



# ELECTRICITY DISTRIBUTION RING- FENCING COMPLIANCE REPORT 1 July 2020 – 2 February 2022

April 2022



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## 1: Overview

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

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

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

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

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

The compliance and reporting processes established include those for the Compliance Report and breach reporting.

## 2: Statement of Compliance

Essential Energy has complied with the obligations contained in the Guideline for the period 1 July 2020 to 2 February 2022, apart from the breach detailed in Appendix B.

## 3: Regulatory Framework

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

In October 2017 the AER published version 2 of the Ring-Fencing Guideline Electricity Distribution. The objective of the Guideline is to:

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

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

- > Cross-subsidisation, with provisions that aim to prevent a DNSP from providing other services that could be cross-subsidised by its distribution services; and
- > Discrimination, with provisions that aim to:
  - Prevent a DNSP conferring a competitive advantage on its related electricity service providers that provide contestable electricity services; and
  - Ensure a DNSP keeps information it acquires or generates confidential and handles that information appropriately.

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<sup>1</sup> AER, *Ring Fencing Guideline for Electricity Distribution Version 2*, October 2017.

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

### 3.1 Reporting Requirements

Section 6.2.1 of the Guideline requires Essential Energy to prepare a ring-fencing compliance report. The report must identify and describe, in respect of the regulatory year to which the report relates:

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

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

Compliance reports may be made publicly available by the AER.

Section 6.2.2 of the Guideline states a DNSP must submit its compliance report to the AER within four months of the end of the regulatory period to which the compliance report relates, for Essential Energy the report must be submitted to the AER by 30 April.

## 4: Measures to Ensure Compliance

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

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

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

### 4.1 Challenges

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

### 4.2 Risk Areas

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

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

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

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

## 5: Breaches

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

Essential Energy identified one breach of the Guideline for the 1 July 2020 to 2 February 2022 regulatory period as detailed in Appendix B to this report.

## 6: Other Services

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

- > Essential Energy has been granted a waiver from its obligations under clauses 3.1, 4.2.1, 4.2.2, 4.2.3, 4.2.4 and 4.4.1(a) to allow it to continue its water licence in its maintenance cost sharing arrangement between Essential Energy and the Clarence Valley Council<sup>2</sup>.
- > Essential Energy has also been granted a waiver from its obligations under clauses 3.1, 4.2.1, 4.2.2, 4.2.3, 4.2.4 and 4.4.1(a) to allow it to continue to own and operate Essential Water, a water supply authority providing water, sewage, liquid trade waste and other miscellaneous services in the far west of NSW.
- > Essential Energy has also been granted a waiver from its obligations under clauses 4.2.1, 4.2.2, 4.2.3 and 4.2.4 to allow it to continue to provide Accredited Service Provider Initial and Refresher Training, Work Near Overhead Powerlines (WNP) Initial and Refresher Training and Safe Work Practices Initial and Refresher Training to Accredited Service Providers on a very limited basis. This is on the condition that Essential Energy will only provide these contestable services in Albury, Armidale, Ballina, Bathurst, Bingara, Blayney, Braidwood, Broadwater, Broken Hill, Bulahdelah, Buronga, Cobar, Cobram, Coffs Harbour, Condon, Corowa, Culcairn, Deniliquin, Dubbo, Eden, 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, Tamworth, Taree, Temora, Tweed Heads, Uki, Wagga, Walcha, Wialda, Young, Wodonga, Echuca, Bendigo and Swan Hill.

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

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

- > Fibre Optic – access to fibre optic cable for telecommunication purposes
- > NBN – Pole access for installation of fibre optic cable for telecommunication purposes

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<sup>2</sup> Essential Energy ceased providing this service during 2021 and submitted notice to the AER on 21 February 2022 to surrender this waiver.

- > Rental – Property leasing and tower access for a third party to install radio frequency equipment for use in telecommunications equipment.

## 7: Transactions with affiliated entities

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

## 8: Compliance Reporting System

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

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

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

**Table 1 Assigned authorities and responsibilities**

Staff/team	Authorities and responsibilities
<b>Head of Regulatory Affairs</b>	<ul style="list-style-type: none"> <li>&gt; Approval of ring-fencing procedures.</li> </ul>
<b>Regulation team</b>	<ul style="list-style-type: none"> <li>&gt; Ensure the list of regional offices remains up-to-date by reconfirming the analysis that identified the offices, as appropriate, and updating the list, if the criteria in the Guideline change;</li> <li>&gt; Maintain a list of all the services offered by Essential Energy and ensure the delivery of them remains compliant with the Guideline obligations;</li> <li>&gt; Manage the Confidential Information disclosure and sharing process, including ensuring the information register and Information Sharing Protocol are up-to-date;</li> <li>&gt; Manage the ring-fencing compliance monitoring and reporting process, including:               <ul style="list-style-type: none"> <li>• Prepare the quarterly and reports to the Executive;</li> <li>• Provide advice and support to Managers, who are responsible for providing quarterly compliance reports; and</li> <li>• Ensure the staff, office and waiver registers are kept up-to-date; and</li> <li>• Manage the breach reporting process.</li> </ul> </li> </ul>
<b>Finance team</b>	<ul style="list-style-type: none"> <li>&gt; Ownership of the CAM.</li> </ul> <p>In the instance where an affiliated entity is created:</p> <ul style="list-style-type: none"> <li>&gt; Create and maintain procedures that demonstrate the extent/nature of transactions between DNSP and Affiliated Entities; and</li> <li>&gt; Maintain records that demonstrate the process for allocating costs between Distribution Services carried out by Essential Energy and non-distribution services provided by an Affiliated Entity.</li> </ul>

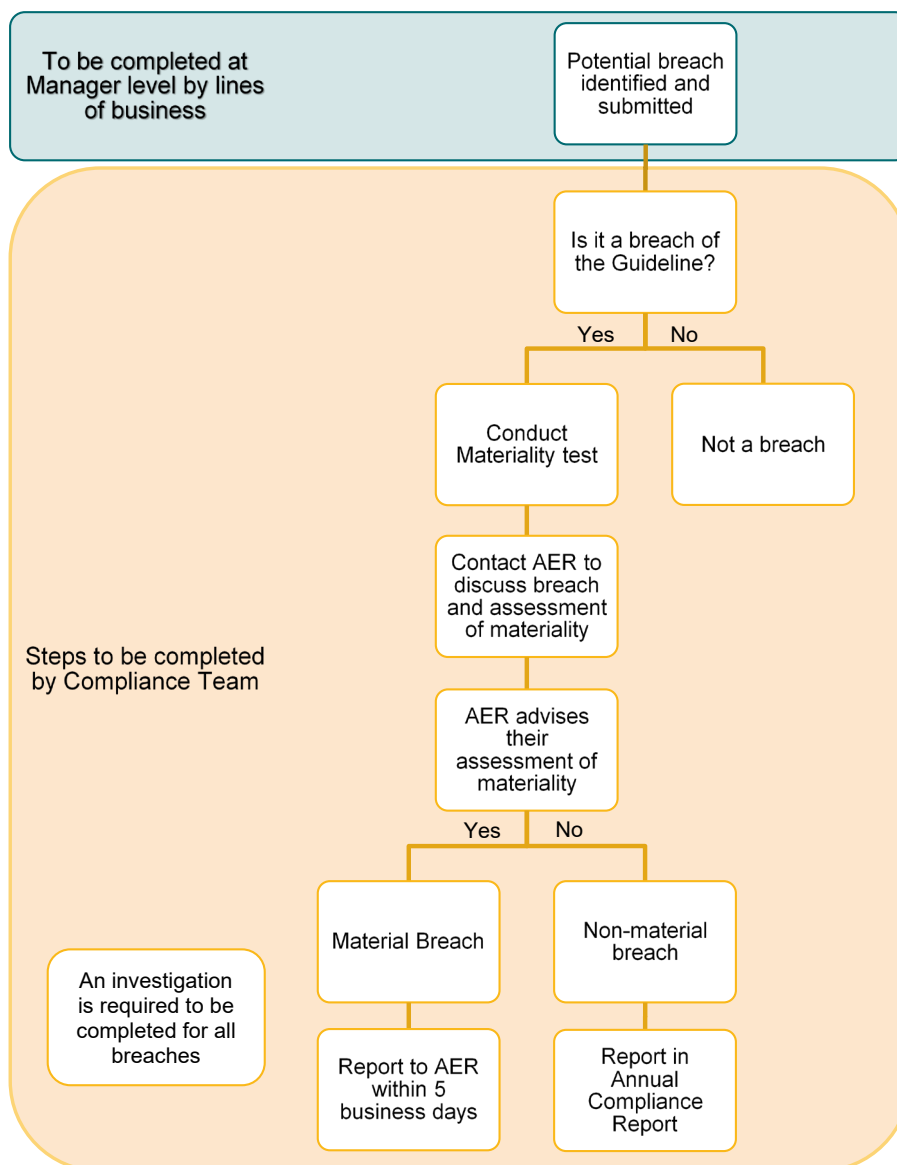
Staff/team	Authorities and responsibilities
<b>Corporate strategy and HR team</b>	<ul style="list-style-type: none"> <li>&gt; Ensure that Essential Energy’s approach to remuneration, incentives and benefits does not create an incentive for staff to act in a manner that is contrary to the Guideline.</li> </ul>
<b>All employees</b>	<ul style="list-style-type: none"> <li>&gt; Notify their Branch Manager and the Regulation Team of new commercial opportunities so ring-fencing implications can be considered;</li> <li>&gt; Ensure Essential Energy’s competitors are not discriminated against, due to preferential treatment being given to a Related Electricity Service Provider (RESP);</li> <li>&gt; Refer any requests for Confidential Information by a RESP or external party to the Regulatory Affairs Team; and</li> <li>&gt; Report any suspected breaches of the Guideline to the Compliance team.</li> </ul>

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

## 8.1 Breach reporting

Under the Guideline, Essential Energy must notify the AER in writing within five business days of becoming aware of a material breach of its obligations under the Guideline. The AER in its Electricity Distribution Ring-Fencing Guideline - Compliance reporting best practice manual Version 2 July 2019, has defined what it considers to be a material breach and the factors to be considered when a breach occurs. Essential Energy adopted this approach for the 1 July 2020 to 2 February 2022 compliance period as set out in Figure 1 below.

**Figure 1 Decision tree for identifying and reporting material breaches**



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



**Table 2 Factors and guiding questions for determining materiality**

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

For best practice purposes, and in accordance with the AER's Ring-Fencing Best Practice Manual, Essential Energy's breach reporting process includes liaising with the AER upon identification of a breach to discuss the breach and assess the materiality. If the breach is found to be material, it is reported to the AER within five business days using the AER's breach notification template. Non-material breaches, while they do not need to be reported to the AER within five business days, will still be disclosed in the Compliance Report. The breach reporting process is set out in Table 3 below.

**Table 3 Breach reporting process**

<b>Breach reporting process</b>	<b>Process number</b>	<b>Description</b>	<b>Responsibility</b>
<b>Breach occurs</b>	1.1	Identification of breach or a possible breach	Business stakeholders
<b>Breach notification</b>	2.1	Upon identification of a breach or possible breach, the employee must immediately notify the Compliance Team. Field employees can use the Ring-Fencing Breach Notification Form on the field portal. All other staff can send reports of potential breaches to the Compliance Team by email.	Identifier of the breach

Breach reporting process	Process number	Description	Responsibility
	2.2	<p>The Compliance Team will review and determine if a breach has occurred. Where a breach is determined the Compliance Team will apply the ‘materiality’ test and liaise with the AER to determine the materiality.</p> <p>Where a breach is material, notify the appropriate people as per the requirements set out in 2.3a.</p> <p>Where the breach is considered non-material, the Compliance Team will notify the appropriate people as per the requirements set out in 2.3b.</p> <p>At this stage, the Compliance Team will also work with the business to identify and begin implementation of appropriate treatments to remedy the breach using a Breach Investigation Template. The Compliance Team will also record the breach in the Breach Register.</p>	Compliance Team / Business Stakeholder
	2.3a	<p><b>Material Breaches:</b></p> <p><b>Internal Notification:</b> Immediate notification to the line management, including Executive, of the business stakeholder reporting the breach and the Head of Regulatory Affairs and General Manager Strategy, Regulation &amp; Corporate Affairs.</p> <p>The AER must be notified within five business days, as described below. The Compliance Team will work with the business stakeholder to compile the information required by the regulator for this notification, using the Breach Investigation and Treatment activity set out in 3.1.</p> <p><b>Notification to the AER:</b> The notification must be provided to the AER within five business days of the breach being identified. The breach notification must include the information required as per the AER’s breach template.</p> <p>– The notification is to be approved by the Head of Regulatory Affairs, Executive Process Owner and EGM Corporate Affairs, before being submitted to the AER.</p>	Compliance Team / Business Stakeholder
	2.3b	<p><b>Non-Material Breaches:</b></p> <p><b>Internal Notification:</b> Complete a Breach Investigation Template and provide it to the Compliance Team.</p> <p><b>AER:</b> Essential Energy must report to the AER on all breaches as part of its Compliance Report.</p>	Business Stakeholder
<b>Breach investigation and treatment</b>	3.1	<p>Use the Breach Investigation Template to investigate the breach and gather the required information, which will be used to inform the breach notification to be provided to the AER.</p> <p>The Compliance Team will validate the appropriateness of the treatments identified. This information is then loaded into the Breach Register and the Obligations Register by the Compliance Team.</p>	Compliance Team

Breach reporting process	Process number	Description	Responsibility
Implement treatment plan	4.1	Implement the actions contained in the treatment plan.	Business Stakeholder
	4.2	If the treatment plan is not able to be immediately implemented, provide regular status updates to the Compliance Team on the progress of implementing the treatment plan. This must continue until the treatment plan has been fully implemented.	Business Stakeholder
	4.3	Validate the successful implementation of the treatment plan including that it supports achieving ongoing compliance with the obligation.	Compliance Team
	4.4	Update the Obligations Register to reflect the implementation of the treatment plan. The implementation of the treatment plan may require an update or reassessment of the following fields in the Obligations Register: <ul style="list-style-type: none"> <li>&gt; Controls as treatments, once implemented will form controls;</li> <li>&gt; The control effectiveness assessment to take account of the implemented treatments; and</li> <li>&gt; The residual risk rating to reflect any change required as a result of strengthened controls.</li> </ul>	Compliance Manager

## 8.2 Compliance Report

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

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

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

Reporting process	Process number	Description	Responsibility
Preparation	1.1	Carry out the final quarterly Ring-Fencing Request for Information process for the regulatory year to identify the information required to demonstrate the measures undertaken by Essential Energy to ensure compliance.  Determine the need for the following actions and complete if deemed necessary: <ul style="list-style-type: none"> <li>&gt; Update regional office analysis (no. of connection points within 100km for each depot);</li> <li>&gt; Review/update registers;</li> </ul>	Compliance Team

Reporting process	Process number	Description	Responsibility
		<ul style="list-style-type: none"> <li>&gt; Update ICT systems listing re confidential information;</li> <li>&gt; Ensure no access to confidential information for employees in RESP;</li> <li>&gt; Seek declaration from those deemed 'officers' (if RESP exists);</li> <li>&gt; Complete refresher training for all employees; and</li> <li>&gt; Review/update induction training.</li> </ul>	
	1.2	<p>Complete the required sections of the Compliance Report, including:</p> <ul style="list-style-type: none"> <li>&gt; Document all measures taken throughout the year to ensure compliance with Ring-fencing obligations;</li> <li>&gt; Identify all of the breaches of the Guideline by Essential Energy through a review of the breach register and any follow-up issues as required with business stakeholders;</li> <li>&gt; Collate all the Other Services identified by business stakeholders in their responses to the quarterly requests for information;</li> <li>&gt; Identify the purpose of all transactions with the Affiliated Entity via liaison with Finance; and</li> <li>&gt; Consider inclusion of any other relevant information in the Compliance Report, (e.g. significant events that occurred during the year such as establishment of an Affiliated Entity).</li> </ul>	Compliance Team
<b>Independent Authority Assessment of Compliance</b>	2.1	Procure the services of an Independent Authority to undertake an assessment of Essential Energy's ring-fencing compliance and assist the Independent Authority as required.	Compliance Team
	2.2	Review Assessment of Compliance and provide feedback as required.	Head of Regulatory Affairs
<b>Approval process</b>	3.1	Email Compliance Report, with Assessment of Compliance appended, to Head of Regulatory Affairs for review.	Compliance Team
	3.2	Review the Compliance Report. Engage with the Compliance Manager to clarify any queries. Email to the EGM Corporate Affairs for review.	Head of Regulatory Affairs
	3.3	Review the Compliance Report. Engage directly with the Compliance Manager to clarify queries or request further information as required. Submit to the Chief Executive Officer for review and approval to submit to the AER.	EGM Corporate Affairs
	3.4	Review and advise the Compliance Team of authority to submit to the AER.	Chief Executive Officer

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<b>Reporting process</b>	<b>Process number</b>	<b>Description</b>	<b>Responsibility</b>
<b>Submission</b>	4.1	Submit report to the AER	Compliance Team

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## 9: Independent assessment

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

## Appendix A – Compliance measures

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

Ring-fencing obligation		Compliance measures
Clause	Description	
		<p>Where exemptions do not apply, Essential Energy will apply for a waiver from the AER in order to provide Other Services and maintain compliance with the guideline. Waiver applications are the responsibility of the Compliance Team, who also maintains the waiver register that is used internally in Essential Energy to inform business managers of the types of Other Services they are allowed to provide.</p> <p><b>Approval of new services (preventative control)</b></p> <p>Essential Energy has an Innovation team who look at new services. Part of their process during the feasibility stage is to engage the Compliance Team to explore any regulatory issues, including ring-fencing, that need to be considered if the new service is to be adopted.</p> <p><b>Training and awareness (preventative control)</b></p> <p>All staff are required to undergo training on Essential Energy's ring-fencing obligations. The training provides staff awareness and knowledge that Essential Energy does not provide Other Services unless an AER waiver has been granted or an exemption exists. Training is delivered either face to face or via Essential Energy's online training system and completion by staff is recorded and monitored.</p> <p>All new employees to Essential Energy complete Ring-fencing training as part of their induction training package. Annual refresher training is also delivered to all staff to maintain the required awareness and knowledge among staff.</p> <p><b>Quarterly compliance reporting (detective control)</b></p> <p>The Compliance Team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the guidelines. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches. An additional compliance check was completed for the period 1 January to 2 February 2022, to ensure the entire period of this report was covered.</p> <p><b>Financial results review (detective control)</b></p> <p>Financial results are reviewed by management and the Finance Team monthly, including revenue results and variances from expected or budgeted outcomes. This can assist in detecting breaches where revenues are unexplained or vary significantly from what is expected.</p>

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



Ring-fencing obligation		Compliance measures
Clause	Description	
	to the allocation and attribution of costs between distribution services and non-distribution services.	<p>confusing transactions between distribution and non-distribution services when the Finance Team attributes expenditure and revenue to various accounts.</p>
3.2.2(b)	A DNSP must only allocate or attribute costs to distribution services in accordance with clause 3.2.2(a), and must not allocate or attribute other costs to the distribution services it provides.	<p>Finance Team attributes expenditure and revenue to distribution services (and non-distribution services) in a manner that is consistent with the CAM, which informs the compilation of monthly management accounts.</p> <p><b>Financial results review (detective control)</b></p> <p>Essential Energy maintains and applies its current CAM so that costs are allocated to non-distribution services (e.g. Essential Water) in accordance with the CAM.</p> <p>Management accounts are reviewed on a monthly basis by managers and variances from expectations investigated. This process can assist in detecting allocation of expenditure that is inconsistent with the CAM. With the introduction of Essential Energy's new Enterprise Resource Planning (ERP) system, the CAM journal process has been updated to include qualitative checks to demonstrate to the reviewer that the journal is correctly allocating costs to the correct regulatory unit.</p> <p>In August 2021, Essential Energy migrated financial system from PeopleSoft to Oracle ERP. Due to implementation issues with the new system, since August 2021 Essential Energy has been applying the CAM based on budget allocations. The allocations will be corrected to actuals by the end of the 2021-22 financial year.</p>
3.2.2(c)	A DNSP must establish, maintain and keep records that demonstrate how it meets the obligations in clauses 3.2.2(a) and 3.2.2(b), and must not allocate or attribute other costs to the distribution services it provides.	<p><b>Reviewing and maintaining accounting records (detective control)</b></p> <p>The Finance Team maintains accounting and financial records as part of its basic function. These records have been reviewed and approved by managers in the Finance Team to ensure they are correct prior to being archived.</p> <p>The review and approval process also includes consideration of whether costs have been allocated to distribution services correctly, and that costs for other services have not been allocated to distribution services.</p>

Ring-fencing obligation		Compliance measures
Clause	Description	
<b>Obligations to not discriminate</b>		
4.1(b)	<p>A DNSP must not discriminate (either directly or indirectly) between a related electricity service provider and a competitor (or potential competitor) of a electricity service provider in connection with the provision of:</p> <ul style="list-style-type: none"> <li>i) direct control services by the DNSP (whether to itself or to any other level entity); and/or</li> <li>ii) contestable electricity services by any other legal entity.</li> </ul>	<p><b>Strategic approach to ring-fencing compliance</b></p> <p>Essential Energy has adopted the strategic approach to ring-fencing compliance by withdrawing from the provision of Other Electricity Services, including Contestable Electricity Services, except in limited circumstances where:</p> <ul style="list-style-type: none"> <li>&gt; the competitive market is not able to provide the service at reasonable cost and quality; and</li> <li>&gt; a waiver from the AER has been granted to Essential Energy to provide the other service or a regional office exemption exists.</li> </ul> <p>While not a control, Essential Energy's strategic approach to ring-fencing compliance does reduce the risk of breaching the guidelines by reducing the scope and number of Contestable Electricity Services it provides.</p>
4.1(c)	<p>Without limiting its scope, clause 4.1(b) requires a DNSP to:</p> <ul style="list-style-type: none"> <li>i) in dealing or offering to deal with a related electricity service provider, treat the related electricity service provider as if it were not a related electricity service provider (that is, as if it had no connection or affiliation with the DNSP);</li> <li>ii) in like circumstances, deal or offer to deal with a related electricity service provider and a competitor (or potential competitor) of the related electricity service provider on substantially the same terms and conditions;</li> <li>iii) in like circumstances, provide substantially the same quality, reliability and timeliness of service to a related electricity service provider and a competitor (or potential</li> </ul>	<p>The strategic approach to ring-fencing compliance also eliminates the possibility of discrimination in favour of affiliate entities as no such entities have been established by Essential Energy.</p> <p><b>Training and awareness (preventative control)</b></p> <p>As noted previously, all staff are required to undergo training on Essential Energy's ring-fencing obligations. Staff in roles that have the ability to discriminate against competitors or potential competitors for the provision of direct control services or contestable electricity service are provided with training that includes obligations to not discriminate.</p> <p>Training is delivered either face to face or via Essential Energy's online training system and completion by staff is recorded and monitored.</p> <p><b>Quarterly Compliance Reporting (detective control)</b></p> <p>The Compliance Team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the guidelines. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches. An additional compliance check was completed for the period 1 January to 2 February 2022, to ensure the entire period of this report was covered.</p>

Ring-fencing obligation		Compliance measures
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	<p>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>	
<b>Offices, staff, branding and promotions</b>		
4.2.1(a)	<p>Subject to this clause 4.2.1, in providing direct control services, a DNSP must use offices that are separate from any offices from which a related electricity service provider provides contestable electricity services.</p>	<p><b>Strategic approach to ring-fencing compliance</b></p> <p>Essential Energy has adopted the strategic approach to ring-fencing compliance by withdrawing from the provision of Other Electricity Services, including Contestable Electricity Services, except in limited circumstances where:</p> <ul style="list-style-type: none"> <li>&gt; the competitive market is not able to provide the service at reasonable cost and quality; and</li> <li>&gt; a waiver from the AER has been granted to Essential Energy to provide the other service or a regional office exemption exists.</li> </ul> <p>While not a control, Essential Energy's strategic approach to ring-fencing compliance does reduce the risk of breaching the guidelines by eliminating the provision of contestable electricity services not covered by exemptions or waivers.</p> <p><b>Quarterly Compliance Reporting (detective)</b></p> <p>The Compliance Team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the guidelines. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches. An additional compliance check was completed for the period 1 January to 2 February 2022, to ensure the entire period of this report was covered.</p>

Ring-fencing obligation		Compliance measures
Clause	Description	
		<p><b>Regional office register (preventative)</b></p> <p>Essential Energy maintains a regional office register that is used by business units as a reference for offices that qualify for the regional office exemption and assists with complying with clause 4.2.1(a) of the guideline. This register is checked and updated by the Compliance Team on a yearly basis.</p>
4.2.2(a)	Subject to this clause 4.2.2, a DNSP must ensure that its staff involved in the provision or marketing of direct control services are not also involved in the provision or marketing of contestable electricity services by a related electricity service provider.	<p><b>Strategic approach to ring-fencing compliance</b></p> <p>As noted above, Essential Energy has adopted the strategic approach to ring-fencing compliance by withdrawing from the provision of Other Electricity Services, including Contestable Electricity Services, except in limited circumstances where:</p> <ul style="list-style-type: none"> <li>&gt; the competitive market is not able to provide the service at reasonable cost and quality; and</li> <li>&gt; a waiver from the AER has been granted to Essential Energy to provide the other service or a regional office exemption exists.</li> </ul> <p>While not a control, Essential Energy’s strategic approach to ring-fencing compliance does reduce the risk of breaching the guidelines by eliminating the provision of contestable electricity services not covered by exemptions or waivers.</p> <p><b>Quarterly Compliance Reporting (detective)</b></p> <p>The Compliance Team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the guidelines. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches. An additional compliance check was completed for the period 1 January to 2 February 2022, to ensure the entire period of this report was covered.</p> <p><b>Staff sharing register (preventative)</b></p> <p>Essential Energy maintains a staff sharing register that is used by business units as a reference for staff that can be utilised for providing regulated services and Other Services and assists with complying with clause 4.2.2(a) of the guideline. This register is checked and updated by the Compliance Team on a yearly basis.</p>

Ring-fencing obligation		Compliance measures
Clause	Description	
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><b>KPIs (preventative)</b></p> <p>Essential Energy applies a standard set of Key Performance Indicators across all employees with individual indicators established that align to the company's strategic direction which is to comply with not only the ring-fencing guideline but all regulatory obligations. The individual indicators are reviewed and approved by senior levels of management.</p> <p><b>Quarterly Compliance Reporting (detective)</b></p> <p>The Compliance Team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the guidelines. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches. An additional compliance check was completed for the period 1 January to 2 February 2022, to ensure the entire period of this report was covered.</p>
4.2.3(a)	<p>A DNSP:</p> <ul style="list-style-type: none"> <li>i) must use branding for its direct control services that is independent and separate from the branding used by a related electricity service provider for contestable electricity services, such that a reasonable person would not infer from the respective branding that the DNSP and the related electricity service provider are related;</li> <li>ii) must not advertise or promote its direct control services and its contestable electricity services that are not direct control services together (including by way of cross-advertisement or cross-promotion);</li> <li>iii) must not advertise or promote contestable electricity services provided by a related electricity service provider other than the DNSP itself.</li> </ul>	<p><b>Strategic approach to ring-fencing compliance</b></p> <p>Essential Energy has adopted the strategic approach to ring-fencing compliance by withdrawing from the provision of Other Electricity Services, including Contestable Electricity Services, except in limited circumstances where:</p> <ul style="list-style-type: none"> <li>&gt; the competitive market is not able to provide the service at reasonable cost and quality; and</li> <li>&gt; a waiver from the AER has been granted to Essential Energy to provide the other service or a regional office exemption exists.</li> </ul> <p>While not a control, Essential Energy's strategic approach to ring-fencing compliance eliminates the possibility of co-branding or promotion of services with a related electricity service provider (except for those allowed under exemption or waiver).</p> <p><b>Regional office analysis (preventative)</b></p> <p>Essential Energy has undertaken an analysis of its regional offices to determine whether each office qualifies for the regional office exemption, which would allow shared branding and promotion without breaching the guidelines. This analysis is reviewed and updated on an annual basis to ensure the regional office register is accurate and up to date.</p>

Ring-fencing obligation		Compliance measures
Clause	Description	
		<p><b>Regional office register (preventative)</b></p> <p>Essential Energy maintains a regional office register that is used by business units as a reference for offices that qualify for the regional office exemption and assists with complying with clause 4.2.3(a) of the guideline. This register is checked and updated by the Compliance Team on a yearly basis.</p> <p><b>Quarterly Compliance Reporting (detective)</b></p> <p>The Compliance Team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the guidelines. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches. An additional compliance check was completed for the period 1 January to 2 February 2022, to ensure the entire period of this report was covered.</p>
4.2.4(a)	<p>A DNSP must establish, maintain and keep a register that identifies:</p> <ul style="list-style-type: none"> <li>a) the classes of offices to which it has not applied clause 4.2.1(a) by reason of clauses 4.2.1(b)i. or 4.2.1(b)iii.; and</li> <li>b) the nature of the positions (including a description of the roles, functions and duties) of its members of staff to which it has not applied clause 4.2.2(a) by reason of clauses 4.2.2(b)i.a., 4.2.2(b)i.b., 4.2.2(b)iii. or 4.2.2(d);</li> </ul> <p>and must make the register publicly available on its website.</p>	<p><b>Regional office and staff registers (preventative)</b></p> <p>The Compliance Team at Essential Energy has established Regional office and staff registers, which are updated on a yearly basis or as a change is identified through the Quarterly Reporting process.</p> <p><b>Quarterly Compliance Reporting (detective)</b></p> <p>The Compliance Team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the guidelines. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches. An additional compliance check was completed for the period 1 January to 2 February 2022, to ensure the entire period of this report was covered.</p>
<b>Information access and disclosure</b>		
4.3.2	<p>Subject to this clause 4.3, a DNSP must:</p> <ul style="list-style-type: none"> <li>a) keep confidential information confidential; and</li> </ul>	<p><b>IT restrictions on information access (preventative)</b></p> <p>Essential Energy maintains confidential information on secure IT systems, where employees have individual username and passwords. Employees are granted access to confidential information where there is a need based on their role and whether it is appropriate for them have access.</p>

Ring-fencing obligation		Compliance measures
Clause	Description	
	b) only use confidential information for the purpose for which it was acquired or generated.	<p>These secured IT systems and access management ensures confidential information is kept confidential.</p> <p><b>Information sharing protocol (preventative control)</b></p> <p>Essential Energy has established an information sharing protocol that sets out the process for sharing information with other entities, including Accredited Service Providers (ASPs) and potential related electricity service providers. This protocol ensures that the use of confidential information is only for the purposes for which it was acquired or generated.</p> <p><b>Training and awareness (preventative control)</b></p> <p>As noted previously, all staff are required to undergo training on Essential Energy's ring-fencing obligations. This includes training around confidential information.</p>
4.3.3	A DNSP must not disclose confidential information to any person, including a related electricity service provider, unless an exemption applies.	<p><b>Information sharing protocol (preventative control)</b></p> <p>As noted previously, Essential Energy has established an information sharing protocol that sets out the process for sharing information with other entities, including ASPs and potential related electricity service providers. This protocol ensures:</p>
4.3.4(a)	Subject to clause 4.1(c)iv and to this clause 4.3.4, where a DNSP shares confidential information with a related electricity service provider, or where confidential information that a DNSP has disclosed under clause 4.3.3(f) is then disclosed by any person to a related electricity service provider of the DNSP, the DNSP must provide access to that confidential information (including the derived information) to other legal entities on an equal basis.	<ul style="list-style-type: none"> <li>&gt; confidential information is not disclosed inappropriately;</li> <li>&gt; confidential information is only used for the purpose for which it was acquired or generated; and</li> <li>&gt; confidential information, where disclosed to a related electricity service provider, is provided to other legal entities on an equal basis.</li> </ul> <p>The information sharing protocol, which sets out how and when it will make the information referred to in clause 4.3.4(a) available to legal entities, is available on Essential Energy's website.</p> <p><b>Training and awareness (preventative control)</b></p>
4.3.4(d)	Without limiting clause 4.3.4(a), a DNSP must establish an information sharing protocol that sets how and when it will make the information referred to in clause 4.3.4(a) available to legal entities, and must make that protocol publicly available on its website.	<p>As noted previously, all staff are required to undergo training on Essential Energy's ring-fencing obligations. This includes training around confidential information and its disclosure.</p>
4.3.4(e)	Where a DNSP discloses information referred to in clause 4.3.4(a) to any other legal entity under this	

Ring-fencing obligation		Compliance measures
Clause	Description	
	clause 4.3.4, it must do so on terms and conditions that require the other legal entity to comply with clause 4.3.2 and 4.3.3(a) to (d) in relation to that information as if the other legal entity was a DNSP.	
4.3.5(a)	<p>A DNSP must establish, maintain and keep a register of all:</p> <ul style="list-style-type: none"> <li>i. related electricity service providers;</li> <li>ii. other legal entities who provide contestable electricity services but who are not affiliates of the DNSP;</li> </ul> <p>who request access to information identified in clause 4.3.4(a), and must make the register publicly available on its website</p>	<p><b>Information register (preventative control)</b></p> <p>Essential Energy has established a register of information requests from all service providers, including related electricity service providers and other legal entities that provide contestable electricity services.</p> <p>The register is updated as information requests are received, which also includes information regarding the kind of information requested.</p> <p>As part of the application process to be included in the information register referred to above, other legal entities will be required to sign an Information Sharing Deed, which requires them to comply with the confidentiality requirements.</p> <p>To date Essential Energy has received no information requests but has policies and procedures in place to address this requirement when it arises.</p>
4.3.5(b)	<p>For each legal entity that has requested that a DNSP provide access to information identified in clause 4.3.4(a), the DNSP's information register must:</p> <ul style="list-style-type: none"> <li>i. identify the kind of information requested by the legal entity; and</li> <li>ii. describe the kind of information requested by the legal entity in sufficient detail to enable other legal entities to make an informed decision about whether to request that kind of information from the DNSP</li> </ul>	
4.3.5(c)	<p>A legal entity may request that the DNSP include it on the information register in relation to some or all of the kinds of information that the DNSP is required to provide under clause 4.3.4(a), and the DNSP must comply with that request.</p>	



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

Ring-fencing obligation		Compliance measures
Clause	Description	
	<ul style="list-style-type: none"> <li>i. the description of the conduct to which the waiver or interim waiver applies; and</li> <li>ii. the terms and conditions of the waiver or interim waiver; as set out in the AER's written decision, provided by the AER to the DNSP, to grant (or vary) the waiver or interim waiver.</li> </ul>	
<b>Maintaining Compliance</b>		
6.1	<p>A DNSP must establish and maintain appropriate internal procedures to ensure it complies with its obligations under this Guideline. The AER may require the DNSP to demonstrate the adequacy of these procedures upon reasonable notice. However, any statement made or assurance given by the AER concerning the adequacy of the DNSP's compliance procedures does not affect the DNSP's obligations under this Guideline.</p>	<p><b>Policies and Procedures</b></p> <p>Essential Energy has the following policies and procedures in place that guides its internal compliance procedures. It is also embedded in the training provided to employees:</p> <ul style="list-style-type: none"> <li>&gt; Ring-Fencing Policy – CECP2476. This policy applies to all Essential Energy employees, contractors and service providers and outlines Essential Energy's approach to compliance with the obligations outlined in the Ring-Fencing Guideline.</li> <li>&gt; Ring-Fencing Procedure - CEOP2477. This document provides guidance to Essential Energy employees on how to adhere to the Ring-Fencing Policy.</li> <li>&gt; Ring-Fencing Compliance Monitoring and Reporting - CEOP2480. This document outlines the processes for undertaking breach management and reporting and preparing the compliance report.</li> </ul> <p><b>Quarterly Compliance Reporting (detective)</b></p> <p>The Compliance Team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the guidelines. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches. An additional compliance check was completed for the period 1 January to 2 February 2022, to ensure the entire period of this report was covered.</p>

Ring-fencing obligation		Compliance measures
Clause	Description	
		<p><b>Strategic approach to ring-fencing compliance</b></p> <p>Essential Energy has adopted the strategic approach to ring-fencing compliance by withdrawing from the provision of Other Electricity Services, including Contestable Electricity Services, except in limited circumstances where:</p> <ul style="list-style-type: none"> <li>&gt; the competitive market is not able to provide the service at reasonable cost and quality; and</li> <li>&gt; a waiver from the AER has been granted to Essential Energy to provide the other service or a regional office exemption exists.</li> </ul> <p>While not a control, Essential Energy's strategic approach to ring-fencing compliance does reduce the risk of breaching the guidelines by eliminating the provision of contestable electricity services not covered by exemptions or waivers.</p>
<b>Compliance Reporting</b>		
6.2.1	<p>a) A DNSP must prepare an annual ring-fencing compliance report each regulatory year in accordance with this clause 6.2.1, and submit it to the AER in accordance with clause 6.2.2.</p> <p>b) The annual compliance report must identify and describe, in respect of the regulatory year to which the report relates:</p> <ol style="list-style-type: none"> <li>i. the measures the DNSP has taken to ensure compliance with its obligations under this Guideline;</li> <li>ii. any breaches of this Guideline by the DNSP, or which otherwise relate to the DNSP;</li> <li>iii. all other services provided by the DNSP in accordance with clause 3.1; and</li> <li>iv. the purpose of all transactions between the DNSP and an affiliated entity.</li> </ol>	<p><b>Ring-fencing Compliance Report</b></p> <p>Essential Energy has prepared this Ring-fencing Compliance Report to comply with clause 6.2.1. The Ring-fencing Compliance Report is compiled by the Compliance Team, based upon results from reporting the Quarterly Reporting process that covered the period 1 July 2020 to 2 February 2022 where information was requested from business managers on their activities, which covers any required changes to registers and breaches of the guidelines. The compliance report will be submitted to the AER.</p> <p><b>Quarterly Compliance Reporting (detective)</b></p> <p>The Compliance Team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the guidelines. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches. An additional compliance check was completed for the period 1 January to 2 February 2022, to ensure the entire period of this report was covered.</p> <p><b>Compliance Report Review</b></p> <p>Essential Energy has engaged KPMG to undertake an assessment of compliance.</p>

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	<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>	
6.2.2(a)	Subject to clause 6.2.2(b), a DNSP must submit its annual compliance report to the AER within four months of the end of the regulatory year to which the compliance report relates.	
6.3	A DNSP must notify the AER in writing within five business days of becoming aware of a material breach of its obligations under this Guideline. The AER may seek enforcement of this Guideline by a court in the event of any breach of this Guideline by a DNSP, in accordance with the NEL.	<p><b>Breach management process (corrective)</b></p> <p>Essential Energy has a breach management and reporting process in place based on the process introduced for the National Energy Customer Framework regulatory changes. This process has been adjusted to be suitable for ring-fencing but ensures that material breaches are reported to the AER within five days. Requirements are included within company policy and procedure documents.</p> <p><b>Quarterly Compliance Reporting (detective)</b></p> <p>The Compliance Team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the guidelines. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches. An additional compliance check was completed for the period 1 January to 2 February 2022, to ensure the entire period of this report was covered.</p>
7.1	<p>a) a DNSP must fully comply with each of the obligations in clauses 3 and 4 of this Guideline in respect of its existing services as soon as reasonably practicable, having regard to the likely costs of having to fully comply with those obligations any sooner but, in any event, must fully comply with those obligations by no later than 1 January 2018</p>	<p><b>Essential Energy ring-fencing compliance plan</b></p> <p>Essential Energy's implementation activities ensured compliance by 1 January 2018. Refer to Essential Energy's 2017/18 Ring-fencing annual report.</p> <p><b>Confirm service classifications</b></p> <p>Essential Energy's classification of services for the 2019-24 regulatory period came into effect on 1 July 2019. There are no changes to service classification that will cause Essential Energy to become non-compliant.</p>

Ring-fencing obligation		Compliance measures
Clause	Description	
	<p>b) where a distribution determination applicable to a DNSP results in a change in the classification of a distribution service provided by the DNSP, and that change puts the DNSP in breach of an obligation under this Guideline, the DNSP must comply with that obligation within 12 months of the commencement date of the distribution determination</p>	<p><b>Quarterly Compliance Reporting (detective)</b></p> <p>The Compliance Team requests quarterly information from business managers on their activities, which covers any required changes to registers and breaches of the guidelines. Quarterly compliance reporting assists in detecting breaches by drawing upon business managers knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches. An additional compliance check was completed for the period 1 January to 2 February 2022, to ensure the entire period of this report was covered.</p>

## Appendix B – Ring-fencing breaches

Obligation	Date	Details	Remediation
<p>4.2.1 Physical separation / co-location</p> <p>4.2.2 Staff sharing</p> <p>4.2.3 Branding and cross-promotion</p> <p>4.2.4 Office and staff registers</p> <p>4.4.1(a) Conduct of service providers</p>	<p>1 July 2020 – 2 February 2022</p> <p><b>Breach start date</b> 1/07/2019</p> <p><b>Breach end date</b> Ongoing</p> <p><b>Initial notification of breach to AER</b> 2/07/2019</p> <p><b>Date formal breach report provided to AER</b> 11/7/2019</p>	<p><b>Type 1-4 Metering breach</b></p> <p><b>Nature of breach</b></p> <p>In preparation for the Power of Choice metering changes being implemented on 1 December 2017 and the commencement of Ring-fencing on 1 January 2018, Essential Energy put steps in place to withdraw completely from providing contestable metering services. As all remaining installations where these contestable metering services were being provided were not likely to have been transferred away prior to ring-fencing commencing, a waiver application for Type 1-4 metering services was submitted in July 2017 to allow Essential Energy to continue providing these services until it could completely exit the market. The waiver application was approved by the AER on 18 December 2017 with an expiration date of 1 July 2019.</p> <p>Prior to 1 December 2017 Essential Energy's management was informed by its metering department that Essential Energy was no longer providing Type 1-4 contestable metering services, as all sites had been transferred to other service providers.</p> <p>In mid June 2019 Essential Energy management was informed by the metering department that Essential Energy is providing contestable Type 1-4 metering services at a number of metering installations that are active in the market. The services that Essential Energy was providing in June 2019 were:</p> <ul style="list-style-type: none"> <li>&gt; Meter Provider to 44 active sites. This had reduced from 62 active sites in November 2017.</li> <li>&gt; Meter Data Provider to 17 active sites. This had reduced from 34 active sites in November 2017.</li> </ul> <p>These sites are legacy sites that did not transfer to other service providers and Essential Energy has continued to provide contestable metering services to since 1 December 2017.</p> <p>Since this breach report was submitted to the AER in July 2019, the number of sites where Essential Energy is providing contestable Type 1-4 metering services has reduced to four sites.</p>	<p>Essential Energy has written to the Retailers for these sites advising that Essential Energy can no longer provide contestable metering services and requesting they have their Metering Coordinators appoint alternate providers.</p> <p>Essential Energy will continue to request the Retailers and Metering Coordinators to act and rectify this situation.</p> <p>At the end of the reporting period four sites remained under Essential Energy's metering service provision.</p> <p>Regular reporting on the rectification of this breach is provided to the AER.</p>

Obligation	Date	Details	Remediation
		<p><b>Cause of breach</b></p> <p>Essential Energy is reliant on the Metering Coordinator for each of these metering installations to appoint new service providers to the roles of Metering Provider and Meter Data Provider. Whilst Essential Energy is assigned these roles, it is required under the National Electricity Rules to continue providing the services required.</p> <p>Essential Energy has made requests to the relevant Retailers requesting they have their Metering Coordinators assign new providers to these roles but to date they have failed to act on these requests.</p> <p>Essential Energy did not raise this issue with the AER and AEMO prior to the ring-fencing waiver expiring due to a failure by its Metering Department to escalate this issue to senior management until late June 2019.</p> <p><b>Method of identification</b></p> <p>This breach was identified and escalated by internal Essential Energy staff.</p> <p><b>Impact of breach</b></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"> <li>&gt; the small number of sites where these services are provided, and</li> <li>&gt; Essential Energy's ongoing attempts to fully exit the contestable metering market and remediate this breach through requests to retailers to have their metering coordinators transfer these sites to other metering service providers.</li> </ul>	