

Endeavour Energy Annual Ring Fencing Compliance

Endeavour Energy

*Annual Ring Fencing
Compliance*

October 2018

Executive summary

Background

The Australian Energy Regulator (“AER”) is the economic regulator over distribution network service providers (“DNSPs”) in the national electricity market (“NEM”). The role of the AER includes monitoring compliance with the Ring Fencing Guideline.

DNSPs are required to prepare an annual report on ring fencing compliance for submission to the AER. This compliance report must include:

- The measures the DNSP has taken to ensure compliance with its obligations under the Ring Fencing Guideline
- Any breaches of the Ring Fencing Guideline by the DNSP, or which otherwise relate to the DNSP
- All other services provided by the DNSP in respect of Clause 3.1 in the Ring Fencing Guideline
- The purpose of all transactions between the DNSP and RESP (related electricity service provider).

DNSPs are required to accompany their annual compliance report with an assessment of compliance, performed by a suitably qualified independent authority.

Methodology

We obtained an understanding of the underlying subject matter (the Ring Fencing Guideline) and other engagement circumstances sufficient to enable the identification and assessment of the risks of non-compliance in the subject matter information. Our understanding of the Ring Fencing Guideline enabled us to design and perform procedures to respond to the assessed risks of non-compliance to the Ring Fencing Guideline and to identify opportunities for improvement to the Endeavour Energy Ring Fencing Program.

We identified the obligation clauses as per the Ring Fencing Guideline and conducted stakeholder interviews with key members of management to understand how Endeavour Energy satisfies each obligation. From our interviews we identified the key policies and procedures, processes, and controls that management has put in place to satisfy each obligation.

We performed an analysis of the key controls that management has put in to place to comply with each obligation, to understand whether control gaps exist which could enable an obligation to remain unsatisfied.

We then conducted limited sample testing over the identified controls to determine whether Endeavour Energy complies, in all material respects, with the Ring Fencing Guideline.

Limitations

Our methodology involved obtaining an understanding of the subject matter (the Ring Fencing Guideline), identifying the obligation clauses as per the Ring Fencing Guideline, and designing and performing procedures to determine whether management controls are in place to satisfy the obligation clauses as per the Ring Fencing Guideline. Our tests of controls were primarily conducted using inquiry, observation, and inspection procedures. In certain situations, we have relied upon representations from management through inquiry only.

Furthermore, because of the inherent limitations of this review, it is possible that fraud, error or non-compliance with compliance requirements may occur and not be detected. This review does not ensure that compliance with the Ring Fencing Guideline will continue in the future.

Contents

Executive summary	i
1 Observations	1
2 Methodology and work performed	5

Scope

This report has been prepared by PricewaterhouseCoopers in the course of our engagement as detailed in, and subject to, our engagement letter dated 3 July 2018.

Use and distribution of our report

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1 Observations




The overall compliance status of the Ring Fencing Program, including high-level summary observations against the eight areas of the AER Guideline, have been outlined below. Our observations do not indicate areas of non-compliance for Endeavour Energy; rather, these indicate opportunities for improvement and enhancement of the overall Ring Fencing Program.

Summary of observations

Ring Fencing Obligation Area	Activities to satisfy the Obligation	Compliance Status	Summary Observations	Detailed Observation Ref.
1. Legal separation of DNSP from other entities		Compliant	<ul style="list-style-type: none"> ✓ The DNSP organisation (Network Operating Partnership; Endeavour Energy) is legally separated from the organisation's unregulated business operations (Network Unregulated Partnership; RESP). ✓ Company Procedure GRG0013 describes the scope, processes, actions, required recordkeeping, and authority and responsibilities as it pertains to Ring Fencing. Included within this procedure is guidance on the identification, assessment, investigation and reporting of material breaches. ✦ The RESP has self-reported a non-material breach in this space. This is in relation to technicians replacing fuses in the interests of resuming power supply for customers. The cost of labour and fuses is considered immaterial and there is no charge applied to the customer. 	1
2. Account separation/Cost Allocation		Compliant	<ul style="list-style-type: none"> ✓ Independent financial and accounting forecasts and statements are maintained in separate applications (Ellipse for the DNSP; Xero for the Related Electricity Service Provider ("RESP"). There are distinct and separately identifiable transactions between the DNSP and the RESP. ✓ On an annual basis, a listing of all transactions between the DNSP and RESP is generated and included within the Annual Compliance Report. 	-
3. Clear obligation for DNSP to not Discriminate		Compliant	<ul style="list-style-type: none"> ✓ Ring Fencing Guideline Awareness Training is provided to staff via eLearn and on the Endeavour Energy intranet. ✦ Approximately 96% of required employees have completed the Guideline Awareness Training. 	2
4. No cross-promotion		Compliant	<ul style="list-style-type: none"> ✓ The RESP operates as a distinct brand to the DNSP. Company Procedure GMM0001 and GMM0003 include requirements related to branding and cross-promotion. ✦ The RESP has self-reported a non-material breach in this space. Shared vehicles attending an RESP work site did not have the Endeavour Energy brand concealed with the appropriate RESP branding. 	3
5. Physical Separation		Compliant	<ul style="list-style-type: none"> ✓ The RESP has been physically separated from the regulated business with employees based at Glendenning and the Hoxton Park Transformer Workshop is ring-fenced. ✦ Management does not formally document the monthly physical security access reviews. 	4
6. Staff Sharing		Compliant	<ul style="list-style-type: none"> ✓ Management maintains a periodically reviewed Staff Sharing Register. ✓ Management uses a colour code system to classify positions according to the Guideline. The system classifies positions according to the nature of services being provided, access to electricity information, and the ability to discriminate within the context of their role. 	-
7. Restrict access to Electricity Information		Compliant	<ul style="list-style-type: none"> ✓ Our sample testing showed Electricity Information was restricted in other cases across Active Directory and modules of Key Applications. 	5

Observations

Ring Fencing Obligation Area	Activities to satisfy the Obligation	Compliance Status	Summary Observations	Detailed Observation Ref.
			❖ Management highlighted one case where an employee was a shared resource and had access to Endeavour and RESP network drives, albeit without access to any commercially sensitive information. Role profiles have been designed however are yet to be implemented. In the meantime, Management has manual controls to control and monitor access.	
8. Information sharing and disclosure		Compliant	✓ An Information Sharing Protocol and Information Sharing Register are publically available on the Endeavour Energy website. Company Procedure GAM1100 Electricity Information Requests outlines this process. ❖ Limited sample testing indicated an error on the Information Sharing Register.	6

Legend: Training:  Policies and Procedures:  Technology & Other Controls: 

Detailed observations

Detailed observations and areas for improvement within the Ring Fencing Program have been outlined below. Relevant information (background, context, risk, impact, etc.) has been provided for each observation in the “Detailed Observations” column, and related management recommendations are outlined in the “Recommendations” column.

Summary Observations Reference	Ring Fencing Obligation Area	Detailed Observations	Recommendations
1	Legal separation of DNSP from other entities	<p>Control: A waiver must be reviewed and approved prior to providing services other than Distribution Services.</p> <p>Detailed Observation: The RESP has self-reported a breach of this control. The breach is ongoing and involves service fuse replacements at customer sites. Upon attending a customer installation Endeavour Energy staff can encounter a service fuse failure. Staff attending field sites have spare service fuses readily available. In the interests of positive customer outcomes, and in light of the incidental cost of the replacement fuse, Endeavour Energy staff replace these fuses to restore supply at no charge to the customer or retailer.</p> <p>Management has self-reported the breach to the AER, for provision of services reasons and are currently seeking a waiver through engagement with the AER.</p> <p>The breach is not considered a material breach of the Ring Fencing Guideline. The criteria for assessment were as follows:</p> <ul style="list-style-type: none"> • <i>Intention:</i> The action that caused the breach does not occur with intention, i.e., service fuses are replaced to produce positive customer outcomes • <i>Impact on competition:</i> There is negligible market impact related to this breach. • <i>Officer involvement:</i> An officer was not involved in the action that caused the breach. • <i>Third Party Notification:</i> The breach was self-reported. 	The issue has been identified throughout NSW whereby the service classification and operation of the ASP scheme can result in significantly poor customer outcomes without a demonstrable offsetting market benefit. Management are seeking relief waiver through engagement with the AER.

Summary Observations Reference	Ring Fencing Obligation Area	Detailed Observations	Recommendations
2	Clear obligation for DNSP to not Discriminate	<p>Control: <i>Ring Fencing Guideline training is provided to staff via e-Learn on at least an annual basis. The Manager Network Regulation is responsible to ensure completion of the training by relevant employees.</i></p> <p>Detailed Observation: Approximately 96% of required employees have completed the Guideline Awareness Training as at 30 June 2018. Since the control is a key control for the Ring Fencing Program, we have raised the 4% non-completion rate with management as an observation. Whilst 96% is a high completion rate, ideally the completion rate would be 100% for Ring Fencing training.</p> <p>We have undertaken an analysis of 'high risk' personnel, such as RESP Leadership and DNSP persons with the ability to discriminate, to understand the completion rates within these populations. We noted that only one RESP employee (a Plant Operator within the Hoxton Park Transformer Workshop, which is ring-fenced) has not completed the Ring Fencing training. Since this employee would not have the ability to discriminate or have access to Electricity Information, the impact of not completing the training is deemed as Low risk.</p>	<p>Management should work with the affected employees to ensure they complete required training on a timely basis.</p> <p>Management has conducted an analysis over all employees to determine which employees will take priority.</p> <p>Management should work with these priority individuals to ensure training completion.</p>
3	No cross-promotion	<p>Control: <i>The branding for Endeavour Energy is independent and separately managed from the RESP.</i></p> <p>Detailed Observation: The RESP has self-reported a breach of this control. The breach involved field workers of the RESP who were working at a field site and had Endeavour Energy-branded clothing and trucks on the site. Management highlighted this non-material breach in their compliance report, as it could have created the perception by the public that the RESP and Endeavour Energy are cross-promoting. The breach was identified by management on a timely basis, remediated immediately. Corrective procedures (a rollout of additional training, a directive to General Managers to conduct Ring Fencing refresher training, etc.) were also issued. Additionally, the breach is not considered a material breach of the Ring Fencing Guideline. The criteria for assessment were as follows:</p> <ul style="list-style-type: none"> • Intention: The action that caused the breach was not intentional; rather, it was caused by human error. • Impact on competition: There is no evidence that the breach influenced competition in the market, or provided the company with a competitive advantage. • Officer involvement: An officer was not involved in the action that caused the breach. • Third Party Notification: The breach was self-reported. 	<p>The following remediation activities should continue to take place going forward:</p> <ul style="list-style-type: none"> • Ensure that RESP clothing and magnetic badges are readily available for field staff; • Ensure that employees are compliant with Ring Fencing training; • Ensure that all Regional Managers continuously monitor branding for compliance <p>Branding guidelines' are to be developed to ensure that all staff are aware of Ring Fencing Guideline requirements as they relate to cross-promotion.</p>
4	Physical Separation	<p>Control: <i>Management compares employee access in Ellipse (HR system) to Gallagher (Security system) on at least a monthly basis. Discrepancies are investigated and remediated as required.</i></p> <p>Detailed Observation: Management does not formally document the monthly physical security access reviews between Ellipse and Gallagher. By comparing user listings out of Ellipse and Gallagher, on boarding and off</p>	<p>The monthly physical security access reviews should be documented in the Ellipse and Gallagher spreadsheets. An email trail should be established between the Property & Fleet Manager, as well as the Security Manager, to document employee movements and evidence remediation activities as and when they occur.</p>

Observations

Summary Observations Reference	Ring Fencing Obligation Area	Detailed Observations	Recommendations
		<p>boarding movements can be captured and compared to ensure that RESP employees have the correct physical security access.</p> <p>Management is performing the reviews on a monthly basis; however, the review executed is live and remediated access as required. More so, supporting documentation of evidence and review is not retained.</p> <p>For the one month where evidence was available, August 2018, we noted that four RESP employees were found to be "Active" in the Gallagher physical security system, all of which had recent employment changes for which access rights within Gallagher had not yet been updated.</p> <p>Management identified these four discrepancies because of their review and disabled the access when identified. The impact of this observation is Low, since employees have restricted logical IT access, and because employees with inappropriate physical access would be identified during their time on-site.</p>	
5	Restrict access to Electricity Information	<p>Control: <i>There is role-based access to corporate information systems.</i></p> <p>Detailed Observation: Whilst Management has designed a role structure and associated access profiles, user access is not yet provisioned using role profiles.</p> <p>In the interim, management are manually restricting access to users. Our additional sample testing demonstrated access was restricted for the sample tested.</p>	Management should implement full user based role profiles for IT access.
6	Information sharing and disclosure	<p>Control: <i>Management maintains an Information Sharing Register for instances whereby information is shared with relevant third parties. This register is reviewed on a periodic basis.</i></p> <p>Detailed Observation: Whilst there are controls in place to ensure that information requests are published on the Information Sharing Register in accordance with the Ring Fencing Guideline, our limited sample testing indicated a minor error on the Information Sharing Register.</p> <p>We noted that the Rural Fire Service ("RFS") made a request for all Network Asset Data including geospatial location for bush fire planning purposes that was improperly published by Endeavour Energy in February 2018.</p> <p>We have sighted two emails that relate to RFS - that the Contract for Supply of Data has been sent to RFS, however Endeavour Energy has not had a response so the data (currently on the shared G: drive) has not actually been sent to the RFS. Thus, the request should not have been published.</p> <p>The Information Sharing Register was published again on 31 July 2018 and we sighted a copy on the website noting that the RFS request had been successfully removed. We consider the impact of this observation as Low, since the issue was remediated and is a case of over-sharing information, rather than under-sharing information.</p>	A periodic review process should be put into place such that the Information Sharing Register that is public-facing will be periodically inspected for accuracy. This review process should operate in conjunction with existing procedures and controls as they relate to information sharing and disclosure.

2 Methodology and work performed

Our methodology and work performed for each Ring Fencing Obligation area has been included within the table below:

Ring Fencing Obligation Area	Key Processes and Controls
Legal separation of DNSP from other entities	<ul style="list-style-type: none"> Obtained and inspected the Legal Entity Structure for Endeavour Energy and the RESP through inquiry of management and review of supporting documentation <ul style="list-style-type: none"> Conducted a ABN lookup of Endeavour Energy and the RESP Inspected company registration documentation for Endeavour Energy and the RESP
Account separation/Cost Allocation	<ul style="list-style-type: none"> Obtained and Inspected the Business Support Agreement between Endeavour Energy and the RESP Reviewed supporting documentation to confirm that periodic reviews of the Business Support Agreement has been performed Conducted a walkthrough with management to understand how independent financial and accounting forecasts and statements are maintained Confirmed that transactions between the two entities are maintained separately Confirmed cost allocations between the two entities are covered under the Business Support Agreement Reviewed the trial balance for intercompany transactions between Endeavour Energy and the RESP to confirm that all transactions between the two entities are included in the Annual Compliance Report Obtained Endeavour Energy's Cost Allocation Methodology and evidenced approval by the Australian Energy Regulator Reviewed costs incurred to confirm that the Cost Allocation Methodology has been applied
Clear obligation for DNSP to not Discriminate	<ul style="list-style-type: none"> Obtained the Training Needs Analysis/Dashboard for all staff and determined whether ring fencing training has been completed
No cross-promotion	<ul style="list-style-type: none"> Obtained Company Procedures GMM0003 and GMM0001 and confirmed alignment with Ring Fencing Guidelines Conducted an independent review of the Endeavour Energy and the RESP websites to ensure separate branding for each entity
Physical Separation	<ul style="list-style-type: none"> Inspected the availability of the Office Sharing Register on the Endeavour Energy website and conducted sample testing to confirm accuracy Inquired with management as to the physical location of the RESP and performed a site visit to conduct physical access testing at the RESP location Obtained and reviewed the staff and location sharing analysis performed as part of Project Green Tested a sample of five RESP employees provisioned with physical access and inspected approvals for adherence to proper protocol For a sample of two months, obtained and inspected the monthly access reviews performed
Staff Sharing	<ul style="list-style-type: none"> Conducted testing to confirm the Staff Sharing Register on the Endeavour Energy website is the most current version and was reviewed during the regulatory period Obtained the organisation chart / roles and responsibilities documents from management and inspected the Classification of Positions documentation for inclusion of all positions per the organisation chart and for the use of a colour code system Conducted walkthroughs with management to understand the end-to-end process for job description review Examined documentation for evidence of job description reviews Examined Staff Sharing Register for compliance with Company Procedure GRG0013 and is reviewed on an annual basis
Restrict access to Electricity Information	<ul style="list-style-type: none"> Compared Company Procedure GAM1100 Electricity Information Requests to the Ring-Fencing Guidelines for adequacy and interviewed staff as to its availability and their familiarity Performed user access testing, on a sample basis, over the corporate information systems for evidence of role-based access and appropriate restrictions

Information sharing and disclosure	<ul style="list-style-type: none"> • Inquired with management to understand how often the periodic review of approved waivers occurs • Tested a sample of waivers to confirm whether the waivers were reviewed and approved prior to the service being performed • Reviewed the annual Regulatory Information Notices to confirm services performed are distribution or transmission services and classified properly • Inspected the Endeavour Energy Website for access to the Information Sharing Register and compared information to the most current version in supporting documentation • Obtained copies of the Fair Protection, Fair Sharing and Fair Disclosure guiding principles, compared these to the Ring-Fencing Guidelines and conducted staff interviews to evaluate their understanding of the principles. • Obtain and review Company Procedure GRG0013 to confirm alignment with Ring-Fencing Guidelines • Inspected the Endeavour Energy Website availability of the Waiver Register and conducted sample testing to confirm its currency • Conducted walkthroughs with management to understand the end-to-end process for identification and recording of reported breaches in a register • From a sample of reported breaches, investigated whether they were handled in accordance with Ring Fencing Guidelines • Inspected whether register of reported breaches was reviewed on a periodic basis
Other activities performed	<ul style="list-style-type: none"> • Inquired with management as to the annual company registration payment timeline and verified that the payment has been made at the agreed times • Where instances of waiver non-compliance are noted, ascertained whether these instances were handled in accordance with the Ring Fencing Guideline • Reviewed the annual report for related party transaction disclosures and to verify that the Annual Financial Audit occurs • Inspected the Accounting for RESP pack for adherence to the Ring Fencing Guidelines • Discussed with management to confirm employee standard employment agreements • Obtained a copy of the At-Risk incentive scheme in Company Procedure GHR7001 and tested its inclusion for a sample annual reviews • Inquired with management about the use of standard terms/conditions/contacts and sought verification that approval processes were followed when standard contracts were not used • Obtained management responses from the Corporate Compliance System for each in-scope group to validate Ring-Fencing Guideline compliance questions have been completed • Confirmed the use of a Ring-Fencing mailbox and conducted interviews regarding their familiarity with its existence and use • Conducted walkthroughs with management regarding the review process for compliance requirements • Reviewed recent changes to the Corporate Compliance System

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