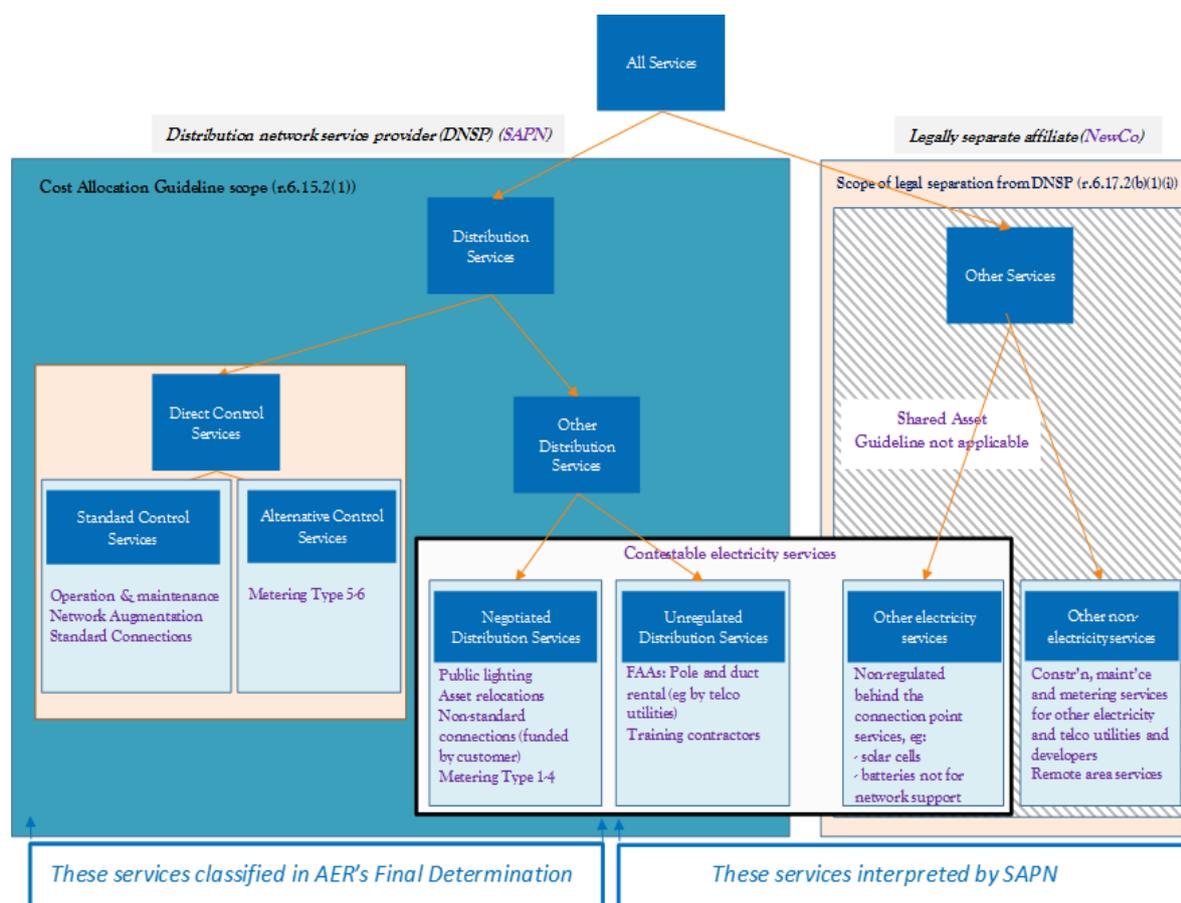
Compliance implementation is guided by our general interpretations of the guideline, as follows:

1. Only services provided in connection with our own distribution network are distribution services—work on, or for, other networks must therefore be undertaken by our affiliates;<sup>2</sup>

<sup>2</sup> Clause 3.1(d)(v) of the guideline exempts from legal separation, any assistance that we need to provide other network providers in emergency situations.

2. If an affiliate provides services on our behalf we must ensure it complies with ring-fencing obligations just as any service provider must.<sup>3</sup> However, where an affiliate undertakes work for a different party, ring-fencing does not apply to the affiliate; this is except to the extent that the affiliates' provision of services to the other party affects its relationship with us.<sup>4</sup>
3. Staff involved in providing our direct control services may also be involved in the provision of services by an affiliate, subject to meeting certain conditions:
  - The roles and activities of any shared staff must accord with one of the exclusions listed in the guideline.<sup>5</sup> A key focus of our internal review is to understand the use of electricity information and any staff that might be able to use such information in a discriminatory manner; or
  - The services in question are 'other non-electricity services',<sup>6</sup> typically construction, maintenance and metering infrastructure services provided to customers that are not connected to our distribution network and include property developers and other electricity and telecommunications utilities. For the avoidance of doubt, where any of our affiliate's customers provide electricity services, our affiliate is providing an input to these services and is not providing services direct to their customers—therefore our affiliate is not providing electricity services in these circumstances. Figure 4 overlays a non-exhaustive list of these and other services that we provide, onto the diagram from the AER's Explanatory Statement.

**Figure 4: Mapping ring-fencing to distribution services**



<sup>3</sup> Section 4.4 of the guideline sets out obligations on service providers to comply with the guideline.

<sup>4</sup> If our affiliate provides services to a party other than SA Power Networks, we must ensure our affiliate is not using SA Power Networks' regulated funds to cross-subsidise its activities. Also if our affiliate shares, for example, IT or property, to conduct its unregulated work, this must not prejudice regulated work that it undertakes for us.

<sup>5</sup> These exclusions are listed under clauses 4.2.1(b) and 4.2.2(b).

<sup>6</sup> AER, *Electricity distribution ring-fencing guideline – Explanatory statement*, November 2016, Figure 1, page 14.

### 3. Key compliance areas

In this section we outline our compliance measures. Our review across all lines of business identified that the following areas warrant greatest attention. These areas include where:

- We provide non-distribution services – bringing legal separation into focus;
- We engage with retail customers (which could include affiliates and their competitors or customers of their competitors) – bringing cross-promotion and discrimination provisions into focus;
- A retail customer requires a direct control service and a contestable service (which could be provided by an affiliate) – bringing information disclosure, discrimination and staff sharing provisions into focus; and
- We will share staff and assets with affiliates – bringing cost allocation, information disclosure, discrimination and staff and location sharing provisions into focus.

#### 3.1 Legal separation

##### Considerations

The legal separation obligations in the guideline require that we only undertake distribution services and prevent us from using regulated funds to subsidise affiliates. The obligations do not prevent our affiliates from providing non-distribution services.

Our review of our business lines recognised we currently have a large business in non-distribution services.<sup>7</sup> These services are not currently provided from an affiliated entity.<sup>8</sup> They are provided by a separate business unit, Construction and Maintenance Services (CaMS), within SA Power Networks. These services principally relate to ‘other non-electricity services’ (see Figure 4), namely, services provided to property developers and services acting as inputs to the services of other electricity utilities (mainly construction, maintenance and metering services) and telecommunication utilities.

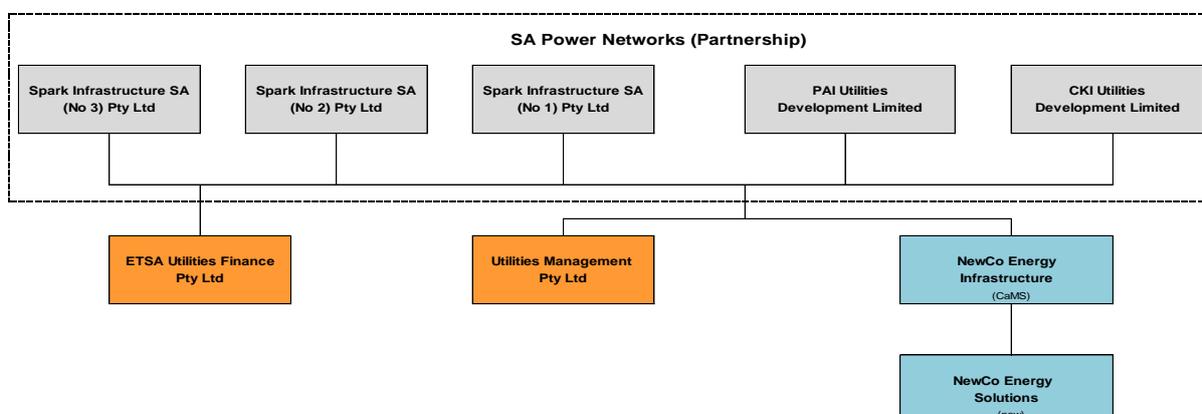
##### Compliance actions

We will comply with legal separation requirements by establishing new legal entities and are negotiating with counter-parties to transfer existing contracts to these entities.

##### Legal entities

Our Board agreed to change our corporate structure by establishing new legal entities to provide non-distribution services, and the intended corporate structure is set out in Figure 5.

Figure 5: SA Power Networks’ intended new corporate structure



<sup>7</sup> The guideline defines Non-distribution services as services other than transmission services or distribution services.

<sup>8</sup> ‘Affiliated entity’ is defined in the guideline as a legal entity.

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These new entities will be wholly-owned subsidiaries of the SA Power Networks partnership (i.e. affiliated entities) and will commence trading from 1 January 2018.<sup>9</sup> New contracts for non-distribution services will be signed by the new entities from this date. Our plan refers to these new entities as “NewCo”, pending a public launch of the new names and brands.

The new entities are:

- NewCo Energy Infrastructure Pty Ltd – to provide infrastructure services; and
- NewCo Energy Solutions Pty Ltd – to provide ‘other electricity services’ to customers.<sup>10</sup>

Significant work is required to establish and support the creation of these new entities including:

- Company registrations;
- Developing governance arrangements;
- Assignment / transfer of appropriate licensing / accreditations;
- Engaging with the Australian Taxation Office to confirm that the establishment of the new entities and the transfer of assets is in compliance with Australian tax legislation;
- Corporate support arrangements;
- Ensuring Enterprise Bargaining Agreements (EBAs) comply with the Australian Building and Construction Commission Code;
- Establishing independent commercial contracts as required; and
- Separate accounting and financial reporting arrangements.

#### *Contract transfer*

We are negotiating with counter-parties to transfer existing contracts for non-distribution services to these entities.

#### *Service examples*

To clarify potential services that do not require legal separation, we discuss two pertinent examples:

- Network innovation:
  - We have a Network Management department branch (Network Innovation Centre) tasked with investigating and trialling innovative approaches to pursue efficiency in our network operations. This includes by better understanding key emerging challenges such as those driven by increasing volumes of new technologies such as Distributed Energy Resources being connected to our distribution network.
  - These activities often involve trials. To date, most trials have been partially funded by the AER’s demand management innovation allowance, with results having been published.
  - Any trials we undertake will be solely to investigate efficiencies in regulated network services and are therefore not a service but rather an input to our direct control service of providing a distribution network. Therefore, legal separation is not required.
- Training of external contractors:
  - We are a Registered Training Organisation (RTO) and are accredited by the Australian Skills Quality Authority (ASQA) to provide vocational education and training in line with the Standards for Registered Training Organisations (RTOs) 2015.<sup>11</sup> We have two centres where we train

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<sup>9</sup> An earlier commencement date creates additional financial reporting complexities.

<sup>10</sup> ‘Other electricity services’ are defined in section 1.4 of the guideline as services for the supply of electricity or that are necessary or incidental to the supply of electricity other than transmission or distribution services.

<sup>11</sup> ASQA is a Commonwealth Statutory Authority responsible for regulating Vocational Education and Training (VET).

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internal and external apprentices and trade skilled workers to be qualified and accredited to work on our power line assets. Fees are charged for training external persons, recorded as unregulated revenue.

- These training services are in fact distribution services as they solely relate to future work on our distribution network. Therefore, legal separation is not required. Further, we note that our provision of such training not only to internal but also external persons actually serves to facilitate competition amongst contractors vying to provide inputs to our monopoly services.

## 3.2 Separate accounts and cost allocation

### Considerations

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

We currently account for and report most of our unregulated business activities in a separate business unit (CaMS)<sup>12</sup>. These activities are therefore already effectively ring-fenced from an accounting perspective from our distribution services. Costs are attributed or allocated to regulated and unregulated activities in accordance with our approved CAM, which also identifies how corporate costs are allocated between each function.

As highlighted in Figure 5, affiliated entities are being established to further segregate the delivery of non-distribution services. Separate financial accounts will be prepared for these entities.

We continue to review our lines of business to ensure that we correctly identify and account for distribution versus non-distribution services.

### Compliance actions

To comply with the guideline, the following actions are underway or have been completed:

- Reviewing costing procedures to verify no cross-subsidisation exists between us and our affiliates;
- Developing processes, protocols and guidelines for transactions between us and affiliates, including service-level agreements where appropriate;<sup>13</sup>
- Creating inter-company general ledger accounts to identify transactions between us and affiliates;
- Reviewing labour costing to ensure appropriate distribution of employee costs from Utilities Management Pty Ltd to distribution and non-distribution services, including transparent identification of inter-company transactions;
- Creating inter-company transactions for corporate costs allocated in accordance with the CAM;
- Identifying and implementing IT changes to facilitate any revision to accounting procedures in the most efficient manner;
- Updating documentation and training of key personnel in accounting processes and protocols between us and affiliates; and
- Reviewing and updating the CAM for endorsement by the AER, to incorporate structural organisation changes arising from legal separation, and / or any cost allocation changes that may result from complying with the guideline.

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<sup>12</sup> Training of external contractors and activities under Facilities Access Agreements are not undertaken by CaMS.

<sup>13</sup> Service level agreements pertain to corporate services.

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### 3.3 Obligation to not discriminate

#### Considerations

We must not discriminate in favour of affiliates or the customers of affiliates. This obligation applies generally, but also with specific reference to the terms and conditions, timeliness, and quality of services that we offer and provide to other parties.<sup>14</sup>

We are reviewing all areas where discrimination could potentially arise. Situations that we consider warrant attention are where we contract / partner with affiliates and where we process network connection applications.

#### *Contracting and partnering with affiliates:*

We do not currently have affiliated entities (other than Utilities Management Pty Ltd which provides labour resources to us) and therefore do not have examples of where we currently contract with affiliated entities to provide inputs to our distribution services.

In future, we might potentially decide to contract or partner with affiliated entities that we intend to establish. This might be to provide an input to our core regulated distribution services (direct control services). Alternatively, we might partner with our affiliate to share an asset (e.g. a Distributed Energy Resource, DER), with SA Power Networks using the asset to provide an input to our regulated network services, and an affiliate also using /sharing the asset to provide electricity generation services.<sup>15</sup>

#### *Connections:*

In future network connections work, we might potentially be transacting with affiliates and their competitors and / or customers. For example, retail customers and energy services firms are seeking to connect an ever-growing volume of DER to our distribution network.

These connection applicants could include affiliates and their competitors – in this case they might be competing to provide services into the wholesale market. Alternatively, these parties might be competing to provide a network support service input to our network services, and third parties in this case might also be competing against the option of us installing DER on our network via our own in-house investments.

#### Compliance actions

To ensure that we do not favour affiliates, we will undertake a combination of business-wide measures and measures targeted to particular lines of business.

#### *General actions*

- Review existing policies relating to governance arrangements, information security and privacy, with amendment where necessary;
- Create new Group directives which explicitly forbid discrimination in favour of affiliates;
- Review and amend workplace procedures where necessary;
- Develop commercial and service agreements between legal entities as necessary; and
- Develop staff awareness and targeted procedural training to key personnel as required.

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<sup>14</sup> Section 4.1 of the guideline.

<sup>15</sup> Asset sharing is permitted under clause 3.1(d)(i.) of the guideline, if it does not materially prejudice the provision of direct control services by the distributor.

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### *Affiliate engagement*

We will conduct specific training for staff who procure contractors / service providers to re-affirm their obligation to treat all parties equally. More broadly, we will continue our current business practice of seeking service providers or service partners based on efficient service provision or 'best value for money'. We are required and incentivised to do so via the regulatory framework, for example:

- The ex-ante nature of the AER's regulatory allowances combined with the Efficiency Benefit Sharing Scheme and Capital Expenditure Sharing Scheme incentivises us to minimise expenditures;
- The regulatory investment test requires us to consider the most efficient investment solutions; and
- In regulatory determinations, we face AER and stakeholder scrutiny based on proposed regulatory costs, including: alternatives we considered, if competitive tendering was undertaken, the process and terms under which related party agreements were made, and how expenditures benchmark against other distributors. Revenue is ultimately allowed only for efficient activities.

### *Connections*

Any potential discrimination here would take one of two forms – either in relation to the price or the timeliness of the connection process. We must ensure customers are treated equally in like circumstances. For both aspects we already have procedures mitigating possible discrimination:

- Our Connection Policy published on our website, prepared to comply with national legislation, and approved by the AER in our last regulatory determination, sets out the overarching governance and principles that we apply with regards to:
  - Timelines and requirements for provision of customer connection offers; and
  - The methodology for determining customer contributions (charges) relating to the connections.
- We also have a Quality Management System (**QMS**) certified to industry standards (ISO 9000:2015 series). Within the QMS we have established processes that ensure that all customers seeking connections to our network are treated fairly (noting different connections will have different requirements) in all aspects of the connection process. The QMS documents the connection processes used by our Customer Service Managers for all types of connections (minor and major connections, and large embedded generation). To ensure these processes are upheld, they are externally audited in line with industry accreditation requirements (i.e. as per ISO9000).
- Our website also provides information guidelines and technical standards for residential, commercial premises connections and large embedded generator connections. These assist and inform customers seeking to connect new, or upgrade existing, power supplies.

## **3.4 Staff and location separation**

### **Considerations**

Restrictions on staff sharing and co-location first require consideration of the service in question. This is because our direct control services staff are only disallowed from being shared and co-located with the staff of affiliates where the affiliates are providing 'contestable electricity services'. This therefore excludes 'other non-electricity services' as displayed in Figure 4 above.

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

- Do not have access to electricity information;
- Have access to electricity information but cannot use that information to engage in discriminatory conduct in performing their role;

- Only use electricity information to provide corporate services;
- Are located in a regional office; or
- Are providing assistance to another network service provider in response to an emergency or uncontrollable event.

Given these requirements, our review involves:

- Examining the nature of services we currently undertake or might undertake in future, with regard to our current service classifications, and otherwise, our interpretations of services currently not classified by the AER – interpreting where our unclassified services would be ‘contestable electricity services’ or ‘other non–electricity services’. Staff and location separation could have very significant undue impacts on the costs of regulated distribution services as we are unique among distributors in having a large number of negotiated distribution services (i.e. one component of ‘contestable electricity services’).
- Examining the nature of staff roles within service groups and the electricity information that staff have access to and how that information is used to determine if these staff might qualify for one of the exclusions from staff and location separation. In doing so we note that:
  - All staff are and will continue to be employed by Utilities Management Pty Ltd;
  - Staff and location separation requirements operate independently of employment arrangements; and
  - The guideline’s definition of regional offices is inappropriate for our circumstances as it only excludes 8 of our 29 depots from staff and location separation requirements. We do not intend to use this exclusion for regional office staff.

### Compliance actions

For staff who are allowed to be co-located and shared between direct control services and contestable electricity services provided by affiliates, we will describe their roles on a Staff Sharing Register and Office Sharing Register which will be published on our website.

### Nature of services

We have identified most of the service areas that might require staff and location separation due to the nature of the service in question, discussed in Table 1 below.

**Table 1: Potential staff and location separation required by service level**

Classification / definition	Service area	Description / comments
Negotiated distribution services (NDS)	Negotiated distribution services (excluding Type 1-4 metering)	Given the significant number of these services, the efficient and prudent approach for us is to seek a waiver from all functional separation requirements for all of our negotiated distribution services, excluding services that will no longer be provided post metering contestability (1 December 2017). Our NDS waiver is discussed in section 4 on waivers and in our waiver application.
	Type 1-4 metering	Among our existing negotiated distribution services are a small number of Type 1-4 metering services (approx. 300 meters). SA Power Networks will not provide any type 1-4 metering services post 1 December 2017 when full metering contestability commences. We will negotiate with retailers to reassign these 300 meters by 1 December 2017.

Classification / definition	Service area	Description / comments
Not classified: Unregulated distribution services (based on our interpretation)	Facilities Access Arrangement (FAA) revenue	Includes pole and duct rental. Revenue earned from FAAs is accounted for as unregulated revenue and is therefore separated from revenues pertaining to direct control services. However, the service component pertaining to making the network asset (facility) available for use by other parties can only be performed by our direct control services staff and should not need functional separation nor separate branding. <sup>16</sup>
	Training of external powerline contractors	Training solely to enable external parties to work on our network power lines. While unclassified, our training of external contractors provides unregulated revenue but will not advantage our affiliate and so does not need functional separation.
Not classified: Other electricity services	Non-regulated behind the connection point including solar panels and batteries not for network support	<p>These services might be provided in future by our soon to be established affiliate. Staff investigating opportunities in these services are already located in a separate location to our direct control services staff (other than those providing corporate services).</p> <p>We continue to review the nature of staff roles that provide these services and whether they provide an opportunity to act contrary to the guideline if these staff were to be shared or co-located with direct control services staff.</p>
Not classified: Other non-electricity services	Infrastructure construction, maintenance and metering service contract work	<p>These other non-electricity services will be provided by our affiliates. These are typically construction, maintenance and metering infrastructure services provided to customers that are not connected to our distribution network and include property developers, other electricity utilities and telecommunication utilities. As noted earlier, where any of our affiliate's customers provide electricity services, our affiliate is providing an input to these services and is not providing services direct to their customers—therefore, our affiliate is not providing electricity services.</p> <p>Staff of our affiliates who provide 'other non-electricity services' can be shared and co-located with our staff who provide direct control services – no functional separation is required.</p>
Corporate services	<ul style="list-style-type: none"> <li>• Office of the CEO</li> <li>• Company secretary</li> <li>• Finance (including procurement)</li> <li>• Regulation</li> <li>• Legal services</li> <li>• People and culture (human resources and property)</li> <li>• IT</li> </ul>	<p>Staff providing corporate services can be shared across direct control services and the services of affiliates - no functional separation required.</p> <p>Our corporate services include but are not limited to the list referred to here, which is identified in accordance with our current AER-approved Cost Allocation Method.</p>

<sup>16</sup> Note: At the time of preparing this implementation plan the AER is consulting on proposed amendments to the guideline which would confirm this position as compliant with the guideline. See proposed clause 4.2.3(b)(iii) of AER, *Draft – Amended Ring-fencing Guideline: Electricity Distribution*, July 2017.

## Nature of staff roles

For services identified as requiring staff and location separation, namely ‘contestable electricity services’, our departmental work streams are still reviewing all the types of staff roles within each service area to determine which staff might fit one or more of the exclusions the guideline allows or whether physical separation is required.

Our initial assessment is that there are relatively few areas where staff are in a position to discriminate in favour of an affiliate as set out in Table 2. When our review is completed, the final list of staff roles that can be shared and co-located will be set out in our Office Sharing Register and Staff Sharing Register.

**Table 2: Staff and location separation required by nature of staff role—preliminary**

General staff role	Description / initial comments
Network planning, operations, control	Staff involved in planning, operating and controlling the distribution network access electricity information about our distribution network. Generally these staff are not shared with staff of our affiliates who deliver contestable electricity services. On occasion staff (e.g project managers) may be seconded to work for the affiliate. Strict information controls will ensure no harm can occur.
Customer / business development	Staff involved in customer / business development and who directly interface with customers / businesses (e.g. property developers) may access electricity information about our distribution network or customers and will therefore not be shared or co-located with staff of our affiliates who deliver contestable electricity services.
Call centre	We procure many of our call centre functions from an external service provider located in Victoria who also provides contact centre services for CitiPower and Powercor. This arrangement will not be used by our affiliate. Our affiliate will set up its own arrangements.  Further, Call Centre scripts are being reviewed to ensure no cross-promotion occurs.
Field crews	Field crews perform work on our distribution network. These staff do not have any opportunity to discriminate in favour of affiliates and therefore can be shared. This is noting that these staff: <ul style="list-style-type: none"> <li>- Only access very discrete / individual pieces of electricity information pertaining to the particular job at hand in any given situation. They are provided with job schedules, drawings and paper based work folders containing information about the individual work needing to be performed. Further, they only access very limited customer information such as basic contact details (in case they are required) for customer services purposes, and do not have access to broader customer information such as consumption profiles or tariff assignments or other asset / site technical characteristics that could potentially be used to target contestable electricity services such as solar PV sales; and</li> <li>- Do not access consolidated information on the prevailing condition of our network beyond specific assets / locations on which they are requested to perform work.</li> </ul>

General staff role	Description / initial comments
Network design	<p>Network design staff are involved in designing network infrastructure such as power lines, cables and substations. These staff may be shared with staff of our affiliate in the provision of contestable electricity services by our affiliate e.g customer connection assets (such as substations and reticulation of power supplies).</p> <p>These staff do not have any opportunity to use electricity information to discriminate in favour of affiliates noting that they use design software, templates and standards freely available to other third party network design firms who also provide services to ensure that quality work is performed.</p>
Corporate services <ul style="list-style-type: none"> <li>• Office of the CEO</li> <li>• Company secretary</li> <li>• Finance (including procurement and information technology support)</li> <li>• Regulation</li> <li>• Legal services</li> <li>• People and culture (human resources and property)</li> </ul>	<p>Staff providing corporate services are allowed to be shared across direct control services and the services of affiliates – no functional separation required.</p> <p>Our corporate services include but are not limited to the list referred to here, which is identified in accordance with our current CAM.</p>

### 3.5 Branding and cross-promotion

#### Considerations

We must have independent and separate branding from our affiliates, and not advertise or promote (or cross-advertise or promote) the services of affiliates. Our materials must not promote our affiliates. This applies to our website, documentation, clothing and vehicle badging.

We understand that in allowing our staff to be shared with affiliates where affiliates are providing ‘other non-electricity services’, that it is permissible and efficient for our staff in question to use uniforms and vehicles that are branded with our logo (rather than that of our affiliate).<sup>17</sup> However, in these circumstances, any contracts or marketing materials provided to customers for the provision of non-distribution services will be signed by our affiliate who will use their separate brand, logo and letterheads.

#### Compliance actions

We are undertaking the following actions with respect to branding and cross-promotion:

- A new and distinct brand has been developed for our affiliates. We propose two slightly different branding approaches for the two affiliates. Figure 6 indicates the form of the proposed brands without referring to the specific names / brands as these will only be publicly launched in late 2017. Our intent is that:
  - Branding of the affiliate that is to provide services that are largely of a construction and maintenance nature will refer to its affiliation to SA Power Networks as some of the customers

<sup>17</sup> This interpretation is based on discussions with AER staff. Further, we note that at the time of preparing this implementation plan, the AER is consulting on amendments to the guideline which would confirm that our position as set out in our plan is permissible, as set out in amended clause 4.2.3(a)(i). AER, *Draft - Amended ring-fencing guideline: Electricity Distribution*, July 2017, p.15.

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for these services value the corporate connection represented therein. This position is permissible as the services that will be provided by this affiliate will be 'other non-electricity services' as covered in section 2.3 of this implementation plan.

- Branding of the affiliate providing other energy solutions (i.e. 'contestable electricity services') will not refer to its affiliation to us.
- Our staff will be trained appropriately to not promote the services provided by affiliates in their engagement with customers or other service providers;
- Our current website is being reviewed to remove all reference to our CaMS business unit which provides non-distribution services. Going forward, there will be no advertising / cross-promotion of our affiliates' services on our website or via our use of social media. Publishing on our website and social media accounts is undertaken through a centralised process vetted by our Corporate Communications branch – these staff will also be specifically trained to understand what can and cannot be referred to on our website;<sup>18</sup>
- A new website for our affiliates is being established; and
- Call centre scripts are being reviewed so there is no cross-promotion of our affiliates' services.

Figure 6: Example of form of brands for new affiliated entities

**NewCo**

an SA Power Networks Company

**NewCo**

### 3.6 Information access and disclosure

#### Considerations

We can only disclose electricity information acquired or generated in connection with the provision of direct control services (defined in the guideline as 'confidential information') to our affiliate where:<sup>19</sup>

- We have obtained the explicit informed consent of the customer;
- The information is required by law; or
- The information is necessary to provide distribution services or other services.

We must also:<sup>20</sup>

- Develop an Information Sharing Protocol (to publish on our website) outlining how and when we will share information with third parties when that information is shared with affiliates; and
- Establish, maintain and keep an Information Register listing the entities that request access to confidential information that we have shared or may share with affiliates. The register must describe the kind of information that is requested by these entities.

At the time of preparing this plan, the AER was consulting on proposed amendments to the guideline which would add further conditions to circumstances in which information can be shared with affiliates and third parties, or where it must be shared with third parties. When finalised, the amended guideline will be reflected in our Information Sharing Protocol and Information Register.

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<sup>18</sup> At the time of preparing this implementation plan, the AER is consulting on amendments to the guideline which would not restrict us from promoting the non-electricity services provided by our affiliate. We will review the intended application of the guideline when finalised.

<sup>19</sup> Section 4.3.3 of the guideline.

<sup>20</sup> Sections 4.3.4 and 4.3.5 of the guideline.

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## Compliance actions

To comply we are:

- Reviewing and amending relevant corporate policies.
- Establishing an Information Sharing Protocol to publish on our website to specify in particular that:
  - The protocol relates to ‘confidential information’ as defined in section 4.3.1 of the guideline;
  - ‘Confidential information’ will only be provided to another legal entity (including affiliates) if this disclosure complies with section 4.3.3 of the guideline;
  - We will not disclose (unless required by law) ‘confidential information’ we obtain via a competitor (or potential competitor) of an affiliate where this could advantage our affiliate;
  - We will deal equally with all legal entities (including affiliates) in regard to the provision of confidential information, and on substantially the same terms and conditions and timeliness.
- Establishing an Information Register:
  - Requests for information will be submitted via our website. Corporate staff (Regulation) will assess all requests for information in accordance with the guideline and our Information Sharing Protocol, and if approved:
    - Details of the request will be added to the Information Register; and
    - The request will be directed to staff, who we will nominate from each area of our business, as being responsible for receiving information requests and providing requested information.
- Intending to conduct employee awareness and procedural training so that staff understand the strict circumstances in which ‘confidential information’ can or cannot be shared with affiliates.
- We are reviewing the nature of any use of electricity information across the business and developing / revising business and information technology rules, protocols and processes.

## 3.7 Conduct of service providers

### Considerations

We must ensure that any new or varied agreement between us and a service provider requires the service provider to not act contrary to the guideline’s requirements.<sup>21</sup> We must also not directly encourage or incentivise a service provider to engage in conduct contrary to our obligations in the guideline.

### Compliance actions

Our internal Legal branch is developing suitable contractual amendments and stand-alone contracts, and are working with our Procurement branch to implement necessary changes. This work will include ring-fencing obligations on service providers.

We have a large number (over 400) of service provider contracts that will need to be reviewed and potentially amended. We propose to hold a face-to-face supplier briefing with the top 30 affected suppliers to provide an overview of the proposed contract amendments and then issue the proposed amendments for their execution after the briefing. For the remaining suppliers we will issue an explanatory note with the contract amendment for execution.

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<sup>21</sup> Section 4.4 of the guideline.

## 4. Waivers

### Considerations

The guideline allows us to apply for waivers in respect of the legal and functional separation obligations.<sup>22</sup> We must also establish and maintain a register of all waivers that are granted.

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

We expect the amount of information needed to support a waiver application will reflect the seriousness of any potential consumer harm from receiving / not receiving waiver approval.

We have already been granted a waiver in respect of a temporary generation project we are undertaking on behalf of the South Australian Government, should it proceed. We will also apply for a waiver for our Negotiated Distribution Services.

### Compliance actions

We have developed a register to identify waivers that are granted by the AER, which will be published on our website. Table 3 summarises our waivers (granted and intended).

**Table 3: Summary of waivers**

	Activity	Obligations to waiver	Other comments
1	SA Government temporary generation	Section 3.1, 4.2 and 4.4.1(a) of the guideline	AER granted a waiver on 21 June 2017 for the period until 1 June 2020.
2	Negotiated distribution services (NDS)	Functional separation requirements set out in Section 4.2 and clause 4.4.1(a) of the guideline until 30 June 2020	<p>We are seeking a waiver for most of our NDS in a single application (refer to waiver application dated 31 July 2017). The waiver is only being sought for the remainder of our current regulatory control period, ending June 2020. The waiver is for all NDS excepting metering services that we will not provide post 1 December 2017:</p> <ul style="list-style-type: none"> <li>We will not provide any new meters post 1 December 2017;</li> <li>We will negotiate with retailers to transfer our existing 300 type 1-4 meters by 1 December 2017; and</li> <li>We will no longer provide the NDS titled 'other service – application for an account or new supply'. This service will no longer be required after the start of metering contestability from 1 December 2017.</li> </ul> <p>The waiver covers all other NDS and aims to prevent undue cost impost on services that:</p> <ul style="list-style-type: none"> <li>We currently undertake in a highly-integrated way with direct control services, as we are permitted to under our current service classifications and therefore our current regulatory agreement;</li> <li>In other jurisdictions are classified as direct control services and which therefore do not require functional separation; and</li> <li>In our view, are likely to be reclassified in our next regulatory determination. We consider that detailed market-based considerations of these services are matters for service classification decisions and not ring-fencing guideline compliance considerations.</li> </ul>

<sup>22</sup> Section 5 of the guideline.

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## 5. Compliance maintenance / monitoring

### Considerations

To ensure ongoing compliance with the guideline, we must:

- Establish and maintain appropriate internal procedures, noting that the AER may require us to demonstrate the adequacy of these procedures upon reasonable notice;
- Provide annual compliance reports by 31 October each year, accompanied by an independent compliance assessment; and
- Report material compliance breaches within five business days of becoming aware of a breach.

### Compliance actions

We will engage an independent compliance auditor to review changes being made to provide independent assurance that we comply with the guideline. An initial and comprehensive independent audit will be undertaken prior to 1 January 2018. We will work with the compliance auditor to:

- Review our interpretations, decisions and actions taken and confirm they are appropriate;
- Undertake workplace reviews in line with established audit procedures prior to 1 January 2018 to provide compliance assurance;
- Identify areas for further improvement; and
- Design an ongoing ring-fencing compliance regime, integrated with our existing compliance practices, which meets the guideline obligations.

## 6. Cost pass-through

Our approach to implementation aims to minimise cost impacts on our customers. However, the significance of the required changes should not be underestimated. We have not been funded for any implementation costs associated with the guideline (nor indeed for the directly related metering contestability rule change which is currently driving material costs) and the success or otherwise of our intended waiver applications will have a large impact on overall costs.

Should final implementation costs exceed the one percent revenue threshold, we may consider making a cost pass through application to the AER. The magnitude of these costs will also depend on whether the AER approves our waiver applications.

If these costs are below the threshold, we are of the view that any guideline implementation costs should be excluded from the calculation of the AER's incentive schemes (i.e. the Efficiency Benefit Sharing Scheme and the Capital Efficiency Sharing Scheme), so as not to penalise us for complying with the guideline. We consider that such an exclusion would be consistent with the approach taken by the AER in our last regulatory determination, to exclude Regulatory Information Notice (RIN) compliance costs from the scheme performance calculations.