



# United Energy Ring Fencing Strategy

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# 1. Overview

The Australian Energy Regulator's (AER) new Ring-fencing Guideline (Guideline) came into effect on 1 December 2016, although there is a transition period for some obligations until 1 January 2018.

The purpose of this Ring-fencing Strategy is to outline broadly how United Energy (UE) intends to comply with the Guideline's obligations through its day-to-day business activities. Three matters that critically shape this strategy, and UE's compliance with the Guideline, are that:

- none of UE's Affiliated Entities provides any Contestable Electricity Services in its distribution service area. UE has prepared this strategy based on its current operations;
- UE has applied to the AER for ring-fencing waivers during the current regulatory control period for certain Contestable Electricity Services. UE has prepared this strategy based on these waivers being accepted; and
- the AER is consulting on possible changes to the Guideline at the time of UE submitting this strategy to the AER. UE has prepared this strategy based on Version 01 of the Guideline and has not had regard for the possible changes to the Guideline.

UE may need to amend this strategy if the basis on which it has prepared it changes.

The key elements of UE's strategy for complying with its obligations in the Guideline involve:

- monitoring the nature of the services that it, its Affiliated Entities and its Service Providers provide within its distribution service area;
- undertaking ring-fencing awareness training for its staff and its Service Providers;
- maintaining and applying its existing accounting procedures and Cost Allocation Method;
- applying for ring-fencing waivers for certain Contestable Electricity Services for the current regulatory control period, as noted above;
- seeking to reclassify the Contestable Electricity Services for which it has sought waivers for the next regulatory control period;
- establishing and maintaining office and staff registers;
- maintaining and applying existing internal policies and procedures in relation to confidentiality, disclosure and sharing of information;
- establishing and maintaining an information register;
- subject to the waiver applications, reviewing its agreements with its Service Providers for compliance with the Guideline's obligations;
- preparing an annual compliance report, accompanied by an assessment of its compliance by a suitably qualified independent authority, and submitting them to the AER within four months of the end of the regulatory year; and
- notifying the AER in writing within five business days of becoming aware of any material breach of its obligations.

UE will not make a pass-through application to recover the costs of ring-fencing compliance if the AER grants the waivers that UE is seeking.



## 2. Introduction

### 2.1 About United Energy

UE distributes electricity to approximately 665,000 customers across east and south-east Melbourne and the Mornington Peninsula, over an area of 1,472 square kilometres.

UE operates under a distribution licence issued by the Essential Services Commission of Victoria. Its area of operation is confined to the geographically defined boundaries set out in its licence.

UE recently changed ownership. 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 UE. This share is now formally owned by CK William Australia Bidco Pty Ltd.

The remaining 34 per cent of UE 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.

UE's distribution licence is unaffected by the change in ownership.

### 2.2 United Energy's operations

UE is a stand-alone electricity distribution network service provider (DNSP) that only provides distribution services within its licensed distribution service area. It does not provide other services, such as electricity retailing, nor does it provide construction or maintenance services to any other business.

UE 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. It has established best-practice procurement arrangements for those outsourced services.

UE has service agreements with the following Service Providers:

- ZNX/Downer – Operating and maintenance service agreements (OMSAs) for the construction, maintenance and operation of its distribution network. ZNX is fully owned by SGSP.
- Skilltech – Manual scheduled meter reading, special meter reads, on-site de-energisation and reenergisations.
- Aegis – Faults and emergencies.
- Probe - Customer and market services.
- Accenture – Major IT system applications support e.g. SAP.
- CGI – IT infrastructure and Service Desk Support.

Following its recent change in ownership, it is likely that UE will continue to operate as a separate business and intends to remain largely outsourced.



## INTRODUCTION

### 2.3 AER's Ring-fencing Guideline

The AER's new Ring-fencing Guideline came into effect on 1 December 2016. The Guideline is a binding Guideline on UE, although there is a transition period for some obligations until 1 January 2018.

UE understands that the objective of the Guideline is to ensure, subject to any waivers by the AER, legal, accounting and functional separation to avoid:

1. **cross-subsidisation** of "other services" (i.e. non-distribution services or contestable services) provided by UE or an Affiliated Entity; and
2. **discrimination** (directly or indirectly) in favour of UE or an Affiliated Entity.

The legal separation obligations in the Guideline require that UE may only provide distribution services.

The accounting separation obligations in the Guideline require that UE must:

- establish and maintain internal accounting procedures in relation to transitions between it and its Affiliated Entities; and
- allocate or attribute costs to its distribution services in a manner consistent with the cost allocation principles in the National Electricity Rules (NER) and UE's approved Cost Allocation Method.

The functional separation obligations require that UE must, subject to any waivers allowed by the AER:

- not discriminate in favour of itself or an Affiliated Entity;
- use separate offices from those that it, or an Affiliated Entity, use to provide contestable electricity services, subject to prescribed exceptions;
- ensure staff that provide or market direct control services do not provide or market contestable electricity services for it or an Affiliated Entity, subject to prescribed exceptions;
- have separate branding for direct control services, and must not advertise or promote other services subject to prescribed exceptions;
- manage information access and disclosure; and
- maintain office, staff and information registers.

Certain functional separation obligations also extend to UE's Service Providers.

UE also understands that the Guideline is intended to complement other regulatory obligations with which it currently complies, including:

- the AER's service classification decisions in its Final Determination;
- UE's approved Cost Allocation Method, the AER's Cost Allocation Guidelines and the cost allocation principles in the NER;
- the AER's annual Regulatory Information Notices; and
- the AER's Shared Asset Guideline.



## INTRODUCTION

### 2.4 United Energy's Affiliated Entities

The Guideline defines the term “Affiliated Entity” as follows:

affiliated entity, in relation to a DNSP, means a legal entity:

- a) *which is a direct or indirect shareholder in the DNSP or otherwise has a direct or indirect legal or equitable interest in the DNSP;*
- b) *in which the DNSP is a direct or indirect shareholder or otherwise has a direct or indirect legal or equitable interest; or*
- c) *in which a legal entity referred to in paragraph (a) or (b) is a direct or indirect shareholder or otherwise has a direct or indirect legal or equitable interest.*

UE confirms that, to the best of its knowledge, for the purposes of:

- clause (a) of this definition, none of the direct or indirect shareholders in UE provides either Direct Control Services or Contestable Electricity Services;
- clause (b) of this definition, none of the legal entities in which UE is a direct or indirect shareholder provides either Direct Control Services or Contestable Electricity Services; and
- clause (c) of this definition:
  - the Victorian electricity DNSPs CitiPower, Powercor, Jemena Electricity Networks and Ausnet Services, and the South Australian DNSP SA Power Networks, are all Affiliated Entities of UE by virtue of having at least one common shareholder, although none of these DNSPs provides:
    - direct control services in UE's service area;
    - other distribution services in UE's service area; or
    - other electricity services in the UE's service area, given they are prohibited from providing these services by virtue of the Guideline.
  - ZNX is an Affiliated Entity of UE by virtue of having a common shareholder, although it does not itself provide distribution services or other electricity services in UE's service area. It only provides services to customers for, and on behalf of, UE (in its service area) and other DNSPs (in their service areas); and
  - other legal entities, such as CHED Services, Powercor Network Services and beon Energy Solutions, may in theory be Affiliated Entities of UE, but in practice UE has no operational or contractual relationship, or other details of any kind, with them, including in relation to either distribution services or other electricity services.

This disclosure is important for this Ring-fencing Strategy because it means that, while the Guideline will always apply in full to UE (subject to any approved waivers), some obligations will not be relevant to UE given the nature and scope of the services provided by its Affiliated Entities. Consequently, this Ring-fencing Strategy is simpler than it might otherwise be. Despite this, there are other obligations in the Guideline involving Affiliated Entities, such as in relation to accounting separation and information sharing, that remain directly relevant because they do not depend on the nature and scope of the services that the Affiliated Entities provide.



## INTRODUCTION

### 2.5 AER's request for information

Clause 6.1 of the Guideline requires UE to “establish and maintain appropriate internal procedures to ensure it complies with its obligations under this Guideline. The AER may require the DNSP to demonstrate the adequacy of these procedures upon reasonable notice”.

The AER wrote to UE on 17 February 2017 requesting that by 31 July 2017 UE submit:

- its ring-fencing compliance strategy;
- any ring-fencing waiver application; and
- any contemplated pass through applications.

This is UE's Ring-fencing Strategy, which includes its approach to the other two matters. UE has separately made ring-fencing applications to the AER at the same time as submitting this strategy. These documents should be read together to gain a complete understanding of how UE proposes to comply with the Guideline. The AER's letter of 17 February 2017 indicates that it will treat this information as confidential.

UE understands that this Ring-fencing Strategy is not the Annual Compliance Report contemplated in clause 6.2 of the Guideline.

### 2.6 Purpose and structure of this Ring-fencing Strategy

The purpose of this Ring-fencing Strategy is to outline broadly how UE intends to comply with the Guideline's obligations through its day-to-day business activities. UE will be subject to external compliance audits once all its compliance actions are in place.

The remainder of this Ring-fencing Guideline is structured as follows:

- section 3 examines UE's compliance with the Guideline obligations;
- section 5 consolidates, and explains further, the strategies and proposed actions identified in section 3;
- section 5 details UE's approach to applying to the AER for ring-fencing waivers; and
- section 6 addresses the matter of a pass-through application for ring-fencing compliance.



### 3. UE's compliance with Guideline's obligations

This section examines UE's compliance with the Guideline's obligations.

Table 1 below details:

- how UE complies, or will comply, with each of the obligations in the Guideline; and
- UE's proposed strategies and actions for maintaining its compliance with these obligations in the future.

Three matters that critically affect UE's on-going compliance are that:

- none of its Affiliated Entities provides any Contestable Electricity Services in UE's distribution service area – this is discussed in section 2.4 and is reflected, where relevant, in Table 1 below. UE has prepared this strategy based on this current situation;
- UE has applied to the AER for certain ring-fencing waivers – this is discussed in section 5 and is the subject of a separate waiver application. UE has prepared this strategy based on these waivers being accepted; and
- the AER is consulting on possible changes to the Guideline at the time of UE submitting this strategy to the AER. UE has prepared this strategy based on Version 01 of the Guideline.

UE may need to amend this strategy if the basis on which it has prepared it changes.





## UE's COMPLIANCE WITH GUIDELINES OBLIGATIONS

**Table 1: Ue's compliance with Guideline obligations and strategies and proposed actions to maintain compliance**

Obligation Summary	How UE complies / will comply with obligation	Strategy / proposed action
<p><b>1. Legal separation</b> [Clause 3.1]</p> <ul style="list-style-type: none"> <li>• UE can only provide Distribution Services</li> <li>• Another legal entity may use UE's asses</li> <li>• Affiliated Entity may provide Other Services</li> </ul>	<p>UE:</p> <ul style="list-style-type: none"> <li>• only provides Distribution Services in its service area</li> <li>• does not provide Other Services inside its service area</li> <li>• does not provide any services outside of its service area</li> </ul>	<ul style="list-style-type: none"> <li>• Monitor nature of services provided by UE</li> <li>• Undertake ring-fencing awareness training within UE.</li> </ul>
<p><b>2. Separate accounts</b> [Clause 3.2.1]</p> <ul style="list-style-type: none"> <li>• UE must establish and maintain appropriate internal accounting procedures for transactions between it and any Affiliated Entities</li> </ul>	<p>UE has existing internal accounting procedures to demonstrate the extent and nature of transactions between it and its Affiliated Entities</p>	<p>Maintain and apply existing accounting procedures.</p>
<p><b>3. Cost allocation and attribution</b> [Clause 3.2.2]</p> <ul style="list-style-type: none"> <li>• UE must allocate or attribute costs between: <ul style="list-style-type: none"> <li>○ Distribution Services</li> <li>○ Distribution and Non-Distribution Services, consistent with the Cost Allocation Principles and its approved Cost Allocation Method</li> </ul> </li> <li>• DNSP must establish, maintain and keep records that demonstrate how it meets its obligations</li> </ul>	<ul style="list-style-type: none"> <li>• UE attributes or allocates costs using its AER-approved Cost Allocation Method.</li> <li>• UE has existing internal accounting procedures that establish, maintain and keep records that demonstrate how it meets cost allocation obligations</li> </ul>	<p>Maintain and apply Cost Allocation Method and internal accounting procedures.</p>
<p><b>4. Non-discrimination</b> [Clause 4.1]</p> <p>UE must not discriminate between Related Electricity Service Provider and its competitors about Direct Control Services or Contestable Electricity Services</p>	<p>None of UE's Affiliated Entities provides Direct Control Services or Contestable Electricity Services in its distribution service area.</p> <p>This means that this clause only relates to the Direct Control Services and Contestable Electricity Services that UE itself provides (noting that these Contestable Electricity Services are those Negotiated Distribution Services, unclassified Distribution Services and non-regulated Distribution Services for which it has sought waivers at the same time as submitting this strategy).</p>	<ul style="list-style-type: none"> <li>• Monitor nature of services provided by EU and Affiliated Entities</li> <li>• Undertake ring-fencing awareness training within UE.</li> </ul>



Obligation Summary	How UE complies / will comply with obligation	Strategy / proposed action
<p><b>5. Physical Separation / co-location</b> [Clause 4.2.1]</p> <p>UE must use separate offices to provide Direct Control Services from offices used by its Related Electricity Service Provider to provide Contestable Electricity Services, subject to exemptions for:</p> <ul style="list-style-type: none"> <li>• Offices for staff who do not access to or do not use electricity information for electricity services</li> <li>• Assisting another Network Service Provider in emergency or similar event</li> <li>• Regional offices</li> </ul>	<p>If it is granted the waivers it has sought, UE does not need to maintain separate offices from its Related Electricity Service Providers to comply with this obligation.</p> <p>Note:</p> <ul style="list-style-type: none"> <li>• The only Contestable Electricity Services UE provides are those Negotiated Distribution Services, unclassified Distribution Services and non-regulated Distribution Services for which it has sought waivers.</li> <li>• None of UE's Affiliated Entities provides Direct Control Services or Contestable Electricity Services in its distribution service area.</li> </ul>	<ul style="list-style-type: none"> <li>• Apply for ring-fencing waivers for Negotiated Distribution Services, unclassified Distribution Services and non-regulated Distribution Services during current regulatory control period</li> <li>• Seek to reclassify Negotiated Distribution Services, unclassified Distribution Services and non-regulated Distribution Services in next regulatory control period</li> <li>• Monitor nature of services provided by UE and Affiliated Entities</li> <li>• Undertake ring-fencing awareness training within UE</li> </ul>
<p><b>6. Staff sharing</b> [Clause 4.2.2]</p> <p>UE must ensure its staff (except officers of both UE and Related Electricity Service Provider) involved in providing or marketing Direct Control Services are not also involved in providing or marketing Contestable Electricity Services by a Related Electricity Service Provider, subject to exemptions for:</p> <ul style="list-style-type: none"> <li>• Staff who do not have access to or do not use electricity information for electricity services</li> <li>• Assisting another Network Service Provider in emergency or similar event</li> <li>• Regional offices</li> </ul>	<p>If it is granted the waivers it has sought, UE does not need to introduce new arrangements covering staff sharing to comply with this obligation.</p> <p>Note:</p> <ul style="list-style-type: none"> <li>• The only Contestable Electricity Services UE provides are those Negotiated Distribution Services, unclassified Distribution Services and non-regulated Distribution Services for which it has sought waivers.</li> <li>• None of UE's Affiliated Entities provides Direct Control Services or Contestable Electricity Services in its distribution service area.</li> </ul>	<p>As above.</p>
<p><b>7. Remuneration</b> [Clause 4.2.2(c)]</p> <p>UE staff remuneration, incentives and other benefits must not incentivise acting contrary to Guideline.</p>	<p>UE does not incentivise staff through remuneration and other benefits contrary to Guideline.</p>	<p>As above. Amongst other things, ensure that Human Resources staff are aware of this specific obligation.</p>



Obligation Summary	How UE complies / will comply with obligation	Strategy / proposed action
<p><b>8. Branding</b> [Clause 4.2.3]</p> <p>Except for regional offices, UE must:</p> <ul style="list-style-type: none"> <li>• Use independent and separate branding for Direct Control Services from that used by Related Electricity Service Provider</li> <li>• Not advertise / promote (a) Contestable Electricity Services (b) Direct Control Services and Contestable Electricity Services together.</li> </ul>	<p>UE has only one brand. If it is granted the waivers it has sought, UE does not need to introduce separate branding to comply with this obligation.</p> <p>Note:</p> <ul style="list-style-type: none"> <li>• The only Contestable Electricity Services UE provides are those Negotiated Distribution Services, unclassified Distribution Services and non-regulated Distribution Services for which it has sought waivers.</li> <li>• None of UE's Affiliated Entities provides Direct Control Services or Contestable Electricity Services in its distribution service area.</li> </ul>	<p>As above.</p>
<p><b>9. Office and staff registers</b> [Clause 4.2.4]</p> <p>UE must keep registers where it utilises exemptions and it does not apply the physical separation and staff sharing obligations.</p>	<p>UE will establish and maintain office and staff registers, as required.</p>	<p>Establish and maintain office and staff registers, as required.</p>
<p><b>10. Information</b> [Clause 4.3]</p> <p>UE must:</p> <ul style="list-style-type: none"> <li>• Keep confidential information confidential and only use it for purpose it was acquired / generated</li> <li>• Not disclose confidential information (except in specific circumstances)</li> <li>• Provide equal access to confidential information to Related Electricity Service Provider and other Legal Entities</li> <li>• Establish an information sharing protocol</li> <li>• Require Legal Entities to whom it provides confidential information to treat it confidentially</li> <li>• Keep an information register</li> </ul>	<ul style="list-style-type: none"> <li>• UE has existing internal policies and procedures that are consistent with the Guideline to ensure that confidential information is treated confidentiality and that information is disclosed and shared appropriately.</li> <li>• UE will maintain an information register.</li> </ul> <p>Note:</p> <ul style="list-style-type: none"> <li>• The only Contestable Electricity Services UE provides are those Negotiated Distribution Services, unclassified Distribution Services and non-regulated Distribution Services for which it has sought waivers.</li> <li>• None of UE's Affiliated Entities provides Direct Control Services or Contestable Electricity Services in its distribution service area.</li> </ul>	<ul style="list-style-type: none"> <li>• Maintain and apply existing policies and procedures in relation to confidentiality, disclosure and sharing of information.</li> <li>• Establish and maintain information register</li> <li>• Monitor nature of services provided by UE and Affiliated Entities</li> <li>• Undertake ring-fencing awareness training within UE.</li> </ul>



Obligation Summary	How UE complies / will comply with obligation	Strategy / proposed action
<p><b>11. Service Provider</b> [Clause 4.4]</p> <p>UE must ensure its agreements with its Service Provider comply with the obligations about:</p> <ul style="list-style-type: none"> <li>• Non-discrimination</li> <li>• Physical separation / co-location</li> <li>• Staff sharing</li> <li>• Protection of confidential information</li> </ul> <p>UE must not encourage or incentivise a Service Provider to engage in conduct which would breach the functional separation obligations if UE was to engage in the conduct itself.</p>	<ul style="list-style-type: none"> <li>• Subject to waiver applications, UE's new and varied agreements with Service Providers will comply with these obligations</li> <li>• UE does not encourage or incentivise Service Providers to engage in conduct which would breach the functional separation obligations.</li> </ul> <p>Note:</p> <ul style="list-style-type: none"> <li>• None of UE's Service Providers provides Contestable Electricity Services in its distribution service area.</li> </ul>	<ul style="list-style-type: none"> <li>• As above re waivers</li> <li>• Subject to waiver applications, review agreements with Service Providers for consistency with obligations</li> <li>• Monitor nature of services provided by Service Providers</li> <li>• Undertake ring-fencing awareness training with: <ul style="list-style-type: none"> <li>○ Service Providers</li> <li>○ UE staff that negotiate and manage agreements with Service Providers.</li> </ul> </li> </ul>
<p><b>12. Compliance and enforcement</b> [Clause 6]</p> <p>UE must:</p> <ul style="list-style-type: none"> <li>• Establish and maintain appropriate internal procedures to comply with Guideline</li> <li>• Prepare annual compliance report, accompanied by assessment of compliance by suitably qualified independent authority</li> <li>• Submit annual compliance report to AER within four months of end of regulatory year</li> <li>• Notify AER in writing within five business days of becoming aware of a material breach of its obligations</li> </ul>	<p>UE has established internal procedures to comply with the Guideline.</p>	<ul style="list-style-type: none"> <li>• Maintain and apply internal procedures to comply with Guideline</li> <li>• Prepare annual compliance report, accompanied by assessment of compliance by suitably qualified independent authority</li> <li>• Submit annual compliance report to AER within four months of end of regulatory year</li> <li>• Notify AER in writing within five business days of becoming aware of a material breach of its obligations Undertake awareness training</li> </ul>



## 4. Consolidated strategies and proposed actions

This section consolidates, and explains further, the strategies and proposed actions detailed in section 3.

### 4.1 Monitor nature of services

UE will monitor the nature of the services that it, its Affiliated Entities and its Service Providers provide within its distribution service area. In particular, UE will seek to identify whether:

- it provides any other contestable electricity services beyond those for which it is seeking a waiver from the AER; and
- its Affiliated Entities or Service Providers provide any Contestable Electricity Services in its service area.

If UE identifies any change in the services that it, its Affiliated Entities and its Service Providers provide then it may need to revisit this Strategy to ensure that it continues to comply with its obligations.

### 4.2 Undertake ring-fencing awareness training

UE will undertake training for its own staff and for its Service Providers on its ring-fencing obligations, which will include training materials covering worked examples, question and answer and guidance on the process to follow when staff have ring-fencing queries.

Staff will also complete online refresher (and induction) training regularly.

After the training has been completed, UE expects that staff will understand and comply with ring-fencing requirements.

UE will investigate any breaches and will address issues raised in discussions with staff and their managers.

### 4.3 Maintain and apply existing accounting procedures

UE maintains accounts for its business that are separate to those of its affiliates.

UE has existing internal accounting procedures to account for the extent and nature of transactions between it and its Affiliated Entities. UE will:

- continue to maintain and apply these procedures;
- provide these procedures to the AER when requested to do so; and
- report on transactions between UE and its Affiliated Entities, as required, including in Regulatory Information Notices.

### 4.4 Maintain and apply Cost Allocation Method and internal accounting procedures

UE has:

- a Cost Allocation Method that has been approved by the AER; and
- existing internal accounting procedures that give effect to its cost attribution and allocation for its distribution services.

UE will continue to maintain and apply its Cost Allocation Method and its internal accounting procedures to avoid cross-subsidising the provision of its services.



### 4.5 Apply for ring-fencing waivers

As discussed in section 5, UE has applied to the AER at the same time as submitting this strategy for certain waivers in relation to Negotiated Distribution Services, unclassified Distribution Services and non-regulated Distribution Services that it currently provides. These waivers relate to the current regulatory control period only.

Whether UE submits further waivers for the next regulatory control period will depend, amongst other things, on how the AER classifies its distribution services in the next regulatory control period.

### 4.6 Seek to reclassify contestable electricity services

UE proposes to engage with the AER on:

- any proposed new service classification guideline that it may introduce in the coming years, which it would apply to the classification of UE's services for its next regulatory control period, commencing 1 January 2021; and
- the AER's process for developing its Framework and Approach (F&A) Paper for the next regulatory control period, in which it will set out its proposed approach for the classification of UE's services.

Where necessary, UE will seek for the Contestable Electricity Services for which it has sought waivers to be reclassified through these processes to avoid the need for it to apply to the AER for any further waivers in the next regulatory control period.

### 4.7 Establish and maintain office and staff registers

UE will keep registers where it utilises exemptions and it does not apply the physical separation and staff sharing obligations in clause 4.2 of the Guideline. As required, these registers will detail:

- the classes of offices to which it has not applied the relevant clauses; and
- the nature of the positions of the relevant members of staff.

UE will make this register publicly available on its website.

### 4.8 Information-related policies and procedures

UE has existing internal policies and procedures in relation to confidentiality, disclosure and sharing of information.

UE will continue to maintain and apply these policies and procedures to comply with the information-related obligations in the Guideline.

### 4.9 Establish and maintain information register

UE will keep a register of all legal entities who request access to information identified clause 4.3.4(a) of the Guideline, which identifies and describes the kind of information requested. CONSOLIDATED

### 4.10 Review agreements with Service Providers

UE has submitted a waiver application to the AER under clause 4.4.2 of the Guideline about the application of clause 4.4.1 to its Service Providers. Subject to the outcome of this application, UE will review its agreements with its Service Providers for compliance with the Guideline's obligations about:

- non-discrimination;
- physical separation / co-location;



## CONSOLIDATED STRATEGIES AND PROPOSED ACTIONS

- staff sharing; and
- protection of confidential information.

### 4.11 Annual compliance report

UE will:

- prepare an annual compliance report, accompanied by an assessment of its compliance by a suitably qualified independent authority; and
- submit its annual compliance report to AER within four months of end of regulatory year.

UE understands that the AER expects the independent assessor to assess whether:

- implementing the actions outlined in the Annual Compliance Report will lead to guideline compliance; and
- the actions in the Annual Compliance Report have been undertaken.

The compliance assessment will consider both inputs (actions UE undertakes to comply) and outputs (whether UE complies). For example, inputs can include reviewing training material to ensure it is consistent with the Guideline and was delivered to the relevant staff. Outputs can include reviewing transactions between UE and its affiliates to ensure UE did not cross subsidise their activities. This approach may change as the AER provides additional guidance.

Should the independent compliance assessment reveal areas of non-compliance, UE will address the issue with high priority. UE will also report its corrective actions to the AER.

### 4.12 Any compliance breaches

UE will notify the AER in writing within five business days of becoming aware of any material breach of its obligations, as required by the Guideline.



## 5. Application for Ring-fencing Waivers

UE will submit waiver applications to the AER under the Guideline when it considers that the cost of complying with the Guideline's obligations is likely to outweigh the benefits.

UE has applied to the AER for the following waivers at the same time as submitting this strategy for the current regulatory control period only:

- a waiver under clause 4.2.5 of the Guideline of the obligations set out in clause 4.2 of the Guideline relating to:
  - physical separation / co-location (i.e. offices);
  - staff sharing; and
  - branding and cross-promotion.
- a waiver under clause 4.4.2 of the Guideline of the obligations set out in clause 4.4.1(a) in relation to the conduct of its Service Providers.





## 6. Application for pass-through event

### 6.1 Approach

UE has sought waivers to minimise the cost to its customers of complying with the Guideline. Should the AER grant the requested waivers, UE will not submit a pass-through application for the costs of complying with the Guideline.

### 6.2 Projected costs

The costs that UE, and its Service Providers would incur, if it needed to comply with the Guideline in the current regulatory control period include:

- establishing a new entity to provide these services;
- establishing a new office to accommodate staff to provide these services;
- relocating staff and “splitting” roles in certain area and functions – this would have the effect of UE and its Service Providers inefficiently incurring the cost of additional staff;
- branding the new entity to provide these limited services; and
- introducing new accounting and other systems to support the provision of these limited services

The cost of complying with these requirements would likely ultimately be borne by customers.

UE has not sought to quantify these costs for the purposes of this waiver application, as at this stage they have not been incurred. However, UE would quantify them in a cost pass through application if the AER does not grant these waivers. UE note the AER in its 17 February 2017 letter has provided an extended date for a pass through application of 11 May 2018.