

Ergon Energy Network Annual Ring-fencing Compliance Report

2019-20



Contact details

Ergon Energy Corporation Limited
Karesse Biggs
General Manager, Risk, Compliance, Insurance, Integrity & Resilience
Phone: +61 417 698 702
Email: karesse.biggs@energyq.com.au

420 Flinders Street, Townsville QLD 4810
PO Box 1090, Townsville QLD 4810
Telephone 13 74 66
www.ergon.com.au

Ergon Energy Corporation Limited ABN 50 087 646 062

© Ergon Energy Corporation Limited 2020

® Ergon Energy and Ergon Energy Network are registered trademarks of Ergon Energy Corporation Limited ABN 50 087 646 062

This work is copyright. Material contained in this document may be reproduced for personal, in-house or non-commercial use, without formal permission or charge, provided there is due acknowledgement of Ergon Energy Corporation Limited as the source. Requests and enquiries concerning reproduction and rights for a purpose other than personal, in-house or non-commercial use, should be addressed to the Group Manager Corporate Communications, Ergon Energy, PO Box 1090, Townsville QLD 4810.

Contents

1	Introduction.....	1
2	Measures to ensure compliance.....	2
	2.1 Prevention of cross subsidies.....	4
	2.1.1 Legal separation.....	4
	2.1.2 Establish and maintain accounts	5
	2.2 Functional separation	5
	2.2.1 Obligation not to discriminate.....	5
	2.2.2 Offices, staff, branding and promotions	6
	2.3 Information access and disclosure.....	8
3	Waivers.....	10
4	Compliance and enforcement.....	11
5	Annual Reporting.....	12
6	Appendix 1 – Compliance controls	15

1 Introduction

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

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

The Guideline commenced on 1 December 2016. On 17 October 2017, the AER released a final amended Ring-fencing Guideline (Version 2) and accompanying Explanatory Statement. Full compliance with the Guideline was required by 1 January 2018. The Guideline requires Ergon Energy to prepare an annual ring-fencing compliance report for submission to the AER each regulatory year. In accordance with section 6.2.1(b) of the Guideline, the annual compliance report must identify and describe, in respect of the regulatory year to which the report relates:

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

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

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

Accordingly, this report represents Ergon Energy's Annual Ring-fencing Compliance Report for the regulatory year ending 30 June 2020 (Ergon Energy Network 2019-20 Ring-fencing Compliance Report), covering the reporting period from 1 July 2019 to 30 June 2020. This report is structured to align with the reporting obligations specified in clause 6.2 of the Guideline.

This report should be read together with Ergon Energy's [Ring-fencing Compliance Strategy](#) and [Waivers](#) as published on the AER and Ergon Energy's websites. Ergon Energy does not claim confidentiality over this submission or any attachments.

2 Measures to ensure compliance

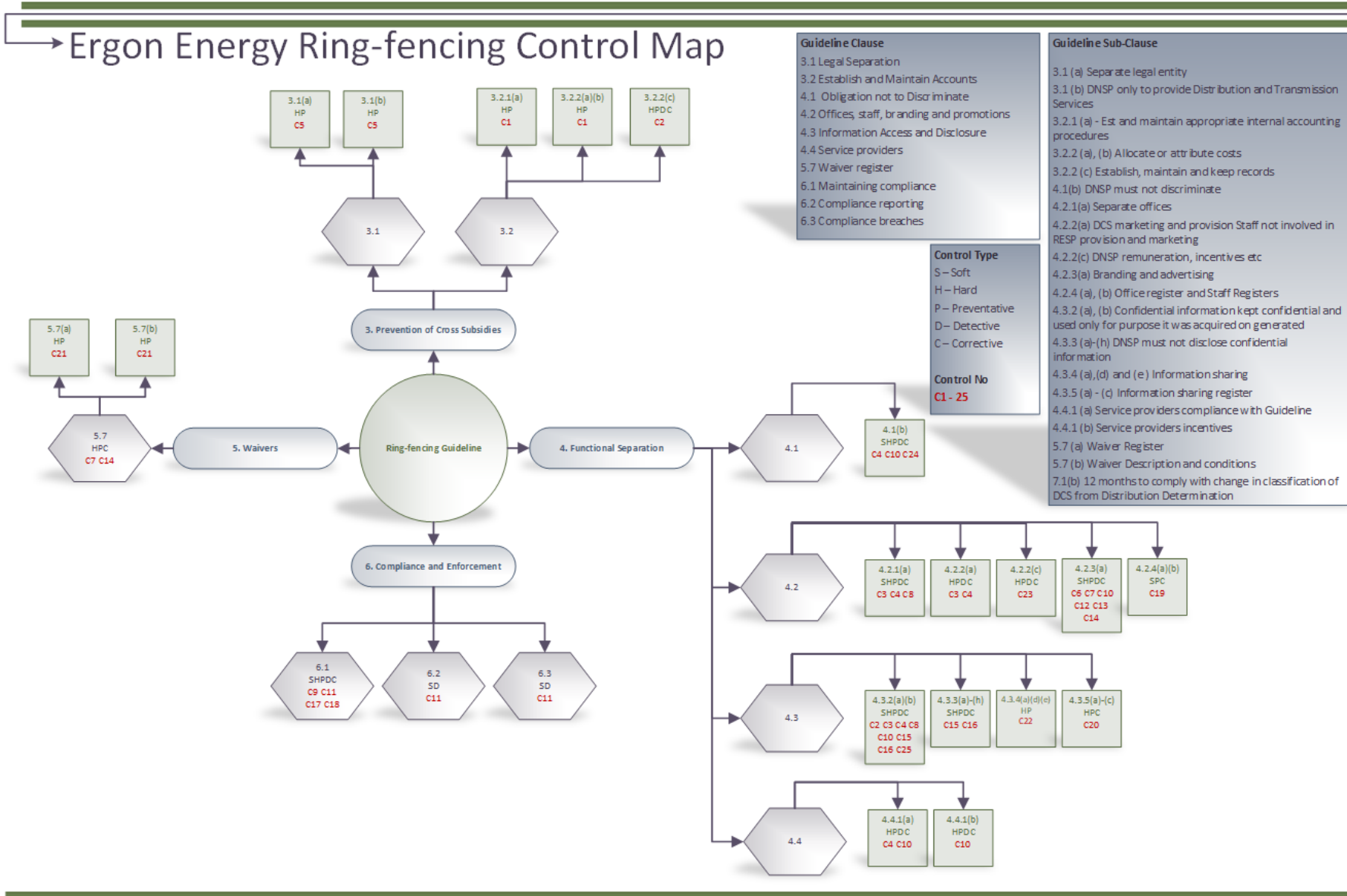
Clause 6.2.1(b)i of the Guideline requires that the annual compliance report must identify and describe, in respect of the regulatory year, the measures the DNSP has taken to ensure compliance with its ring-fencing obligations.

Throughout the 2019-20 regulatory year, Ergon Energy has maintained and further strengthened its compliance controls developed in 2018-19 and implemented additional compliance controls and processes. We have strengthened our controls in the following way:

- Continued to review and analyse our sources of confidential electricity information;
- Reviewed and identified improvement opportunities in our compulsory online ring-fencing training in response to the learnings of the previous years of ring-fencing compliance to better facilitate staffs' practical understanding of our ring-fencing obligations and associated controls;
- Progressed the implementation of Energy Queensland's Governance Risk and Compliance (GRC) Tool which provides a centralised view of Energy Queensland's risks and compliance obligations (including Ergon Energy's ring-fencing compliance activities);
- Integrated ring-fencing risks and compliance matters into Energy Queensland's risk and compliance reporting processes to ensure appropriate escalation and oversight;
- Developed Energy Queensland's risk and compliance maturity models and undertook Division -specific baseline self-assessments for overarching maturity levels;
- Implemented new ring-fencing compliant uniforms and fleet branding due to expiration of the branding waiver on 31 December 2019;
- Drew together members of the Enterprise Risk & Compliance Team and the Legal, Regulation and Pricing Team to create a multidisciplinary Ring-fencing Team; and
- In June 2020, we added an additional dedicated resource to support ring-fencing compliance activities.

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

Figure 1: Ring-fencing control map



Breaches of the Guideline

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

Ergon Energy has established a methodology for assessing materiality of potential ring-fencing breaches. This methodology has been previously provided to the AER. Ergon Energy is committed to being transparent with the AER about Ergon Energy's ring-fencing compliance by reporting non-material breaches. Ergon Energy's process for assessing the facts and circumstances of potential ring-fencing breaches (and materiality) is overseen by the Enterprise Risk and Compliance Team to ensure accuracy and consistency in understanding and application of the assessment methodology.

No material breaches of the Guideline were identified by Ergon Energy during the 2019-20 regulatory year.

Despite there being no identified material breaches of the Guideline, Ergon Energy identified three risk areas for continuous improvement and additional monitoring during the regulatory year – staff sharing; branding and cross promotion; and protection of confidential information based on our operations, business needs and queries or requests for information from the AER. Targeted ring-fencing controls have been implemented to ensure compliance in these areas and are discussed in this Ring-fencing Compliance Report. Efforts to enhance compliance measures and controls are ongoing.

The 2019-20 regulatory year has been a transitional year for Ergon Energy as we progressed the implementation of a Governance Risk and Compliance (GRC) Tool to manage, measure and monitor our risk and compliance obligations (including Ergon Energy's ring-fencing control testing, assurance and compliance activities). The benefits of this GRC tool in second line compliance monitoring will be realised for the next regulatory year.

2.1 Prevention of cross subsidies

2.1.1 Legal separation

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

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

All companies are separate legal entities registered with the Australian Securities Investment Commission, each with its own board of directors and ring-fencing compliant constitutions and board charters.



Figure 2: Energy Queensland Group of companies

During the Regulatory year, Energy Queensland Limited acquired shares in Queensland Capacity Network Pty Ltd ACN 633 081 517 (trading as QCN Fibre) and Redback Technologies Holdings Pty Ltd ACN 634 626 538.

2.1.2 Establish and maintain accounts

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

During the year Energy Queensland maintained separate accounts for Ergon Energy and the affiliated entities. We have ensured that costs for distribution services have been attributed or allocated in accordance with Ergon Energy’s Cost Allocation Methodology (CAM), as approved by the AER. Ergon Energy’s audited financial data will be provided to the AER through the annual Regulatory Information Notice (RIN) responses by 2 November 2020.

2.2 Functional separation

2.2.1 Obligation not to discriminate

Training

During the 2019-20 regulatory year, Energy Queensland staff were required to undergo ring-fencing refresher training on an annual basis. The training was provided as on-line package, as well as being available to access at any time (together with other ring-fencing resources) via the internal staff website. In the 2018-19 regulatory year, ensuring staff training was identified by the independent

assessor as a recommendation. A concerted effort was made by Ergon Energy during the 2019-20 regulatory year to increase the uptake of ring-fencing awareness training. Across the 2019-20 regulatory period, of the 7570 employed by the EQL Group, a total of 437 staff are yet to complete ring-fencing training. This comprises less than 6% of all staff. This is a significant drop from the 826 employees identified as at 30 June 2019.

Despite our best efforts, we have not managed to train 100% of all staff during the period, however this may be attributed to the impact of COVID-19 on Ergon Energy's (and Energy Queensland's) business operations and changes in working conditions (since February 2020). Staff who have completed the training have provided feedback identifying improvement opportunities, namely, to make the training simpler, more interactive, role specific and engaging. At the time of writing this report the content of the online training is currently being reviewed in response to this feedback. For the next regulatory year, a training needs analysis will be undertaken, the training package refreshed and updated to reflect the outcomes of the needs analysis, followed by an engagement campaign to ensure staff (especially those undertaking secondments) are aware of their obligations under the Guideline.

In addition to ring-fencing specific training, staff who have been identified as having specific ring-fencing risk, compliance and controls responsibilities or are officers of Ergon Energy (or Energy Queensland) have since January 2020 been required to undertake online overview training in relation to the Governance, Risk and Compliance (GRC) tool, to ensure they have appropriate levels of understanding and access to manage, monitor and oversee their risks, controls and obligations as required, including the ring-fencing obligations and controls.

Reviews of tender processes and documentation

The procurement group conducts periodic reviews of tender and contract documents to ensure assessments are conducted and where it is identified that ring-fencing applies, the service provider guidelines have been included in the signed contract.

Process documents, tender templates and contract document templates are also reviewed and updated as required.

2.2.2 Offices, staff, branding and promotions

Physical separation/co-location

All Ergon Energy's office locations were reviewed to ensure staff providing direct control services are separated from the affiliated entity staff involved in providing contestable electricity services. Where possible, staff providing contestable electricity services are moved to separate buildings. In cases where this is not possible, staff are moved to a restricted-access area or floor within a building. Staff access passes are updated to ensure relevant staff are unable to access office areas involved in direct control services.

Staff sharing

We acknowledge that staff sharing is a potential risk area for Ergon Energy, and we note the AER requested further information on our staff sharing arrangements during the year. We have in place a number of preventative, detective and corrective controls to minimise the staff sharing risk.

All staff positions in Ergon Energy are assessed against the criteria under the Guideline for which staff can be shared between the DNSP and a related electricity service provider (RESP). The nature of the

positions identified, including the roles and duties of the staff, as well as the applicable Guideline clause which allows for sharing, have been included in the Staff Sharing Register which is available on the Ergon Energy website.

Ergon Energy has a developed Staff Sharing Protocol, a reference guide and matrix for any sharing of staff across the Energy Queensland portfolio to ensure it complies with the staff sharing obligations of the Guideline. In addition, there are embedded HR and digital processes (refer to below) for staff transfers. Finally, all secondments are subject to Management approval.

Secondments are not offered for any period less than 3 months. When a person is seconded to a new position, their system access for the previous position is removed and access to the new position granted for the duration of the secondment. This means that, in the case of a secondment from Ergon Energy to a RESP, access to any systems that have been flagged as containing confidential electricity information will be removed for the duration of the secondment. The Ring-fencing Team perform a second line of defence function through an approval process for system access following staff transfers between these businesses.

For periods of less than 3 months, there are two options available; higher duties and position access. Position access occurs where an employee is required to have system access to a position other than their substantive position (generally for administration purposes such as leave approval etc) for a temporary period with no higher duties applied. Both arrangements only occur where the person and the position are within the same business unit. Therefore, the ring-fencing compliance risk has been controlled as this type of arrangement does not occur between the regulated and unregulated business units.

In addition to these controls outlined above, Ergon Energy provides training to its workforce on ring-fencing compliance obligations, including guidance as part of employee on-boarding and staff transfer arrangements.

Branding and cross-promotion

We acknowledge the AER is focusing on compliance with the branding and cross promotion obligations in this year's compliance reports and recognise the harm that can be caused when a RESP leverages off the branding of a DNSP. Consequently, we have identified it as another risk area for our report.

A number of controls have been implemented to ensure the DNSP and RESP do not highlight or cross-promote their relationship to allow the RESP to trade on the strong positive reputation of the DNSP to gain an advantage over competitors in the contestable electricity market. Energy Queensland maintains a Brand Centre on its intranet which provides the central source of all brand information to ensure Ergon Energy and its related affiliates maintain compliance with the ring-fencing obligations. The Energy Queensland Group Brand Guideline, Employee ID Guidelines, Email Signature Guideline and Brand Wheel Guideline provides detailed information for each entity in the Group and ring-fencing compliant templates for use by staff.

Energy Queensland's Branding Team actively monitor external-facing websites, social media (such as Facebook, and LinkedIn pages) and other electronic and physical areas where potential branding or cross-promotion breaches could occur. They also maintain a central email address to which staff can direct questions and request advice in relation to the proper use of branding.

With the expiry of Ergon Energy's branding waiver at the end of December 2019, the new ring-fencing compliant field workwear was deployed, and all field staff have received new uniforms. Work was also performed on the fleet vehicles branded with DNSP logos to ensure they were compliant. A dedicated

Intranet SharePoint site has been set up that provides relevant updates and a Frequently Asked Questions section that outlines ring-fencing requirements. An Energy Queensland Workwear Handbook has also been developed and published on the intranet site for staff that assists staff to understand how to use the correct uniforms and fleet branding.

Office and staff registers

A register of all Ergon Energy sites was placed on Ergon Energy's website and was reviewed during the 2019-20 regulatory year and no amendments were required. A staff sharing register, available on Ergon Energy's website, was also reviewed during 2019 and amended on an as needs basis.

Current copy of Ergon Energy's office register can be viewed via the following link:

https://www.ergon.com.au/_data/assets/pdf_file/0010/760429/Office-sharing-register.pdf

Current copy of Ergon Energy's staff sharing register can be viewed via the following link:

https://www.ergon.com.au/_data/assets/pdf_file/0020/760430/Staff-Sharing-Register.pdf

2.3 Information access and disclosure

Protection of confidential information

We understand the importance of keeping DNSP confidential electricity information confidential in accordance with the Guideline. For this reason, we have identified it as a risk area for Ergon Energy given the volume of confidential electricity information we hold, and we continue to review and improve our related controls.

During 2019-20 significant progress has been made in refining our approach to the protection of confidential electricity information (CEI). Ergon Energy continued to progress its short-term CEI strategy focussing on identifying CEI data storage areas, reviewing and reporting on contestable affiliate's user access, and developing controls for ongoing protection. This has been done using existing technology tools, largely as a manual investigation.

As a preventative measure, ICT requests from the RESP are sent to the Ring-fencing Team for review against the restricted information sources and approval granted only where it does not relate to an identified source which contains confidential electricity information. Requests also need to be approved by the information and application owners, which helps to ensure no unauthorised access by RESP staff is granted.

Ergon Energy's mid-to-long term confidential electricity information strategy continues to be the protection of confidential electricity information using a data-centric technology architecture. With the recent commencement of Energy Queensland's Chief Information Officer and restructuring of the digital and enterprise intelligence functions, further work is continuing in relation to access and security restriction requirements.

As part of the implementation of the enterprise-wide content management application, which is currently progressing as part of the Energy Queensland's broader digital enterprise building blocks project, we will be exploring the inclusion of ring-fencing confidential electricity information requirements. The enterprise-wide content management application is aimed at providing a unified information classification platform so confidential electricity information can be pre-determined once mature user access and information security policies and processes are in place.

In addition to these controls, staff awareness and guidance materials are made available to staff through a corporate intranet SharePoint site dedicated to explaining the nature of confidential electricity information and the relevant obligations under the Guideline. An information decision tree is available for staff to assist in determining what information falls under the confidential electricity information definition. Staff are directed to a central email address to request advice or clarification if there is any uncertainty. To further assist with the identification and protection of confidential electricity information, we are looking at developing confidential electricity information frequently asked questions and additional targeted awareness resources for shared staff.

Disclosure and sharing of information

For the period 1 July 2019 to 30 June 2020, there was one request for confidential information made by a RESP of Ergon Energy. The information was shared with the RESP and the information sharing register updated to reflect the disclosure. No requests for access to Ergon Energy's information register by competitors or potential competitors were received.

We are currently reviewing the Information Sharing Application Form and the Information Sharing Deed Poll to ensure they are user friendly and to simplify the information sharing process.

Information register

Ergon Energy has published an information sharing register on its external website. Ergon Energy's information sharing register is available via the following link:

https://www.ergon.com.au/_data/assets/pdf_file/0006/760425/Information-sharing-register.pdf

3 Waivers

Section 5 of the Guideline allows for a DNSP to seek a waiver of obligations under clauses 3.1, 4.2 and/or 4.4.1(a) if certain conditions are met.

Ergon Energy has an established, maintained register of all waivers (including any variations) granted to it by the AER, which is published on our website. The register makes clear the terms and conditions of the waiver, including the specific conduct to which the waiver applies. Ergon Energy's waiver register is available for viewing via the following link:

https://www.ergon.com.au/_data/assets/pdf_file/0009/760428/Networks-waiver-register.pdf

Ergon Energy had seven waivers of its obligations in place during the 2019-20 regulatory year:

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

4 Compliance and enforcement

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

Energy Queensland operates with a three lines of defence model for risk and compliance, including for the management of ring-fencing compliance. Compliance incidents are assessed using the Energy Queensland Risk Evaluation (Consequence and Likelihood) Matrix and escalated and reported using the Energy Queensland Risk Reporting Escalation Mechanism. There is centralised reporting of compliance matters through compliance reporting by Management who are responsible for identifying and managing compliance risks.

During the reporting period, Ergon Energy has enhanced its risk and compliance reporting and has further integrated ring-fencing risks and compliance matters into Energy Queensland's risk and compliance reporting processes to ensure appropriate escalation and oversight. Our business has been focussing on improving risk and compliance maturity through risk and compliance maturity models and undertook Division-specific baseline self-assessments for overarching maturity levels to provide insights for a point in time and to identify improvement opportunities.

The Enterprise Risk and Compliance Team continues to work closely with Legal, Regulation and Pricing Teams as a multi-disciplinary Ring-fencing Team, to ensure efficient and effective responses to compliance risk, including periodic, targeted compliance awareness programs and independent reviews of compliance performance. The Internal Control and Audit Team take a risk-based audit approach and provide independent assurance over control effectiveness (where required).

Ergon Energy uses a dedicated internal email address for any questions, issues and to report any potential breaches regarding ring-fencing compliance. The email address is monitored by members of the Ring-fencing Team. Ergon Energy's staff use this email address to seek advice and clarification prior to undertaking activities, ask questions and request additional training resources and to report if they are aware of any ring-fencing risks or circumstances which may give to a potential breach. A dedicated ring-fencing FAQ site has also been set up to provide a single source of ring-fencing information and advice to all staff.

Ring-fencing controls are assigned to responsible officers who are best placed to manage and monitor compliance. The controls are captured in the GRC tool with oversight by Management and the Enterprise Risk and Compliance Team to ensure that these controls are properly articulated, ownership and responsibility properly attributed and that ring-fencing risks and controls are appropriately reviewed and updated (as required).

During the reporting period, Energy Queensland launched (from January 2020) the implementation of its GRC tool which provides a centralised view of Energy Queensland's risks, controls, responses and compliance obligations (including Ergon Energy's ring-fencing compliance activities).

5 Annual Reporting

Other services provided

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

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

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

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

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

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

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

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

Transactions with affiliate entities

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

Throughout the 2019-20 regulatory year, Ergon Energy had a limited number of transactions with affiliated entities. These transactions between affiliated entities are captured in Ergon Energy's accounting and finance systems.

Ergon Energy historically incurred the majority of its costs within the entity, but as a result of corporate restructuring, more costs are now captured in the parent entity (EQL) and charged to the entities within the Group. Costs relating to the program of work (i.e. projects and work orders) are directly charged to projects and recorded in the relevant entity. Other indirect costs and overheads are allocated via the CAM.

Further transaction details are provided in **Table 1** (on the following page).

Table 1: Transactions between Ergon Energy and affiliated entities

Affiliated Entity	Cost Type	Transaction Description and Purpose
Energex	Materials	Material costs comprise the following direct costs: <ul style="list-style-type: none"> - direct acquisitions; - goods issued; and - other miscellaneous material costs
EQL	Network and Corporate Overheads	Overheads comprise indirect costs incurred by the EQL Group. These are charged to Ergon Energy in accordance with the CAM and reported as Network or Corporate Overhead. These costs consist of: <ul style="list-style-type: none"> - indirect labour and contractors; - office supplies; - utilities; - audit services; - legal services; - other professional fees & expenses; - licence fees (excluding motor vehicle rego fees); - subscriptions and registrations; - telephone, postage and courier service costs; - rental costs; and - insurance (other than motor vehicle and personnel).
Yurika (including Nexium and Metering Dynamics)	Various support services provided to Yurika	These services include: <ul style="list-style-type: none"> - installation/replacement of meters; - infrastructure services; - operating and maintenance services on generators; and - telecommunication expense.
Ergon Energy Retail	Network charges	Ergon Energy Retail incurs network charges from Ergon Energy (i.e. NUOS charges).
Ergon Energy Retail	Service fees	Ergon Energy provides business management, financial, corporate, customer care and administration services to Ergon Energy Retail.

Independent assessment

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

Ergon Energy engaged Deloitte Risk Advisory Pty Ltd (Deloitte) to undertake an Independent Assessment of Ergon Energy's compliance against the Guideline requirements. Deloitte have informed us they are not in a position to finalise the independent assessment report in time for us to submit it to the AER with Ergon Energy's compliance report.

Deloitte have informed us this is due to additional procedures they are required to undertake and that they expect to be able to finalise their reports within a 2 week period and by no later than 13 November 2020.

6 Appendix 1 – Compliance controls

	Control Category	Control Description – How compliance is demonstrated and supported	Specific Measures (H) Hard (S) Soft (P) Preventative (D) Detective (C) Corrective	Primary Ring-fencing Guideline/s captured		
				Principle	Clause	Sub-Clause
C1	Ensure costs are allocated appropriately	The Cost Allocation Methodology (CAM) ensures there is an approved process for capturing ring-fencing cost-reflective transactions and allocating costs between DNSPs and RESPs	<ul style="list-style-type: none"> CAM continues to incorporate ring-fencing requirements (HP) Treasury Agreement in place between affiliated entities (HP) RINs audited annually for compliance (HDC) Monthly variance analysis conducted (HDC) Monthly reconciliation of budget vs actual (HDC) 	3. Prevention of Cross Subsidies	3.2 Establish and Maintain Accounts	3.2.1(a) Establish and maintain appropriate internal accounting procedures 3.2.2(a), (b), (c) Cost allocation and attribution
C2	Ensure Financial Systems are Ring-fencing compliant	DNSP's enterprise resource management system capture DNSPs and RESPs and to accurately record the entire range of transactions between the affiliated entities, including: <ul style="list-style-type: none"> Procurement; Financial; and HR. 	<ul style="list-style-type: none"> ELLIPSE configured to meet Ring-fencing Guideline requirements and capture transactions (HP) Access to ELLIPSE districts controlled by security (HP) System detects potential erroneously coded transactions and flags for review (HD) Annual security review by information custodians (HDC) 	3. Prevention of Cross Subsidies 4. Functional Separation	3.2 Establish and Maintain Accounts 4.3 Information Access and Disclosure	3.2.2(a), (b), (c) Cost allocation and attribution 4.3.2 Protection of confidential information

	Control Category	Control Description – How compliance is demonstrated and supported	Specific Measures (H) Hard (S) Soft (P) Preventative (D) Detective (C) Corrective	Primary Ring-fencing Guideline/s captured		
				Principle	Clause	Sub-Clause
C3	Secondments between DNSPs and RESPs are ring-fencing compliant	<p>HR notifications sent to IT to identify start and end dates for secondments</p> <p>RESP staff are physically separated from DNSP staff</p> <p>Access to confidential information is appropriately applied depending on whether employee is DNSP, RESP or corporate support</p>	<ul style="list-style-type: none"> • Ellipse is automatically updated to recognise movements between DNSP and RESP (HP) • Automatic notifications generated (IT, Access, physical location) (HP) • Appropriate IT accesses applied to new position (HP) • Staff located appropriate to RESP or DNSP position (HPC) 	4. Functional Separation	<p>4.2 Offices, staff, branding and promotions</p> <p>4.3 Information Access and Disclosure</p>	<p>4.2.1(a) Physical separation</p> <p>4.2.2(a), (b) Staff sharing</p> <p>4.3.2 Protection of confidential information</p>
C4	Ensure all new EQL staff are aware of their ring-fencing obligations and provided with appropriate accesses	<p>All EQL Group position descriptions include mention of potential ring-fencing obligations</p> <p>HR onboarding online training includes introduction to ring-fencing obligations</p> <p>All new employees are required to complete the online Ring-fencing awareness training module</p> <p>HR onboarding for new staff ensure:</p> <ul style="list-style-type: none"> • Staff have been made aware of ring-fencing obligations 	<ul style="list-style-type: none"> • EQL employee induction material includes ring-fencing awareness (SP) • All new staff are required to undertake mandatory ring-fencing awareness online module training (SP) • EQL role descriptions templates updated to include ring-fencing obligation as mandatory role responsibility (HP) • Specific role description templates (HP) • Physical location of staff and security/building access based on whether they are DNSP or RESP or corporate support (HP) 	4. Functional Separation	<p>4.1 Obligation not to Discriminate</p> <p>4.2 Offices, staff, branding and promotions</p> <p>4.3 Information Access and Disclosure</p>	<p>4.1(b) DNSP must not discriminate</p> <p>4.2.1(a) Physical separation</p> <p>4.2.2 DCS marketing and provision staff not involved in RESP provision and marketing unless an exemption applies</p> <p>4.3.2 Protection of confidential information</p>

	Control Category	Control Description – How compliance is demonstrated and supported	Specific Measures (H) Hard (S) Soft (P) Preventative (D) Detective (C) Corrective	Primary Ring-fencing Guideline/s captured		
				Principle	Clause	Sub-Clause
		<ul style="list-style-type: none"> • Access to confidential information is appropriately applied depending on whether employee is DNSP, RESP or corporate support. • Staff are physically located appropriate to their role as a RESP or DNSP employee • Employee/contractor role descriptions do not include marketing and/or provision roles for both the DNSP and RESP. A role will only be a shared staff position if an exception under Clause 4.2.2 applies (e.g. the employee does not have access to CEI). 	<ul style="list-style-type: none"> • Staff are required to display ID cards which are ring-fencing compliant and are provided based on role (HP) • Guidance available to staff on which ID card should be applied for to ensure compliance with ring-fencing requirements (HP) 			

	Control Category	Control Description – How compliance is demonstrated and supported	Specific Measures (H) Hard (S) Soft (P) Preventative (D) Detective (C) Corrective	Primary Ring-fencing Guideline/s captured		
				Principle	Clause	Sub-Clause
C5	Legal Separation of DNSPs and RESPs	DNSPs and RESPs are legally separated entities	<ul style="list-style-type: none"> All EQL Group companies have separate ABNs and are registered with ASIC (HP) Constitutions are ring-fencing compliant (HP) Board Charters ring-fencing compliant (HP) Board paper templates include means for identifying ring-fenced papers (HP) Executive Governance Framework includes mechanism for Executive General Managers who undertake both regulated and unregulated roles (HP) Group Governance Framework is ring-fencing compliant (HP) 	3. Prevention of Cross Subsidies	3.1 Legal Separation	3.1(a) Separate legal entities 3.1(b) DNSP only to provide Distribution and Transmission Services
C6	Ensure fleet branding protocols are ring-fencing compliant	Fleet branding protocols incorporate ring-fencing requirements for branding of DNSP or RESP vehicles	<ul style="list-style-type: none"> Fleet branding for non-waiver related DNS or RESP fleet follow approved ring-fencing Branding Guidelines (HP) Staff are provided guidance on branding of vehicles based on DNSP or RESP usage (SP) 	4. Functional Separation	4.2 Offices, staff, branding and promotions	4.2.3(a) Branding and advertising
C7	Fleet branding is ring-fencing compliant	Fleet branding is ring-fencing compliant. A waiver was in place until 31 December 2019	<ul style="list-style-type: none"> Work was undertaken to ensure fleet branding was ring-fencing compliant prior to the Uniform and Fleet waiver expiring on 31 December 2019 (HPC) White magnetic stickers are to be placed over DNSP logos on vehicles prior to undertaking unregulated works (HPC) 	4. Functional Separation 5. Waivers	4.2 Offices, staff, branding and promotions 5.7 Waiver register	4.2.3(a) Branding and advertising N/A

	Control Category	Control Description – How compliance is demonstrated and supported	Specific Measures (H) Hard (S) Soft (P) Preventative (D) Detective (C) Corrective	Primary Ring-fencing Guideline/s captured		
				Principle	Clause	Sub-Clause
C8	Physical separation controls are ring-fencing compliant	<p>Physical separation controls have been implemented to ensure appropriate separation of DNSP and RESP staff including:</p> <ul style="list-style-type: none"> • In SEQ, where a significant volume of DNSP and RESP staff are located, the RESP staff were located in a separate office during the reporting period • In regional centres, and the EQL headquarters in Townsville, the RESP staff are located on separate floors of office buildings to DNSP staff. • In areas with less than 25,000 customer connection points within a 100km radius, RESP staff may work near the DNSP staff, in accordance with ring fencing exemptions • Physical brand signage is appropriately maintained based on location 	<ul style="list-style-type: none"> • Individual office security arrangements are based on type of offices (RESP only, DNSP only, mixed DNSP/RESP, regional) (HSPC) • Staff re-located based on roles DNSP / Corporate / RESP (HP) • Physical signage at offices is ring-fencing compliant (HP) • Electronic security access to all sites based on roles (HP) 	4. Functional Separation	<p>4.2 Offices, staff, branding and promotions</p> <p>4.3 Information Access and Disclosure</p>	<p>4.2.1(a) Separate offices</p> <p>4.3.2 Protection of confidential information</p>

C9	Ring-fencing compliance management is in place	Compliance Management Policy incorporates Ring-fencing obligations	<ul style="list-style-type: none"> Confidential Information Policy includes ring-fencing obligations (SP) Compliance Management Policy incorporates Ring-fencing obligations (SP) Implementing the Governance Risk and Compliance Tool to capture and manage ring-fencing (SPC) 	6. Compliance and Enforcement	6.1 Maintaining compliance	N/A
C10	Contracts are ring-fencing compliant	Contracts incorporate ring-fencing obligations where necessary	<ul style="list-style-type: none"> All contract templates are ring-fencing compliant (HP) Ring-fencing obligations are incorporated into new contracts where necessary (HP) Random audits of contracts undertaken to check for compliance (HDC) 	4. Functional Separation	4.1 Obligation not to Discriminate 4.2 Offices, staff, branding and promotions 4.3 Information Access and Disclosure 4.4 Service providers	4.1(b) DNSP must not discriminate 4.2.3 Branding and cross-promotion 4.3.2 Protection of confidential information 4.4.1 Conduct of service providers
C11	Ring-fencing Breach Register and Reporting	Breach register is maintained Protocols exist for assessing and reporting ring-fencing breaches	<ul style="list-style-type: none"> Ring-fencing breach register is created and maintained (SD) Breach notification and reporting procedure in place (SP) Breach reporting guidance document available for EQL staff on the intranet (SD) Control testing guidance available for control owners, including advice on escalating findings for investigation (SP) 	6. Compliance and Enforcement	6.1 Maintaining compliance 6.2 Compliance reporting 6.3 Compliance breaches	N/A N/A N/A

C12	Organisational templates reflect Ring-fencing requirements	Organisational templates reflect ring-fencing requirements including appropriate branding	<ul style="list-style-type: none"> All key documents are branded to ensure compliance (HP) Periodic review of documents to ensure ongoing compliance (SC) 	4. Functional Separation	4.2 Offices, staff, branding and promotions	4.2.3 Branding and cross-promotion
C13	Brand guidelines are ring-fencing compliant	Branding guidelines are current and reflect appropriate ring-fencing branding obligations	<ul style="list-style-type: none"> EQL branding guidelines reflect ring-fencing requirements (HP) Branding guidelines easily accessible on Intranet (SP) EQL email signature guidelines are available on the EQL Brand Centre (SP) Brand Centre site is available to provide guidance and materials for staff (SP) 	4. Functional Separation	4.2 Offices, staff, branding and promotions	4.2.3 Branding and cross-promotion
C14	Uniform branding is ring-fencing compliant	Uniforms for corporate and field staff have ring-fencing compliant branding. A waiver was in place until 31 December 2019	<ul style="list-style-type: none"> All staff uniforms have ring-fencing compliant branding (HP) Instructions are available to field staff on how to correctly use the branding on uniforms (SP) Intranet site is maintained with guidance to staff on how to wear uniforms and FAQs (SP) Email address available for all staff to request clarifying advice on uniforms (SPDC) 	4. Functional Separation 5. Waivers	4.2 Offices, staff, branding and promotions 5.7 Waiver register	4.2.3 Branding and cross-promotion N/A
C15	IT ring-fencing audit	Testing is performed to determine whether any RESP staff have access to DNSP CEI Exceptions are investigated for potential breaches and remediation activities undertaken.	<ul style="list-style-type: none"> RESP staff list is checked against known ring-fenced IT sources (HPDC) Remediation areas identified and rectification activities commenced if required (HC) Protocols for ring-fencing assessment of new SharePoint sites (HP) 	4. Functional Separation	4.3 Information access and disclosure 4.3 Information access and disclosure	4.3.2 Protection of confidential information 4.3.3 Disclosure of information

C16	Staff computer access is Ring-fencing compliant	ICT security access procedures incorporate ring-fencing obligations including access provided based on DNSP or RESP approved programs	<ul style="list-style-type: none"> • Use-of-Systems (UoS) agreement updated to include ring-fencing requirements. All staff agree to the UoS every time they log-in to the system (HP) • IT teams have ring-fencing lists for determining access requests based on DNSP or RESP approved list (HP) • All RESP requests to access to potential CEI sources are reviewed by the Ring-fencing Team and assessed against lists of CEI information sources prior to approval (HPDC) 	4. Functional Separation	4.3 Information access and disclosure	<p>4.3.2 Protection of confidential information</p> <p>4.3.3 Disclosure of information</p>
C17	System for assessing ring-fencing Breaches in place	<p>Ring-fencing breach identification and materiality assessment protocols in place and triggered once potential breach notifications have been received</p> <p>Protocols are in place and available on the intranet which provide guidance to EQL staff on how to report for investigation potential ring-fencing breaches and exceptions found during control testing</p> <p>Protocols are in place to guide ring-fencing control owners on how to treat and escalate for investigation, exceptions found during ring-fencing control testing</p>	<ul style="list-style-type: none"> • Ring-fencing breach assessment protocol in place (HD) • Materiality Calculator to assess breaches to determine if material (HD). • Notification protocols to ensure capture and reporting of potential breaches (HD) • Ring-fencing control testing exceptions guidance document available for control owners to advise on how to ensure exceptions found during testing are captured, escalated for investigation and utilised to strengthen controls (SPDC) • Remediation activities to be undertaken as part of assessment process to correct issue and ensure/minimise risk of future similar incidents (SHPDC) 	6. Compliance and Enforcement	6.1 Maintaining compliance	N/A

C18	DNSP and RESP staff are aware of ring-fencing obligations	<p>DNSP and RESP staff are made aware of ring-fencing obligations including annual refresher training.</p> <p>Ring-fencing training incorporated into onboarding for new staff.</p>	<ul style="list-style-type: none"> • Ring-fencing Awareness training module available for staff online, with an annual refresher triggered through training system (SP) • Central ring-fencing intranet page available for staff to provide guidance on ring-fencing obligations (SP) • ring.fencing@energyq.com.au email address available for staff to request clarifying advice on ring-fencing issues (SPDC) • Ring-fencing email also used for reporting of suspected breaches (SDC) 	6. Compliance and Enforcement	6.1 Maintaining compliance	N/A
C19	Office Registers and Staff Registers	Office Registers and Staff Registers publicly available	<ul style="list-style-type: none"> • Registers available and easy to access on the intranet (SP) • Registers available on the external website (SP) • Registers updated as required (SPC) • Staff sharing quick reference matrix available and easy to access on the intranet (SP) 	4. Functional Separation	4.2 Offices, staff, branding and promotions	4.2.4 Office and staff registers
C20	Information Sharing Register	Information Sharing Register publicly available	<ul style="list-style-type: none"> • Register available and easy to access on the intranet (SP) • Register available on the external website (SHP) • Register updated as required (SHPC) 	4. Functional Separation	4.3 Information Access and Disclosure	4.3.5 Information register
C21	Waiver Register	Waiver Register publicly available	<ul style="list-style-type: none"> • Register available and easy to access on the intranet (SP) • Register available on the external website (SHP) • Register updated as required (SHP) 	5. Waivers	5.7 Waiver register	N/A

C22	Information Sharing	Information Sharing Guideline and decision trees available	<ul style="list-style-type: none"> • Information Sharing Protocol available and easy to access on the intranet (SP) • Information Sharing Protocol available on the external website (SP) • Information sharing decision tree available to all staff on the intranet (HP) 	4. Functional Separation	4.3 Information Access and Disclosure	4.3.4 Sharing of information
C23	Remuneration incentives are ring-fencing compliant	Performance, remuneration and incentives are ring-fencing compliant for staff eligible for bonuses	<ul style="list-style-type: none"> • Remuneration template is ring-fencing compliant based on staff position (SP) • Performance Incentive Framework is ring-fencing compliant (SP) • The Performance Framework User Guide is ring-fencing compliant and DNSP staff must not have a KPI related to growth in unregulated revenue (SP) 	4. Functional Separation	4.2 Offices, staff, branding and promotions	4.2.2(c) DNSP remuneration, incentives etc.
C24	DNSP tender processes for contestable services consider ring-fencing obligations	DNSP tender processes for contestable services consider ring-fencing obligations to ensure RESPs do not receive favourable treatment and DNSP service providers are aware of their ring-fencing obligations	<ul style="list-style-type: none"> • Tender documents incorporate ring-fencing requirements (HP) • Random audits of tenders undertaken to determine compliance (HDC) 	4. Functional Separation	4.1 Obligation not to Discriminate	4.1(b) DNSP must not discriminate
C25	System Access controls for shared staff	System access controls are in place for customer service and dispatch staff to allow them to perform regulated and unregulated work in compliance with the Ring-fencing Guideline	<ul style="list-style-type: none"> • System alarms alert Team Leader when inappropriate accesses occur, and Team Leader investigates • Call centre processes incorporate ring-fencing obligations 	4. Functional Separation	4.3 Information access and disclosure	<p>4.3.2 Protection of confidential information</p> <p>4.3.3 Disclosure of information</p>