

# Ringfencing Rules

## Alinta DEWAP Network

Alinta DEWAP Network, Port Hedland  
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**alinta**energy

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# Alinta DEWAP Network Ringfencing Rules

## 1. INTRODUCTION AND PURPOSE

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Regulation of Alinta DEWAP's (ADEWAP) Port Hedland network commenced on 1 July 2021. This regulation is incorporated under the light-handed third-party network access regime of the Pilbara Networks Access Code (PNAC)<sup>1</sup> version 1 published on 1 July 2021.

Regulation under the PNAC focuses on the North-West Interconnected System (NWIS) of which there are three main operators of electricity networks: Alinta Energy, Horizon Power and Rio Tinto. An Independent System Operator (ISO) performs power system oversight in accordance with the Pilbara Networks Rules (which includes administration of the Harmonised Technical Rules).

This document sets out the Ringfencing Rules that are maintained by ADEWAP to meet and safeguard the competition-led objectives of the PNAC. The sections that follow provide:

**Section 2.** – a summary of PNAC's objectives,

**Section 3.** – an overview of the ADEWAP network and operation, and

**Section 4.** – set out the ADEWAP Ringfencing Rules.

## 2. PILBARA NETWORK ACCESS CODE OBJECTIVES

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### 2.1 Ringfencing Objectives

The primary ringfencing objective is set out in Section 127 of the PNAC. The primary objective is to ensure that the vertical integration of an NSP with another business does not lead to a reduction of competition in a related market. The PNAC requires that an NSP's ringfencing rules:

- prevent the use of commercially sensitive information<sup>2</sup> outside of the network business or for a purpose other than the purpose for which the information was acquired or developed,
- allocate costs between the network business and any associate or other business of the NSP in a manner which avoids charges being paid by users of the network business that incorporate costs or charges associated with an 'associate' or 'other business' of the NSP, and
- prevent favourable treatment for an associate or other business of the NSP which discriminates against competitors in a related market.

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<sup>1</sup> PNAC version 1, published 1 July 2021.

<sup>2</sup> 'Commercially sensitive information' is defined by the PNAC as: "all confidential or commercially sensitive information in relation to, as applicable: a) an applicant or customer which is developed by or comes into the possession of an NSP including a network business's present and future dealings with the applicant, or customer, but excludes aggregated information that does not relate to an identifiable applicant or customer; or b) an NSP which comes into the possession of another NSP for the purposes of performing a function under the Pilbara networks rules; or c) an NSP which is developed by or comes into the possession of an applicant or customer, but excludes information required by this Code to be published or aggregated information that does not relate to the identifiable NSP."

However, the PNAC also incorporates secondary objectives which recognise the guiding principles of the NWIS market reforms, being fit-for-purpose regulation which recognises the substantial differences in the scale, scope and size of the individual NWIS networks, and the balancing of this in relation to the cost and disruption imposed by NSP ringfencing rules. Specifically, section 127 of the PNAC provides the PNAC's secondary ringfencing objective, which is to achieve the primary objective while also achieving:

- flexibility, recognising the fact that the structure and nature of NSP's businesses in the NWIS differ substantially,
- the balancing of cost and disruption of the ringfencing rules against the primary objective of PNAC Chapter 8, and
- flexibility to deal with changing circumstances over time.

## **2.2 Content of Ringfencing Rules**

The PNAC at Section 134 requires that an NSP's ringfencing rules must contain measures designed to (but only to the extent that it is applicable):

- ensure that commercially sensitive information and any information received by the NSP in respect of a function under the Pilbara Network Rules is kept confidential, and is only used within the network business and for the purpose for which it was acquired or developed,
- ensure that the NSP provides a true and fair allocation of:
  - network business costs, as distinct from any other business carried on by the NSP or any associate of the NSP,
  - income derived from, and expenditure relating to, the network business,
  - NSP assets and liabilities, as they relate to the network business,
  - the percentage of any corporate overhead costs applied to the network business for services that provide the network business its necessary resources,
  - NSP revenue from the provision of goods or services to an associate of the network business to be separately identified, and
  - NSP expenditure on goods or services provided by an associate of the network business to be separately identified,
- ameliorate the potential for favourable treatment to an associate or other business of the NSP which discriminates against competitors in a related market, which includes treatment occurring through operational decision making, contracting or otherwise,
- ensure that the NSP maintains and keeps records of information sufficient to enable an assessment of compliance against the ringfencing rules (for the NSP and its network business) and to demonstrate how the NSP is, has and will continue to meet its ringfencing rules obligations (including the detection of any non-compliance, and

- ensure that the NSP must procure that an 'associate' or 'other business' of its network business complies with any applicable ringfencing rules, to the extent that this is necessary to meet and achieve the PNAC's Chapter 8 objectives.

### 2.3 Ringfencing Rules Review

Section 137 of the PNAC requires that an NSP must review its ringfencing rules:

- not less than 15 months before the start of a new pricing period for the light regulation network,
- within three months after the occurrence of an event that is likely to have a material effect on the operation of the ringfencing rules, and
- if any changes are required to be made to the ringfencing rules, the NSP must submit revised ringfencing rules to the Authority.

### 2.4 Arrangements recorded in writing

The PNAC's Sections 130 and 131 require that an NSP must record the full terms and conditions of any associate arrangement in writing. Further, if the network business of an NSP provides one or more covered services to an other business of the NSP (deemed associate arrangement) then the network business and the other business must record in writing the full terms and conditions of this deemed associate arrangement. This must occur to the same standard as would occur if the businesses were arms-length separate entities.

### 2.5 Compliance monitoring and compliance reporting

Section 141 of the PNAC requires that an NSP must:

- establish, maintain and implement effective procedures to ensure and monitor its compliance with the ringfencing rules; and
- report to the Authority details of any breach of section 133(1)(b) (i.e. compliance with the ADEWAP Ringfencing Rules) date within 5 business days of determining that the breach has occurred.

## 3. ADEWAP NETWORK

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The assets associated with ADEWAP's Port Hedland operations include the ADEWAP Network and the operation of its Port Hedland Power Station.

### 3.1 ADEWAP Port Hedland Assets

Figure 1 shows a map of the ADEWAP Network, which consists of three 66kV feeders comprising of about 22.5km of 75MVA conductor, of which:

- two feeders connect Port Hedland Power Station to the Horizon Power network substations of Wedgefield and Murdoch; and
- a single line runs between and connects the Port Hedland Power Station's two sites of generation (at Port Hedland and Boodarie).

**Figure 1 – Map of ADEWAP Network**

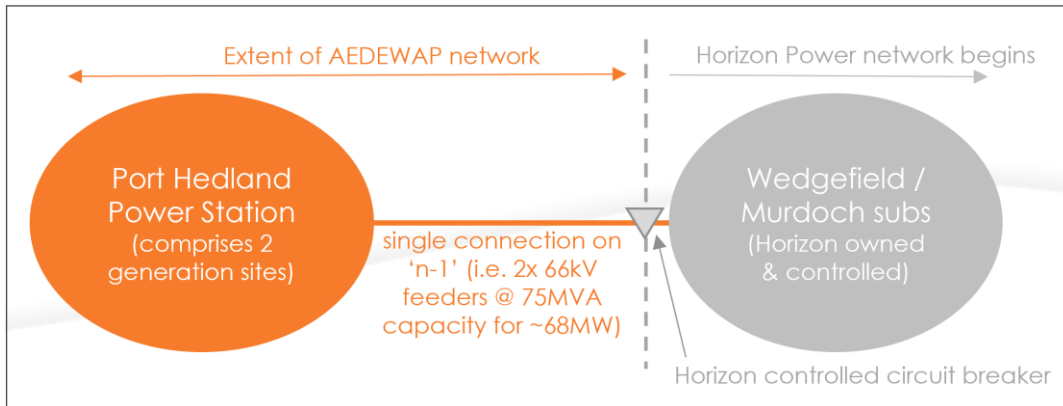


The Port Hedland Power Station's two sites of generation at Port Hedland and Boodarie sit around 5km apart, however they are configured, operate and are dispatched as a single power station. The ADEWAP Port Hedland Power Station has an operational capacity of around 175MW.

### 3.2 ADEWAP Network Operation

ADEWAP operates the ADEWAP Network on a 'n-1' basis. Therefore, the two 66kV feeders that connect ADEWAP's Port Hedland Power Station to the Horizon Power network (at Wedgefield and Murdoch) operate as a single connection on an n-1 basis. This provides approximately 68MW of firm network capacity. Figure 2 presents a conceptual view of this below.

**Figure 2 – Concept of ADEWAP Network Operating Philosophy**



This mode of n-1 operation is necessitated by good electricity industry practices, since the loss of a single 66kV feeder would see all load immediately transfer to the 66kV feeder which remains in service. Operating on an n-1 basis therefore avoids the 66kV feeder that remains in-service being overloaded, and therefore also lost due to the load exceeding its physical thermal capacity.

### 3.3 ADEWAP Network Capacity

At the time of this publication, there are three contracted users of the ADEWAP Network who all have firm contracted network usage rights under long term agreements. In total, these users have contracted 120MW of firm network capacity, which operates in conjunction with a contractually set tiered ranking of priority. There is a further 50MW of non-firm, 'as available' capacity that is also contracted by the three existing users.

The combination of the ADEWAP Network users' current contracted firm plus non-firm network usage rights see no availability of firm network capacity capable of being contracted by new prospective users of the ADEWAP Network.

## 4. ALINTA DEWAP RINGFENCING RULES

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### 4.1 ADEWAP Ringfencing Rules

1. **Restricted data access** – restrictions enforced by Alinta Energy's IT systems prevents access to ADEWAP's data and information (including commercially sensitive information) to all staff other than authorised ADEWAP individuals who are granted access because they work within the ADEWAP team.
2. **Commercial dealings** – where the need arises for meetings to take place between ringfenced entities in relation to projects or tasks that include commercially sensitive information, commercial business dealings or commercial operations, these meetings are:
  - a. held formally,
  - b. documented and recorded through a formal record of minutes kept by ADEWAP,
  - c. commence with the parties formal acknowledgement and agreement to undertake discussions in accordance with these ADEWAP Ringfencing Rules, and
  - d. where practicable, have an independent observer (such as Alinta Energy's WA Wholesale Regulation Manager) attend and observe for the purposes of ensuring that the ADEWAP Ringfencing Rules are adhered to, to ensure compliance with the PNAC's ringfencing requirements are upheld.
3. **Corporate structure** – the Alinta Energy corporate structure separates ADEWAP from its Alinta Sales 'associate' business (i.e. energy sales retailer) through the creation of different business units, with different general management, being physically located on different floors within Alinta Energy's Perth Office to prevent informal or inadvertent exchange of information in relation to commercial business dealings, commercial operations and commercially sensitive information.
4. **Accounting allocations** – costs, income, expenditure, revenue, corporate overhead costs, assets and liabilities are attributed, allocated and recorded fairly and efficiently between the ADEWAP Network business, ADEWAP Generation business ('other business') and ADEWAP's 'associate arrangement' with Alinta Sales.



5. **Declarations** – all ADEWAP team members who are deemed authorised ADEWAP individuals must sign an annual declaration declaring that they have:

- a. maintained ADEWAP Network business confidentiality in relation to the ringfenced entities commercial business dealings, commercial operations and commercially sensitive information,
- b. not conducted or participated in actions or activities that provide favourable treatment to an Associate or Other Business of the ADEWAP Network business, and
- c. not conducted or participated in actions or activities that discriminate against competitors in a market related to the ADEWAP Network business, an associate or an other business.

All ADEWAP team member annual declarations are formally recorded and kept by the WA Wholesale Regulation Manager.

6. **Annual audit** – ADEWAP team member declarations are subject to an annual internal review and audit performed by Alinta Energy's WA Wholesale Regulation Manager. The purpose of this audit is to confirm and validate compliance with the ADEWAP Ringfencing Rules. The content, details and findings of this audit are formally recorded and kept by the WA Wholesale Regulation Manager. Any breach or non-compliance of the ADEWAP Ringfencing Rules that is detected at any time will be (including during the WA Wholesale Regulation Manager's annual audit):

- a. reported, along with details of the breach or non-compliance, to the Economic Regulation Authority within 5 business days of determining that the breach or non-compliance has occurred, and
- b. investigated and reviewed to determine what further controls or additions to the ADEWAP Ringfencing Rules are required to prevent a reoccurrence of the breach or non-compliance. This investigation and review is incorporated into the 'reporting breaches' procedure that is set out in ADEWAP Ringfencing Rule 7 below.

7. **Reporting breaches** – Alinta Energy has well established procedures for addressing and self-reporting breaches which is extended to the ADEWAP Ringfencing Rules:

- a. any Alinta staff member can report potential or actual breaches with the WA Wholesale Regulation Manager. The WA Wholesale Regulation Manager may also identify potential or actual breaches,
- b. where such breaches are raised, they are entered into Alinta Energy's breach notification register,
- c. each instance of breach is investigated by the WA Wholesale Regulation Manager,
- d. the WA Wholesale Regulation Manager must complete the investigation, including making any recommendations on remedial actions, and enter details of their investigation into the Alinta Energy breach notification register, and

- e. the WA Wholesale Regulation Manager will ensure any recommendations on remedial actions identified in any completed breach investigation in 7(d) are implemented accordingly.
8. **ADEWAP Ringfencing Rules review** – ADEWAP, in conjunction with the WA Wholesale Regulation Manager, will review the ADEWAP Ringfencing Rules:
    - a. not less than 15 months before the start of a new pricing period,
    - b. within three months after the occurrence of an event that is likely to have a material effect on the operation of the ADEWAP Ringfencing Rules, and
    - c. if any changes are required to be made to the ADEWAP Ringfencing Rules, ADEWAP will submit revised ADEWAP Ringfencing Rules to the Economic Regulation Authority.
  9. **Annual ADEWAP Ringfencing Rules Training** – the WA Wholesale Regulation Manager and Alinta Energy Risk team will conduct ADEWAP Ringfencing Rules compliance training for all relevant Alinta Energy personnel:
    - a. be conducted annually,
    - b. compulsory attendance for all authorised ADEWAP individuals, and
    - c. attendance to be captured in the Alinta Energy training register.
  10. **Associate and Other Business Arrangements** – ADEWAP will:
    - a. procure that an associate or other business of its network business complies with all applicable ADEWAP Ringfencing Rules to the extent that this is required to meet and achieve the PNAC's ringfencing objectives, and
    - b. record the full terms and conditions of any arrangement with an associate (associate arrangement) in writing to the same standard as would occur if the businesses were arms-length separate entities, noting that this requirement also includes where ADEWAP provides one or more covered services to an other business of ADEWAP (deemed associate arrangement).

## 4.2 Management of Associate and Other Business Ringfencing

### ***Associate Arrangement – Alinta Sales***

Alinta Sales is the retailing entity that sells power to Alinta Energy's C&I and mass market customers. Alinta Sales is party to a power purchase agreement with ADEWAP that includes the transport of power to the limits of the ADEWAP Network. The existence of this power purchase agreement makes Alinta Sales an 'associate' of the ADEWAP Network business, because it has an 'associate arrangement' that provides Alinta Sales with access to the ADEWAP Network.

Commercial dealings, corporate accounting practices and business operations, which relate to the ADEWAP Network business and its involvement with Alinta Sales, occur under the strict application of the ADEWAP Ringfencing Rules detailed above.

### **Other Business (Deemed Associate Arrangement) – ADEWAP Generation**

The ADEWAP entity conducts both a network business and an 'other business' – the other business involves the generation and sale of power from Port Hedland Power Station (ADEWAP generation).

ADEWAP Generation business supplies electricity to two large iron ore mining operations in Port Hedland, and has a power purchase agreement in place with Alinta Sales (who may seek to retail electricity purchased from ADEWAP for the sale of power to businesses connected to the broader NWIS).

The ADEWAP Network and ADEWAP Generation businesses exist within the same entity, as power supply from ADEWAP's Port Hedland Power Station has always incorporated the sale of power with delivery to the customer at ends of the ADEWAP Network. From a customer perspective, there is no distinction between the power station's generation of electricity and the delivery to the ends of the ADEWAP Network. In reality, the ADEWAP Network constitutes two simple connections from Port Hedland Power Station, being the two short 66kV feeders that extend from the rear switchyard of the Port Hedland Power Station and connect into the broader, meshed Horizon Power network.

Managed by ADEWAP, these power purchase agreements are essentially 'bundled' contracts for both power supply and network access. The management of these ADEWAP power purchase agreements (involving the sale of power and management of network access) is performed by authorised ADEWAP individuals, which therefore sees these individuals undertake both network and generation functions for the ADEWAP entity.

This position is deemed reasonable and consistent with the PNAC's ringfencing objectives for the following reasons:

- it does not lead to a reduction of competition in a related market (PNAC ringfencing primary objective), because the ADEWAP Network is fully contracted under long term arrangements with the existing and small number of users of the network (as discussed in section 3.3), and so there is no availability of network capacity in the near to medium term that is capable of being contracted by a new prospective network user,
- it recognises the fact that the structure and nature of the ADEWAP Network differs substantially from a traditional network (PNAC ringfencing secondary objective) – this reflects the close and natural link between the generation of power and the delivery of this power to the ends of the ADEWAP Network, and
- the performance and management of ADEWAP's operations is undertaken strictly in accordance with the ADEWAP Ringfencing Rules detailed above.

### **4.3 ADEWAP Network accounting**

The ADEWAP Network accounting procedures provide for the true, fair and efficient allocation of business costs, income, expenditure, assets and liabilities relating to the ADEWAP Network's business operations.

This is achieved through the:

- strict application of financial management accounting practices to allocate direct (activity-based) business costs, income and expenditure to ADEWAP. This practice of financial management accounting is applied to all entities across the

Alinta Energy business (including Alinta Sales). This ensures that ADEWAP amounts are accurately allocated and separated from other amounts, including those which relate to its associate Alinta Sales. These accounting practices for the ADEWAP Network are audited on an annual basis and take place with strict adherence to the requisite Australian Accounting Standards;

- in relation to the generation and network functions of ADEWAP, apportionment of direct costs, income and expenditure between generation and network functions is determined and expressed in percentage terms. Where there is no clear rationale for allocation, and as a general rule, a 12% allocation is assigned to the ADEWAP Network business (with the remaining 88% being allocated to ADEWAP Generation).

The allocation applied to ADEWAP operating expenditure categories shown in Figure 3 is an example of this. Figure 3 shows that there is a 12% allocation of personnel, travel and vehicle operating expenditure to the ADEWAP Network business. The allocation of 12% is applied as there is no clear basis of allocation for these categories. The 12% proportion reflects the value of the ADEWAP Network Pricing Model's annual target revenue calculation, as a percentage of total annual ADEWAP power purchase agreement revenue. Therefore, where no clear rationale exists, the use of the 12% allocation provides a reasonable and fair method of allocation (based on the revenue contribution of the ADEWAP Network relative to total revenue for the entire ADEWAP business);

**Figure 3 – ADEWAP operating expenditure, ADEWAP Network allocation**

Operating Expenditure	Network Component (%)
Personnel Costs	12%
Travel Costs	12%
Vehicle Costs	12%
Site Costs	12%
Plant & Equipment Costs	12%
IT & Communications costs	50%
Marketing Costs	50%
Professional Fees Costs	12%
Insurance & office costs	12%
<b>Total Operating Costs</b>	

- adoption of the same generation and network allocation, as shown and described above for Figure 3, to determine ADEWAP Network assets and liabilities, and the ADEWAP Network revenue and expenditure relating to its provision of goods or services to its Alinta Sales associate. This means that, where there is a clear rationale, amounts are allocated in line with that item's specific rationale. Alternatively, where a clear basis for allocation does not exist, the 12% general allocation rule is applied, which as previously described is based on the revenue contribution of the ADEWAP Network relative to total revenue for the entire ADEWAP business;
- allocation of a percentage of corporate common costs (overheads) required to resource the operation of the ADEWAP Network business. This is based on the corporate charge allocation to ADEWAP from the Alinta Energy parent entity,

with the further 12% general allocation rule being applied to separate the network allocation from the total ADEWAP corporate common cost charge. The corporate common cost charge allocated to ADEWAP, for which the ADEWAP Network component is determined, is based on the use of causal allocators specific to each common cost category. These causal allocators are determined by the Alinta Energy parent entity's accounting practices, which follow the requisite Australian Accounting Standards and are subject to an annual external audit.

ADEWAP Network accounts are prepared and reviewed on annual basis. Where allocation of an amount differs from the 12% general allocation rule, it is subject to review by the WA Wholesale Regulation Manager to determine the efficacy and fairness of the rationale for allocation that was applied.