



Energex

Australian Energy Regulator

Ring-Fencing Guideline Compliance Report

Final Report

29 October 2018

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1. Background

The Australian Energy Regulator (the “AER”) published the Electricity Distribution Ring-Fencing Guideline on 30 November 2016 under the National Electricity Rules (the “NER”) with amendments made on 17 October 2017 (the “Guideline”). The Guideline provides for functional separation of regulated and competitive business activities to promote competition in the provision of contestable electricity services. The Guideline is effective from 1 December 2016 and Distribution Network Service Providers (DNSP) are required to comply not later than 1 January 2018. As required by the Guideline, Energex must submit an annual Ring-Fencing compliance report to the AER by the 31st of October 2018. The annual compliance report must be accompanied by an assessment of compliance by a suitably qualified independent authority.

Under clause 6.2.1 (c) of the Guideline, Deloitte has been engaged by Energex as the qualified independent authority to perform an independent assurance of Energex’s Ring-Fencing Annual Compliance Report (the “Compliance Report”) to determine if it has been prepared, in all material respects, in accordance with the requirements of the Guideline for the period from 1 January 2018 to 30 June 2018 (the “audit period”). Deloitte’s assurance engagement has been conducted with the objective of expressing an opinion on Energex’s compliance with the Guideline.

In accordance with an engagement letter between Energex and Deloitte dated 27 August 2018, Deloitte conducted the assurance engagement in accordance with the Standard on Assurance Engagements ASAE 3100 Compliance Engagements. The standard requires us to comply with ethical requirements applicable to assurance engagements, and plan and perform procedures to obtain reasonable assurance about whether Energex have complied with the Guideline, in all material respects, as evaluated against the Guideline Obligations.

2. Summary of Findings

2.1. Overview

The following table summarises observations and recommendations against the obligations where an exception is identified. The rating of each obligation has been applied in accordance with *Section 2.2*. Management response to the observations and recommendations are in *Section 5*.

No.	Category	GL ref	Guidance Obligation	Observations	Recommendations	Rating
12	Disclosure of information	4.3.3 (a)-(g)	A DNSP must not disclose confidential information to any person , including a related electricity service provider, unless: (a) the DNSP has first obtained the explicit informed consent of the relevant customer, or prospective customer, to whom the confidential information relates; (b) the disclosure is required by , or for the purpose of complying with any law ; (c) the disclosure is necessary to enable the DNSP to provide its distribution services , its transmission services or its other services (including by acquiring services from other legal entities); (d) the information has been requested by or on behalf of a customer , or potential customer, of another legal entity, and the disclosure is necessary to enable the legal entity to provide its transmission services, contestable electricity services or other	<p>The control environment is inadequate to keep confidential information confidential.</p> <p>Prior to 1 January 2018, Energex formed a project team to analyse key risk areas in relation to the protection of confidential information under the Guideline. The project reviewed user access and removed user access from users associated with the provision of contestable electricity services from systems that stored distribution and network information.</p> <p>Energex disclosed in their annual compliance report that although access was removed to a large number of systems, other sources of confidential information were more difficult to resolve and this didn't occur until 31 August 2018.</p> <p>Energex identified that SharePoint sites were reviewed, examined and assessed for compliance with the Guideline and site access was restricted to Energex or affiliate employees respectively. We tested whether affiliate employees could access content that should be restricted under the Guideline. We identified 1 employee had access to SharePoint sites identified as containing Ring-Fenced information. Management provided an explanation for the access of this 1 employee. The employee was provided with approved access for a defined period to undertake specific work, however this access should have been removed at the end of the approved period.</p> <p>There is a risk that other affiliate employees may be able to access information which is restricted under the Guideline. We note Energex have expressly stated in the annual compliance report that the protection of confidential information is a key ring-fencing compliance risk area for Energex.</p>	<p>We recommend management:</p> <ul style="list-style-type: none"> Strengthen the control environment by reviewing the control list of systems to determine if they contain electricity information which needs to be restricted per the Guideline and apply access limitations to all employees to the extent required to perform the responsibilities of each role. Periodically test employee system access to ensure DNSP and related electricity service providers cannot access systems which contain Ring-Fenced sensitive information. 	Exception

No.	Category	GL ref	Guidance Obligation	Observations	Recommendations	Rating
			<p>services to the customer or potential customer;</p> <p>(e) the disclosure is solely for the purpose of providing assistance to another Network Service Provider in response to an event (such as an emergency) that is beyond the other Network Service Provider's reasonable control;</p> <p>(f) the disclosure is solely for the purposes of research by a legal entity other than a related electricity service provider of the DNSP</p> <p>(g) a related electricity service provider of the DNSP has requested the disclosure and the DNSP complies with clause 4.3.4 in relation to that confidential information.</p>			
11	Protection of confidential information	4.3.2 (a) (b)	<p>A DNSP must:</p> <p>(a) keep confidential information confidential</p> <p>(b) only use confidential information for the purpose for which it was acquired or generated</p>	<p>The control environment is inadequate to keep confidential information confidential.</p> <p>Prior to 1 January 2018, Energex formed a project team to analyse key risk areas in relation to the protection of confidential information under the Guideline. The project reviewed user access and removed user access from users associated with the provision of contestable electricity services from systems that stored distribution and network information.</p> <p>Energex disclosed in their annual compliance report that although access was removed to a large number of systems, other sources of confidential information</p>	<p>We recommend management:</p> <ul style="list-style-type: none"> Strengthen the control environment by reviewing the control list of systems to determine if they contain electricity information which needs to be restricted per the Guideline and apply access limitations to all employees to the extent required to perform the responsibilities of each role. Periodically test employee system access to ensure DNSP and related electricity service providers cannot access systems which contain Ring-Fenced sensitive information. 	Exception

No.	Category	GL ref	Guidance Obligation	Observations	Recommendations	Rating
				<p>were more difficult to resolve and this didn't occur until 31 August 2018.</p> <p>Energex identified that SharePoint sites were reviewed, examined and assessed for compliance with the Guideline and site access was restricted to Energex or affiliate employees respectively. We tested whether affiliate employees could access content that should be restricted under the Guideline. We identified 1 employee had access to SharePoint sites identified as containing Ring-Fenced information. Management provided an explanation for the access of this 1 employee. The employee was provided with approved access for a defined period to undertake specific work, however this access should have been removed at the end of the approved period.</p> <p>There is a risk that other affiliate employees may be able to access information which is restricted under the Guideline. We note Energex have expressly stated in the annual compliance report that the protection of confidential information is a key ring-fencing compliance risk area for Energex.</p>		

2.2. Rating Applied

No Exception	Requirements of the DNSP condition have been met with no or minor improvement opportunities. Findings noted are considered minor and require routine efforts to correct in the normal course of business.
Exception	The requirements of the DNSP condition have not been met, or are inadequate to form an objective determination on compliance. Findings noted are considered material in nature and require urgent remedial action.

No.	Category	GL ref	Guidance Obligation	Testing	Observations	Rating
				<p>Information Obtained:</p> <ul style="list-style-type: none"> • Energex Finance Policy Manual. • Summary of new ID Process. • Intercompany Transactions – EQX and EQL cost recovery. • ID Matrix. • Energex Cost Allocation Method (CAM). • CAM business rules 2015-20 (version 9). • Process for updating CAM business rules. <p>Test Performed:</p> <ul style="list-style-type: none"> • We assessed the process used in Ellipse to confirm that intercompany transactions between affiliated entities are identified in Ellipse with the use of Inter-District Identifiers (IDI). These identifies enable the costs to be allocated between Energex and the affiliate in line with the Guideline. • We sampled Ellipse transactions to validate that costs are being allocated to the IDI's in line with the agreed internal accounting treatment. • We validated that as part of the month end process, Financial accounting team performs various Intercompany Account Balances and IDIs check to ensure IDIs have been applied accordingly and intercompany transactions between entities are balanced. • We assessed work procedures in place to address the maintenance of the internal accounting procedures and in place during the audit period. • We assessed the risks, issues and near misses identified during the audit period to confirm that there were no compliance issues against the Guideline Obligation. 		
4	Cost allocation and attribution	3.2.2 (a), (b)	<p>A DNSP must allocate or attribute costs to distribution services:</p> <p>- in a manner that is consistent with the Cost Allocation Principles and its approved CAM, as if the Cost Allocation</p>	<p>Discussions held with:</p> <p>█ [REDACTED]</p> <p>█ [REDACTED]</p> <p>█ [REDACTED]</p> <p>Key Control:</p> <ul style="list-style-type: none"> • Energex Cost Allocation Method (CAM). • ID Matrix. • Summary of new ID Process. • CAM business rules 2015-20 (version 9). • Ellipse System. 	<p>Based on the control testing performed we have not identified any matters of exception against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> • Energex has a process in place to allocate costs to distribution services and is consistent with the cost allocation principles and AER approved CAM. • Energex has established intercompany account codes in Ellipse to ensure costs are allocated accurately to ensure non-regulated 	No Exception

No.	Category	GL ref	Guidance Obligation	Testing	Observations	Rating
			Principles and CAM otherwise applied to the allocation and attribution of costs between distribution services and non-distribution services. - and must not allocate or attribute other costs to the distribution services it provides.	Information Obtained: <ul style="list-style-type: none"> • Energex Finance Policy Manual. • Summary of new ID Process. • Intercompany Transactions – EQX and EQL cost recovery. • ID Matrix. • Energex Cost Allocation Method (CAM). • CAM business rules 2015-20 (version 9). • Process for updating CAM business rules. Test Performed: <ul style="list-style-type: none"> • We have obtained and reviewed the CAM, noting it addresses the allocation of costs between distribution services and non-distribution services. • We have confirmed the CAM has been approved by the AER. • We sampled Ellipse transactions to validate that costs are being allocated to the IDI's in line with the agreed internal accounting treatment. • We assessed the risks, issues and near misses identified during the audit period to confirm that there were no compliance issues against the Guideline Obligation. 	business costs are no allocated to regulated business costs.	
5	Cost allocation and attribution	3.2.2 (c)	A DNSP must establish, maintain and keep records that demonstrate how it meets cost allocation and attribution obligations.	Discussions held with: <ul style="list-style-type: none"> • [REDACTED] • [REDACTED] • [REDACTED] Key Control: <ul style="list-style-type: none"> • Energex Cost Allocation Method (CAM). • ID Matrix. • Summary of new ID Process. • CAM business rules 2015-20 (version 9). • Ellipse System. Information Obtained: <ul style="list-style-type: none"> • Energex Finance Policy Manual. • Summary of new ID Process. • Intercompany Transactions – EQX and EQL cost recovery. • ID Matrix. • Energex Cost Allocation Method (CAM). • CAM business rules 2015-20 (version 9). 	Based on the control testing performed we have not identified any matters of exception against the obligation, with key point(s) below: <ul style="list-style-type: none"> • Energex maintains records in relation to cost allocation. 	No Exception

No.	Category	GL ref	Guidance Obligation	Testing	Observations	Rating
				<ul style="list-style-type: none"> Process for updating CAM business rules. <p>Test Performed:</p> <ul style="list-style-type: none"> We have obtained and reviewed the CAM, noting it addresses the allocation of costs between distribution services and non-distribution services. We have confirmed the CAM has been approved by the AER. We assessed the process used in Ellipse to confirm that intercompany transactions between affiliated entities are identified in Ellipse with the use of Inter-District Identifiers (IDI). These identifies enable the costs to be allocated between Energex and the affiliate in line with the guideline. We sampled Ellipse transactions to validate that costs are being allocated to the IDI's in line with the agreed internal accounting treatment. We assessed the risks, issues and near misses identified during the audit period to confirm that there were no compliance issues against the Guideline Obligation. We assessed the process used through Ellipse to confirm that intercompany transactions between affiliated entities are identified in Ellipse with the use of Inter-District Identifiers (IDI). These identifies enable the costs to be allocated between Energex and the affiliate in line with the guideline. We validated that as part of the month end process, Financial accounting team performs various Intercompany Account Balances and IDIs check to ensure IDIs have been applied accordingly and intercompany transactions between entities are balanced. We assessed work procedures in place to address the maintenance of the internal accounting procedures and in place during the audit period. 		
6	Obligation not to discriminate	4.1(b)	A DNSP must not discriminate (either directly or indirectly) between a related electricity service provider and a competitor (or potential competitor)	<p>Discussions held with:</p> <p>[REDACTED]</p> <p>Key Control:</p> <ul style="list-style-type: none"> Mandatory Ring-Fencing Awareness Training. 	<p>Based on the control testing performed we have not identified any matters of exception against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> Energex has appropriate controls in place to prevent discrimination between a related service provider and the DNSP. <p>We have identified matters of improvement, as follows:</p>	No Exception

No.	Category	GL ref	Guidance Obligation	Testing	Observations	Rating
			<p>of a related electricity service provider in connection with the provision of:</p> <p>i. direct control services by the DNSP (whether to itself or to any other legal entity); and / or</p> <p>ii. contestable electricity services by any other legal entity.</p>	<ul style="list-style-type: none"> • Position Descriptions with updates to include ring-fencing obligations. • Contract Agreements for non-distribution services. • Deeds of Novation. • Procurement Contract Templates amended for Ring-Fencing. • Ring-Fencing Compliance – contract spot checks • CMO Call Quality Framework v2 • CQE Call Quality Evaluation Form <p>Information Obtained:</p> <ul style="list-style-type: none"> • Mandatory Ring-Fencing Awareness Training. • Position Descriptions with updates to include Ring-Fencing obligations. • Contract Agreements for non-distribution services. • Deeds of Novation. • Procurement Contract Templates amended for Ring-Fencing • Training Register. • Ring-Fencing Compliance – contract spot checks 19 March 2018. • CMO Call Quality Framework v2. • CQE Call Quality Evaluation Form. <p>Test Performed:</p> <ul style="list-style-type: none"> • We reviewed the training material to confirm it includes the obligation for a DNSP not to discriminate between a related electricity service provider and a competitor. • We reviewed the Ring-Fencing training register to determine whether required employees have completed the Ring-Fencing training. • We obtained a sample of 11 procurement contracts executed during the audit period and performed the following: <ul style="list-style-type: none"> • Randomly selected 2 procurement contracts from the sample; • Validated the Ring-Fencing requirements for service providers have been included (where appropriate); and • Validated the agreements have been signed and executed. • We reviewed the Ring-Fencing Compliance contract spot checks to confirm a spot check was completed in line with the control disclosed in the annual Ring-Fencing report. 	<ul style="list-style-type: none"> • The Ring-Fencing training program has been completed by 98% of Energex employees. 42 employees have yet to complete the training. We recommend management ensure the training is completed by the 42 employees who have not yet completed the training program as soon as possible. 	

No.	Category	GL ref	Guidance Obligation	Testing	Observations	Rating
				<ul style="list-style-type: none"> We reviewed the call quality framework and evaluation form and note that it specifically addresses the requirement for call centre agents to adhere to the Ring-Fencing Guideline. We assessed the risks, issues and near misses identified during the audit period to confirm that there were no compliance issues against the Guideline Obligation. 		
7	Offices, staff, branding and promotions	4.2.1(a)	A DNSP must use offices that are separate from any offices from which a related electricity service provider provides contestable electricity services.	<p>Discussions held with: █</p> <p>Key Control:</p> <ul style="list-style-type: none"> Physical Access Control System. Separate physical property locations. <p>Information Obtained:</p> <ul style="list-style-type: none"> Employee electronic access records of buildings. <p>Test Performed:</p> <ul style="list-style-type: none"> We obtained a sample of the electronic building access records of 10 employees during the audit period and performed the following: <ul style="list-style-type: none"> Randomly selected 3 employee's from the sample; Reviewed the electronic access logs of each employee to determine whether any restricted locations were accessed; and Validated that no Ring-Fenced restricted locations were accessed and that all access was per the Guideline. We assessed the accommodation arrangements to conclude that Energex offices are separate from its affiliate (or appropriate segregation is in place through the use of electronic access controls). 	Based on the control testing performed we have not identified any matters of exception against the obligation, with key point(s) below: <ul style="list-style-type: none"> Energex has reviewed office locations to ensure staff providing direct control services are separated from affiliate staff providing contestable electricity services. Where possible, staff providing contestable services were moved to separate buildings. Where this was not possible, electronic access controls have been put in place to separate affiliate staff within the same building. 	No Exception
8	Staff sharing	4.2.2(a)	A DNSP must ensure that its staff involved in the provision or marketing of direct control services are not also involved in the provision or marketing of	<p>Discussions held with: █</p> <p>Key Control:</p> <ul style="list-style-type: none"> EQL Induction Material. Mandatory Ring-Fencing Awareness Training. Position Descriptions with updates to include Ring-Fencing obligations. Enterprise Bargaining Agreement – Energy Queensland Union Collective Agreement 2017. 	Based on the control testing performed we have not identified any matters of exception against the obligation, with key point(s) below: <ul style="list-style-type: none"> Energex has a process in place to ensure that staff sharing is in line with the Guideline. 	No Exception

No.	Category	GL ref	Guidance Obligation	Testing	Observations	Rating
			<p>from the respective branding that the DNSP and the related electricity service provider are related.</p> <p>ii. must not advertise or promote its direct control services and its contestable electricity services that are not direct control services together (including by way of cross-advertisement or cross-promotion.</p> <p>ii. must not advertise or promote contestable electricity services provided by a related electricity service provider other than the DNSP itself.</p>	<ul style="list-style-type: none"> Procurement Contract Templates amended for Ring-Fencing. <p>Information Obtained:</p> <ul style="list-style-type: none"> Brand Centre Intranet Page. Brand Guidelines for Energy Queensland brands. Fleet and branding guidelines. Email Signature Templates. Uniform Branding Guidelines. Procurement Contract Templates amended for Ring-Fencing. <p>Tests Performed:</p> <ul style="list-style-type: none"> We assessed training materials to confirm they outline branding requirements as per the Guideline. We reviewed the brand guidelines to establish they specifically preclude the DNSP brand being used together with unregulated brands (without specific approval). We reviewed the Energex website to determine no contestable electricity services are promoted. We validated Fleet branding guidelines are being drafted to address Ring-Fencing obligations at the end of the existing waiver period. 	<p>to staff, together with magnetic stickers to place over Energex branding on fleet vehicles when completing contestable work.</p> <p>Despite these reported breaches and based on the control testing performed we have not identified any matters of exception against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> Energex has established brand guidelines on branding requirements to address the requirement of separate branding. <p>We have identified matters of improvement, as follows:</p> <ul style="list-style-type: none"> Management to continue to monitor the controls against this obligation to prevent further breaches. 	
10	Office and staff registers	4.2.4 (a), (b)	A DNSP must establish, maintain and keep a register that identifies: (a) the classes of offices to which it has not applied; and (b) the nature of	<p>Discussions held with:</p> <p>█</p> <p>Key Control:</p> <ul style="list-style-type: none"> Ring-Fencing Register – Staff Sharing. Ring-Fencing Register – Office Sharing. <p>Information Obtained:</p> <ul style="list-style-type: none"> Ring-Fencing Register – Staff Sharing. 	<p>Based on the control testing performed we have not identified any matters of exception against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> Energex has established and maintained an office sharing register. Energex has established and maintained a staff sharing register. 	No Exception

No.	Category	GL ref	Guidance Obligation	Testing	Observations	Rating
			<p>the positions (including a description of the roles, functions and duties) of its members of staff and must make the register publicly available on its website.</p>	<ul style="list-style-type: none"> Ring-Fencing Register – Office Sharing. <p>Tests Performed:</p> <ul style="list-style-type: none"> We assessed the Staff and Office Register to ensure information disclosers are accurate and reflect staff and office sharing outlined across discussions held and Deloitte’s broader DNSP document assessment. 		
11	Protection of confidential information	4.3.2 (a) (b)	<p>A DNSP must: (a) keep confidential information confidential (b) only use confidential information for the purpose for which it was acquired or generated</p>	<p>Discussions held with:</p> <p>█ [REDACTED]</p> <p>█ [REDACTED]</p> <p>█ [REDACTED]</p> <p>█ [REDACTED]</p> <p>Key Control:</p> <ul style="list-style-type: none"> Ring-Fencing Applications List. New Starter and Transfer Advice. Use of Systems agreement. Register of Ergon Energy Retail and affiliate staff agreements. Privacy Statement. <p>Information Obtained:</p> <ul style="list-style-type: none"> List of Ring-Fenced Applications Example_Ring Fence Data 1095JA. New Starter and Transfer Advice. Use of Systems agreement. Register of Ergon Energy Retail and affiliate staff agreements. Privacy Statement. <p>Tests Performed:</p> <ul style="list-style-type: none"> We received a sample of the systems 9 RESP employees can access and performed the following: <ul style="list-style-type: none"> We reviewed the access to SharePoint pages for all 9 employees against a master spreadsheet of sites that contain Ring-Fenced sensitive information; 	<p>We note a breach of this obligation was reported to the AER by Energex during the audit period.</p> <p>The breach related to a legacy issue where access to an internal system (PEACE) was not removed from one Energex field team which also completes work for the affiliate (under shared staffing). To mitigate the risk of another breach, access to this system was restricted to this team on the 6th of June 2018.</p> <p>Based on the control testing, we have identified matters of exception against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> Testing identified 1 employee had access to SharePoint sites identified as containing Ring-Fenced information. Management provided an explanation for the access of this 1 employee. The employee was provided with approved access for a defined period to undertake specific work, however this access should have been removed at the end of the approved period. 	Exception

No.	Category	GL ref	Guidance Obligation	Testing	Observations	Rating
				<ul style="list-style-type: none"> Validated whether access to SharePoint sites with ring-fenced information had been provided; We identified 1 employee had access to sites identified as containing ring-fenced information. Management provided an explanation for the access of 1 employee and confirmed that despite access, the other employee had not accessed the SharePoint page We reviewed the process used by management to identify and isolate Information Systems to prevent affiliate employees accessing confidential information or information prohibited under the Guideline. We reviewed the process used by management to identify and isolate Information Systems to prevent affiliate employees accessing confidential information or information prohibited under the Guideline. We assessed the process used to determine and approve access to information systems across Energex to determine a strong control process exists to prevent access to systems which contain confidential information by affiliate employees. We assessed the risks, issues and near misses identified during the audit period to confirm that there were no compliance issues against the Guideline Obligation. 		
12	Disclosure of information	4.3.3 (a)-(g)	<p>A DNSP must not disclose confidential information to any person, including a related electricity service provider, unless:</p> <p>(a) the DNSP has first obtained the explicit informed consent of the relevant customer, or prospective customer, to whom the confidential information relates;</p>	<p>Discussions held with:</p> <p>█ [REDACTED]</p> <p>█ [REDACTED]</p> <p>█ [REDACTED]</p> <p>█ [REDACTED]</p> <p>Key Control:</p> <ul style="list-style-type: none"> Ring-Fencing Applications List. New Starter and Transfer Advice. Use of Systems agreement. Register of Ergon Energy Retail and affiliate staff agreements. Privacy Statement. <p>Information Obtained:</p> <ul style="list-style-type: none"> List of Ring-Fenced Applications Example_Ring Fence Data 1095JA. 	<p>Based on the control testing performed we identified matters of exception against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> Testing identified 1 employee had access to SharePoint sites identified as containing Ring-Fenced information. Management provided an explanation for the access of this 1 employee. The employee was provided with approved access for a defined period to undertake specific work, however this access should have been removed at the end of the approved period. 	Exception

No.	Category	GL ref	Guidance Obligation	Testing	Observations	Rating
			<p>(b) the disclosure is required by, or for the purpose of complying with any law;</p> <p>(c) the disclosure is necessary to enable the DNSP to provide its distribution services, its transmission services or its other services (including by acquiring services from other legal entities);</p> <p>(d) the information has been requested by or on behalf of a customer, or potential customer, of another legal entity, and the disclosure is necessary to enable the legal entity to provide its transmission services, contestable electricity services or other services to the customer or potential customer;</p> <p>(e) the disclosure is solely for the purpose of providing assistance to</p>	<ul style="list-style-type: none"> • New Starter and Transfer Advice. • Use of Systems agreement. • Register of Ergon Energy Retail and affiliate staff agreements. • Privacy Statement. • System Access Records of employees. <p>Tests Performed:</p> <ul style="list-style-type: none"> • We received a sample of the systems 9 RESP employees can access and performed the following: <ul style="list-style-type: none"> • We reviewed the access to SharePoint pages for all 9 employees against a master spreadsheet of sites that contain Ring-Fenced sensitive information; • Validated whether access to SharePoint sites with ring-fenced information had been provided; • We identified 1 employee had access to sites identified as containing ring-fenced information. Management provided an explanation for the access of 1 employee and confirmed that despite access, the other employee had not accessed the SharePoint page. • We reviewed the process used by management to identify and isolate Information Systems to prevent affiliate employees accessing confidential information or information prohibited under the Guideline. • We reviewed the process used by management to identify and isolate Information Systems to prevent affiliate employees accessing confidential information or information prohibited under the Guideline. • We assessed the process used to determine and approve access to information systems across Energex to determine a strong control process exists to prevent access to systems which contain confidential information by affiliate employees. • We assessed the risks, issues and near misses identified during the audit period to confirm that there were no compliance issues against the Guideline Obligation. 		

No.	Category	GL ref	Guidance Obligation	Testing	Observations	Rating
			<p>affiliates of the DNSP; who request access to information identified in clause 4.3.4(a), and must make the register publicly available on its website.</p> <p>(b) For each legal entity that has requested that a DNSP provide access to information identified in clause 4.3.4(a), the DNSP's information register must:</p> <p>i. identify the kind of information requested by the legal entity; and</p> <p>ii. describe the kind of information requested by the legal entity in sufficient detail to enable other legal entities to make an informed decision about whether to request that kind of information from the DNSP.</p> <p>(c) A legal entity may request that the DNSP include it on the information register in relation to some or all of the</p>	<p>Tests Performed:</p> <ul style="list-style-type: none"> • We assessed the Information Sharing Protocol and validated it is designed to meet the requirements of the Ring-Fencing guideline. • We assessed the Information Sharing Register to confirm a register does exist and is publicly available on the Energex website. 		

No.	Category	GL ref	Guidance Obligation	Testing	Observations	Rating
				<ul style="list-style-type: none"> We assessed the risks, issues and near misses identified during the audit period to confirm that there were no compliance issues against the Guideline obligation. 		
15	Conduct of service providers	4.4.1 (b)	<p>A DNSP: (b) must not, directly or indirectly, encourage or incentivise a service provider to engage in conduct which, if the DNSP engaged in the conduct itself, would be contrary to the DNSP's obligations.</p>	<p>Discussions held with:</p> <p>[REDACTED]</p> <p>Key Control</p> <ul style="list-style-type: none"> Procurement Contract Templates amended for Ring-Fencing. Contracts for non-distribution services proposed treatment. Ring-Fencing requirements for service providers. Conflict of Interest Policy. Energy Queensland Business Plan 17/18. <p>Information Obtained</p> <ul style="list-style-type: none"> Deeds of Novation. Procurement Contract Templates amended for Ring-Fencing. Contracts for non-distribution services proposed treatment. Ring-Fencing requirements for service providers. <p>Tests Performed:</p> <ul style="list-style-type: none"> We assessed the Conflict of Interest Policy to validate Energex have a process to identify any risk of an employee offer preferential treatment to a provider. We assessed the Ring-Fencing requirements for service providers to ensure they contain the necessary obligations required under the Guideline. We reviewed the Energy Queensland Business Plan to determine whether unregulated earnings is a key result area (KRA) for FY17/18 (noting it is a KRA) but mitigating controls are in place. Through management discussion we confirmed cross incentives between Distribution and RESPs are not in place We obtained a sample of 11 procurement contracts executed during the audit period and performed the following: <ul style="list-style-type: none"> Randomly selected 2 procurement contracts from the sample; 	<p>Based on the control testing performed we have not identified any matters of exception against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> Energex has a process in place to ensure the DNSP does not directly or indirectly encourage or incentivise a service provider to engage in conduct contrary to the Guideline. 	No Exception

No.	Category	GL ref	Guidance Obligation	Testing	Observations	Rating
			<p>costs associated with the DNSP complying with the obligation if the waiver of the obligation were refused;</p> <p>(f) the regulatory control period(s) to which the waiver would apply;</p> <p>(g) any additional measures the DNSP proposes to undertake if the waiver were granted;</p> <p>and</p> <p>(h) the reasons why the DNSP considers the waiver should be granted with reference to the matters specified in clause 5.3.2(a), including the benefits, or likely benefits, of the grant of the waiver to electricity consumers.</p>			
17	Waiver register	5.7 (a)	<p>A DNSP must establish, maintain and keep a register of all waivers (including any variation of a waiver) and must make the register</p>	<p>Discussions held with:</p> <p>█ [REDACTED]</p> <p>█ [REDACTED]</p> <p>Key Control:</p> <ul style="list-style-type: none"> • Ring-Fencing Register – Waivers. <p>Information Obtained:</p>	<p>Based on the control testing performed we have not identified any matters of exception against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> • Energex has established and maintained a waiver register which contains a description of the conduct to which the waiver applies together with the terms and conditions of the 	No Exception

No.	Category	GL ref	Guidance Obligation	Testing	Observations	Rating
			publicly available on its website.	<ul style="list-style-type: none"> Ring-Fencing Register – Waivers. <p>Tests Performed:</p> <ul style="list-style-type: none"> We validated a waiver register is publicly available on the Energex website. We assessed current business practices against AER approved waivers. 	waiver as set out in the AER’s written decision.	
18	Waiver register	5.7 (b)	The register established under clause 5.7(a) must include: i. the description of the conduct to which the waiver or interim waiver applies; and ii. the terms and conditions of the waiver or interim waiver; as set out in the AER’s written decision, provided by the AER to the DNSP, to grant (or vary) the waiver or interim waiver.	<p>Discussions held with:</p> <p>█ [REDACTED]</p> <p>█ [REDACTED]</p> <p>Key Control:</p> <ul style="list-style-type: none"> Ring-Fencing Register – Waivers. <p>Information Obtained:</p> <ul style="list-style-type: none"> Ring-Fencing Register – Waivers. <p>Tests Performed:</p> <ul style="list-style-type: none"> We validated a waiver register is publicly available on the Energex website. We assessed the waiver register to confirm it contains a description of the conduct to which the waiver applies together with the terms and conditions of the waiver as set out in the AER’s written decision. We assessed current business practices against AER approved waivers. 	Based on the control testing performed we have not identified any matters of exception against the obligation, with key point(s) below: <ul style="list-style-type: none"> Energex has established and maintained a waiver register which contains a description of the conduct to which the waiver applies together with the terms and conditions of the waiver as set out in the AER’s written decision. 	No Exception
19	Maintaining compliance	6.1	A DNSP must establish and maintain appropriate internal procedures to ensure it complies with its obligations under this Guideline.	<p>Discussions held with:</p> <p>█ [REDACTED]</p> <p>█ [REDACTED]</p> <p>Key Control:</p> <ul style="list-style-type: none"> Mandatory Ring-Fencing training material. Ring-Fencing Mailbox for help, support and FAQs. Ring-Fencing breach reporting process guide. Ring-Fencing breach register. Ring-Fencing annual compliance report. Ring-fencing assessment process and decision tree. Materiality breach calculator. Ring-Fencing Risk and Controls Matrix. 	Based on the control testing performed we have not identified any matters of exception against the obligation, with key point(s) below: <ul style="list-style-type: none"> Energex has regulatory compliance monitoring and reporting processes to establish compliance assurance. 	No Exception

No.	Category	GL ref	Guidance Obligation	Testing	Observations	Rating
				<p>Information Obtained:</p> <ul style="list-style-type: none"> • Mandatory Ring-Fencing training material. • Ring-Fencing Mailbox for help, support and FAQs. • Ring-Fencing breach reporting process guide. • Ring-Fencing breach register. • Ring-Fencing annual compliance report. • Ring-fencing assessment process and decision tree. • Materiality breach calculator. <p>Tests Performed:</p> <ul style="list-style-type: none"> • We received a sample of 6 enquiries to the Ring-Fencing Mailbox and performed the following: <ul style="list-style-type: none"> • Randomly selected 5 enquiries from the sample; • Confirmed the mailbox is being used for Ring-Fencing enquiries; • Confirmed responses are being provided with appropriate guidance to the business on how to comply with the Guideline. • We assessed compliance breaches and near misses against the Ring-Fencing Guideline to confirm if all known breaches were disclosed to the AER in accordance with Guideline 6.3. • We assessed the business process for detecting a breach of the Guideline together with the process used to determine if a breach is material. • We assessed the Ring-Fencing Risks and Controls Matrix to validate key control owners have been assigned against each obligation of the Guideline. • We assessed the risks, issues and near misses identified during the audit period to confirm that there were no compliance issues against the Guideline Obligation. 		
20	Annual compliance report	6.2.1 (a), (b) (c)	<p>A DNSP must prepare an annual ring-fencing compliance report each regulatory year.</p> <p>The annual compliance report must identify and</p>	<p>Discussions held with:</p> <p>█ [REDACTED]</p> <p>█ [REDACTED]</p> <p>Key Control:</p> <ul style="list-style-type: none"> • Ring-Fencing breach reporting process guide. • Ring-Fencing breach register. • Ring-Fencing Material breach calculator. • Annual Compliance Report. • Potential breach decision tree. 	<p>Based on the control testing performed we have not identified any matters of exception against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> • Energex has regulatory compliance monitoring and reporting processes to establish compliance assurance. 	No Exception

No.	Category	GL ref	Guidance Obligation	Testing	Observations	Rating
			<p>describe, in respect of the regulatory year to which the report relates:</p> <p>i. the measures the DNSP has taken to ensure compliance with its obligations under this Guideline;</p> <p>ii. any breaches of this Guideline by the DNSP, or which otherwise relate to the DNSP; and</p> <p>iii. all other services provided by the DNSP in accordance with clause 3.1; and</p> <p>iv. the purpose of all transactions between the DNSP and an affiliated entity.</p> <p>The annual compliance report must be accompanied by an assessment of compliance by a suitably qualified independent authority.</p>	<p>Information Obtained:</p> <ul style="list-style-type: none"> • Ring-Fencing breach reporting process guide. • Ring-Fencing breach register. • Ring-Fencing material breach calculator. • Ring-Fencing annual compliance report. • Potential breach decision tree. <p>Tests Performed:</p> <ul style="list-style-type: none"> • We assessed the draft Ring-Fencing annual compliance report. • Deloitte has been engaged by Energex as the qualified independent authority. • We assessed measures taken by the Energex to continually improve the suitability, adequacy and effectiveness of the compliance management program in place against the Guideline. 		
21	Compliance breaches	6.3	A DNSP must notify the AER in writing within 5 (five) business days of becoming aware of	<p>Discussions held with:</p> <p>█ [REDACTED]</p> <p>█ [REDACTED]</p> <p>Key Control:</p>	Based on the control testing performed we have not identified any matters of exception against the obligation, with key point(s) below:	No Exception

No.	Category	GL ref	Guidance Obligation	Testing	Observations	Rating
				<ul style="list-style-type: none"> <li data-bbox="768 225 1386 328">We assessed measures taken by Energex to continually improve the suitability, adequacy and effectiveness of the compliance management program in place against the Guideline. 		

4. Independent Assurance Report to Energex

Qualified Opinion

We have undertaken a reasonable assurance engagement of Energex's Ring-Fencing Annual Compliance Report (the "Compliance Report") to determine if it has been prepared, in all material respects, in accordance with Ring-Fencing Guideline for Electricity Distribution on 30 November 2016 under the National Electricity Rules (the "NER") including amendments made on 17 October 2017 (the "Guideline") as evaluated against the obligations under the Guideline (the "Obligations") for the period from 1 January 2018 to 30 June 2018.

In our opinion, except for the exceptions noted in Section 3 of this report relating to Disclosure of information and Protection of confidential information, Energex has complied, in all material respects, with the Guideline as evaluated against the Obligations for the period from 1 January 2018 to 30 June 2018.

Basis for Qualified Opinion

We conducted our engagement in accordance with Standard on Assurance Engagements ASAE 3100 *Compliance Engagements* ("ASAE 3100") issued by the Auditing and Assurance Standards Board.

We have identified inadequate controls that manage obligations relating to Disclosure of information and Protection of confidential information obligations, which have the potential for material noncompliance. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Energex's Responsibilities

Energex management is responsible for:

- a. The compliance activity undertaken to meet the Guideline;
- b. Identifying risks that threaten the Guideline identified above being met;
- c. Identifying suitable compliance requirements in the Guideline as required by the Australian Energy Regulator (the "AER"); and
- d. Identifying, designing and implementing controls to enable the Guideline to be met and to monitor ongoing compliance.

Our Independence and Quality Control

We have complied with the independence and other relevant ethical requirements relating to assurance engagements, and apply Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements* in undertaking this assurance engagement.

Assurance Practitioner's Responsibilities

Our responsibility is to express an opinion on Energex's compliance, in all material respects, with the Guideline as evaluated against the Obligations for the period from 1 January 2018 to 30 June 2018. ASAE 3100 requires that we plan and perform our procedures to obtain reasonable assurance about whether Energex has complied, in all material respects, with the Guideline as evaluated against the Obligations, for the period from 1 January 2018 to 30 June 2018.

An assurance engagement to report on Energex's compliance with the Guideline involves performing procedures to obtain evidence about the compliance activity and controls implemented to meet the Guideline. The procedures selected depend on our judgement, including the identification and assessment of risks of material exception with the Guideline, as evaluated against the Obligations.

Our procedures included:

- Inquiring with Energex personnel what preventative, detective and corrective controls are in place to allow Energex 's to comply with the Obligations;
- Evaluating whether the control is appropriate with consideration given to the competence of the person performing the control, frequency of the control and whether the control allows Energex 's to comply with the Obligations;
- Selecting a sample of instances where we would expect the control to be performed, observing the control being performed, and inspect associated documentation to evidence the effectiveness of the control throughout the period;
- Checking that registers are publicly available, accurate and complete by ensuring any staff, office or information sharing and waivers obtained have been appropriately included in the registers. Checking that any inclusions in the registers are factually correct by discussing with management and assessing associated documentation;

- Obtaining transaction listings and testing for appropriate segregation between distribution services and contestable services provided; and
- Inquiring with management whether they are compliant with the Obligations.

Inherent Limitations

Because of the inherent limitations of an assurance engagement, together with the internal control structure it is possible that fraud, error, or exception with compliance requirements may occur and not be detected.

A reasonable assurance engagement for the period from 1 January 2018 to 30 June 2018 does not provide assurance on whether compliance with the Guideline will continue in the future.

Restricted Use

This report has been prepared for use by Energex for the purpose of meeting the reporting requirements of the AER. We disclaim any assumption of responsibility for any reliance on this report to any person other than Energex, or for any purpose other than that for which it was prepared. However, we understand that a copy of the report has been requested by AER. We agree that a copy of the report may be provided to AER for their information in connection with this purpose but, as will be made clear in the report, only on the basis that we accept no duty, responsibility or liability to any party, other than you, in connection with the report or this engagement.

It is our understanding that the AER may publish a copy of our report on their website. We accept no responsibility to any person or entity, apart from Energex that is provided with, or obtains a copy of our report, without our written agreement. No other person or entity is entitled to rely, in any manner, or for any purpose, on this report. We do not accept or assume responsibility to anyone other than Energex for our work, for this report, or for any reliance which may be placed on this report by any party other than Energex.

DELOITTE TOUCHE TOHMATSU



Matthew Fraser
Partner
Deloitte Risk Advisory Pty Ltd
Chartered Accountant
29 October 2018

4.1. Overview

The following table provides management responses against each identified exception (managements responses are not within the scope of our assurance report).

No.	Category	GL ref	Guidance Obligation	Observations	Management Comment
12	Disclosure of information	4.3.3 (a)-(g)	<p>A DNSP must not disclose confidential information to any person, including a related electricity service provider, unless:</p> <p>(a) the DNSP has first obtained the explicit informed consent of the relevant customer, or prospective customer, to whom the confidential information relates;</p> <p>(b) the disclosure is required by, or for the purpose of complying with any law;</p> <p>(c) the disclosure is necessary to enable the DNSP to provide its distribution services, its transmission services or its other services (including by acquiring services from other legal entities);</p> <p>(d) the information has been requested by or on behalf of a customer, or potential customer, of another legal entity, and the disclosure is necessary to enable</p>	<p>The control environment is inadequate to keep confidential information confidential.</p> <p>Prior to 1 January 2018, Energex formed a project team to analyse key risk areas in relation to the protection of confidential information under the Guideline. The project reviewed user access and removed user access from users associated with the provision of contestable electricity services from systems that stored distribution and network information.</p> <p>Energex disclosed in their annual compliance report that although access was removed to a large number of systems, other sources of confidential information were more difficult to resolve and this didn't occur until 31 August 2018.</p> <p>Energex identified that SharePoint sites were reviewed, examined and assessed for compliance with the Guideline and site access was restricted to Energex or affiliate employees respectively. We tested whether affiliate employees could access content that should be restricted under the Guideline. We identified 1 employee had access to SharePoint sites identified as containing Ring-Fenced information. Management provided an explanation for the access of this 1 employee. The employee was provided with approved access for a defined period to undertake specific work, however this access should have been removed at the end of the approved period.</p> <p>There is a risk that other affiliate employees may be able to access information which is restricted under the Guideline. We note Energex have expressly stated in the annual compliance report that the protection of confidential information is a key ring-fencing compliance risk area for Energex.</p>	<p>The individual who had access to the Ring-fenced SharePoint site was working on the transitioning of the Powerlink SLA to Yurika as part of the Contract Novation Waiver process and only accessed three pages over the period 1 January to 30 June 2018. No commercial benefit was gained by Yurika from this access and it has now been removed.</p> <p>EQL has established a project which is reviewing and updating all individual staff accesses across all DNSPs and RESPs, to ensure non-regulated staff do not have access to confidential electricity information. At the end of this project, accesses across EQL will be based on approved lists specific to the individual area of the RESP or DNSP.</p> <p>The process being undertaken includes reviewing all current RESP information accesses, assessing these to ensure they do not include access to Ring-fenced information and, once approved for RESP use, removing all other accesses to files and folders, whether Ring-fenced or not. Having isolated and separated the RESP approved information sources, regular testing will be conducted to detect exceptions.</p> <p>Application Remediation is also being carried out to ensure that those applications that have Ring-fencing implications can be used by non-regulated staff to access only the required and non-ring fenced data.</p> <p>The audit project is proposed to be completed for the RESPs by the end of November 2018. The majority of Application Remediation will also be largely completed in a similar timeframe, except for some complex applications which will need to be restructured. Monitoring of these applications will be conducted in the interim.</p>

No.	Category	GL ref	Guidance Obligation	Observations	Management Comment
			<p>the legal entity to provide its transmission services, contestable electricity services or other services to the customer or potential customer;</p> <p>(e) the disclosure is solely for the purpose of providing assistance to another Network Service Provider in response to an event (such as an emergency) that is beyond the other Network Service Provider's reasonable control;</p> <p>(f) the disclosure is solely for the purposes of research by a legal entity other than a related electricity service provider of the DNSP</p> <p>(g) a related electricity service provider of the DNSP has requested the disclosure and the DNSP complies with clause 4.3.4 in relation to that confidential information.</p>		
11	Protection of confidential information	4.3.2 (a) (b)	<p>A DNSP must:</p> <p>(a) keep confidential confidential confidential</p> <p>(b) only use confidential</p>	<p>The control environment is inadequate to keep confidential information confidential.</p> <p>Prior to 1 January 2018, Energex formed a project team to analyse key risk areas in relation to the protection of confidential information under the Guideline. The project reviewed user access and removed user access from users</p>	<p>The individual who had access to the Ring-fenced SharePoint site was working on the transitioning of the Powerlink SLA to Yurika as part of the Contract Novation Waiver process and only accessed three pages over the period 1 January to 30 June 2018. No commercial benefit was gained by Yurika from this access and it has now been removed.</p>

No.	Category	GL ref	Guidance Obligation	Observations	Management Comment
			<p>information for the purpose for which it was acquired or generated</p>	<p>associated with the provision of contestable electricity services from systems that stored distribution and network information.</p> <p>Energex disclosed in their annual compliance report that although access was removed to a large number of systems, other sources of confidential information were more difficult to resolve and this didn't occur until 31 August 2018.</p> <p>Energex identified that SharePoint sites were reviewed, examined and assessed for compliance with the Guideline and site access was restricted to Energex or affiliate employees respectively. We tested whether affiliate employees could access content that should be restricted under the Guideline. We identified 1 employee had access to SharePoint sites identified as containing Ring-Fenced information. Management provided an explanation for the access of this 1 employee. The employee was provided with approved access for a defined period to undertake specific work, however this access should have been removed at the end of the approved period.</p> <p>There is a risk that other affiliate employees may be able to access information which is restricted under the Guideline. We note Energex have expressly stated in the annual compliance report that the protection of confidential information is a key ring-fencing compliance risk area for Energex.</p>	<p>EQL has established a project which is reviewing and updating all individual staff accesses across all DNSPs and RESPs, to ensure non-regulated staff do not have access to confidential electricity information. At the end of this project, accesses across EQL will be based on approved lists specific to the individual area of the RESP or DNSP.</p> <p>The process being undertaken includes reviewing all current RESP information accesses, assessing these to ensure they do not include access to Ring-fenced information and, once approved for RESP use, removing all other accesses to files and folders, whether Ring-fenced or not. Having isolated and separated the RESP approved information sources, regular testing will be conducted to detect exceptions.</p> <p>Application Remediation is also being carried out to ensure that those applications that have Ring-fencing implications can be used by non-regulated staff to access only the required and non-ring fenced data.</p> <p>The audit project is proposed to be completed for the RESPs by the end of November 2018. The majority of Application Remediation will also be largely completed in a similar timeframe, except for some complex applications which will need to be restructured. Monitoring of these applications will be conducted in the interim.</p>