

Ergon Energy Network Annual Ring-Fencing Compliance Report



2017-18

31 October 2018



Contents

1	Introduction	2
1.1	Background	2
1.2	Purpose	2
2	Measures to ensure compliance	3
2.1	Prevention of cross subsidies	5
2.1.1	Legal separation	5
2.1.2	Establish and maintain accounts	6
2.2	Functional separation	6
2.2.1	Obligation not to discriminate	6
2.2.1	Offices, staff, branding and promotions	6
2.3	Information access and disclosure	8
3	Waivers	9
4	Compliance and enforcement	10
5	Annual Reporting	11
6	Appendix 1 – Compliance Controls	15
7	Attachment 1 – Reported Breaches	22

1 Introduction

1.1 Background

The Australian Energy Regulator (AER) first published its Ring-fencing Guideline (Guideline) and accompanying Explanatory Statement for Electricity Distribution on 30 November 2016 under the National Electricity Rules (NER).

Under NER clause 6.17.1 the Guideline is binding on distribution network service providers (DNSPs) and seeks to promote competition in the provision of electricity services, whilst preventing DNSPs from providing their affiliates, operating in unregulated markets, from having an unfair advantage.

The Guideline commenced on 1 December 2016 with full compliance required no later than 1 January 2018.

On 17 October 2017, the AER released a final amended [Ring-fencing Guideline \(Version 2\) and accompanying Explanatory Statement](#) against which compliance has been assessed by Ergon Energy Limited (Ergon Energy).

1.2 Purpose

The Guideline requires Ergon Energy to prepare an annual ring-fencing compliance report for submission to the AER each regulatory year. In accordance with section 6.2.1(b) of the Guideline, the annual compliance report must identify and describe, in respect of the regulatory year to which the report relates:

- the measures the DNSP has taken to ensure compliance with its obligations under this Guideline;
- any breaches of this Guideline by the DNSP, or which otherwise relate to the DNSP;
- all other services provided by the DNSP in accordance with clause 3.1; and
- the purpose of all transactions between the DNSP and an affiliated entity.

In accordance with section 6.2.2 of the Guideline, an annual compliance report must be submitted to the AER within four months of the end of the regulatory year to which the compliance report relates (i.e. 31 October).

The annual compliance report must also be accompanied by an assessment of compliance by a suitably qualified independent authority.

Accordingly, this report represents Ergon Energy's Annual Ring-Fencing Compliance Report for the regulatory year ending 30 June 2018 (**Ergon Energy 2017-18 Ring-Fencing Compliance Report**). This report covers the reporting period from 1 January 2018 to 30 June 2018, as full compliance with the Guideline was required from 1 January 2018. This report is structured to align with the reporting obligations specified in clauses 6.1 and 6.2 of the Guideline.

This report should be read together with Ergon Energy's [Ring-fencing Compliance Strategy](#) and [Waivers](#) as published on the AER and Ergon Energy websites. Ergon Energy only claims confidentiality over information identifying employees named in the independent assessor's report.

2 Measures to ensure compliance

Clause 6.2.1(b)i of the Guideline requires that the annual compliance report must identify and describe, in respect of the regulatory year, the measures the DNSP has taken to ensure compliance with its ring-fencing obligations.

In preparation for the Guideline becoming fully enforceable on 1 January 2018, a project team was set up to position the business to be ready to achieve compliance. The project took both a top down and bottom up approach to Ring-fencing.

The project's top down program examined the steps necessary to ensure compliance with the overarching themes of the Guideline, i.e.:

- Prevention of cross-subsidies - legal separation, establishing and maintaining accounts;
- Functional separation - discrimination, branding and cross-promotion, information access and disclosure, service providers;
- Compliance and enforcement; and
- Waivers.

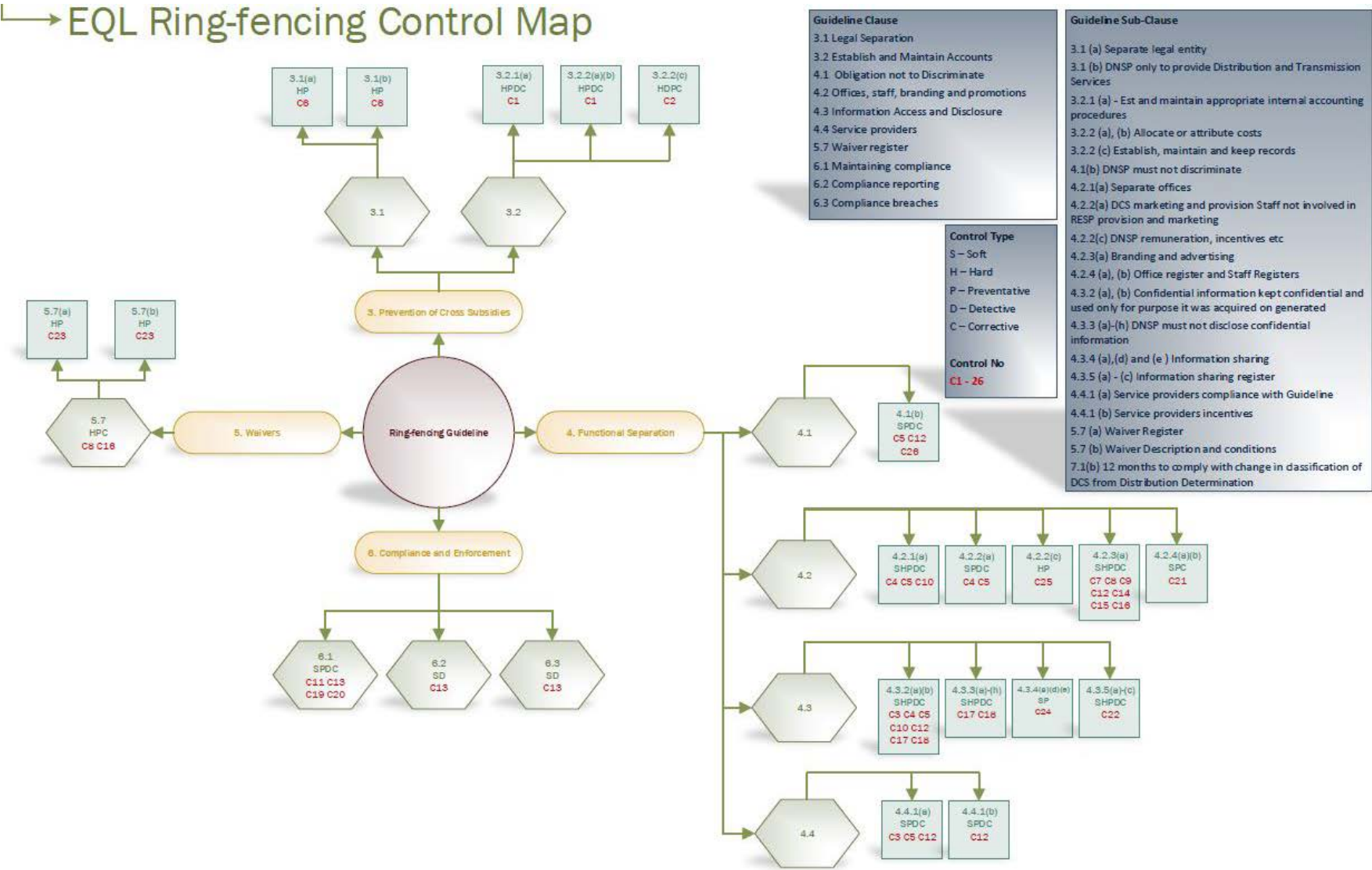
The bottom-up program examined compliance requirements from a service classification perspective (i.e. identifying contestable versus regulated services) to develop an understanding of the steps needed to ensure compliance before actioning these steps. Having completed these work streams, the outcomes were implemented and the decision-making process is reflected in the descriptions of the controls in place as described in this Ring-Fencing Compliance Report.

Compliance controls implemented include a mixture of preventative, detective and corrective controls. A full list of the controls, including a description and the relevant compliance actions, is provided in **Appendix 1**. These controls have also been mapped against the obligations in the Guideline to which they primarily apply (refer **Figure 1**, following page).

Ergon Energy has also identified three key risk areas - discrimination; branding and cross-promotion; and protection of confidential information. Targeted ring-fencing controls have been implemented to ensure compliance in these areas. Additional work to broadly enhance compliance measures and controls will be ongoing.

The compliance measures put in place by Ergon Energy as relevant to each of the obligations in the Guideline are discussed in this Ring-Fencing Compliance Report.

Figure 1: Ring-fencing control map



2.1 Prevention of cross subsidies

2.1.1 Legal separation

Ergon Energy, as a DNSP, is part of the Energy Queensland Group of companies as shown in **Figure 2**. Included in this group are:

- **Energy Queensland Limited** (Energy Queensland) - the parent company which provides administrative, corporate and management functions;
- **Energex Limited** (Energex) - the distribution network service provider operating in south east Queensland;
- **Ergon Energy Corporation Limited** (Ergon Energy Network) - the distribution network service provider operating in regional Queensland;
- **Ergon Energy Queensland Pty Limited** (Ergon Retail) – a related electricity service provider, providing standard retail contracts to regional Queensland; and
- **Yurika Pty Limited**- a related electricity service provider, with two subsidiaries:
 - **Metering Dynamics Pty Limited** which provides contestable metering services across the National Electricity Market; and
 - **Ergon Energy Telecommunication Pty Ltd** (trading as Nexium) which provides telecommunications services but not constable electricity services.

Ergon Energy made a strategic decision to cease the provision of any contestable electricity services and in 2017 these services were transferred to its Affiliated Entities. Metering Dynamics separated from Energex on 1 December 2017 whilst Yurika (formerly known as Energy Services) was created in December 2017. All companies are separate legal entities registered with the Australian Securities Investment Commission, each with its own constitution and board of directors.

Figure 2: Energy Queensland Group of companies



2.1.2 Establish and maintain accounts

Ergon Energy's enterprise resource management tool (ELLIPSE) was modified to reflect the new organisational structure and provide the ability to capture:

- financial transactions between the entities; and
- HR transactions between the entities (including staff sharing, staff movements and labour expenditure).

Established documented work procedures are in place for finance staff which provide instructions on how accounts are to be separated between the affiliated entities.

In preparation for the Guideline becoming fully enforceable, Ergon Energy's Cost Allocation Method (CAM) was reviewed in to ensure it complied with ring-fencing requirements. Ergon Energy's costs for distribution services are allocated in accordance with the approved CAM.

2.2 Functional separation

2.2.1 Obligation not to discriminate

Training

Ring-fencing training was deployed across the business during 2018 regulatory year. As at 30 June 2018, over 98 per cent of all Energy Queensland staff had completed the training. All employees will be required to complete online refresher training on an annual basis.

New employees and contractors to the business are also required to complete online training at induction.

In addition to the abovementioned training, targeted workshops were run with key business representatives across the business.

Reviews of tender processes and documentation

All procurement processes have been reviewed and updated to ensure ring-fencing compliance, including internal process documents and tender templates and contracts.

Spot checks have been also been conducted internally on some of the recent tender documentation to ensure compliance with the Guideline. Regular spot checks will be incorporated into the strategic procurement contract audit program of work going forward.

2.2.1 Offices, staff, branding and promotions

Physical separation/co-location

All Ergon Energy's office locations have been reviewed to ensure staff providing direct control services are separated from the affiliated entity staff involved in providing contestable electricity services. Where possible, staff providing contestable electricity services were moved to separate buildings. In cases where this was not possible, staff were moved to a restricted-access area or floor within a building. Staff access passes were update to ensure impacted staff are no longer able to access office areas involved in direct control services.

HR procedures and checklists have also been updated for new staff and staff moving between the DNSP and the affiliated entities to ensure that staff site access is restricted.

Staff sharing

All staff positions in Ergon Energy have been assessed against the criteria under the Guideline for which staff can be shared between the DNSP and a related electricity service provider (RESP). The nature of the positions identified, including the roles and duties of the staff, as well as applicable Guideline clause which allows for sharing, have been included in the Staff Sharing Register which is available on the Ergon Energy website. Positions will be added to, amended, or removed on an as needs basis.

Ergon Energy has also reviewed all employment contracts and added ring-fencing obligations in staff position descriptions. HR procedures and checklists were reviewed, including staff appointments, internal secondments and exit procedures, and additional processes implemented in order to support compliance with the Guideline.

Branding and cross-promotion

Ergon Energy has reviewed and updated its Branding Guidelines to ensure compliance with the Guideline. Along with the general branding guidelines, specific email branding guidelines were developed and all Ergon Energy buildings have had their physical signage updated to be compliant with the Guideline. The branding and cross-promotion obligations from the Guideline are also included in Ergon Energy's compulsory ring-fencing staff training.

Other measures implemented by Ergon Energy to ensure compliance with the Guideline's branding and cross-promotion obligations include:

- All internal and external websites have been reviewed and updated to ensure compliance with the Guideline;
- Social media is regularly monitored for compliance; and
- Advertising protocols are in place to ensure that no cross-promotion occurs in relation to the advertising or promotion of direct control services and contestable electricity services.

While Ergon Energy has a waiver from the branding obligations with respect to uniform and fleet in relation to a number of other services provided by shared staff, there exist branding protocols for uniform and fleet outside of these waiver areas. Projects are in place to ensure that the progress to full compliance is met in the timeframes set out in the waivers.

Office and staff registers

A register of all Ergon Energy sites which have been identified as being excluded from the Guideline's separation requirements have been placed on Ergon Energy's website and will be reviewed either annually or when a trigger event, such as a new office location, occurs.

A staff sharing register has also been placed on Ergon Energy's website and will be amended on an as needs basis.

For further information refer to Ergon Energy's [Ring-Fencing Registers](#).

2.3 Information access and disclosure

Protection of confidential information

Ergon Energy considers the protection of confidential information to be a key ring-fencing compliance risk area.

Prior to 1 January 2018 a project team was formed to analyse the key risk areas in relation to the protection of confidential information and to examine options for remediation. A number of potential IT system access issues were able to be resolved relatively quickly while others required more work to ensure that controls that were put in place that did not affect operational capability.

The project identified system and data sources used across the Energy Queensland group to assess whether they contained information that need to be ring-fenced from Ergon Energy's affiliated entities. User access was reviewed and users associated with the provision of contestable electricity services were removed from systems that stored distribution network information.

Similarly, all intranet and SharePoint sites across the Energy Queensland Group were examined, assessed for compliance with the Guideline, and sites access was restricted to affiliated entities where required. Protocols were put in place to ensure that, when new sites were created, the author was required to identify if the new site would contain ring-fenced information.

While access was removed to a large number of programs, a number of other potential sources of confidential information sources were more complex to resolve. The issues with these sources included being able to unwind complex and long standing access and IT systems that were closely interlinked without disrupting servers or accidentally cutting staff from access that needed to undertake their roles while removing access to potential confidential information sources.

A new project was established to resolve this issue and was completed on 31 August 2018. Following this project, Ergon Energy now has a number of controls in place to ensure that RESPs are unable to access confidential information.

In the period between the immediate controls being put in place and the completion of the IT remediation controls for the protection of confidential information on 31 August 2018, a number of soft controls were implemented to manage compliance. These controls included the monitoring of access to information and delivery of tailored training to key risk teams.

Disclosure and sharing of information

For the period 1 January 2018 to 30 June 2018, no confidential information was shared by Ergon Energy and its affiliated entities, and no requests for access to Ergon Energy's information register by competitors or potential competitors was received.

Information register

Ergon Energy has published an information sharing register on its external website. For further information refer to Ergon Energy's [Ring-Fencing Registers](#)

3 Waivers

Section 5 of the Guidelines allows for a DNSP to seek a waiver of obligations under clauses 3.1, 4.2 and/or 4.41(a) if certain conditions are met.

Ergon Energy has an established, maintained register of all waivers (including any variations) granted to it by the AER, which is published on its website. The register makes clear the terms and conditions of the waiver, including the specific conduct to which the waiver applies. For further information refer to Ergon Energy's [Ring-Fencing Registers](#).

Ergon Energy had the following six waivers of its obligations in force during the 2018 regulatory year:

1. Waiver in relation to the prospective reclassification of the following services:
 - emergency recoverable works
 - public lighting and nightwatchman lights
 - high load escorts
 - property services
 - network related training courses
 - rental and hire services, and
 - sale of inventory.
2. Waiver to continue to use the Ergon Energy brand for the retailer; Ergon Energy Queensland (EEQ).
3. Waiver to allow the offices at Mareeba and Charters Towers to be classified as regional offices.
4. Waiver to continue to offer generation, distribution and retail services, using the Ergon Energy brand and distribution staff in remote areas of Queensland.
5. Waiver to allow Ergon Energy to continue to use its branding on uniforms and fleet used in the provision of the following other services:
 - test, inspect and calibrate services
 - contracting services to other network service providers
 - operation and maintenance of customer assets
 - equipment services
 - training to external parties, and
 - type 1-4 metering services.
6. Waiver to continue to provide a connection service under long-term contract, to Hayman Island.

As relevant, projects remain under way to transition to full compliance with respect to Ergon Energy's waivers.

4 Compliance and enforcement

Clause 6.1 of the Guideline requires a DNSP to establish and maintain appropriate internal procedures to ensure it complies with its obligations under the Guideline. Such matters have been addressed within this Compliance Report with additional comments below.

Ring-fencing controls have been assigned to responsible officers within the business who are best placed to manage and monitor compliance in the conduct of their work activities.

Opportunities for further business practice improvements have been identified including embedment in the compliance and audit program. Specifically, plans for regular spot checks of IT systems and procurement documentation have been incorporated into internal audit plans for 2018-19.

Ergon Energy has set up a dedicated internal email address to help address any questions or issues regarding ring-fencing compliance with the Guideline. The address is monitored by members of the Regulation and Pricing team. Ergon Energy staff have used this avenue to seek clarification and raise potential breaches.

Procedures have been developed and implemented to:

- analyse potential breaches and determine if a breach has occurred and whether it is material;
- record the breaches in an internal breach register and report to the AER within 5 days of identification of a material breach; and
- remediate the issue that caused the breach.

5 Annual Reporting

The AER's Guideline also requires this Compliance Report to identify and describe other matters. Ergon Energy has responded to these matters below.

Breaches of guideline

Clause 6.2.1(b)ii of the Guideline requires DNSPs to report any breaches of the Guideline by the DNSP, or which otherwise relate to the DNSP.

Details of recorded breaches are provided as an **Attachment 1** to this Report. Of note, Ergon Energy has established a methodology for assessing materiality of potential ring-fencing breaches. This methodology was presented to the AER during 2017-18. As agreed with the AER, Ergon Energy has committed to report non-material breaches (for the near term).

Ergon Energy reported one breach during the 2018 regulatory year (assessed by the AER as material). The breach was reported to the AER within 5 business day of becoming aware of the breach.

Subsequent to year end, Ergon Energy identified and reported one non-material breach pertaining to the 2018 regulatory year. This non-material breach was reported to the AER on 10 October 2018 and is pending AER review and assessment.

Complaints and investigations

During 2017-18 the AER received a complaint that Ergon Energy was marketing 'behind the meter' services to standard retail contract customers on the Ergon Energy network. Ergon Energy was asked to investigate this complaint. Following an internal investigation, no evidence was found to support this complaint.

Ergon Energy will continue to make customers aware of contestable electricity services (beyond those provided under standard retail contracts) provided by other companies. In order to ensure compliance with the Guideline, Ergon Energy staff will also ensure that customers clearly understand whether a particular service is included in a standard retail contract

Other services provided

Clause 6.2.1(b)iii of the Guideline requires DNSPs to report all other services provided by the DNSP in accordance with clause 3.1 of the Guideline. Specifically, the provision of 'other services' is subject to the granting of ring-fencing obligation waivers by the AER (clause 3.1(d)vi).

Ergon Energy has been granted a waiver for the provision of the following services:

- emergency recoverable works;
- public lighting and nightwatchman lights;
- high load escorts;
- property services;
- network related training courses;
- rental and hire services; and
- sale of inventory.

These services continue to be provided as outlined in the waiver application until 30 June 2020.

Ergon Energy has also been granted a waiver for the provision of:

- generation, distribution and retail services using its own brand and distribution staff in remote areas of Queensland; and
- connection services under a long-term contract to Hayman Island.

These services continue to be provided as outlined in the waiver application until 30 June 2025.

No 'other services' have been provided by Ergon Energy.

Transactions with affiliate entities

Section 6.2.1(b)iv requires DNSPs to report the purpose of all transactions between the DNSP and its affiliated entities.

Throughout 2018, Ergon Energy had a limited number of transactions with affiliated entities. These transactions between affiliated entities are captured in the Ergon Energy's accounting and finance systems.

The DNSP's historically incurred the majority of their costs within the entity, but as a result of corporate restructuring, more costs are now captured in the parent entity (EQL) and charged to the entities within the Group. Costs relating to the program of work (i.e. projects and work orders) are directly charged to projects and recorded in the relevant entity. This may involve the use of labour force from either DNSP and/or EQL. Other indirect costs and overheads are allocated via the CAM.

The DNSP's also transact with Yurika to provide labour as required and certain support costs / overheads are allocated to these entities in accordance with the CAM.

Further transaction details are provided in **Table 1** below.

Table 1: Transactions between Ergon Energy and affiliated entities

Affiliated Entity	Cost Type	Transaction Description and Purpose
Energex	Labour	Labour costs comprise direct and indirect costs. Direct labour costs are those that are directly attributable to Ergon Energy's projects and work orders. These include: <ul style="list-style-type: none">- wages;- overtime;- allowances; and- on costs. Indirect labour costs are recovered as either Network or Corporate Overheads.
Energex	Materials	Material costs comprise the following direct costs: <ul style="list-style-type: none">- direct acquisitions;- goods issued; and- other miscellaneous material costs.

Affiliated Entity	Cost Type	Transaction Description and Purpose
Energex	Contractor	Contractor costs comprise direct costs where Energex has engaged a contractor to perform works or services in relation Ergon Energy: <ul style="list-style-type: none"> - contractor costs; and - consulting costs.
EQL	Network and Corporate Overheads	Overheads comprise indirect costs incurred by the EQL Group. These are charged to Ergon Energy in accordance with the CAM and reported as Network or Corporate Overhead. These costs consist of: <ul style="list-style-type: none"> - indirect labour and contractors; - office supplies; - utilities; - audit services; - legal services; - other professional fees & expenses; - licence fees (excluding motor vehicle registration fees); - subscriptions & registrations; - telephone, postage and courier service costs; - rental costs; and - insurance (other than motor vehicle and personnel).
SPARQ	ICT related overheads	This category comprises overhead costs incurred by Ergon Energy in relation to ICT services. These costs consist of: <ul style="list-style-type: none"> - finance fee; - assets usage fee; - labour, contractor costs; - license and maintenance fees; and - telecommunication expenses.
Yurika (including Nexium and Metering Dynamics)	Various support services provided to Yurika	These services include: <ul style="list-style-type: none"> - installation/replacement of meters; - infrastructure services; - operating and maintenance services on generators; and - finance and corporate shared services.
Ergon Energy Retail	Network charges	Ergon Energy Retail incurs network charges from Ergon Energy (i.e. NUOS charges).
Ergon Energy Retail	Service fees	Ergon Energy provides business management, financial, corporate, customer care and administration services to Ergon Energy Retail.

Independent assessment

Clause 6.2.1(c) of the Guideline requires the DNSP's annual compliance report to be accompanied by an assessment of compliance with the Guidelines by a suitably qualified independent authority.

Ergon Energy engaged the services of Deloitte to undertake a reasonable assurance review of Ergon Energy's compliance against the Guideline requirements. The review covered the six month period to 30 June 2018.

Deloitte's review report is provided as an **Attachment 2** to this Report.

The managements response to the review findings is addressed in Deloitte' report.

6 Appendix 1 – Compliance Controls

ID	Control Category	Control Description – How compliance is demonstrated and supported	Specific Measures (H) Hard (S) Soft (P) Preventative (D) Detective (C) Corrective	Primary Ring-fencing Guideline/s captured		
				Principle	Clause	Sub-Clause
C1	Ensure costs are allocated appropriately	The Cost Allocation Methodology (CAM) has been updated to ensure there is an approved process for capturing Ring-fencing cost-reflective transactions and allocating costs between DNSPs and RESPs.	<ul style="list-style-type: none"> CAM Reviewed for Ring-fencing obligations (HP) Treasury Agreement in place between Affiliated entities (HP) 	3. Prevention of Cross Subsidies	3.2 Establish and Maintain Accounts	3.2.1(a) Est and maintain appropriate internal accounting procedures 3.2.2(a),(b) Allocate or attribute costs
C2	Ensure Financial Systems are Ring-fencing compliant	DNSP's Enterprise Resource Management System updated to capture DNSP and RESPs and to accurately record the entire range of transactions between the affiliated entities, including: <ul style="list-style-type: none"> Procurement Financial; and HR 	<ul style="list-style-type: none"> ELLIPSE re-configured to meet Ring-fencing Guideline requirements and capture transactions (HP) System detects potential erroneously-coded transactions, flags and corrects where required (HDC) 	3. Prevention of Cross Subsidies	3.2 Establish and Maintain Accounts	3.2.2(c) Establish, maintain and keep records
C3	Ensure exit procedures for employees & contractors incorporate Ring-fencing requirements	HR Checklists and procedures for employees & contractors leaving the organisation incorporate Ring-fencing requirements including ensuring confidential information is protected through removing access to systems.	<ul style="list-style-type: none"> Employees separating from EQL are processed through HR system with separation date (HP) Separation date is provided to internal IT department which generates system access cancellation (HPC) 	4. Functional Separation	4.3 Information Access and Disclosure 4.4 Service providers	4.3.2(a),(b) Confidential information kept confidential and used only for purpose it was acquired on generated 4.4.1(a) Service providers compliance with Guideline

ID	Control Category	Control Description – How compliance is demonstrated and supported	Specific Measures (H) Hard (S) Soft (P) Preventative (D) Detective (C) Corrective	Primary Ring-fencing Guideline/s captured		
				Principle	Clause	Sub-Clause
C4	Permanent appointments to, and secondments between DNSPs and RESPs are Ring-fencing compliant	<p>HR Checklists for Staff movements between DNSP and RESPs (including secondments and permanent appointments) include requirements to ensure:</p> <ul style="list-style-type: none"> Access to confidential information sources is removed; RESP staff are physically separated from DNSP staff Employee role descriptions have not included marketing and/or provision roles for both the DNSP and RESP 	<ul style="list-style-type: none"> Ellipse will updated to recognise movements between DNSP and RESP – currently manual process (HP) Automatic notifications generated (IT, Access, physical location) (HP) Appropriate IT accesses applied to new position (HP) Staff located appropriate to RESP/DNSP position (HPC) Random audits of staff movements and accesses undertaken (HDC) 	4. Functional Separation	<p>4.2 Offices, staff, branding and promotions</p> <p>4.3 Information Access and Disclosure</p>	<p>4.2.1(a) Separate offices</p> <p>4.2.2(a) DCS marketing and provision Staff not involved in RESP provision and marketing</p> <p>4.3.2(a),(b) Confidential information kept confidential and used only for purpose it was acquired on generated</p>
C5	Ensure all new EQL staff are aware of their Ring-fencing obligations and provided with appropriate accesses (Physical and IT)	<p>HR Checklists and onboarding for new staff ensure:</p> <ul style="list-style-type: none"> Staff have been made aware of Ring-fencing obligations Access to confidential information is appropriately applied depending on whether employee is DNSP, RESP or corporate support. Staff are located appropriate to their role as a RESP vs DNSP employee Employee/contractor role descriptions have not included marketing and/or provision roles for both the DNSP and RESP 	<ul style="list-style-type: none"> EQL employee induction material includes Ring-fencing awareness Requirements (SP) All new Staff required to undertake mandatory Ring-fencing awareness online module training (SP) All Role descriptions updated to include Ring-fencing obligation as role responsibility (HP) All role descriptions updated to ensure role description does not include both RESP and DNSP activities (HP) HR process includes notification to building services for appropriate Ring-fencing physical separation based on DNSP/RESP role (HP) 	4. Functional Separation	<p>4.1 Obligation not to Discriminate</p> <p>4.2 Offices, staff, branding and promotions</p> <p>4.3 Information Access and Disclosure</p> <p>4.4 Service providers</p>	<p>4.1(b) DNSP must not discriminate</p> <p>4.2.1(a) Separate offices</p> <p>4.2.2(a) DCS marketing and provision Staff not involved in RESP provision and marketing</p> <p>4.3.2(a),(b) Confidential information kept confidential and used only for purpose it was acquired on generated</p> <p>4.4.1(a) Service providers compliance with Guideline</p>

ID	Control Category	Control Description – How compliance is demonstrated and supported	Specific Measures (H) Hard (S) Soft (P) Preventative (D) Detective (C) Corrective	Primary Ring-fencing Guideline/s captured		
				Principle	Clause	Sub-Clause
C6	Legal Separation of DNSPs and RESPs	DNSPs and RESPs are legally separated entities	<ul style="list-style-type: none"> Register all Businesses with ASIC (HP) Finalise Constitutions (HP) Finalise Board Charters (HP) Appoint boards (HP) 	3. Prevention of Cross Subsidies	3.1 Legal Separation	3.1(a) Separate legal entity 3.1(b) DNSP only to provide Distribution and Transmission Services
C7	Ensure Fleet branding protocols are Ring-fencing compliant	Fleet Branding protocols incorporating Ring-fencing requirements for branding of DNSP/RESP Vehicles are published and available to DNSP/RESP staff and contractors	Fleet branding for non-waiver related DNSP/RESP fleet follow approved Ring-fencing Branding Guidelines (HP) Staff are made aware of vehicle usage based on DNSP/RESP usage (SP)	4. Functional Separation	4.2 Offices, staff, branding and promotions	4.2.3(a) Branding and advertising
C8	Ensure Fleet branding, currently the subject of a waiver, is made Ring-fencing compliant	Project established and underway to transition to full compliance with the Ring-fencing Guideline by 31 December 2019	<ul style="list-style-type: none"> Project plan finalised and approved (HP) Project underway (HC) 	4. Functional Separation	4.2 Offices, staff, branding and promotions 5.7 Waiver register	4.2.3(a) Branding and advertising N/A

ID	Control Category	Control Description – How compliance is demonstrated and supported	Specific Measures (H) Hard (S) Soft (P) Preventative (D) Detective (C) Corrective	Primary Ring-fencing Guideline/s captured		
				Principle	Clause	Sub-Clause
C9	Physical separation controls are Ring-fencing compliant	<p>Physical Separation controls have been implemented to ensure appropriate separation of DNSP and RESP staff including:</p> <ul style="list-style-type: none"> In SEQ, where a significant volume of DNSP and Non-DNSP staff are located, the Non-DNSP staff are all co-located in a separate office, currently Ann St. In regional centres, and the EQL headquarters in Townsville, the Non-DNSP staff are located on separate floors of office buildings to DNSP staff, or co-located with shared services staff that support all EQL businesses, depending on the volume of Non-DNSP staff. In areas with less than 25,000 customer connection points within a 100km radius, the Non-DNSP staff may work near the DNSP staff, in accordance with ring fencing exemptions. Physical brand signage is appropriately maintained based on location 	<ul style="list-style-type: none"> Audit of all staff location pre-1 January completed (SPC) Staff re-located based on roles –DNSP / Corporate / RESP (HP) Random spot checks undertaken including physical walk throughs / interviews with staff (HPDC) 	4. Functional Separation	<p>4.2 Offices, staff, branding and promotions</p> <p>4.3 Information Access and Disclosure</p>	<p>4.2.1(a) Separate offices</p> <p>4.3.2(a),(b) Confidential information kept confidential and used only for purpose it was acquired on generated</p>
C10	Ring-fencing Compliance management is in place	Compliance Management Policy incorporates Ring-fencing obligations	<ul style="list-style-type: none"> EQL Compliance plan updated to include Ring-fencing (SP) Ring-fencing compliance included in audit committee BAU reporting (SP) 	6. Compliance and Enforcement	6.1 Maintaining compliance	N/A

ID	Control Category	Control Description – How compliance is demonstrated and supported	Specific Measures (H) Hard (S) Soft (P) Preventative (D) Detective (C) Corrective	Primary Ring-fencing Guideline/s captured		
				Principle	Clause	Sub-Clause
C11	Contracts are Ring-fencing compliant	Contracts incorporate Ring-fencing obligations where necessary	<ul style="list-style-type: none"> All contract templates have been updated to reflect Ring-fencing requirements (HP) Random audits of contracts will be undertaken to check for compliance (HDC) 	4. Functional Separation	4.1 Obligation not to Discriminate 4.2 Offices, staff, branding and promotions 4.3 Information Access and Disclosure 4.4 Service providers	4.1(b) DNSP must not discriminate 4.2.3(a) Branding and advertising 4.3.2(a),(b) Confidential information kept confidential and used only for purpose it was acquired on generated 4.4.1(a) Service providers compliance with Guideline4.4.1 (b) Service providers incentives
C12	Ring-fencing Breach Register	Breach register is maintained and up-to-date	<ul style="list-style-type: none"> Ring-fencing created, maintained and updated (SD) 	6. Compliance and Enforcement	6.1 Maintaining compliance 6.2 Compliance reporting 6.3 Compliance breaches	N/A N/A N/A
C13	Organisational documents and templates reflect Ring-fencing requirements	All organisational documents and templates are up-to-date and reflect Ring-fencing requirements including appropriate branding	<ul style="list-style-type: none"> All key documents reviewed and rebranded to ensure compliance (HP) Annual review of documents to ensure ongoing compliance (SC) 	4. Functional Separation	4.2 Offices, staff, branding and promotions	4.2.3(a) Branding and advertising
C14	Brand guidelines are Ring-fencing compliant	Branding guidelines are current and reflect appropriate Ring-fencing branding obligations	<ul style="list-style-type: none"> EQL branding guidelines updated to reflect Ring-fencing Requirements (HP) Branding guidelines easily accessible on Intranet (SP) 	4. Functional Separation	4.2 Offices, staff, branding and promotions	4.2.3(a) Branding and advertising
C15	Ensure Uniform branding, currently the subject of a waiver, is made Ring-fencing compliant	Project established and underway to transition to full compliance with the Ring-fencing Guideline by 31 December 2019	<ul style="list-style-type: none"> Project plan finalised and approved (HP) Project underway (HC) 	4. Functional Separation	4.2 Offices, staff, branding and promotions	4.2.3(a) Branding and advertising
				5. Waivers	5.7 Waiver register	N/A

ID	Control Category	Control Description – How compliance is demonstrated and supported	Specific Measures (H) Hard (S) Soft (P) Preventative (D) Detective (C) Corrective	Primary Ring-fencing Guideline/s captured		
				Principle	Clause	Sub-Clause
C16	IT Ring-fencing Audit tool created	Final Information access audit tool is to be created and operational. Tool will: <ul style="list-style-type: none"> Regularly automatically scan accesses to check current accesses vs approved accesses under Ring-fencing Identify instances of incorrect access and rectify 	<ul style="list-style-type: none"> Initial audit tool created to sweep systems to determine areas of risk (HPC) Remediation areas identified and rectification activities commenced (HC) All SharePoint sites assessed to determine if they should be Ring-fenced and action taken to remove RESP access where required (HC) Protocols put in place requiring Ring-fencing assessment of new SharePoint sites (HP) 3,783 information sources assessed to determine if they need to be Ring-fenced and RESP access removed where required (HC) 	4. Functional Separation	4.3 Information Access and Disclosure 4.3 Information Access and Disclosure	4.3.2 (a), (b) Confidential information kept confidential and used only for purpose it was acquired on generated 4.3.3 (a)-(h) DNSP must not disclose confidential information
C17	Staff computer access is Ring-fencing compliant	ICT security access procedures incorporate Ring-fencing obligations including access provided based on DNSP/RESP approved programs	<ul style="list-style-type: none"> Use-of-Systems agreement updated to include Ring-fencing Requirements (HP) IT teams have Ring-fencing lists for determining access requests based on DNSP/RESP approved list (HP) Process for querying suspect requests in place and updating lists (SDC) 	4. Functional Separation	4.3 Information Access and Disclosure	4.3.2 (a),(b) Confidential information kept confidential and used only for purpose it was acquired on generated 4.3.3(a)-(h) DNSP must not disclose confidential information
C18	System for assessing Ring-fencing Breaches in place	Ring-fencing breach identification and materiality assessment protocols in place	<ul style="list-style-type: none"> Ring-fencing breach assessment protocol in place (HD) Materiality Calculator in place which assesses breaches to determine if material. Notification protocols in place to ensure capture and reporting of breaches (HD) Remediation activities undertaken as part of assessment process correct issue and ensure/minimise risk of future similar breaches (SHPDC) 	6. Compliance and Enforcement	6.1 Maintaining compliance	N/A

ID	Control Category	Control Description – How compliance is demonstrated and supported	Specific Measures (H) Hard (S) Soft (P) Preventative (D) Detective (C) Corrective	Primary Ring-fencing Guideline/s captured		
				Principle	Clause	Sub-Clause
C19	DNSP and RESP staff are aware of Ring-fencing Obligations	DNSP and RESP staff are made aware of Ring-fencing Obligations including annual obligatory refresher training and Ring-fencing training incorporated into onboarding.	<ul style="list-style-type: none"> Ring-fencing Awareness Training module developed (SP) Ring-fencing Training added to annual EQL training requirements (SP) Ring-fencing SharePoint/Intranet page available for staff (SP) ringfencing@energyq.com.au email address available for all staff to request clarifying advice on Ring-fencing issues - average of 26 unique queries per month from 1 Jan 18 to 30 June 18 (SP) Ring-fencing email also used for reporting of suspected breaches (SDC) 	6. Compliance and Enforcement	6.1 Maintaining compliance	N/A
C20	Office Registers and Staff Registers	Office Registers and Staff Registers publicly available and up-to-date	<ul style="list-style-type: none"> Assessments completed (SP) Registers created, approved and available on the Ergon Energy Website (HP) Updated as required (HC) 		4.2 Offices, staff, branding and promotions	4.2.4(a),(b) Office register and Staff Registers
C21	Information Sharing Register	Information Sharing Register publicly available and up-to-date	<ul style="list-style-type: none"> Information sharing register created and on Ergon Energy Website (HP) Updated as required (HC) 	4. Functional Separation	4.3 Information Access and Disclosure	4.3.5(a)-(c) Information sharing register
C22	Waiver Register	Waiver Register publicly available and up-to-date	<ul style="list-style-type: none"> Waiver Register created and available on Ergon Energy Website (HP) Updated as Required (HP) 	5. Waivers	5.7 Waiver register	5.7(a) Waiver Register 5.7(b) Waiver Description and conditions
C23	Information Sharing	Information Sharing decision trees are up to date and in place	<ul style="list-style-type: none"> Information sharing decision tree created and available to all staff via SharePoint/Intranet site (HP) 	4. Functional Separation	4.3 Information Access and Disclosure	4.3.4(a),(d) and (e) Information sharing
C24	Remuneration policy - Remuneration incentives are ring-fencing compliant	Remuneration policy. Remuneration incentives are ring-fencing compliant	<ul style="list-style-type: none"> Remuneration policy incorporates Ring-fencing Requirements (HP) 	4. Functional Separation	4.2 Offices, staff, branding and promotions	4.2.2(c) DNSP remuneration, incentives etc.
C25	DNSP Tender processes for contestable services consider Ring-fencing obligations	DNSP Tender processes for contestable services consider Ring-fencing obligations to ensure RESPs do not receive favourable treatment.	<ul style="list-style-type: none"> Tender documents incorporate Ring-fencing Requirements (HP) Random audits of tenders undertaken to determine compliance (HDC) 	4. Functional Separation	4.1 Obligation not to Discriminate	4.1(b) DNSP must not discriminate

Attachment 1: Ergon Energy Ring-fencing Breaches: 1 Jan 2018- 30 June 2018

Breach number	Ring-fencing category	Clause of Guideline breached	Breach start date	Breach end date	Description / Nature of breach	Cause of breach	Identification		Impacts	Remediation	Trend	Other	Reporting	
							Date breach was identified	Method of identification	Potential impacts	Remedial action taken	Past breaches of same Clause	Other relevant information	Has the breach been assessed as material?	Date breach reported to AER
1	Legal-separation	4.2.1 - Obligation to physically separate a RESP providing contestable electricity services 4.2.2 - Obligation not to share staff 4.2.3- Obligation to have separate branding and avoid cross-promotion	1/01/2018	Est. 30/06/2018	In providing contestable electricity services for 1347 existing large type 1-4 metering installations Energex is using the same brand that is used for its direct control services.	Other market participants have not transferred the existing metering installations due to a number of reasons, including: <ul style="list-style-type: none">o the volume of changes required,o the complexity and sequential nature of the changes;o new systems and business processes;o new inexperienced operational staff in the various businesses;o other participants not initiating required changes in a timely manner;o timing of changes and clash with end of month billing activities; ando multiple Power of Choice rule and role changes.	5/01/2018	Identified as a result of internal compliance monitoring by Manager within the DNSP who raised the issue with the Regulation and Pricing Group. Escalated to EGM Strategy, Portfolio and Innovation for action.	Ergon Energy has largely withdrawn from the market and is not seeking new customers; therefore there is no potential for discrimination and the impact of the breach is low.	Ergon Energy has requested retailers churn all active meters off Energex's books. Ergon Energy continues to work with market participants to expatiate the transfer of the existing metering installations. Ergon Energy is not competing in this market for new customers.	No past breaches of this obligation	Ergon Energy has not classified this as a material breach of the Ring-Fencing Guideline for the following reasons: <ul style="list-style-type: none">o This situation is an unforeseen outcome of the implementation of the 'Power of Choice' rule changes;o Preventing and / or rectifying the breach is beyond Energex's control;o Ergon Energy does not believe this situation to be in contravention of the 'intent' of the Ring-Fencing Guideline or the ring-fencing obligations which are targeted at preventing cross-subsidisation and discrimination as there is no potential for cross-subsidisation or discrimination or for any other negative impacts to the market.	No <i>(Note: While the breach was not classified as material by Ergon Energy, the AER assessed the breach as Material).</i>	12/01/2018
2	Branding	4.2.3 Obligation to have separate branding and avoid cross-promotion	1/05/2018	15/06/2018	An internal review of all Yurika works since 1 January 2018 was conducted to ensure AER's Uniform and Fleet Waiver conditions were being followed. One job was identified as falling outside the AER approved Waiver conditions, being the construction of 33kV Distribution lines from a solar farm sub-station at Oakey to an Ergon Energy Connection Point. Shared Staff allocated to this job included crews from both Ergon Energy and Energex. The work has been classified as 'construction of new lines' which is not one of the roles specified in the DNSP's approved Waiver. The worksite was visible from the Warrego Highway, but site access was restricted to particular entry points to prevent non-authorised access. 28 crew in the	A misunderstanding of the Uniform and Fleet waiver limitations led to Ergon Energy shared staff wearing DNSP uniforms while providing contestable services (on behalf of Yurika).	9/10/2018	Identified following an internal review of all Yurika jobs using shared staff to determine if any breaches of the Uniform and Fleet Waiver occurred.		To mitigate the risk of future works also falling outside the Uniform and Fleet Waiver, Energy Queensland (the parent entity of the DNSP) has ordered unbranded uniforms at a cost of \$133,343 as well as white magnetic stickers to place over DNSP vehicle branding and set in place protocols with Yurika to QA all works to assess whether unbranded uniforms need to be supplied in the future.	No past breaches of this obligation	NA	No	10/10/2018