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1 JULY 2019 – 30 JUNE 2020





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Statement of Compliance

Other than those material matters disclosed in Section 4 – 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 Electricity Distribution Ring-fencing Guideline (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 requirements have influenced how we have approached our compliance.

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.



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 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 30 October 2020.

3. 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:

- 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.

4. Review of the Electricity Distribution Ring-fencing Guideline

During the 2019-20 regulatory year, the AER commenced a review of the Guideline that applies to DNSPs across the National Electricity Market (**NEM**). To date, Endeavour Energy has readily engaged with the AER, fellow DNSPs and Energy Networks Australia (**ENA**) as part of the review process. Endeavour Energy supports the AER's review of the Guideline and welcomes the opportunity to continue to engage with the AER and key stakeholders in order to clarify and strengthen some obligations within the Guideline and to review requirements to make compliance less administratively complex for ring-fencing.



Section 1

Approach to Embedding Compliance

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1. Compliance and Monitoring

A compliance and monitoring framework exists to ensure that each ring-fencing obligation and responsibility is 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;
- a description of Endeavour Energy's compliance approach;
- a 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 and internal stakeholders. This periodic reporting is in the form of a monthly dashboard that seeks to quickly identify:

- the volume and trends in ring-fencing matters referred to Regulatory Compliance;
- status and topic areas of matters referred to the AER; and
- identification of the functional areas where ring-fencing matters are raised.

In 2018-19 regulatory year, specific branding for ring-fencing was developed and implemented by Regulatory Compliance. This has and continues to be successful in helping Regulatory Compliance to develop clear, concise and engaging communications to staff that are easily recognisable as relating to ring-fencing.

Regulatory Compliance has well established procedures in place to meet with stakeholders and monitor corrective actions identified as a result of a breach to ensure action plans are implemented to demonstrate full compliance with Guideline.

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. Regulatory Compliance have oversight for ring-fencing compliance and undertake review and investigation where referred matters could indicate issues of concern or a potential breach of the Guideline.

Throughout the regulatory year, Endeavour Energy has been proactive in self-reporting potential breaches to the AER for consideration and materiality assessment.

Approach to Embedding Compliance

The table below outlines Endeavour Energy's approach to compliance and how compliance has been and continues to be achieved since implementation of the Guideline.

Obligation	Approach to compliance	How we achieved compliance
Legal Separation	We 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	<p>Accounts: We have established and maintain procedures that demonstrate the nature and extent of transactions with the Affiliated Entity.</p> <p>Costs: We will not allocate or attribute costs to Distribution Services that relate to other services.</p> <p>Use of Assets: We have established and maintained 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 separate system that provides separate accounting processes and data. ✓ 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 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 and will continue to educate 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.

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Obligation	Approach to compliance	How we achieved compliance
No cross-promotion	<p>We will not advertise or promote the services of the Affiliated Entity.</p> <p>Brand: We have implemented 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.
Functional separation	<p>Physical separation: We operate independent and separate offices to the Affiliated Entity.</p>	<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.
	<p>Staff sharing: Staff directly involved in the provision or marketing of direct control services with access to confidential electricity information are not involved in the provision or marketing of contestable services by the Affiliated Entity.</p>	<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.

Approach to Embedding Compliance

Obligation	Approach to compliance	How we achieved compliance
Information access & disclosure	Protection: We 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 provide equal access to others through our established information sharing protocol and register of information requests	<ul style="list-style-type: none"> ✓ We established and maintain an Information Sharing Register of all legal entities that request access to Confidential Electricity Information and have made the register publicly available on our website.
	Disclosure: We do 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.	<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 undertake periodic user access reviews to test access privileges of staff to information systems.





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• 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 within Regulatory Compliance 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. Regulatory Compliance 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 Compliance Reporting for Ring-Fencing Guidelines to provide an overarching organisational framework for reporting compliance with the Guideline. The procedure specifically outlines the process and requirements for:

- immediate breach notifications of potential breaches to the AER;
- the business's Compliance Monitoring Framework Matrix; and
- the annual compliance reporting cycle.

Separately, Endeavour Energy operates a dedicated email box to allow internal and external persons to raise questions or concerns regarding ring-fencing compliance. This is monitored by Regulatory Compliance.

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

Endeavour Energy has a broad range of specific controls and processes in place as a means for achieving and maintaining compliance against each element of the Guideline and these are 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 are formally defined in a Business Support Agreement between Endeavour Energy and Ausconnex.</p> <p>In 2017 Endeavour Energy, sought temporary waivers to address administrative issues. These issues primarily arose due to the timing between the commencement of the Guideline and service classification decisions. These waivers have now expired and as a result Endeavour Energy had no active waivers during the 2019-20 regulatory year.</p>
Account separation and cost allocation	Compliant	<p>Independent financial and accounting forecasts and statements continue to be maintained in two separate applications to enable distinct transactions between Endeavour Energy and Ausconnex and 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 Guideline.</p> <p>During the 2019-20 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 is charged each month to reflect the use of plant and equipment.</p> <p>Endeavour Energy reported this to the AER and it was determined to be a material breach of the Guideline. Further details are included in Section 4 – Breaches of the Ring-fencing Guideline.</p> <p>The fixed monthly fee charge was applied back to 1 January 2018 at the request of the AER.</p> <p>A review of the Ausconnex rental agreement during the 2021 budget process identified that the annual rent and outgoings had not been increased by 4% as stipulated</p>

Maintaining Compliance

Obligation	Compliance Status	Summary of Compliance
		by the agreement since September 2018. This was immediately rectified, and relevant charges backdated.
Clear obligation for DNSP to not discriminate	Compliant	<p>Ring-fencing obligations have been and continue to be communicated to staff via internal communication avenues.</p> <p>In August 2019, a new online training module “Competing Fairly” was launched to all staff following the introduction of a new online learning platform.</p> <p>Endeavour Energy continues to operate under the guiding principles for providing equal access to Electricity Information. Our Information Sharing Register has been updated on a quarterly basis throughout the regulatory year and made publicly available on our website.</p> <p>Our dedicated ring-fencing email box has remained opened to monitor complaints, inquiries and potential breaches etc.</p>
No cross-promotion	Compliant	<p>Ausconnex operates as a distinct brand from Endeavour Energy with independent advertising, communication and promotional material. Endeavour Energy has established Company Procedures to address the requirements related to branding and cross-promotion considerations.</p> <p>Endeavour Energy has had two material breaches of the branding and cross-promotion Guideline during the regulatory year and these are addressed in Section 4 – Breaches of the Ring-fencing Guideline. Physical failure modes of our current brand management practices and procedures have been identified, and remedial action is currently underway.</p>
Physical Separation	Compliant	<p>Ausconnex is physically separated from Endeavour Energy’s regulated business. 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 this is reviewed bi-annually.</p>

Maintaining Compliance

Obligation	Compliance Status	Summary of Compliance
Staff Sharing	Compliant	<p>Endeavour Energy's Staff Sharing Register is reviewed quarterly and made publicly available on Endeavour Energy's website. The register outlines the positions shared between Endeavour Energy and Ausconnex.</p> <p>The Business Support Agreement between Endeavour Energy and Ausconnex clearly defines corporate services and asset sharing contractual arrangements.</p> <p>Endeavour Energy had one non-material breach of the Staff Sharing Guideline during the regulatory year and this is outlined in Section 4 – Breaches of the Ring-fencing Guideline.</p>
Restrict access to Electricity Information	Compliant	<p>Logical access to Electricity Information has been restricted since 1 January 2018. User access to key Endeavour Energy and Ausconnex systems is provisioned according to defined access controls and in accordance with role-based Guidelines. Principles for providing equal access to Electricity Information apply.</p> <p>ICT user access reviews are undertaken monthly to confirm access privileges are in line with current role requirements.</p> <p>A physical access review is undertaken monthly to confirm access to only those staff that should have physical access to DNSP sites.</p>
Information Sharing and Disclosure	Compliant	<p>Our Information Sharing Register has been updated on a quarterly basis throughout the regulatory year and made publicly available on our website.</p> <p>Guiding principles for providing equal access to Electricity Information, as well as eLearning modules, continue to embed awareness of obligations in this area with staff.</p>

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

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

- **Maintaining Compliance**

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 Guideline 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 monthly review by the Executive Leadership Team.

Embedding awareness of our obligations with the staff allows our *staff* to act as a *control* in identifying issues before (and after) they arise to position Endeavour Energy for compliance. This is supported by online materials, such as FAQs, Intranet site, SharePoint, online training modules 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 at Endeavour Energy 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 the **ICT and physical access controls** applied to all roles.

2. Inherent Risk Areas

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

Inductions

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. This included ensuring all new staff completed the module as part of their commencement with Endeavour Energy as well as requiring staff to complete the module an additional time if seconded to or returning from secondment with the Affiliated Entity back to Endeavour Energy.

The training module refresh is designed to work alongside other resources for staff such as: the availability of online FAQs, a complete refresh of the company's staff Intranet site, and the availability of direct engagement with the Regulatory Compliance team to inform and support all staff in meeting their ring-fencing obligations.

During the regulatory year, Endeavour Energy also provided tailored internal communications regarding breaches in order to educate all staff on what had occurred, why it was a breach, the impact on customers and the contestable markets and what they could do to improve compliance in that particular area.

Branding

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

● Maintaining Compliance

The need to ensure that staff adhere to the correct clothing and protective equipment while on work sites continues to be a main area of focus for training and awareness programs. Each staff member is tasked with the responsibility of ensuring the work site signage, uniforms, vehicles, plant and equipment are not branded with Endeavour Energy when they are out representing the Affiliated Entity. Our next online training module “Competing Fairly 2020” will again remind staff of this important regulatory requirement. This training is due for release in October 2020.

Additional measures are being undertaken to reduce compliance risks associated with branding of fleet and plant. Engagement with affiliate 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 outlined below. If a role did not clearly fit within one of the classifications the role was amended and classified based on access to Confidential Electricity Information and to ensure clarity of function.

Staff sharing has been established to communicate a clear definition of function 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 Affiliated Entity. 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 the Affiliated Entity. These are termed “green roles” for ease of internal communication;
- are able to be shared due to the assessment of the role’s access to Confidential Electricity Information and commercial decision-making authority. These are termed “yellow roles” for ease of internal communication; and
- must not be shared due to access to Confidential Electricity Information, commercial decision-making authority, and interaction with the Accredited Services Providers (ASP) scheme. These are termed “red roles” for ease of internal communication.

Yellow roles have been included within the Staff Sharing Register and published on Endeavour Energy’s website. Endeavour Energy updates the Staff Sharing Register on a quarterly basis to maintain currency and focus on this risk area.

A critical challenge point for Endeavour Energy moving forward is ensuring continuity of the assessment criteria and framework as roles are created or amended over time to meet business needs. To support the assessment process, Regulatory Compliance team have developed a Decision-Making Tool which provides guidance on matters to be considered at each stage of the process.



Section 3

Reviewing Compliance

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- **Reviewing Compliance**

1. Cost Allocation Audit

Summary

Following the end of the 2018-19 regulatory year it was determined that low value plant and equipment had not been explicitly captured in project costings and therefore not charged to Endeavour Energy's Affiliated Entity, Ausconnex.

To address this, a fixed monthly fee was calculated and applied retrospectively for the regulatory year.

The monthly fee is charged each month to reflect the use of plant and equipment. Testing was performed to confirm that labour, high value assets and overheads had been captured by internal billing processes. On 10 January 2020, the AER requested Endeavour Energy engage an auditor to provide reasonable assurance of corrective actions to redress the misallocation of costs back to 1 January 2018.

Identification

An Ausconnex branded truck was delivering equipment to a Western Sydney worksite using a trailer displaying the Endeavour Energy logo. Photographic evidence was reported to the AER by a member of the public which prompted further investigation by Endeavour Energy into the application of the Cost Allocation Methodology (**CAM**). Preliminary investigations undertaken found positive evidence that Ausconnex receives direct billing for the use of vehicles but not for low value equipment such as trailers.

Methodology

The causal methodology adopted is as per that used for the purchase and fit-out costs of fleet contained in Table 9 of the AER's approved CAM as the relevant plant and equipment (e.g. trailers) has a direct connection to fleet usage. Specifically, the annual costs for the unregistered plant and equipment assets for Endeavour Energy will be causally allocated to Ausconnex on the portion of fleet hours directly attributed to Ausconnex. In this instance we proposed that a fixed monthly amount be determined on actual prior year actuals to support monthly billing.

Result

Endeavour Energy engaged PricewaterhouseCoopers (**PwC**) to provide reasonable assurance that corrective actions that the misallocation of costs back to 1 January 2018 had been implemented and to undertake a review to ascertain whether there had been any cost misallocations that may have been beneficial to Ausconnex.

PwC submitted their report to the AER, together with Endeavour Energy, on 14 February 2020 finding in all material respects that Endeavour Energy had prepared the allocation of costs to Ausconnex in accordance with the criteria for the period of 1 January 2018 to 30 June 2019 (the period under which the audit was required at the time).

On 7 April 2020, the AER confirmed in writing that they intended to take no further action on the breach and urged Endeavour Energy to communicate with the National Electrical and Communications Association (**NECA**) to advise stakeholders that may have been affected by the breach about the issue. Endeavour Energy provided confirmation to the AER that NECA was advised of the breach and the audit result in writing on 30 April 2020.

• Reviewing Compliance

2. Secondments

As part of the AER's correspondence to Endeavour Energy on 10 January 2020 on the Cost Allocation matter, further information was also sought on how staff sharing obligations under the Guideline were being met in relation to secondments.

Endeavour Energy has developed a set of principles to assist in setting parameters for staff secondments to enable sharing of employees between Endeavour Energy and Ausconnex in compliance with the Guideline. These principles include but are not limited to:

- Any secondment of an employee between Endeavour Energy and Ausconnex must be a minimum term of 6 months. Short term requirements (where applicable) are managed through external labour hire);
- A seconded employee must undergo an onboarding meeting within their first working week at Ausconnex and an offboarding meeting prior to their last working day at Ausconnex;
- ICT access to Endeavour Energy share drives for employees joining Ausconnex must be deactivated prior to the secondment commencing; and
- Endeavour Energy provided phone/phone number remains the property of Endeavour Energy. A new phone and phone number will be provided by Ausconnex on commencement and returned at the end of the secondment.

The following measures continue to remain in place to comply with the Guideline:

- All Ausconnex employees are appropriately ring-fenced and physically located at separate location to the regulated business whether that be at Glendenning or Hoxton Park Transformer Workshop;
- All Ausconnex employees have the correct security access permissioned to their identification swipe card and this is cross-checked monthly between the HR system and Security system;
- All new employees undergo mandatory online ring-fencing training;
- ICT user access profile reviews are conducted monthly to ensure the correct access is being provisioned for employees being seconded to Ausconnex and those returning to their substantive roles within Endeavour Energy;
- Endeavour Energy's Staff Sharing Register continues to be reviewed quarterly and published on the corporate website;
- An ICT secondment checklist is carried out when employees are seconded from Endeavour Energy to Ausconnex to ensure the correct applications are requested.

• Reviewing Compliance

Endeavour Energy is confident that with the procedures, planning and actions taken so far and with continued organisational focus, a strong commitment to compliance in this area will continue.

3. Branding

During the regulatory year, the AER raised two instances of non-compliance with the branding and cross-promotion Guideline with Endeavour Energy. These are detailed in Section 4 – Breaches of the Ring-fencing Guideline of this report. Action was taken to remediate these material breaches immediately.

A further review was initiated by Endeavour Energy's Network Services representatives to remove all Endeavour Energy branding from plant and equipment. Smaller items or equipment such as safety cones and ladders attached to or contained within the heavy vehicle fleet were also replaced with non-branded items.

To increase employee awareness and to ensure compliance with the Guideline, Ausconnex continues to adhere to site induction requirements where a review of PPE, uniforms, fleet and equipment are reviewed for branding compliance in a staging area that is not publicly visible. This review is carried out in addition to the pre-check conducted prior to staff leaving the Field Service Centre. Several site induction rectification notices have been provided to and reviewed by Regulatory Compliance during the reporting period to determine whether they give rise to a potential breach and require further investigation. Site induction rectifications are those branding issues that are identified during the site induction in the staging area and rectified immediately prior to work commencing on site for the day.

Endeavour Energy will continue to promote the importance of the branding and cross-promotion Guideline with staff through the next edition of its online training module, Competing Fairly 2020, due for release in October 2020.

4. 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. 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.

Reviewing Compliance

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.

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 anticompetitive 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 anticompetitive 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.

Throughout the 2019-20 regulatory year Endeavour Energy has continued to operate in accordance with its Information Sharing Protocol:

Fair Protection – We will protect confidential electricity information provided by a customer or prospective customer for Direct Control Services and only use that information for the purpose it was provided unless compelled by law to do so.

Fair Sharing – Where we acquire electricity information for Direct Control Services and share it with Ausconnex, we will provide equal access to others by including reference to this information on the Information Sharing Register.

Fair Disclosure – We will not disclose confidential electricity information obtained in providing Direct Control Services to any party without the approval of the customer or potential customer to whom that information relates.



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- Breaches of the
- Ring-fencing Guideline

1. Breaches of the Ring-fencing Guideline

Non-Material Breaches

During the 2019-20 regulatory year the AER determined one of Endeavour Energy's reported breaches as non-material. This breach has been set out below:

Date reported	Obligation	Issue	Identification	Remediation
11-Mar-20	4.2.2 - Obligation not to share staff	Endeavour Energy's Environmental Business Partner role does not appear on the Staff Sharing Register published on Endeavour Energy's website.	As a result of the recent Cost Allocation Review Audit, the Regulatory Compliance team met with the Environmental Business Partner Team Lead to enquire about involvement in the preparation of a Construction Environment Management Plan (CEMP) for Ausconnex that had appeared as a Cost Allocation charge by Endeavour Energy to Ausconnex. This raised further questions about the staff sharing provision of the Environmental team as it was discovered that services were being provided.	With the current Staff Sharing Register review that is underway as a result of the staff sharing workshop with the AER and other DNSP's, the Regulatory Compliance team will evaluate what access these roles have in terms of Confidential Electricity Information and whether there is the opportunity to discriminate. The current status of the Staff Sharing Register is that this is not a shared service, however, this was determined in late 2017 and business requirements may have changed. Endeavour Energy welcomes the opportunity to review this area of risk.

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- Breaches of the
- Ring-fencing Guideline

Material Breaches

During the 2019-20 regulatory year the AER determined three of Endeavour Energy's reported breaches to be material. These breaches have been set out below.

Date reported	Obligation	Issue	Identification	Remediation
15-Aug-19	4.2.3 - Obligation to have separate branding and avoid cross-promotion	Endeavour Energy's Affiliated Entity, Ausconnex, used equipment with visible Endeavour Energy branding on at least one worksite in NSW.	Photographic evidence reported to the AER by a member of the public.	<p>An immediate review of all trailers, pantechs and plant items was undertaken to identify Endeavour Energy branding in order to reduce the risk of cross-promotion when in use by Ausconnex. The removal of branding on these items was completed.</p> <p>A further review was initiated by Endeavour Energy's Network Services representatives to remove all Endeavour Energy branding from equipment including ladders and safety cones attached to or contained within the Ausconnex fleet and replaced with non-branded equipment.</p> <p>The General Manager of Ausconnex was notified and requested to ensure site inductions include a review of all PPE, including uniforms, in a staging area that</p>

- Breaches of the
- Ring-fencing Guideline

Date reported	Obligation	Issue	Identification	Remediation
				<p>is not publicly visible to ensure compliance with the cross-promotion Guideline. We also requested that a review of all fleet and equipment related to the works is undertaken prior to arriving at the staging area (before leaving the Field Service Centre).</p> <p>To support awareness of cross-promotion, refreshed ring-fencing awareness training went live to all employees on 7 August 2019 via an online training module. The Regulatory Compliance team issued an alert to all employees on this material breach and remedial action taken.</p>
20-Sep-19	4.2.3 - Obligation to have separate branding and avoid cross-promotion	Endeavour Energy's Affiliated Entity, Ausconnex, has used a photograph on their website of two field employees in an Elevated Work Platform (EWP). One employee is wearing an Ausconnex branded shirt	Photographic evidence reported to the AER by an ASP.	An immediate review of the Ausconnex website has been undertaken to ensure no other photographs contain any Endeavour Energy branding.

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- Breaches of the
- Ring-fencing Guideline

Date reported	Obligation	Issue	Identification	Remediation
		and one employee is wearing an Endeavour Energy branded shirt.		<p>The offending photograph was corrected to remove the Endeavour Energy branding.</p> <p>A new Ausconnex website in production was fast-tracked and loaded with the previous Ausconnex website decommissioned 18/09/2019.</p> <p>A process change was implemented to ensure all website changes involving photographs are approved by the Regulatory Compliance team to ensure compliance with the Guideline.</p> <p>To support training and awareness, the Regulatory Compliance team issued an alert to all employees on this material breach and remedial action taken.</p>

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- Breaches of the
- Ring-fencing Guideline

Date reported	Obligation	Issue	Identification	Remediation
03-Oct-19	3.2.2 (a, b) - Obligation to operate consistently with Cost Allocation Principles	Endeavour Energy's Affiliated Entity, Ausconnex, was charged for the use of Endeavour Energy trailers.	The Regulatory Compliance team made an inquiry to Commercial Finance Branch.	Investigations undertaken found positive evidence that Ausconnex received direct billing for the use of vehicles. A fixed monthly fee was calculated and applied back to 1 January 2018. The monthly fee is charged each month to reflect the use of plant and equipment.



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- **Waivers**

1. Waivers

In 2017 Endeavour Energy, sought temporary waivers to address administrative issues.

These issues primarily arose due to the timing between the commencement of the Guideline and service classification decisions.

These waivers were in effect until 30 June 2019 and have now expired. Endeavour Energy has had no requirement to apply for any additional waivers and therefore has no active waivers. Copies of Endeavour Energy's previous waivers and the AER's decision can be found on the AER's website.



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- **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.



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

1. Transactions between the DNSP and the Affiliated Entity

Clause 6.2.1(b) iv requires that Endeavour Energy disclose the purpose of all transactions with the Affiliated Entity. The table below outlines the transactions with the Affiliated Entity 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 exclusive payments to Endeavour Energy for corporate and other services provided to the 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 physically separated 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	<p>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 all are on-charged to Ausconnex.</p>
Network Unregulated Partnership trading as Ausconnex	Provision of corporate services	<p>Endeavour Energy provides corporate services to Ausconnex which includes, IT equipment, infrastructure and support, accounting, legal support and insurance.</p>
Network Unregulated Partnership trading as Ausconnex	Provision of management resources	<p>Endeavour Energy provides management/administrative staff to Ausconnex on a full-time basis. The cost of these people on-charged to Ausconnex.</p>



Independent Review and Assessment

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- **Independent Review
and Assessment**

1. Independent Review and Assessment

This year Endeavour Energy engaged PwC as our independent reviewer. In the attached independent audit assessment PwC found that other than those matters disclosed above in Section 4 – 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 Endeavour Energy with a range of avenues to strengthen 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.

Produced by Regulatory Compliance

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Endeavour Energy Annual Ring- fencing Compliance

for the regulatory year ended

30 June 2020

*Endeavour Energy and
the Australian Energy
Regulator*

*Annual Ring-fencing
Compliance*

28 October 2020

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 a 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 a Ring-fencing Annual Compliance Report (1 July 2019 – 30 June 2020) under the Ring-fencing Guidelines for the year ended 30 June 2020, in which they make a Statement of Compliance.

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 Ring-fencing Annual Compliance Report for the year ended 30 June 2020.

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 allow 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 2019 to 30 June 2020 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.

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1 Compliance with obligations	3
2 Detailed Observations	7
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 20 July 2020.

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

Qualified 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 period 1 July 2019 to 30 June 2020. This Statement will accompany our report, for the purpose of reporting to the Australian Energy Regulator.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of our report, 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 period 1 July 2019 to 30 June 2020.

Basis for qualified opinion

Section 4 of the attached Endeavour Energy's "Ring-fencing Annual Compliance Report (1 July 2019 – 30 June 2020)" identifies non-material and material breaches with the Ring-Fencing Guideline in the areas of:

- 4.2.2 Obligation not to share staff
- 4.2.3 Obligation to have separate branding and avoid cross promotion
- 3.2.2 (a,b) Obligation to operate consistently with Cost Allocation Principles.

As a result of the above matters, Endeavour Energy has not fully complied with the Annual Ring-Fencing Guideline in the above areas throughout the period 1 July 2019 to 30 June 2020, and we therefore qualify our opinion in this regard.

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 qualified 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, throughout the period 1 July 2019 to 30 June 2020. 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 period 1 July 2019 to 30 June 2020.

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.

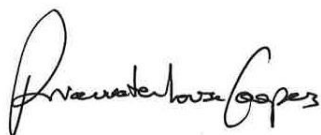
Inherent limitations

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 throughout the period 1 July 2019 to 30 June 2020 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
28 October 2020

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1 Compliance with obligations

The Endeavour Energy Ring-fencing Annual Compliance Report (1 July 2019 – 30 June 2020) sets out the statement of compliance throughout the period 1 July 2019 to 30 June 2020 (the 'Regulatory year to 30 June 2020'). 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 accordance with the AER Ring-Fencing Guideline – Compliance Reporting Best Practice Manual (version 2, July 2019).

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	Effective	
3.2	Establish and maintain accounts	Compliant	Partially effective	<p>We note there was a material breach disclosed in the Ring-fencing Annual Compliance Report (1 July 2019 – 30 June 2020). During the 2020 regulatory year, Endeavour Energy identified that a low value plant and equipment had not been explicitly captured in project costings and therefore not charged to Ausconnex. This has now been addressed and a fixed monthly fee is charged each month to reflect the use of plant and equipment. This had been reported to AER and was determined to. The fixed monthly fee charge was applied back to 1 January 2018 at the request of AER. Refer to detailed observation 2.1</p> <p>While not disclosed as a breach in the Ring-fencing Annual Compliance Report (1 July 2019 – 30 June 2020), we note during the year Endeavour Energy identified that the annual increase of rent and outgoings had not been charged since September 2018. We confirmed this has been amended and the relevant backdated charges have been applied. Refer to detailed observation 2.2.</p>

Section	Obligation	Endeavour Energy assessed Compliance Rating	Control Effectiveness Rating	Observations
4.1	Obligation to not discriminate	Compliant	Effective	
4.2.1	Physical separation/co-location	Compliant	Effective	
4.2.2	Staff sharing	Compliant	Partially effective	We note that there was a non-material breach disclosed in the Ring-fencing Annual Compliance Report (1 July 2019 – 30 June 2020). The breach relates to the staff sharing register not including the Environmental Business Partner role during the regulatory year. Refer to detailed observation 2.3.
4.2.3	Branding and cross-promotion	Compliant	Partially effective	<p>We note that there were two material branding-related breaches disclosed in the Ring-fencing Annual Compliance Report (1 July 2019 – 30 June 2020). They were relating to equipment with incorrect branding, and photographic evidence of Ausconnex employee wearing Endeavour Energy uniform. Refer to detailed observation 2.4.</p> <p>While not a breach and not disclosed in the Ring-fencing Annual Compliance Report, we noted the Ausconnex website links to a google maps address which shows as an Endeavour Energy site. Management intend to work with google to amend this reference. Refer to detailed observation 2.4.</p>
4.2.4	Office and staff registers	Compliant	Effective	
4.3.2	Protection of confidential information	Compliant	Effective	
4.3.3	Disclosure of information	Compliant	Effective	
4.3.4	Sharing of information	Compliant	Effective	

Section	Obligation	Endeavour Energy assessed Compliance Rating	Control Effectiveness Rating	Observations
4.3.5	Information register	Compliant	Effective	
4.4	Service providers	Compliant	Effective	
5	Waivers	Compliant	Effective	
6.1	Maintaining compliance	Compliant	Effective	While not a breach and not disclosed in the Ring-fencing Annual Compliance Report (1 July 2019 – 30 June 2020), we identified an opportunity to improve controls in the attestation process. We noted the attestations from management (which occur in the form of a compliance questionnaire) were not completed in the Corporate Compliance System. An Excel based attestation process was applied. Refer to detailed observation 2.5.
6.2	Compliance reporting	Compliant	Effective	
6.3	Compliance breaches	Compliant	Partially effective	<p>While not a breach or disclosed in the Ring-fencing Annual Compliance Report (1 July 2019 – 30 June 2020) we were advised by management that there have been some observations (i.e. potential breaches) reported to the Ring-fencing team by Ausconnex during the regulatory year.</p> <p>These reported observations were related to a potential branding issue where it was reported an Ausconnex staff member had turned up to a worksite wearing an Endeavour Energy branded hard hat. This reported observation was investigated by the Regulatory Compliance team.</p> <p>There was no photographic evidence to confirm if a potential breach had occurred to support the observation further and the issue was corrected before the employee commenced work. Refer to detailed observation 2.6.</p>

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 Detailed Observations

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	3.2.2 (a,b)	<p>3.2.2 Cost allocation and attribution</p> <p>(a) A DNSP must allocate or attribute costs to distribution services 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) A DNSP must only allocate or attribute costs to distribution services in accordance with clause 3.2.2(a), and must not allocate or attribute other costs to the distribution services it provides.</p>	<p>Control:</p> <p>In accordance with Ring-fencing Obligation 6.3, Endeavour Energy has established a process on breach reporting. All breaches are listed in the breach register for the period.</p> <p>Detailed observation:</p> <p>Based on the Breach register of Endeavour Energy. In the regulatory year of 1 July 2019 to 30 June 2020, the following material breach was identified and included into the breach register:</p> <p><i>The breach of consistency with Cost Allocation Principles (Obligation 3.2.2):</i></p> <p>Ausconnex has not been charged for the use of Endeavour Energy trailers.</p>	<p>Endeavour Energy should conduct additional training for staff to make sure that all key staff members are aware of the various type's intercompany charges and the implications if not accurately charged.</p>
2.2	3.2.2.a	<p>A DNSP must allocate or attribute costs to distribution services:</p> <ul style="list-style-type: none"> - 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. - and must not allocate or attribute other costs to the distribution services it provides. 	<p>Control:</p> <p>Accounting for Ausconnex document has been established and applies consistently with the Cost Allocation Principles between distribution services and non-distribution services.</p> <p>Detailed observation:</p> <p>During the review of the Ausconnex costs, the Endeavour Energy finance team found that in the license agreements that were signed in September 2017 with Ausconnex, requires Endeavour Energy to apply an annual increase of 4 percent per annum from September 2018 on the existing rental and outgoings charge. Once the error had been identified in March 2020, back charges relating to this have been charged to Ausconnex, and processes put in place to apply this each year, so no further action is required. The amounts below were back charged to account for the months that were missed (from September 2018 to February 2020)–</p> <ol style="list-style-type: none"> 1. Glendenning site - \$7191 +GST 2. Hoxton Park - \$36,926 +GST <p>Going forward, the charges from March 2020 onwards are being charged correctly. Endeavour Energy had staff movements within the team which lead to the annual increase being overlooked as part of the handover process. This has now been rectified and updated in the Accounting for Ausconnex document to make sure that regardless of staff movements, the annual increase is listed in the procedure document.</p>	<p>Endeavour Energy should make sure that adequate staff training and handover is provided to employees.</p>

Observation Reference	Obligation Reference	Ring-fencing Obligation	Observation	Recommendations
2.3	4.2.2	<p>4.2.2 Staff sharing</p> <p>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.</p>	<p>Control:</p> <p>In accordance with Ring-fencing Obligation 6.3, Endeavour Energy has established a process on breach reporting. All breaches are listed in the breach register for the period.</p> <p>Detailed observation:</p> <p>Based on the Breach register of Endeavour Energy. In the regulatory year of 1 July 2019 to 30 June 2020, the following non-material breach was identified and included into the breach register:</p> <p><i>The breach on staff sharing (Obligation 4.2.2):</i> Endeavour Energy's Environmental Business Partner role does not appear on the staff sharing register published on Endeavour Energy's website.</p>	Endeavour Energy should conduct additional training for staff to make sure that all key staff members are aware of the staff sharing disclosure requirements.
2.4	4.2.3.a	<p>4.2.3 Branding and Cross-Promotion</p> <p>A DNSP:</p> <ul style="list-style-type: none"> 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. 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. iii. must not advertise or promote contestable electricity services provided by a related electricity service provider other than the DNSP itself. 	<p>Control:</p> <p>Branding of Endeavour Energy and Ausconnex is separate and independent</p> <p>Detailed observation:</p> <p>Based on the Breach register of Endeavour Energy. In the regulatory year of 1 July 2019 to 30 June 2020, the following two material breaches were identified and included in the breach register:</p> <ul style="list-style-type: none"> • <i>Obligation to have separate branding and avoid cross-promotion (Obligation 4.2.3):</i> Endeavour Energy's Affiliated Entity, Ausconnex, has used a photograph on their website of two field employees in an Elevated Work Platform. One employee is wearing an Ausconnex branded shirt and one employee is wearing an Endeavour Energy branded shirt. • <i>Obligation to have separate branding and avoid cross-promotion (Obligation 4.2.3):</i> Endeavour Energy's Affiliated Entity, Ausconnex, used equipment with visible Endeavour Energy branding on at least one worksite in NSW. <p>In addition, based on the testing we performed we identified that the Ausconnex website links to Endeavour Energy location on google maps. On the Ausconnex website (https://ausconnex.com.au/), in the contact details section, the different locations where Ausconnex is situated is listed. When we clicked on the link to the Hoxton Park site (490 Hoxton Park Rd, Hoxton Park NSW 2171) we noted that on google maps, it only lists Endeavour Energy at that location.</p>	Endeavour Energy should work with Google to include Ausconnex's name on the 490 Hoxton Park Rd address.
2.5	6.1	<p>6.1 Maintaining Compliance</p> <p>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.</p>	<p>Control:</p> <p>Annual review of AER Ring-fencing obligations and update new obligations and changes to obligations in Corporate Compliance System is managed by the Senior Regulatory Compliance & Reporting Analyst as per company procedure GRG0013.</p> <p>Detailed observation:</p> <p>Based on the testing we performed, attestations from management in the form of a compliance questionnaire were not completed in the Corporate Compliance System, Excel based attestation process was applied.</p> <p>In the regulatory year of 1 July 2017 to 30 June 2018, Endeavour Energy conducted an 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.</p>	<p>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.</p> <p>Endeavour Energy should continue using the Excel based attestation process until a replacement</p>

Observation Reference	Obligation Reference	Ring-fencing Obligation	Observation	Recommendations
			For the regulatory year of 1 July 2019 to 30 June 2020 we note that a replacement Corporate Compliance System is still under implementation, therefore in the interim an Excel based attestation process was applied.	Corporate Compliance System is implemented.
2.6	6.3	<p><i>6.3 Compliance breaches</i></p> <p>A DNSP:</p> <p>Must notify the AER in writing within 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>	<p>Control:</p> <p>Potential breaches should be identified, investigated and reported as required by Section 6.3 of the Ring-fencing guideline 2017.</p> <p>Detailed observation:</p> <p>We were advised by management of reported observations suggesting potential branding breaches. While these were investigated and it was deemed there was no evidence to support a potential breach, we note the report was not timely and properly documented by the Site Supervisor.</p> <p>The General Manager of Ausconnex notified the Endeavour Energy Regulatory Compliance team of an observation via the ring-fencing email. However, this was not reported until August 2020, yet it was in relation to an observation made in March 2020. Upon investigation by the Regulatory Compliance team they noted the observation was related to branding and cross-promotion (staff were wearing the wrong branded hat). However, there was no photo evidence to prove that the incident occurred, and the issue was corrected before the employee commenced work for the day.</p> <p>The observation was reported to the Regulatory Compliance team as a potential breach in August 2020 - after the end of regulatory year of 1 July 2019 to 30 June 2020.</p>	Endeavour Energy should remind employees of the internal requirements for reporting observations and potential breaches, including the level of information and timeframe required when making a report. Efforts should be made to raise the awareness of employees through provision of extra training on breach reporting.

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 2019 to 30 June 2020 period including any breaches or other areas for improvement in policies, procedures, processes or controls identified at Endeavour Energy.

Category	Clause	Obligation	Control	Work performed	Results
Legal separation	3.1(a)	A DNSP must be a legal entity.	1. Endeavour Energy and Ausconnex have a separate Australian Business Number (ABN) and Australian Company Number (CAN).	<ol style="list-style-type: none"> Obtained and inspected the Legal Entity Structure for Endeavour Energy and Ausconnex through inquiry of management and review of supporting documentation. Conducted an ABN lookup of Endeavour Energy and Ausconnex. Performed an ASIC search on Endeavour Energy and Ausconnex using their ACN. 	<ol style="list-style-type: none"> The DNSP organisation (Network Operating Partnership; Endeavour Energy) is a legal entity and is separate from the organisation's unregulated business (Network Unregulated Partnership; Ausconnex). Endeavour Energy and Ausconnex are setup as separate legal entities based on their active ABN numbers. 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.	<ol style="list-style-type: none"> Contractual arrangements in relation to corporate services and asset sharing is formally defined in Business Support Agreement Service classification for all services are reviewed for Ring-fencing compliance annually. 	<ol style="list-style-type: none"> 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. 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"> Received management representation that no other services (outside of Distribution, Transmission and waived services) were provided by Endeavour Energy during the regulatory review period. 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	<ol style="list-style-type: none"> Financial and Accounting forecasts are maintained on separate systems Contractual arrangements have been formally defined 	<ol style="list-style-type: none"> 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. 	<ol style="list-style-type: none"> Contractual arrangements have been formally defined in a Business Support Agreement between Endeavour Energy & Ausconnex. On an annual basis, a listing of all transactions between Endeavour Energy and Ausconnex is generated

Category	Clause	Obligation	Control	Work performed	Results
		between the DNSP and its affiliated entities.	<p>in Business Support agreement</p> <p>3. Annual financial statement audit is conducted by external third parties</p>	<p>2. Reviewed Endeavour Energy's Ring-fencing Annual Compliance Report (1 July 2019 – 30 June 2020 for disclosures on related party transactions.</p> <p>3. Confirmed that transactions between the two entities are maintained separately.</p> <p>4. Reviewed the trial balance for intercompany transactions between Endeavour Energy and Ausconnex to confirm that all transactions between the two entities are included Endeavour Energy's Ring-fencing Annual Compliance Report (1 July 2019 – 30 June 2020.</p> <p>5. Inspected the Accounting for Ausconnex document to ensure it adheres to the Ring-Fencing Guideline.</p>	<p>for inclusion within Endeavour Energy's Ring-fencing Annual Compliance Report (1 July 2019 – 30 June 2020</p> <p>3. Independent financial accounts are maintained in separate applications for Endeavour Energy and Ausconnex.</p> <p>4. There are distinct and separately identifiable transactions between Endeavour Energy and Ausconnex. As part of the month end cycle, a reconciliation of intercompany transactions is performed by the Business Analyst in the Commercial Finance & Capital Governance branch. Endeavour Energy noted that there was 4 percent annual rent and outgoings charge that was not charged since September 2018 and adjusted for within the regulatory period. This has now been updated in the Accounting for Ausconnex document as well to ensure that it will not be missed in the future (refer to observation 2.2).</p> <p>5. The Accounting for Ausconnex document is created for Ausconnex as a separate organisation unit, and it applies consistently with the Cost Allocation Principles between distribution and non-distribution services. We inspected the document and confirmed it outlines the schema of variable and fixed costs charged to Ausconnex by Endeavour Energy.</p>
Establish and maintain accounts	3.2.2(a) 3.2.2(b) 3.2.2(c)	A DNSP must allocate or attribute costs to distribution services: (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	<p>1. Endeavour Energy attributes costs in accordance with the Accounting for Ausconnex guidelines</p> <p>2. Endeavour Energy's Cost Allocation Method is approved by the AER and published on their</p>	<p>1. Inspected the Accounting for Ausconnex document for cost allocation principles between distribution and non-distribution services.</p> <p>2. Obtained Endeavour Energy's Cost Allocation Methodology (CAM) and evidenced approval by the Australian Energy Regulator.</p> <p>3. Confirmed Endeavour Energy's CAM is published on their website.</p>	<p>1. Accounting for Ausconnex document applies consistently with the Cost Allocation Principles between distribution and non-distribution services. We inspected the document and it outlines the schema of variable and fixed cost charged to Ausconnex by Endeavour Energy. A separate accounting arrangement and finance system for Ausconnex has</p>

Category	Clause	Obligation	Control	Work performed	Results
		<p>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>	website for each regulatory period	<p>4. Reviewed costs incurred to confirm that the CAM has been applied for a sample of 25 intercompany transactions.</p>	<p>been developed to align with the approved Cost Allocation Methodology (CAM).</p> <p>2. Endeavour Energy's CAM was approved by the AER on March 2018, version 3.0.</p> <p>3. Endeavour Energy's current CAM is published on the Endeavour Energy website.</p> <p>4. Endeavour Energy attributes costs in accordance with the Accounting for Ausconnex document. Based on the sample of 25 intercompany transactions and supporting documentation tested for the period 1 July 2019 to 30 June 2020 confirmed the transactions were done at arm's length and as per the requirements of the CAM.</p>
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>1. Ring-fencing guideline training is provided to staff on an annual basis</p> <p>2. Information sharing register is maintained where information is shared with third parties and is reviewed periodically</p> <p>3. User Access between Endeavour Energy and Ausconnex systems is provisioned according to defined controls and in accordance with role-based guidelines</p> <p>4. Policies and procedures are established</p>	<p>1. Obtained and reviewed Company Procedure GRG0013 Compliance reporting to confirm that it complies with Ring-Fencing Guidelines.</p> <p>2. Confirmed the information sharing, staff sharing, office sharing registers are published on the Endeavour Energy's website</p> <p>3. Obtained and reviewed copies of Company procedure GAM1100 - Electricity Information Requests (GAM1100) and ascertained the principles align to the Ring-Fencing Guidelines.</p> <p>4. Conducted staff interviews to determine whether these guiding principles are readily understood.</p> <p>5. Conducted testing (via comparison to supporting documentation, etc.) to confirm that the Information Sharing Register on the website is the most current version.</p> <p>6. 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.</p> <p>7. Performed user access testing over the corporate information systems to ensure that access is role-based and appropriately</p>	<p>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.</p> <p>2. The information sharing register is maintained on the Endeavour Energy website. We confirmed that the most up to date version is available on the website.</p> <p>3. 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. Company procedure GAM1100 has last been reviewed on</p>

Category	Clause	Obligation	Control	Work performed	Results
				restricted across the population of Endeavour Energy and Ausconnex employees.	<p>the 18 December 2017 and is up for review in 18 December 2020, additionally it still references the Ring-Fencing Guideline 2016. We suggest Endeavour Energy reference the latest ring-fencing guidelines (i.e. not specific to any issue or year) when updating policies and procedures.</p> <p>4. Based on discussions held with stakeholders across the ring-fencing process confirmed that principles of the Ring-Fencing Guideline are understood.</p> <p>5. In order to confirm the information sharing register on the website is the most current version PwC examined five transactions from the information sharing register provided by Endeavour Energy and traced to the information sharing register that is upload on Endeavour Energy's website.</p> <p>6. We noted that the principles around access to and the sharing of information are clearly outlined within the Ring-Fencing Guidelines Awareness training material.</p> <p>7. Separate shared drives have been established between Endeavour Energy and Ausconnex. Restricted access to the relevant shared drives is maintained by the IT team as per the standard IT procedures.</p>
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.	1. Endeavour Energy and Ausconnex are located in separate physical locations	<p>1. Inspected the Endeavour Energy website to ensure that the Office Sharing Register is readily available and is the most current version</p> <p>2. Inquired with management as to the physical location of Ausconnex sites and verified they are in separate physical locations to Endeavour Energy.</p> <p>3. 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.</p> <p>4. Obtained details of Ausconnex employees who were provided with physical access to Endeavour Energy's head office.</p>	<p>1. The latest Office sharing register which was reviewed on 8 July 2020 is available on Endeavour Energy website. Confirmed six monthly reviews of the register occur.</p> <p>2. Endeavour Energy and Ausconnex have separate physical buildings and locations for their main offices. Endeavour Energy head office address is 51 Huntingwood Drive, Huntingwood and Ausconnex is 49 Glendenning Road, Glendenning. The head offices are therefore</p>

Category	Clause	Obligation	Control	Work performed	Results
				<p>5. Selected a sample of new physical access profiles for Endeavour Energy and Ausconnex which were granted during the regulatory period, inspected approvals to confirm that they followed proper protocol.</p> <p>6. 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.</p>	<p>physically separated with estimated distance of 7.1 km.</p> <p>Ausconnex also has a workshop at Hoxton Park which they use exclusively. Glendenning is on the Office Sharing Register because it is shared office space with Endeavour Energy and Ausconnex. The Endeavour Energy employees based at Glendenning with Ausconnex do not have access to confidential electricity information.</p> <p>Huntingwood sensitive areas (procurement, data centres, etc.) are physically ring-fenced from Ausconnex employees.</p> <p>However, when PwC tested the website, we noted that the Ausconnex website lists the Hoxton Park location. On Google maps this location is only listed as Endeavour Energy's location. (Refer to observation 2.4).</p> <p>3. The site map confirmed a separate physical area between the common and office area for Ausconnex at the Glendenning site. A review of Glendenning office site map was last performed in August 2018 by Ausconnex, and the adjustments were made to the office layout. Since August 2018, there have been no changes made to the layout of the office.</p> <p>4. 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 (Gallagher) if this date passes and no extension is logged within the HR System. Similarly, Endeavour Energy employees who go on secondment to Ausconnex have</p>

Category	Clause	Obligation	Control	Work performed	Results
					<p>their accesses updated within the HR System and Security System. The frequency of the control (monthly) appears to be appropriate given the low volume of activity. PwC confirmed via inquiry that the Security System (Gallagher) for 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 identified if someone was in the wrong area.</p> <p>5. 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 and include system controls whereby access cannot be provisioned by Security 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 (Gallagher) during the 2020 regulatory period and noted that the access was provisioned in HR System upon receiving the HR notification.</p> <p>6. Endeavour Energy and Ausconnex use offices that are physically separated. On a monthly basis, the security team carried out a comparison between employee access as per the HR System (Ellipse) and Security System (Gallagher). PwC noted that Endeavour Energy is in the process of implementing a new ERP system and the HR module Success factors would replace the current HR System (Ellipse). This change has not been made for the June 2020 regulatory period.</p>

Category	Clause	Obligation	Control	Work performed	Results
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. There is segregation of duties between staff involved in the marketing of direct controls and marketing of contestable electricity services by a related electricity service provider 2. Staff sharing register is maintained and reviewed on a quarterly basis 	<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 period. 4. Inquired with HR Business Partnering Manager to confirm that the review of job descriptions has occurred according to the 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. 5. Obtained relevant organisational charts and documentation concerning roles and responsibilities from management. 6. 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. 7. Obtained Company Procedure GRG0013 Compliance Reporting and confirmed the procedure contained principles in relation to staff sharing as per the Ring-Fencing Guideline. 	<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 staff sharing register during the regulatory year, except for the addition of the Environmental Business Partner to remediate the non-material breach. Refer to detailed observation 2.3. 3. Internal documentation and organisational charts confirmed the staff sharing register is reviewed and updated on a quarterly basis. The latest version of register which was reviewed on 8 July 2020 is published on the Endeavour Energy website. 4. Job descriptions are reviewed every two years or on an ad-hoc basis dependent on the need. 5. 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. 6. 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. We observed that

Category	Clause	Obligation	Control	Work performed	Results
					<p>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. Management should provide additional training to staff to make sure staff are aware of the disclosure requirements for shared staff. Refer to detailed observation 2.6.</p> <p>7. 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.</p>
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.	1. Contracts are in place to ensure staff do not have incentive to act in a manner that is contrary to the DNSP's obligation	<p>1. Discussed with management whether employees sign standard employment agreements.</p> <p>2. 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.</p>	<p>1. 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 Endeavour Energy (NOP) will provide labour for Ausconnex. We inspected the existence of standard contract master template for fixed term and open-ended type of employment.</p> <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>

Category	Clause	Obligation	Control	Work performed	Results
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>1. Company procedure GMM0003 and GMM0001</p> <p>2. Endeavour Energy Branding is independent and separate from Ausconnex</p>	<p>1. Inspected Company Procedure GMM0001 - Producing Advertisements, Communication and Promotional Materials outlines production of communication materials and requirement to comply with ring-fencing guidelines.</p> <p>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.</p> <p>3. Obtained and inspected Company policy 14.1 outlining the requirements of advertising, communication and promotion.</p> <p>4. Conducted an independent review of Endeavour Energy & Ausconnex websites, Google search, company filings, etc. to confirm that separate branding is in place for both entities.</p> <p>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.</p>	<p>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. Company procedure GMM0001 has not been reviewed on the date specified in the procedure document and still references the Ring-Fencing Guideline 2016. We suggest the reference is changed to reflect the latest version of the guideline.</p> <p>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:</p> <ol style="list-style-type: none"> implement independent branding; not discriminate between its Field Services Contracting Business (FSCB) and its competitors; and implement and document non-discriminatory marketing, communication and procurement protocols for the FSCB. <p>We note GMM0003 refers to the Ring-Fencing Guideline 2016. We suggest the reference is changed to reflect the latest version of the guideline.</p> <p>3. Inspected Company policy 14.1, outlining advertising,</p>

Category	Clause	Obligation	Control	Work performed	Results
					<p>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".</p> <p>Company policy 14.1 has not been updated to reference the Ring-Fencing Guideline 2016. We suggest the reference is changed to reflect the latest version of the guideline.</p> <p>4. We inspected on the Ausconnex website and Endeavour Energy website and noted that Endeavour Energy branding was independent and separate from Ausconnex.</p> <p>5. We conducted site visits to four Ausconnex work sites and confirmed there were no Endeavour Energy related branding. However, there were two branding-related material breaches identified during the regulatory period. Refer to detailed observation 2.4.</p>
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.	1. Staff sharing register is published on Endeavour Energy Website	1. Inspected the availability of Staff Sharing Register on Endeavour Energy website.	1. The latest version of the staff sharing register which was reviewed on the 8 July 2020 is available on the Endeavour Energy website.
Information sharing	4.3.2 (a-b)	A DNSP must: (a) keep confidential information confidential	1. Company procedure GAM1100	1. Compared Company Procedure GAM1100 Electricity Information Requests to the Ring-Fencing Guidelines for adequacy and interviewed staff as to its availability and their familiarity	1. The requirements around information sharing and confidential information as per the ring-fencing guideline is

Category	Clause	Obligation	Control	Work performed	Results
		(b) only use confidential information for the purpose for which it was acquired or generated		<ol style="list-style-type: none"> 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. 	<p>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.</p> <ol style="list-style-type: none"> 2. Separate shared drives have been established between Endeavour Energy and Ausconnex. Restricted access to the relevant shared 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 and user access has been appropriately setup across the different drives. Additionally, Endeavour Energy performs a User Access Testing on a monthly basis to confirm that employees have appropriate access. 3. The refresher Ring-Fencing training has been rolled out to all staff during the 30 June 2020 regulatory review period. There was only 10 staff members that had not completed this training due to being on long-term leave (e.g. maternity, long service or long-term sick leave) or had just commenced employment with Endeavour Energy. Per inspection of the training material it was confirmed that guidance in relation to confidential information was covered.
Information sharing	4.3.3 (a-h)	A DNSP must not disclose confidential information to any person, including a related electricity service provider	1. Company procedure GAM1100	<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 Based on discussions with various staff it was noted that staff understood the guiding principles. Company procedure GAM1100 is due for review on the 18 December 2020, however, still references the Ring-Fencing Guideline 2016. We

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					<p>suggest the reference is changed to reflect the latest version of the guideline.</p> <p>2. When conducting interviews with staff, we noted that all staff understood the Ring-fencing guidelines and where additionally information is located if needed.</p>
Information sharing	4.3.4 (a,d,e)	<p>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.</p> <p>A DNSP must:</p> <ul style="list-style-type: none"> - Establish an information sharing protocol for the disclosure of confidential information <p>Disclose information on terms that require the other entity to comply with 4.3.4 (a) & (d)</p>	1. Company procedure GAM1100	<p>1. Inspected the information sharing protocol as documented in Company Procedure GAM1100 – Electricity Information Requests</p> <p>2. Confirmed information sharing registers are made available on the website</p>	<p>1. Company Procedure GAM1100 - Electricity Information Requests outlines the process of sharing of confidential information. Company procedure GAM1100 is due to be reviewed on the 18 December 2020 document and still references the Ring-Fencing Guideline 2016. We suggest the reference is changed to reflect the latest version of the guideline.</p> <p>2. An Information Sharing Protocol and Information Sharing Register are publicly available on the Endeavour Energy website.</p>
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>	1. Information sharing register is loaded to the Endeavour Energy website	<p>1. Observed the availability of Information Sharing Register on Endeavour Energy website.</p> <p>2. To confirm the Information Sharing Register on the website is a complete and current we conducted testing via comparison of the Information Sharing Register provided by Endeavour Energy and the Information Sharing register that is available on the website.</p>	<p>1. An Information Sharing Protocol and Information Sharing Register which was reviewed on the 16 July 2020 are publicly available on the Endeavour Energy website. Additionally, the Company Procedure GAM1100 Electricity Information Requests outlines this process.</p> <p>2. The Information Sharing Register completely and accurately captures the information request and the details of the information provided.</p>

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		<p>i. identify the kind of information requested by the legal entity; and</p> <p>ii. describe the kind of information requested by the legal entity in sufficient detail to enable other legal entities to make an informed decision about whether to request that kind of information from the DNSP.</p> <p>(c) A legal entity may request that the DNSP include it on the information register in relation to some or all of the 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>			
Conduct of service providers	4.4.1(a)	<p>A DNSP:</p> <p>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:</p> <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;</p>	<p>1. Standard terms and conditions for contracts and approval processes are in place</p>	<p>1. Enquired of management whether standard terms/conditions/contracts are utilised with service providers.</p> <p>2. Selected a sample of new/varied contracts for the period tested and confirm that the contracts have the required clauses.</p> <p>3. Where standard terms/conditions/contracts were not utilised, verified that approval processes were followed.</p>	<p>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.</p> <p>2. From a sample of four agreements tested, we found all four contain the following clauses as per the ring-fencing guideline:</p> <ul style="list-style-type: none"> > 4.1 (legal separation) > 4.2.1 (physical separation / co-location) > 4.2.2 (staff sharing) > 4.3.2 (protection of confidential information) > 4.2.3 (branding and cross promotion). <p>3. Based on our sample all four were standard terms/conditions/contracts and therefore did not require further approval processes.</p>

Category	Clause	Obligation	Control	Work performed	Results
		as if the service provider was the DNSP.			
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>	1. Company procedure GRG0013	<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 would review the agreed actions of listed waivers on the register on an annual basis, if there are active waivers. There was no published waiver register during the regulatory year, hence this was not performed. 3. There were no new waivers raised by Endeavour Energy during the regulatory year 30 June 2020. Endeavour Energy's website is updated to reflect that there are no active waivers. 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 period of the year ended 30 June 2020. Endeavour Energy's website has been updated to reflect that there are no active waivers.
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</p>	<ol style="list-style-type: none"> 1. Annual completion of ring-fencing guidelines compliance questions 2. Ring-fencing mailbox to monitor complaints, inquiries and suspected breaches 	<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 new changes are captured with enough time to make meaningful action 3. Reviewed recent changes to the Corporate Compliance System up against the Ring-Fencing Guidelines 	<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 Endeavour Energy's Ring-fencing Annual Compliance Report (1 July 2019 – 30 June 2020. Based on the provided milestones, confirmed the 2020 review

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		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.	3. Annual review of AER Ring-fencing obligations and update new obligations and changes to obligations	4. Confirmed with the Regulatory Compliance team that the ring-fencing mailbox exists. During staff interviews 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>milestones is planned with reasonable time frames to ensure that any changes and appropriate actions could be assessed and documented within sufficient time frames</p> <p>3. The Corporate Compliance System was decommissioned in January 2019, and the annual compliance questionnaires were completed for the regulatory year ending 30 June 2020 in Excel format. Refer to detailed observation 2.5.</p> <p>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 by the Regulatory Compliance team. The inquiries made through the mailbox are tracked and reported as part of a Ring-fencing Dashboard report provided to key stakeholders on a monthly basis. 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 option for questions or further details when corporate communications are published for Endeavour Energy and Ausconnex staff in relation to ring-fencing. Ring-fencing training was rolled out to all employees.</p>
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</p>	1. Annual ring-fencing compliance report is prepared timely	1. Obtained and inspected Endeavour Energy's Ring-fencing Annual Compliance Report (1 July 2019 – 30 June 2020) for the regulatory year for compliance with the requirements of the guideline.	1. Endeavour Energy's Ring-fencing Annual Compliance Report (1 July 2019 – 30 June 2020) has been drafted and provided to PwC (independent authority). The annual compliance report has identified and described the relevant information as required by the Guideline, namely: <ul style="list-style-type: none"> a. a compliance and monitoring framework are in place to

Category	Clause	Obligation	Control	Work performed	Results
		regulatory year to which the report relates: 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 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.			<p>ensure that each Ring-Fencing obligation and responsibility is understood and to provide assurance to management that the compliance obligation is met;</p> <p>b. Breaches of the Ring-Fencing Guideline are listed;</p> <p>c. Other services provided by the DNSP during the year are described and listed;</p> <p>d. The purpose of transactions between the DNSP and an affiliated entity.</p> <p>Our independent assessment report will be attached to the Endeavour Energy's Ring-fencing Annual Compliance Report (1 July 2019 – 30 June 2020)</p>
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. Annual ring-fencing compliance report is submitted to AER within 4 months of the end of the regulatory year	1. Obtained and inspected the timeline plan for Endeavour Energy's Ring-fencing Annual Compliance Report (1 July 2019 – 30 June 2020) and confirmed the report is planned to be submitted within 4 months of the end of regulatory year.	1. Endeavour Energy's Ring-fencing Annual Compliance Report (1 July 2019 – 30 June 2020) will be submitted by 31 October 2020.
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.	1. Register of reported breaches	<p>1. Inspected Company Procedure GRG0013 - Compliance Reporting for Ring-fencing Guidelines that outlines the procedure to identify, escalate and report breaches.</p> <p>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.</p> <p>3. Selected a sample of reported breaches, investigate that they were handled in accordance with the Ring-Fencing Guidelines.</p> <p>4. Verify that the register of reported breaches is reviewed on a periodic basis.</p> <p>5. Confirmed that there is a ring-fencing mailbox and confirmed that this is the mailbox used for all correspondence in relation to ring-fence. All eight stakeholders interviewed during the review,</p>	<p>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.</p> <p>2. Endeavour Energy maintains a breach reporting spreadsheet. We noted four breaches were reported by Endeavour Energy, with three of four breaches classified as material. Breaches are communicated to the responsible stakeholders through the Ring-fencing Dashboard and a Ring-fencing Alert via the Wire (Staff</p>

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				confirmed they are aware of the mailbox and it was utilised for ring-fencing correspondence.	<p>communication publication) as required.</p> <ol style="list-style-type: none"> 3. We conducted detailed testing of all four breaches. Confirmed that all breaches were reported to the AER within required timeframes. 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 team on a timely basis.

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