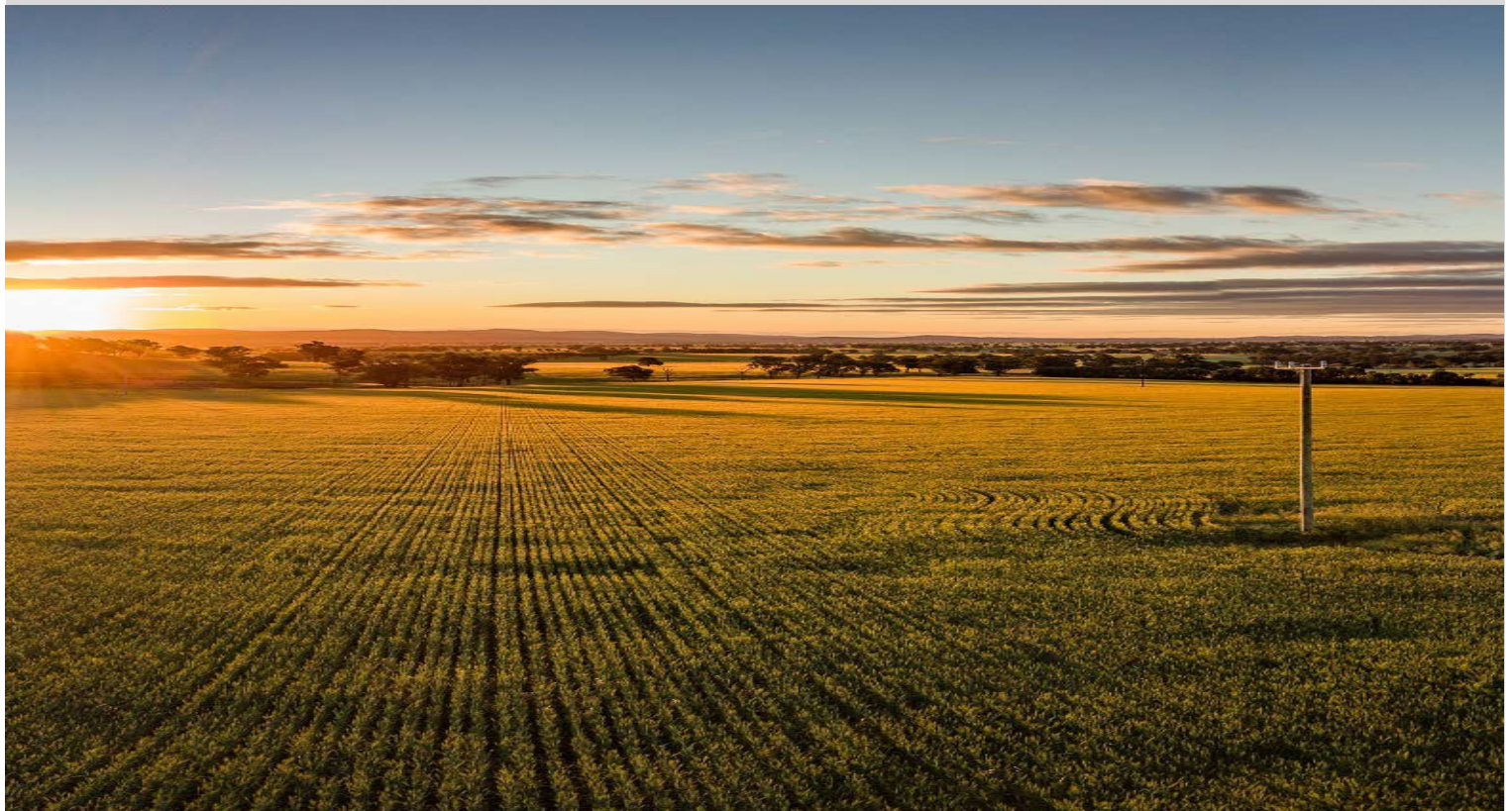


Electricity Distribution Ring-fencing Compliance Report

3 February 2022 – 31 December 2022



April 2023

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1. Overview

Essential Energy has implemented a compliance plan to ensure its ring-fencing obligations under the Australian Energy Regulator's (AER) Ring-fencing Guideline Electricity Distribution¹ (the Guideline) are met.

Essential Energy's strategic approach for meeting compliance obligations contained in the Guideline centres on it withdrawing from providing most contestable services. This approach minimises 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 continues to provide some contestable services in a limited and specified capacity under waivers from the AER to maintain services to areas where:

- > Functional competitive markets are absent to ensure regional and rural customers continue to receive an adequate level of service and avoid unnecessary costs;
- > Network services may be more efficiently delivered through alternative approaches to network augmentation (e.g. energy storage services); and
- > Knowledge will be gained through pilots or testing of operational models.

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

- > Changes in service classifications to the alternative control service classification where appropriate;
- > Discontinuing services except where exemptions may be applied; and
- > Seeking waivers for services to meet the criteria listed above.

Essential Energy has established compliance and reporting processes for the preparation of an annual ring-fencing compliance report and breach reporting, where necessary. Essential Energy has identified one breach of the Guideline for the 3 February 2022 to 31 December 2022 reporting period, details of which are in Appendix B.

2. Statement of Compliance

Essential Energy has complied with the obligations set out in the Guideline for the period from 3 February 2022 to 31 December 2022 except for the one breach detailed in Appendix B.

3. Regulatory Framework

Rule 6.17.1 of the National Electricity Rules requires all distribution network service providers (DNSPs) to comply with the Guideline prepared by the AER. 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; and
- > Promote competition in the provision of electricity services.

In November 2021, the AER published version 3 of the Guideline which became effective on 3 February 2022.

The Guideline imposes obligations on DNSPs targeted at, among other things:

- > Cross-subsidisation, with provisions that aim to prevent a DNSP from providing other services that could be cross-subsidised by its distribution services; and
- > Discrimination, with provisions that aim to:
 - Prevent a DNSP conferring a competitive advantage on its related electricity service providers that provide contestable electricity services; and

¹ AER, *Ring Fencing Guideline Electricity Distribution Version 3*, November 2021.

- Ensure a DNSP handles ring-fenced 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.

3.1 Annual Reporting Requirements

Section 6.2.1 of the Guideline requires Essential Energy to prepare an annual ring-fencing compliance report (report). It is noted that the compliance period for this report is 3 February to 31 December 2022 as version 3 of the Guideline became effective on 3 February 2022.

For the reporting period from 3 February to 31 December 2022, the report must identify and describe:

- > 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 of the Guideline; and
- > The purpose of all transactions between the DNSP and an affiliated entity.

Section 6.2.2 of the Guideline requires the DNSP to submit its report to the AER within four months of the end of the calendar year to which the compliance report relates. For Essential Energy, this report must be submitted to the AER by 28 April 2023 and must be accompanied by an assessment of compliance by a suitably qualified independent authority.

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 designed to prevent breaches of a particular obligation in the Guideline from occurring;
- > Detective controls or measures designed to ensure that breaches that may have occurred are detected or identified internally in a timely manner; and
- > Corrective controls or measures to ensure that timely, appropriate corrective or remedial action can be taken to address a breach once it is detected to reduce the likelihood of a breach reoccurring.

Essential Energy's measures to ensure compliance with Guideline 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;
- > Providing services under individual waivers granted by the AER under specific circumstances; or
- > Providing services under class waivers or exemptions from the Guideline granted by the AER.

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

Essential Energy's strategic approach to ring-fencing obligations minimises exposure to the risk of non-compliance. However, two scenarios could present a low degree of risk:

- > Not being able to obtain individual waivers to allow for the provision of limited contestable services; 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 set of contestable services by Essential Energy is in the long-term interest of customers.

4.3 Control Improvements in 2022

During 2022, Essential Energy has taken measures to uplift its controls to ensure that existing and new obligations under version 3 of the Guidelines are complied with as well as preparing for implementation of changes to become effective in calendar 2023. These include:

- > Updating ring-fencing policies and procedures to reflect changes in version 3 of the Guideline;
- > Revising ring-fencing training delivered at new employee induction and via annual refresher;
- > Improving tracking and reporting of ring-fencing training completion rates in employee learning systems;
- > Completing transition to Oracle ERP with improvements in shared cost identification used to apply cost allocation method;
- > Implementing processes to review, prepare and publish office, staff and SAPS registers each quarter;
- > Recording and tracking of battery waiver conditions in Compliance systems with actions and timelines agreed with responsible stakeholders; and
- > Progressing implementation of cost allocation requirements to meet conditions of waivers to be enacted in 2023.

5. Breaches

Under clause 6.2.1(b)ii of the Guideline any breaches of the Guideline by the DNSP must be reported in this report, including detail of any breaches already reported to the AER or breaches not already reported to the AER.

Under clause 6.3 of the Guideline, a DNSP must notify the AER in writing within 15 business days of becoming aware of a breach of the Guideline apart from its reporting requirements under clauses 6.2.2. and 6.3.

Essential Energy identified one breach of the Guideline for the 3 February 2022 to 31 December 2022 period as detailed in Appendix B to this report.

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 upon in this report.

The provision of other services is subject to the conditions of any waivers granted by the AER including the following active waivers in the calendar year:

- > Essential Energy was 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.

In February 2022, Essential Energy informed the AER that it no longer provides this service. The waiver will remain in place until it lapses on 30 June 2024. Essential Energy will not re-apply for this waiver.

- > Essential Energy holds 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 holds 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, Armidale, Ballina, Bathurst, Bendigo, Bingara, Blayney, Braidwood, Broadwater, Broken Hill, Bulahdelah, Buronga, Cobar, Cobram, Coffs Harbour, Condon, Corowa, Culcairn, Deniliquin, Dubbo, Eden, Echuca, Ewingsdale, Glenn Innes, Goulburn, Goondiwindi, Grafton, Griffith, Harwood, Hay, Holbrook, Inglewood, Inverell, Kempsey, Leeton, Lismore, Marulan, Mittagong, Moree, Moruya, Mulwala, Murwillumbah, Nambucca Heads, Narrabri, Orange, Parkes, Queanbeyan, Swan Hill, Tamworth, Taree, Temora, Tweed Heads, Uki, Wagga Wagga, Walcha, Warialda, Wodonga, and Young.

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

- > Essential Energy was granted a waiver in the 2022 calendar year from its obligations under clause 3.1 to allow it to lease spare capacity from its Battery Energy Storage System located at Sovereign Hills. It is noted that lease arrangements were not enacted in the reporting period of this report.
- > Essential Energy was granted a waiver in the 2022 calendar year from its obligations under clause 3.1 to install, own and operate pole top batteries jointly with a retail partner. It is noted that arrangements with a retail partner were not enacted in the reporting period of this report.

The grant of the two battery-related waivers in calendar 2022 are subject to additional conditions specific to each waiver. Whilst the arrangements allowed under both waivers were not enacted in the 2022 reporting period, Essential Energy progressed with process improvements necessary to ensure compliance with these additional conditions during the reporting period.

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

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

7. Transactions with Affiliated Entities

Under clause 6.2.1(b)iv of the Guideline, DNSPs must report on the purpose of any transactions between the DNSP and an affiliated entity.

Essential Energy does not have an affiliated entity or entities. As such, there are no transactions with affiliated entities to report.

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; and

- > **Ring-Fencing Compliance Monitoring and Reporting Procedure:** this document outlines the processes for undertaking breach management and reporting and preparing the annual ring-fencing compliance report.

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

Table 1 Assigned authorities and responsibilities

Staff/team	Authorities and responsibilities
Head of Regulatory Affairs	<ul style="list-style-type: none"> > Approval of ring-fencing procedures.
Compliance team	<ul style="list-style-type: none"> > 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; > Maintain a list of all the services offered by Essential Energy and ensure the delivery of them remains compliant with the Guideline obligations; > Manage the ring-fenced information disclosure and sharing process, including ensuring the information register and Information Sharing Protocol are up-to-date; > Ensure registers are reviewed, updated and published on the Essential Energy website, including: <ul style="list-style-type: none"> • Office register; • Staff register; • Waiver register; • Information register; and • SAPS register. > Manage the ring-fencing compliance monitoring and reporting process, including: <ul style="list-style-type: none"> • Prepare the quarterly and annual reports to the Executive; • Provide advice and support to Managers, who are responsible for providing quarterly compliance reports; and • Manage the breach reporting process.
Finance team	<ul style="list-style-type: none"> > Attribute and allocate expenditure and revenue in chart of accounts consistent with the Cost Allocation Method (CAM) and undertake regular review of management accounts. > In the instance where an affiliated entity is created: <ul style="list-style-type: none"> • Create and maintain procedures that demonstrate the extent/nature of transactions between Essential Energy and the affiliated entity or entities; and • Maintain records that demonstrate the process for allocating costs between distribution services carried out by Essential Energy and non-distribution services provided by the affiliated entity or entities.
Corporate Strategy and HR teams	<ul style="list-style-type: none"> > 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.
All employees	<ul style="list-style-type: none"> > Notify their Branch Manager and the Compliance team of new commercial opportunities so ring-fencing implications can be considered; > Ensure Essential Energy's competitors are not discriminated against, due to preferential treatment being given to a related electricity service provider (RESP); > Refer any requests for ring-fenced information by a RESP or external party to the Compliance team; > Undertake induction and annual ring-fencing compliance training; and > Report any suspected breaches of the Guideline to the Compliance team.

The compliance reporting system assists in maintaining compliance with the Guideline and assigns responsibilities for the annual compliance report and breach reporting. The processes for these reporting outputs are set out below.

8.1 Breach Reporting

Under the Guideline, Essential Energy must notify the AER in writing within 15 business days of becoming aware of a breach of its obligations under the Guideline, apart from breaches of clauses 6.2.2. and 6.3.

Essential Energy has implemented a Ring-Fencing Compliance Monitoring and Reporting Procedure that sets out the processes for undertaking breach management and reporting as shown in Figure 1 and Table 2 below.

Figure 1: Process for identifying and reporting of breaches

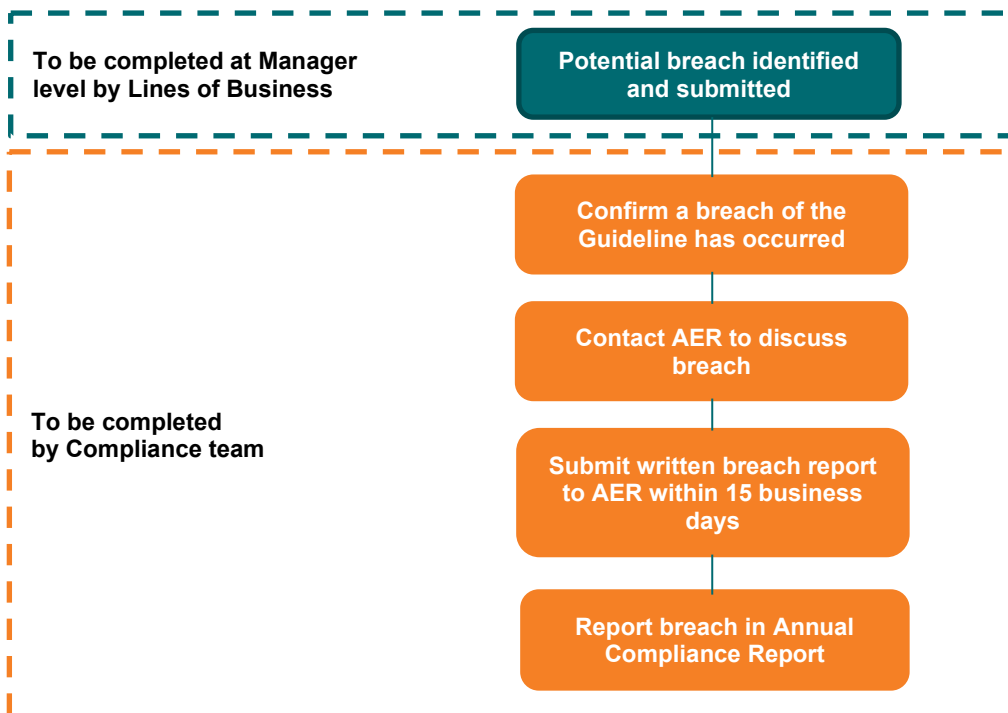


Table 2: Breach reporting and remediation activities and responsibilities

Event	Action Number	Action Description	Responsibility
1. Breach Occurs	1.1	Potential breach identified by business	Business stakeholders
2. Breach Notification	2.1	Upon identification of a potential breach, the identifier must immediately notify the Compliance team. Field staff can use the Ring-fencing Breach Notification Form on the field portal. All other staff can send reports of potential breaches to compliance@essentialenergy.com.au .	Identifier of the potential breach
	2.2	Compliance team will review and determine if a breach has occurred. If a breach has occurred, the Compliance team will work with Business stakeholders to identify and begin implementation of appropriate treatments to remedy the breach. Compliance team will record breach in the Breach Register.	Compliance team / Business stakeholders

Event	Action Number	Action Description	Responsibility
	2.3	<i>Internal notification:</i> Immediate notification to line management, including Executive Process Owner of business line identifying the breach, Head of Compliance, and Chief Corporate Affairs Officer. <i>Initial notification to AER:</i> AER notified via phone call to discuss the details around the breach and to also confirm whether the AER considers it a breach.	Compliance team / Business stakeholders
	2.4	<i>Notification to AER:</i> Written notification of the AER must be provided within 15 business days of the breach being identified including all required information as per the AER's breach reporting template and with all required internal approvals under Ring-Fencing Compliance Monitoring and Reporting Procedure.	Compliance team
3. Breach investigation and treatment	3.1	Gather all information necessary and investigate the breach using Breach Investigation Template Validate the appropriateness of treatments identified by Business stakeholders. Upload all information into the Breach Register and Obligations Register.	Compliance team
4. Implement treatment plan	4.1	Implement actions agreed to in treatment plan.	Business stakeholders
	4.2	If the treatment plan cannot be immediately implemented, provide regular status updates to the Compliance team on the status of implementation until treatment plan has been fully implemented.	Business stakeholders
	4.3	Validate the successful implementation of the treatment plan.	Compliance team
	4.4	Update Obligations Register to reflect treatment plan implementation. Implementation of the treatment plan may require reassessment and update of the following fields: <ul style="list-style-type: none"> > Controls as treatments, once implemented will form controls; > Control effectiveness assessment to take into account implemented treatments; and > Residual risk rating to reflect changes to controls. 	Compliance team

8.2 Annual Compliance Reporting

The Guideline requires Essential Energy to prepare and submit an annual ring-fencing compliance report (the 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
- > description of all transactions between Essential Energy and any affiliated entities.

The detailed process required to prepare the report and obtain an assessment of compliance from an independent authority is set out in Table 3.

Table 3: Annual compliance reporting process

Reporting process	Process number	Process Description	Responsibility
1. Preparation	1.1	<p>Carry out the final quarterly ring-fencing request for information process for the calendar year to identify the information required to demonstrate the measures undertaken by Essential Energy to ensure compliance.</p> <p>Determine the need for the following actions and complete if deemed necessary:</p> <ul style="list-style-type: none"> > Update regional office analysis (no. of connection points within 100km for each depot); > Update staff analysis; > Review/update registers; > Update ICT systems listing re ring-fenced information; > Ensure no access to ring-fenced information for employees in RESP (where a RESP exists); > Seek declaration from those deemed 'officers' (where a RESP exists); > Complete refresher training for employees; and > Review/update induction training as needed. 	Compliance team
	1.2	<p>Complete the required sections of the report, including:</p> <ul style="list-style-type: none"> > Document all measures taken throughout the year to ensure compliance with ring-fencing obligations; > Identify all breaches of the Guideline by Essential Energy through a review of the breach register and any follow-up issues as required with business stakeholders; > Collate all the other services identified by business stakeholders in their responses to the quarterly requests for information; > Identify and describe all transactions with an affiliated entity via liaison with Finance team (where an affiliated entity exists); and > Consider inclusion of any other relevant information in the report, (e.g. significant events that occurred during the year such as establishment of an affiliated entity). 	Compliance team
2. Independent Authority Assessment of Compliance	2.1	Procure the services of an independent authority to undertake an assessment of Essential Energy's ring-fencing compliance and assist the independent authority as required.	Compliance team
	2.2	Review assessment of compliance from independent authority and provide feedback as required.	Head of Regulatory Affairs
3. Approval process	3.1	Email annual ring-fencing compliance report, with assessment of compliance appended to Head of Regulatory Affairs for review.	Compliance team
	3.2	Review the annual ring-fencing compliance report. Engage with the Compliance Manager - Commercial to clarify any queries. Email to Chief Corporate Affairs Officer (Executive Level) for review.	Head of Regulatory Affairs
	3.3	Review the annual ring-fencing compliance report. Engage directly with the Compliance Manager - Commercial to clarify queries or request further information as required. Submit to the	Chief Corporate Affairs Officer

Reporting process	Process number	Process Description	Responsibility
		Chief Executive Officer for review and approval to submit to the AER.	
	3.4	Review and advise the Compliance team of authority to submit to the AER.	Chief Executive Officer
4. Submission	4.1	Submit report to the AER.	Compliance team

9. Independent Assessment

Essential Energy engaged KPMG to provide an independent assessment of Essential Energy's compliance with the Guideline for the period from 3 February to 31 December 2022. KPMG's assessment is provided to the AER together with this report as required under the Guideline.

Appendix A: Compliance Measures

Ring-fencing obligation		Compliance Measures
Clause	Description	
Legal Separation		
3.1(a)	A DNSP must be a legal entity	<p>Separate legal entity by statute</p> <p>Essential Energy is a New South Wales statutory State Owned Corporation under the State Owned Corporations Act 1989. This establishes Essential Energy as a legal entity and is consistent with ring-fencing obligations in clause 3.1(a) of the Guideline.</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>Strategic approach to ring-fencing compliance</p> <p>Essential Energy has adopted a 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"> > the competitive market is not able to provide the service at reasonable cost and quality; and > a waiver from the AER has been granted to Essential Energy to provide the other service or an exemption applies. <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>Waivers and waiver register (preventative control)</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"> > a lack of a competitive market to provide those services; > network services may be more efficiently delivered through alternative approaches to network augmentation; > knowledge will be gained through pilots or testing of operational models; and > whether an exemption applies (e.g. a regional office exemption). <p>Where exemptions do not apply, Essential Energy will apply for a waiver from the AER in order to provide other services and maintain compliance with the Guideline. Waiver applications are the responsibility of the Compliance team. The Compliance team also maintains the waiver register that is</p>

Ring-fencing obligation		Compliance Measures
Clause	Description	
		<p>used internally in Essential Energy to inform business managers of the types of other services they are allowed to provide.</p> <p>Approval of new services (preventative control)</p> <p>Essential Energy has a Strategy/Innovation team who look at new services. Part of their process during the feasibility stage is to engage the Compliance team to explore any regulatory issues, including ring-fencing, that need to be considered if the new service is to be adopted.</p> <p>Training and awareness (preventative control)</p> <p>All staff are required to undergo training on Essential Energy's ring-fencing obligations. The training provides staff awareness and knowledge that Essential Energy does not provide other services unless an AER waiver has been granted or an exemption exists. Training is delivered via Essential Energy's online training system and completion by staff is recorded and monitored.</p> <p>All new employees to Essential Energy complete Ring-fencing training as part of their induction training package. Annual refresher training is also delivered to all staff to maintain the required awareness and knowledge among staff.</p> <p>Quarterly reporting (detective control)</p> <p>The Compliance team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the Guideline. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the Guideline or report any breaches.</p> <p>Financial results review (detective control)</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>
Establish and maintain accounts		
3.2.1(a)	A DNSP must establish and maintain appropriate internal accounting procedures to ensure that it can demonstrate the extent and nature of transactions between the DNSP and its affiliated entities.	<p>Strategic approach to ring-fencing compliance</p> <p>Essential Energy has adopted a 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"> > the competitive market is not able to provide the service at reasonable cost and quality; and

Ring-fencing obligation		Compliance Measures
Clause	Description	
		<p>> a waiver from the AER has been granted to Essential Energy to provide the other service or an exemption applies.</p> <p>Consequently, Essential Energy has not established a separate legal 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 for the Finance team with support of the Compliance team.</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.</p> <p>Financial results review (detective control)</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 (including costs allocated for attributed to the DNSP by a parent entity) 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>Accounting codes for distribution and non-distribution services (preventative control)</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 that provides those services. This prevents confusing transactions between distribution and non-distribution services when the Finance team attributes expenditure and revenue to various accounts.</p> <p>The 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>
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>Financial results review (detective control)</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	Reviewing and maintaining accounting records (detective control)

Ring-fencing obligation		Compliance Measures
Clause	Description	
	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>The Finance team maintains accounting and financial records as part of its core 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>
Obligation to not discriminate		
4.1(b)	<p>A DNSP must not discriminate (either directly or indirectly) between a related electricity service provider and a competitor (or potential competitor) of a related electricity service provider in connection with the provision of:</p> <ol style="list-style-type: none"> direct control services by the DNSP (whether to itself or to any other level entity); and/or contestable electricity services by any other legal entity. 	<p>Strategic approach to ring-fencing compliance</p> <p>Essential Energy has adopted a 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"> > the competitive market is not able to provide the service at reasonable cost and quality; and > a waiver from the AER has been granted to Essential Energy to provide the other service or an exemption applies. <p>While not a control, Essential Energy's strategic approach to ring-fencing compliance does reduce the risk of breaching the Guideline by reducing the scope and number of contestable electricity services it provides.</p> <p>The strategic approach to ring-fencing compliance also eliminates the possibility of discrimination in favour of affiliate entities as no such entities have been established by Essential Energy.</p> <p>Training and awareness (preventative control)</p> <p>All staff are required to undergo training on Essential Energy's ring-fencing obligations. The training provides staff awareness and knowledge that Essential Energy does not provide other services unless an AER waiver has been granted or an exemption exists. Training is delivered via Essential Energy's online training system and completion by staff is recorded and monitored.</p> <p>Quarterly reporting (detective control)</p> <p>The Compliance team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the Guideline. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the Guideline or report any breaches.</p>
4.1(c)	<p>Without limiting its scope, clause 4.1(b) requires a DNSP to:</p> <ol style="list-style-type: none"> 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); 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; in like circumstances, provide substantially the same quality, reliability and timeliness of service to a related electricity service provider 	

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	<p>and a competitor (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>	
4.1(d)	A DNSP must not discriminate (either directly or indirectly) between two legal entities, in connection with the supply of contestable electricity services by those legal entities, on the basis of the use by one or both of those legal entities of assets owned, operated or otherwise controlled (in whole or in part) by the DNSP.	
Offices, staff, branding and promotions		
4.2.1(a)	Subject to this clause 4.2.1, in providing direct control services, a DNSP must use offices that are separate from any offices from which a related electricity service provider provides contestable electricity services.	<p>Strategic approach to ring-fencing compliance</p> <p>Essential Energy has adopted a 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"> > the competitive market is not able to provide the service at reasonable cost and quality; and > a waiver from the AER has been granted to Essential Energy to provide the other service or an exemption applies. <p>While not a control, Essential Energy's strategic approach to ring-fencing compliance does reduce the risk of breaching the Guideline by reducing the scope and number of contestable electricity services it provides.</p> <p>The strategic approach to ring-fencing compliance also eliminates the possibility of discrimination in favour of affiliate entities as no such entities have been established by Essential Energy.</p> <p>Quarterly reporting (detective control)</p>

Ring-fencing obligation		Compliance Measures
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		<p>The Compliance team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the Guideline. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the Guideline or report any breaches.</p> <p>Regional office analysis (preventative control)</p> <p>Essential Energy has undertaken an analysis of its regional offices to determine whether each office qualifies for the regional office exemption. This analysis is reviewed and updated on a quarterly basis to ensure the regional office register is accurate and up to date.</p> <p>Office register (preventative control)</p> <p>Essential Energy maintains an office register that is used by business units as a reference for offices that qualify for the regional office exemption and assists with complying with clause 4.2.1(a) of the Guideline. This register is checked and updated by the Compliance team on a quarterly basis and published on Essential Energy's website.</p> <p>Training and awareness (preventative control)</p> <p>All staff are required to undergo training on Essential Energy's ring-fencing obligations. The training provides staff awareness and knowledge that Essential Energy does not provide other services unless an AER waiver has been granted or an exemption exists. Training is delivered via Essential Energy's online training system and completion by staff is recorded and monitored.</p>
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>Strategic approach to ring-fencing compliance</p> <p>Essential Energy has adopted a 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"> > the competitive market is not able to provide the service at reasonable cost and quality; and > a waiver from the AER has been granted to Essential Energy to provide the other service or an exemption applies. <p>While not a control, Essential Energy's strategic approach to ring-fencing compliance does reduce the risk of breaching the Guideline by reducing the scope and number of contestable electricity services it provides.</p> <p>The strategic approach to ring-fencing compliance also eliminates the possibility of discrimination in favour of affiliate entities as no such entities have been established by Essential Energy.</p>

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		<p>Quarterly reporting (detective control)</p> <p>The Compliance team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the Guideline. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the Guideline or report any breaches.</p> <p>Staff register (preventative control)</p> <p>Essential Energy maintains a staff register that is used by business units as a reference for staff that can be utilised for providing direct control services and other services and assists with complying with clause 4.2.2(a) of the Guideline. This register is checked and updated by the Compliance team on a quarterly basis and published on Essential Energy's website.</p> <p>Training and awareness (preventative control)</p> <p>All staff are required to undergo training on Essential Energy's ring-fencing obligations. The training provides staff awareness and knowledge that Essential Energy does not provide other services unless an AER waiver has been granted or an exemption exists. Training is delivered via Essential Energy's online training system and completion by staff is recorded and monitored.</p>
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.	<p>Key Performance Indicators (preventative control)</p> <p>Essential Energy applies a standard set of Key Performance Indicators (KPIs) across all employees with individual KPIs established that align to the company strategy and its vision, purpose and values, which is to comply with not only the Guideline but all regulatory obligations. The KPIs are reviewed and approved by senior levels of Management and applied to all employees.</p> <p>Training and awareness (preventative control)</p> <p>All staff are required to undergo training on Essential Energy's ring-fencing obligations. The training provides staff awareness and knowledge that Essential Energy does not provide other services unless an AER waiver has been granted or an exemption exists. Training is delivered via Essential Energy's online training system and completion by staff is recorded and monitored.</p>
4.2.3(a)	<p>A DNSP:</p> <ul style="list-style-type: none"> i. must use branding for its direct control services that is independent and separate from the branding used by a related electricity service provider for contestable electricity 	<p>Strategic approach to ring-fencing compliance</p> <p>Essential Energy has adopted a 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"> > the competitive market is not able to provide the service at reasonable cost and quality; and

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	<p>services, such that a reasonable person would not infer from the respective branding that the DNSP and the related electricity service provider are related;</p> <p>ii. must not advertise or promote its direct control services and its contestable electricity services that are not direct control services together (including by way of cross-advertisement or cross-promotion);</p> <p>iii. must not advertise or promote contestable electricity services provided by a related electricity service provider other than the DNSP itself.</p>	<p>> a waiver from the AER has been granted to Essential Energy to provide the other service or an exemption applies.</p> <p>While not a control, Essential Energy's strategic approach to ring-fencing compliance does reduce the risk of breaching the Guideline by reducing the scope and number of contestable electricity services it provides.</p> <p>The strategic approach to ring-fencing compliance also eliminates the possibility of discrimination in favour of affiliate entities as no such entities have been established by Essential Energy.</p> <p>Quarterly reporting (detective control)</p> <p>The Compliance team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the Guideline. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the Guideline or report any breaches.</p> <p>Regional office analysis (preventative control)</p> <p>Essential Energy has undertaken an analysis of its regional offices to determine whether each office qualifies for the regional office exemption, where shared branding is allowed under the Guideline. This analysis is reviewed and updated on a quarterly basis to ensure the regional office register is accurate and up to date.</p> <p>Office register (preventative control)</p> <p>Essential Energy maintains an office register that is used by business units as a reference for offices that qualify for the regional office exemption and assists with complying with clause 4.2.3(a) of the Guideline. This register is checked and updated by the Compliance team on a quarterly basis and published on the Essential Energy website.</p> <p>Training and awareness (preventative control)</p> <p>All staff are required to undergo training on Essential Energy's ring-fencing obligations. The training provides staff awareness and knowledge that Essential Energy does not provide other services unless an AER waiver has been granted or an exemption exists. Training is delivered via Essential Energy's online training system and completion by staff is recorded and monitored.</p>
4.2.4(a)	A DNSP must establish, maintain and keep a register that identifies:	Office and staff registers (preventative control)

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	<ul style="list-style-type: none"> i. 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.; ii. the staff positions (including a description of the roles, functions and duties) of those staff positions 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); iii. the staff positions referred to in clause 4.2.4(a)ii, which are held, or have been held within the previous three months, by a member of staff whose access to electricity information ceased upon, or in the 12 months prior to, commencing in that position, and the dates on which that member of staff commenced to hold and (if applicable) ceased to hold that position. 	<p>The Compliance team has established office and staff registers, which are updated on a quarterly basis or as a change is identified through the quarterly reporting process.</p> <p>Quarterly reporting (detective control)</p> <p>The Compliance team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the Guideline. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the Guideline or report any breaches.</p>
4.2.4(b)	No later than 15 January, 15 April, 15 July, and 15 October each year, a DNSP must publish, on its website, an updated version of each of the registers referred to in clause 4.2.4(a). The DNSP must ensure that the information published in each updated version is current to the end of the calendar month that is immediately prior to the required publication date for that updated version under this clause 4.2.4(b).	<p>Office and staff registers (preventative control)</p> <p>The Compliance team has established office and staff registers, which are updated on a quarterly basis or as a change is identified through the quarterly reporting process.</p> <p>Quarterly reporting (detective control)</p> <p>The Compliance team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the Guideline. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the Guideline or report any breaches.</p>
Information access and disclosure		
4.3.1	<p>Subject to this clause 4.3, a DNSP must:</p> <ul style="list-style-type: none"> (a) keep ring-fenced information confidential; and 	<p>IT restrictions on information access (preventative control)</p> <p>Essential Energy maintains ring-fenced and other confidential information on secure IT systems, where employees have individual username and passwords for access. Employees are granted access to ring-fenced information where there is a need based on their role and whether it is appropriate for them have access.</p>

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	(b) only use ring-fenced information for the purpose for which it was acquired or generated.	<p>These secured IT systems and access management ensures ring-fenced information is kept confidential.</p> <p>Quarterly reporting (detective control)</p> <p>The Compliance team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the Guideline. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the Guideline or report any breaches.</p> <p>Training and awareness (preventative control)</p> <p>All staff are required to undergo training on Essential Energy's ring-fencing obligations. The training provides staff awareness and knowledge that Essential Energy does not provide other services unless an AER waiver has been granted or an exemption exists. Training is delivered via Essential Energy's online training system and completion by staff is recorded and monitored.</p> <p>All staff are required to undertake induction and annual cyber safety training to ensure staff are well-informed and skilled in practices to appropriately protect and handle protected information and data within Essential Energy systems, including ring-fenced information. Training is delivered via Essential Energy's online training system and completion by staff is recorded and monitored.</p>
4.3.2	<p>A DNSP must not disclose ring-fenced information to any person, including a related electricity service provider, unless:</p> <ul style="list-style-type: none"> (a) the DNSP has first obtained the explicit informed consent of the relevant customer, or prospective customer, to whom the ring-fenced information relates; (b) the disclosure is required by, or for the purpose of complying with any law; (c) the disclosure is necessary to enable the DNSP to provide its distribution services or transmission services or its other services (including by acquiring services from other legal entities); (d) the information has been requested by or on behalf of a customer, or potential 	<p>Information sharing protocol (preventative control)</p> <p>Essential Energy has established an information sharing protocol that sets out the process for sharing information with other entities, including ASPs, potential related electricity service providers and other legal entities. This protocol ensures and its related processes:</p> <ul style="list-style-type: none"> > ring-fenced information is not disclosed inappropriately; > ring-fenced information is only used for the purpose for which it was acquired or generated; and > ring-fenced information, where disclosed to a related electricity service provider, is provided to other legal entities on an equal basis. <p>The information sharing protocol sets out the application process for obtaining ring-fenced information including:</p> <ul style="list-style-type: none"> > provision of an application form requesting information on the legal entity, the ring-fenced information requested and the purpose for the request; and

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	<p>customer, of another legal entity, and the disclosure is necessary to enable the legal entity to provide its transmission, contestable electricity services, or other services to the customer or potential customer;</p> <p>(e) the disclosure is solely for the purpose of providing assistance to the extent necessary to respond to any event (such as an emergency) that is beyond a Network Service Provider's reasonable control;</p> <p>(f) the disclosure is solely for the purposes of research by a legal entity other than a related electricity service provider or the DNSP;</p> <p>(g) where another DNSP is an affiliated entity of the DNSP, the disclosure is to the part of that other DNSP that provides that other DNSP's direct control services;</p> <p>(h) a related electricity service provider of the DNSP has requested the disclosure and the DNSP complies with clause 4.3.4 in relation to ring-fenced information; or</p> <p>(i) another legal entity, other than a related electricity service provider of the DNSP, has requested the disclosure.</p>	<p>> agreement to an information sharing Deed Poll binding the legal entity receiving the information to comply with certain requirements of the Guideline as if it were Essential Energy, including strict confidentiality clauses.</p> <p>The information sharing protocol further details Essential Energy's assessment process for disclosure of ring-fenced information under the Guideline and is available on Essential Energy's website.</p> <p>Quarterly reporting (detective control)</p> <p>The Compliance team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the Guideline. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the Guideline or report any breaches.</p> <p>Training and awareness (preventative control)</p> <p>All staff are required to undergo training on Essential Energy's ring-fencing obligations. The training provides staff awareness and knowledge that Essential Energy does not provide other services unless an AER waiver has been granted or an exemption exists. Training is delivered via Essential Energy's online training system and completion by staff is recorded and monitored.</p> <p>All staff are required to undertake induction and annual cyber safety training to ensure staff are well-informed and skilled in practices to appropriately protect and handle protected information and data within Essential Energy systems. Training does not specifically address ring-fenced information, but more broadly teaches appropriate behaviours to secure information from external threats. Training is delivered via Essential Energy's online training system and completion by staff is recorded and monitored.</p>
4.3.3(a)	Subject to clause 4.1(c)iv and to this clause 4.3.3, where a DNSP shares ring-fenced information with a related electricity service provider, or where ring-fenced information that a DNSP has disclosed under clause 4.3.2(f) is then disclosed by any person to a related electricity service provider of the DNSP, the DNSP must provide access to that ring-fenced information (including the derived	

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	information) to other legal entities on an equal basis.	
4.3.3(d)	Without limiting clause 4.3.3(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.	
4.3.3(e)	Where a DNSP discloses information referred to in clause 4.3.3(a) to any other legal entity under this clause 4.3.3, it must do so on terms and conditions that require the other legal entity to comply with clause 4.3.1 and 4.3.2(a) to (d) in relation to that information as if the other legal entity was a DNSP.	
4.3.4(a)	<p>A DNSP must establish, maintain and keep a register of all:</p> <ul style="list-style-type: none"> i. related electricity service providers; ii. other legal entities who provide contestable electricity services but who are not affiliates of the DNSP; <p>who request access to information identified in clause 4.3.3(a), and must make the register publicly available on its website.</p>	<p>Information sharing protocol (preventative control)</p> <p>Essential Energy has established an information sharing protocol that sets out the process for sharing information with other entities, including ASPs, potential related electricity service providers and other legal entities. This protocol ensures and its related processes:</p> <ul style="list-style-type: none"> > ring-fenced information is not disclosed inappropriately; > ring-fenced information is only used for the purpose for which it was acquired or generated; and > ring-fenced information, where disclosed to a related electricity service provider, is provided to other legal entities on an equal basis. <p>The information sharing protocol sets out the application process for obtaining ring-fenced information including:</p>
4.3.4(b)	<p>For each legal entity that has requested that a DNSP provide access to information identified in clause 4.3.3(a), the DNSP's information register must:</p> <ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> > provision of an application form requesting information on the legal entity, the ring-fenced information requested and the purpose for the request; and > agreement to an information sharing Deed Poll binding the legal entity receiving the information to comply with certain requirements of the Guideline as if it were Essential Energy, including strict confidentiality clauses. <p>The information sharing protocol further details Essential Energy's assessment process for disclosure of ring-fenced information under the Guideline and is available on Essential Energy's website.</p>

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	informed decision about whether to request that kind of information from the DNSP.	Information register (preventative control) Essential Energy has established an information register listing requests from all service providers, including related electricity service providers and other legal entities that provide contestable electricity services.
4.3.4(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 4.3.3(a), and the DNSP must comply with that request.	The register is updated as information requests are received or otherwise each quarter. The register is published on the Essential Energy website alongside the information sharing protocol. To date Essential Energy has received no information requests necessitating reporting on the information register but has policies and procedures in place to address this requirement when it arises.
Service Providers		
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 the DNSP that enable or assist the DNSP to supply direct control services, required the service provider to comply in providing those services, with: <ul style="list-style-type: none"> i. clauses 4.1, 4.2.1, 4.2.2 and 4.3.1 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.	New terms and conditions for service providers (preventative control) A ring-fencing assessment process is embedded within Essential Energy's Procurement procedures and the Procurement Plan template. Guidance has been provided to employees on the Procurement procedure and ring-fencing obligations. Where a ring-fencing impact is identified the Compliance and Legal teams will be involved to ensure the correct clauses are included in the relevant contracts. Essential Energy's standard terms and conditions also include ring-fencing considerations. Quarterly reporting (detective control) The Compliance team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the Guideline. 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.
4.4.1(b)	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.	Training and awareness (preventative control) All staff are required to undergo training on Essential Energy's ring-fencing obligations. The training provides staff awareness and knowledge that Essential Energy does not provide other services unless an AER waiver has been granted or an exemption exists. Training is delivered via Essential Energy's online training system and completion by staff is recorded and monitored.
Waiver register		
5.7(a)	A DNSP must establish, maintain, and keep a register of all waivers (including any variation of a	Waiver register establishment and update (preventative control)

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	waiver) granted to the DNSP by the AER under clause 5 of this Guideline, and must make the register publicly available on its website.	<p>Consideration and preparation of waiver applications are the responsibility of the Compliance team and Business lines that are seeking a waiver.</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>
5.7(b)	<p>The register established under clause 5.7(a) must include:</p> <ul style="list-style-type: none"> i. the description of the conduct to which the waiver or interim waiver applies; and ii. the terms and conditions of the waiver or interim waiver; <p>as set out in the AER's written decision, provided by the AER to the DNSP, to grant (or vary) the waiver or interim waiver.</p>	<p>The waiver register is updated by the Compliance team each quarter or as AER waivers are granted to Essential Energy, or existing waivers expire.</p>
Maintaining compliance		
6.1	<p>A DNSP must establish and maintain appropriate internal procedures to ensure it complies with its obligations under this Guideline. The AER may require the DNSP to demonstrate the adequacy of these procedures upon reasonable notice. However, any statement made or assurance given by the AER concerning the adequacy of the DNSP's compliance procedures does not affect the DNSP's obligations under this Guideline.</p>	<p>Strategic approach to ring-fencing compliance</p> <p>Essential Energy has adopted a 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"> > the competitive market is not able to provide the service at reasonable cost and quality; and > a waiver from the AER has been granted to Essential Energy to provide the other service or an exemption applies. <p>While not a control, Essential Energy's strategic approach to ring-fencing compliance does reduce the risk of breaching the Guideline by reducing the scope and number of contestable electricity services it provides.</p> <p>The strategic approach to ring-fencing compliance also eliminates the possibility of discrimination in favour of affiliate entities as no such entities have been established by Essential Energy.</p> <p>Policies and procedures (preventative control)</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>

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		<p>> 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 Guideline.</p> <p>> Ring-Fencing Procedure - CEOP2477. This document provides guidance to Essential Energy employees on how to adhere to the Ring-Fencing Policy.</p> <p>> Ring-Fencing Compliance Monitoring and Reporting Procedure - CEOP2480. This document outlines the processes for undertaking breach management and reporting and preparing the annual compliance report.</p> <p>Breach management process (preventative and corrective control)</p> <p>Essential Energy has a breach management process in place that guides identification, notification, investigation, remediation and reporting on ring-fencing compliance breaches. This process is documented in the Ring-Fencing Compliance Monitoring and Reporting Procedure - CEOP2480.</p> <p>Quarterly reporting (detective control)</p> <p>The Compliance team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the Guideline. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the Guideline or report any breaches.</p>
Compliance reporting		
6.2.1	<p>(a) A DNSP must prepare an annual ring-fencing compliance report each regulatory year in accordance with this clause 6.2.1, and submit it to the AER in accordance with clause 6.2.2.</p> <p>(b) The annual compliance report must identify and describe, in respect of the regulatory year to which the report relates:</p> <p>i. the measures the DNSP has taken to ensure compliance with its obligations under this Guideline;</p>	<p>Ring-fencing compliance report (preventative control)</p> <p>Essential Energy has prepared this report to comply with clause 6.2.1 and in line with its processes documented in CEOP2480 Ring-Fencing Compliance Monitoring and Reporting Procedure.</p> <p>The report is compiled by the Compliance team, based upon results from reporting the quarterly reporting process that covered the period 3 February 2022 to 31 December 2022 where information was requested from business managers on their activities and monitoring and review of potential breach reports.</p> <p>The report is subject to internal management review and approval. The report will be submitted to the AER by 28 April 2023.</p>

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	<ul style="list-style-type: none"> ii. any breaches of this Guideline by the DNSP, or which otherwise relate to the DNSP; iii. all other services provided by the DNSP in accordance with clause 3.1; and iv. the purpose of all transactions between the DNSP and an affiliated entity. <p>a) The annual compliance report must be accompanied by an assessment of compliance by a suitably qualified independent authority.</p> <p>Annual compliance reports may be made publicly available by the AER.</p>	<p>Breach management process (preventative and corrective control)</p> <p>Essential Energy has a breach management process in place that guides identification, notification, investigation, remediation and reporting on ring-fencing compliance breaches. This process is documented in the Ring-Fencing Compliance Monitoring and Reporting Procedure - CEOP2480.</p> <p>Independent assessment (preventative control)</p> <p>Essential Energy has engaged KPMG to undertake an assessment of its compliance with the Guideline in the reporting period. The outcome of KPMG's independent assessment will accompany the report when it is lodged with the AER.</p> <p>Quarterly reporting (detective control)</p> <p>The Compliance team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the Guideline. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the Guideline or report any breaches.</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.	
6.2.3(a)	<p>A DNSP must establish, maintain and keep a register that identifies for each stand-alone power system used by the DNSP to provide other services:</p> <ul style="list-style-type: none"> i. the local government area in which the stand-alone power system is deployed; ii. the number of premises served by the stand-alone power system; iii. the maximum demand, in KW, served by the stand-alone power system; iv. the aggregated annual average energy consumption, in kWh, of the premises served by the stand-alone power system; v. the revenue earned by the DNSP for providing other services by means of the stand-alone 	<p>Stand-alone power system (SAPS) register (preventative control)</p> <p>The Compliance team has established a SAPS register and process for obtaining and reviewing data within timeframes required by the Guideline. The SAPS register will be updated on a quarterly basis or as a change is identified through the quarterly reporting process.</p> <p>During calendar year 2022, Essential Energy has not deployed a regulated SAPS where other services (i.e. generation) are being provided and has not published a SAPS register during the year as a result.</p> <p>Quarterly reporting (detective control)</p> <p>The Compliance team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the Guideline. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the Guideline or report any breaches.</p>

Ring-fencing obligation		Compliance Measures
Clause	Description	
	<p>power system in the current calendar year; and</p> <p>vi. whether the DNSP has made a request, in writing, for the supply of the other services by another legal entity (other than an affiliated entity of the DNSP).</p>	
6.2.3(b)	No later than 15 January, 15 April, 15 July, and 15 October each year, a DNSP must publish, on its website, an updated version of each of the registers referred to in clause 6.2.3(a). The DNSP must ensure that the information published in each updated version is current to the end of the calendar month that is immediately prior to the required publication date for that updated version under this clause 6.2.3(b).	
Compliance breaches		
6.3	A DNSP must notify the AER in writing within 15 business days of becoming aware of a material breach of its obligations under this Guideline, except for a breach of clause 6.2.2 or this clause 6.3 of 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>Breach management process (preventative and corrective control)</p> <p>Essential Energy has a breach management process in place that guides identification, notification, investigation, remediation and reporting on ring-fencing compliance breaches. This process is documented in the Ring-Fencing Compliance Monitoring and Reporting Procedure - CEOP2480.</p> <p>Quarterly reporting (detective control)</p> <p>The Compliance team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the Guideline. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the Guideline or report any breaches.</p>
7.1	<p>Despite clause 1.1.2 of this Guideline, a DNSP:</p> <p>(a) must fully comply with version 3 of this Guideline 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</p>	<p>Policies and procedures (preventative control)</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"> > 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 Guideline.

Ring-fencing obligation		Compliance Measures
Clause	Description	
	obligations by no later than the version 3 compliance date	<p>> Ring-Fencing Procedure - CEOP2477. This document provides guidance to Essential Energy employees on how to adhere to the Ring-Fencing Policy.</p> <p>> Ring-Fencing Compliance Monitoring and Reporting Procedure - CEOP2480. This document outlines the processes for undertaking breach management and reporting and preparing the annual compliance report.</p> <p>These policies and procedures were updated during the calendar year to reflect changes under version 3 of the Guideline.</p> <p>Breach management process (preventative and corrective control)</p> <p>Essential Energy has a breach management process in place that guides identification, notification, investigation, remediation and reporting on ring-fencing compliance breaches. This process is documented in the Ring-Fencing Compliance Monitoring and Reporting Procedure - CEOP2480.</p> <p>Quarterly reporting (detective control)</p> <p>The Compliance team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the Guideline. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the Guideline or report any breaches.</p>

Appendix B: Ring-fencing Breaches

Obligation	Date	Details	Remediation
<p>4.2.1 Physical separation / co-location</p> <p>4.2.2 Staff Sharing</p> <p>4.2.3 Branding and Cross-promotion</p> <p>4.2.4 - Office and staff registers</p> <p>4.4.1(a) Conduct of service providers</p>	<p>Reporting Period 3 February 2022 – 31 December 2022</p> <p>Breach start date 1/07/2019</p> <p>Breach end date Ongoing</p> <p>Date breach reported to AER 11/07/2019</p>	<p>Type 1-4 Metering breach</p> <p>Nature of breach</p> <p>In preparation for the Power of Choice metering changes being implemented on 1 December 2017 and the commencement of ring-fencing on 1 January 2018, Essential Energy put steps in place to withdraw completely from providing contestable metering services. As all remaining installations where these contestable metering services were being provided were not likely to have been transferred away prior to ring-fencing commencing a waiver application for Type 1-4 metering services was submitted in July 2017 to allow Essential Energy to continue providing these services until it could completely exit the market. The waiver application was approved by the AER on 18 December 2017 with an expiration date of 1 July 2019.</p> <p>Prior to 1 December 2017 Essential Energy's management was informed by its metering department that Essential Energy was no longer providing Type 1-4 contestable metering services as all sites had been transferred to other service providers.</p> <p>In mid June 2019 Essential Energy management was informed by the metering department that Essential Energy is providing contestable Type 1-4 metering services at a number of metering installations that are active in the market. The services that Essential Energy is providing are:</p> <ul style="list-style-type: none"> > Meter Provider to 44 active sites. This has reduced from 62 active sites in November 2017. > Meter Data Provider to 17 active sites. This has reduced from 34 active sites in November 2017. <p>These sites are legacy sites that did not transfer to other service providers and Essential Energy has continued to provide contestable metering services to since 1 December 2017.</p> <p>Cause of breach</p> <p>Essential Energy is reliant on the Metering Coordinator for each of these metering installations to appoint new service providers to the roles of Metering Provider and</p>	<p>At the end of the reporting period three sites remained under Essential Energy's metering service provision.</p> <p>Essential Energy has written to Retailers for these sites advising that Essential Energy can no longer provide contestable metering services and requesting Metering Coordinators affiliated with those Retailers appoint alternate providers.</p> <p>Essential Energy will continue to request the Retailers and Metering Coordinators to act and rectify this situation.</p> <p>Regular reporting on the rectification of this breach is provided to the AER.</p> <p>Essential Energy will continue to encourage the AER to support its efforts to resolve this matter with Retailers.</p>

Obligation	Date	Details	Remediation
		<p>Meter Data Provider. Whilst Essential Energy is assigned these roles, it is required under the National Electricity Rules to continue providing the services required.</p> <p>Essential Energy has made requests to the relevant Retailers requesting they have their Metering Coordinators assign new providers to these roles but to date they have failed to act on these requests.</p> <p>Essential Energy did not raise this issue with the AER and AEMO prior to the ring-fencing waiver expiring due to a failure by its Metering Department to escalate this issue to senior management until late June 2019.</p> <p>Method of identification</p> <p>This breach was identified and escalated by internal Essential Energy staff.</p> <p>Impact of breach</p> <p>There is minimal impact on customers and the contestable market as a result of this breach due to:</p> <ul style="list-style-type: none"> > the small number of sites where these services are provided, and > Essential Energy's on going attempts to fully exit the contestable metering market through requests to retailers to have their metering coordinators transfer these sites to other metering service providers. 	