

Ringfencing Rules

for the Horizon Power Pilbara Network Business

Date Created/Last Updated	7 February 2022 (ringfencing publication date as defined under the <i>Code</i>)
Review Frequency	At least once each <i>pricing period</i> , 15 months prior to the commencement of a <i>new pricing period</i>
Last Review Date	March 2023
Next Review Date	March 2026

This policy remains in effect, until replaced or updated, notwithstanding expiration of the review date.

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1. POLICY STATEMENT

The aim of the ringfencing rules is to provide assurance to the community served by the *Horizon Power Pilbara Network Business* that appropriate measures have been taken to ameliorate the harms that may flow from it providing *covered network* services while other parts of Horizon Power provide and market contestable and unregulated electricity services.

2. WHO THESE RULES APPLY TO

These ringfencing rules apply to all Horizon Power *staff*.

3. EFFECTIVE DATE

The ringfencing rules outlined in this document were approved by the Economic Regulation Authority (the *Authority*) on 21 January 2022 and are effective from 6 August 2022, notwithstanding Horizon Power will work to being compliant with these ringfencing rules as soon as possible after 7 February 2022 (being the ringfencing publication date) and before 6 August 2022.

In accordance with section 137 of the *Code*, these ringfencing rules will be reviewed:

- not less than 15 months before the start of a *new pricing period*; and
- within three months after the occurrence of an event that is likely to have a material effect on the operation of these ringfencing rules, such as a corporate restructure.

4. PURPOSE OF THE RINGFENCING RULES

The primary objective of the ringfencing requirements is to ensure that the vertical integration of the *Horizon Power Pilbara Network Business* with other parts of Horizon Power that provide and market contestable and unregulated electricity services does not lead to a reduction of competition in a *related market*.

The ringfencing rules must contain measures designed to ensure that Horizon Power:

- Keeps *commercially sensitive information* and other information received in respect of a function under the *Pilbara network rules* confidential and only uses this information within the *network business* for the purpose that it was acquired or developed.
- Allocates costs between the *network business* and any *associate* or *other business*¹ in a manner which avoids the charges being paid by users of the *network business* incorporating costs or charges associated with an *associate* or *other business*.
- Prevents discriminatory treatment in favour of an *associate* or *other business*, or against a competitor.

¹ The Code defines “other business” as the part or parts of a network service provider’s business which are not the *network business*, and includes any part or parts of the network service provider’s business and functions which acquire *covered services* from the *network business*.

- Maintains and keeps records that provide sufficient information to enable an assessment of compliance, and to detect any non-compliance.

A secondary objective is to achieve the primary objective by allowing for:

- Flexibility, recognising the fact that the structure and nature of *network service provider's* businesses differ substantially.
- A balancing of cost and disruption against the primary objective.
- Flexibility to deal with changing circumstances over time.

5. RESPONSIBILITIES AND COMPLIANCE

All Horizon Power *staff* are individually accountable to ensure that they comply with the ringfencing rules set out in this document.

The Manager, Network Regulation and Open Access is responsible for ensuring that the procedures required to ensure and monitor compliance with these ringfencing rules have been established, maintained and implemented, and all Horizon Power *staff* comply with these ringfencing rules.

Horizon Power maintains ringfencing rules compliance procedures that include:

- a Ringfencing Declaration that must be signed by all Horizon Power *staff*, including those involved with the provision of *covered services* in the *Pilbara region*, which requires (amongst other things):
 - compliance with these ringfencing rules; and
 - immediate reporting of breaches to the Manager, Network Regulation and Open Access;
- training on Horizon Power's ringfencing requirements under the *Code* and these ringfencing rules, including new starter induction training and periodic refresher training on a three yearly cycle or when there are significant amendments to these ringfencing rules; and
- annual independent audits, to ensure compliance with relevant policies and procedures. This includes, but is not limited to:
 - all registers detailed in *these ringfencing rules*;
 - all ringfencing training records; and
 - the cost allocation requirements in these ringfencing rules.

The Manager, Network Regulation and Open Access is responsible for reporting any breaches of these ringfencing rules to the *Authority* within 5 business days of determining that a breach has occurred, in accordance with clause 141(1)(b) of the *Code*.

6. ABBREVIATIONS AND DEFINED TERMS

The following abbreviations are used in this document and have the meaning provided in Table 6.1 below.

Table 6.1: Abbreviations used in this document

Abbreviation	Meaning
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ENAC	Electricity Networks Access <i>Code</i> 2004
HPCC	Horizon Power Control Centre
ISO	Independent System Operator
NSP	<i>Network Service Provider</i>

The following defined terms are used in this document and have the meaning provided in Table 6.2.

Table 6.2: Defined terms

Defined term	Meaning
Act	the <i>Electricity Industry Act 2004</i> (WA).
Associate	has the same meaning given to it in the <i>Code</i> . {As at 25 June 2021, the <i>Code</i> defines <i>associate</i> as, in relation to a person and subject to section 129, has the meaning it would have under Division 2 of Part 1.2 of the Corporations Act 2001 of the Commonwealth if sections 13, 16(2) and 17 of that Act were repealed, except that a person will not be considered to be an associate of an <i>NSP</i> solely because that person proposes to enter, or has entered, into a contract, arrangement or understanding with the <i>NSP</i> for the provision of a covered service.}
associate arrangement	has the same meaning given to it in the <i>Code</i> . {As at 25 June 2021, the <i>Code</i> defines <i>associate arrangement</i> as, a contract, arrangement or understanding by which an <i>NSP</i> provides, or otherwise makes available, <i>covered services</i> to, or for the benefit of, an <i>associate</i> and includes a <i>deemed associate arrangement</i> .}
Authority	has the same meaning given to it in the <i>Code</i> . {As at 25 June 2021, the <i>Code</i> defines <i>Authority</i> as the Economic Regulation Authority established by the <i>Economic Regulation Authority Act 2003</i> .}
Code	the Pilbara Networks Access <i>Code</i> 2021 (WA).

Defined term	Meaning
commercially sensitive information	<p>has the same meaning given to it in the <i>Code</i>.</p> <p>{As at 25 June 2021, the <i>Code</i> defines <i>commercially sensitive information</i> as all confidential or commercially sensitive information in relation to, as applicable—</p> <ul style="list-style-type: none"> a) an <i>applicant</i> or <i>customer</i> which is developed by or comes into the possession of an <i>NSP</i> including a <i>network business's</i> present and future dealings with the <i>applicant</i>, or <i>customer</i>, but excludes aggregated information that does not relate to an identifiable <i>applicant</i> or <i>customer</i>; or b) an <i>NSP</i> which comes into the possession of another <i>NSP</i> for the purposes of performing a function under the Pilbara networks rules; or c) an <i>NSP</i> which is developed by or comes into the possession of an <i>applicant</i> or <i>customer</i>, but excludes information required by this Code to be published or aggregated information that does not relate to the identifiable <i>NSP</i>.)
confidential information	<p>has the same meaning given to it in the <i>Code</i>.</p> <p>{As at 25 June 2021, the <i>Code</i> defines <i>confidential information</i> as, subject to section 158, information that—</p> <ul style="list-style-type: none"> (i) by its nature is confidential; or (ii) is specified to be confidential by the discloser.}
connect	<p>has the same meaning given to it in the <i>Code</i>.</p> <p>{As at 25 June 2021, the <i>Code</i> defines <i>connect</i> as to form a physical link to or through a <i>light regulation network</i>.}</p>
contribution	<p>has the same meaning given to it in the <i>Code</i>.</p> <p>{As at 25 June 2021, the <i>Code</i> defines <i>contributions</i> as a capital contribution or a non-capital contribution.}</p>



Defined term	Meaning
covered network	<p>has the same meaning given to it in section 3 of the Act.</p> <p>{As at 07 April 2020, the Act defines <i>covered network</i> as network infrastructure facilities that —</p> <ul style="list-style-type: none"> (a) were covered by the Code [i.e. the ENAC] immediately before the day on which the <i>Electricity Industry Amendment Act 2019</i> section 4(3) comes into operation and that have not ceased to be a <i>covered network</i>; or (b) the Minister has decided under the Code [i.e. the ENAC] are to be a <i>covered network</i> and that have not ceased to be a <i>covered network</i>; or (c) are prescribed in the Pilbara Networks Access Code under section 120B(a) to be a <i>covered Pilbara network</i> and that have not ceased to be so prescribed; or (d) a <i>network service provider</i> has opted, under the Pilbara Networks Access Code, to be regulated under Part 8A and that — <ul style="list-style-type: none"> i. have not ceased to be so regulated under that code as a consequence of an option by the <i>network service provider</i> for the facilities to cease to be so regulated; or ii. have not otherwise ceased to be a <i>covered network</i>;}
covered Pilbara network	<p>has the same meaning given to it section 3 of in the Act and for the purposes of this document includes both a network and a right of the NSP to use a network (to the extent of that right of use).</p> <p>{As at 07 April 2020, the Act defines <i>covered Pilbara network</i> as a <i>covered network</i> that is located wholly or partly in the <i>Pilbara region</i>.}</p>
covered service	<p>has the same meaning given to it in the Code.</p> <p>{As at 25 June 2021, the Code defines <i>covered service</i> as a service provided by means of a <i>light regulation network</i>, but does not include an <i>excluded service</i>.}</p>
customer	<p>has the same meaning given to it in the Code.</p> <p>{As at 25 June 2021, the Code defines <i>customer</i> as a—</p> <ul style="list-style-type: none"> (a) user; or (b) end-use <i>customer</i> in the end-use <i>customer's</i> capacity as indirect <i>customer</i> for <i>covered services</i>.}



Defined term	Meaning
deemed associate agreement	<p>has the meaning given to it in the <i>Code</i>.</p> <p>{As at 25 June 2021, the <i>Code</i> defines <i>deemed associate agreement</i> as having the meaning in section 131 of the <i>Code</i>.}</p>
Horizon Power coastal network	<p>has the same meaning given to it in the <i>Code</i>.</p> <p>{As at 25 June 2021, the <i>Code</i> defines <i>Horizon Power coastal network</i> as the network comprising—</p> <ul style="list-style-type: none"> (a) the <i>network</i> which became a <i>covered network</i> as a result of the Minister’s “final coverage decision” of 2 February 2018 under the <i>Electricity Networks Access Code</i> (b) any other <i>network</i> owned by <i>Regional Power Corporation</i> and <i>interconnected</i> as at the <i>code commencement date</i> with the <i>network</i> in paragraph (a); and (c) any <i>augmentation</i> as at the <i>code commencement date</i> of a <i>network</i> in paragraph (a) or (b); and (d) any <i>augmentation</i> of the <i>network</i> which forms part of the <i>network</i> under section 4(1).}
Horizon Power Pilbara Network Business	<p>a ringfenced business unit within Horizon Power responsible for the <i>Horizon Power coastal network</i>, including those functions carried out by Horizon Power for the purposes of providing network services in the <i>Horizon Power coastal network</i>.</p> <p>Note: <i>Horizon Power Pilbara Network Business</i> is not a separate <i>legal entity</i> and all contractual commitments will be executed in the name of Horizon Power. Where the term <i>Horizon Power Pilbara Network Business</i> is used, it means Horizon Power, acting in its capacity as the owner and operator of the <i>covered Pilbara network</i>, as distinct from Horizon Power acting in its capacity as a provider of services to other regions or as a provider of non-regulated services such as generation and retail within the <i>Pilbara region</i>.</p>
Information owner	<p>has the same meaning given to it in the <i>Code</i>.</p> <p>{As at 25 June 2021, section 157 of the <i>Code</i> defines <i>information owner</i>, for an element of <i>confidential information</i>, as the person whose confidence would be breached by the element’s disclosure.}</p>

Defined term	Meaning
Law	<p>“written law” and “statutory instruments” as defined in the <i>Code</i>.</p> <p>{As at 25 June 2021, the <i>Code</i> defines <i>written law</i> as—</p> <ul style="list-style-type: none"> (a) all Western Australian Acts and all Western Australian subsidiary legislation for the time being in force; and (b) all Commonwealth Acts and all Commonwealth subsidiary legislation for the time being in force, where the term subsidiary legislation has the meaning given to it under the <i>Interpretation Act 1984</i>, if “Commonwealth Act” were substituted for “written law”. <p>{As at 25 June 2021, the <i>Code</i> defines <i>statutory instrument</i> as all relevant instruments made under a written law including all directions, notices, orders and other instruments given or made under a written law and includes, as existing from time to time—</p> <ul style="list-style-type: none"> (a) orders made under section 8 of the <i>Act</i>; and (b) licences granted, renewed or transferred under section 19 of the <i>Act</i>; and (c) standard form contracts approved under section 51 of the <i>Act</i>; and (d) orders made under section 181(3) of the <i>Electricity Corporations Act 2005</i>; and (e) approved policies as defined in section 60 of the <i>Act</i>; and (f) last resort supply plans approved under section 73 of the <i>Act</i> as amended under sections 74 and 75 of the <i>Act</i>; and (g) the <i>Pilbara networks rules</i>; and (h) this <i>Code</i>.
legal entity	<p>a natural person, a body corporate (including a statutory corporation or public <i>authority</i>), a partnership, or a trustee of a trust, but excludes <i>staff</i> in their capacity as such.</p>
network business	<p>has the same meaning given to it in the <i>Code</i>.</p> <p>{As at 25 June 2021, the <i>Code</i> defines <i>network business</i> as the part of an <i>NSP’s</i> business and functions which are responsible for the operation and maintenance of a <i>light regulation network</i> and the provision of <i>covered services</i> by means of the <i>light regulation network</i>.)</p>

Defined term	Meaning
network service provider	<p>has the meaning given to ‘Pilbara <i>network service provider</i>’ in the <i>Act</i>.</p> <p>{As at 07 April 2020, section 120 of the <i>Act</i> defines ‘Pilbara <i>network service provider</i>’ as a person who —</p> <ul style="list-style-type: none"> (a) owns, controls or operates a <i>Pilbara network</i> or any part of a <i>Pilbara network</i>; or (b) proposes to own, control or operate a <i>Pilbara network</i> or any part of a <i>Pilbara network</i>.}
new pricing period	<p>has the same meaning given to it in the <i>Code</i>.</p> <p>{As at 25 June 2021, the <i>Code</i> defines <i>new pricing period</i>, in respect of the start of a <i>pricing period</i>, as the <i>pricing period</i> which is commencing. }</p>
officer	<p>in relation to a <i>legal entity</i>:</p> <ul style="list-style-type: none"> a) a director or company secretary of the <i>legal entity</i>; b) a person who makes, or participates in making, decisions that affect the whole, or a substantial part, of the business of the <i>legal entity</i>; or c) a person who has the capacity to affect significantly the <i>legal entity’s</i> financial standing.
other business	<p>has the same meaning given to it in the <i>Code</i>.</p> <p>{As at 25 June 2021, the <i>Code</i> defines <i>other business</i> as the part or parts of an <i>NSP’s</i> business which are not the <i>network business</i>, and includes any part or parts of the <i>NSP’s</i> business and functions which acquire <i>covered services</i> from the <i>network business</i>.}</p>
Pilbara network	<p>has the same meaning given to it in the <i>Act</i>.</p> <p>{Note: At at 07 April 2020, section 3 of the <i>Act</i> defines <i>Pilbara network</i> as the network infrastructure facilities that are located wholly or partly in the <i>Pilbara region</i>.}</p>
Pilbara networks rules	<p>has the meaning given in the <i>Act</i>.</p>
Pilbara regime	<p>has the same meaning given to it in section 157 of the <i>Code</i>.</p> <p>{As at 25 June 2021, the <i>Code</i> defines <i>Pilbara regime</i> as Parts 8A and 9B of the <i>Act</i>, Parts 8 and 10 of the <i>Act</i> applying in respect of a <i>Pilbara network</i>, this <i>Code</i>, and the <i>Pilbara networks rules</i>.}</p>

Defined term	Meaning
Pilbara region	has the same meaning given to it in the <i>Act</i> . {As at 07 April 2020, the <i>Act</i> defines <i>Pilbara region</i> as the <i>Pilbara region</i> defined in the <i>Regional Development Commissions Act 1993</i> Schedule 1.}
pricing period	has the same meaning given to it in the <i>Code</i> . {As at 25 June 2021, the <i>Code</i> defines <i>pricing period</i> as the defined future period, which must not be more than 5 years, for which a <i>services and pricing policy</i> is applicable.}
related market	has the same meaning given to it in the <i>Code</i> . {As at 25 June 2021, the <i>Code</i> defines <i>related market</i> as the market in which a related business of an <i>NSP</i> , or an <i>associate</i> of an <i>NSP</i> , participates.}
ringfencing commencement date	has the same meaning given to it in the <i>Code</i> . {As at 25 June 2021, the <i>Code</i> defines <i>ringfencing commencement date</i> as the date ringfencing rules are expressed to take effect in accordance with section 133(2).}
South West Interconnected System	has the same meaning given to it in the <i>Act</i> . As at 07 April 2020, the <i>Act</i> defines <i>South West Interconnected System</i> as the interconnected transmission and distribution systems, generating works and associated works — (a) located in the South West of the State and extending generally between Kalbarri, Albany and Kalgoorlie; and (b) into which electricity is supplied by— i. one or more of the electricity generation plants at Kwinana, Muja, Collie and Pinjar; or ii. any prescribed generation plant.}
Staff	An employee of Horizon Power or a contractor Type A or contractor Type B of Horizon Power.
target revenue	has the same meaning given to it in the <i>Code</i> . {As at 25 June 2021, the <i>Code</i> defines <i>target revenue</i> as for a light regulation network for a pricing period, means as determined in accordance with sections 47 to 60.}

7. ASSOCIATE ARRANGEMENTS

Horizon Power is an integrated service provider providing the following services (or functions):

- generation
- network (distribution and transmission)
- retail.

It provides services in the following regions (or locations):

- Pilbara – East Pilbara and West Pilbara
- other locations in regional Western Australia – Esperance, East Kimberley, West Kimberley, and Mid West.

For the purposes of these ringfencing rules, the services are categorised as follows:

- **network business** –network services provided by the *Horizon Power coastal network*
- **other business:**
 - contestable services in the *Pilbara region*, i.e. generation and retail services (subject to contestability threshold)
 - unregulated services in the *Pilbara region*, i.e. generation and retail services (below the contestability threshold), and services procured by the Pilbara Independent System Operator for the *Pilbara region*
 - unregulated services in regional Western Australia, excluding the *Pilbara region*.

In accordance with section 131 of the *Code*, there is a deemed associate arrangement between the *Horizon Power Pilbara Network Business* and those parts of Horizon Power that provide or market contestable services in the Pilbara region, which *the Horizon Power Pilbara Network Business* provides covered services to.

8. PREVENTION OF CROSS SUBSIDIES

This section sets out the ringfencing measures required under section 134(1)(b) of the *Code* to allocate costs between the *network business* and any *associate* or *other business* of the *network service provider* in a manner which avoids the charges being paid by users of the *network business* incorporating costs or charges associated with an *associate* or *other business* of the *network service provider*.

8.1 Allocation or attribution of costs and revenue between the *network business* and *other business*

Horizon Power's cost and revenue items are allocated or attributed to locations, functions, and where required, categories of service in accordance with the following principles:

1. Any costs that are directly attributable to the *network business* or to an *other business* are allocated accordingly.

2. Any costs that are not directly attributable are allocated to the *network business* in accordance with an appropriate allocator, which:
 - (a) unless unable to be delivered without undue cost or effort or the cost is immaterial, is causation based, and
 - (b) otherwise reflects a reasonable and well-accepted allocation approach.
3. Revenue received by the *Horizon Power Pilbara Network Business* from the provision of goods and services to an *Associate* or deemed associate is separately identified in the *Horizon Power Pilbara Network Business* accounts.
4. Expenditure by the *Horizon Power Pilbara Network Business* on the provision of goods or services by an *Associate* or deemed associate is separately identified in the *Horizon Power Pilbara Network Business* accounts.

In support of the above, Horizon Power commits to the following principles:

1. A cost or revenue item will not be attributed and/or allocated more than once.
2. A direct cost or revenue item will only be attributed to one location, function and, as appropriate, category of service.
3. An indirect cost or revenue item will only be allocated once between locations, functions and, as required, categories of service.
4. The same cost or revenue item will not be treated as both a direct and an indirect cost or revenue item.
5. The same cost will only be recovered once through tariffs and fees.
6. Unregulated costs will be allocated to the unregulated business segments and will be ringfenced from the recovery of costs through regulated services.
7. The allocation of a cost or revenue item will be determined by the substance of the transaction or event rather than the legal form.
8. An avoided cost allocation method (or any other method of allocation not specifically referred to within these rules) is not currently applied to allocate cost or revenue items.

8.1.1 Attribution of costs and revenue

The costs and revenue that are directly attributed include the following:

- **direct costs**, e.g. labour, material and services associated with operational and capital works undertaken to meet the needs of the network in terms of public safety, operating risks, regulatory compliance, capacity expansion, maintaining service standards and the reliability needs of customers
- **direct revenue**, e.g. *target revenue*, *contributions* and unregulated revenue.

These cost and revenue items are directly identified and attributed to a location, function and, where required, category of service via the account codes of the underlying transactions

(typically booked via a project and/or work order). The costs and revenue items that are directly attributable to the *network business* provide a true and fair view of costs and revenue that relate to the *network business*.

8.1.2 Allocation of costs and revenue

The costs and revenue transactions that cannot be directly attributed to a particular location and/or function and/or category of service (the indirect items) are allocated. Horizon Power's indirect items include the following:

- operations shared costs
- system control and dispatch shared costs
- corporate shared costs
- indirect revenue, e.g. interest received.

These cost and revenue items are identified via the account codes of the underlying transactions (typically booked via a project and/or work order).

Shared cost and revenue items are allocated using the method that most appropriately reflects the causal correlation of the underlying transaction, as discussed in the following sections, to provide a true and fair view as to the costs and revenue that relate to the *network business*. The application of these methodologies determine the percentage of each cost and revenue item that is allocated to the *network business*.

Horizon Power will maintain a *Cost Allocation Methodology* that is consistent with these ringfencing rules and provides a more detailed list of Horizon Power's shared cost and revenue items, and the allocation method applied.

8.1.3 Operations shared costs (allocation method)

Horizon Power's operations shared costs cannot be directly attributed to specific services, e.g. training, travel and non-timesheet labour. Instead, these costs are identified in a 'shared cost pool' and allocated across the works program using Horizon Power's three step 'indirect cost allocation method' that most appropriately reflects the causal correlation of the underlying transaction.

The three step cost allocation process allocates the costs to the:

- location e.g. West Pilbara, then
- function e.g. distribution services, then
- where required, category of service e.g. unregulated distribution service or cost pool for revenue and pricing purposes e.g. distribution LV.

The most common causal correlation methods are as follows:

1. **Direct costs:** shared costs are allocated based on direct costs when the underlying transaction has a causal correlation to other costs incurred, e.g. costs related to a

management role. The direct cost is determined by the ratio of the direct costs in the business segment to the total value of the direct costs that are relevant to the allocation of costs.

2. **Asset value:** allocation on an asset value basis is applied when the underlying transaction has a causal correlation to Horizon Power’s principal service of building, maintaining and operating assets, e.g. asset services management. Asset value is determined by the ratios of the asset value in the business segment to the total value of some or all of Horizon Power’s assets, depending on which assets are relevant to the allocation of costs. For example, the value of retail assets is not relevant to the allocation of costs that relate to generation and network services.
3. **Energy consumption** is applied when the underlying transaction has a causal correlation to the consumption of energy e.g. energy trading. It is commonly used to allocate costs to a particular location. Energy consumption is determined by the ratio of the energy consumed in a town to the total value of energy consumed across the whole or part of Horizon Power’s operating region, depending on which locations are relevant to the allocation of costs. For example, some services are not provided in the *Pilbara region*.
4. **Full time staff equivalents (FTE):** allocation on an FTE basis is applied when the underlying transaction has a causal correlation to the consumption of staff/labour, e.g. property and facilities, and fleet. FTE is determined by the ratio of FTE within a specific business segment to the total of some or all FTEs, depending on which FTEs are relevant to the allocation of costs.
5. **Customer numbers:** allocation on a customer number basis is applied when the underlying transaction has a causal correlation to the number of customers, e.g. metering. Customer numbers are determined by the ratio of the number of customers within a specific business segment to the total number of customers.
6. **Corporate three factor method:** allocation using the corporate three factor method is applied when there is no causal correlation between the underlying transaction and the consumption of staff/labour or the service of building, maintaining and operating assets, e.g. commercial support. The corporate three factor method for allocating costs and revenue to a location is an equal weighting of asset value, revenue and FTEs (locational corporate 3-factor), and then allocating costs and revenue to a function is an equal weighting of asset value, a fixed component and FTEs (functional corporate 3-factor). As appropriate, the corporate three factor method may allocate costs and revenues across some or all locations and across some or all functions.

8.1.4 System control and dispatch shared costs (causal correlation)

System control and dispatch shared costs include costs for:

- network operations in the *Pilbara region*
- system and network operations in regional Western Australia, excluding the *Pilbara region*
- services procured by the Pilbara Independent System Operator for the *Pilbara region*

- generation dispatch functions for Horizon Power's retail business in the *Pilbara region*.

A detailed activity based costing exercise will be undertaken on a periodic basis to determine the most appropriate allocation of costs to each of these functions. As a minimum, it will be updated prior to the commencement of each *pricing period* to inform the *target revenue* for that *pricing period*.

8.1.5 Corporate shared costs (causal correlation)

Horizon Power's corporate shared costs include common or shared functions that support all parts of the business, but that are not directly attributed or indirectly allocated to specific functions within the works program, e.g. Finance, Technology, Human Resources and General Counsel.

Horizon Power allocates corporate shared costs to the business segments using the method that most appropriately reflects the causal correlation of the underlying transaction. The most common causal correlation methods are the Full time staff equivalents (FTE), Asset value and Corporate three factor methods set out above.

8.1.6 Indirect revenue (causal correlation)

Horizon Power's indirect revenue includes:

- proceeds from the disposal of network planning and operations and corporate-related fixed assets, e.g. information and communication technology
- other income, e.g. interest and discounts received.

Horizon Power allocates indirect revenue to the business segment using the method that most appropriately reflects the causal correlation of the underlying transaction.

8.2 Attribution or allocation of assets and liabilities between the network business and other businesses

Horizon Power's inception-to-date assets and liabilities are allocated to business services and segments based on the substance (and not the legal form) of the underlying transactions. This is typically identified via the correlating cost or revenue items and attributed/allocated accordingly.

Consistent with this, assets and liabilities that cannot be directly attributed to business services and/or segments are allocated using the method that most appropriately reflects the causal correlation of the underlying transaction.

Horizon Power will maintain a Cost Allocation Methodology that is consistent with these ringfencing rules and provides a more detailed list of assets and liabilities, and the allocation method applied.

9. COMPETITION PROTECTION MEASURES

9.1 Obligation to not discriminate

This section sets out the ringfencing measures required under section 134(1)(c) of the *Code* to ameliorate the potential for discriminatory treatment in favour of an *associate* or *other business* of the NSP as compared to competitors in a *related market*, or against such competitors, whether the treatment occurs through operational decision making, contracting or otherwise.

In providing *covered network services*, the *Horizon Power Pilbara Network Business* will not discriminate (either directly or indirectly) between those parts of the Horizon Power business that provide or market contestable generation or retail electricity services in the *Pilbara region* and a competitor (or potential competitor) of Horizon Power in connection with the provision of *covered network services* or other services (whether to itself or any other *legal entity*).

The *Horizon Power Pilbara Network Business* does this by ensuring that, in providing *covered network services*, it:

- treats that part of the Horizon Power business that provides and markets contestable generation or retail electricity services in the *Pilbara region* as if they were not part of the same *legal entity* (that is, as if they have no connection or affiliation with the *Horizon Power Pilbara Network Business*)
- in like circumstances, deals or offers to deal with that part of the Horizon Power business that provides and markets contestable generation or retail electricity services in the *Pilbara region* and a competitor (or potential competitor) of Horizon Power on substantially the same terms and conditions
- in like circumstances, provides substantially the same quality, reliability and timeliness of service to that part of the Horizon Power business that provides and markets contestable generation or retail electricity services in the *Pilbara region* and a competitor (or potential competitor) of Horizon Power
- will not disclose to that part of the Horizon Power business that provides and markets contestable generation or retail electricity services in the *Pilbara region* information that the *Horizon Power Pilbara Network Business* has obtained through its dealings with a competitor (or potential competitor) of Horizon Power where the disclosure would, or would be likely to, provide an advantage to Horizon Power

The *Horizon Power Pilbara Network Business* communicates these requirements to all its *staff* through:

- a Ringfencing Declaration, which must be signed by all Horizon Power *staff*, including those involved with the provision of *covered services* in the *Pilbara region*;
- training on the ringfencing arrangements, including induction training and periodic refresher training on a three yearly cycle or when there are significant amendments to these ringfencing rules; and

- this document and other relevant policies and procedures.
- ongoing compliance monitoring and reporting to all its staff.

9.2 Staff separation

9.2.1 Separate staff

Horizon Power structures its business to maximise the extent to which *staff* involved in the provision or marketing of *covered services* in the *Pilbara region* are not also involved in the provision or marketing of contestable generation or retail electricity services in the *Pilbara region*, except where:

- a member of its *staff* who, in the course of their duties:
 - does not have access to *commercially sensitive information*
 - has access to *commercially sensitive information* but does not have, in performing the roles, functions or duties of their *staff* position, any opportunity to use that *commercially sensitive information* to engage in conduct that is contrary to the *Horizon Power Pilbara Network Business's* obligation to not discriminate in pursuance of section 127(1)(c) of the *Code*
 - only has access to *commercially sensitive information* to the extent necessary to perform services that are not electricity services (such as corporate services which include general administration, accounting, payroll, human resources, legal, or information technology support services)
- assistance is provided to another *network service provider* to the extent necessary to respond to an event (such as an emergency) that is beyond the reasonable control of the other *network service provider*
- the member of *staff* is an *officer* of Horizon Power.

In this regard, business development activities associated with the *covered Pilbara network* sit with the Network Regulation and Open Access team and not within the Commercial and Business Development Division.

However, Horizon Power will not separate the small number of functions that are shared between the provision or marketing of *covered services* in the *Pilbara region* and the provision or marketing of contestable generation or retail electricity services in the *Pilbara region*.

For functions that are shared, the following measures are in place as set out in Table 8.3, being the table below.

Table 8.3: Functions that are shared

Function	Mitigation measures
Customer Services (Call Centre)	A separate telephone number has been established for network-related calls, with all calls directed to a single call centre queue for Horizon Power while the number of contestable <i>customers</i> is very low.

Function	Mitigation measures
Customer Services (Processes/systems)	<p>From the date these ringfencing rules become effective in their entirety, the metering team will be responsible for maintaining the metering systems and processes.</p>
Future Energy Systems (long term planning and forecasting)	<p>Long term planning and forecasting for the entire Horizon Power business is undertaken by a specific team within Commercial and Business Development known as Future Energy Systems.</p> <p><i>Commercially sensitive information</i> from other parties is required for Future Energy Systems to undertake long term planning and forecasting, and access by the contestable parts of Horizon Power to the long term plans and forecasts would provide those parts with a competitive advantage. Employees in the contestable part of the business, will not be permitted to have access to <i>commercially sensitive information</i> held by Future Energy Systems, and all documentation relating to long term planning and forecasting is quarantined from employees providing contestable services.</p>
Asset Management Support, Capacity Management Support and Engineering Services	<p>These functions predominantly provide services to parts of Horizon Power that are regulated or not contestable. However, they also provide generation services, some of which are contestable.</p> <p>To mitigate the risks that the ringfencing objectives will not be met:</p> <ul style="list-style-type: none"> • periodic training is conducted for employees on their ringfencing obligations • <i>commercially sensitive information</i> is protected and quarantined from employees providing contestable services • as much information as possible that can be shared is published.
HP Systems Operations	<p>HP Systems Operations, via the Horizon Power Control Centre (HPCC), monitors and controls the electricity system across Horizon Power's entire network. The HPCC will manage the <i>Horizon Power coastal network</i> in accordance with the <i>Pilbara networks rules</i> and the Independent System Operator's (ISO's) directions and protocols.</p> <p>The HPCC will also perform dispatch of Horizon Power's generators in accordance with procedures. The HPCC will not interfere with any generation dispatch unless required to do so in accordance with the ISO's direction.</p> <p>To mitigate the risks that the ringfencing objectives will not be met:</p> <ul style="list-style-type: none"> • the operations of the HPCC are undertaken in a physically discrete room, separate from the rest of the business. Information and data shown on monitors in that separate room and visible to the HPCC will not be visible to anyone else

Function	Mitigation measures
	<p>within the business by virtue of frosting all transparent and glass surfaces previously allowing visual access into the HPCC’s separate room</p> <ul style="list-style-type: none"> • periodic training is conducted for employees on their ringfencing obligations • <i>commercially sensitive information</i> is protected and quarantined from employees providing contestable services.

9.2.2 Separate offices

Horizon Power’s *staff* that provide or market electricity services in the *Pilbara region* are located in three offices – in Bentley, Karratha and Port Hedland.

Staff located in Karratha and Port Hedland only provide electricity services to *customers* in the *Pilbara region*, while *staff* located in Bentley provide electricity services to the *Pilbara region* as well as other regional areas of Western Australia, and also provide corporate services.

The Bentley office complex comprises a number of separate buildings. Other than *staff* that are *officers* of Horizon Power, to the maximum extent possible, *staff* located in the Bentley office that provide or market contestable generation or retail electricity services in the *Pilbara region* are located in a different building to those that provide or market *covered network* services in the *Pilbara region*.

In the Karratha and Port Hedland offices, to the maximum extent possible, *staff* that provide or market contestable generation or retail electricity services in the *Pilbara region* are located in different parts of the building to *staff* that provide or market *covered network* services. Where it is not possible to undertake such segregation, separation is maximised within the available seating layouts in the building.

9.2.3 Office and *staff* register

As required under section 134(1)(e) of the *Code*, Horizon Power maintains and keeps a register that identifies the nature of the positions (including a description of the roles, functions and duties) of its members of *staff* which:

- do not have access to *commercially sensitive information*
- have access to *commercially sensitive information* but do not have, in performing the roles, functions or duties of their *staff* position, any opportunity to use that *commercially sensitive information* to engage in conduct that is contrary to the *Horizon Power Pilbara Network Business’s* obligation to not discriminate
- only have access to *commercially sensitive information* to the extent necessary to perform services that are not electricity services (such as corporate services which include general administration, accounting, payroll, human resources, legal, or information technology support services)
- are an *officer* of Horizon Power.

9.3 Information access and disclosure

This section sets out the ringfencing measures required under section 134(1)(a) of the *Code* to ensure that *commercially sensitive information* and any information received by the NSP in respect of a function under the *Pilbara networks rules* is kept confidential and is only used within the *network business* and for the purpose for which it was acquired or developed.

9.3.1 Meaning of *confidential information*

Section 157 of the *Code* defines *confidential information* as information that:

- by its nature is confidential, or
- is specified to be confidential by the discloser.

Section 158 of the *Code* states that information is not confidential if it is in the public domain or ascertainable from public domain sources, was already in possession of Horizon Power when the information was disclosed or has been developed independently.

For the purposes of this clause, *confidential information* includes *commercially sensitive information* and by way of example, includes (subject to section 158 of the *Code*):

- network quality information – frequency stability, voltage stability, power factor and harmonic levels
- network asset loadings downstream of a substation
- *customer* consumption profiles
- *customers'* tariff assignments.

9.3.2 Disclosure of *confidential information*

The *Horizon Power Pilbara Network Business* will not disclose *confidential information* to any person, including Horizon Power *staff* that provide or market contestable generation or retail electricity services, unless:

- a) subject to the pre-disclosure process set out below:
 - (i) it is reasonably necessary (as determined in good faith by the recipient of the Confidential Information) for performing a function under the *Pilbara regime*; or
 - (ii) it has obtained the *information owner's* written consent and is disclosed in accordance with any conditions in that consent;
 - (iii) on a confidential basis to its legal or other professional advisers; or
 - (iv) the disclosure is required under a written *law*, the ASX Listing Rules or the rules of any other applicable financial market; or
 - (v) the disclosure is directed by a court or arbitrator, on a confidential basis unless the court or arbitrator directs otherwise; or
 - (vi) the disclosure does not disclose any elements that could lead to the *information owner* being identified; or
- b) the disclosure is on a confidential basis to the Independent System Operator, the *Authority*, the Coordinator of Energy or the Minister; or

- c) the *confidential information* is omitted or obscured, and the omission of the *confidential information* is evident in the document from which the information is omitted.

Under section 165 of the *Code*, if the disclosure of the *confidential information* is subject to a pre-disclosure process, the person intending to disclose the confidential information must:

1. first have regard to the primary and secondary objectives in section 156 of the *Code* and consider the balance between the benefits associated with the proposed disclosure and any likely detriment to the *information owner* from the proposed disclosure
2. notify the *information owner* of the proposed disclosure, describing the information proposed to be disclosed and, if practicable, the circumstances of the disclosure
3. allow the *information owner* an opportunity to express its views and to request redactions or other changes to minimise disclosure of *confidential information*
4. have regard to the *information owner's* views and requests
5. if compelled to disclose the *confidential information*, minimise what is disclosed and not hinder the *information owner* intervening in the process.

9.3.3 Protection of *commercially sensitive information*

Commercially sensitive information includes all confidential or commercially sensitive information in relation to, as applicable—

- an *applicant* or *customer* which is developed by or comes into the possession of the *Horizon Power Pilbara Network Business* including present and future dealings with the *applicant*, or *customer*, but excludes aggregated information that does not relate to an identifiable *applicant* or *customer*; or
- a *network service provider* which comes into the possession of the *Horizon Power Pilbara Network Business* for the purposes of performing a function under the Pilbara networks rules; or
- a *network service provider* which is developed by or comes into the possession of an *applicant* or *customer*, but excludes information required by the *Code* to be published or aggregated information that does not relate to the identifiable *network service provider*.

Horizon Power will:

- Implement changes to its IT systems and processes to support *commercially sensitive information* being kept confidential.
- Ensure that staff involved with the contestable parts of the business who continue to have access to data not solely related to their own customers are adequately trained to prevent unauthorised access of *commercially sensitive information*.
- Periodically audit the process followed by the contestable parts of the business to verify that *commercially sensitive information* is only accessed when authorised to do so.

- Ensure relevant *staff* are bound by the Ringfencing Declaration that requires them to keep *commercially sensitive information* confidential.

10. REFERENCES

The following material is required and should be read in conjunction with this document:

LEGAL REFERENCES:	<i>Pilbara Networks Access Code 2021</i>
STANDARD & GUIDELINES:	
RELATED POLICIES AND OTHER DOCUMENTS:	<i>Cost Allocation Methodology</i>
	<i>Ringfencing Declaration form</i>
	<i>Ringfencing Rules Compliance Procedure</i>

