



**Essential Energy**  
**Australian Energy Regulator**  
Ring-Fencing Guideline Compliance Report  
**For the period 1 July 2018 to 30 June 2019**

## Table of Contents

1. Executive Summary .....	3
2. Independent Assurance Report to the Directors of Essential Energy .....	5
3. Detailed Findings .....	8
APPENDIX .....	31

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## 1. Executive Summary

### 1.1 Introduction

The Australian Energy Regulator (the "AER") published the Electricity Distribution Ring-Fencing Guideline on 30 November 2016 under the National Electricity Rules (the "NER") with amendments made on 17 October 2017 (the "Guideline"). The Guideline requires functional separation of regulated and competitive business activities to promote competition in the provision of contestable electricity services.

Under clause 6.2.1c of the Guideline, Deloitte has been engaged per the engagement letter between Essential Energy and Deloitte dated 13 September 2019 as the qualified independent authority to provide reasonable assurance that Essential Energy's Ring-Fencing Annual Compliance Report has been prepared in compliance with 6.2.1a of the Guideline as evaluated against 6.2.1b of the Guideline, in all material respects, for the period from 1 July 2018 to 30 June 2019.

### 1.2 Summary of Findings

The following table summarises observations and recommendations against the Guideline obligation (the "Obligation") where an exception was identified. The rating of each Obligation has been applied in accordance with *Section 1.3*.

No.	Guidance Obligation	Results of Testing	Recommendations	Rating	Material Breach
22	<b>6.3</b> A DNSP must <b>notify the AER in writing within 5 (five) business days of becoming aware of a material breach of its Obligations</b> under this Guideline.	Based on the control testing performed we identified matters of exception against the obligation, with key point(s) below: <ul style="list-style-type: none"><li>Across the audit period 7 Essential Energy Customer Resolution team members have completed the Ring-Fencing refresher training program, 1 team member has yet to complete the refresher training. We note that this 1 team member completed relevant Ring-Fencing training on 15 August 2019</li><li>Customer Resolutions team members must be able to recognise complaints related to Ring-Fencing and should be trained to do so.</li></ul>	To address the results of testing we recommend: <ul style="list-style-type: none"><li>Management ensures that all relevant team members complete Ring-Fencing compliance refresher training within allocated timeframes.</li></ul>	Exception.	No.

### 1.3 Rating Applied

The ratings applied to the results of our testing are defined below based on Deloitte's interpretation of the Guideline. The evaluation of the results of our tests as they relate to the Obligations is based on applying our professional judgement and considering the available facts and circumstances.

No Exception	Requirements of the Obligation have been met with no or only minor improvement opportunities. Any findings noted are considered minor and require routine efforts to correct in the normal course of business.
Exception	The requirements of the Obligation have not been fully met. Findings noted require remedial action.

## 2. Independent Assurance Report to the Directors of Essential Energy

### **Opinion**

We have undertaken a reasonable assurance engagement on whether Essential Energy's Ring-Fencing Compliance Report has been prepared in compliance with 6.2.1a of the Ring-Fencing Guideline - Electricity Distribution (the "Guideline") as evaluated against 6.2.1b of the Guideline in all material respects for the period from 1 July 2018 to 30 June 2019. The Ring-Fencing Compliance Report will accompany our report, for the purpose of reporting to the Australian Energy Regulator ("AER").

In our opinion, the Essential Energy's Ring-Fencing Compliance Report has been prepared in compliance with 6.2.1a of the Guideline as evaluated against 6.2.1b of the Guideline in all material respects for the period from 1 July 2018 to 30 June 2019.

### **Basis for Opinion**

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

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

### **Responsibilities of the Directors of Essential Energy**

Management is responsible for:

- a) Providing a statement with respect to the outcome of the evaluation of the compliance activity against the requirements of the Guideline, which accompanies this independent assurance report.
- b) Identifying risks that threaten the 6.2.1b of the Guideline identified above being met;
- c) Identifying suitable compliance requirements in the Guideline as required by the AER; and
- d) Identifying, designing and implementing controls to enable the requirements of the Guideline to be met and to monitor ongoing compliance.

### **Our Independence and Quality Control**

We have complied with the independence and other relevant ethical requirements relating to assurance engagements, and apply Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements* in undertaking this assurance engagement.



### ***Assurance Practitioner's Responsibilities***

Our responsibility is to express an opinion on whether Essential Energy's Ring-Fencing Compliance Report has been prepared in compliance with 6.2.1a of the Guideline as evaluated against 6.2.1b of the Guideline in all material respects for the period from 1 July 2018 to 30 June 2019. ASAE 3100 requires that we plan and perform our procedures to obtain reasonable assurance about whether Essential Energy's Ring-Fencing Compliance Report has been prepared in compliance with 6.2.1a of the Guideline as evaluated against 6.2.1b of the Guideline in all material respects for the period from 1 July 2018 to 30 June 2019.

An assurance engagement to report on the Essential Energy's Ring-Fencing Compliance Report involves performing procedures to obtain evidence about the compliance activity and controls implemented to meet the requirements of the Guideline. The procedures selected depend on our judgement, including the identification and assessment of risks of material misstatement in the Ring-Fencing Compliance Report, as evaluated against 6.2.1b of the Guideline.

Our procedures included, but were not limited to:

- Inquiring with Essential Energy staff about controls are in place to allow Essential Energy to comply with the Obligations;
- On a sample basis, observing the control being performed, and/or inspecting documentation to evidence the design, implementation and effectiveness of the controls;
- Inquiring with management whether they are compliant with the Obligations and corroborating our inquiry with the results of our procedures.

### ***Inherent Limitations***

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

A reasonable assurance engagement for the period from 1 July 2018 to 30 June 2019 does not provide assurance on whether compliance with the Guideline will continue in the future.

### ***Restricted Use***

This report has been prepared for use by the Directors of Essential Energy for the purpose of meeting the reporting requirements to the AER. We disclaim any assumption of responsibility for any reliance on this report to any person other than Essential Energy, or for any purpose other than that for which it was prepared. However, we understand that a copy of the report has been requested by AER. We agree that a copy of the report may be provided to AER for their information in connection with this purpose but, as will be made clear in the report, only on the basis that we accept no duty, responsibility or liability to any party, other than you, in connection with the report or this engagement.

It is our understanding that the AER may publish a copy of our report on their website. We do not accept responsibility for the electronic presentation of our report on the AER's website. The security and controls over information on the web site is not evaluated or addressed by the independent auditor. The examination of the controls over the electronic presentation of the Ring-Fencing Compliance Report on the AER's web site is beyond the scope of this engagement.

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Member of Deloitte Asia Pacific Limited and the Deloitte Network.

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to read 'A Jaric', with a large, stylized initial 'A'.

**Angela Jaric**

Partner

**29 October 2019, Melbourne**

### 3. Detailed Findings

The descriptions of the tests of compliance that were performed, findings relating to the tests of compliance or particular aspects of the engagement, our recommendations and conclusion of whether there has been a breach of the requirements of the Guideline are described below.

The rating of each Obligation has been applied in accordance with *Section 1.3*.

No.	Category	Ref.	Guideline Obligation	Controls and Testing	Results of Testing	Recommendation	Rating
1	Legal separation	3.1 (a)	A DNSP <b>must be a legal entity.</b>	<p><b>Control(s):</b></p> <ul style="list-style-type: none"> <li>Essential Energy Registered Australian Business Number (ABN) and/or Australian Company Number (ACN).</li> </ul> <p><b>Tests Performed:</b></p> <ul style="list-style-type: none"> <li>We performed an ASIC search on Essential Energy using the ABN contained in the distributor's license to establish it is a separate legal entity.</li> <li>We inspected the Essential Energy website to establish it reflected the ABN.</li> </ul>	Based on the control testing performed we have not identified any matters of exception.	There are no recommendations.	No Exception.
2	Legal separation	3.1 (b)	A DNSP may provide distribution services and transmission services, but <b>must not provide other services.</b>	<p><b>Control(s):</b></p> <ul style="list-style-type: none"> <li>Adopted the strategic approach to Ring-Fencing compliance that defines the scope of activities to ensure compliance with Ring-Fencing obligations.</li> <li>Waivers and waiver register.</li> <li>Approval of new services.</li> <li>Training and awareness.</li> <li>Quarterly Management Reporting of information relating to registers and breaches.</li> <li>Financial results review.</li> </ul> <p><b>Tests Performed:</b></p> <ul style="list-style-type: none"> <li>We inspected Essential Energy's Ring-Fencing Guidelines Compliance Plan July 2017 (strategic approach to Ring-Fencing compliance)</li> </ul>	Based on the control testing performed we have not identified any matters of exception.	There are no recommendations.	No Exception.



No.	Category	Ref.	Guideline Obligation	Controls and Testing	Results of Testing	Recommendation	Rating
				<p>to determine whether Essential Energy's approach aligns to the services the DNSP is limited to provide.</p> <ul style="list-style-type: none"> <li>• We inspected the Waivers register for waivers (from Essential Energy customer-facing website) that permit the DNSP to provide other services in addition to distribution and transmission services to determine whether what the DNSP may provide distribution services and transmission services, but must not provide other services.</li> <li>• We inspected the process and selected a single instance to sample for the approval of new services to determine whether the process supports staff compliance to obligations during the audit period.</li> <li>• We inspected the Ring Fencing training materials to determine whether the content accurately reflected Essential Energy's obligation to not provide other services.</li> <li>• We inspected an extract of the training attendance and completion register for the audit period to determine whether staff participated in compliance training.</li> <li>• We inspected Essential Energy's Quarterly Ring-Fencing compliance checks spreadsheet to determine whether there were any breaches against the obligations.</li> <li>• We inspected Essential Energy's procedure document CEOH4000.04 to determine whether Essential Energy had</li> </ul>			

No.	Category	Ref.	Guideline Obligation	Controls and Testing	Results of Testing	Recommendation	Rating
				<p>a supporting process in place for conducting the Quarterly Management Reporting.</p> <ul style="list-style-type: none"> <li>We inspected the following control documents for the period 1 January 2019 to 30 June 2019 to determine whether the DNSP does not provide other services: <ul style="list-style-type: none"> <li>Financial Performance Report – June 2019;</li> <li>Asset Management &amp; Engineering Financial Report June 2019, and;</li> <li>Office CEO Financial Performance June-19 to determine whether the process used for the financial results review conducted by Essential Energy.</li> </ul> </li> </ul>			
3	Separate accounts	3.2.1 (a)	<p>A DNSP <b>must establish and maintain appropriate internal accounting procedures</b> to ensure that it can demonstrate the extent and nature of transactions between the DNSP and its affiliated entities.</p>	<p><b>Control(s):</b></p> <ul style="list-style-type: none"> <li>Adopted the strategic approach to Ring-Fencing compliance that defines the scope of activities to ensure compliance with Ring-Fencing obligations.</li> <li>Financial results review.</li> </ul> <p><b>Tests Performed:</b></p> <ul style="list-style-type: none"> <li>We inspected Essential Energy’s Ring-Fencing Guidelines Compliance Plan July 2017 (strategic approach Ring-Fencing compliance) to determine whether the services the DNSP is limited to provide with respect to its internal accounting procedures.</li> <li>We inspected the following control documents for the</li> </ul>	Based on the control testing performed we have not identified any matters of exception.	There are no recommendations.	No Exception.

No.	Category	Ref.	Guideline Obligation	Controls and Testing	Results of Testing	Recommendation	Rating
				<p>period 1 January 2019 to 30 June 2019 to determine whether the DNSP does not provide other services:</p> <ul style="list-style-type: none"> <li>○ Financial Performance Report – June 2019;</li> <li>○ Asset Management &amp; Engineering Financial Report June 2019, and;</li> <li>○ Office CEO Financial Performance June-19 to determine whether the process used for the financial results review conducted by Essential Energy.</li> </ul>			
4	Cost allocation and attribution	3.2.2 (a), (b)	<p>A DNSP <b>must allocate or attribute costs to distribution services:</b></p> <ul style="list-style-type: none"> <li>- in a manner that is <b>consistent with the Cost Allocation Principles and its approved CAM</b>, as if the Cost Allocation Principles and CAM otherwise applied to the allocation and attribution of costs between distribution services and non-distribution services.</li> <li>- and must not allocate or <b>attribute other costs to the distribution services</b> it provides.</li> </ul>	<p><b>Control(s):</b></p> <ul style="list-style-type: none"> <li>• Accounting codes for distribution and non-distribution services.</li> <li>• Financial results review.</li> </ul> <p><b>Tests Performed:</b></p> <ul style="list-style-type: none"> <li>• We inspected Essential Energy’s CAM and checked that it addresses the attribution of costs between distribution and non-distribution services and that it has been approved by the AER.</li> <li>• We inspected a sample of monthly financial results for the period 1 January 2019 to 30 June 2019 to determine whether Essential Energy allocates costs in accordance with its CAM.</li> </ul>	Based on the control testing performed we have not identified any matters of exception.	There are no recommendations.	No Exception.

No.	Category	Ref.	Guideline Obligation	Controls and Testing	Results of Testing	Recommendation	Rating
5	Cost allocation and attribution	3.2.2 (c)	A DNSP <b>must establish, maintain and keep records</b> that demonstrate how it meets cost allocation and attribution Obligations.	<p><b>Control(s):</b></p> <ul style="list-style-type: none"> <li>Reviewing and maintaining accounting records.</li> </ul> <p><b>Tests Performed:</b></p> <ul style="list-style-type: none"> <li>We inspected the Financial Performance Monthly Report_Jun_19_v11_2019_07_25 and Financial_Performance_Report_Jun19_v5_2019_07_22 to determine whether the format used each month to review financial performance by the Executive Leadership Team ensures the DNSP has established, maintained and kept records that demonstrate how it meets cost allocation and attribution Guideline obligations.</li> </ul>	Based on the control testing performed we have not identified any matters of exception.	There are no recommendations.	No Exception.
6	Obligation not to discriminate	4.1(b)	<b>A DNSP must not discriminate</b> (either directly or indirectly) <b>between a related electricity service provider and a competitor</b> (or potential competitor) of a related electricity service provider in connection with the provision of: i. <b>direct control services by the DNSP</b> (whether to itself or to any other legal entity); and / or ii. <b>contestable electricity services</b> by any other legal entity.	<p><b>Control(s):</b></p> <ul style="list-style-type: none"> <li>Adopted the strategic approach to Ring-Fencing compliance that defines the scope of activities to ensure compliance with Ring-Fencing obligations.</li> <li>Training and awareness.</li> <li>Quarterly Management Reporting of information relating to registers and breaches.</li> </ul> <p><b>Tests Performed:</b></p> <ul style="list-style-type: none"> <li>We inspected Essential Energy's Ring-Fencing Guidelines Compliance Plan July 2017 (strategic approach Ring-Fencing compliance) with reference to the services the DNSP is limited to provide.</li> <li>We inspected the Ring Fencing training materials</li> </ul>	Based on the control testing performed we have not identified any matters of exception.	There are no recommendations.	No Exception.

No.	Category	Ref.	Guideline Obligation	Controls and Testing	Results of Testing	Recommendation	Rating
				<p>and checked that they accurately describe EE's obligation to not discriminate between a RESP and a competitor of the RESP in connection with the provision of direct controls services by the DNSP or contestable electricity services.</p> <ul style="list-style-type: none"> <li>We inspected the training attendance and completion register for the audit period to ascertain whether staff participated in Ring-Fencing training.</li> <li>We inspected a sample of 2 quarterly compliance reports to determine whether there were any capital or operating costs allocated to an incorrect entity.</li> <li>We inspected Essential Energy's procedure document CEOH4000.04 to determine whether Essential Energy had a supporting process in place for conducting the Quarterly Management Reporting.</li> </ul>			
7	Offices, staff, branding and promotions	4.2.1(a)	A DNSP <b>must use offices that are separate from any offices from which a related electricity service provider</b> provides contestable electricity services.	<p><b>Control(s):</b></p> <ul style="list-style-type: none"> <li>Adopted the strategic approach to Ring-Fencing compliance that defines the scope of activities to ensure compliance with Ring-Fencing obligations.</li> <li>Quarterly Management Reporting of information relating to registers and breaches.</li> <li>Regional office register.</li> </ul> <p><b>Tests Performed:</b></p> <ul style="list-style-type: none"> <li>We inspected Essential Energy's strategic approach Ring-Fencing compliance with</li> </ul>	Based on the control testing performed we have not identified any matters of exception.	There are no recommendations.	No Exception.

No.	Category	Ref.	Guideline Obligation	Controls and Testing	Results of Testing	Recommendation	Rating
				<p>reference to the services the DNSP is limited to provide.</p> <ul style="list-style-type: none"> <li>• We inspected the Ring Fencing training materials and checked that they accurately describe Essential Energy's obligation to use offices that are separate from any offices from a RESP provides contestable electricity services.</li> <li>• We inspected the training attendance and completion register for the audit period to ascertain whether staff participated in compliance training.</li> <li>• We inspected the Quarterly Ring fencing compliance checks spreadsheet for the period of 1 April 2019 to 30 June 2019 to determine whether there were no breaches against the obligation that a DNSP must use offices that are separate from any offices from which a related electricity service provider provides contestable electricity services.</li> <li>• We inspected Essential Energy's procedure document CEOH4000.04 to determine whether Essential Energy had a supporting process in place for conducting the Quarterly Management Reporting.</li> <li>• We accessed Essential Energy's customer-facing website to determine whether the Office Register was available to the public. <ul style="list-style-type: none"> <li>○ We inspected the Office Register to determine information identified the classes of offices.</li> </ul> </li> </ul>			

No.	Category	Ref.	Guideline Obligation	Controls and Testing	Results of Testing	Recommendation	Rating
8	Staff sharing	4.2.2(a)	A DNSP <b>must ensure that its staff involved in the provision or marketing of direct control services</b> are not also involved in the provision or marketing of contestable electricity services by a related electricity service provider.	<p><b>Control(s):</b></p> <ul style="list-style-type: none"> <li>Adopted the strategic approach to Ring-Fencing compliance that defines the scope of activities to ensure compliance with Ring-Fencing obligations.</li> <li>Quarterly Management Reporting of information relating to registers and breaches.</li> <li>Staff sharing register.</li> </ul> <p><b>Tests Performed:</b></p> <ul style="list-style-type: none"> <li>We inspected Essential Energy's Ring-Fencing Guidelines Compliance Plan July 2017 (strategic approach Ring-Fencing compliance) with reference to the services the DNSP is limited to provide.</li> <li>We inspected the Ring Fencing training materials and checked that they accurately describe Essential Energy's obligation to 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.</li> <li>We inspected the training attendance and completion register for the audit period to ascertain whether staff participated in compliance training.</li> <li>We inspected the Quarterly Ring fencing compliance checks spreadsheet for the period of 1 April 2019 to 30 June 2019 to determine whether there were no</li> </ul>	Based on the control testing performed we have not identified any matters of exception.	There are no recommendations.	No Exception.

No.	Category	Ref.	Guideline Obligation	Controls and Testing	Results of Testing	Recommendation	Rating
				<p>breaches against the obligation that a DNSP must use offices that are separate from any offices from which a related electricity service provider provides contestable electricity services.</p> <ul style="list-style-type: none"> <li>We inspected Essential Energy's procedure document CEOH4000.04 to determine whether Essential Energy had a supporting process in place for conducting the Quarterly Management Reporting.</li> <li>We accessed Essential Energy's customer-facing website to determine whether the Staff Register was available to the public.</li> <li>We inspected the Staff Register to determine information identified the roles of the staff that were shared across entities.</li> </ul>			
9	Staff sharing	4.2.2(c)	The remuneration, incentives and other benefits (financial or otherwise) a DNSP provides to a member of its staff <b>must not give the member of staff an incentive to act in manner that is contrary to the DNSP's Obligations</b> under this Guideline.	<p><b>Control(s):</b></p> <ul style="list-style-type: none"> <li>A standard set of Key Performance Indicators across all employees.</li> <li>Review and approval of all individual KPIs by senior management.</li> </ul> <p><b>Tests Performed:</b></p> <ul style="list-style-type: none"> <li>We inspected Essential Energy's STI Plan Information Booklet (April 2017) to determine whether remuneration incentives and other benefits provided to DNSP staff do not incentivise staff to act in a contrary manner to the obligations.</li> <li>We inspected a sample of 3 employee contracts to determine whether</li> </ul>	Based on the control testing performed we have not identified any matters of exception.	There are no recommendations.	No Exception.



No.	Category	Ref.	Guideline Obligation	Controls and Testing	Results of Testing	Recommendation	Rating
				remuneration incentives and other benefits provided to DNSP staff do not incentivise those staff to act in a contrary manner to the obligations.			
10	Branding and cross-promotion	4.2.3(a)	<p>A DNSP:</p> <p>i. <b>must use branding for its direct control services</b> 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. <b>must not advertise or promote its direct control services and its contestable electricity services</b> that are not direct control services together (including by way of cross-advertisement or cross-promotion).</p> <p>iii. <b>must not advertise or promote</b></p>	<p><b>Control(s):</b></p> <ul style="list-style-type: none"> <li>Strategic approach to Ring-Fencing compliance.</li> <li>Regional office analysis.</li> <li>Regional office register.</li> <li>Quarterly Management Reporting of information relating to registers and breaches.</li> </ul> <p><b>Tests Performed:</b></p> <ul style="list-style-type: none"> <li>We inspected Essential Energy's Ring-Fencing Guidelines Compliance Plan July 2017 (strategic approach Ring-Fencing compliance) to determine whether DNSP branding is independent and separate from the RESP.</li> <li>We inspected Essential Energy's Office Register to determine whether Essential Energy complies with points (i) to (iii) of clause 4.2.3 (a).</li> <li>We inspected the Quarterly Ring fencing compliance checks spreadsheet for the period of 1 April 2019 to 30 June 2019 to determine whether there were no breaches against the obligation that a DNSP must use offices that are separate from any offices from which a related electricity service provider provides contestable electricity services.</li> <li>We inspected Essential Energy's procedure document</li> </ul>	Based on the control testing performed we have not identified any matters of exception.	There are no recommendations.	No Exception.

No.	Category	Ref.	Guideline Obligation	Controls and Testing	Results of Testing	Recommendation	Rating
			<b>contestable electricity services</b> provided by a related electricity service provider other than the DNSP itself.	CEOH4000.04 to determine whether Essential Energy had a supporting process in place for conducting the Quarterly Management Reporting.			
11	Office and staff registers	4.2.4 (a), (b)	A DNSP <b>must establish, maintain and keep a register</b> that identifies: (a) the <b>classes of offices</b> to which it has not applied; and (b) the <b>nature of the positions (including a description of the roles, functions and duties) of its members of staff</b> and must make the register publicly available on its website.	<p><b>Control(s):</b></p> <ul style="list-style-type: none"> <li>Regional office and staff registers.</li> <li>Quarterly Management Reporting of information relating to registers and breaches.</li> </ul> <p><b>Tests Performed:</b></p> <ul style="list-style-type: none"> <li>We inspected Essential Energy's Office Register to determine whether Essential Energy complies with points (i) to (iii) of clause 4.2.3 (a).</li> <li>We inspected Essential Energy's Staff Register to determine whether Essential Energy complies with points (i) to (iii) of clause 4.2.3 (a).</li> <li>We inspected the Quarterly Ring fencing compliance checks spreadsheet for the period of 1 April 2019 to 30 June 2019 to determine whether there were no breaches against the obligation that a DNSP must use offices that are separate from any offices from which a related electricity service provider provides contestable electricity services.</li> <li>We inspected Essential Energy's procedure document CEOH4000.04 to determine whether Essential Energy had a supporting process in place</li> </ul>	<p>Based on the control testing performed we have not identified any matters of exception, however we have identified a matter of improvement against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> <li>Management could include a date of change and version control number to denote the currency of the Office Register.</li> <li>Management could include a date of change and version control number to denote the currency of the Staff Register.</li> </ul>	There are no recommendations.	No Exception.

No.	Category	Ref.	Guideline Obligation	Controls and Testing	Results of Testing	Recommendation	Rating
				for conducting the Quarterly Management Reporting.			
12	Protection of confidential information	4.3.2 (a) (b)	A DNSP <b>must:</b> <b>(a) keep confidential electricity information confidential</b> <b>(b) only use confidential information for the purpose for which it was acquired or generated</b>	<b>Control(s):</b> <ul style="list-style-type: none"> <li>• IT restrictions on information access.</li> <li>• Information sharing protocol.</li> <li>• Training and awareness.</li> </ul> <b>Tests Performed:</b> <ul style="list-style-type: none"> <li>• We inspected Essential Energy Information Sharing Deed Poll to determine whether it has a procedure to ensure third parties are bound to keep confidential information confidential.</li> <li>• We inspected Essential Energy's Information Sharing Protocol to confirm Essential Energy's approach to the maintaining confidentiality of the data it holds.</li> <li>• We inspected Essential Energy's Staff Sharing Register to determine whether the separation of roles held with the DNSP and RESP.</li> <li>• We inspected the Ring Fencing training materials and checked that they accurately describe Essential Energy's obligation to keep CEI confidential and use confidential information for the purpose for which it was acquired or generated</li> <li>• We inspected the training attendance and completion register for the audit period to ascertain whether staff participated in compliance training.</li> </ul>	Based on the control testing performed we have not identified any matters of exception.	There are no recommendations.	No Exception.

No.	Category	Ref.	Guideline Obligation	Controls and Testing	Results of Testing	Recommendation	Rating
13	Disclosure of information	4.3.3 (a)-(g)	<p>A DNSP <b>must not disclose confidential information to any person</b>, including a related electricity service provider, unless:</p> <p>(a) the DNSP has first <b>obtained the explicit informed consent</b> of the relevant customer, or prospective customer, to whom the confidential information relates;</p> <p>(b) the <b>disclosure is required by</b>, or for the purpose of complying with <b>any law</b>;</p> <p>(c) the <b>disclosure is necessary to enable the DNSP to provide its distribution services</b>, its transmission services or its other services (including by acquiring services from other legal entities);</p> <p>(d) the <b>information has been requested by or on behalf of a customer</b>, or potential customer, of another legal entity, and the disclosure is necessary to enable the legal entity to provide its transmission services,</p>	<p><b>Control(s):</b></p> <ul style="list-style-type: none"> <li>Information sharing protocol.</li> <li>Training and awareness.</li> </ul> <p><b>Tests Performed:</b></p> <ul style="list-style-type: none"> <li>We inspected Essential Energy's Information Sharing Protocol to confirm Essential Energy's approach to the maintaining confidentiality of the data it holds.</li> <li>We inspected the Ring Fencing training materials and checked that they accurately describe Essential Energy's obligations against points (a) to (g).</li> <li>We inspected the training attendance and completion register for the audit period to ascertain whether staff participated in compliance training.</li> </ul>	Based on the control testing performed we have not identified any matters of exception.	There are no recommendations.	No Exception.

No.	Category	Ref.	Guideline Obligation	Controls and Testing	Results of Testing	Recommendation	Rating
			<p>contestable electricity services or other services to the customer or potential customer;</p> <p>(e) the <b>disclosure is solely for the purpose of providing assistance to another Network Service Provider</b> in response to an event (such as an emergency) that is beyond the other Network Service Provider's reasonable control;</p> <p>(f) the <b>disclosure is solely for the purposes of research by a legal entity</b> other than a related electricity service provider of the DNSP</p> <p>(g) a <b>related electricity service provider of the DNSP has requested the disclosure</b> and the DNSP complies with clause 4.3.4 in relation to that confidential information.</p>				
14	Information register	4.3.5 (a) - (c)	<p>(a) A DNSP <b>must establish, maintain and keep a register</b> of all:</p> <p>i. related electricity</p>	<p><b>Control(s):</b></p> <ul style="list-style-type: none"> <li>Established an Information register to capture information requests from all service providers.</li> </ul>	Based on the control testing performed we have not identified any matters of exception.	There are no recommendations.	No Exception.

No.	Category	Ref.	Guideline Obligation	Controls and Testing	Results of Testing	Recommendation	Rating
			<p>service providers;  ii. other legal entities who provide contestable electricity services but who are not affiliates of the DNSP;  who request access to information identified in clause 4.3.4(a), and must make the register publicly available on its website.  (b) For each legal entity that has requested that a DNSP provide access to information identified in clause 4.3.4(a), the DNSP's information register must:  i. identify the kind of information requested by the legal entity;  and  ii. describe the kind of information requested by the legal entity in sufficient detail to enable other legal entities to make an informed decision about whether to request that kind of information from the DNSP.  (c) <b>A legal entity may request that the DNSP</b> include it on the information</p>	<p><b>Tests Performed:</b></p> <ul style="list-style-type: none"> <li>• We accessed Essential Energy's customer-facing website to determine whether it was publicly available.</li> <li>• The register was then inspected as to whether all appropriate detail was included, with any exceptions noted.</li> </ul>			

No.	Category	Ref.	Guideline Obligation	Controls and Testing	Results of Testing	Recommendation	Rating
			register in relation to some or all of the kinds of information that the DNSP is required to provide under clause 4.3.4(a), and the DNSP must comply with that request.				
15	Conduct of service providers	4.4.1 (a)	A DNSP: (a) <b>must ensure that any new or varied agreement between</b> 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: i. clauses 4.1, 4.2.1, 4.2.2 and 4.3.2 of this Guideline; and ii. clause 4.2.3 of this Guideline in relation to the brands of the DNSP; as if the service provider was the DNSP.	<p><b>Control(s):</b></p> <ul style="list-style-type: none"> <li>New terms and conditions for service providers.</li> </ul> <p><b>Tests Performed:</b></p> <ul style="list-style-type: none"> <li>We inspected the Standard Terms and Conditions for Supply of Goods and Services provided to service providers to determine whether the service providers are made aware of Ring-Fencing obligations.</li> <li>We inspected samples of 3 procurement plans to determine whether the plans take into account Ring-Fencing obligations.</li> </ul>	Based on the control testing performed we have not identified any matters of exception.	There are no recommendations.	No Exception.
16	Conduct of service providers	4.4.1 (b)	A DNSP: (b) <b>must not, directly or indirectly, encourage or incentivise</b> a service	<p><b>Control(s):</b></p> <ul style="list-style-type: none"> <li>Training and awareness.</li> <li>New terms and conditions for service providers.</li> </ul> <p><b>Tests Performed:</b></p>	Based on the control testing performed we have not identified any matters of exception.	There are no recommendations.	No Exception.

No.	Category	Ref.	Guideline Obligation	Controls and Testing	Results of Testing	Recommendation	Rating
			provider to engage in conduct which, if the DNSP engaged in the conduct itself, would be contrary to the DNSP's Obligations.	<ul style="list-style-type: none"> <li>We inspected the Ring Fencing training materials to determine if they accurately described Essential Energy's obligation to 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.</li> <li>We inspected the training attendance and completion register for the audit period to ascertain whether staff participated in compliance training.</li> <li>We inspected a sample of 3 customer complaints to determine whether the complaints were in relation to the conduct of the third party service provider.</li> </ul>			
17	The AER will not grant a waiver of an Obligation under this Guideline other than in accordance with this clause 5	5.2 (a) - (h)	A DNSP <b>may apply in writing to the AER for a waiver.</b> An application for a waiver must contain all information and materials necessary to support the DNSP's application, including: (a) the <b>Obligation in respect</b> of which the DNSP is applying for a waiver; (b) the <b>reasons why</b> the DNSP is applying for the waiver; (c) <b>details of the service, or services,</b> in relation to which the DNSP is applying for	<p><b>Control(s):</b></p> <ul style="list-style-type: none"> <li>Established and maintained a Waiver register.</li> </ul> <p><b>Tests Performed:</b></p> <ul style="list-style-type: none"> <li>We accessed Essential Energy's customer-facing website to determine if the waiver register was publicly available.</li> <li>Inspected the register to determine whether all detail required by the Obligation was included, with any exceptions noted.</li> <li>We obtained an Essential Energy's waiver application to determine whether all detail required by the Obligation was included</li> <li>We accessed Essential Energy's external website</li> </ul>	Based on the control testing performed we have not identified any matters of exception.	There are no recommendations.	No Exception.



No.	Category	Ref.	Guideline Obligation	Controls and Testing	Results of Testing	Recommendation	Rating
			<p>the waiver;</p> <p>(d) the <b>proposed commencement date and expiry date</b> (if any) of the waiver and the reasons for those dates;</p> <p>(e) <b>details of the costs associated with the DNSP</b> complying with the Obligation if the waiver of the Obligation were refused;</p> <p>(f) the <b>regulatory control period(s)</b> to which the waiver would apply;</p> <p>(g) any <b>additional measures the DNSP proposes to undertake</b> if the waiver were granted; and</p> <p>(h) the <b>reasons why the DNSP considers the waiver should be granted</b> with reference to the matters specified in clause 5.3.2(a), including the benefits, or likely benefits, of the grant of the waiver to electricity consumers.</p>	<p>and sighted that the waiver register was publicly available.</p> <ul style="list-style-type: none"> <li>• We inspected the register to determine whether all detail required by the Obligation was included, with any exceptions noted.</li> <li>• We obtained an Essential Energy's waiver application and to determine whether all detail required by the Obligation was included, with any exceptions noted.</li> <li>• We inspected the AER's written response to Essential Energy's waiver application to determine whether the waiver request had been approved or declined by the AER.</li> </ul>			

No.	Category	Ref.	Guideline Obligation	Controls and Testing	Results of Testing	Recommendation	Rating
18	Waiver register	5.7 (a)	A DNSP <b>must establish, maintain and keep a register of all waivers</b> (including any variation of a waiver) and must make the register publicly available on its website.	<p><b>Control(s):</b></p> <ul style="list-style-type: none"> <li>Established and maintained a Waiver register.</li> </ul> <p><b>Tests Performed:</b></p> <ul style="list-style-type: none"> <li>We accessed Essential Energy's external website and sighted that the waiver register was publicly available.</li> <li>We inspected the register to determine whether all detail required by the Obligation was included, with any exceptions noted.</li> <li>We obtained an Essential Energy's waiver application and to determine whether all detail required by the Obligation was included, with any exceptions noted.</li> <li>We inspected the AER's written response to Essential Energy's waiver application to determine whether the waiver request had been approved or declined by the AER.</li> </ul>	<p>Based on the control testing performed we have not identified any matters of exception, however we have identified a matter of improvement against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> <li>Management could include a date of change and version control number to denote the currency of the Waiver Register.</li> </ul>	There are no recommendations.	No Exception.
19	Waiver register	5.7 (b)	The register established under clause 5.7(a) <b>must include:</b> <b>i. the description of the conduct</b> to which the waiver or interim waiver applies; and <b>ii. the terms and conditions of the waiver or interim waiver;</b> as set out in the AER's written decision, provided by the AER to the DNSP, to grant (or vary) the	<p><b>Control(s):</b></p> <ul style="list-style-type: none"> <li>Waiver register establishment and update.</li> </ul> <p><b>Tests Performed:</b></p> <ul style="list-style-type: none"> <li>We inspected the register to determine whether all detail required by the Obligation was included, with any exceptions noted.</li> <li>We obtained an Essential Energy's waiver application and to determine whether all detail required by the Obligation was included, with any exceptions noted.</li> </ul>	<p>Based on the control testing performed we have not identified any matters of exception, however we have identified a matter of improvement against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> <li>Management could include a date of change and version control number to denote the currency of the information contained within.</li> </ul>	There are no recommendations.	No Exception.

No.	Category	Ref.	Guideline Obligation	Controls and Testing	Results of Testing	Recommendation	Rating
			waiver or interim waiver.	<ul style="list-style-type: none"> <li>We inspected the AER's written response to Essential Energy's waiver application to determine whether the waiver request had been approved or declined by the AER.</li> </ul>			
20	Maintaining compliance	6.1	A DNSP <b>must establish and maintain appropriate internal procedures to ensure it complies with its Obligations under this Guideline.</b>	<p><b>Control(s):</b></p> <ul style="list-style-type: none"> <li>Policies and Procedures - CECP2476, CEOP2477, CEOP2480.</li> <li>Quarterly Management Reporting of information relating to registers and breaches.</li> <li>Strategic approach to Ring-Fencing compliance.</li> </ul> <p><b>Tests Performed:</b></p> <ul style="list-style-type: none"> <li>We inspected Essential Energy's business processes (CEOP2477, CEOP2480, CEOP2483, CEOP2484 &amp; CEOP2476) to determine whether they supported the prevention and detection of exceptions or change against the requirements of the Ring-Fencing Guideline.</li> <li>We inspected Essential Energy's Annual Compliance Report for the period 1 July 2018 to 30 June 2019 to determine whether the report described internal controls used to monitor compliance against the Obligations.</li> <li>We inspected an extract of the Regulatory Affairs Divisional Plan to determine the measures Essential Energy was taking to continually improve the suitability, adequacy and effectiveness of the compliance management</li> </ul>	Based on the control testing performed we have not identified any matters of exception.	There are no recommendations.	No Exception.

No.	Category	Ref.	Guideline Obligation	Controls and Testing	Results of Testing	Recommendation	Rating
				program in place against the Guideline.			
21	Annual compliance report	6.2.1 (a), (b), (c)	<p>A DNSP <b>must prepare an annual ring--fencing compliance report each regulatory year.</b></p> <p><b>The annual compliance report must identify and describe</b>, in respect of the regulatory year to which the report relates:</p> <p>i. <b>the measures the DNSP has taken</b> to ensure compliance with its Obligations under this Guideline;</p> <p>ii. <b>any breaches of this Guideline by the DNSP</b>, or which otherwise relate to the DNSP; and</p> <p>iii. <b>all other services provided by the DNSP</b> in accordance with clause 3.1; and</p> <p>iv. <b>the purpose of all transactions between the DNSP and an affiliated entity.</b></p> <p>The <b>annual compliance report must be accompanied by an assessment of</b></p>	<p><b>Control(s):</b></p> <ul style="list-style-type: none"> <li>Ring-Fencing Compliance Report.</li> <li>Quarterly Management Reporting of information relating to registers and breaches.</li> </ul> <p><b>Tests Performed:</b></p> <ul style="list-style-type: none"> <li>We inspected Essential Energy's Annual Compliance Report for the period 1 July 2018 to 30 June 2019 to determine whether the report addressed points (i) to (iv) of clauses 6.2.1 (a), (b), (c).</li> </ul>	Based on the control testing performed we have not identified any matters of exception.	There are no recommendations.	No Exception.

No.	Category	Ref.	Guideline Obligation	Controls and Testing	Results of Testing	Recommendation	Rating
			compliance by a suitably qualified independent authority.				
22	Compliance breaches	6.3	A DNSP must <b>notify the AER in writing within 5 (five) business days of becoming aware of a material breach of its Obligations</b> under this Guideline.	<p><b>Control(s):</b></p> <ul style="list-style-type: none"> <li>Quarterly Management Reporting of information relating to registers and breaches.</li> <li>Breach management process and register.</li> </ul> <p><b>Tests Performed:</b></p> <ul style="list-style-type: none"> <li>We inspected Essential Energy's Breach Management and reporting policies and procedures to determine whether Essential Energy has definitions for what constitutes a material breach and managers are educated on assessing breaches and notifying the AER with 5 days.</li> <li>We inspected Essential Energy's Breach Management and reporting policies and procedures to determine whether staff have the appropriate framework to notify breaches within the mandated, acceptable timeframes.</li> <li>We inspected Essential Energy's Quarterly Ring-Fencing compliance checks spreadsheet to determine whether there were any breaches against the obligations.</li> <li>We inspected a sample of 3 Ring-Fencing Breach Notifications for the period of 1 December 2019 to 31 May 2019 to determine how Essential Energy identifies,</li> </ul>	<p>Based on the control testing performed we identified matters of exception against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> <li>Across the audit period 7 Essential Energy Customer Resolution team members have completed the Ring-Fencing refresher training program, 1 team member has yet to complete the refresher training. We note that this 1 team member completed relevant Ring-Fencing training on 15 August 2019</li> <li>Customer Resolutions team members must be able to recognise complaints related to Ring-Fencing and should be trained to do so.</li> </ul>	<p>To address the results of testing we recommend:</p> <ul style="list-style-type: none"> <li>Management ensures that all relevant team members complete Ring-Fencing compliance refresher training within allocated timeframes.</li> </ul>	Exception.

No.	Category	Ref.	Guideline Obligation	Controls and Testing	Results of Testing	Recommendation	Rating
				documents and notifies of potential breaches.			

**Management responses**

The following table provides management response(s) against each identified exception.

No.	Category	Ref.	Guidance Obligation	Results of Testing	Rating	Material Breach	Management Comment
22	Compliance Breaches	6.3	A DNSP must <b>notify the AER in writing within 5 (five) business days of becoming aware of a material breach of its Obligations</b> under this Guideline.	<p>Based on the control testing performed we identified matters of exception against the obligation, with key point(s) below:</p> <ul style="list-style-type: none"> <li>• Across the audit period 7 Essential Energy Customer Resolution team members have completed the Ring-Fencing refresher training program, 1 team member has yet to complete the refresher training. We note that this 1 team member completed relevant Ring-Fencing training on 15 August 2019</li> <li>• Customer Resolutions team members must be able to recognise complaints related to Ring-Fencing and should be trained to do so.</li> </ul> <p>To address the results of testing we recommend:</p> <ul style="list-style-type: none"> <li>• Management ensures that all relevant team members complete Ring-Fencing compliance refresher training within allocated timeframes.</li> </ul>	Exception.	No.	Ring-fencing refresher training delivered through Essential Energy’s online training system will be monitored by the Compliance Team to ensure training is completed in a timely manner. The online training system will also be configured to issue reminders to the employee up to the completion due date, and issue escalations to the employee and supervisor for overdue training.