



# ELECTRICITY DISTRIBUTION RING-FENCING ANNUAL COMPLIANCE REPORT 2018/19

OCTOBER 2019



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## 1: Overview

Essential Energy has implemented a compliance plan to ensure its ring-fencing obligations under the AER's Ring-fencing Guideline for Electricity Distribution<sup>1</sup> (the Guideline) are met.

The strategic approach for meeting compliance obligations contained in the Guideline centres on Essential Energy withdrawing from providing most contestable services, which is expected to minimise costs, regulatory risk, and implementation challenges related to legal separation, functional separation, IT costs, transfer of staff and assets between legal entities, changes in financing and accounting processes, ring-fencing of electricity information, and amendments to contracts.

However, Essential Energy will continue to provide some contestable services in a limited and narrowly specified capacity under waivers from the AER to maintain services to areas where functional competitive markets are absent. This is to ensure regional and rural customers continue to receive an adequate level of service and avoid unnecessary costs.

Broadly, Essential Energy's strategic approach to meeting its ring-fencing obligations comprises:

- > Changes in service classifications to the alternative control classification where appropriate;
- > Discontinuing services (except where regional office exemptions apply); and
- > Seeking waivers for minor services where functioning competitive markets do not exist.

The compliance and reporting processes established include those for the Annual Compliance Report and breach reporting. Essential Energy has identified breaches of the Guideline for the 2018/19 regulatory year and these are detailed in Appendix B.

## 2: Regulatory Framework

Rule 6.17.1 of the National Electricity Rules requires that all required distribution network suppliers (DNSPs) to comply with the Distribution Ring-Fencing Guideline prepared by the AER.

In October 2017 the AER published version 2 of the Ring-Fencing Guideline Electricity Distribution. The objective of the Guideline 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 their affiliated entities.
- > 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.

Clause 6.1 of the Guideline requires DNSPs to establish and maintain appropriate internal procedures to ensure it complies with its obligations under the Guideline. The AER may require the DNSP to demonstrate the adequacy of these procedures upon reasonable notice.

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<sup>1</sup> AER, *Ring Fencing Guideline for Electricity Distribution*, 30 November 2016.

The Guideline commenced on 1 December 2016. The Guideline also provides transitional arrangements for existing services with DNSPs required to comply as soon as reasonably practicable and no later than 1 January 2018.

## 2.1 Reporting Requirements

Section 6.2.1 of the Guideline requires Essential Energy to prepare an annual ring-fencing compliance report. The 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.

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

Annual compliance reports may be made publicly available by the AER.

Section 6.2.2 of the Guideline states 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, for Essential Energy the report must be submitted to the AER by 31 October.

## 3: Measures to Ensure Compliance

Clause 6.2.1(b)i requires DNSPs to report on the measures the DNSP has taken to ensure compliance with its obligations under the Guideline. Annual compliance reporting by the DNSP should explain how the compliance measures put in place address every obligation in the Guideline. In assessing the appropriateness of a DNSPs compliance measures, the AER will consider whether each obligation is addressed by:

- > Preventative controls or measures, which are designed to prevent breaches of a particular obligation in the Guideline from occurring.
- > Detective controls or measures, which are designed to ensure that breaches that have already occurred are detected or identified internally in a timely manner.
- > Corrective controls or measures, which ensure that a timely appropriate corrective or remedial action can be taken to address a breach once it is detected. Having strong corrective controls in place may make breaches less likely to recur.

The compliance measures that Essential Energy has in place are detailed in Appendix A.

### 3.1 Challenges

Essential Energy's strategic approach to achieve compliance with its ring-fencing obligations involves only providing contestable services to regional and remote customers where a functional competitive market is absent. This approach minimises the challenges that Essential Energy is expected to experience in complying with its ring-fencing obligations. Consequently, Essential Energy considers that there are no material challenges to its compliance with ring-fencing obligations.

### 3.2 Risk Areas

The strategic approach to ring-fencing obligations minimises exposure to the risk of non-compliance. However, two scenarios could present a small degree of risk:

- > Not being able to obtain waivers to allow for the provision of limited contestable services where functional competitive markets are absent; and
- > Failure to classify unclassified services to alternative control or standard control service classifications.

These two scenarios may prevent Essential Energy from providing services to regional and rural customers where a functional competitive market is absent to the detriment of those customers.

However, Essential Energy does not consider the potential risks arising from these scenarios to be material given that it is unlikely that the competitive market could provide the set of limited and narrowly defined contestable services at a comparable cost and quality should Essential Energy cease providing them. It follows that the AER granting appropriate waivers and service classifications to allow the continued supply of a limited and narrow set of contestable services by Essential Energy is in the long-term interest of customers.

## 4: Breaches

Under clause 6.2.1(b)ii of the Guideline any breaches of the Guideline by the DNSP must be reported in the annual compliance report. This means that any material breaches already reported to the AER, and any breaches not already reported to the AER, must be reported upon within the annual compliance report. Under clause 6.3 of the Guideline, a DNSP must notify the AER in writing within five business days of becoming aware of a material breach of the Guideline. Essential Energy's definition of materiality is discussed in section 8.1.

Essential Energy identified breaches of the Guideline for the 2017/18 regulatory year and these are detailed in Appendix B to this report.

## 5: Other Services

Clause 3.1 of the Guideline sets out the specific circumstances under which a DNSP can provide other services without breaching the Guideline. In accordance with clause 6.2.1(b)iii of the Guideline these services must be reported in the annual compliance report. The provision of other services is subject to the conditions of any waivers granted by the AER.

- > Essential Energy was granted a waiver, that expired on 30 June 2019, from its obligations under clauses 3.1, 4.2.1, 4.2.2, 4.2.3, 4.2.4 and 4.4.1(a) to enable it to continue to provide the following services, which are either classified as Negotiable Services or Unclassified Services in the applicable AER service classification:
  - Provision of nightvision services (including: provision of LED street lighting, provision of night vision services)
  - Emergency recoverable works
  - Rental and hire services (this covers activities related to 'shared asset facilitation' of distributor assets)
  - Rectifications works to maintain network safety
  - Network safety services
  - Network related training courses
  - Minor and legacy metering services (this includes distributor arranged outage for the purpose of replacing a meter)
  - Sale of inventory (this covers 'sale of stock to Accredited Service Providers (ASPs)')
  - Test access permit fee
  - Environmental impact assessment training
  - Customer requested planned interruption services
  - Customer initiated asset relocations.

Essential Energy was providing these services prior to the Ring-fencing guideline commencing on 1 January 2018. Essential Energy engaged with the AER over these services throughout the process for the 2019-24 Regulatory Determination and the AER included these services in the proposed classification of services for the 2019-24 regulatory period. The AER subsequently granted Essential Energy a transitional waiver on the basis that all of these services will be classified by the AER as alternative control for the 2019-24 regulatory period. Compliance with the waiver was checked regularly through the quarterly reporting process facilitated by the Compliance Team.



- > Essential Energy has also been granted a waiver from its obligations under clauses 3.1, 4.2.1, 4.2.2, 4.2.3, 4.2.4 and 4.4.1(a) to allow it to continue its water licence in its maintenance cost sharing arrangement between Essential Energy and the Clarence Valley Council.
- > Essential Energy has also been granted a waiver from its obligations under clauses 3.1, 4.2.1, 4.2.2, 4.2.3, 4.2.4 and 4.4.1(a) to allow it to continue to own and operate Essential Water, a water supply authority providing water, sewage, liquid trade waste and other miscellaneous services in the far west of NSW.
- > Essential Energy was also granted a waiver, that expired on 30 June 2019, from its obligations under clauses 4.2.1, 4.2.2, 4.2.3, 4.2.4 and 4.4.1(a) to allow it to continue to provide type 1-4 metering services until such time as it can completely exit the market.
- > Essential Energy was also granted a waiver, that expired on 30 June 2019, from its obligations under clauses 3.1, 4.2.1, 4.2.2, 4.2.3, 4.2.4 and 4.4.1(a) to allow it to continue to provide services described as 'provider of last resort services' as if these are classified Alternate Control Services.

The services covered by this waiver include:

All services allowed for under the NSW ASP Scheme including:

- Level 1 customer connection services including both overhead and underground, and including related network extensions or augmentations;
- Level 2 services such as disconnect and reconnect, work on underground service conductors, work on overhead service conductors;
- Level 3 design services for both overhead and underground network electricity assets.

The services covered by this waiver also include:

- Customer initiated asset relocations; and
- Inspection, maintenance and testing of customer assets including high voltage assets (this is for standard distribution and sub-transmission type assets and excludes emerging technology such as PV, batteries, etc).

The waiver is limited to the circumstances and conduct set out in the waiver application and subsequent Essential Energy submissions. It does not extend to any other conduct or circumstances.

To ensure compliance with the conditions of this waiver, Essential Energy implemented a Provider of Last Resort process. Under this process customers who are unable to find a competitive third-party provider to undertake their contestable services are firstly required to complete a Provider of Last Resort form, which is available on Essential Energy's website. The job details captured on the form are then advertised on Essential Energy's website for a period of two weeks allowing third party providers the opportunity to contact the customer and provide a quote to undertake the work. At the end of the two advertising period, Essential Energy contacts the customer to confirm if they were successful in obtaining a competitive quote, only in instances where the customer was not able to obtain a contestable quote is Essential Energy able to provide a quote to the customer to perform the works.

- > Essential Energy has also been granted a waiver from its obligations under clauses 4.2.1, 4.2.2, 4.2.3 and 4.2.4 to allow it to continue to provide Accredited Service Provider Initial and Refresher Training, Work Near Overhead Powerlines (WNP) Initial and Refresher Training and Safe Work Practices Initial and Refresher Training to Accredited Service Providers on a very limited basis. This is on the condition that Essential Energy will only provide these contestable services in Albury, Ballina, Bathurst, Bingara, Blayney, Braidwood, Broadwater, Broken Hill, Bulahdelah, Buronga, Cobar, Cobram, Coffs Harbour, Condon, Corowa, Deniliquin, Dubbo, Eden, Ewingsdale, Goulburn, Goondiwindi, Grafton, Griffith, Harwood, Hay, Holbrook, Inglewood, Inverell, Kempsey, Leeton, Lismore, Marulan, Mittagong, Moree, Moruya, Mulwala, Murwillumbah, Nambucca Heads, Narrabri, Orange, Parkes, Queanbeyan, Tamworth, Taree, Temora, Tweed Heads, Uki, Wagga, Walcha, Wialda, Young, Wodonga, Echuca, Bendigo and Swan Hill.

To ensure compliance with this waiver, Essential Energy’s training team have been instructed to only provide the contestable training services in areas that are subject to the waiver. Compliance is checked regularly through a quarterly reporting process facilitated by the Compliance Team.

Essential Energy also provides the following other distribution services in accordance with the AER’s Shared Asset Guideline:

- > Fibre Optic – access to fibre optic cable for telecommunication purposes
- > NBN – Pole access for installation of fibre optic cable for telecommunication purposes
- > Rental – Property leasing and tower access for a third party to install radio frequency equipment for use in telecommunications equipment.

## 6: Transactions with affiliated entities

Essential Energy does not have an affiliated entity or entities, as such there are no transactions with affiliated entities to be reported.

## 7: Compliance Reporting System

Essential Energy maintains a set of ring-fencing policies and procedures, which include:

- > Ring-Fencing Policy: this document provides guidance to Essential Energy staff on the obligations and responsibilities outlined the Guideline;
- > Ring-Fencing Procedure: this document provides guidance to Essential Energy employees on how to adhere to the Ring-Fencing Policy
- > Ring-Fencing Compliance Monitoring and Reporting: this document outlines the processes for undertaking breach management and reporting and preparing the annual compliance report.

Essential Energy’s ring-fencing policies and procedures form the basis for its ring-fencing compliance reporting system and assigns authorities and responsibilities to Essential Energy staff/teams, as set out in Table 1 below.

**Table 1 Assigned authorities and responsibilities**

Staff/team	Authorities and responsibilities
Head of Regulatory Affairs	<ul style="list-style-type: none"> <li>&gt; Approval of ring-fencing procedures.</li> </ul>
Regulation team	<ul style="list-style-type: none"> <li>&gt; Ensure the list of regional offices remains up-to-date by reconfirming the analysis that identified the offices, as appropriate, and updating the list, if the criteria in the Guideline change;</li> <li>&gt; Maintain a list of all the services offered by Essential Energy and ensure the delivery of them remains compliant with the Guideline obligations;</li> <li>&gt; Manage the Confidential Information disclosure and sharing process, including ensuring the information register and Information Sharing Protocol are up-to-date;</li> <li>&gt; Manage the ring-fencing compliance monitoring and reporting process, including:               <ul style="list-style-type: none"> <li>• Prepare the quarterly and annual reports to the Executive;</li> <li>• Provide advice and support to Managers, who are responsible for providing quarterly compliance reports; and</li> <li>• Ensure the staff, office and waiver registers are kept up-to-date; and</li> <li>• Manage the breach reporting process.</li> </ul> </li> </ul>

Staff/team	Authorities and responsibilities
<b>Finance team</b>	<p>In the instance where an affiliated entity is created:</p> <ul style="list-style-type: none"> <li>&gt; Create and maintain procedures that demonstrate the extent/nature of transactions between DNSP and Affiliated Entities; and</li> <li>&gt; Maintain records that demonstrate the process for allocating costs between Distribution Services carried out by Essential Energy and non-distribution services provided by an Affiliated Entity.</li> </ul>
<b>Corporate strategy and HR team</b>	<ul style="list-style-type: none"> <li>&gt; Ensure that Essential Energy's approach to remuneration, incentives and benefits does not create an incentive for staff to act in a manner that is contrary to the Guideline.</li> </ul>
<b>All employees</b>	<ul style="list-style-type: none"> <li>&gt; Notify their Branch Manager and the Regulation Team of new commercial opportunities so ring-fencing implications can be considered;</li> <li>&gt; Ensure Essential Energy's competitors are not discriminated against, due to preferential treatment being given to a Related Electricity Service Provider (RESP);</li> <li>&gt; Refer any requests for Confidential Information by a RESP or external party to the Regulation Team; and</li> <li>&gt; Report any suspected breaches of the Guideline to the Compliance Reporting team.</li> </ul>

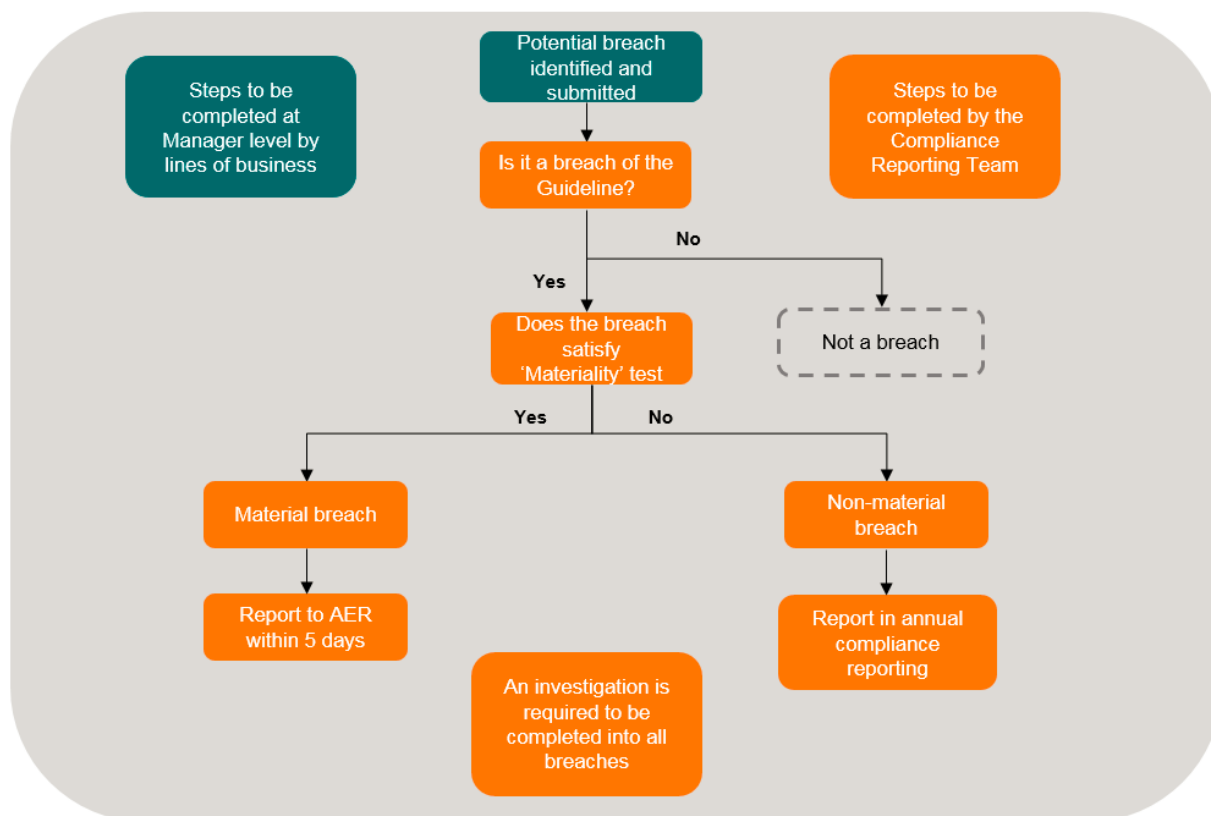
The compliance reporting system assists in maintaining compliance with the Guideline and assigns responsibilities for the Annual Compliance Report and breach reporting. The process for these reporting outputs are set out below.

## 7.1 Breach reporting

Under the Guideline, Essential Energy must notify the AER in writing within five business days of becoming aware of a material breach of its obligations under the Guideline. However, for the 2018/19 compliance period the AER had not defined what it considered to be a material breach and, instead, indicated that the definition is for each business to determine. Essential Energy has identified the following process set out in Table 2 for determining whether a breach is material and needs to be reported within five business days. It is noted that the AER in its Electricity Distribution Ring-Fencing Guideline - Compliance reporting best practice manual Version 2 July 2019, has defined what it considers to be a material breach and the factors to be considered when a breach occurs. Essential Energy will adopt this approach for the 2019/20 compliance period.



Figure 1 Decision tree for identifying and reporting material breaches



Essential Energy has chosen not to establish a prescriptive ‘materiality’ test, due to the potential range of breaches that may occur across a number of different areas. Instead, the Compliance Team have regard to the factors and guiding questions set out in Table 2, when determining whether a material breach has occurred. It should be noted that this is not an exhaustive list and is expected to evolve over time, as ring-fencing compliance is further embedded in the business.

Table 2 Factors and guiding questions for determining materiality

Factors	Key questions
<b>Intentional</b>	<ul style="list-style-type: none"> <li>&gt; Was the breach intentional?</li> <li>&gt; Was the person aware of their obligations?</li> </ul>
<b>Consequence</b>	<ul style="list-style-type: none"> <li>&gt; Who was affected by the breach and how (e.g. competitors, customers)?</li> <li>&gt; Did Essential Energy or a third party gain, or potentially gain, some form of compensation or a competitive advantage?</li> <li>&gt; What was the nature and quantum of any gain?</li> <li>&gt; Has or can corrective action be undertaken?</li> </ul>
<b>Controls</b>	<ul style="list-style-type: none"> <li>&gt; What was the nature of the control failure that occurred?</li> <li>&gt; Were multiple business units involved?</li> <li>&gt; Were multiple staff involved?</li> </ul>
<b>Likelihood</b>	<ul style="list-style-type: none"> <li>&gt; Has this incident or a similar incident occurred previously, including in the previous 12 months?</li> </ul>

Factors	Key questions
	<ul style="list-style-type: none"> <li>&gt; What has been the frequency?</li> <li>&gt; Has this incident or a comparable incident previously been reported to the AER?</li> </ul>
Management	<ul style="list-style-type: none"> <li>&gt; Was an Officer or Management directly or indirectly involved?</li> </ul>
Source	<ul style="list-style-type: none"> <li>&gt; Was the incident raised by a third party?</li> <li>&gt; When was it raised and with whom?</li> <li>&gt; What was the impact for the third party?</li> </ul>

If the breach is found to be material, it is reported to the AER using the AER's breach notification template. Non-material breaches, while they do not need to be reported to the AER within five business days, will still be disclosed in the Annual Compliance Report. The breach reporting process is set out in the table below.

**Table 3 Breach reporting process**

Breach reporting process	Process number	Description	Responsibility
<b>Breach occurs</b>	1.1	Identification of breach or a possible breach	Business stakeholders
<b>Breach notification</b>	2.1	Upon identification of a breach or possible breach, the employee must immediately notify the Compliance Team. Field employees can use the Ring-Fencing Breach Notification Form on the field portal. All other staff can send reports of potential breaches to the Compliance Team by email.	Identifier of the breach
	2.2	<p>The Compliance Team will review and determine if a breach has occurred. Where a breach is determined the Compliance Team will apply the 'materiality' test to determine whether the breach needs to be reported to the AER within five business days.</p> <p>Where the breach fails the 'materiality' test it is considered non-material.</p> <p>At this stage, the Compliance Team will also work with the business to identify and begin implementation of appropriate treatments to remedy the breach using a Breach Investigation Template. The Compliance Team will also record the breach in the Breach Register.</p>	Compliance Team/Business Stakeholder

Breach reporting process	Process number	Description	Responsibility
	2.3a	<p>Material Breaches:</p> <p><b>Internal Notification:</b> Immediate notification to the line management, including Executive, of the business stakeholder reporting the breach and the Head of Regulatory Affairs and General Manager Strategy, Regulation &amp; Corporate Affairs.</p> <p>The AER must be notified within five business days, as described below. The Compliance Team will work with the business stakeholder to compile the information required by the regulator for this notification, using the Breach Investigation and Treatment activity set out in 3.1.</p> <p><b>Notification to the AER:</b> The notification must be provided to the AER within five business days of the breach being identified. The breach notification must include the information required as per the AER's breach template.</p> <p>– The notification is to be approved by the Head of Regulatory Affairs, EPO and GM Strategy, Regulation &amp; Corporate Affairs, before being submitted to the AER.</p>	Compliance manager
	2.3b	<p>Non-Material Breaches:</p> <p><b>Internal Notification:</b> Complete a Breach Investigation Template and provide it to the Compliance Team.</p> <p><b>AER:</b> Essential Energy must report to the AER on all breaches as part of its Annual Compliance Report.</p>	Business stakeholder
<b>Breach investigation and treatment</b>	3.1	<p>Use the Breach Investigation Template to investigate the breach and gather the required information, which will be used to inform the breach notification to be provided to the AER.</p> <p>The Compliance Team will validate the appropriateness of the treatments identified. This information is then loaded into the Breach Register and the Obligations Register by the Compliance Team.</p>	Compliance team
<b>Implement treatment plan</b>	4.1	Implement the actions contained in the treatment plan.	Business stakeholder
	4.2	If the treatment plan is not able to be immediately implemented, provide regular status updates to the Compliance Team on the progress of implementing the treatment plan. This must continue until the treatment plan has been fully implemented.	Business stakeholder
	4.3	Validate the successful implementation of the treatment plan including that it supports achieving ongoing compliance with the obligation.	Compliance team

Breach reporting process	Process number	Description	Responsibility
	4.4	<p>Update the Obligations Register to reflect the implementation of the treatment plan. The implementation of the treatment plan may require update or reassessment of the following fields in the Obligations Register:</p> <ul style="list-style-type: none"> <li>&gt; Controls as treatments, once implemented will form controls;</li> <li>&gt; The control effectiveness assessment to take account of the implemented treatments; and</li> <li>&gt; The residual risk rating to reflect any change required as a result of strengthened controls.</li> </ul>	Compliance manager

## 7.2 Annual Compliance Report

The Guideline requires Essential Energy to prepare and submit an Annual Compliance Report to the AER, which covers:

- > the measures undertaken to ensure compliance with the Guideline obligations;
- > any breaches of the Guideline, including those that otherwise relate to Essential Energy;
- > all 'other services' provided by Essential Energy under a waiver from the AER; and
- > the purpose of all transactions between Essential Energy and any Affiliated Entities.

Set out below is the detailed process required to prepare the Annual Compliance Report and obtain an Assessment of Compliance from an Independent Authority.

Reporting process	Process number	Description	Responsibility
Preparation	1.1	<p>Carry out the final quarterly Ring-Fencing Request for Information process for the regulatory year to identify the information required to demonstrate the measures undertaken to ensure compliance undertaken by Essential Energy.</p> <p>Determine the need for the following actions and complete if deemed necessary:</p> <ul style="list-style-type: none"> <li>&gt; Update regional office analysis (no. of connection points within 100km for each depot);</li> <li>&gt; Review/update registers;</li> <li>&gt; Update ICT systems listing re confidential information</li> <li>&gt; Ensure no access to confidential information for employees in RESP</li> <li>&gt; Seek declaration from those deemed 'officers' (if RESP exists)</li> <li>&gt; Complete refresher training for all/some employees</li> <li>&gt; Review/update induction training</li> </ul>	Compliance Team

Reporting process	Process number	Description	Responsibility
	1.2	<p>Complete the required sections of the annual report, including:</p> <ul style="list-style-type: none"> <li>&gt; Document all measures taken throughout the year to ensure compliance with Ring-fencing obligations.</li> <li>&gt; Identify all of the breaches of the Guideline by Essential Energy through review of the breach register and any follow-up required with business stakeholders.</li> <li>&gt; Collate all the Other Services identified by business stakeholders in their responses to the quarterly requests for information.</li> <li>&gt; Identify the purpose of all transactions with the Affiliated Entity via liaison with Finance.</li> <li>&gt; Consider inclusion of any other sections in the Annual Compliance Report, (e.g. significant events that occurred during the year such as establishment of an Affiliated Entity).</li> </ul>	Compliance Team
<b>Independent Authority Assessment of Compliance</b>	2.1	Procure the services of an Independent Authority to undertake assessment of Essential Energy's ring-fencing compliance and assist the Independent Authority as required.	Compliance Team
	2.2	Review Assessment of Compliance and provide feedback as required.	Head of Regulatory Affairs
<b>Approval process</b>	3.1	Email Annual Compliance Report, with Assessment of Compliance appended, to Head of Regulatory Affairs for review.	Compliance Team
	3.2	Review the Annual Compliance Report. Engage with the Compliance Manager to clarify any queries. Email to the Executive GM Strategy, Regulation & corporate Affairs for review.	Head of Regulatory Affairs
	3.3	Review the Annual Compliance Report. Engage directly with the Compliance Manager to clarify queries or request further information as required. Submit to the Chief Executive Officer for review and approval to submit to the AER.	GM Strategy, Regulation & Corporate Affairs
	3.4	Review and advise the Compliance Team of authority to submit to the AER.	Chief Executive Officer
<b>Submission</b>	4.1	Submit report to the AER	Compliance Team



## 8: Independent assessment

Essential Energy engaged Deloitte to provide an independent assessment of compliance. The assessment is provided to the AER together with this report pursuant with the requirements of the Guideline.

## Appendix A – Compliance measures

Ring-fencing obligation		Compliance measures
Clause	Description	
<b>Legal separation</b>		
3.1(a)	A DNSP must be a legal entity	<p><b>Separate legal entity by statute</b></p> <p>Essential Energy is a New South Wales statutory State Owned Corporation under the State Owned Corporations Act 1989.</p> <p>This establishes Essential Energy as a legal entity and is consistent with ring-fencing obligations in clause 3.1(a) of the guidelines.</p>
3.1(b)	Subject to this clause 3.1, a DNSP may provide distribution services and transmission services, but must not provide other services.	<p><b>Strategic approach to ring-fencing compliance</b></p> <p>Essential Energy has adopted the strategic approach to ring-fencing compliance by withdrawing from the provision of Other Services, including Contestable Electricity Services, except in limited circumstances where:</p> <ul style="list-style-type: none"> <li>&gt; the competitive market is not able to provide the service at reasonable cost and quality; and</li> <li>&gt; a waiver from the AER has been granted to Essential Energy to provide the other service or a regional office exemption exists.</li> </ul> <p>While Essential Energy's strategic approach to ring-fencing compliance is not strictly a control, it is a compliance measure that defines the scope of activities necessary to ensure compliance with ring-fencing obligations by preventing the provision of Other Services in the first place.</p> <p><b>Waivers and waiver register (preventative control)</b></p> <p>Essential Energy has identified Other Services that it should provide for the benefit of its customers due to:</p> <ul style="list-style-type: none"> <li>&gt; a lack of a competitive market to provide those services, and</li> <li>&gt; whether an exemption applies (e.g. a regional office exemption).</li> </ul>

Ring-fencing obligation		Compliance measures
Clause	Description	
		<p>Where exemptions do not apply, Essential Energy will apply for a waiver from the AER in order to provide Other Services and maintain compliance with the guideline. Waiver applications are the responsibility of the Compliance Team, who also maintains the waiver register that is used internally in Essential Energy to inform business managers of the types of Other Services they are allowed to provide.</p> <p><b>Approval of new services (preventative control)</b></p> <p>Essential Energy has an Innovation team who look at new services. Part of their process during the feasibility stage is to engage the Compliance Team to explore any regulatory issues, including ring-fencing, that need to be considered if the new service is to be adopted.</p> <p><b>Training and awareness (preventative control)</b></p> <p>All staff are required to undergo training on Essential Energy's ring-fencing obligations. The training provides staff awareness and knowledge that Essential Energy does not provide Other Services, unless an AER waiver has been granted or an exemption exists. Training is delivered via Essential Energy's online training system and completion by staff is recorded and monitored.</p> <p>All new employees to Essential Energy complete Ring-fencing training as part of their induction training package. Annual refresher training is also delivered to all staff to maintain the required awareness and knowledge among staff.</p> <p><b>Quarterly compliance reporting (detective control)</b></p> <p>The Compliance Team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the guidelines. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches.</p> <p><b>Financial results review (detective control)</b></p> <p>Financial results are reviewed by management and the Finance Team monthly, including revenue results and variances from expected or budgeted outcomes. This can assist in detecting breaches where revenues are unexplained or vary significantly from what is expected.</p>

Ring-fencing obligation		Compliance measures
Clause	Description	
<b>Establish and maintain accounts</b>		
3.2.1(a)	A DNSP must establish and maintain appropriate internal accounting procedures to ensure that it can demonstrate the extent and nature of transactions between the DNSP and its affiliated entities.	<p><b>Strategic approach to ring-fencing compliance</b></p> <p>Essential Energy has adopted the strategic approach to ring-fencing compliance by withdrawing from the provision of Other Services, including Contestable Electricity Services, except in limited circumstances where:</p> <ul style="list-style-type: none"> <li>&gt; the competitive market is not able to provide the service at reasonable cost and quality; and</li> <li>&gt; a waiver from the AER has been granted to Essential Energy to provide the other service or a regional office exemption exists.</li> </ul> <p>Consequently, Essential Energy has not established a legally separate entity for the provision of Other Services. Furthermore, Essential Energy does not have affiliated entities or related electricity service providers for the purposes of its ring-fencing obligations. It follows that Essential Energy does not have affiliated entities which it can have transactions with.</p> <p>Demonstrating the extent and nature of transactions between Essential Energy and its non-existent affiliated entities is a matter of the Compliance Team with support from the Finance Team reporting nil for these types of transactions.</p> <p>By not having any affiliated entities (pursuant to Essential Energy's strategic approach to ring-fencing compliance), Essential Energy demonstrates its compliance with the requirement to maintain separate accounts as there are no affiliated entity accounts to keep separate, preventing any breach of the guidelines.</p> <p><b>Financial results review (detective control)</b></p> <p>Financial results are reviewed by management and the Finance Team monthly, including revenue and expenditure results and variances from expected or budgeted outcomes. This can assist in detecting transactions that should not exist (e.g. with non-existent affiliated entities).</p>
3.2.2(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	<p><b>Accounting codes for distribution and non-distribution services (preventative control)</b></p> <p>Essential Energy maintains a chart of accounts in its accounting system that distinguishes distribution and non-distribution services based on the business unit those services are</p>

Ring-fencing obligation		Compliance measures
Clause	Description	
	attribution of costs between distribution services and non-distribution services.	provided by. This prevents confusing transactions between distribution and non-distribution services when the Finance Team attributes expenditure and revenue to various accounts.
3.2.2(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>Finance Team attributes expenditure and revenue to distribution services (and non-distribution services) in a manner that is consistent with the CAM, which informs the compilation of monthly management accounts.</p> <p><b>Financial results review (detective control)</b></p> <p>Essential Energy maintains and applies its current CAM so that costs are allocated to non-distribution services (e.g. Essential Water) in accordance with the CAM.</p> <p>Management accounts are reviewed on a monthly basis by managers and variances from expectations investigated. This process can assist in detecting allocation of expenditure and revenues that are inconsistent with the CAM.</p>
3.2.2(c)	A DNSP must establish, maintain and keep records that demonstrate how it meets the obligations in clauses 3.2.2(a) and 3.2.2(b), and must not allocate or attribute other costs to the distribution services it provides.	<p><b>Reviewing and maintaining accounting records (detective control)</b></p> <p>The Finance Team maintains accounting and financial records as part of its basic function. These records have been reviewed and approved by managers in the Finance Team to ensure they are correct prior to being archived.</p> <p>The review and approval process also includes consideration of whether costs have been allocated to distribution services correctly, and that costs for other services have not been allocated to distribution services.</p> <p>There were instances where Essential Energy performed unclassified services, e.g. minor defect rectification to restore customer supply, and incurred these costs as standard control. These services have been reclassified as standard control for the 2019-24 regulatory period.</p>
<b>Obligations to not discriminate</b>		
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 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 level entity); and/or</p>	<p><b>Strategic approach to ring-fencing compliance</b></p> <p>Essential Energy has adopted the strategic approach to ring-fencing compliance by withdrawing from the provision of Other Services, including Contestable Electricity Services, except in limited circumstances where:</p> <p>&gt; the competitive market is not able to provide the service at reasonable cost and quality; and</p>



Ring-fencing obligation		Compliance measures
Clause	Description	
	<ul style="list-style-type: none"> <li>ii) contestable electricity services by any other legal entity.</li> </ul>	<p>&gt; a waiver from the AER has been granted to Essential Energy to provide the other service or a regional office exemption exists.</p>
4.1(c)	<p>Without limiting its scope, clause 4.1(b) requires a DNSP to:</p> <ul style="list-style-type: none"> <li>i) in dealing or offering to deal with a related electricity service provider, treat the related electricity service provider as if it were not a related electricity service provider (that is, as if it had no connection or affiliation with the DNSP);</li> <li>ii) in like circumstances, deal or offer to deal with a related electricity service provider and a competitor (or potential competitor) of the related electricity service provider on substantially the same terms and conditions;</li> <li>iii) in like circumstances, provide substantially the same quality, reliability and timeliness of service to a related electricity service provider and a competitor (or potential competitor) of the related electricity service provider;</li> <li>iv) subject to clause 4.3.3(b), not disclose to a related electricity service provider information the DNSP has obtained through its dealings with a competitor (or potential competitor) of the related electricity service provider where the disclosure would, or would be likely to, provide an advantage to the related electricity service provider.</li> </ul>	<p>While not a control, Essential Energy's strategic approach to ring-fencing compliance does reduce the risk of breaching the guidelines by reducing the scope and number of Contestable Electricity Services it provides.</p> <p>The strategic approach to ring-fencing compliance also eliminates the possibility of discrimination in favour of affiliate entities as no such entities have been established by Essential Energy.</p> <p><b>Training and awareness (preventative control)</b></p> <p>As noted previously, all staff are required to undergo training on Essential Energy's ring-fencing obligations. Staff in roles that have the ability to discriminate against competitors or potential competitors for the provision of direct control services or contestable electricity service are provided with training that includes obligations to not discriminate.</p> <p>Training is delivered either face to face or via Essential Energy's online training system and completion by staff is recorded and monitored.</p> <p><b>Quarterly Reporting (detective control)</b></p> <p>The Compliance Team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the guidelines. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches.</p>

Ring-fencing obligation		Compliance measures
Clause	Description	
<b>Offices, staff, branding and promotions</b>		
4.2.1(a)	Subject to this clause 4.2.1, in providing direct control services, a DNSP must use offices that are separate from any offices from which a related electricity service provider provides contestable electricity services.	<p><b>Strategic approach to ring-fencing compliance</b></p> <p>Essential Energy has adopted the strategic approach to ring-fencing compliance by withdrawing from the provision of Other Services, including Contestable Electricity Services, except in limited circumstances where:</p> <ul style="list-style-type: none"> <li>&gt; the competitive market is not able to provide the service at reasonable cost and quality; and</li> <li>&gt; a waiver from the AER has been granted to Essential Energy to provide the other service or a regional office exemption exists.</li> </ul> <p>While not a control, Essential Energy's strategic approach to ring-fencing compliance does reduce the risk of breaching the guidelines by eliminating the provision of contestable electricity services not covered by exemptions or waivers.</p> <p><b>Quarterly Reporting (detective)</b></p> <p>The Compliance Reporting Team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the guidelines. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches.</p> <p><b>Regional office register (preventative)</b></p> <p>Essential Energy maintains a regional office register that is used by business units as a reference for offices that qualify for the regional office exemption and assists with complying with clause 4.2.1(a) of the guideline. This register is checked and updated by the Compliance Team on a yearly basis.</p>
4.2.2(a)	Subject to this clause 4.2.2, 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><b>Strategic approach to ring-fencing compliance</b></p> <p>As noted above, Essential Energy has adopted the strategic approach to ring-fencing compliance by withdrawing from the provision of Other Services, including Contestable Electricity Services, except in limited circumstances where:</p> <ul style="list-style-type: none"> <li>&gt; the competitive market is not able to provide the service at reasonable cost and quality; and</li> </ul>

Ring-fencing obligation		Compliance measures
Clause	Description	
		<p>&gt; a waiver from the AER has been granted to Essential Energy to provide the other service or a regional office exemption exists.</p> <p>While not a control, Essential Energy's strategic approach to ring-fencing compliance does reduce the risk of breaching the guidelines by eliminating the provision of contestable electricity services not covered by exemptions or waivers.</p> <p><b>Quarterly Reporting (detective)</b></p> <p>The Compliance Reporting Team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the guidelines. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches.</p> <p><b>Staff sharing register (preventative)</b></p> <p>Essential Energy maintains a staff sharing register that is used by business units as a reference for staff that can be utilised for providing regulated services and Other Services and assists with complying with clause 4.2.2(a) of the guideline. This register is checked and updated by the Compliance Team on a yearly basis.</p>
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 manner that is contrary to the DNSP's obligations under this guideline.	Essential Energy applies a standard set of Key Performance Indicators across all employees with individual indicators established that align to the company's strategic direction which is to comply with not only the ring-fencing guideline but all regulatory obligations. The individual indicators are reviewed and approved by senior levels of management.
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</p>	<p><b>Strategic approach to ring-fencing compliance</b></p> <p>Essential Energy has adopted the strategic approach to ring-fencing compliance by withdrawing from the provision of Other Services, including Contestable Electricity Services, except in limited circumstances where:</p> <p>&gt; the competitive market is not able to provide the service at reasonable cost and quality; and</p> <p>&gt; a waiver from the AER has been granted to Essential Energy to provide the other service or a regional office exemption exists.</p>

Ring-fencing obligation		Compliance measures
Clause	Description	
	<p>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>While not a control, Essential Energy's strategic approach to ring-fencing compliance eliminates the possibility of co-branding or promotion of services with a related electricity service provider (except for those allowed under exemption or waiver).</p> <p><b>Regional office analysis (preventative)</b></p> <p>Essential Energy has undertaken an analysis of its regional offices to determine whether each office qualifies for the regional office exemption, which would allow shared branding and promotion without breaching the guidelines. This analysis is reviewed and updated on an annual basis to ensure the regional office register is accurate and up to date.</p> <p><b>Regional office register (preventative)</b></p> <p>Essential Energy maintains a regional office register that is used by business units as a reference for offices that qualify for the regional office exemption and assists with complying with clause 4.2.3(a) of the guideline. This register is checked and updated by the Compliance Team on a yearly basis.</p> <p><b>Quarterly Reporting (detective)</b></p> <p>The Compliance Reporting Team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the guidelines. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches.</p>
4.2.4(a)	<p>A DNSP must establish, maintain and keep a register that identifies:</p> <p>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.; and</p> <p>b) the nature of the positions (including a description of the roles, functions and duties) of its members of staff to which it has not applied clause 4.2.2(a) by reason of clauses 4.2.2(b)i.a., 4.2.2(b)i.b., 4.2.2(b)iii. or 4.2.2(d);</p> <p>and must make the register publicly available on its website.</p>	<p><b>Regional office and staff registers (preventative)</b></p> <p>The Compliance Team at Essential Energy has established Regional office and staff registers, which are updated on a yearly basis or as a change is identified through the Quarterly Reporting process.</p> <p><b>Quarterly Reporting (detective)</b></p> <p>The Compliance Reporting Team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the guidelines. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches.</p>

Ring-fencing obligation		Compliance measures
Clause	Description	
<b>Information access and disclosure</b>		
4.3.2	<p>Subject to this clause 4.3, a DNSP must:</p> <ul style="list-style-type: none"> <li>a) keep confidential information confidential; and</li> <li>b) only use confidential information for the purpose for which it was acquired or generated.</li> </ul>	<p><b>IT restrictions on information access (preventative)</b></p> <p>Essential Energy maintains confidential information on secure IT systems, where employees have individual username and passwords. Employees are granted access to confidential information where there is a need based on their role and whether it is appropriate for them to have access.</p> <p>These secured IT systems and access management ensures confidential information is kept confidential.</p> <p><b>Information sharing protocol (preventative control)</b></p> <p>Essential Energy has established an information sharing protocol that sets out the process for sharing information with other entities, including ASPs and potential related electricity service providers. This protocol ensures that the use of confidential information is only for the purposes for which it was acquired or generated.</p> <p><b>Training and awareness (preventative control)</b></p> <p>As noted previously, all staff are required to undergo training on Essential Energy's ring-fencing obligations. This includes training around confidential information.</p>
4.3.3	A DNSP must not disclose confidential information to any person, including a related electricity service provider, unless an exemption applies.	<p><b>Information sharing protocol (preventative control)</b></p> <p>As noted previously, Essential Energy has established an information sharing protocol that sets out the process for sharing information with other entities, including ASPs and potential related electricity service providers. This protocol ensures</p>
4.3.4(a)	Subject to clause 4.1(c)iv and to this clause 4.3.4, where a DNSP shares confidential information with a related electricity service provider, or where confidential information that a DNSP has disclosed under clause 4.3.3(f) is then disclosed by any person to a related electricity service provider of the DNSP, the DNSP must provide access to that confidential information (including the derived information) to other legal entities on an equal basis.	<p>&gt; confidential information is not disclosed inappropriately;</p> <p>&gt; confidential information is only used for the purpose for which it was acquired or generated; and</p> <p>&gt; confidential information, where disclosed to a related electricity service provider, is provided to other legal entities on an equal basis.</p>



Ring-fencing obligation		Compliance measures
Clause	Description	
4.3.4(d)	Without limiting clause 4.3.4(a), a DNSP must establish an information sharing protocol that sets how and when it will make the information referred to in clause 4.3.4(a) available to legal entities, and must make that protocol publicly available on its website.	<p>The information sharing protocol, which sets out how and when it will make the information referred to in clause 4.3.4(a) available to legal entities, is available on Essential Energy's website.</p> <p><b>Training and awareness (preventative control)</b></p> <p>As noted previously, all staff are required to undergo training on Essential Energy's ring-fencing obligations. This includes training around confidential information and its disclosure.</p>
4.3.4(e)	Where a DNSP discloses information referred to in clause 4.3.4(a) to any other legal entity under this clause 4.3.4, it must do so on terms and conditions that require the other legal entity to comply with clause 4.3.2 and 4.3.3(a) to (d) in relation to that information as if the other legal entity was a DNSP.	
4.3.5(a)	<p>A DNSP must establish, maintain and keep a register of all:</p> <ul style="list-style-type: none"> <li>i. related electricity service providers;</li> <li>ii. other legal entities who provide contestable electricity services but who are not affiliates of the DNSP;</li> </ul> <p>who request access to information identified in clause 4.3.4(a), and must make the register publicly available on its website</p>	<p><b>Information register (preventative control)</b></p> <p>Essential Energy has established a register of information requests from all service providers, including related electricity service providers and other legal entities that provide contestable electricity services.</p> <p>The register is updated as information requests are received, which also includes information regarding the kind of information requested.</p> <p>As part of the application process to be included in the information register referred to above, other legal entities will be required to sign an Information Sharing Deed, which requires them to comply with the confidentiality requirements.</p> <p>To date Essential Energy has received no information requests but has policies and procedures in place to address this requirement when it arises.</p>
4.3.5(b)	<p>For each legal entity that has requested that a DNSP provide access to information identified in clause 4.3.4(a), the DNSP's information register must:</p> <ul style="list-style-type: none"> <li>i. identify the kind of information requested by the legal entity; and</li> <li>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</li> </ul>	
4.3.5(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	

Ring-fencing obligation		Compliance measures
Clause	Description	
	information that the DNSP is required to provide under clause 4.3.4(a), and the DNSP must comply with that request.	
<b>Service Providers</b>		
4.4.1(a)	<p>A DNSP 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> <ul style="list-style-type: none"> <li>i. clauses 4.1, 4.2.1, 4.2.2 and 4.3.2 of this Guideline; and</li> <li>ii. clause 4.2.3 of this Guideline in relation to the brands of the DNSP;</li> </ul> <p>as if the service provider was the DNSP</p>	<p><b>New terms and conditions for service providers (preventative control)</b></p> <p>A ring-fencing assessment process has been embedded within Procurement procedures and the Procurement Plan template. Guidance has been provided to employees in the Procurement procedure.</p> <p>Where a ring-fencing impact is identified the Regulatory and Legal teams will be involved to ensure the correct clauses are included in the relevant contracts. Essential Energy's standard terms and conditions also include ring-fencing considerations.</p>
4.4.1(b)	<p>A DNSP must not, directly or indirectly, encourage or incentivise a service provider to engage in conduct which, if the DNSP engaged in the conduct itself, would be contrary to the DNSP's obligations under clause 4 of this Guideline</p>	<p><b>Training and awareness</b></p> <p>All staff are required to undergo training on Essential Energy's ring-fencing obligations, as noted above. This includes the requirement for incentives to consistent with Essential Energy's obligations under clause 4 of the Guideline.</p>
<b>Waivers register</b>		
5.7	<ul style="list-style-type: none"> <li>a) A DNSP must establish, maintain and keep a register of all waivers (including any variation of a waiver) granted to the DNSP by the AER under clause 5 of this Guideline, and must make the register publicly available on its website.</li> <li>b) The register established under clause 5.7(a) must include:</li> </ul>	<p><b>Waiver register establishment and update (preventative control)</b></p> <p>Essential Energy has created a Waiver Register, which is published on Essential Energy's website. The Waiver Register includes sections to cover all requirements set out in clause 5.7(b) of the guideline.</p> <p>The waiver register is updated as AER waivers are granted to Essential Energy, or existing waivers expire, by the Compliance Team.</p>

Ring-fencing obligation		Compliance measures
Clause	Description	
	<ul style="list-style-type: none"> <li>i. the description of the conduct to which the waiver or interim waiver applies; and</li> <li>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.</li> </ul>	
<b>Maintaining Compliance</b>		
6.1	<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 procedures does not affect the DNSP's obligations under this Guideline.</p>	<p><b>Policies and Procedures</b></p> <p>Essential Energy has the following policies and procedures in place that guides its internal compliance procedures. It is also imbedded in the training provided to employees:</p> <ul style="list-style-type: none"> <li>&gt; Ring-Fencing Policy – CECP2476. This policy applies to all Essential Energy employees, contractors and service providers and outlines Essential Energy's approach to compliance with the obligations outlined in the Ring-Fencing Guideline.</li> <li>&gt; Ring-Fencing Procedure - CEOP2477. This document provides guidance to Essential Energy employees on how to adhere to the Ring-Fencing Policy</li> <li>&gt; Ring-Fencing Compliance Monitoring and Reporting - CEOP2480. This document outlines the processes for undertaking breach management and reporting and preparing the annual compliance report.</li> </ul> <p><b>Quarterly Reporting (detective)</b></p> <p>The Compliance Reporting Team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the guidelines. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches.</p> <p><b>Strategic approach to ring-fencing compliance</b></p> <p>Essential Energy has adopted the strategic approach to ring-fencing compliance by withdrawing from the provision of Other Services, including Contestable Electricity Services, except in limited circumstances where:</p>

Ring-fencing obligation		Compliance measures
Clause	Description	
		<p>&gt; the competitive market is not able to provide the service at reasonable cost and quality; and</p> <p>&gt; a waiver from the AER has been granted to Essential Energy to provide the other service or a regional office exemption exists.</p> <p>While not a control, Essential Energy's strategic approach to ring-fencing compliance does reduce the risk of breaching the guidelines by eliminating the provision of contestable electricity services not covered by exemptions or waivers.</p>
<b>Compliance Reporting</b>		
6.2.1	<p>a) A DNSP must prepare an annual ring-fencing compliance report each regulatory year in accordance with this clause 6.2.1, and submit it to the AER in accordance with clause 6.2.2.</p> <p>b) The annual compliance report must identify and describe, in respect of the regulatory year to which the report relates:</p> <ol style="list-style-type: none"> <li>i. the measures the DNSP has taken to ensure compliance with its obligations under this Guideline;</li> <li>ii. any breaches of this Guideline by the DNSP, or which otherwise relate to the DNSP;</li> <li>iii. all other services provided by the DNSP in accordance with clause 3.1; and</li> <li>iv. the purpose of all transactions between the DNSP and an affiliated entity.</li> </ol> <p>c) The annual compliance report must be accompanied by an assessment of compliance by a suitably qualified independent authority.</p>	<p><b>Ring-fencing Compliance Report</b></p> <p>Essential Energy has prepared this Ring-fencing Compliance Report to comply with clause 6.2.1. The Ring-fencing Compliance Report is compiled by the Compliance Team, based upon results from reporting the Quarterly Reporting process that covered the period 1 July 2018 to 30 June 2019 where information was requested from business managers on their activities, which covers any required changes to registers and breaches of the guidelines. The compliance report will be submitted to the AER.</p> <p><b>Quarterly Reporting (detective)</b></p> <p>The Compliance Reporting Team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the guidelines. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches.</p> <p><b>Compliance Report Review</b></p> <p>Essential Energy has engaged Deloitte to undertake an assessment of compliance.</p>

Ring-fencing obligation		Compliance measures
Clause	Description	
	d) Annual compliance reports may be made publicly available by the AER.	
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.	
6.3	A DNSP 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><b>Breach management process (corrective)</b></p> <p>Essential Energy has a breach management and reporting process in place based on the introduced for the National Energy Customer Framework regulatory changes. This process has been adjusted to be suitable for ring-fencing but ensures that material breaches are reported to the AER within five days. Requirements included within company policy and procedure documents.</p>
7.1	<p>a) a DNSP must fully comply with each of the obligations in clauses 3 and 4 of this Guideline in respect of its existing services as soon as reasonably practicable, having regard to the likely costs of having to fully comply with those obligations any sooner but, in any event, must fully comply with those obligations by no later than 1 January 2018</p> <p>b) where a distribution determination applicable to a DNSP results in a change in the classification of a distribution service provided by the DNSP, and that change puts the DNSP in breach of an obligation under this Guideline, the DNSP must comply with that obligation within 12 months of the commencement date of the distribution determination</p>	<p><b>Essential Energy ring-fencing compliance plan</b></p> <p>Essential Energy's implementation activities ensured compliance by 1 January 2018. Refer to Essential Energy's 2017/18 Ring-fencing annual report.</p> <p><b>Confirm service classifications</b></p> <p>Essential Energy's classification of services for the 2019-24 regulatory period came into effect on 1 July 2019. There are no changes to service classification that will cause Essential Energy to become non-compliant.</p>



## Appendix B – Ring-fencing breaches

Obligation	Date	Details	Remediation
3.1(b) Obligation not to provide other services	2018/19	<p>Rectification of simple customer faults</p> <p>From 20 August 2018 to 30 June 2019 Essential Energy recorded 554 instances where it rectified minor faults in a customer’s installation in order to restore safe supply to the customer’s premises.</p> <p>During the period, Essential Energy was contacted by customers reporting outages to their supply, which requires it to identify whether the outage relates to the customers’ installation (e.g. a blown service protective device or meter protective device, or other issue) or Essential Energy’s network.</p> <p>To ensure that dispatching an Essential Energy crew is necessary, we work with customers through a checklist that identifies any immediate safety issues and undertakes a preliminary assessment of the cause of the supply outage where possible. This involves asking the customer:</p> <ul style="list-style-type: none"> <li>&gt; if they are aware of any neighbours that are also experiencing supply outages;</li> <li>&gt; whether they have lost all supply or only part supply;</li> <li>&gt; whether anyone has received electrical shocks from taps, appliances or metal work; and</li> <li>&gt; whether their supply is or has recently started flickering.</li> </ul> <p>Where appropriate, the customer may also be asked to check fuses and circuit breakers but only in the absence of safety risks (i.e. electrical shocks, supply flickering, brown outs, storms or other safety issues).</p> <p>Where Essential Energy field staff were deployed to restore supply and on inspection the cause of the loss of supply was determined to be due to a fault within the customer’s installation, the rectification of these simple customer faults was done in accordance with the following criteria:</p> <ul style="list-style-type: none"> <li>&gt; the need for the works must be discovered in the course of providing distribution services,</li> <li>&gt; the work must be the minimum required to ensure safe supply to the customer, and</li> <li>&gt; the work must not take longer than twenty minutes to complete.</li> </ul> <p>The field staff recorded each instance where this service was provided via an online form that was then submitted to the Compliance Team. The Compliance Team collated these instances and they were provided to the AER on 15 July 2019.</p>	<p>The AER classified the Rectification of Simple Customer Faults as a standard control service for the 2019-24 regulatory period. From 1 July 2019 Essential Energy will continue to provide this service in accordance with the conditions specified in the classification of services from the AER’s final decision for the 2019-24 regulatory period.</p> <p>Rectification of simple customer fault where:</p> <ul style="list-style-type: none"> <li>&gt; the need for rectification work is discovered in the course of the provision of distribution services,</li> <li>&gt; the work performed is the minimum required to restore safe supply, and</li> <li>&gt; the work can be performed in less than thirty minutes and does not normally require a second visit.</li> </ul> <p>Essential Energy issued communications to all Customer and Network Operations staff on 24 June 2019 via a weekly newsletter advising of the change and requirements for the Rectification of Simple Customer Faults from 1 July 2019. A follow up reminder communication was also issued on 29 July 2019.</p>