

Electricity Distribution Ring-fencing Compliance Report

1 January 2023 – 31 December 2023



April 2024

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Overview

The Ring-fencing Guideline – Electricity Distribution Version 3¹ (the Guideline) requires each Distribution Network Service Provider (DNSP) to prepare an annual Ring-fencing Compliance Report (Compliance Report). Essential Energy (ABN 37 428 185 226), as a DNSP, has prepared this Compliance Report in accordance with clause 6.2 of the Guideline for the regulatory reporting period of 1 January to 31 December 2023 (reporting period).

Essential Energy's core business is to support regional, rural and remote communities by operating and maintaining one of Australia's largest electricity networks. Essential Energy's 183,000km of power lines, covering 95 per cent of New South Wales (NSW) and parts of southern Queensland, serve more than 890,000 customers.

Essential Energy's vision is empowering communities to share and use energy for a better tomorrow by enabling energy solutions that improve life. This means maintaining a safe and reliable network as Essential Energy becomes an energy business for the future where its values inform its decisions, the way it works and how Essential Energy treats its customers and people.

The preparation of this Compliance Report is undertaken to satisfy the obligations and requirements of the Australian Energy Regulator (AER) aimed to:

- > Promote the National Electricity Objective by requiring the accounting and functional separation of the provision of direct control services by DNSPs from the provision of other services by DNSPs or their affiliated entities
- > Promote competition in the provision of electricity services.

Essential Energy's strategic approach to meeting its obligations under the Guideline has been to largely withdraw from providing most contestable electricity services. When Essential Energy provides contestable electricity services it is limited to where:

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

This Compliance Report details Essential Energy's approach to compliance including policies, processes and measures implemented and in practice during the regulatory reporting period to meet the aims and requirements of the Guideline.

Recognising the unique needs of regional, rural and remote NSW customers in the energy transition, Essential Energy has undertaken changes and trials during the reporting period. Further, Essential Energy commenced a program of works during 2023 to prepare to provide contestable electricity services through its related entity, Intium². This Compliance Report discusses steps undertaken under this program of works during the reporting period.

Statement of Compliance

Essential Energy has complied with the obligations set out in the Guideline for the period from 1 January to 31 December 2023 except for those breaches detailed in Section 2.

¹ Australian Energy Regulator (AER), Ring-fencing Guideline -- Electricity Distribution Version 3, November 2021.

² Intium Pty Limited (ABN 89 664 971 313)

Annual Ring-fencing Compliance Report

Clause 6.2.1 of the Guideline and the AER's Distribution Ring-fencing Best Practice Manual³ sets out those matters and the manner in which Essential Energy is required to demonstrate compliance with the Guideline in this Compliance Report.

Specifically, the Compliance Report must identify and describe, in respect of the reporting period:

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

In addition to the content of this Compliance Report, Essential Energy must provide an assessment of compliance with each provision of the Guideline by a suitably qualified independent authority. Essential Energy engaged KPMG to provide an independent assessment of its compliance with the Guideline.

This Compliance Report must be submitted to the AER by 30 April 2024 and be accompanied by the independent assessment report issued by KPMG. This Compliance Report may be made public by the AER and has been prepared with the expectation that such disclosure will occur.

Structure of this Compliance Report

Essential Energy has set out this Compliance Report to meet the requirements of the Guideline as summarised in Table 1:

Table 1: Structure of Compliance Report

Subject	Description	Where to find
Measures to ensure compliance	Compliance measures undertaken during the reporting period to ensure compliance with the Guideline including challenges, risks and control improvements Summary of business changes, trials and work program to prepare for provision of contestable electricity services by Intium	Section 1 and Appendix A
Breaches	Compliance breaches of the Guideline during the reporting period	Section 2
Other Services	Other Services provided by Essential Energy	Section 3
Transactions with Affiliated Entities	Details of any transactions between Essential Energy and Intium	Section 4
Independent Assessment	Essential Energy's actions in response to improvement observations during audit of its 2023 Annual Ring-fencing Compliance Report Outcomes of the independent assessment of this Compliance Report	Section 5 and Attachment 1

³ AER Electricity Distribution Ring-fencing Guideline Compliance Reporting Best Practice Manual Version 3, February 2022

1. Measures to Ensure Compliance

Clause 6.2.1(b)(i) of the Guideline requires DNSPs to report on the measures the DNSP has taken to ensure compliance with its ring-fencing obligations. Annual compliance reporting by the DNSP should explain how the compliance measures put in place address each 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.

Detail with respect to the measures to ensure compliance with the Guideline clauses is provided in Appendix A.

1.1 Essential Energy Compliance Program

During 2023, Essential Energy took the strategic approach to achieve compliance with its ring-fencing obligations through only providing:

- > Contestable services to regional and remote customers where a functional competitive market is absent
- > Other or contestable services under individual waivers granted by the AER under specific circumstances
- > 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.

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 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 program and assigns authorities and responsibilities to Essential Energy staff and teams. Essential Energy's measures to ensure compliance with obligations Guideline or waivers granted to Essential Energy are detailed in Appendix A.

During the reporting period, Essential Energy engaged in several changes in its business that have affected its approach to compliance with the Guideline during the reporting period but will have greater implications into the future. These include:

- > Undertaking a program of work to establish a separated legal entity, Intium, to provide other services and contestable electricity services
- > Operating its first network battery with leased spare capacity at Sovereign Hills under an individual waiver granted by the AER
- > Preparing for operation of two other classes of batteries under individual and class waivers granted by the AER
- > Operating two regulated Stand-alone Power Systems (SAPS).

1.2 Establishment of Intium

On 13 January 2023, Essential Energy incorporated a separate legal entity, Intium Pty Ltd (Intium), to provide other services and contestable electricity services to NSW regional and remote customers that Essential Energy, as a DNSP, is prohibited from providing under the Guideline.

The energy transition is requiring significant investment in infrastructure and services that are needed in regional and rural NSW to support the rapid change necessary for Australia's low carbon future. Customers are also seeking alternative energy solutions through the uptake of new technologies, such as electric vehicles and increased digitisation of the energy system. In order to support customers in regional and rural NSW and beyond, Essential Energy took the strategic decision to establish Intium and explore opportunities to provide additional services.

During the reporting period, Intium provided no services and had no customers.

Essential Energy has a firm commitment to its compliance with regulatory obligations and during the reporting period sought to undertake a deliberate and measured approach to establishing appropriate compliance measures to prepare for Intium to provide services.

Program of work to prepare for a legally and functionally separated entity

In 2023, Essential Energy stood up a project to deliver a program of work to establish Intium and achieve legal and functional separation of Essential Energy from Intium to meet the requirements of the Guideline.

Activities during the reporting period have largely focussed on legal separation and ensuring costs and revenue associated with Intium are appropriately allocated consistent with Essential Energy's Cost Allocation Methodology (CAM). These activities include:

- > Registering of Intium Pty Ltd, forming of an Intium Board of Directors, setting Delegations of Authority, and having Intium's constitution tabled in the NSW Parliament
- > Establishing an independent and separate brand for Intium from the brand associated with Essential Energy's provision of direct control services
- > Completing a review of Essential Energy's CAM for fitness for purpose in context of Intium
- > Deploying separated finance and procurement modules of Oracle Enterprise Resource Planning (ERP) system to enable Intium to transact in its own right and to facilitate separation of management and financial accounts
- > Developing procurement terms and conditions for Intium
- > Executing shared services agreement between Intium and Essential Energy for the utilisation of corporate services of Essential Energy.

Essential Energy's program of work to implement controls to achieve functional separation between Essential Energy and Intium will continue through 2024.

1.3 Battery Projects

1.3.1 Sovereign Hills Network Battery

On 4 August 2022, Essential Energy was granted an individual ring-fencing waiver to lease excess capacity from its Sovereign Hills network battery located near Port Macquarie NSW. Essential Energy was granted the waiver under the AER's consideration of waiver applications for energy storage devices under a streamlined process.

The Sovereign Hills Battery is Essential Energy's first trial network battery. Developed in partnership with AGL, the 2MWh battery project was developed to respond to network need for greater capacity and power quality management in a rapidly growing area without the need for immediate upgrade to the Essential Energy network. During the trial, AGL was engaged under a revenue sharing agreement to use excess capacity from the battery to provide market services.

The battery is funded 57% through Essential Energy's regulated asset base and 43% through unregulated funding.

The Sovereign Hills Battery commenced operations for testing and commissioning purposes on 1 February 2023 following the finalisation of an Orchestration Agreement between AGL and Essential Energy. Under this agreement, AGL operates and controls the battery to provide network and market services. Essential Energy provides fixed setting limits, which include active and reactive voltage settings to support the network. In the future, Essential Energy will provide a dynamic operation of setting limits for thermal control.

Challenges and learnings during the reporting period

A number of challenges affected the operation of the Sovereign Hills battery during the reporting period.

A staged commissioning process commenced in February 2023. However, at each commissioning stage, operational issues were identified which prevented Essential Energy from being able to use the battery to support network back feeds for reliability benefits or set up the control schemes to manage peak demand that is forecast to occur within the next 12-18 months. As such, reactive power control has been the only support provided to the network from the battery, albeit without the consistency needed to model the benefits.

At the end of the reporting period, the operation of the battery was not aligned with the required performance expected of Essential Energy and AGL. This has also caused financial implications for the project as the battery has not operated effectively to provide network services for reliability and peak demand looping. Due to ongoing operational issues with the battery, it remained in a testing phase throughout the reporting period, with full commissioning to complete in 2024.

1.3.2 Pole-top Battery Trial

On 22 October 2022, Essential Energy was granted an individual waiver from clause 3.1 of the Guideline to allow it to trial the joint ownership and operation of 35 pole-top batteries with a retail partner. Essential Energy was granted the waiver under the AER's consideration of waiver applications for energy storage devices under a streamlined process.

The project is jointly funded by Essential Energy and its retail partner, Origin Energy, where Essential Energy's portion is not allocated to Essential Energy's regulated asset base. The pole-top battery trial is planned for the communities of Armidale, Bathurst, Dubbo, Port Macquarie, and Wagga Wagga. The trial will explore power quality and retail opportunities for customers in those communities.

During the reporting period, Essential Energy finalised its commercial agreement with Origin Energy on 29 June 2023 and proceeded with procurement of the pole-top batteries for the trial. No batteries under this waiver were operationalised during the reporting period.

1.3.3 Commonwealth Community Batteries for Household Solar Program

On 3 February 2023, the AER granted a class waiver from clauses 3.1, 4.2.1, and 4.2.2 of the Guideline to allow DNSPs to lead community battery projects that are funded under the Australian Government's Community Batteries for Household Solar Program.

Essential Energy received grant funding as part of the Australian Government's Community Batteries for Household Solar Program for the provision and integration of batteries into the communities of Goulburn, Leeton and Maloney's Beach in NSW. Each of the Essential Energy batteries will be wholly excluded from Essential Energy's regulated asset base.

During the reporting period, community engagement and planning for the battery's utilisation in the communities, as well as procurement of the battery assets, commenced. No batteries subject to this ring-fencing waiver were operational during the reporting period.

1.4 Regulated Stand Alone Power Systems (SAPS)

In December 2023, Essential Energy registered two regulated SAPS in the National Electricity Market (NEM) as a first step in the utilisation of SAPS as an alternative to traditional poles and wires connections to provide reliable and cost efficient electricity supply to specific Essential Energy customers. The two SAPS were operational at the end of the reporting period and servicing customers in the communities of Eurobodalla and Bula-Bula NSW.

Changes to version 3 of the Guideline allow DNSPs which are registered as Market SAPS Resource Providers (MSRP) to provide generation services without requirements for legal separation, provided accounting separation is undertaken. Generation revenue may be earned by Essential Energy as a MSRP up to an annual generation cap in a regulatory year, which will be cost recovered by the AER. Essential Energy did not receive any revenue as a MSRP during the reporting period.

Essential Energy provides on its website a register of its regulated SAPS with information as required under the Guideline.

2. Breaches

Essential Energy reported two breaches of its ring-fencing obligations during the reporting period. Details of these breaches are provided in Table 2.

Table 2: Ring-fencing Compliance Breaches

Obligation	Date	Details	Remediation
4.2.1	Reporting period 1 January to 31 December 2023	Type 1-4 Metering breach	<p>At the end of the reporting period, four sites remained under Essential Energy's metering service provision.</p> <p>During the reporting period, Essential Energy continued to contact 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>Until June 2023, Essential Energy was reporting on the rectification of this breach bi-monthly to the AER. This reporting frequency was adjusted to 6-monthly on agreement with the AER.</p> <p>Essential Energy will continue to work to encourage the AER to support its efforts to resolve this matter with Retailers.</p>
4.2.2		<u>Nature of breach</u>	
4.2.3	Breach start date 1 July 2019	In preparation for the commencement of ring-fencing on 1 January 2018, Essential Energy put steps in place to withdraw from providing contestable metering services. As all remaining installations where contestable metering services were being provided were unlikely to transfer away by 1 January 2018, Essential Energy received a ring-fencing waiver allowing it to continue to provide contestable metering services until it could completely exit the market. The waiver application was approved by the AER on 18 December 2017 and expired 1 July 2019.	
4.2.4			
4.4.1(a)	Breach end date Ongoing		
	Breach reported to AER 11 July 2019	<p>In mid June 2019 Essential Energy identified that it was providing contestable Type 1-4 metering services at a number of metering installations in the market. The services that Essential Energy is providing are:</p> <ul style="list-style-type: none"> > Meter Provider to 44 active sites, reduced from 62 active sites in November 2017. > Meter Data Provider to 17 active sites, reduced from 34 active sites in November 2017. <p>These legacy sites did not transfer to other service providers, and Essential Energy has continued to provide metering services for these sites since 1 December 2017.</p> <p><u>Cause of breach</u></p> <p>Essential Energy relies on a Metering Coordinator for each of these metering installations to appoint new service providers to the roles of Metering Provider and Meter Data Provider. Whilst Essential Energy is assigned these roles, it must continue to provide services as required under the National Electricity Rules. Essential Energy continues to request Retailers have their Metering Coordinators assign new providers to these roles but to date they have failed to act on these requests.</p> <p><u>Method of identification</u></p> <p>This breach was identified by internal Essential Energy staff.</p> <p><u>Impact of breach</u></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 > Essential Energy's ongoing efforts to cease providing contestable metering services through seeking to have sites transferred. 	
5.7	Reporting period 1 January to 31 December 2023	Identification of Class Waivers in Waiver Register	
		<u>Nature of breach</u>	
		Essential Energy identified that it did not list in its waiver register published in accordance with clause 5.7 of the Guideline Class Waivers granted by the AER to all DNSPs, particularly where	

Obligation	Date	Details	Remediation
	<p>Breach start date 14 December 2022</p> <p>Breach end date 16 February 2024</p> <p>Breach reported to AER 15 February 2024</p>	<p>Essential Energy was not providing services allowed under that waiver.</p> <p><u>Cause of breach</u></p> <p>Essential Energy understood the requirement of the waiver register was to list waivers granted solely to it as a DNSP and not those waivers granted to all DNSPs, particularly when some class waivers will not be utilised by Essential Energy.</p> <p><u>Method of identification</u></p> <p>This breach was identified by internal Essential Energy staff.</p> <p><u>Impact of breach</u></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"> > One class waiver being granted to all DNSPs will not be used Essential Energy > One class wavier being granted to all DNSPs were part of a public Commonwealth grant announcement which was known to the competitive market. 	

3. 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.

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

- > **Fibre Optic:** access to fibre optic cable for telecommunication purposes
- > **NBN:** access to electricity network poles for installation of fibre optic cable for telecommunication purposes
- > **Rental:** property leasing and tower access for a third party to install radio frequency equipment for use in telecommunications equipment.

In addition to services provided by Essential Energy listed above, its provision of other services is subject to the conditions of any waivers granted by the AER, including the waivers in effect during the reporting period. Those waivers utilised by Essential Energy are detailed in Table 3.

Table 3: Ring-fencing Waivers in effect during reporting period

Obligation Waived	Expiry date	Details of waiver
3.1, 4.2.1 4.2.2, 4.2.3 4.2.4, 4.4.1(a)	1 July 2024	Clarence Valley water services Essential Energy was granted a waiver 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 apply to extend this waiver beyond its expiry date.
3.1, 4.2.1 4.2.2, 4.2.3 4.2.4, 4.4.1(a)	1 July 2029	Essential Water services Essential Energy holds a waiver from its obligations 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.
4.2.1, 4.2.2, 4.2.3 4.2.4	1 July 2029	Contestable technical training services Essential Energy holds a waiver from its obligations 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 limited basis and in the following locations: 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, Wialda, Wodonga, and Young.
3.1	4 August 2037	Sovereign Hills Battery Waiver Essential Energy was granted a waiver to allow it to lease spare capacity from its Battery Energy Storage System located at Sovereign Hills.
3.1	30 June 2037	Pole-top Battery Trial Waiver Essential Energy was granted a waiver to allow it to install, own and operate 35 pole-top batteries jointly with a retail partner. These batteries were not operational in the reporting period.

Obligation Waived	Expiry date	Details of waiver
3.1, 4.2.1 4.2.2	20 June 2041	<p>Australian Government Community Battery for Household Solar Program Class Waiver</p> <p>Allows DNSP-led battery projects where battery assets are funded by grants programs administered by the Commonwealth Government where the assets are either wholly excluded from the Regulated Asset Base (RAB) or partially allocated to the RAB.</p>

4. 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.

Table 4: Transactions between Essential Energy and affiliated entities

Affiliated Entity	Purpose of Transaction	Nature and Status of Transaction
Intium Pty Ltd	Intercompany Loan Agreement	<p>As required by Division 6 of the <i>Government Sector Finance Act 2018</i> (NSW), the NSW Treasurer granted approval for Essential Energy to provide unregulated funding to Intium of up to \$200M on 1 September 2023.</p> <p>An intercompany loan agreement between Essential Energy and Intium, in the amount of up to \$200M, was executed on 28 November 2023 as a single loan.</p>
Intium Pty Ltd	Provision of Corporate Services	<p>Essential Energy entered into a Shared Services Agreement on 19 December 2023 to provide corporate services to Intium which includes, for example, general administration, IT support services, accounting, procurement, human resources, payroll, and legal and regulatory services.</p> <p>Fees are payable by Intium to Essential Energy monthly in accordance with Essential Energy's approved Cost Allocation Methodology (CAM) on a full pass-through basis or, in the event that the relevant fee is not covered in the CAM, by applying an equivalent cost-reflective rate.</p>

5. Independent Assessment

Clause 6.2.1(c) of the Guideline requires Essential Energy's Compliance Report to be accompanied by an assessment of compliance with the Guideline by a suitably qualified independent authority.

Essential Energy engaged KPMG to undertake an Independent Assessment of Essential Energy's compliance against the Guideline requirements. The audit covers the period from 1 January to 31 December 2023. This assessment is provided as Attachment 1 to this report.

Appendix A: Compliance Measures

Strategic approach to ring-fencing compliance (preventative control)

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:

- > 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.

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.

Ring-fencing Obligation	Compliance Measures
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>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 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 Commercial and Future Network teams which look at new services. Part of their process during the feasibility stage is to engage the Regulatory team to explore any regulatory issues, including ring-fencing, which need to be considered and addressed prior to standing up any new service.</p>

Ring-fencing Obligation	Compliance Measures
	<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	
<p>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>	<p>ERP separation (preventative control)</p> <p>Essential Energy has separated finance modules in its Oracle Enterprise Resource Planning (ERP) system to identify and manage separation of management and financial accounts for other and contestable business activities from the provision of direct control services.</p> <p>Shared services agreement (preventative control)</p> <p>Shared services agreement between Intium and Essential Energy identifies how fees are paid by Intium to Essential Energy in accordance with Essential Energy’s CAM other on a full pass-through basis.</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>
<p>3.2.2(a) A DNSP must allocate or attribute costs (including costs allocated or 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</p>	<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. The Finance</p>

Ring-fencing Obligation	Compliance Measures
<p>Allocation Principles and CAM otherwise applied to the allocation and attribution of costs between distribution services and non-distribution services.</p>	<p>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>ERP separation (preventative control)</p>
<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>	<p>Essential Energy has separated finance modules in its Oracle Enterprise Resource Planning (ERP) system to identify and manage separation of management and financial accounts for other and contestable business activities from the provision of direct control services.</p> <p>Shared services agreement (preventative control)</p> <p>Shared services agreement between Intium and Essential Energy identifies how fees are paid by Intium to Essential Energy in accordance with Essential Energy's CAM other on a full pass-through basis.</p> <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. 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>
<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>	<p>ERP separation (preventative control)</p> <p>Essential Energy has separated finance modules in its Oracle Enterprise Resource Planning (ERP) system to identify and manage separation of management and financial accounts for other and contestable business activities from the provision of direct control services.</p> <p>Reviewing and maintaining accounting records (detective control)</p> <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. 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	
<p>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 related electricity service provider in connection with the provision of:</p> <ul style="list-style-type: none"> i direct control services by the DNSP (whether to itself or to any other level entity); and/or 	<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>

Ring-fencing Obligation	Compliance Measures
<ul style="list-style-type: none"> ii contestable electricity services by any other legal entity. 	<p>Quarterly reporting (detective control)</p>
<p>4.1(c) Without limiting its scope, clause 4.1(b) requires a DNSP to:</p> <ul style="list-style-type: none"> 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); 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; iii in like circumstances, provide substantially the same quality, reliability and timeliness of service to a related electricity service provider and a competitor (or potential competitor) of the related electricity service provider; 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) or the related electricity service provider where the disclosure would, or would be likely to, provide an advantage to the related electricity service provider. 	<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>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.</p>	
<p>Offices, staff, branding and promotions</p>	

Ring-fencing Obligation	Compliance Measures
<p>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>	<p>Regional office analysis (preventative control)</p> <p>Essential Energy analyses its regional office locations and numbers of connection points on a quarterly basis to determine whether each office qualifies for the regional office exemption 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> <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>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>	<p>Shared services agreement (preventative control)</p> <p>Agreement between Intium and Essential Energy defines corporate services that may be provided by Essential Energy including general administration, human resources, payroll, and legal and regulatory services.</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> <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</p>

Ring-fencing Obligation	Compliance Measures
	upon business managers knowledge of their operations and requiring them to confirm compliance with the Guideline or report any breaches.
<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>	<p>Employee performance measures (preventative control)</p> <p>Essential Energy applies a standard set of behavioural employee performance measures across all employees 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 performance measures are reviewed and approved by senior levels of Management and applied to all employees.</p> <p>Corporate scorecard (detective control)</p> <p>The company maintains a corporate scorecard to track business performance against Board agreed metrics, including tracking compliance with regulatory and legal requirements. Monthly reporting by management on performance on the compliance element in the scorecard assists in detecting breaches by requiring the identification and reporting of breaches within the business. Performance against the scorecard is factored into employee remuneration and short term incentives.</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>
<p>4.2.3(a) 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 services, such that a reasonable person would not infer from the respective branding that the DNSP and the related electricity service provider are related; ii. must not advertise or promote its direct control services and its contestable electricity services that are not direct control services 	<p>Separate branding for Essential Energy from affiliated entities (preventative control)</p> <p>Essential Energy has independent branding for the provision of direct control services from branding to be used for the provision of other or contestable electricity services via its affiliate, Intium.</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>

Ring-fencing Obligation	Compliance Measures
<p>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>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> <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>4.2.4(a) A DNSP must establish, maintain and keep a register that identifies:</p> <p>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.;</p> <p>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);</p> <p>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>	<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>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>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>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</p>	

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<p>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>	
Information access and disclosure	
<p>4.3.1 Subject to this clause 4.3, a DNSP must:</p> <ul style="list-style-type: none"> (a) keep ring-fenced information confidential; and (b) only use ring-fenced information for the purpose for which it was acquired or generated. 	<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. These secured IT systems and access management ensures ring-fenced information is kept confidential.</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> <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>4.3.2 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; 	<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.

Ring-fencing Obligation	Compliance Measures
<ul style="list-style-type: none"> (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 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; (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; (f) the disclosure is solely for the purposes of research by a legal entity other than a related electricity service provider or the DNSP; (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; (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 (i) another legal entity, other than a related electricity service provider of the DNSP, has requested the disclosure. 	<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 > 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> <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> <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>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 ringfenced information that a DNSP has disclosed under clause 4.3.2(f) is then disclosed by any</p>	

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<p>person to a related electricity service provider of the DNSP, the DNSP must provide access to that ring-fenced information (including the derived information) to other legal entities on an equal basis.</p>	
<p>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.</p>	
<p>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.</p>	
<p>4.3.4(a) 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 > 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>
<p>4.3.4(b) 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 	<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 > 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> <p>Information register (preventative control)</p>

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<p>other legal entities to make an informed decision about whether to request that kind of information from the DNSP.</p>	<p>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.</p>
<p>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.</p>	<p>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.</p> <p>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.</p>
Service Providers	
<p>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:</p> <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; <p>as if the service provider was the DNSP.</p>	<p>Terms and conditions for service providers (preventative control)</p> <p>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.</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>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.</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 Guidelines or report any breaches.</p>
Waiver register	
<p>5.7(a) A DNSP must establish, maintain, and keep a register of all waivers (including a 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.</p>	<p>Waiver applications and register update (preventative control)</p> <p>Consideration and preparation of waiver applications are the responsibility of the Regulatory Affairs team (comprising Compliance) and Business lines that are seeking a waiver.</p>

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<p>5.7(b) 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>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 by the Compliance team each quarter or as AER waivers are granted to Essential Energy, or existing waivers expire.</p>	
Maintaining compliance		
<p>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.</p> <p>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>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 Procedure - CEOP2477. This document provides guidance to Essential Energy employees on how to adhere to the Ring-Fencing Policy. > 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>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>	
<p>6.2.1 Annual compliance report</p> <ul style="list-style-type: none"> (a) A DNSP must prepare an annual ringfencing compliance report each regulatory year in accordance with this 	<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>	

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<p>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> <ul style="list-style-type: none"> i. the measures the DNSP has taken to ensure compliance with its obligations under this Guideline; 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>(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>The report is compiled by the Compliance team, based upon results from reporting the quarterly reporting process that covered the period 1 January to 31 December 2023 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 30 April 2024.</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>
<p>6.2.2(a) Timing of annual compliance reporting</p> <p>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.</p>	
<p>6.2.3(a) Regulated stand-alone power systems reporting</p> <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 standalone power system is deployed; 	<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>Quarterly reporting (detective control)</p>

Ring-fencing Obligation	Compliance Measures
<ul style="list-style-type: none"> ii. the number of premises served by the standalone 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 power system in the current calendar year; and 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>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>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).</p>	
<p>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>	<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>

Attachment 1: Independent Assessment Report



Independent Reasonable Assurance Report to the Directors of Essential Energy

Conclusion

In our opinion, Essential Energy's Statement of Compliance that the entity has, with the exception of the breaches identified and reported to the Australian Energy Regulator, complied with the Ring-fencing Guideline published on 3 November 2021 is, in all material respects, fairly presented for the regulatory period from 1 January 2023 to 31 December 2023.

Emphasis of Matter – Breaches of Ring-fencing Guideline

Without qualifying our conclusion, we draw attention to Section 2 of Essential Energy's Electricity Distribution Ring-fencing Compliance Report ("Compliance Report"), which describes the breaches of the Ring-fencing Guideline published by the AER on 3 November 2021 ("the Ring-fencing Guideline") identified and reported to the Australian Energy Regulator (AER) for the regulatory period from 1 January 2023 to 31 December 2023.

Breach of 4.2.1, 4.2.2, 4.2.3, 4.2.4 and 4.4.1(a) of the Ring-fencing Guideline

On 11 July 2019, Essential Energy reported a breach of clauses 4.2.1, 4.2.2, 4.2.3, 4.2.4 and 4.4.1 (a) of the Ring-fencing Guideline, as it involved Essential Energy providing a contestable electricity service without complying with those provisions. Essential Energy had been providing these services under a waiver since December 2017, to allow Essential Energy time to transition to the new regulatory treatment of type 1-4 metering services. That waiver expired on 30 June 2019, with some residual type 1-4 metering services still being provided.

To meet this obligation Essential Energy has been corresponding with retailers to transfer the existing metering services and is providing the AER with progress updates on the reduction in the number of meters for which it is responsible.

Breach of 5.7 of the Ring-fencing Guideline – Waiver Register

On 15 February 2024, Essential Energy reported a breach of clause 5.7 of the Ring-fencing Guideline in relation to Essential Energy not listing Class Waivers granted by the AER to all DNSPs in its waiver register.

The waiver register has since been updated to reflect all Class Waivers.



Scope

The subject of our assurance engagement is whether Essential Energy's Statement of Compliance that the entity has, with the exception of the breaches identified and reported to the AER, complied with the Ring-fencing Guideline Ring-fencing Guideline is, in all material respects, fairly presented for the regulatory period from 1 January 2023 to 31 December 2023.

This Statement of Compliance accompanies our report, for the purpose of reporting to the Directors of Essential Energy and the AER.

Basis for Our Conclusion

We conducted our engagement in accordance with Australian Standard on Assurance Engagements ASAE 3100 *Compliance Engagements* (ASAE 3100). We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

In accordance with ASAE 3100 we have:

- used our professional judgment to plan our procedures and assess the risk of material misstatements in Essential Energy's Statement of Compliance that the entity has, with the exception of the breach identified and reported to the AER, complied with the Ring-fencing Guideline;
- considered internal controls implemented to meet the compliance requirements; however, we do not express a conclusion on their effectiveness; and,
- ensured that the engagement team possess the appropriate knowledge, skills and professional competencies.

Summary of Procedures Performed, Observations and Findings

In Appendix A, we provide an overview of the key procedures, observations and findings in relation to each of the Ring-fencing Guideline requirements. This overview is provided at the request of the AER to provide greater transparency over the work we performed. Our conclusion is not modified in this respect.

In Appendix B, we have summarised performance improvement observations. Our conclusion is not modified in respect of these observations.



How We Define Reasonable Assurance and Material Misstatement

- Reasonable assurance is a high level of assurance, but is not a guarantee that it will always detect a material misstatement in Essential Energy's Statement of Compliance when it exists.
- Instances of misstatement in Essential Energy's Statement of Compliance are considered material if, individually or in the aggregate, they could reasonably be expected to influence relevant decisions of the intended users taken on the basis of Essential Energy's compliance with the Ring-fencing Guideline.

Inherent Limitations

- Because of the inherent limitations of an assurance engagement, together with the internal control structure, it is possible that fraud, error, or material misstatement in Essential Energy's Statement of Compliance may occur and not be detected.
- A reasonable assurance engagement for the regulatory period from 1 January 2023 to 31 December 2023 does not provide assurance on whether compliance with the compliance requirements of the Ring-fencing Guideline will continue in the future.

Use of this Assurance Report and Matters Relating to Electronic Publication

This report has been prepared for the Directors of Essential Energy and the AER for the purpose of compliance with the Ring-fencing Guideline and may not be suitable for another purpose.

We understand that the AER intends to publicly release our assurance report via its website. The AER is responsible for the integrity of AER's website where our report is presented alongside the Compliance Report. We have not been engaged to report on the integrity of the AER's website. This report refers only to the Statement of Compliance and does not provide an opinion on any other information which may have been hyperlinked to/from the Compliance Report. If users of the Compliance Report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the Compliance Report to confirm the information contained in this website version of the Compliance Report.

We disclaim any assumption of responsibility for any reliance on this report, or the Compliance Report to which it relates to any person other than the Directors of Essential Energy and the AER, or for any purpose other than that for which it was prepared.



Management's Responsibility

Management is responsible for:

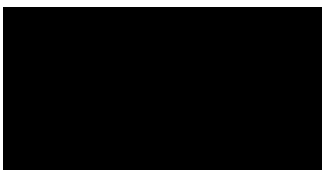
- the compliance activities undertaken to meet the requirements of the Ring-fencing Guideline;
- identification of the risks that threaten the compliance with the Ring-fencing Guideline from being met and identifying, designing and implementing controls which will mitigate those risks and monitor ongoing compliance; and
- preparing a Compliance Report and providing a Statement of Compliance with respect to the outcome of the evaluation of the compliance activity against the Ring-fencing Guideline, which accompanies this Independent Assurance Report.

Our Responsibility

Our responsibility is to perform a reasonable assurance engagement in relation to Essential Energy's Statement of Compliance with the Ring-fencing Guideline, for the regulatory period from 1 January 2023 to 31 December 2023 and to issue an assurance report that includes our conclusion.

Our Independence and Quality Management

We have complied with our independence and other relevant ethical requirements of the *Code of Ethics for Professional Accountants (including Independence Standards)* issued by the Accounting Professional and Ethical Standards Board, and complied with the applicable requirements of Australian Standard on Quality Management 1 to design, implement and operate a system of quality management.



KPMG

Sydney

24 April 2024



Appendix A: Summary of procedures performed, observations and findings

In this section, we present an overview of key procedures performed, observations and findings as part of our reasonable assurance engagement in respect Essential Energy's compliance activities with the relevant requirements of the Ring-fencing Guideline for the regulatory period from 1 January 2023 to 31 December 2023.

This information should not be construed as providing an opinion or conclusion on the separate compliance activities noted, nor that the aggregation thereof modifies our conclusion reported in the Independent Reasonable Assurance Report.

We performed the following general procedures to assess Essential Energy's overall compliance with the Ring-fencing Guideline:

- Read the Compliance Report to obtain an understanding of Essential Energy's overall compliance strategy, measures and internal controls for Ring-fencing;
- Conducted interviews to obtain an understanding of changes to the regulatory business activities and related compliance management approach; and
- Inspected supporting evidence which included policies, procedures and practices undertaken to embed Ring-fencing compliance measures during the period.

During 2023, Essential Energy stood up a project to deliver a program of work to establish Intium and achieve legal and functional separation of Essential Energy from Intium to meet the requirements of the Guideline. As at 31 December 2023, Intium was not providing customers with services and management has represented that the program of work to complete implementation of controls to complete functional separation of Essential Energy from Intium will continue through 2024. As a result, our procedures for the regulatory period from 1 January 2023 to 31 December 2023 have been limited to gaining an understanding of these activities and comparing the disclosures made within Essential Energy's Compliance Report associated with these activities to this understanding.



The following table provides a summary of procedures, observations and findings for each Ring-fencing guideline requirement:

Compliance requirement	Management Controls and information provided	Procedures performed	Observations /findings
Legal Separation			
3.1(a) A Distribution Network Service Provider (DNSP) must be a legal entity.	<ul style="list-style-type: none"> Separate legal entity by statute 	<ul style="list-style-type: none"> Obtained and inspected the Legal Entity Structure for Essential Energy. Performed an ASIC search on Essential Energy and Intium using their separate ABNs. 	None.
3.1(b) Subject to this clause 3.1, a DNSP may provide distribution services and transmission services, but must not provide other services.	<ul style="list-style-type: none"> Waivers and waiver register Approval of new services Training and awareness Quarterly reporting Financial results review 	<ul style="list-style-type: none"> Inspected the Waivers register on Essential Energy’s customer-facing website for waivers that permit the DNSP to provide other services in addition to distribution services. Inspected the extension from 30 June 2024 to 30 June 2029 of the waiver granted by the AER to allow Essential Energy to continue owning and operating Essential Water under section 116 of the Water Management (General) Regulation 2018 (NSW). Inspected the extension from 30 June 2024 to 30 June 2029 of the waiver provided by the AER to allow Essential Energy to continue to provide training to accredited service providers (ASPs) which is mandatory under NSW contestable work schemes. Inspected Essential Energy communication with AER related to compliance of waivers granted to Essential Energy. These waivers allow Essential Energy to lease excess capacity from its Sovereign Hills Battery (Sovereign Hills Waiver) 	<p>Quarterly Compliance checks</p> <p>The quarterly attestation process is manual in nature and managed in an excel workbook. The completeness and accuracy of the attestation register, and resultant responses, relies upon effective and timely communication of matters by the business to the regulatory compliance team.</p> <p>The Ring-fencing attestation process could be improved by applying the revised regulatory compliance framework and governance risk and compliance system once available to minimise reliance on manual spreadsheets and processes.</p> <p>Essential Energy has advised that it is in the process of undertaking a Regulatory Compliance Framework uplift programme, which is expected to deliver:</p>



Compliance requirement	Management Controls and information provided	Procedures performed	Observations /findings
		<p>and allows the Essential Energy to install, own and operate 35 pole top batteries with its retail partner (Pole Top Battery Waiver).</p> <ul style="list-style-type: none"> Inspected Management’s review and approval process in place for contestable services. There were no new contestable services approved for the period under this review. We therefore inspected the template for the approval of new services to check that the template included relevant compliance approvals as a pre-clearance control mechanism. Inspected the Ring-fencing training materials to determine whether the content accurately reflected Essential Energy’s obligation to not provide other services. Inspected the training attendance and completion records for the year ended 31 December 2023 to determine the completion rate of ring-fencing training during the compliance period. This included comparisons to HR records of new starters during the period. Inspected Essential Energy’s procedure document CEOH4000.04 to determine whether Essential Energy had a supporting process in place for conducting quarterly compliance reporting. Inspected Essential Energy’s Quarterly Ring-fencing compliance checks spreadsheets for the period from 1 January 2023 to 31 December 2023 to determine whether there were any breaches against the obligations. 	<ul style="list-style-type: none"> a refreshed Regulatory Compliance Framework that aligns with AS ISO19600 implementation of a three-line defense model with clear ownership and responsibilities across these three lines a governance risk and compliance system (TotalSafe), which will contain an obligations register and will automate through the issuance of tasks, the regular compliance attestation process and controls testing requirements of process owners. <p>Refer to PY PIO 1 contained in Appendix B.</p>



Compliance requirement	Management Controls and information provided	Procedures performed	Observations /findings
		<ul style="list-style-type: none"> Inspected a sample of staff attestations received as part of the quarterly attestations to assess the completeness and accuracy of the Quarterly Compliance checks spreadsheet. Inspected the July 2023 and December 2023 Financial Performance Report to determine whether the financial results analysis includes variance analysis to assist in detecting breaches where revenues are unexplained or vary significantly from what is expected. 	
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.	<ul style="list-style-type: none"> ERP separation Financial results review 	<ul style="list-style-type: none"> Conducted a walkthrough of Essential Energy's Oracle Enterprise Resource Planning system to check that Intium was established as a separate entity. Inspected the July 2023 and December 2023 Financial Performance Reports to determine whether the financial results analysis conducted by Essential Energy includes an analysis of expenditure results and variances from forecasts or budgeted outcomes. Checked the listing of intercompany journal entries between Essential Energy and Intium for the year ended 31 December 2023 matched the transaction categories disclosed in Essential Energy's Compliance Report. 	None.



Compliance requirement	Management Controls and information provided	Procedures performed	Observations /findings		
Cost Allocation and Attribution					
<p>3.2.2(a) A DNSP must allocate or attribute costs (including costs allocated or 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>	<ul style="list-style-type: none"> Accounting codes for distribution and non-distribution services Application of the Cost Allocation Method (CAM) Financial results review Reviewing and maintaining accounting records ERP separation 	<ul style="list-style-type: none"> Inspected Essential Energy’s CAM and checked that it addresses the attribution of costs between distribution and non-distribution services and that it has been approved by the AER. KPMG were the independent auditors in connection with the regulatory information templates of Essential Energy prepared under the AER’s Regulatory Information Notices (RINs) for the regulatory year ended 30 June 2023. <p>We considered the appropriateness of Essential Energy’s CAM as part of this audit engagement. Our procedures included:</p> <ul style="list-style-type: none"> Walkthroughs of key processes and activities related to cost allocation such as project creation and cost capture, creation of purchase orders, invoice processing and overhead allocations, and For a sample of costs incurred, agreeing to supporting documentation such as invoices and comparing project allocation mapping to AER definitions provided in the RIN. <ul style="list-style-type: none"> Inspected the July 2023 and December 2023 Financial Performance Reports presented to the Executive Leadership Team to determine whether the process used for the financial results review includes variance analysis to assist in detecting breaches where revenues are unexplained or vary significantly from what is expected. 	<p>Application of the Cost Allocation Method (CAM)</p> <p>Essential Energy attributes costs to distribution and non-distribution services in accordance with its CAM.</p> <p>The approved CAM document refers to Peoplesoft (Essential Energy’s ERP from 1 July 2020 – 31 July 2021) and related financial controls within that system. Whilst the CAM document remains relevant at a principle level, the document should be updated to reflect the use of the Oracle accounting system and be made specific to post-ERP implementation process controls.</p> <p>In addition, we understand management is currently undertaking a review of its CAM and that this review is incorporating consideration of any changes that may be required as a result of the establishment of a contestable business (i.e. Intium).</p> <p>Refer to PY PIO 2 contained in Appendix B.</p>		
<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>					
<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>					



Compliance requirement	Management Controls and information provided	Procedures performed	Observations /findings
		<ul style="list-style-type: none"> Conducted a walkthrough of Essential Energy's Oracle Enterprise Resource Planning system to confirm that Intium was established as a separate entity. 	
Obligations to not discriminate			
<p>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:</p> <p>i) direct control services by the DNSP (whether to itself or to any other level entity); and/or</p> <p>ii) contestable electricity services by any other legal entity.</p>	<ul style="list-style-type: none"> Training and awareness Quarterly reporting 	<ul style="list-style-type: none"> Inspected the Ring-fencing training materials to determine whether the content accurately reflected Essential Energy's obligation to not provide other services. Inspected the training attendance and completion records for the year ended 31 December 2023 for ring-fencing training during the compliance period. This included comparisons to HR records of new starters during the period. Inspected Essential Energy's procedure document CEOH4000.04 to determine whether Essential Energy had a supporting process in place for conducting quarterly compliance reporting. 	<p>Refer to our observations above under 3.1.(b) Quarterly compliance checks.</p>
<p>4.1(c) Without limiting its scope, clause 4.1(b) requires a DNSP to:</p> <p>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</p>		<ul style="list-style-type: none"> Inspected Essential Energy's Quarterly Ring-fencing compliance checks spreadsheets for the period of 1 January 2023 to 31 December 2023 to determine whether there were any breaches against the obligations. Inspected a sample of staff attestations received as part of the quarterly attestation to assess the completeness and accuracy of the Quarterly Compliance checks spreadsheet. 	



Compliance requirement	Management Controls and information provided	Procedures performed	Observations /findings
<p>connection or affiliation with the DNSP).</p> <p>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.</p> <p>iii) in like circumstances, provide substantially the same quality, reliability, and timeliness of service to a related electricity service provider and a competitor (or potential competitor) of the related electricity service provider.</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			



Compliance requirement	Management Controls and information provided	Procedures performed	Observations /findings
<p>discriminate (either directly or indirectly) between any 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.</p>			
<p>Offices, staff, branding and promotions</p>			
<p>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>	<ul style="list-style-type: none"> • Regional office analysis • Office register • Training and awareness • Quarterly compliance reporting 	<ul style="list-style-type: none"> • Obtained management’s quarterly analysis of services offered in Regional Offices (those that have less than 25,000 connection points within a 100km radius of the office) and compared these to existing waivers to check that Essential Energy is exempt from complying with the offices, staff, branding and cross-promotion separation obligations for services provided from those Regional Offices. • Inspected the Office Registers published during the reporting period to check whether they had been published as per the required timeframes and also whether they appropriately classified regional offices and depots and included sites required to be listed on the register. • Inspected the Ring-fencing training materials to determine whether the content provided guidance on regionally exempt depots. 	<p>Refer to our observations above under 3.1 (b) in relation to Quarterly compliance checks.</p> <p>Breach identified and reported by Essential Energy to the AER:</p> <p>On 11 July 2019, Essential Energy reported a breach of clauses 4.2.1, 4.2.2, 4.2.3, 4.2.4 and 4.4.1 (a) of the Ring-fencing Guideline, as it involved Essential Energy providing a contestable electricity service without complying with those provisions.</p> <p>Essential Energy had been providing these services under a waiver since December 2017, to allow Essential Energy time to transition to the new regulatory treatment of type 1-4 metering services. That waiver expired</p>



Compliance requirement	Management Controls and information provided	Procedures performed	Observations /findings
		<ul style="list-style-type: none"> Inspected the training attendance and completion records for the year ended 31 December 2023 to determine the completion rate of ring-fencing training during the compliance period. This included comparisons to HR records of new starters during the period. Inspected Essential Energy’s procedure document CEOH4000.04 to check whether Essential Energy had a supporting process in place for conducting quarterly compliance reporting. Inspected Essential Energy’s Quarterly Ring-fencing compliance checks spreadsheets for the period from 1 January 2023 to 31 December 2023 to determine whether there were any breaches against the obligations. Inspected a sample of staff attestations received as part of the quarterly attestations to assess the completeness and accuracy of the Quarterly Compliance checks spreadsheet. 	<p>on 1 July 2019, with some residual type 1-4 metering services still being provided.</p> <p>Essential Energy has been corresponding with retailers to transfer the existing metering services and providing the AER with progress updates, commencing on 19 August 2019. There has been no further correspondence with retailers during the reporting period.</p>
<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>	<ul style="list-style-type: none"> Staff Register Training and awareness Quarterly reporting 	<ul style="list-style-type: none"> Inspected the Staff Register and checked that it contains the nature of the position of staff, the description of their role, functions and duties and the applicable exemptions under the Ring-fencing Guideline. Obtained an understanding of the process undertaken by the Compliance Team to validate the Staff Register as current for each of the quarters published. 	<p>Refer to our observations above under:</p> <ul style="list-style-type: none"> - 3.1(b) in relation to Quarterly compliance checks; and - 4.2.1(a) in relation to the breach identified and reported by Essential Energy to the AER



Compliance requirement	Management Controls and information provided	Procedures performed	Observations /findings
		<ul style="list-style-type: none"> Inspected the Ring-fencing training materials to determine whether the content provides guidance on regulated and unregulated services. Inspected the training attendance and completion records for the year ended 31 December 2023 to determine the completion rate of ring-fencing training during the compliance period. This included comparisons to HR records of new starters during the period. Inspected Essential Energy’s procedure document CEOH4000.04 to check whether Essential Energy had a supporting process in place for conducting quarterly compliance reporting. Inspected Essential Energy’s Quarterly Ring-fencing compliance checks spreadsheets for the period from 1 January 2023 to 31 December 2023 to determine whether there were any breaches against the obligations. Inspected a sample of staff attestations received as part of the quarterly attestations to assess the completeness and accuracy of the Quarterly Compliance checks spreadsheet. 	
<p>4.2.2 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</p>	<ul style="list-style-type: none"> Employee performance measures Corporate Scorecard Training and awareness Quarterly reporting 	<ul style="list-style-type: none"> Enquired of management whether there had been any changes to incentive arrangements during the compliance period. Inspected Essential Energy’s STI Plan Information Booklet (May 2022) to check that remuneration incentives and other benefits provided to DNSP staff do not incentivize staff to act in a manner 	<p>Refer to our observations above under:</p> <ul style="list-style-type: none"> - 3.1(b) in relation to Quarterly compliance checks; and - 4.2.1(a) in relation to the breach identified and reported by Essential Energy to the AER



Compliance requirement	Management Controls and information provided	Procedures performed	Observations /findings
<p>guideline.</p>		<p>that is contrary to the obligations.</p> <ul style="list-style-type: none"> • We sighted the June 2023 and December 2023 CEO Board Report Corporate Scorecards. The scorecards contain a section that outline any material regulatory breaches identified. • Inspected the Ring-fencing training materials to determine whether the content accurately reflected Essential Energy’s obligation to not provide other services to other DNSPs or RESPs. • Inspected the training attendance and completion records for the year ended 31 December 2023 to determine the completion rate of ring-fencing training during the compliance period. This included comparisons to HR records of new starters during the period. • Inspected Essential Energy’s procedure document CEOH4000.04 to determine whether Essential Energy had a supporting process in place for conducting quarterly compliance reporting. • Inspected Essential Energy’s Quarterly Ring-fencing compliance checks spreadsheets for the period from 1 January 2023 to 31 December 2023 to determine whether there were any breaches against the obligations. • Inspected a sample of staff attestations received as part of the quarterly attestations to assess the completeness and accuracy of the Quarterly Compliance checks spreadsheet. 	



Compliance requirement	Management Controls and information provided	Procedures performed	Observations /findings
Branding and cross-promotion			
<p>4.2.3(a) A DNSP:</p> <p>i) must use branding for its direct control services that is independent and separate from the branding used by a related electricity service provider for contestable electricity services, such that a reasonable person would not infer from the respective branding that the DNSP and the related electricity service provider are related.</p> <p>ii) must not advertise or promote its direct control services and its contestable electricity services that 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>	<ul style="list-style-type: none"> • Separate branding for Essential Energy from affiliated entities • Regional office analysis • Office register • Training and awareness • Quarterly reporting 	<ul style="list-style-type: none"> • Inspected Intium’s Brand Guidelines to check that they are separate. • Accessed the Essential Energy and Intium social media channels and public websites to check for separate branding and identify any cross-promotion. • Inspected the AER’s approval of service classifications for the 2019-24 regulatory period, which allows Essential Energy to provide alternate control services which were previously covered under transitional waivers. • Inspected Essential Energy’s Office Register to determine whether Essential Energy complies with points (i) to (iii) of clause 4.2.3 (a). • Obtained evidence that the Regional office analysis is checked, validated, and updated by the Compliance Team on a quarterly basis. • Inspected the Ring-fencing training materials to determine whether the content provides guidance on regulated and unregulated services. • Inspected the training attendance and completion records for the year ended 31 December 2023 to determine the completion rate of ring-fencing training during the compliance period. This included comparisons to HR records of new starters during the period. • Inspected Essential Energy’s procedure document 	<p>Refer to our observations above under:</p> <ul style="list-style-type: none"> - 3.1(b) in relation to Quarterly compliance checks; and - 4.2.1(a) in relation to the breach identified and reported by Essential Energy to the AER. <p><u>Branding and cross-promotion</u></p> <p>Based on our independent review of Essential Energy and Intium social media channels and websites, no instances of cross-promotion were identified.</p> <p>Essential Energy’s internal policies and procedures could be improved through the establishments of a formal process to review both Essential Energy’s and Intium’s social media channels and public websites for instances of cross-promotion (PIO 3).</p>



Compliance requirement	Management Controls and information provided	Procedures performed	Observations /findings
		<p>CEOH4000.04 to determine whether Essential Energy had a supporting process in place for conducting quarterly compliance reporting.</p> <ul style="list-style-type: none"> Inspected Essential Energy’s Quarterly Ring-fencing compliance checks spreadsheets for the period from 1 January 2023 to 31 December 2023 to determine whether there were any breaches against the obligations. Inspected a sample of staff attestations received as part of the quarterly attestations to assess the completeness and accuracy of the Quarterly Compliance checks spreadsheet. 	
Office and staff registers			
<p>4.2.4(a) A DNSP must establish, maintain, and keep a register that identifies:</p> <p>a) the classes of offices to which it has not applied clause 4.2.1(a) by reason of clauses 4.2.1(b)i. or 4.2.1(b)iii.; and</p> <p>b) the nature of the positions (including a description of the roles, functions, and duties) of its members of staff to which it has not applied clause 4.2.2(a) by reason of clauses 4.2.2(b)i.a., 4.2.2(b)i.b., 4.2.2(b)iii. Or 4.2.2(d);</p> <p>and must make the register</p>	<ul style="list-style-type: none"> Office register Staff register Quarterly reporting 	<ul style="list-style-type: none"> Inspected the Office Register to determine information identified the classes of offices. Inspected the Staff Register and checked that it contains the nature of the position of staff, the description of their role, functions and duties and the applicable exemptions under the Ring-fencing Guideline. Obtained an understanding of the process undertaken by the Compliance Team to check, validate and update the registers on a quarterly basis and publish them on Essential Energy’s public website. Inspected Essential Energy’s procedure document CEOH4000.04 to determine whether Essential Energy had a supporting process in place for conducting quarterly compliance reporting. 	<p>Refer to our observations above under:</p> <ul style="list-style-type: none"> - 3.1(b) in relation to Quarterly compliance checks; and - 4.2.1(a) in relation to the breach identified and reported by Essential Energy to the AER.



Compliance requirement	Management Controls and information provided	Procedures performed	Observations /findings
<p>publicly available on its website.</p>		<ul style="list-style-type: none"> Inspected Essential Energy’s Quarterly Ring-fencing compliance checks spreadsheets for the period from 1 January 2023 to 31 December 2023 to determine whether there were any breaches against the obligations. Inspected a sample of staff attestations received as part of the quarterly attestations to assess the completeness and accuracy of the Quarterly Compliance checks spreadsheet. 	
<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>	<ul style="list-style-type: none"> Office register Staff register Quarterly reporting 	<ul style="list-style-type: none"> Inspected the Office and Staff Registers published during the period and checked they were reviewed and updated as per the required timeframes of 4.2.4. (b). Obtained an understanding of the process undertaken by the Compliance Team to check, validate and update the registers on a quarterly basis and publish them on Essential Energy’s public website. Inspected Essential Energy’s procedure document CEOH4000.04 to determine whether Essential Energy had a supporting process in place for conducting quarterly compliance reporting. Inspected Essential Energy’s Quarterly Ring-fencing compliance checks spreadsheets for the period from 1 January 2023 to 31 December 2023 to determine whether there were any breaches against the obligations. Inspected a sample of staff attestations received 	<p>Refer to our observations above under:</p> <ul style="list-style-type: none"> - 3.1(b) in relation to Quarterly compliance checks; and - 4.2.1(a) in relation to the breach identified and reported by Essential Energy to the AER.



Compliance requirement	Management Controls and information provided	Procedures performed	Observations /findings
		as part of the quarterly attestations to assess the completeness and accuracy of the Quarterly Compliance checks spreadsheet.	
Information access and disclosure			
<p>4.3.1 Subject to this clause 4.3, a DNSP must:</p> <p>(a) keep ring-fenced information confidential; and</p> <p>(b) only use ring-fenced information for the purpose for which it was acquired or generated.</p>	<ul style="list-style-type: none"> IT restrictions on information access Training and awareness Quarterly reporting 	<ul style="list-style-type: none"> Conducted walkthrough of Essential Energy’s eTech Service Catalogue to understand and observe the IT access provisioning and restrictive access management protocols that have been implemented by the business. Inspected the Ring-fencing training materials and checked that they accurately describe Essential Energy’s obligation to keep ring-fenced information confidential and use ring-fenced information for the purpose for which it was acquired or generated. Inspected the training attendance and completion records for the year ended 31 December 2023 to determine the completion rate of ring-fencing training during the compliance period. This included comparisons to HR records of new starters during the period. Inspected the Cyber safety training materials to check if they provided staff guidance on maintaining safe practices and security of data from external threats. Inspected Essential Energy’s procedure document CEOH4000.04 to determine whether Essential Energy had a supporting process in place for conducting quarterly compliance reporting. 	Refer to our observations above under 3.1(b) in relation to Quarterly compliance checks.



Compliance requirement	Management Controls and information provided	Procedures performed	Observations /findings
		<ul style="list-style-type: none"> Inspected Essential Energy’s Quarterly Ring-fencing compliance checks spreadsheets for the period from 1 January 2023 to 31 December 2023 to determine whether there were any breaches against the obligations. Inspected a sample of staff attestations received as part of the quarterly attestations to assess the completeness and accuracy of the Quarterly Compliance checks spreadsheet. 	
<p>4.3.2 A DNSP must not disclose ring-fenced information to any person, including a related electricity service provider, unless:</p> <p>(a) the DNSP has first obtained the explicit informed consent of the relevant customer, or prospective customer, to whom the ring-fenced information relates;</p> <p>(b) the disclosure is required by, or for the purpose of complying with any law</p> <p>(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);</p>	<ul style="list-style-type: none"> Information sharing protocol Training and awareness Quarterly reporting 	<ul style="list-style-type: none"> Inspected Essential Energy’s Information Sharing Protocol to assess its approach to maintaining confidentiality of ring-fenced information. We observed that there were no information sharing requests in the regulatory period from 1 January 2023 to 31 December 2023. Inspected the Ring-fencing training materials and checked that they accurately describe Essential Energy’s obligation to keep confidential information confidential and use confidential information for the purpose for which it was acquired or generated. Inspected the training attendance and completion records for the year ended 31 December 2023 to determine the completion rate of ring-fencing training during the compliance period. This included comparisons to HR records of new starters during the period. Inspected the Cyber safety training materials to check if they provided staff guidance on 	<p>Refer to our observations above under 3.1(b) in relation to Quarterly compliance checks.</p>



Compliance requirement	Management Controls and information provided	Procedures performed	Observations /findings
<p>(d) the information has been requested by or on behalf of a customer, or potential 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</p>		<p>maintaining safe practices and security of data from external threats.</p> <ul style="list-style-type: none"> • Inspected Essential Energy's procedure document CEOH4000.04 to determine whether Essential Energy had a supporting process in place for conducting quarterly compliance reporting. • Inspected Essential Energy's Quarterly Ring-fencing compliance checks spreadsheets for the period from 1 January 2023 to 31 December 2023 to determine whether there were any breaches against the obligations. • Inspected a sample of staff attestations received as part of the quarterly attestations to assess the completeness and accuracy of the Quarterly Compliance checks spreadsheet. 	



Compliance requirement	Management Controls and information provided	Procedures performed	Observations /findings
<p>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>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 information) to other legal entities on an equal basis.</p>			
<p>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.</p>			
<p>4.3.3(e) Where a DNSP discloses</p>			



Compliance requirement	Management Controls and information provided	Procedures performed	Observations /findings
<p>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.</p>			
<p>4.3.4(a) Subject to clause 4.1(c)iv and to this clause 4.3.4, where a DNSP shares confidential information with a related electricity service provider, or where confidential information that a DNSP has disclosed under clause 4.3.3(f) is then disclosed by any person to a related electricity service provider of the DNSP, the DNSP must provide access to that confidential information (including the derived information) to other legal entities on an equal basis.</p>	<ul style="list-style-type: none"> Information Sharing Protocol 	<ul style="list-style-type: none"> Inspected Essential Energy’s Information Sharing Protocol to assess its approach to maintaining confidentiality of ring-fenced information. We observed that there were no information sharing requests in the regulatory period from 1 January 2023 to 31 December 2023. 	None.
<p>4.3.4(b) 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> <p>i. identify the kind of</p>	<ul style="list-style-type: none"> Information Register 	<ul style="list-style-type: none"> Accessed Essential Energy’s customer-facing website to determine whether the Information Register was publicly available and included all relevant details required by the Ring-fencing Guideline. We observed that there were no information sharing requests in the regulatory period from 1 	None.



Compliance requirement	Management Controls and information provided	Procedures performed	Observations /findings
<p>information requested by the legal entity; and</p> <p>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.</p>		January 2023 to 31 December 2023.	
Service Providers			
<p>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, requires the service provider to comply, in providing those services, with:</p> <p>i. clauses 4.1, 4.2.1, 4.2.2 and 4.3.2 of this Guideline; and</p> <p>ii. clause 4.2.3 of this Guideline in relation to the brands of the DNSP;</p> <p>as if the service provider was the DNSP.</p>	<ul style="list-style-type: none"> Terms and conditions for service providers 	<ul style="list-style-type: none"> Inspected the Standard Terms and Conditions for Supply of Goods and Services provided to service providers to determine whether the service providers are made aware of Ring-fencing obligations. Inspected the Procurement Plan Template that would be used as part of the procurement process applied to contracts with a total value greater than \$30,000 to check that it considers potential Ring-fencing implications. Obtained a list of active procurement contracts for the regulatory period and on a sample basis to check that the supplier contracts included the required terms and conditions and ring-fencing clauses. 	<p>Breach identified and reported by Essential Energy to the AER:</p> <p>- Refer to our observations under 4.2.1 (a) above.</p>
<p>4.4.1 (b) A DNSP must not, directly or indirectly, encourage</p>	<ul style="list-style-type: none"> Training and awareness 	<ul style="list-style-type: none"> Inspected the Ring-fencing training materials and checked that they accurately describe Essential 	<p>Refer to our observations above under 3.1 (b) in relation to Quarterly</p>



Compliance requirement	Management Controls and information provided	Procedures performed	Observations /findings
<p>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>	<ul style="list-style-type: none"> Quarterly reporting 	<p>Energy’s obligations.</p> <ul style="list-style-type: none"> Inspected the training attendance and completion records for the year ended 31 December 2023 to determine the completion rate of ring-fencing training during the compliance period. This included comparisons to HR records of new starters during the period. Inspected Essential Energy’s procedure document CEOH4000.04 to determine whether Essential Energy had a supporting process in place for conducting quarterly compliance reporting. Inspected Essential Energy’s Quarterly Ring-fencing compliance checks spreadsheets for the period from 1 January 2023 to 31 December 2023 to determine whether there were any breaches against the obligations. Inspected a sample of staff attestations received as part of the quarterly attestations to assess the completeness and accuracy of the Quarterly Compliance checks spreadsheet. Obtained a list of customer complaints to determine whether the complaints were in relation to the conduct of a third-party service provider. No complaints were noted in relation to Ring-fencing or the conduct of service providers for the regulatory period from 1 January 2023 to 31 December 2023. 	<p>compliance checks.</p>
<p>Waivers register</p>			



Compliance requirement	Management Controls and information provided	Procedures performed	Observations /findings
<p>5.7 (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.</p> <p>5.7 (b) The register established under clause 5.7(a) must include:</p> <p>i. the description of the conduct to which the waiver or interim waiver applies; and</p> <p>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.</p>	<ul style="list-style-type: none"> Waiver applications and register update 	<ul style="list-style-type: none"> Accessed Essential Energy’s external website and sighted that the waiver register was publicly available and included all information required by the obligations. Inspected the AER’s written response to Essential Energy’s waiver extension application in relation to clauses 4.2.1, 4.2.2, 4.2.3 and 4.2.4 of the Ring-fencing Guideline from 30 June 2024 until 30 June 2029 to provide training courses to Accredited Service Providers. Inspected the AER’s written response to Essential Energy’s waiver extension application in relation to clauses 3.1(b), 4.2 and 4.4.1(a) of the Ring-fencing Guidelines from 30 June 2024 to 30 June 2029, to allow Essential Energy to continue owning and operating Essential Water under section 116 of the Water Management (General) Regulation 2018 (NSW). Inspected Essential Energy communication with AER related to compliance of two waiver conditions of the two waivers granted to Essential Energy. These waivers allow Essential Energy to lease excess capacity from its Sovereign Hills Battery (Sovereign Hills Waiver) and allows the Essential Energy to install, own and operate 35 pole top batteries with its retail partner (Pole Top Battery Waiver). 	<p>Refer to our observations above under 3.1 (b) in relation to Waivers and Waiver Registers.</p> <p>Breach identified and reported by Essential Energy to the AER (after reporting period):</p> <p>On 15 February 2024, Essential Energy reported a breach of clause 5.7 of the Ring-fencing Guideline in relation to Essential Energy not listing Class Waivers granted by the AER to all DNSPs in its waiver register.</p>
Maintaining Compliance			
<p>6.1 A DNSP must establish and maintain appropriate internal</p>	<ul style="list-style-type: none"> Policies and Procedures - CEOP2477, CEOP2480 	<ul style="list-style-type: none"> Inspected supporting company policies and procedures to assess whether these clearly 	<p>Refer to our observations above under 3.1 (b) in relation to Quarterly</p>



Compliance requirement	Management Controls and information provided	Procedures performed	Observations /findings
<p>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>& CEOP2476</p> <ul style="list-style-type: none"> Breach management process Quarterly reporting 	<p>articulate Essential Energy’s approach to compliance with the obligations outlined in the guideline (version 3).</p> <ul style="list-style-type: none"> Inspected Essential Energy’s procedure document CEOH4000.04 to determine whether Essential Energy had a supporting process in place for conducting the Quarterly Management Reporting. Inspected Essential Energy’s Quarterly Ring-fencing compliance checks spreadsheets for the period from 1 January 2023 to 31 December 2023 to determine whether there were any breaches against the obligations. Inspected a sample of staff attestations received as part of the quarterly attestations to assess the completeness and accuracy of the Quarterly Compliance checks spreadsheet. 	<p>compliance checks.</p>
<p>Maintaining compliance</p>			
<p>6.2.1 (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</p>	<ul style="list-style-type: none"> Ring-fencing Compliance Report Breach management process Quarterly reporting 	<ul style="list-style-type: none"> Inspected Essential Energy’s Compliance Report for the period 1 January 2023 to 31 December 2023 to determine whether the report addresses points (i) to (iv) of clauses 6.2.1(b) as well as the points within (a) and (c). Inspected Essential Energy’s breach management and reporting policies and procedures for alignment with the requirements of the Guidelines and to determine whether Essential Energy has a 	<p>Refer to our observations above under 4.2.1(a) and 5.7 in relation to the breaches identified and reported by Essential Energy to the AER.</p> <p>Refer to our observations above under 3.1 (b) in relation to Quarterly compliance checks.</p>



Compliance requirement	Management Controls and information provided	Procedures performed	Observations /findings
<p>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>ii. any breaches of this Guideline by the DNSP, or which otherwise relate to the DNSP;</p> <p>iii. all other services provided by the DNSP in accordance with clause 3.1; and</p> <p>iv. the purpose of all transactions between the DNSP and an affiliated entity.</p> <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>process for escalating and assessing a breach notifying the AER with 15 days.</p> <ul style="list-style-type: none"> Inspected the breach register and checked that the breach notification occurred within the prescribed timeframe (15 days). Inspected Essential Energy’s correspondence with the AER during the regulatory compliance period regarding the status of activities undertaken to rectify the breach. Inspected Essential Energy’s procedure document CEOH4000.04 to determine whether Essential Energy had a supporting process in place for conducting the Quarterly Management Reporting. Inspected Essential Energy’s Quarterly Ring-fencing compliance checks spreadsheets for the period from 1 January 2023 to 31 December 2023 to determine whether there were any breaches against the obligations. Inspected a sample of staff attestations received as part of the quarterly attestations to assess the completeness and accuracy of the Quarterly Compliance checks spreadsheet. 	
<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.</p>			



Compliance requirement	Management Controls and information provided	Procedures performed	Observations /findings
<p>6.2.3 (a) 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 power system in the current calendar year; and vi. whether the DNSP has made a request, in writing, for the supply 	<ul style="list-style-type: none"> • Stand-alone power system (SAPS) register • Quarterly reporting 	<ul style="list-style-type: none"> • Inquired Management of any use or deployment of regulated stand-alone power systems during the period 1 January 2023 to 31 December 2023. • Obtained a copy of the SAPS register maintained by Essential Energy during the test period and inspected to see if they provided any details of any SAPS deployed during the test period. • Inquired with Management if the SAPS register had been published on its public facing website as per the required timelines of the Guidelines. • Inspected Essential Energy's public facing website to see if a SAPS register was made publicly available. • Inspected Essential Energy's procedure document CEOH4000.04 to determine whether Essential Energy had a supporting process in place for conducting the Quarterly Management Reporting. • Inspected Essential Energy's Quarterly Ring-fencing compliance checks spreadsheets for the period from 1 January 2023 to 31 December 2023 to determine whether there were any breaches against the obligations. • Inspected a sample of staff attestations received as part of the quarterly attestations to assess the completeness and accuracy of the Quarterly Compliance checks spreadsheet. 	<p>Refer to our observations above under 3.1 (b) in relation to Quarterly compliance checks.</p>



Compliance requirement	Management Controls and information provided	Procedures performed	Observations /findings
<p>of the other services by another legal entity (other than an affiliated entity of the DNSP).</p>			
<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).</p>			
<p>6.3 A DNSP must notify the AER in writing within 15 business days of becoming aware of a 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>	<ul style="list-style-type: none"> • Breach management process • Quarterly reporting 	<ul style="list-style-type: none"> • Inspected Essential Energy’s breach management and reporting policies and procedures to determine whether Essential Energy has definitions for what constitutes a breach and managers are educated on assessing breaches and notifying the AER with 15 days. • Inspected the breach register and checked that the breach notification occurred within the prescribed timeframe (15 days). • Inspected Essential Energy’s correspondence with the AER during the regulatory compliance period regarding the status of activities undertaken to rectify the breach. 	<p>Refer to our observations above under:</p> <ul style="list-style-type: none"> - 3.1(b) in relation to Quarterly compliance checks and - 4.2.1(a) and 5.7 in relation to the breaches identified and reported by Essential Energy to the AER.



Compliance requirement	Management Controls and information provided	Procedures performed	Observations /findings
		<ul style="list-style-type: none">• Inspected Essential Energy’s Breach Management and reporting policies and procedures CEOP2480 to determine whether Essential Energy had definitions for what constitutes a breach and managers are educated on assessing breaches and notifying the AER with 15 days.• Inspected Essential Energy’s Quarterly Ring-fencing compliance checks spreadsheets for the period from 1 January 2023 to 31 December 2023 to determine whether there were any breaches against the obligations.• Inspected a sample of staff attestations received as part of the quarterly attestations to assess the completeness and accuracy of the Quarterly Compliance checks spreadsheet.	



Appendix B: Summary of performance improvement observations

In this section, we present additional details on performance improvement observations in relation Essential Energy’s compliance activities for the regulatory period from 1 January 2023 to 31 December 2023. This information has been provided at the request of the AER.

This information should not be construed as providing an opinion or conclusion on the separate compliance activities noted, nor that the aggregation thereof modifies our opinion or conclusion reported in the Independent Reasonable Assurance Report.

Update on prior period improvement opportunities

Ref	Recommendation	Status at 31 December 2023	Management’s response
PY PIO 1	<p>Quarterly Attestations</p> <p>The Ring-fencing attestation process could be improved by applying the revised regulatory compliance framework and governance risk and compliance system once available to minimise reliance on manual spreadsheets and processes.</p>	<p>Open</p> <p>There has been no changes in attestation process since last year.</p>	<p>Essential Energy is progressing with automating the process for obtaining quarterly attestations on the status of compliance with its ring-fencing obligations through its governance, risk and compliance system. It expects this process to be completed during the 2024 calendar year.</p>
PY PIO 2	<p>Cost allocation and attribution</p> <p>The approved CAM document refers to Peoplesoft (Essential Energy’s ERP from 1 July 2020 – 1 August 2021) and related financial controls within that system. Whilst the CAM document remains relevant in principle, the document should be updated to reflect the use of the Oracle accounting system and be made specific to post-ERP implementation process controls.</p> <p>In addition, we understand management is currently undertaking a review of its CAM and that this review is incorporating consideration of any changes that may be required as are result of the establishment of a contestable business (i.e. Intium).</p>	<p>Open</p> <p>There have been no changes to Essential Energy’s approved CAM document.</p>	<p>Essential Energy is currently reviewing its CAM model to assess the need to revise its existing policy. The review of the existing policy will be completed and assessment undertaken in the 2024 calendar year.</p>



Summary of performance improvement observations for the compliance period from 1 January 2023 to 31 December 2023

Ref	Recommendation	Management's response
PIO 3	Branding and Cross-promotion Essential Energy's internal policies and procedures could be improved through the establishments of a formal process to review both Essential Energy's and Intium's social media channels and public websites for instances of cross-promotion (PIO 3).	Management understands the importance of ensuring that cross promotion does not occur and will review its practices and processes to ensure that it is managing this risk appropriately.