



# ELECTRICITY DISTRIBUTION RING-FENCING ANNUAL COMPLIANCE REPORT 2017/18

OCTOBER



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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.

To give effect to the strategic approach, Essential Energy established a project team to carry out the Ring-Fencing Implementation Plan. The plan was developed in three stages:

- > Discovery: involved performing a detailed review of services offered by Essential Energy.
- > Design: involved undertaking a compliance gap assessment and options assessment, which informs the formulation of the Ring-Fencing Implementation Plan.
- > Implementation: involved implementation of the Ring-Fencing Implementation Plan, including establishing policies, compliance and reporting processes, training of staff, and assignment of responsibilities.

The compliance and reporting processes established include those for the Annual Compliance Report and breach reporting. Essential Energy has not identified any breaches of the Guideline since it came into force on 1 January 2018.

## 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:

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

- 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.

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.

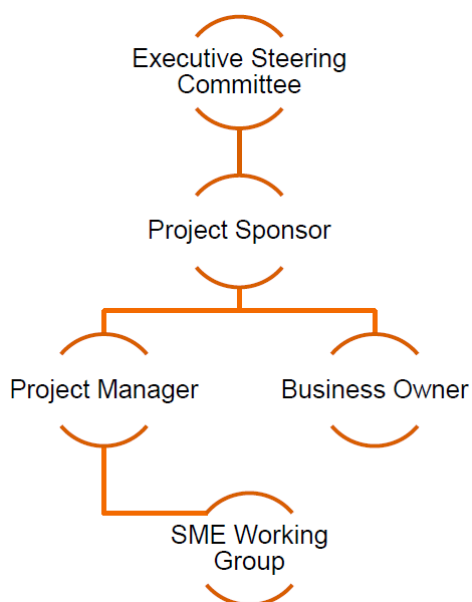
Annual compliance reports may be made publicly available by the AER.

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: Essential Energy Ring-Fencing Implementation Plan

The AER's introduction of the revised Guideline for DNSPs, places the requirement on DNSP's including Essential Energy and its businesses, to comply with new obligations. To ensure compliance with the AER's new Guideline, Essential Energy formed an Executive Steering Committee to oversee the scoping, development and implementation of a plan for compliance with the revised ring-fencing Guideline. The Executive Steering Committee oversaw a Project Sponsor that drove the overall implementation plan. Assistance is provided to the Project Sponsor by a Project Manager, a Subject Matter Expert (SME) Working group and Business Owners, as illustrated in Figure 1 below. Ernst and Young were engaged as the Project Manager for this project.

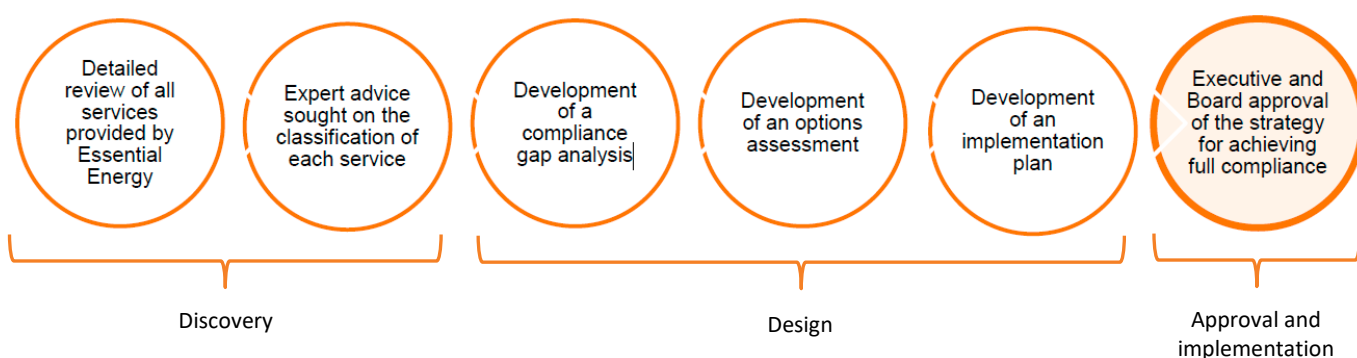
**Figure 1 Governance structure for ring-fencing compliance**



Under this structure, Essential Energy undertook a process to scope and develop a Ring-Fencing Implementation Plan. This process was initiated by a review of all services provided by Essential Energy then identifying appropriate service classifications for each service. Once services were reviewed and classified, an analysis was performed to determine the gap between the practice existing prior to the revised Guideline and a state of compliance with new obligations introduced by them.

Based on this analysis, options for compliance with ring-fencing obligations were developed and assessed, with the most appropriate options consolidated into an implementation plan. The process for developing the implementation plan can be described in two stages: discovery and design as shown in Figure 2, with a third stage for approval and implementation following the discovery and design stages.

**Figure 2 Process to develop the implementation plan**



Each stage is described below in more detail.

### 3.1 Discovery

The discovery stage involved undertaking a detailed review of services offered by Essential Energy. This review also considered the appropriate classification of these services, focusing particularly on services other than those regulated by the AER, i.e. standard control and alternative control services.



The discovery process involved the project team led by the Project Manager with assistance from the Working Group comprising of representatives from legal, regulatory, finance, and other business units who provided input into identifying services and service classifications.

## 3.2 Design

The discovery stage informed the design and development of the Ring-Fencing Implementation Plan in relation to the services and service classifications, which is the starting point of a compliance gap assessment that is conducted for each service. The assessment's objective is to systematically identify potential compliance issues for each service in relation to ring-fencing obligations, including (among other requirements) compliance with cost allocation methodology, accounting separation, staff and office separation, information sharing protocols, and registers.

The compliance gap assessment also involves a three-part test to establish whether exemptions apply to each service, which includes:

1. Is there competition or potential competition in this service?
2. Do staff conducting this service have access to information which could be of commercial value? and
3. Do staff have the opportunity to use the information in a discriminatory manner?

Where the answer is 'no' to all three tests then the exemption is identified and applied. For services where the test yields a 'yes', then a gap analysis is performed.

The results of the compliance gap analysis feeds into an options assessment for all identified gaps. Possible options to address identified gaps, depending on the service in question, include:

- > Implement appropriate legal, staff location and brand separation;
- > Seek reclassification of service as an alternate control service;
- > Utilise the regional office exemption for delivery of the service;
- > Discontinue the service;
- > Seek a waiver from the ring-fencing obligations.

Compliance tasks at the organisational level were also identified at this stage, including the requirement for establishing and maintaining appropriate policies and internal procedures for accounting separation, establishing a register of waivers, and establishing a register of exempt offices and staff.

A Ring-Fencing Implementation Plan was then developed based on the outcomes of the options assessment. This included proposing compliance approaches for each service, which was presented to the executive team and debated. Once approaches were agreed, the overall strategic approach was presented to Essential Energy's Board of Directors for endorsement.

In general, the strategic approach adopted by Essential Energy involves limiting or avoiding participation in contestable markets and therefore limiting or avoiding the cost of legal and functional separation to the extent possible. This strategy was adopted because the cost of legal and functional separation was considered to outweigh the benefits from continuing contestable services through a separate affiliate or business. However, Essential Energy will continue to provide some contestable services in a limited and narrowly specified capacity under waivers to maintain services where functional competitive markets are absent.

Broadly, the strategic approach involved:

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

The strategic approach adopted by Essential Energy is expected to minimise costs 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.

### 3.3 Implementation

The design process led to the implementation plan (set out in Figure 3) that was delivered by Essential Energy starting in April 2017 and completed by January 2018. The delivery of the implementation plan consists of eight work streams involving stakeholders from across the business.

Figure 3 Implementation plan

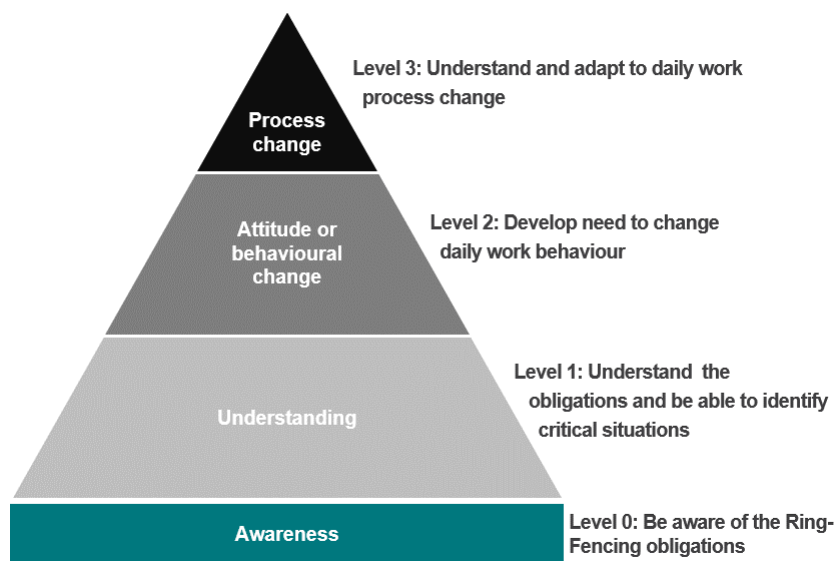
Work streams	Key activities	CY2017									CY 2018	
		Q2			Q3			Q4			Q1	
		Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	
<b>A. Compliance Strategy &amp; AER submission</b>	✓ Strategic direction on ring fencing compliance strategy and services that EE will pursue	█										
	✓ Submit draft compliance strategy to the AER		█									
	✓ AER provides informal feedback on compliance strategy			█								
	✓ Internal approval for final compliance strategy				█							
	✓ Submit formal compliance strategy to the AER					█						
<b>B. Setting up Program Team</b>	✓ Establish ring-fencing compliance Program Team			█								
<b>C. Re-classification of Services</b>	✓ Confirm services to be re-classified & develop strategy	█										
	✓ Consultation with AER (as part of Regulatory Reset Process)		█	█								
	✓ F&A paper published (AER)				█							
<b>D. Waiver Application</b>	✓ Determine strategy	█	█									
	✓ Prepare waiver applications and submit waiver		█	█	█							
	✓ AER publishes draft waiver decisions					█						
	✓ AER publishes final waiver decisions						█					
<b>E1. Compliance – New Information &amp; Reporting</b>	✓ Separate accounts				█	█	█					
	✓ Cost allocation and attribution				█	█	█					
	✓ Office and staff registers, waiver registers							█	█			
	✓ Information sharing protocol				█							
	✓ Annual ring-fencing compliance report – process & audit						█					
<b>E2. Compliance – Internal Procedures</b>	✓ Framework on interactions between regulated staff and staff employed in contestable ASP service				█	█						
	✓ Framework for complying with conduct of service provider for new or varied agreement				█	█						
	✓ Process for dealing with breaches				█	█						
	✓ Training to all relevant staff including field staff						█	█				
	✓ Compliance plan & audit					█						
<b>F. Legal &amp; Functional Separation</b>	✓ Separation and protection of confidential information (assuming no legal, office or staff separation required)				█	█	█	█				
<b>G. Completion</b>	✓ Review compliance achieved and undertake implementation close out activities										█	
	✓ Ring-fencing compliance required by AER											█

Work streams were coordinated by the project manager, who is supported by the project team. Complex issues or compliance questions were addressed by the working group. Progress was reported monthly to the ring-fencing steering committee.

Critical aspects of the implementation plan involved training of staff, the level of which was targeted according to their roles and responsibilities. The levels of training, defined in terms of outcomes, are illustrated in Figure 4, which include awareness, understanding, attitude or behavioural change, and process change.



**Figure 4 Levels of training**



The level of ring-fencing training needed by a particular staff member will depend on their role and responsibilities, as shown in Figure 5. Most staff will only require an awareness of ring-fencing obligations, while senior management and field workers needed a higher level of training to identify potential ring-fencing issues.

**Figure 5 Level of training needed by target group<sup>2</sup>**

Training Audience	Discrimination	Legal separation	Account separation	Functional separation	Information sharing	Branding	Reporting & governance
All staff	Awareness of the Ring-Fencing obligations						
Executive/ Senior Management	Attitude or behaviour change	Understanding	Attitude or behaviour change			Understanding	Attitude or behaviour change
Field Worker	Understanding	N/A		Attitude or behaviour change	Understanding	N/A	Understanding

Complementing staff training is the creation or updating of internal policies and procedures that reflect the obligations and requirements in the Guideline. These policies and procedures include Essential Energy’s Ring-Fencing Policy, Ring-Fencing procedure, and Ring-Fencing Compliance Monitoring and Reporting procedures (see section 8 for a description of these policies and procedures). These policies and procedures were communicated to staff as part of their training to establish the necessary organisational awareness and capabilities to maintain compliance with the Guideline.

<sup>2</sup> Levels of training depicted in Figure 5 for each type of training audience follows levels of training descriptions and colour coding illustrated in Figure 4.



## 4: 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.

### 4.1 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.

### 4.2 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.

## 5: 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 has not identified any breaches of the Guideline for the 2017/18 regulatory year.

## 6: 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 has 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 enable it to continue to provide the following services, which are either classified as Negotiable Services or Unclassified Services in the current 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 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 has also been granted a waiver 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 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 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.

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.

## 7: 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.

## 8: 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**

<b>Staff/team</b>	<b>Authorities and responsibilities</b>
<b>Head of Regulatory Affairs</b>	<ul style="list-style-type: none"> <li>&gt; Approval of ring-fencing procedures.</li> </ul>
<b>Regulation team</b>	<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> </ul> </li> </ul>

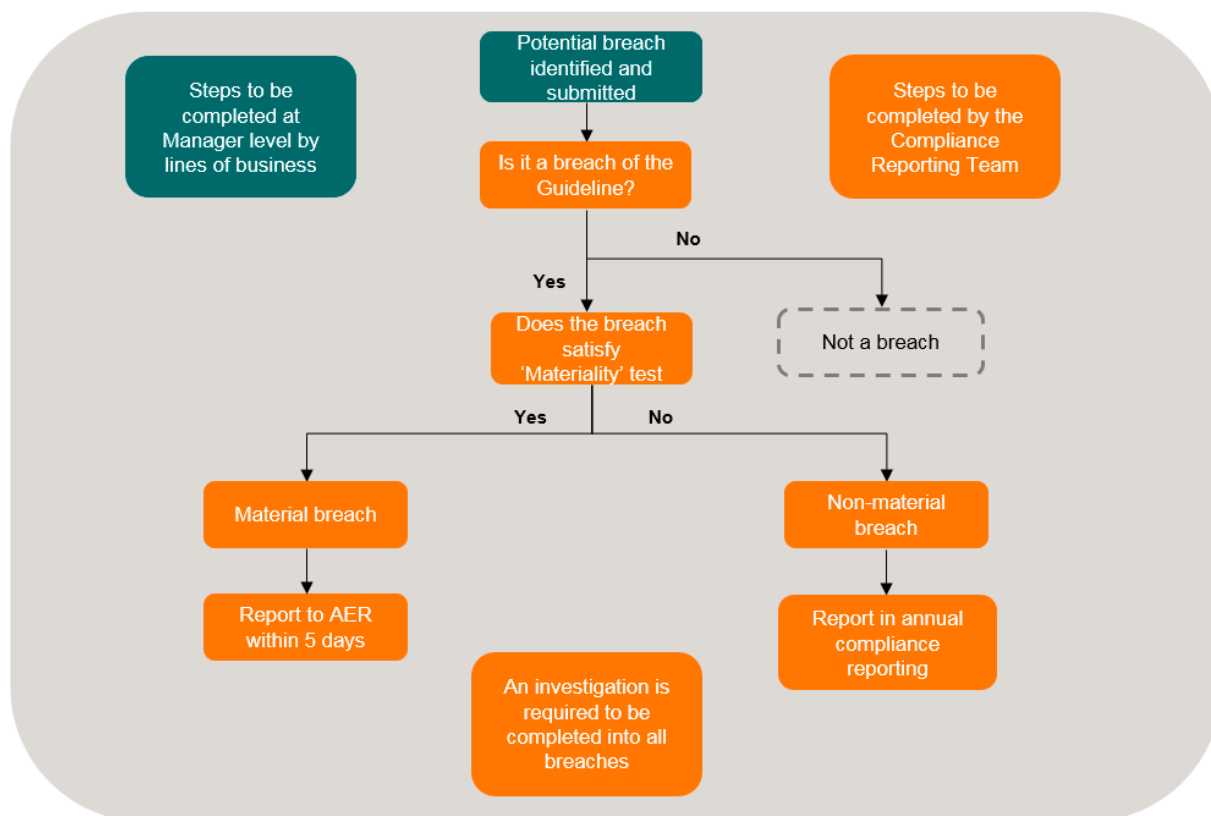
Staff/team	Authorities and responsibilities
	<ul style="list-style-type: none"> <li>• Manage the breach reporting process.</li> </ul>
<b>Finance team</b>	<p>In the instance where an affiliated entity is created:</p> <ul style="list-style-type: none"> <li>&gt; Create and maintain procedures that demonstrate 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.

## 8.1 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, the AER has not defined what it considers 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.

Figure 6 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; Transformation.</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; Transformation, 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

## 8.2 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 & Transformation 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 & Transformation
	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

## 9: Independent assessment

Essential Energy engaged KPMG 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> <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</p>

Ring-fencing obligation		Compliance measures
Clause	Description	
		<p>responsibility of the Compliance Reporting 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> Essential Energy has an Innovation team who look at new services. Part of their process during the feasibility stage is to engage the Compliance Reporting Team to explore any regulatory issues, including ring-fencing, that need to be considered if the new service is to be adopted. During the compliance period, this process was informal in nature however has now been formalised.</p> <p><b>Training and awareness (preventative control)</b> All staff are required to undergo training on Essential Energy's ring-fencing obligations. The training is targeted at three groups depending on their role, as described in Figure 5 contained in this report. 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>Essential Energy introduced ring-fencing training to new staff as part of their induction process into Essential Energy in October 2018, and periodic refresher training will also be introduced to maintain the required awareness and knowledge among staff.</p> <p>The initial training was delivered to employees February to April 2018. A gap analysis was performed in October to identify new employees who had not completed the ring-fencing training. These employees were then enrolled to complete the ring-fencing training in Essential Energy's online training system.</p> <p>Completion of training during the original rollout was reviewed in July 2018. Ring-fencing training is also being included as part of the induction training package for new employees.</p> <p><b>Quarterly compliance reporting (detective control)</b> 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</p>



Ring-fencing obligation		Compliance measures
Clause	Description	
		<p>managers knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches. For the 2017/18 compliance period, the business was requested to provide this information once which covered the period 1 January to 30 June 2018. This will be requested on a quarterly basis going forward.</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>
<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 Reporting 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>

Ring-fencing obligation		Compliance measures
Clause	Description	
		<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 attribution of costs between distribution services and non-distribution services.	<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 provided by. This prevents confusing transactions between distribution and non-distribution services when the Finance Team attributes expenditure and revenue to various accounts.</p>
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>

Ring-fencing obligation		Compliance measures
Clause	Description	
		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 were performed under the Provider of Last Resort waiver and are also proposed to be reclassified as standard control in the next regulatory period.
<b>Obligations to not discriminate</b>		
4.1(b)	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: <ul style="list-style-type: none"> <li>i) direct control services by the DNSP (whether to itself or to any other level entity); and/or</li> <li>ii) contestable electricity services by any other legal entity.</li> </ul>	<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 reducing the scope and number of Contestable Electricity Services it provides.</p>
4.1(c)	Without limiting its scope, clause 4.1(b) requires a DNSP to: <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</li> </ul>	<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 via Essential Energy's online training system and completion by staff is recorded and monitored.</p> <p>The initial training was delivered to employees February to April 2018. A gap analysis was performed in October to identify new employees who had not completed to the ring-fencing</p>

Ring-fencing obligation		Compliance measures
Clause	Description	
	<p>(or potential competitor) of the related electricity service provider;</p> <p>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.</p>	<p>training. These employees were then enrolled to complete the ring-fencing training in Essential Energy's online training system.</p> <p><b>Quarterly Reporting (detective control)</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. For the 2017/18 compliance period, the business was requested to provide this information once which covered the period 1 January to 30 June 2018. This will be requested on a quarterly basis going forward.</p>
<b>Offices, staff, branding and promotions</b>		
4.2.1(a)	<p>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>	<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</p>

Ring-fencing obligation		Compliance measures
Clause	Description	
		<p>guidelines or report any breaches. For the 2017/18 compliance period, the business was requested to provide this information once which covered the period 1 January to 30 June 2018. This will be requested on a quarterly basis going forward.</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 Reporting Team on a yearly basis. The initial register was created to meet the 1 January 2018 compliance date and due to the low likelihood of any change was not reviewed during the compliance period, going forward it will be reviewed 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> <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. For the 2017/18 compliance period, the business was requested to provide this information once which covered the period 1 January to 30 June 2018. This will be requested on a quarterly basis going forward.</p>

Ring-fencing obligation		Compliance measures
Clause	Description	
		<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 Reporting Team on a yearly basis. The initial register was created to meet the 1 January 2018 compliance date and due to the low likelihood of any change was not reviewed during the compliance period, going forward it will be reviewed 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> <ul style="list-style-type: none"> <li>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;</li> <li>ii) must not advertise or promote its direct control services and its contestable electricity services that are not direct control services together (including by way of cross-advertisement or cross-promotion);</li> <li>iii) must not advertise or promote contestable electricity services provided by a related electricity service provider other than the DNSP itself.</li> </ul>	<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 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 was undertaken as part of the ring-fencing compliance implementation process and informs the regional office register.</p> <p>Essential Energy intends the Compliance Reporting Team to undertake this analysis on an annual basis to ensure the regional office register is accurate and up to date.</p>



Ring-fencing obligation		Compliance measures
Clause	Description	
		<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 Reporting 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. For the 2017/18 compliance period, the business was requested to provide this information once which covered the period 1 January to 30 June 2018. This will be requested on a quarterly basis going forward.</p>
4.2.4(a)	<p>A DNSP must establish, maintain and keep a register that identifies:</p> <ul style="list-style-type: none"> <li>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</li> <li>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);</li> </ul> <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 Reporting 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. For the 2017/18 compliance period, the business was requested to provide this information once which covered the period 1 January to 30 June 2018. This will be requested on a quarterly basis going forward.</p>
<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> </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</p>

Ring-fencing obligation		Compliance measures
Clause	Description	
	b) only use confidential information for the purpose for which it was acquired or generated.	<p>information where there is a need based on their role and whether it is appropriate for them have access. These secured IT systems and access management ensures confidential information is kept confidential.</p> <p><b>Information sharing protocol (preventative control)</b> 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> 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> 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.	<ul style="list-style-type: none"> <li>• confidential information is not disclosed inappropriately;</li> <li>• confidential information is only used for the purpose for which it was acquired or generated; and</li> <li>• confidential information, where disclosed to a related electricity service provider, is provided to other legal entities on an equal basis.</li> </ul>
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>

Ring-fencing obligation		Compliance measures
Clause	Description	
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.	<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>
4.3.5(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>
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>	<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(c)	A legal entity may request that the DNSP include it on the information register in relation to some or all of the kinds of information that the DNSP is required to provide under clause 4.3.4(a), and the DNSP must comply with that request.	
<b>Service Providers</b>		
4.4.1(a)	A DNSP must ensure that any new or varied agreement between the DNSP and a service provider, for the provision of services to	

Ring-fencing obligation		Compliance measures
Clause	Description	
	<p>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. A specific procurement awareness training session was held to build awareness and understanding.</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 have also been updated to 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: <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> </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 by the Compliance Reporting Team.</p>
<b>Maintaining Compliance</b>		

Ring-fencing obligation		Compliance measures
Clause	Description	
6.1	A DNSP must establish and maintain appropriate internal procedures to ensure it complies with its obligations under this Guideline. The AER may require the DNSP to demonstrate the adequacy of these procedures upon reasonable notice. However, any statement made or assurance given by the AER concerning the adequacy of the DNSP's compliance procedures does not affect the DNSP's obligations under this Guideline.	<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. For the 2017/18 compliance period, the business was requested to provide this information once which covered the period 1 January to 30 June 2018. This will be requested on a quarterly basis going forward.</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> <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>

Ring-fencing obligation		Compliance measures
Clause	Description	
<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>d) Annual compliance reports may be made publicly available by the AER.</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 Reporting Team, based upon results from reporting that covered the period 1 January to 30 June 2018 where information was requested from business managers on their activities, which covers any required changes to registers and breaches of the guidelines. The Quarterly Reporting process will be used for this process for future compliance periods. 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. For the 2017/18 compliance period, the business was requested to provide this information once which covered the period 1 January to 30 June 2018. This will be requested on a quarterly basis going forward.</p> <p><b>Compliance Report Review</b></p> <p>Essential Energy has engaged KPMG to undertake an assessment of compliance.</p>
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.	

Ring-fencing obligation		Compliance measures
Clause	Description	
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 except for services under the Provider of Last Resort waiver which were required to be compliant as soon as reasonably practical (i.e. on implementation of the Provider of Last Resort process).</p> <p><b>Confirm service classifications</b></p> <p>Essential Energy's next determination comes into effect from 1 July 2019. The business has been working with the AER to confirm service classifications, including seeking waivers where appropriate, so does not expect there to be anything that would make them non-compliant.</p>