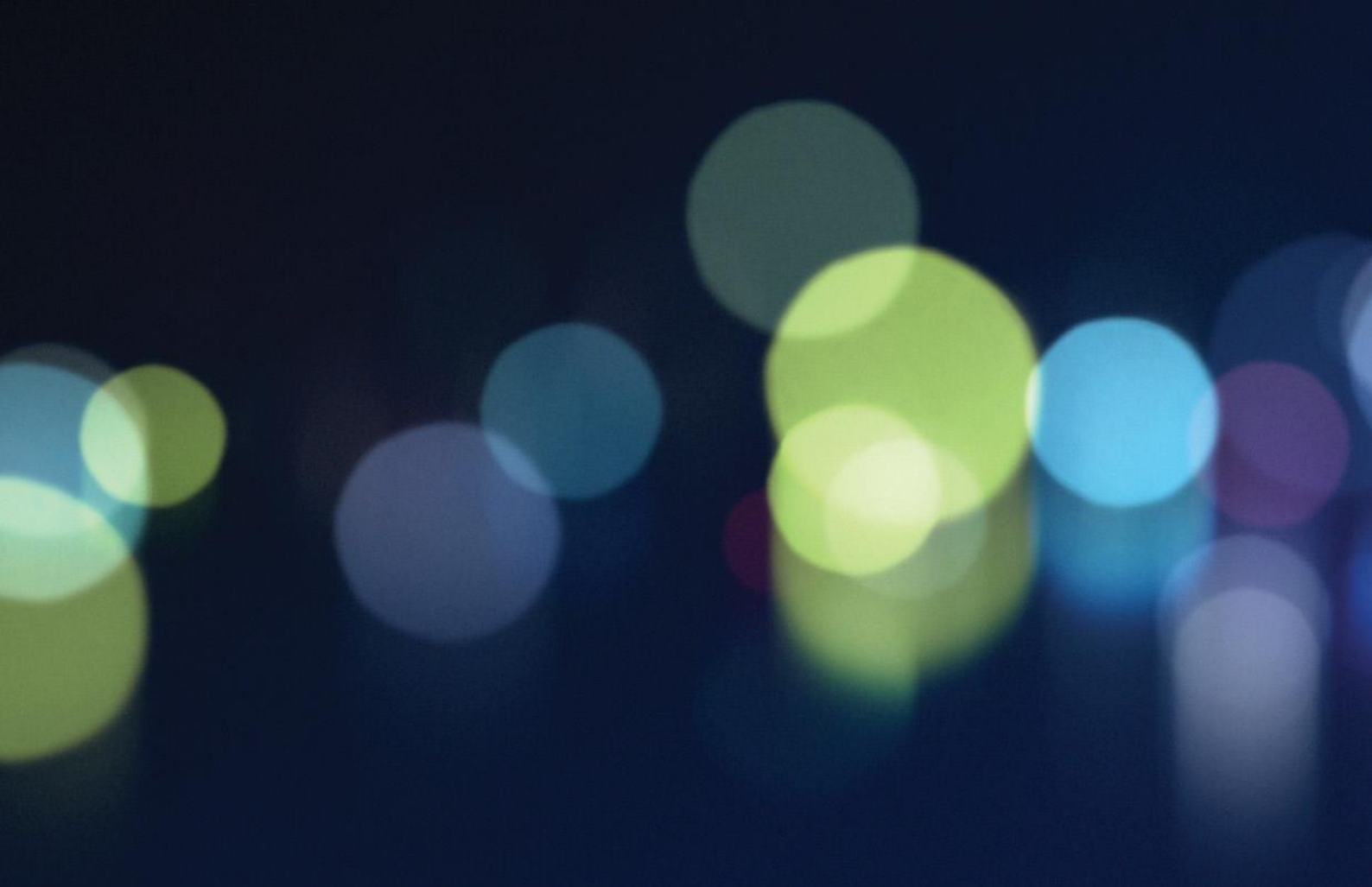


•
•
•
•
•
•
•
•
•
•

Ring-fencing Annual Compliance Report

1 JULY 2018 TO 30 JUNE 2019





Contents

Compliance Philosophy	4
Demonstrating Compliance	4
Context of the AER's Ring-fencing Guideline	5
Requirement of this report	5
Compliance and Monitoring	8
Compliance Disclosures and Review	9
Confidential Electricity Information	14
Maintaining Compliance	19
Inherent Risk Areas	23
Waivers	27
Breaches of the Ring-fencing Guideline	29
Other services provided by the DNSP	38
Transactions between the DNSP and Affiliated Entity	41
Independent Review and Assessment	43
Appendix 1 – Purpose of Transactions with Affiliated Entity	44
Appendix 2 – Independent Assessment	45



Statement of Compliance

Other than those material matters disclosed in Section 11, Breaches of the Ring-fencing Guideline, Endeavour Energy confirms that it is compliant with the Australian Energy Regulator's (AER) Electricity Distribution Ring-fencing Guideline (the Guideline).

Endeavour Energy's compliance is positively supported across the Endeavour Energy Group as a framework for business enablement.

1. Compliance Philosophy

Endeavour Energy recognises the Guideline as an enabler to the Endeavour Energy Group participating in unregulated markets. In the absence of the Guideline we would not be permitted to utilise our skills and experience to provide value added products and services to customers in a fair and competitive manner. We also acknowledge that in the main the requirements of the Guideline reflect the behaviours and obligations that all service providers must comply with under the Competition and Consumer Act. These facts have influenced how we have approached our compliance and business transformation program.

Endeavour Energy appreciates the social licence that is attached to the Guideline and its operation. Endeavour Energy accepts and understands that it is our actions and conformance with the scope and the limitations of the policy intent and the Guideline that will ultimately determine the realised value to the consumers we serve.

Endeavour Energy has sought to implement the requirements of the Guideline with an emphasis on a compliance philosophy over an enforcement philosophy, although both aspects are ultimately required. The importance of this delineation may not be obvious in the first instance; however, it is a critical underpinning of how Endeavour Energy has approached engaging with the requirements of the Guideline and embedding within our business.

Endeavour Energy's approach has been to be open to learning from challenges and failures, to improve our processes, and to continually improve our capacity to achieve compliance in a range of circumstances. This is supported by a clear focus on the policy objectives of the Guideline rather than narrowly focusing on the individual clauses in isolation.

Endeavour Energy believes that this approach is critical for supporting an environment where staff feel able to seek clarification as required as well as enabling staff to raise matters where they are concerned that compliance may be at risk. Engaging openly with staff in a two-way conversation across the business seeks to utilise each staff member as part of our compliance defence and drive a compliant and customer-orientated culture. It is for this reason that the bulk of matters identified in Section 11 have been identified by Endeavour Energy's operational staff.



2. Demonstrating Compliance

Clause 6.2.1(b) of the Guideline sets out those matters that Endeavour Energy is required to include in this report to demonstrate our compliance with the Guideline. Specifically, the annual compliance report must identify and describe, in respect of the regulatory year to which the report relates:

- i. the measures the Distribution Network Service Provider (**DNSP**) has taken to ensure compliance with its obligations under this Guideline;
- ii. any breaches of this Guideline by the DNSP, or which otherwise relate to the DNSP;
- iii. all other services provided by the DNSP in accordance with clause 3.1; and
- iv. the purpose of all transactions between the DNSP and an affiliated entity.

In addition to the content of this report it must be accompanied by an assessment of compliance by a suitably qualified independent authority.

This report may be made public by the AER and has been prepared on the expectation that such public disclosure will occur.

Finally, Endeavour Energy is required to submit this report and accompanying compliance assessment to the AER within four months of the end of the regulatory year to which it relates, being 31 October of each year.

3. Context of the AER's Ring-fencing Guideline

The following excerpt has been taken from the Council of Australian Governments (COAG) Energy Council meeting communiqué released in December 2015, which provides the policy setting for the development of the Guideline.

*The Council agreed that ring-fencing guidelines, which separate the competitive and regulated parts of network businesses, should facilitate the use of new technologies, like batteries. The Council also agreed that they should support greater participation by all providers, **including network businesses**, and that further refinement is required to protect the long-term interests of consumers. The Council noted that the Australian Energy Regulator (AER) would conduct a review of ring-fencing arrangements in 2016. The Council agreed that officials and market bodies would collaborate to ensure that revised ring fencing guidelines support competitive markets, provide market clarity and a level playing field for all energy service providers, while accelerating innovation and efficient investment in network and customer services.¹*

When the Guideline is placed into context it is clear that the purpose of the Guideline is to provide a framework to enable the participation of network businesses in delivering new technologies and energy solutions to customers, but in a way that provides confidence and transparency to customers and market participants.

The importance of compliance with the Guideline as a means of fostering and protecting positive competition was highlighted in the media release issued when the AER published its first annual report on compliance with the Guideline on 21 March 2019. Some excerpts on this point include:

- “We want to see new entrants and distribution businesses be appropriately rewarded where they meet the needs of consumers. This is best delivered through competition, with regulation advancing the long-term interest of consumers where necessary”;
- “Ring-fencing aims to promote competition in the provision of electricity services by providing a level playing field for third party providers in contestable markets.”; and
- “We take instances of non-compliance seriously and are expecting greater levels of compliance in future.”²

Endeavour Energy is also aware that within this context the AER has initiated a review of the Guideline and accompanying information to respond to issues and concerns raised by all stakeholder groups.

4. Requirement of this report

The preparation and publication of this report is designed to satisfy Endeavour Energy's regulatory and reporting obligations as prescribed by the Guideline. It is also our expectation that this report will contribute to public confidence that the policy objectives of supporting competitive markets and providing market clarity and a level playing field for all energy service providers is being satisfied. Endeavour Energy considers that transparency of compliance challenges that arise is an essential aspect of providing confidence to the market and provides accountability to resolve those issues.

The Guideline

Clause 6.17.1 of the National Electricity Rules (NER) requires that all DNSPs must comply with the Guideline published by the AER.

The AER published version 2 of the Ring-fencing Guideline, Electricity Distribution in October 2017, and as set out in the AER's guideline, the objective is to:

¹ COAG Energy Council, *Meeting Communiqué*, 4 December 2015.(emphasis added)

² <https://www.aer.gov.au/news-release/aer-to-look-for-penalties-to-strengthen-ring-fencing-rules>

- promote the National Electricity Objective by providing for the accounting and functional separation of the provision of direct control services by DNSPs from the provision of other services by them, or by their affiliated entities; and
- promote competition in the provision of electricity services.

The Guideline imposes obligations on DNSPs targeted at, among other things:

- cross-subsidisation, with provisions that aim to prevent a DNSP from providing other services that could be cross-subsidised by its distribution services; and
- discrimination, with provisions that aim to:
 - prevent a DNSP conferring a competitive advantage on its related electricity service providers that provide contestable electricity services; and
 - ensure a DNSP keeps information it acquires, or generates, confidential and handles that information appropriately.



: Approach to Embedding : Compliance

-
-
-
-
- **Approach to Embedding Compliance**

1. Compliance and Monitoring

A compliance and monitoring framework exists to ensure that each ring-fencing obligation and responsibility was understood and mapped to the responsible business function and accountable Executive Leadership Team member. The compliance and monitoring framework covers the following aspects:

- the ring-fencing obligation;
- record of any waivers received and the details of that waiver;
- a description of Endeavour Energy's compliance approach;
- compliance risk rating;
- any implementation changes required;
- controls to monitor compliance; and
- ongoing reporting requirements.

This framework is supported by ring-fencing compliance being included in Endeavour Energy's business risk framework. These risks and actions to address the risks are managed separately through Endeavour Energy's Governance, Risk and Compliance function that reports on all business risks to the Board's Audit and Risk Committee. In addition, the Regulatory Committee of the Board is tasked with focused oversight of our compliance with regulatory obligations, including ring-fencing compliance.

Reporting on the status of ring-fencing compliance is provided to the Executive Leadership Team. This periodic reporting is in the form of a dashboard that seeks to quickly identify the volume and trends in ring-fencing matters referred to the regulatory compliance team, status and topic areas of matters referred to the AER, and identification of the functional areas where ring-fencing matters are raised.



-
-
-
-
-
- **Approach to**
- **Embedding Compliance**

2. Compliance Disclosures and Review

To support the compliance and monitoring framework several activities and processes have been established for Endeavour Energy to review any matters of concern raised by staff, management or external parties.

Commitment has been obtained from Executive Leadership Team members and the Board through the Regulatory Committee supporting a bias of over-reporting of matters to the AER. Where it is unclear whether a situation or event is a ring-fencing breach it will be disclosed to the AER for consideration and subsequent engagement.

Additionally, the regulatory compliance team that has oversight for ring-fencing compliance undertakes additional reviews and investigations where referred matters could indicate additional or related issues. This pro-active compliance review process identified one instance of non-compliance that has been included in Section 11 of this report. During the regulatory year specific branding for ring-fencing was developed and implemented by the regulatory compliance team to help staff more easily identify critical updates and potential actions.

The table below outlines Endeavour Energy's approach to compliance and how compliance was achieved.

Obligation	Approach to compliance	How we achieved compliance
Legal Separation	We will only provide services associated with our role as a Distribution Network Service Provider when trading as Endeavour Energy.	<ul style="list-style-type: none"> ✓ We created a new Affiliated Entity to provide non-distribution services. ✓ We implemented long-term staff secondments. ✓ We embedded compliance control assessments into our policies and procedures. ✓ We have amended standard terms/conditions/contracts with service providers for new or varied contracts for the provision of services to reflect ring-fencing obligations.
Account separation & cost allocation	Accounts – We will establish and maintain procedures that demonstrate the nature and extent of transactions with the Affiliated Entity.	<ul style="list-style-type: none"> ✓ We have implemented a separate system that provides separate accounting processes and data.

-
-
-
-
-
-
- **Approach to**
- **Embedding Compliance**

Obligation	Approach to compliance	How we achieved compliance
	<p>Costs – We will not allocate or attribute costs to Distribution Services that relate to other services.</p> <p>Use of Assets – We will establish and maintain procedures that attribute costs to the Affiliated Entity for the use of assets, such as fleet and plant.</p>	<ul style="list-style-type: none"> ✓ We have implemented a charge-out billing solution for the Affiliated Entity. ✓ We have implemented a business support agreement between Endeavour Energy and the Affiliated Entity that explicitly requires that the Affiliated Entity to pay for all services and assets made available.
Not discriminate	We will not directly or indirectly discriminate in favour of the Affiliated Entity.	<ul style="list-style-type: none"> ✓ We have previously educated our staff to treat the Affiliated Entity at arms-length and on similar terms to other participants in relevant markets. ✓ We have communicated across the business where issues have arisen and identified remedial actions.
No cross-promotion	<p>We will not advertise or promote the services of the Affiliated Entity.</p> <p>Brand – We will implement a branding solution for vehicles, shared staff and public documents.</p>	<ul style="list-style-type: none"> ✓ We amended our Advertising and Promotional Materials policies and procedures to control promotion of the Affiliated Entity's services, and this promotion is only conducted by staff of the Affiliated Entity. ✓ We have and will continue to communicate effectively with all impacted external stakeholders. ✓ We have amended standard terms/conditions/contracts with service providers for new or varied contracts for the provision of services to reflect ring-fencing obligations.

-
-
-
-
-
- **Approach to**
- **Embedding Compliance**

Obligation	Approach to compliance	How we achieved compliance
Functional separation	Physical separation – We will operate independent and separate offices to the Affiliated Entity.	<ul style="list-style-type: none"> ✓ We have established separate office locations for all staff of the Affiliated Entity. These locations are either fully independent of the DNSP or contain limited DNSP staff that do not have access to confidential electricity information, e.g. warehouse staff.
	Staff sharing – Staff directly involved in the provision or marketing of Direct Control Services with access to confidential electricity information will not be involved in the provision or marketing of contestable services by the Affiliated Entity.	<ul style="list-style-type: none"> ✓ We continue to review, staff that are shared, on a periodic basis and update the Staff Sharing Register as required. Where staff cannot be shared, we either review job descriptions to separate roles or discontinue certain activities. ✓ We have amended standard terms/conditions/contracts with service providers for new or varied contracts for the provision of services to reflect ring-fencing obligations.
Information access & disclosure	Protection – We will protect confidential information provided by a customer or prospective customer for Direct Control Services and only use that information for the purpose it was provided.	<ul style="list-style-type: none"> ✓ We amended our Information Management policies to improve Confidential Information controls. ✓ We have amended standard terms/conditions/contracts with service providers for new or varied contracts for the provision of services to reflect ring-fencing obligations.
	Sharing – Where we acquire information for Direct Control Services and share it with the Affiliated Entity, we will provide equal access to others by establishing an information sharing protocol and register of information requests	<ul style="list-style-type: none"> ✓ We established and maintain an information register of all legal entities that request access to Confidential Electricity Information and have made the register publicly available on our website.

-
-
-
-
-
- **Approach to**
- **Embedding Compliance**

Obligation	Approach to compliance	How we achieved compliance
	<p>Disclosure – We will not disclose confidential information obtained in providing Direct Control Services to any party without the approval of the customer or potential customer to whom that information relates.</p>	<ul style="list-style-type: none"> ✓ We modified our Information Systems to improve access controls to provide the Affiliated Entity with the same access as external parties in relevant markets whilst not compromising our obligations related to privacy and confidentiality. ✓ We have undertaken testing of access privileges of staff to information systems.





: Confidential Electricity : Information

-
-
-
-
- **Confidential Electricity Information**
-

1. Confidential Electricity Information

Protecting confidential electricity information is critical for the effective operation of competition within the electricity markets and is one of the clear focus areas of the AER's Ring-fencing Guideline. Given the sensitivity of confidential electricity information to all parties this section seeks to provide insights into the consideration of confidential electricity information as a supplement to the specific actions and control descriptions provided elsewhere within this report.

Defining Confidential Electricity Information

Endeavour Energy as a DNSP receives a wide range of information from customers, ASPs, developers, suppliers, councils, government and others. Much of this information is confidential such as privacy related data or it may be commercially sensitive information. In all cases Endeavour Energy manages information that it receives in accordance with the wide range of legislative and contractual protections that exist.

However, not all electricity information received or managed by Endeavour Energy is confidential. Indeed, much of the data that we manage and maintain is public information to some degree.

In addition, not all confidential information received by Endeavour Energy is relevant to the ring-fencing provisions. Rather confidential electricity information is a discrete set of data, and in some cases is only confidential electricity information for a defined period of time.

For these reasons the AER's Ring-fencing Guideline and supporting documentation seeks to provide guidance as to the discrete criteria relevant to confidential electricity information. Information which, if improperly managed, would cause anticompetitive detriment to the markets proximate to the regulated services that Endeavour Energy provides.

In a simplistic manner the information that must be protected by Endeavour Energy to achieve the objectives of the Guideline must meet several criteria simultaneously. These include:

- The information is electricity information.

This means that if information does not relate to our distribution network, our customers, or our services, it is information that must be managed according to our other relevant obligations but does not need to be addressed by ring-fencing;

- The information must also be confidential.

This means that information that is publicly available or more broadly known is not a concern of the ring-fencing arrangements.

This also means that information received by Endeavour Energy can change its nature over time. Information that is provided to Endeavour Energy through our connections team regarding a potential new connection is clearly confidential electricity information and must be protected.

Once the project is announced or commenced some aspects of the information will no longer be confidential such as the project participants and location. However, other aspects will generally remain confidential as they would not otherwise be publicly disclosed, such as any specific terms and conditions required to approve the connection.

● ● ● ● ● **Confidential Electricity Information**

Regardless of events over time, information provided to Endeavour Energy will be protected in accordance with its legal and contractual obligations.

- Opportunity to use.

In the context of how Endeavour Energy must ring-fence access to information internally the Guideline identifies that we must ensure that staff who provide support to regulated and unregulated activities do not have an opportunity use any confidential electricity information for anticompétitive advantage (detriment).

The issue of opportunity to use is a critical test to determine how Endeavour Energy must manage data internally as it crystallises a focus on avoiding harm or avoiding the potential for harm to the effective and fair operation of competitive markets. If we believe that access to a particular data set or information repository has the potential to be used in an anticompétitive manner, we apply our higher levels of access constraint.

For example, Endeavour Energy may use the market to deliver certain regulated projects. Within that market engagement quotes may be received for certain activities or parcels of work. While the information is certainly confidential commercial information it may be less clear as to whether it is electricity information and therefore if it can be used more broadly within the context of compliance with the Guideline.

For such information Endeavour Energy considers that the question of whether it is electricity information or otherwise to be moot. In asking the question as to whether there would be an opportunity to use this information and would it have an anti-competitive impact the answer would be yes and therefore would be protected from access by the RESP and any shared staff in a role where it could be used to advantage the RESP.

Information Classification

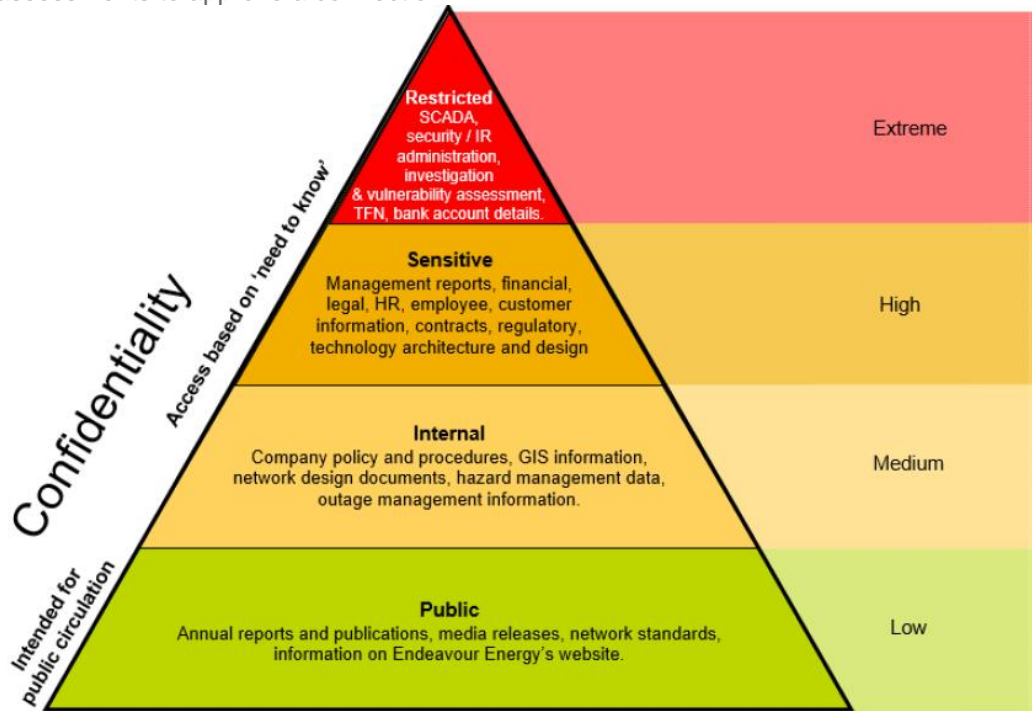
Endeavour Energy applies a two-step layered approach to managing its data. Firstly, access privileges to data repositories or systems are based on a need-to-know principle. That means that in order to be granted access to where data may be stored it must be related to your job. Secondly, the access protocols and detective controls regarding attempts to access data are layered relative to the degree of sensitivity of the data.

Broadly speaking we would expect that confidential electricity information would fall into the category of sensitive information and afforded the same level internal need-to-know access restrictions as we would apply to HR data, employee data and legal information.

Restricted data classification is our highest protection level; however, it would generally not be applied as this classification requires specific individuals to be identified as access users and would likely hamper the operation of functional teams that is required to manage and process a number of activities that would include confidential electricity information. An example of where this could be challenging is in relation to the processing of network connection applications where we have service level obligations to parties wishing to connect and so a broader team is required. In addition, some projects are complicated and may

-
-
-
-
- **Confidential Electricity Information**
-

require a number of staff from other parts of the regulated business to become involved to provide the necessary assessments to approve a connection.



Confidential Electricity Information and Staff Sharing

When Endeavour Energy established its ring-fencing compliance framework it undertook a number of self-assessments to help determine if and how staff sharing may apply to roles and functions. To assist staff awareness and understanding this assessment process was simplified into a traffic light style format. This was outlined in our report last year.

The criteria that generally defined whether a role or function could be shared between Endeavour Energy and our RESP was that of access to and use of confidential electricity information. All of the identified "red" non-sharable functions were on the basis that the function (branch or team) had access to and used confidential electricity information as part of the basic day to day activities.

These functions were also seen to have a degree of decision-making involved in the day-to-day activities. That being that the function had access to confidential electricity information and the decisions taken were based on that information.

Endeavour Energy applied a strict non-sharing rule to all staff within these key functions and processes. Other functions were identified as potentially having passing access to confidential electricity information. Such information may be relevant data for the input into their activities, but the type of data itself was not the basis of the activities being undertaken. In such instances the question of whether a staff member was potentially sharable needed to be tested more directly before a determination could be made.

-
-
-
-
- **Confidential Electricity Information**
-

The third grouping was those functions that were deemed to be sharable because they either did not have any access to confidential electricity information (directly or indirectly) or there was no opportunity to use that data. For example, field staff would have access to electricity information for the daily activities, however that data would either not be confidential or even if it was confidential there would be no opportunity to use that information as the competitive market decisions (contract negotiations) would already be completed.

Staff and Functional Separation

When developing our approach to staff separation for achieving compliance with the Guideline, Endeavour Energy paid close attention to the issue of access to confidential electricity information. This was used to help guide decisions regarding staff location both within Endeavour Energy and the RESP.

Endeavour Energy's main office in Huntingwood is generally speaking an open plan environment and has a central cafeteria that is used by all staff. While it would be possible to ensure that work areas are secured, it would not be possible to segregate the site facilities to meet the requirements of the Guideline. It was therefore determined at our project initiation that it would not be possible for RESP staff to be located at our head office and alternative sites were considered and implemented.

We also sought to ensure that RESP staff undertaking a manufacturing activity were able to be segregated from staff housed in a separate building in the vicinity. We ensured that all work areas and amenities were self-contained within the specific building for both Endeavour Energy and RESP staff to ensure that operational and casual interactions would be mitigated.

● ● ● ● ● ● ● **Maintaining Compliance**

1. Maintaining Compliance

Endeavour Energy maintains a layered compliance system that cascades from overarching business risk identifications and governance reporting regime maintained by the corporate Governance, Risk and Compliance team, through to workplace instructions and reporting implemented by teams with functional responsibility.

Endeavour Energy's risk management and compliance framework is overseen by the Executive Audit and Risk Committee (EARC) and the Audit and Risk Committee (ARC) of the Board. Compliance and governance effectiveness is supported by independent review and assessment by the internal audit function.

Ring-fencing compliance is centrally coordinated and reported by the Network Regulation team due to the broad subject matter expertise. Implementation of specific controls is allocated to responsible persons with the most direct line responsibility for the relevant control and/or compliance area. Network Regulation reports on compliance-related matters to the EARC, ARC and to the Board's Regulatory Committee that maintains a specific focus on compliance with regulatory obligations within its mandate. For example, compliance with AER Regulatory Information Notices and NSW distribution licence compliance.

Endeavour Energy has established Company Procedure GRG0013 Reporting & Compliance Procedure for Ring-Fencing Guidelines to provide an overarching organisational framework for reporting compliance with ring-fencing obligations. The procedure specifically outlines the management of the:

- identification and classification of ring-fencing obligations;
- process for reporting and monitoring of ring-fencing obligations;
- obligation compliance verification process; and
- corrective action process for compliance failures or other identified issues.

Separately, Endeavour Energy operates a dedicated mail box to allow internal and external persons to raise questions or concerns with compliance. It was through this process that all but one of the items disclosed in Section 11, Breaches of the Ring-fencing Guideline, were identified and addressed.

The outcomes of these separate processes are reviewed and collated for reporting and, where necessary, remediated.

Endeavour Energy has a broad range specific controls and processes in place as a means for achieving and maintaining compliance against each element of the Guideline and is set out in broad terms in the table below.

-
-
-
-
-
-
-
- Maintaining Compliance**

Obligation	Compliance Status	Summary of Compliance
Legal separation of DNSP from other entities	Compliant	<p>Endeavour Energy (Network Operating Partnership) is legally separated from the unregulated business, Ausconnex (Network Unregulated Partnership).</p> <p>Contractual arrangements in relation to corporate services and asset sharing have been formally defined in a Business Support Agreement between Endeavour Energy and Ausconnex.</p> <p>Endeavour Energy has prepared a Waiver Register to provide our stakeholders information on the status of our applications and is available via our website.</p> <p>Endeavour Energy has identified a small number of discrete instances where it provided other services. These breaches have been reported in Section 11 of this report. Endeavour Energy does not believe that these instances are evidence of systematic failures, and all instances have been identified by internal controls and reporting mechanisms.</p>
Account separation/ Cost allocation	Compliant	<p>Independent financial and accounting forecasts and statements are maintained in two separate applications to enable distinct transactions between Endeavour Energy and Ausconnex and is subject to audit by external third party.</p> <p>Endeavour Energy attributes costs in accordance with the Accounting for Ausconnex guidelines which adheres to obligations 3.2.2 (a) and (b) of the Ring-fencing Guideline.</p> <p>Following the end of the regulatory year it was identified that low value plant and equipment had not been explicitly captured in project costings and therefore not charged to Ausconnex, to address this a fixed monthly fee has been calculated and applied retrospectively for the regulatory year. The monthly fee will be charged each month going forward to reflect the use of this plant and equipment. Testing has been performed to confirm that labour, high value assets and overheads have been captured by the billing processes.</p>

Maintaining Compliance

Obligation	Compliance Status	Summary of Compliance
Physical Separation	Compliant	<p>Ausconnex is physically separated from Endeavour Energy's regulated business with identified separate access point. Remedial action has been undertaken to ensure Ausconnex staff do not have access to sensitive areas used by Endeavour Energy.</p> <p>An Office Sharing Register is available on Endeavour Energy's website and is reviewed periodically.</p>
Staff Sharing	Compliant	<p>Management maintain a Staff Sharing Register which is reviewed periodically and available on Endeavour Energy's website. The register outlines the positions shared between Endeavour Energy and Ausconnex. The Business Support Agreement between Endeavour Energy and Ausconnex clearly defines corporate services and asset sharing contractual arrangements.</p>
Restrict access to Electricity Information	Compliant	<p>Logical access to Electricity Information has been restricted as at January 2018. User access to key Endeavour Energy and Ausconnex systems is provisioned according to defined controls and in accordance with role-based guidelines. Principles for providing equal access to Electricity Information apply.</p> <p>Physical access review undertaken in August 2018 to confirm access to only those staff that should have physical access to DNSP sites.</p> <p>IT network drive access reviews undertaken on at least quarterly basis over the regulatory year to confirm access privileges in line with current role requirements.</p>
Information Sharing and Disclosure	Compliant	<p>An Information Sharing Protocol and Information Sharing Register have been established and are publicly available on Endeavour Energy's website. Principles for providing equal access to Electricity Information apply and eLearning modules continue to embed awareness of obligations.</p>

These controls can also be considered through an activity/process lens. A brief summary of these activities is set out below.

-
-
-
-
-
-
- **Maintaining Compliance**

Process and policy controls have been established to provide clear guidance and instruction to the business units undertaking activities of interest.

Contractual and financial controls have been established to provide governance around the types of interactions and services that each organisation may provide or procure from the other and how these services will be charged and costed.

Regulatory and reporting controls have been established to support a compliance-orientated philosophy to the ring-fencing obligations and embedding a once-removed approval process for some key changes to maintain a focus on securing compliance. Additionally, a ring-fencing compliance dashboard has been established for periodic Executive Leadership Team (ELT) consideration.

Embedding awareness of our obligations with the staff allows our *staff* to act as a *control* identifying issues before (and after) they arise to position Endeavour Energy for compliance. This is supported by online materials, such as FAQs, online training and access to subject matter experts.

Transparency controls and processes are in place to provide increased visibility and accountability within Endeavour Energy for maintaining compliance with the Guideline; and transparency externally to empower stakeholders to ensure that Endeavour Energy is accountable for its ongoing compliance. Ring-fencing compliance has received its own internal branding to assist staff in differentiating and identifying key internal communications.

HR controls have been established to provide role clarity to limit the opportunity for inadvertent breaches of the Guideline and to address potential incentives to breach the guideline. These controls are supported by **IT and physical access controls** applied to all roles.

2. Inherent Risk Areas

There are a number of areas where normal business operations create inherent risks to be managed. The key areas identified by Endeavour Energy have been outlined below.

Inductions

In the prior regulatory year, Endeavour Energy made a significant organisational commitment to ensuring that ring-fencing awareness training was undertaken by staff and achieved significant confirmed completion rates across the whole organisation, including low risk areas.

Over the regulatory year for this report Endeavour Energy undertook broader staff communications to advise of events that arose and provided tailored briefing and training sessions to teams upon request.

Subsequent to the 2018-19 regulatory year, organisation wide refresher training has been completed for targeted areas of challenge as identified in Section 11 below. This refreshed training module is also more accessible to new staff joining the organisation; an inherent risk area identified in last year's report and which remains an area of focus. Online Ring-fencing training was available to new staff on the legacy training system, before being decommissioned on 25 January 2019, as a result new staff post 25 January 2019 did not receive ring-fencing training until the new eLearning platform was introduced in August 2019.

● ● ● ● ● ● ● **Maintaining Compliance**

The training module refresh is designed to work alongside other resources for staff such as: the availability of online FAQs; company-wide ring fencing updates; and the availability of direct engagement with the ring-fencing compliance team to inform and support all staff in meeting their obligations.

Branding

Endeavour Energy acknowledges that it has an inherent risk exposure due to the existence of staff sharing at the field force level.

Consequently, an area of focus for the implementation and training programs has been on the issue of branding, in particular the need to ensure that staff adhere to the appropriate clothing and protective equipment while on work sites.

Over the 2018-19 regulatory year staff provided internal reporting and identification of two instances where this inherent risk was realised. These are detailed in section 11 of this report. Endeavour Energy appreciates the importance of brand separation within the ring-fencing guideline.

Consequently, the issue has been raised at Board level through the Regulatory Committee to ensure awareness and focus. Since the last report internal brand guidelines have been updated to reinforce this obligation and clearly articulate the need to ensure the requisite situational awareness for shared field staff.

Additional measures are being undertaken to reduce compliance risks associated with branding of fleet and plant. Engagement with RESP staff has identified potential failure modes for the existing brand management strategies. These failure modes are being addressed through targeted increases in the use of plant and fleet that has been de-branded to eliminate potential compliance risk where possible.

Staff Sharing

When implementing controls to meet the Guideline, Endeavour Energy undertook analysis of roles throughout its business structure. Based on this analysis the roles were classified as discussed below. If a role did not clearly fit within one of the classifications the role was amended to ensure clarity of function and access to confidential electricity information.

Staff sharing has been established based on clear definitions and classification of roles that:

- meet the definition of corporate services and are therefore potentially sharable as they provide common services to Endeavour Energy and its related entities. Whether individual staff members can be shared will be determined after consideration of their access to confidential electricity information and whether they are in a position to utilise such information to advantage our RESP. These were termed “green roles” for ease of internal communication;
- are able to be shared due to the assessment of the role access to confidential electricity information and commercial decision-making authority. These were termed “yellow roles” for ease of internal communication; and

-
-
-
-
-
-
- **Maintaining Compliance**

- must not be shared due to access to confidential electricity information, commercial decision-making authority, and interaction with the ASP scheme. These were termed “red roles” for ease of internal communication.

Yellow roles have been included within the Staff Sharing Register published on Endeavour Energy’s website.

A critical challenge point for Endeavour moving forward is ensuring continuity of the assessment criteria and framework as roles are created or amended over time to meet business needs. Regular updating of the Staff Sharing Register and embedding assessments within the HR functions will provide the necessary triggers to maintain currency and focus on this risk area.



• Waivers

-
-
-
-
-
-
- **Waivers**

1. Waivers

Endeavour Energy currently has a number of waivers approved by the AER and in place that were applicable to the 2018-19 regulatory year. In the main these waivers were to seek relief from being required to separate services from the DNSP for only a short period. When seeking the waivers, it was known that the services were to be regulated by the AER in the next regulatory period and therefore eliminate the requirement to separate the services from 1 July 2019.

The AER’s December 2017 waiver decision for Endeavour Energy included the following:

“Endeavour Energy

We grant Endeavour Energy a waiver from 18 December 2017 until 30 June 2019 from its obligations under clauses 3.1 and 4.2.1, 4.2.2 and 4.2.3 of the Guideline in relation to the prospective reclassification of the following services:

- emergency recoverable works
- public lighting and nightwatchman lights (this includes: security lights – night watch)
- networks safety services
- minor and legacy metering services (this includes: meter recovery and disposal - type 5 and 6 (legacy meters), and; distributor arranged outage for the purposes of replacing the meter)
- rectification works to maintain network safety
- planned interruption – customer requested
- network related training courses
- customer - initiated asset relocations
- non-standard connections, customer-requested supply enhancements and augmentations (this includes: premises connection assets - C, and; augmentations - D)
- termination of cable at zone substation - DNSP required performance”



Breaches of the Ring-fencing Guideline

-
-
-
- **Breaches of the Ring-fencing Guideline**

1. Breaches of the Ring-fencing Guideline

Non-Material Breaches

Over the 2018-19 regulatory year Endeavour Energy reported 7 potential breaches of our obligations under the Ring-fencing Guideline. There was also 1 outstanding matter that was carried over from the prior year due to proposed changes to the service classification. The details of these breach notifications have been set out below.

In addition to the matters disclosed in the table below, we note that Endeavour Energy notified the AER within 5 business days of confirming that a breach is material. However, this resulted in some material breaches not being notified within 5 business days once aware of a potential issue. In response, Endeavour Energy has confirmed with the AER that it will provide the AER with reports where it has reason to believe that a breach may have occurred. This initial notification will be followed by either a confirmation that a breach has occurred or a clarification where it is determined that a breach did not occur.

Date reported	Obligation	Issue	Remediation	Identification
11/01/2019	4.2.3 - Obligation to have separate branding and avoid cross-promotion	<p>Endeavour Energy staff member observed RESP vehicle in traffic.</p> <p>Staff member noticed staff in RESP vehicle wearing Endeavour Energy uniform.</p>	<p>Manager of the RESP was notified and requested to provide evidence of the branding controls in place within the RESP.</p> <p>Once staff arrive at the designated staging area they are briefed and inducted by the Site Supervisor. Staff and plant are reviewed for branding compliance with any remediation actions undertaken as required.</p>	Witnessed by Endeavour Energy staff who advised Manager Network Regulation.

-
-
-
- Breaches of the Ring-fencing Guideline

Date reported	Obligation	Issue	Remediation	Identification
11/01/2019	4.3.2 - Obligation to protect confidential information	Five RESP staff were identified with incorrect access controls in Endeavour Energy's Records Management System. Once identified, access was immediately revoked.	<p>When staff are recruited into the RESP from Endeavour Energy, an email notification is sent by Human Resources to the ICT Service Desk.</p> <p>The ICT Service Desk must adhere to the RESP Knowledge Base Article to ensure appropriate network drive, email, phone and application access to granted to the user, including notification to Records Management. As a back-up process, Records Management also run a monthly report to compare staff transitions to RESP.</p> <p>As part of the ICT Operation Monthly Security Calendar activities, RESP staff access report is extracted and compared against RESP termination report from HR each month to confirm correct user access.</p>	Reconciliation of user access by Records Management team followed by notified to ringfencing@endeavourenergy.com.au.

- Breaches of the Ring-fencing Guideline

Date reported	Obligation	Issue	Remediation	Identification
11/01/2019	4.2.3 - Obligation to have separate branding and avoid cross-promotion	<p>LinkedIn profile of RESP staff listed both RESP and Endeavour Energy as current employer.</p> <p>The causal factor was that when using LinkedIn if you fail to update with an end date for previous employment the profile shows ongoing employment from past and current roles.</p> <p>This required some education on how to use the application with some changes needing to be done on a PC rather than the phone application.</p>	<p>LinkedIn is a personal social media account and not affiliated with Endeavour Energy or the RESP and is not used to advertise or promote direct control services or contestable electricity services but rather an individual's career experience.</p> <p>A review of all RESP staff LinkedIn profiles was carried out by Manager of the RESP. Staff, where necessary, were asked to amend their profile to adhere to the following guidelines:</p> <ul style="list-style-type: none"> • List employer as the RESP and not Endeavour Energy - in several cases this required the addition of an end date for service with Endeavour Energy in the profile to complete the "update" for their new role; • Do not mention any current affiliation with Endeavour Energy; 	Email notification to ringfencing@endeavourenergy.com.au by Endeavour Energy staff

- Breaches of the Ring-fencing Guideline

Date reported	Obligation	Issue	Remediation	Identification
			<ul style="list-style-type: none"> • Must not claim to be employed by a subsidiary of Endeavour Energy; • Ensure employment experience timeframes between the RESP and Endeavour Energy do not overlap; and • Must contain RESP email address and phone number as contact and not that Endeavour Energy. 	
16/01/2019	3.1 (b) - Obligation not to provide other services	<p>Staff member provided quote for works a customer for an asset to be replaced on the customer's network, not Endeavour Energy's network.</p> <p>The customer did not accept the quote therefore no service was provided.</p>	<p>A toolbox talk was held to reinforce the importance of understanding the ring-fencing guidelines and how Endeavour Energy cannot provide services that are contestable.</p> <p>Undertake a refresh of Ring-Fencing Awareness Training for all staff.</p>	Email notification from Manager of RESP to email inbox ringfencing@endeavourenergy.com.au advising of potential breach.

- Breaches of the Ring-fencing Guideline

Date reported	Obligation	Issue	Remediation	Identification
14/02/2019	4.1 (b) - Obligation not to discriminate	Endeavour Energy staff member referred a Local Council directly to the RESP following a request for service rather than advising the Local Council to select any authorised Level 3 Accredited Service Provider from the online listing.	<p>Ring-fencing Awareness Training for all staff to be released online.</p> <p>The content of Endeavour Energy's intranet site to be refreshed to include a page on ring-fencing for staff. This page will include information for staff on the Guidelines, access to a Frequently Asked Questions Booklet developed internally as well as information on your registers, waivers, Annual Compliance Report etc to increase awareness.</p> <p>Implementation of company-wide communication to reinforce the importance of the guidelines.</p>	Email notification from Manager of RESP to email inbox ringfencing@endeavourenergy.com.au advising of potential breach.
Whole year	3.1 (b) Provision of Other Services	<p>Rectification of simple customer faults.</p> <p>An issue that was identified in the prior reporting year was the resolution of simple</p>	The AER has determined that simple customer faults will be a regulated service from 1 July 2019.	Prior year self-reporting to AER

-
-
-
- Breaches of the Ring-fencing Guideline

Date reported	Obligation	Issue	Remediation	Identification
		customer faults when Endeavour Energy staff were already in attendance.	<p>In the interim the AER wrote to Endeavour Energy on 8 March 2019 noting this like reclassification and provided a disclosure regime for the services within the definition of simple customer faults.</p> <p>On 15 July 2019 Endeavour Energy fulfilled its disclosure requirements confirming that over the 2018-19 regulatory year it had conducted 1,994 jobs that met the requisite definition.</p> <p>From 1 July 2019 this issue will no longer arise as these services will no longer meet the definition of other services.</p>	

-
-
-
- **Breaches of the Ring-fencing Guideline**

Material Breaches

Over the 2018-19 regulatory year Endeavour Energy reported 2 material breaches of our obligations under the Ring-fencing Guideline. These breaches have been set out below.

Date reported	Obligation	Issue	Remediation	Identification
11/12/2018	4.2.1 - Obligation to physically separate a RESP providing contestable electricity services	Endeavour Energy staff member remained in contact with RESP client offering contestable services.	<p>The customer was advised by both our RESP and Endeavour Energy of:</p> <ul style="list-style-type: none"> ● the existence of the regulatory framework; ● the process that must be adhered to; and ● the ASP market and the customer's entitlement to use any ASP qualified for the task. <p>The customer was advised that the previous engagements could not be continued and that the customer would need to initiate a fresh procurement process with the ASP of their choice.</p>	Email notification from Manager of RESP to ringfencing@endeavourenergy.com.au advising of potential breach.

-
-
-
- **Breaches of the Ring-fencing Guideline**

Date reported	Obligation	Issue	Remediation	Identification
			An all staff alert was issued regarding the scenario and instructions on how to avoid recurrence.	
15/03/2019	3.1 (b) - Obligation not to provide other services	Endeavour Energy provided oil testing services on 3 occasions to external parties.	<p>Undertake a refresh of Ring-Fencing Awareness Training for all staff.</p> <p>The content of Endeavour Energy's intranet site to be refreshed include information for staff on the Guidelines, such as access to a Frequently Asked Questions Booklet to increase awareness.</p> <p>An all staff alert was issued regarding the scenario and instructions on how to avoid recurrence.</p>	Review of systems and processes by Endeavour Energy's ring fencing compliance function.



Other services provided by the DNSP

-
-
-
-
- **Other services provided by the DNSP**

1. Other services provided by the DNSP

Endeavour Energy does provide other services being those directly addressed by clause 3.1(d)(i) of the October 2017 Ring-fencing Guideline, and which are also captured by the operation of the Shared Asset Guideline. Specifically, Endeavour Energy provides access to land and electrical infrastructure to other service providers, notably telecommunications companies, for a rental fee.

These other services do not interfere with the provision of standard control services. In some instances, “make ready works” undertaken by other service providers as a requirement for gaining access often augments or extends the life of the assets providing standard control services at no cost to electricity customers.

In addition to these services a number of other services are in transition to being regulated as either standard or alternative control services. Given the nature of these services was expected or known to be changing the AER approved a waiver for these services to be conducted by Endeavour Energy during the intervening period to 1 July 2019.

The types of services covered by this waiver, as discussed above, include:

- emergency recoverable works;
- public lighting and nightwatchman lights (this includes: security lights – night watch);
- networks safety services;
- minor and legacy metering services (this includes: meter recovery and disposal - type 5 and 6 (legacy meters), and; distributor arranged outage for the purposes of replacing the meter);
- rectification works to maintain network safety;
- planned interruption – customer requested;
- network related training courses;
- customer - initiated asset relocations;
- non-standard connections, customer-requested supply enhancements and augmentations (this includes: premises connection assets - C, and; augmentations - D); and
- termination of cable at zone substation - DNSP required performance.

In addition to those services covered above a further “other service” was identified being simple customer faults. The AER has determined that simple customer faults will be a regulated service from 1 July 2019. In the interim the AER wrote to Endeavour Energy on 8 March 2019 noting this reclassification and provided a disclosure regime for the services within the definition of simple customer faults.

-
-
-
-
- **Other services provided
by the DNSP**

On 15 July 2019 Endeavour Energy fulfilled its disclosure requirements confirming that over the 2018-19 regulatory year it had conducted 1,994 jobs that met the requisite definition.

From 1 July 2019 this issue will no longer arise as these services will no longer meet the definition of other services.



•
•
•
•
•
•
•
•
•
•
•
•
•
•
•
•
•
•
•
•
•
•
•
•

Transaction between the DNSP and affiliated entities

-
-
-
-
- **Transactions between the DNSP and Affiliated entity**

1. Transactions between the DNSP and Affiliated Entity

Clause 6.2.1(b) iv requires the Endeavour Energy disclose the purpose of all transactions with affiliated entities. Appendix 1 – Purpose of Transactions with Affiliates includes the full listing of financial transactions grouped by common purpose and nature.

Due to the types of services undertaken by the affiliated entity, and the corporate services provided to the entity by Endeavour Energy the transactions listed are exclusively payments to Endeavour Energy for corporate and other services provided to the affiliated entity.



Independent Review and Assessment

-
-
-
-
- **Independent Review and Assessment**

1. Independent Review and Assessment

Endeavour Energy engaged PricewaterhouseCoopers (**PwC**) as our independent reviewer. In the attached independent audit assessment, PwC found that other than those matters disclosed above in Section 11 (Breaches of the Ring-fencing Guideline) no other issues with compliance were identified.

The report prepared by PwC contains a number of observations and recommendations for improvement that have provided us with a range of avenues to strengthen our existing controls and to raise the internal visibility of our ring-fencing compliance throughout the year. It is our intention to explore how we can leverage these observations over the course of the forthcoming year.

The review undertaken by PwC has been timely as it has followed a number of recent events. Although, these events fall outside of the regulatory year under review in this report, the PwC review afforded Endeavour Energy an additional opportunity within which to self-reflect and review existing and proposed processes and controls given these events.

-
-
-
-
-
-
- **Appendix 1 – Purpose of Transaction with Affiliated Entity**

1. Appendix 1 – Purpose of Transactions with Affiliated Entity

Affiliate Entity	Purpose of Transaction	Nature and Status of Transaction
Network Unregulated Partnership trading as Ausconnex	Rental of office space from Endeavour Energy	<p>Ausconnex rents office space on land owned by Endeavour Energy.</p> <p>The office occupied is separate from Endeavour Energy office areas.</p> <p>This is expected to be an ongoing service provided to Ausconnex.</p>
Network Unregulated Partnership trading as Ausconnex	Provision of direct labour, materials, sub-contractor and other costs	Endeavour Energy provides services to Ausconnex which includes use of staff (either partly or wholly allocated to Ausconnex), materials and sub-contractors used on Ausconnex projects and any incidental costs which are all on-charged to Ausconnex.
Network Unregulated Partnership trading as Ausconnex	Provision of corporate services	Endeavour Energy provides corporate services to Ausconnex which includes, IT equipment, infrastructure and support, accounting, legal support and insurance.
Network Unregulated Partnership trading as Ausconnex	Provision of management resources	Endeavour Energy provides management/administrative staff to Ausconnex on a full-time basis. The cost of these people on-charged to Ausconnex.

-
-
-
-
-
- **Appendix 2 – Independent Assessment**

1. **Appendix 2 – Independent Assessment**

Endeavour Energy Annual Ring- fencing Compliance

for the year ended 30 June 2019

Endeavour Energy

*Annual Ring-fencing
Compliance*

October 2019

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, issued under clause 6.17.2 of the National Energy Sector Rules version 2, dated 17 October 2017.

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 an RESP (related electricity service provider).

In accordance with Ring-fencing Guideline clause 6.2.1(c), DNSPs are required to accompany their annual compliance report with an assessment of compliance, performed by a suitably qualified independent authority.

Methodology

Endeavour Energy has prepared an annual compliance report under the Ring-fencing Guidelines for the year ended 30 June 2019 (Annual Ring-fencing Compliance Report 2018-2019.pdf – saved 30 October 2019 at 3.49pm).

We obtained an understanding of the Ring-fencing Guideline and other engagement circumstances specific to Endeavour Energy sufficient to enable the identification and assessment of the risks of non-compliance with the Ring-fencing Guideline, that were not disclosed in the Endeavour Energy compliance report for the year ended 30 June 2019.

We designed and performed procedures to respond to the assessed risks of non-compliance to the Ring-fencing Guideline by Endeavour Energy and to identify opportunities for improvement to the policies, procedures, processes and controls Endeavour Energy has in place to comply with the Ring-fencing Guidelines.

We identified the obligation clauses as per the Ring-fencing Guideline and conducted interviews with key stakeholders 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 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 complied, in all material respects, with the Ring-fencing Guideline over 1 July 2018 to 30 June 2019 period.

Limitations

Our methodology involved obtaining an understanding of the Ring-fencing Guideline, identifying the obligation clauses as per the Ring-fencing Guideline applicable to Endeavour Energy, 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
Independent Assurance Report to the Directors of Endeavour Energy and the Australian Energy Regulator	1
1 Compliance with obligations	3
2 Observations noted	6
3 Work performed and results	10

Scope

This report has been prepared by PricewaterhouseCoopers in the course of our engagement as detailed in, and subject to, our engagement letter dated 15 August 2019.

Use and distribution of our report

This report has been prepared solely for the use of the Directors of Endeavour Energy for the purpose set out in the engagement letter. Accordingly, PricewaterhouseCoopers does not accept any responsibility or liability whatsoever for the use of this report by any other person or for any other purpose.

Except as stated our engagement letter, this report and its contents may not be disclosed or published in any way without the prior written approval of PricewaterhouseCoopers.

Limited Liability

Liability limited by a scheme approved under Professional Standards Legislation.

Independent Assurance Report to the Directors of Endeavour Energy and the Australian Energy Regulator

To the Directors of Endeavour Energy and the Australian Energy Regulator

Opinion

We have undertaken a reasonable assurance engagement on Endeavour Energy's Statement of Compliance, in all material respects, with the Annual Ring-fencing Guideline as evaluated against the Ring-fencing Guideline, under clause 6.17.2 of the National Electricity Rules, throughout the year to 30 June 2019. This Statement will accompany our report, for the purpose of reporting to the Australian Energy Regulator.

In our opinion, Endeavour Energy's Statement is fairly presented in that Endeavour Energy has complied, in all material respects, with the Annual Ring-fencing Guideline as evaluated against the Ring-fencing Guideline, under clause 6.17.2 of the National Electricity Rules, throughout the financial year to 30 June 2019.

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

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Endeavour Energy's responsibilities

Endeavour Energy is responsible for:

- (a) Providing a Statement with respect to the outcome of the evaluation of the compliance activity against the Ring-fencing Guideline, under clause 6.17.2 of the National Electricity Rules, which accompanies this independent assurance report.
- (b) Identification of the compliance requirements under the Ring-fencing Guideline, under clause 6.17.2 of the National Electricity Rules.
- (c) The compliance activity undertaken to meet the Ring-fencing Guideline, under clause 6.17.2 of the National Electricity Rules.
- (d) Identification and implementation of controls which will mitigate those risks that prevent the compliance requirements of the Ring-fencing Guideline, under clause 6.17.2 of the National Electricity Rules, being met and monitoring 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.

Our responsibility

Our responsibility is to express an opinion, on Endeavour Energy's Statement of Compliance with the Ring-fencing Guideline, under clause 6.17.2 of the National Electricity Rules, in all material respects, as evaluated against the Ring-fencing Guideline, for the year to 30 June 2019 ASAE 3100 requires that we plan and perform our procedures to obtain reasonable assurance about whether Endeavour Energy's Statement of Compliance is fairly presented in that Endeavour Energy has complied, in all material respects, with the Annual Ring-fencing Guideline throughout the year to 30 June 2019.

An assurance engagement to report on Endeavour Energy's Statement of Compliance with the Ring-fencing Guideline, under clause 6.17.2 of the National Electricity Rules, involves performing procedures to obtain evidence about the compliance activity and controls implemented to meet the Ring-fencing Guideline, under clause 6.17.2 of the National Electricity Rules. The procedures selected depend on our judgement, including the identification and assessment of risks of material non-compliance with the Ring-fencing Guideline.

Inherent limitations

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

A reasonable assurance engagement for the year ended 30 June 2019 does not provide assurance on whether compliance with the Ring-fencing Guideline, under clause 6.17.2 of the National Electricity Rules, will continue in the future.

Use of report

This report has been prepared for use by the Directors of Endeavour Energy and the Australian Energy Regulator for the purpose of Annual Ring-fencing Guideline Compliance requirements. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Australian Energy Regulator and the Directors of Endeavour Energy, or for any other purpose than that for which it was prepared.


PricewaterhouseCoopers, by


Andrew McPherson
Partner

Sydney
30 October 2019

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo NSW 2000,
GPO BOX 2650 Sydney NSW 2001
T: 1300 799 615, F: 1300 799 618, www.pwc.com.au
Liability limited by a scheme approved under Professional Standards Legislation.

1 Compliance with obligations

The Endeavour Energy Ring-fencing Annual Compliance report sets out the statement of compliance for the Regulatory year to 30 June 2019. Our Independent Assurance Report to the Directors of Endeavour Energy and the Australian Energy Regulator is set out above.

This report (sections 1-3) provides additional details of our procedures and results, to provide some transparency into the controls Endeavour Energy has implemented to meet its Ring-fencing obligations. This is prepared at the request of Endeavour Energy, in consultation with the AER, and goes beyond the requirements of the Ring-fencing Guidelines.

In section 1 we report our observations on each Ring-fencing Guideline and a control effectiveness rating. The table below summarises our ratings and key observations against each obligation area of the Ring-fencing Guideline.

In section 2 of this report we have included details of any exceptions noted. In section 3 of this report we provide detail of the work performed and results.

Section	Obligation	Endeavour Energy assessed Compliance Rating	Control Effectiveness Rating	Observations
3.1	Legal separation	Compliant	Partially effective	We note the breaches disclosed in Endeavour's Ring-fencing Annual Compliance Report, and the clarification regarding simple customer faults. Refer Observation 2.1
3.2	Establish and maintain accounts	Compliant	Effective	
4.1	Obligation to not discriminate	Compliant	Partially effective	We note the breach disclosed in Endeavour's Ring-fencing Annual Compliance Report. 2.1 Ring-fencing training was not carried out during the year ended 30 June 2019 2.2 Controls over user access provisioning and de-provisioning, as well as user access reviews, have not been fully effective in preventing access to restricted drives, however we noted this did not result in any unauthorised access to information
4.2.1	Physical separation/co-location	Compliant	Partially effective	We note the breach disclosed in Endeavour's Ring-fencing Annual Compliance Report. 2.3 The frequency of reconciliation between the HR system and Security access system is not regular to confirm access is appropriately restricted

Compliance with obligations

Section	Obligation	Endeavour Energy assessed Compliance Rating	Control Effectiveness Rating	Observations
4.2.2	Staff sharing	Compliant	Effective	
4.2.3	Branding and cross-promotion	Compliant	Partially effective	We note the breach disclosed in Endeavour's Ring-fencing Annual Compliance Report.
4.2.4	Office and staff registers	Compliant	Partially effective	2.4 Staff sharing registers do not contain any dates so there is no indication to the viewer that they have been reviewed and updated
4.3.2	Protection of confidential information	Compliant	Partially effective	We note the breach disclosed in Endeavour's Ring-fencing Annual Compliance Report. Refer Observations 2.1 and 2.2
4.3.3	Disclosure of information	Compliant	Effective	
4.3.4	Sharing of information	Compliant	Effective	
4.3.5	Information register	Compliant	Effective	
4.4	Service providers	Compliant	Effective	
5	Waivers	Compliant	Effective	
6.1	Maintaining compliance	Compliant	Partially effective	2.5 Attestations from management in the form of a compliance questionnaire were not obtained. Refer also Observation 2.1
6.2	Compliance reporting	Compliant	Effective	

Section	Obligation	Endeavour Energy assessed Compliance Rating	Control Effectiveness Rating	Observations
6.3	Compliance breaches	Not compliant	Partially effective	2.6 All material breaches were reported within 5 days of being determined material, but not within 5 days of being first identified. The AER has clarified the requirement, but Endeavour did not meet the clarified requirement.

Controls effectiveness rating legend

Effective	Controls in place are effective in meeting the obligation of the Ring-fencing Guideline.
Partially effective	Controls in place are partially effective in meeting the obligation of the Ring-fencing Guideline
Not effective	Controls in place are not effective in meeting the obligations of the Ring-fencing Guideline.

2 Observations noted

Any observations resulting from our procedures and resulting areas for improvement relating to Ring-fencing procedures, processes, and controls have been outlined below. Relevant information (background, context, risk, impact, etc.) has been provided for each observation together with our recommendations.

Observation Reference	Obligation Reference	Ring-fencing Obligation	Observation	Recommendations
2.1	4.1	<p>A DNSP must not discriminate (either directly or indirectly) between a related electricity service provider and a competitor (or potential competitor) 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>	<p>Control: <i>Ring-fencing Guideline training is provided to staff via eLearn on at least an annual basis.</i></p> <p>Detailed Observation: <i>Ring-fencing training was not carried out during the year ended 30 June 2019.</i> Endeavour Energy is undergoing a major ICT Transformation Program. Part of that program included a new online eLearning software. It was due to be implemented at the beginning of February 2019 but was delayed by a month. A number of difficulties were experienced with the software which delayed production of the training module and it was not released until August 2019 - post the current regulatory year. Online Ring-fencing training was available to new starters on the legacy training system, before being decommissioned on 25 January 2019. Post 1 December 2017 (initial training for all staff), there were 61 new starters of which 47 (77%) completed the Ring-fencing training. New starters post 25 January 2019 were therefore not provided with Ring-fencing training in the current regulatory year. The new training module was implemented in August 2019 and as at 4 October 2019, 1,697 have completed the training with 46 yet to complete. We note training was not provided on the awareness and use of the ring-fencing mailbox. To compensate for the lack of training management conducted two targeted training sessions with a key ELT Member and members of their division (15 people) during the year who it felt would benefit from participating in the training to ensure clarity of the Ring-fencing obligations. A meeting invitation list exists, however there was no record of attendance of the training maintained hence we could not verify if all persons attended the training.</p>	<p>Ring-fencing training has been rolled out organisation-wide on the new system in August 2019. Management are following up completion, and will include awareness and use of the ring-fencing mailbox.</p>
2.2	4.1	<p>A DNSP must not discriminate (either directly or indirectly) between a related electricity service provider and a competitor (or potential competitor) 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>	<p>Control: <i>User Access to key Endeavour Energy and Ausconnex systems is provisioned according to defined controls and in accordance with role-based guidelines</i></p> <p>Detailed Observation: <i>Controls over user access provisioning and de-provisioning, as well as user access reviews, have not been fully effective in preventing access to restricted drives, however we noted this did not result in any unauthorised access to information.</i> We performed user access testing across the employee population of Endeavour Energy and Ausconnex to the system drives. We obtained the listing of users who have access to different drives and validated users against the staff list to determine the restriction of user access has been appropriately setup. The following anomalies were noted:</p> <ul style="list-style-type: none"> Two Endeavour Energy staff were previously seconded to Ausconnex, and their access to the Ausconnex drive was not removed post secondment: 	<p>Controls over access provisioning and de-provisioning should be improved. User access reviews of the drives should be conducted on a monthly basis, amended to ensure this will identify the exceptions we noted, and evidence of the review and results should be maintained.</p>

Observations noted

Observation Reference	Obligation Reference	Ring-fencing Obligation	Observation	Recommendations
			<ul style="list-style-type: none"> ○ User one - Start of Secondment: 6 August 2018; End of Secondment: 21 July 2019 – Per inspection of access logs, noted the user did not access the drives. Access to the Ausconnex drive has now been revoked. ○ User two - Start of Secondment: 13 August 2018; End of Secondment: 31 January 2019 – On long term leave since 1 February 2019. Has therefore not accessed drives since end of secondment. Access to the Ausconnex drive has now been revoked. • Two Ausconnex staff that had left (user one left on 27 July 2019 and user two left on 7 August 2018), still have active access to the Ausconnex drive. The process that was meant to occur is, when a user is marked as “terminated” by HR in the HR system, it will automatically notify ICT and Access Cards to disable access. Recently, it has been discovered that this notification has not always occurred due to system failure. Manual processes have now been put in place as remediation in the event of system failure. Users that leave the organisation do not have access to the network and therefore would not have the ability to access the drive. Access to the drive has since been revoked for both identified staff. • Three Ausconnex staff had access to the Endeavour Energy drives. The user accounts were set up incorrectly, and has been remediated at the time of the review. Per inspection of access logs it was noted that the users did not access the drives. • Quarterly user access reviews conducted by management did not detect these exceptions. 	
2.3	4.2.1	A DNSP must use offices that are separate from any offices from which a related electricity service provider provides contestable electricity services.	<p>Control: <i>Management compares employee access in HR system to Security system on at least a monthly basis. Discrepancies are investigated and remediated as required.</i></p> <p>Detailed Observation: <i>The frequency of reconciliation between the HR system and Security access system is not regular to confirm access is appropriately restricted.</i></p> <p>The Security team last carried out a comparison check between employees the HR system and Security system in August 2018, however no further reviews were performed during the current regulatory year. The Security team don't have access to the source data from the HR systems in order to reconcile against the Security system and there is currently no process in place for HR to provide this data to the Security team to have them perform this check.</p> <p>A check was carried out in August 2019, whereby the Security Manager provided a list to an Ausconnex Manager to confirm current employees. The implementation of the new ERP system is expected to resolve this issue, however the new ERP System implementation has been significantly delayed.</p>	A process for reconciling the relevant data between the Security System and HR System on a monthly basis should be implemented to monitor for any inappropriate system access.
2.4	4.2.4	A DNSP must establish, maintain and keep a register that identifies:	<p>Control: <i>Latest version of the Staff Sharing Register is available on the Endeavour Energy website.</i></p> <p>Detailed Observation:</p>	The Staff Sharing Register should be updated to include review dates.

Observations noted

Observation Reference	Obligation Reference	Ring-fencing Obligation	Observation	Recommendations
		(a) the classes of offices to which it has not applied clause 4.2.1(a) by reason of clauses 4.2.1(b)i. or 4.2.1(b)iii.; (b) the nature of 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.	<i>Staff sharing registers do not contain any dates so there is no indication to the viewer that they have been reviewed and updated.</i> Based on testing performed, confirmed the latest version of the Staff sharing register is made available online on the Endeavour Energy website, however the register does not contain any dates therefore there is no indication to the viewer that they have been reviewed and updated.	
2.5	6.1	A DNSP must establish and maintain appropriate internal procedures to ensure it complies with its obligations under this Guideline. The AER may require the DNSP to demonstrate the adequacy of these procedures upon reasonable notice. However, any statement made or assurance given by the AER concerning the adequacy of the DNSP's compliance procedure does not affect the DNSP's obligations under this guideline.	Control: <i>Annual review of AER Ring-fencing obligations and update new obligations and changes to obligations in Corporate Compliance System is managed by the Manager Network Regulation.</i> Detailed Observation: <i>Attestations from management in the form of a compliance questionnaire were not obtained.</i> In the previous regulatory year, Endeavour Energy conducted annual compliance questionnaire regarding compliance with the obligations of the Ring-fencing Guidelines. Due to the Corporate Compliance System being decommissioned in January 2019, the annual compliance questions were not completed for the regulatory year of 1 July 2018 to 30 June 2019.	Endeavour Energy should utilise annual Ring-fencing compliance attestations from key management and staff to support a strong compliance awareness and reinforce accountability for this.
2.6	6.3	A DNSP must notify the AER in writing within 5 (five) business days of becoming aware of a material breach of its obligations under this Guideline. The AER may seek enforcement of this guideline by a court in the event of any breach of this guideline by a DNSP, in accordance with the NEL.	Control: <i>A DNSP must establish, maintain and keep a register of breaches to notify the AER in writing within 5 business days of a material breach.</i> Detailed Observation: <i>All material breaches were reported within 5 days of being determined material, but not within 5 days of being first identified. The AER has clarified the requirement, but Endeavour did not meet the clarified requirement.</i> Endeavour Energy reported a total of 7 breaches for the regulatory year to the AER. Two breaches were classified as material by the AER. We reviewed these two breaches, the details which are outlined below: <u>Breach number – ENDO01: Endeavour Energy employee remained in contact with RESP client offering contestable services. (Guideline clause 4.2.1).</u> <ul style="list-style-type: none"> 2 November 2018: Notification of potential breach from Manager Ausconnex to Ring-fencing box 6 November 2018: Discussion with Manager Ausconnex, ELT Leadership team and Regulatory Compliance team to discuss potential breach 9 November 2018: Email from Regulatory Compliance team to Management indicating the assessment of the breach as not material 9 November 2018: Email from management to Ring-fencing box confirming assessment of breach as not material 27 November 2018: Post assessment meeting with AER, PwC and Regulatory Compliance team, whereby the AER advised that DNSP's were not to assess materiality but to advise the AER of all breaches whereby the AER will assess and provide a decision 	Pending update of the Ring-fencing Guideline, Endeavour Energy should adhere to the AER guidance on the obligation and report all potential breaches within 5 days of becoming aware of them.

Observations noted

Observation Reference	Obligation Reference	Ring-fencing Obligation	Observation	Recommendations
			<ul style="list-style-type: none"> • 10 December 2018: Email from Regulatory Compliance team to Management indicating AER decision to require all DNSP's to provide immediate breach report for all potential Ring-fencing breaches • 11 December 2018: Breach template, breach covering letter and email notification provided to AER or potential breach • 12 December 2018: Email notification from AER confirming breach as material. <p><u>Breach number – ENDO05: Endeavour Energy has undertaken oil testing. (Guideline clause 4.2.1)</u></p> <ul style="list-style-type: none"> • 13 February 2019: Email notification to immediate manager of a potential breach • 22 February 2019: Meeting with ELT to discuss potential breach • 13 March 2019: Email from Regional Manager containing information on oil testing investigation required to complete breach report • 15 March 2019: Breach template, breach covering letter and email notification provided to AER of potential breach • 29 April 2019: Email notification from AER confirming breach is material. <p>From the timelines provided above the following is noted:</p> <ul style="list-style-type: none"> • ENDO01: Endeavour Energy understood the obligation to mean they would need to investigate the obligation and determine if it is material, and if so, then report it to the AER within the five day timeline. Endeavour Energy was notified by the AER on 27 November 2018 that all potential breaches should be reported upon becoming aware, whether material or not, but the Ring-fencing guideline has not been updated. Endeavour Energy notified the AER on 11 December 2018 of the potential breach, 13 days later. • ENDO05: Endeavour Energy was aware of the AER requirement to report potential breaches to the AER within 5 days of becoming aware, however the potential breach was only reported 30 days after becoming aware. 	

3 Work performed and results

The table below outlines a summary of the work performed for each obligation in the Ring-fencing Guidelines, the results from those procedures, whether based on the results Endeavour Energy has complied with the Ring-fencing Guidelines over 1 July 2018 to 30 June 2019 period including any breaches or other areas for improvement in policies, procedures, processes or controls identified at Endeavour Energy.

Category	Clause	Obligation	Work performed	Results
Legal separation	3.1(a)	A DNSP must be a legal entity	<ol style="list-style-type: none"> 1. Obtained and inspected the Legal Entity Structure for Endeavour Energy and Ausconnex through inquiry of management and review of supporting documentation. 2. Conducted an ABN lookup of Endeavour Energy and Ausconnex. 3. Performed an ASIC search on Endeavour Energy and Ausconnex using their ACN. 	<ol style="list-style-type: none"> 1. The DNSP organisation (Network Operating Partnership; Endeavour Energy) is a legal entity and is separate from the organisation's unregulated business operations (Network Unregulated Partnership; Ausconnex). 2. Endeavour Energy and Ausconnex are setup as separate legal entities based on their active ABN numbers. 3. Endeavour Energy and Ausconnex are separate legal entities as Endeavour Energy is registered with a separate ACN number than Ausconnex.
Legal separation	3.1(b)	A DNSP may provide distribution services and transmission services, but must not provide other services.	<p>We note the breaches disclosed in Endeavour's Ring-fencing Annual Compliance Report, and the clarification regarding simple customer faults.</p> <ol style="list-style-type: none"> 1. Inspected that the other services reported in the waivers have been reclassified based on the current AER framework approach (2019-2024). No new waivers reported by Endeavour Energy during the period. 2. Obtained and inspected the Business Support Agreement between Endeavour Energy and Ausconnex, verifying that corporate services and asset sharing contractual arrangements have been defined and are in place, and are consistent with this obligation. 	<ol style="list-style-type: none"> 1. Confirmed with management that no other services (outside of Distribution, Transmission and waived services were provided by Endeavour Energy during the regulatory review period. 2. Business Support Agreement has been executed between Endeavour Energy Network Operating Partnership (NOP) and Network Unregulated Partnership (NUP) that outlines the arrangement of corporate services and asset sharing at arm's length.
Establish and maintain accounts	3.2.1(a)	A DNSP must establish and maintain appropriate internal accounting procedures to ensure that it can demonstrate the extent and nature of transactions between the DNSP and its affiliated entities.	<ol style="list-style-type: none"> 1. Obtained and Inspected the Business Support Agreement between Endeavour Energy and Ausconnex to ascertain whether cost allocations between the two entities are covered under the Business Support Agreement. 2. Reviewed Endeavour Energy Annual Ring-fencing Compliance report for disclosures on related party transactions. 3. Confirmed that transactions between the two entities are maintained separately 4. Reviewed the trial balance for intercompany transactions between Endeavour Energy and Ausconnex to confirm 	<ol style="list-style-type: none"> 1. Contractual arrangements have been formally defined in a Business Support Agreement between Endeavour Energy & Ausconnex. 2. On an annual basis, a listing of all transactions between Endeavour Energy and Ausconnex is generated for inclusion within the Annual Compliance Report. 3. Independent financial accounts are maintained in separate applications for Endeavour Energy and Ausconnex. 4. There are distinct and separately identifiable transactions between the Endeavour Energy and

Work performed and results

Category	Clause	Obligation	Work performed	Results
			<p>that all transactions between the two entities are included in the Annual Compliance Report.</p> <p>5. Inspected the Accounting for Ausconnex guidance to ensure it adheres to the Ring-fencing Guideline.</p>	<p>Ausconnex. As part of the month end cycle, a reconciliation of intercompany transactions is performed by Ausconnex Finance Accounting and Endeavour Energy Finance team. The reconciliation is reviewed by Business Support Manager prior to submit to Managers for approval.</p> <p>5. The Accounting for Ausconnex guidance is created for Ausconnex as a separate organisation units, and it applies consistently with the Cost Allocation Principles between distribution services and non-distribution services. We inspected the document outlines the schema of variable and fixed cost charged to Ausconnex by Endeavour Energy, consistent with the Ring-fencing Guideline.</p>
Establish and maintain accounts	3.2.2(a) 3.2.2(b) 3.2.2(c)	<p>A DNSP must allocate or attribute costs to distribution services:</p> <p>(a) in a manner that is consistent with the Cost Allocation Principles and its approved CAM, as if the Cost Allocation Principles and CAM otherwise applied to the allocation and attribution of costs between distribution services and non-distribution services.</p> <p>(b) and must not allocate or attribute other costs to the distribution services it provides.</p> <p>(c) A DNSP must establish, maintain and keep records that demonstrate how it meets cost allocation and attribution obligations.</p>	<ol style="list-style-type: none"> 1. Inspected the Accounting for Ausconnex discussion document for cost allocation principles between distribution and non-distribution services. 2. Obtained Endeavour Energy's Cost Allocation Methodology (CAM) and evidenced approval by the Australian Energy Regulator 3. Confirmed Endeavour Energy's CAM is published on their website. 4. Reviewed costs incurred to confirm that the CAM has been applied for a sample of 20 intercompany transactions. 	<ol style="list-style-type: none"> 1. Accounting for Ausconnex discussion document applies consistently with the Cost Allocation Principles between distribution services and non-distribution services. We inspected the document outlines the schema of variable and fixed cost charged to Ausconnex by Endeavour Energy. A separate accounting arrangement and finance system and processes for Ausconnex has been developed to align with the approved Cost Allocation Methodology (CAM). 2. Endeavour Energy's CAM is approved by the AER. 3. Endeavour Energy's existing CAM is published on the Endeavour Energy website. 4. Endeavour Energy attributes costs in accordance with the Accounting for Ausconnex guidelines. The sample of 20 intercompany transactions and supporting documentation tested were conducted in accordance with the CAM.
Obligation not to discriminate	4.1(b)	<p>A DNSP must not discriminate (either directly or indirectly) between a related electricity service provider and a competitor (or potential competitor) 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>	<p>We note the breach disclosed in Endeavour's Ring-fencing Annual Compliance Report.</p> <ol style="list-style-type: none"> 1. Obtained and reviewed Company Procedure GRG0013 Compliance reporting to confirm that it complies with Ring-fencing Guidelines. 2. Confirmed that Company Procedure GRG0013 is reviewed on at least an annual basis to consider and incorporate potential changes to the Ring-fencing Guidelines 3. Confirmed the information sharing, staff sharing, office sharing are published on the Endeavour Energy website 4. Obtained and reviewed copies of Company procedure GAM1100 - Electricity Information Requests (GAM1100) 	<ol style="list-style-type: none"> 1. Company Procedure GRG0013 Compliance reporting requires the company to establish, maintain, keep and publish on its website an information sharing register, office sharing register, staff sharing register; and waiver register. It was confirmed that these registers are published on the Endeavour Energy website. 2. Company Procedure GRG0013 is not reviewed annually as the procedure contains the following disclaimer - "AER Ring-fencing Guidelines 2016 (and all future amendments)" - which means that the procedure would not be reviewed or updated on an annual basis unless there are changes to the

Work performed and results

Category	Clause	Obligation	Work performed	Results
			<p>and ascertained the principles align to the Ring-fencing Guidelines.</p> <ol style="list-style-type: none"> 5. Conducted interviews with key stakeholders to determine whether these guiding principles are readily understood. 6. Conducted testing (via comparison to supporting documentation, etc.) to ensure that the Information Sharing Register on the website is the most current version. 7. Obtained the Training Needs Analysis / Dashboard for all Endeavour Energy and Ausconnex staff and confirmed that Ring-fencing Guidelines Awareness Training is included within the training scope for the appropriate staff. For a sample of employees, ensure that Ring-fencing Guidelines Awareness Training has been completed. 8. Performed user access testing over the corporate information systems to ensure that access is role-based and appropriately restricted across the population of Endeavour Energy and Ausconnex employees. 	<p>Ring-fencing guidelines or processes followed by Endeavour Energy in relation to this procedure irrespective of the review date of 20 November 2020.</p> <ol style="list-style-type: none"> 3. The information sharing register is maintained on the Endeavour Energy website. We confirmed that the most up to date version is maintained on the website. 4. Company Procedure GAM1100 Electricity Information Requests has met the guidelines with regards to Information Sharing disclosed in the AER Ring-fencing Guidelines wherein it captures the same required information necessary before confidential information (by confidential, this means electricity information) is shared with another party either for compliance with law or for potential provision of services. 5. Based on discussions held with stakeholders across the Ring-fencing process confirmed that principles of the Ring-fencing Guideline are understood. 6. A sample of five transactions were selected from the information sharing register and traced to the supporting documentation. Confirmed the information sharing register on the website is the most current version. 7. We noted that the principles around access to and the sharing of information are clearly outlined within the Ring-fencing Guidelines Awareness targeted training material. However, this training was only provided to selected staff due to the update to the training system, and not to all new joiners, nor all staff annually. Endeavour Energy is undergoing a major ICT Transformation Program, part of that program includes a new online eLearning software. There were numerous issues experienced with the software and once the system issues were fixed the training was not rolled out until August 2019, post the regulatory period. (Refer to Observation 2.1). 8. Separate drives have been established between Endeavour Energy and Ausconnex. Restricted access to the relevant drives is maintained by the IT team as per the standard IT procedures. We identified some exceptions in our sample testing where access was not appropriate due to weakness in controls over user access provisioning and de-provisioning, as well as user access reviews. We noted this did not result in any unauthorised access

Work performed and results

Category	Clause	Obligation	Work performed	Results
				to information and the issues have since been remediated. (Refer to Observation 2.2)
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>We note the breach disclosed in Endeavour’s Ring-fencing Annual Compliance Report.</p> <ol style="list-style-type: none"> 1. Inspected the Endeavour Energy website to ensure that the Office Sharing Register is readily available and is the most current version 2. Obtained and inspected physical access reviews performed at Ausconnex main office in Glendenning Road, to confirm the physical access reviews were performed and assessed whether the access review met requirements and was performed by suitable personnel. Where discrepancies were identified by the review, determined whether these were addressed appropriately. 3. Inquired with management as to the physical location of Ausconnex sites and verified they are in separate physical locations to Endeavour Energy. 4. Obtained and inspected the site map for Ausconnex location/s and reviewed the site map to understand whether there are identified separate entry/access points at each Ausconnex location. 5. Obtained details of Ausconnex employees who were provided with physical access to Endeavour Energy head office. 6. Selected a sample of new physical access profiles for Endeavour Energy and Ausconnex which were granted during the regulatory year, inspected approvals to confirm that they followed proper protocol. 7. For a sample of two months, obtained and inspected monthly access reviews performed at Endeavour Energy Head office in Huntingwood, to confirm the access reviews were performed and assessed whether the access review met requirements and was performed by suitable personnel. Where discrepancies were identified by the review, determined whether these were addressed appropriately. 	<ol style="list-style-type: none"> 1. Latest Office sharing register is available on Endeavour Energy website. Confirmed six monthly reviews of the register occur. 2. Physical access review was performed in August 2018 for Ausconnex site and proposed adjustments were made to the office layout. 3. Endeavour Energy and Ausconnex have separate physical buildings and location for their main offices. Endeavour Energy head office address is 51 Huntingwood Drive, Huntingwood and Ausconnex is 49 Glendenning Road, Glendenning in a building referred to as the Central Logistics Facility. The head offices are therefore physically separated with estimated distance of 7.1 km. Ausconnex also has a workshop at Hoxton Park which they use exclusively. The Glendenning office is on the Office Sharing Register because it is shared office space with Endeavour Energy (4 logistics staff). Ausconnex staff have access to the Endeavour Huntingwood office due to shared corporate services, however sensitive areas (procurement, data centres, etc.) are physically ring-fenced from all Ausconnex employees. 4. A review of Glendenning office site map was performed in August 2018 by Ausconnex, adjustments were made to the office layout to reflect current use as described above. 5. On a monthly basis two lists are generated to compare/contrast the on boarding and off boarding movements of contractors and employees as it relates to employees in the HR system and Security system. For contractors, an expiry date is entered into the HR System - this triggers a security pass cancellation in the Security System if this date passes and no extension is logged within the HR System. Similarly, Endeavour Energy employees who go on secondment to Ausconnex have their accesses updated within the HR System and Security System. If an employee with inappropriate access (e.g. Ausconnex employee with access to sensitive areas within Huntingwood), this would be remediated immediately. The frequency of the control (monthly) appears to be appropriate given the

Work performed and results

Category	Clause	Obligation	Work performed	Results
				<p>volume of activity (~46 employees at Ausconnex). Per inspection of Gallagher Ausconnex is set up separately to Endeavour Energy within the system. Ausconnex security passes look completely different to Endeavour Energy security passes so it would be an easy spot if someone was in the wrong area.</p> <p>6. The respective management teams have approval protocols in place for the provisioning of physical access to Endeavour Energy and Ausconnex offices. These protocols are managed by the Manager, Property & Fleet and include system controls whereby access cannot be provisioned by Property & Fleet personnel until an employee record is set up in the HR system. We selected five samples of Ausconnex users who were granted with physical access to premises in the Security System during the 2019 regulatory year, and noted that the access was provisioned in HR System upon receiving the HR notification.</p> <p>7. Endeavour Energy and Ausconnex use offices that are physically separated. Security team carried out a comparison between employee access as per the HR System and Security System in August 2018. Security team don't have access to the source data from the HR system to reconcile against the Security System and there is currently no mechanism in place for HR to provide this data to the Security team to have them perform this check. A check has recently been carried out in August 2019. It cannot be confirmed that the review of physical access between the Endeavour Energy and Ausconnex staff has been performed in a periodic basis to confirm compliance with guidelines. (Refer to Observation 2.3)</p>
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 contestable electricity services by a related electricity service provider.	<ol style="list-style-type: none"> 1. Obtained the Staff Sharing Register off of the Endeavour Energy website and inspected to confirm it complies with the Ring-fencing Guideline. 2. Confirmed that the Staff Sharing Register is reviewed on at least an annual basis to consider and incorporate potential changes to the Ring-fencing Guidelines and current company procedure GRG0013 Compliance reporting. 3. Conducted testing to confirm that the Staff Sharing Register on the website is the most current version and has been reviewed during the regulatory year. 4. Examined documentation to confirm that the review of job descriptions has occurred according to the 	<ol style="list-style-type: none"> 1. The published Staff Sharing Register has identified the relevant information as required by the Guidelines. 2. Management confirmed to us that there have been no changes to employees on the register during the regulatory year 3. Internal documentation and organisational charts confirmed the register is up to date. The latest version of register is published at the Endeavour Energy website. 4. Job descriptions are reviewed every two years or on an ad-hoc basis dependent on the need. It was deemed there is no requirement to review

Work performed and results

Category	Clause	Obligation	Work performed	Results
			<p>appropriate and agreed upon frequency for each BU. Confirmed for situations where the review identified roles or activities which should be discontinued, ensure that these required actions were implemented within the review period.</p> <ol style="list-style-type: none"> Obtained relevant organisational charts and documentation concerning roles and responsibilities from management. Inspected the Classification of Positions documentation to confirm that all branches are included within the classification. Confirmed that the Classification of Positions includes a colour code system according to the nature of services, access to electricity information, and ability to discriminate. Obtained Company Procedure GRG0013 Compliance Reporting and confirmed the procedure contained principles in relation to staff sharing as per the Ring-fencing Guideline. 	<p>Ausconnex job descriptions during the 2019 regulatory year given that Ausconnex organisation unit has been established for less than two years.</p> <ol style="list-style-type: none"> Based on Endeavour Energy and Ausconnex organisation charts, Ausconnex employees cannot be shared with Endeavour Energy as they are classified under the category of unregulated services. Endeavour Energy has classified positions into four categories (Ausconnex unregulated services, Endeavour Energy corporate services, shared services and regulated services). Descriptions of impacts, business functions, safety and risk, financial, operational and people and culture have been included for clarification on each of category. A model has been established and adopted by Endeavour Energy, that provide classification at branches/functions level across Endeavour Energy and Ausconnex based on the nature of services being provided, access to electricity information and ability to discriminate within the context of their role. Observed that 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. Endeavour Energy has established Company procedure GRG0013 Compliance Reporting to meet Ring-fencing Guidelines. It outlines requirement for Endeavour Energy to establish, maintain, keep and publish to the website the Staff Sharing Register.
Staff sharing	4.2.2(c)	The remuneration, incentives and other benefits (financial or otherwise) a DNSP provides to a member of its staff must not give the member of staff an incentive to act in a manner that is contrary to the DNSP's obligations under this Guideline.	<ol style="list-style-type: none"> Discussed with management whether employees sign standard employment agreements. Obtained a copy of Company procedure GHR7001 and reviewed at risk incentive/reward schemes to confirm they do not provide benefits that contrary to the obligations under the Ring-fencing Guideline. 	<ol style="list-style-type: none"> Confirmed the performance review and career planning process differs depending on the employee eligibility for example contract employees are eligible to participate in the at-risk incentive scheme. Confirmed that all Endeavour Energy employees have to sign a standard employment contract. The contract will specify whether the staff will be allocated to work with Ausconnex. As per the Business Support Agreement that Endeavour Energy (NOP) will procure/hire labour for Ausconnex. We inspected the existence of standard contract master template for fixed term and open ended type of employment.

Work performed and results

Category	Clause	Obligation	Work performed	Results
				<p>2. We obtained Endeavour Energy company procedure GHR7001 of performance review, and noted the procedure defines at risk reward plan as the company performance based remuneration structure which rewards contract employees for achieving pre-agreed measures and targets in each financial year.</p>
Branding and cross-promotion	4.2.3(a)	<p>A DNSP:</p> <p>i. must use branding for its direct control services that is independent and separate from the branding used by a related electricity service provider for contestable electricity services, such that a reasonable person would not infer 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>iii. Must not advertise or promote contestable electricity services provided by a related electricity service provider other than the DNSP itself.</p>	<p>We note the breach disclosed in Endeavour’s Ring-fencing Annual Compliance Report.</p> <ol style="list-style-type: none"> 1. Inspected Company Procedure GMM0001 - Producing Advertisements, Communication and Promotional Materials outlines production of communication materials and requirement to comply with Ring-fencing guidelines. 2. Inspected Company Procedures GMM0003 and GMM0001 which spells out the scope, processes, actions, required recordkeeping, and authority and responsibilities as it pertains to Ring-fencing. 3. Obtained and inspected Company policy 14.1 outlining the requirements of advertising, communication and promotion. 4. Conducted an independent review of Endeavour Energy & Ausconnex website, Google search, company filings, etc. to confirm that separate branding is in place for both entities. 5. Obtained a list of Ausconnex work sites and selected a sample of two work sites to conduct a site visit to confirm equipment, work wear, trailers and vehicles are appropriately branded as Ausconnex and not Endeavour Energy. 	<ol style="list-style-type: none"> 1. Inspected a copy of Endeavour Energy company procedure GMM0001, which outlines that "External communication, including advertising and promotional materials relating to the Field Services Contracting Business must also be reviewed and approved by Manager Network Regulation to comply with the Australian Energy Regulator Electricity Ring-fencing Guideline. 2. Inspected Company procedure GMM0003, outlining the process to purchase, use and issue of branded promotional products. The procedure made a reference to Ring-fencing Guideline. The section described the following requirements: <ol style="list-style-type: none"> a. implement independent branding; b. not discriminate between its Field Services Contracting Business (FSCB) and its competitors; and c. implement and document non-discriminatory marketing, communication and procurement protocols for the FSCB. 3. Inspected Company policy 14.1, outlining advertising, communication and promotional materials. The policy outlines that "Advertisements and promotional materials produced by the company will comply with the Australian Energy Regulator Electricity Ring-fencing Guideline, which states there will be no cross promotion by the company and its separate affiliated entity." 4. We inspected on the Ausconnex website and Endeavour Energy website and noted that Endeavour Energy branding was independent and separate from Ausconnex. 5. We conducted site visits to two Ausconnex work sites and confirmed there were no Endeavour Energy related branding.

Work performed and results

Category	Clause	Obligation	Work performed	Results
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 clause 4.2.1(a) by reason of clauses 4.2.1(b)i. or 4.2.1(b)iii.; (b) the nature of 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.	<ol style="list-style-type: none"> 1. Inspected the availability of Office Register and Staff Sharing Register on Endeavour Energy website. 2. Refer work performed on the Office Register at 4.2.1(a) above, and on the Staff Sharing Register at 4.2.2(a) above. 	<ol style="list-style-type: none"> 1. The latest version of the registers are available on the Endeavour Energy website however the Staff Sharing Register does not contain any dates therefore there is no indication to the viewer that they have been reviewed and updated. (Refer to Observation 2.4)
Information sharing	4.3.2 (a-b)	A DNSP must: (a) keep confidential information confidential (b) only use confidential information for the purpose for which it was acquired or generated	<p>We note the breach disclosed in Endeavour's Ring-fencing Annual Compliance Report.</p> <ol style="list-style-type: none"> 1. Compared Company Procedure GAM1100 Electricity Information Requests to the Ring-fencing Guidelines for adequacy and interviewed key stakeholders as to its availability and their familiarity 2. Performed user access testing, over the corporate information systems for evidence of role-based access and appropriate restrictions 3. Enquired whether the Ring-fencing Guidelines Awareness Training included confidential information awareness. 	<ol style="list-style-type: none"> 1. The requirements around information sharing and confidential information as per the Ring-fencing guideline is documented in Company procedure GAM1100 - Electricity information requests. Based on discussions with various staff it was noted that staff understood the guiding principles in relation to the Ring-fencing Guidelines. 2. Separate drives have been established between Endeavour Energy and Ausconnex. Restricted access to the relevant drives is maintained by the IT team as per the standard IT procedures. Based on the testing performed, the access to the drives are maintained quarterly, however is ineffective resulting in inappropriate access to shared network drives (Refer to Observation 2.2) 3. The refresher Ring-fencing training rolled out to targeted employees. Per inspection of the training material it was confirmed that guidance in relation to confidential information was covered. However, this training was not rolled out to all staff due to the delay in the implementation of the new system. (Refer to Observation 2.1)
Information sharing	4.3.3 (a-h)	A DNSP must not disclose confidential information to any person, including a related electricity service provider	<ol style="list-style-type: none"> 1. Compared Company Procedure GAM1100 Electricity Information Requests to the Ring-fencing Guidelines for adequacy 2. Conducted staff interviews to determine whether these guiding principles are understood. 	<ol style="list-style-type: none"> 1. The requirements around information sharing and confidential information as per the Ring-fencing guideline is adequately documented in Company procedure GAM1100 - Electricity information requests 2. Based on discussions with various staff it was noted that staff understood the guiding principles.
Information sharing	4.3.4 (a,d,e)	Where a DNSP shares confidential information with a related service provide it must provide access to that information with other legal entities on an equal basis. A DNSP must:	<ol style="list-style-type: none"> 1. Inspected the information sharing protocol as documented in Company Procedure FAM1100 – Electricity Information Requests 2. Confirmed information sharing registers are made available on the website 	<ol style="list-style-type: none"> 1. Company Procedure GAM1100 - Electricity Information Requests outlines the process of sharing of confidential information. 2. An Information Sharing Protocol and Information Sharing Register are publicly available on the Endeavour Energy website.

Work performed and results

Category	Clause	Obligation	Work performed	Results
		<ul style="list-style-type: none"> - Establish an information sharing protocol for the disclosure of confidential information - Disclose information on terms that require the other entity to comply with 4.3.4 (a) & (d) 		
Information sharing	4.3.5 (a-c)	<p>(a) A DNSP must establish, maintain and keep a register of all:</p> <ul style="list-style-type: none"> i. related electricity service providers; ii. other legal entities who provide contestable electricity services but who are not 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>(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> <ul style="list-style-type: none"> i. identify the kind of information requested by the legal entity; and 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>(c) A legal entity may request that the DNSP include it on the information register in relation to some or all of the kinds of information that the DNSP is required to provide under clause 4.3.4(a), and the DNSP must comply with that request.</p>	<ol style="list-style-type: none"> 1. Observed the availability of Information Sharing Register on Endeavour Energy website. 2. Conducted testing (via comparison to supporting documentation, etc.) to ensure that the Information Sharing Register on the website is an complete and accurate in respect of the information request and the documentation provided 	<ol style="list-style-type: none"> 1. 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. 2. The Information Sharing Register completely and accurately captures the information request and the details of the information provided.
Conduct of service providers	4.4.1(a)	<p>A DNSP:</p> <ul style="list-style-type: none"> a. must ensure that any new or varied agreement between the DNSP and a service provider, for the provision of services to the DNSP that enable or assist the DNSP to supply direct control services, requires the service provider to comply, in providing those services with: 	<ol style="list-style-type: none"> 1. Enquired of management whether standard terms/conditions/contracts are utilised with service providers 2. Selected a sample of new/varied contracts for the period tested and confirm that the contracts have the required clauses 3. Where standard terms/conditions/contracts were not utilised, verified that approval processes were followed. 	<ol style="list-style-type: none"> 1. Confirmed through discussion that standard terms and conditions are used when contracting with suppliers and third parties. Should the terms and conditions need to be amended, Endeavour Energy legal team would be required to review the contract and sign off 2. From a sample of three agreements tested, we found all three contain the following clauses as per the Ring-fencing guideline: 4.1 Legal separation

Work performed and results

Category	Clause	Obligation	Work performed	Results
		<p>i. clauses 4.1 (legal separation), 4.2.1 (physical separation / co-location), 4.2.2 (staff sharing) and 4.3.2 (protection of confidential information) of this Guideline</p> <p>ii. clause 4.2.3 (branding and cross promotion) of this Guideline in relation to the brands of the DNSP; as if the service provider was the DNSP.</p>		<p>4.2.1 Physical separation / co-location</p> <p>4.2.2 Staff sharing</p> <p>4.3.2 Protection of confidential information</p> <p>4.2.3 Branding and cross promotion.</p> <p>3. Based on our sample all three were standard terms/conditions/contracts and therefore did not require further approval processes.</p>
Waiver	5.7(a-b)	<p>A DNSP must establish, maintain and keep a register of all waivers (including any variation of a waiver) and must make the register publicly available on its website</p> <p>The register established must include:</p> <p>i. the description of the conduct to which the waiver or interim waiver applies; and</p> <p>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>	<ol style="list-style-type: none"> 1. Inspected Company procedure GRG0013 - Compliance Reporting outlining the waiver process 2. Inquired of management to understand how often the periodic review of approved waivers occurs 3. Inspected the Endeavour Energy website to ensure that the Waiver Register is readily available 4. Conducted testing (via comparison to supporting documentation, etc.) to ensure that the Waiver Register on the website is the most current version. 	<ol style="list-style-type: none"> 1. Company procedure GRG0013 – Compliance reporting outlines the requirement for a DNSP to establish, maintain, keep and publish to the website the Waiver register as per the requirements of the Ring-fencing Guideline 2. The Regulatory team review the listed waivers on the register on an annual basis. 3. The published waiver register outlines the approved waivers, and the register established with information of “Description of the conduct to which the waiver applies (as set out in the AER’s decision to grant to waiver)” and “Terms and conditions of the waiver as required by the Ring- fencing Guideline. There was no new waivers raised by Endeavour Energy during the year ended 30 June 2019. In addition, AER has published a framework and approach for DNSP (2019-2024) for the regulatory control period commencing 1 July 2019. The framework outlines the services classification for Distribution Network Service Providers. 4. Based on the latest publication AER framework and approach, the services reported by Endeavour Energy as waivers in 2017 have been reclassified as standard or alternative control services, and do not require to be ring-fenced. No new waivers for the regulatory year ended 30 June 2019. The version of the Waiver register on the Endeavour Energy website is the latest version.
Maintaining compliance	6.1	<p>A DNSP must establish and maintain appropriate internal procedures to ensure it complies with its obligations under this Guideline.</p> <p>The AER may require the DNSP to demonstrate the adequacy of these procedures upon reasonable notice. However, any statement made or</p>	<p>We note the breach disclosed in Endeavour’s Ring-fencing Annual Compliance Report.</p> <ol style="list-style-type: none"> 1. Inspected Company procedure GRG0013 - Compliance Reporting which outlines requirement for identification, assessment, investigation and action to correct material breach 2. Confirmed whether the compliance review process is in accordance with reasonable time frames - to ensure that 	<ol style="list-style-type: none"> 1. Company procedure GRG0013 - Compliance Reporting outlines the reporting cycle for Ring-fencing obligations and the reporting process steps with planned timing 2. Document outlining the milestones for the Ring-fencing annual compliance report. Based on the provided milestones, confirmed the 2019 review milestones is planned with reasonable time frames

Work performed and results

Category	Clause	Obligation	Work performed	Results
		assurance given by the AER concerning the adequacy of the DNSP's compliance procedure does not affect the DNSP's obligations under this guideline.	<p>new changes are captured with enough time to make meaningful action</p> <ol style="list-style-type: none"> 3. Reviewed recent changes to the Corporate Compliance System up against the Ring-fencing Guidelines 4. Inspected the Ring-fencing mailbox to validate its existence. During interviews with key stakeholders confirmed whether staff are aware of the Ring-fencing mailbox existence, and are familiar with when and how to use it 5. Enquired regarding the implementation of Ring-fencing Guidelines Awareness Training. 	<p>to ensure that any changes and appropriate actions could be assessed and documented within sufficient time frames</p> <ol style="list-style-type: none"> 3. The Corporate Compliance System was decommissioned in January 2019, and the annual compliance questionnaires was not completed for the regulatory year ending 30 June 2019 (Refer to Observation 2.5) 4. The Ring-fencing mailbox has been actively used by Endeavour Energy and Ausconnex staff to make inquiries, or provide notification, escalate suspected breaches in relation to the Ring-fencing guidelines. The mailbox is managed Regulatory Compliance & Reporting Officer and Senior Regulatory Compliance & Reporting Analyst. The inquiries made through the mailbox are tracked and reported as part of the ring-fencing dashboard. We confirmed during staff interviews that staff are aware of the existence and the purpose of the ring-fencing email address. The ring-fencing email address is included as the main contact media for questions or further details around the ring-fencing alert and/or Guideline on the wire communication to Endeavour Energy and Ausconnex staff 5. Ring-fencing training was rolled out to a targeting group of employees. Training was not rolled out firm-wide due to a delay in the implementation of the new system. We note training was not provided on the awareness and use of the ring-fencing mailbox. (Refer to Observation 2.1)
Compliance reporting	6.2.1	<p>a) A DNSP must prepare an annual Ring-fencing compliance report each regulatory year in accordance with this clause 6.2.1 and submit it to the AER in accordance with clause 6.2.2.</p> <p>b) The annual compliance report must identify and describe, in respect of the regulatory year to which the report relates:</p> <ol style="list-style-type: none"> i. the measures the DNSP has taken to ensure compliance with its obligations under this Guideline ii. any breaches of this Guideline by the DNSP, or which otherwise relate to the DNSP iii. all other services provided by the DNSP in accordance with clause 3.1 	<ol style="list-style-type: none"> 1. Obtained and inspected the annual Ring-fencing compliance report for the regulatory year for compliance with the requirements of the guideline. 	<ol style="list-style-type: none"> 1. An annual Ring-fencing compliance report for the year ended 30 June 2019 has been drafted and provided to PwC (independent authority). The draft annual compliance report has identified and described the relevant information as required by the Guideline, namely: <ol style="list-style-type: none"> a. a compliance and monitoring framework is in place to ensure that each ring-fencing obligation and responsibility is understood and to provide assurance to management that the compliance obligation is met b. Breaches of the Ring-fencing Guideline are listed c. Other services provided by the DNSP during the year are described and listed d. The purpose of transactions between the DNSP and an affiliated entity.

Work performed and results

Category	Clause	Obligation	Work performed	Results
		iv. the purpose of all transactions between the DNSP and an affiliated entity. c) The annual compliance report must be accompanied by an assessment of compliance by a suitably qualified independent authority.		Our independent assessment report will be attached to the annual compliance report.
Compliance reporting	6.2.2	a) Subject to clause 6.2.2 (b), a DNSP must submit its annual compliance report to the AER within four months of the end of the regulatory year to which the compliance report relates.	1. Obtained and inspected the timeline plan for Ring-fencing annual compliance report and confirmed the report is planned to be submitted within 4 months of the end of regulatory year.	1. The annual compliance report will be submitted by 31 October 2019.
Compliance breaches	6.3	A DNSP must notify the AER in writing within 5 (five) business days of becoming aware of a material breach of its obligations under this Guideline. The AER may seek enforcement of this guideline by a court in the event of any breach of this guideline by a DNSP, in accordance with the NEL.	<p>We note the breach disclosed in Endeavour's Ring-fencing Annual Compliance Report.</p> <ol style="list-style-type: none"> 1. Inspected Company Procedure GRG0013 - Compliance Reporting for Ring-fencing Guidelines that outlines the procedure to identify, escalate and report breaches 2. Conducted walkthroughs with management to understand the end-to-end process for identifying breaches and ensuring that they are included within the register of reported breaches 3. Selected a sample of reported breaches, investigate that they were handled in accordance with the Ring-fencing Guidelines 4. Verify that the register of reported breaches is reviewed on a periodic basis. 5. Sighted the Endeavour Energy ring-fencing mailbox and confirmed that this is the mailbox used for all correspondence in relation to ring-fencing. All eight stakeholders interviewed during the review, confirmed they are aware of the mailbox and it was utilised for ring-fencing correspondence. 	<ol style="list-style-type: none"> 1. Company Procedure GRG0013 - Compliance Reporting for Ring-fencing Guidelines outlines the procedure to identify, escalate and report breaches. We confirmed that the procedure is available on the intranet 2. Endeavour Energy maintains a breach reporting spreadsheet. We noted seven breaches were reported by Endeavour Energy, with two of seven breaches classified as material. Breaches are communicated to the responsible stakeholders through the dashboard and the wire alert (Staff communication publication) 3. We selected a sample of two breaches to conduct detailed testing. Confirmed that both samples were not reported to the AER within required timeframes. (Refer to Observation 2.6) 4. The Regulatory Compliance & Reporting Officer confirmed that the actions of breaches are followed up periodically. 5. Endeavour Energy has established a mailbox for breaches identified within the business, to ensure breaches can be reported to the regulatory compliance team on a timely basis

© 2019 PricewaterhouseCoopers. All rights reserved.
PwC refers to the Australian member firm, and may sometimes refer to the PwC network.
Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

At PwC Australia our purpose is to build trust in society and solve important problems. We're a network of firms in 158 countries with more than 236,000 people who are committed to delivering quality in assurance, tax and advisory services. Find out more and tell us what matters to you by visiting us at www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation

Produced by Network Regulation branch

W endeavourenergy.com.au

E ringfencing@endeavourenergy.com.au

T 131 081



ABN 11 247 365 823