



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 breach identified and reported to the Australian Energy Regulator (AER), complied with the Ring-fencing Guideline published by the Australian Energy Regulator on 17 October 2017 is, in all material respects, fairly presented for the regulatory period from 1 July 2020 to 2 February 2022.

Emphasis of Matter – Breach of Ring-fencing Guideline

Without qualifying our conclusion, we draw attention to Appendix B of Essential Energy's Electricity Distribution Ring-fencing Compliance Report ("Compliance Report"), which describes the breach identified in the regulatory period from 1 July 2020 to 2 February 2022.

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.

Scope

The subject of our assurance engagement is whether Essential Energy's Statement of Compliance that the entity has, with the exception of the breach identified and reported to the Australian Energy Regulator (AER), complied with the Ring-fencing Guideline published by the AER on 17 October 2017 (the "Ring-fencing Guideline") is, in all material respects, fairly presented for the regulatory period from 1 July 2020 to 2 February 2022. 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 July 2020 to 2 February 2022 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 including identifying, designing and implementing controls 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;
- monitoring 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 July 2020 to 2 February 2022 and to issue an assurance report that includes our conclusion.

Our Independence and Quality Control

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 Control 1 to maintain a comprehensive system of quality control.



KPMG

Sydney

29 April 2022



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 July 2020 to 2 February 2022.

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:

- Reviewed the Compliance Report to confirm that Essential Energy's overall compliance strategy, measures and internal controls for Ring-fencing had been documented;
- 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.



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			
<p>3.1(a) A Distribution Network Service Provider (DNSP) must be a legal entity.</p>	<p>Essential Energy has a registered Australian Business Number (ABN).</p>	<ul style="list-style-type: none"> Obtained and inspected the Legal Entity Structure for Essential Energy. Essential Energy does not have affiliate entities, in execution of its strategic compliance plan. Performed an ASIC search on Essential Energy using the ABN contained in its distributor’s license to establish it is a separate legal entity. <p>Checked that the ABN was accurately reflected on Essential Energy’s website.</p>	<p>None</p>
<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>	<ul style="list-style-type: none"> Strategic approach to Ring-fencing compliance that defines the scope of activities to ensure compliance with Ring-fencing obligations. Waivers and waiver register. Approval of new services. Training and awareness. Quarterly compliance reporting of information relating to registers and breaches. 	<ul style="list-style-type: none"> Inspected Essential Energy’s Ring-fencing Guideline Compliance Plan July 2017 (strategic approach to Ring-fencing compliance) to determine whether Essential Energy’s approach aligns to the services the DNSP is limited to provide. Inspected supporting company policies and procedures to assess whether these clearly articulate Essential Energy’s approach to compliance with the obligations outlined in the Ring-fencing Guideline. 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 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 	<p>Training and awareness</p> <p>Our inspection and testing of training completion records showed that 99% of staff completed Ring-fencing training during the compliance period.</p> <p>We observed evidence of Essential Energy acting upon an improvement opportunity raised during the prior year Ring-fencing compliance audit regarding the escalation of incomplete Ring-fencing training. We observed that, in instances where staff training was overdue, scheduled system generated notifications are sent to those individuals and the</p>



	<ul style="list-style-type: none"> • Financial results analysis. 	<p>approval of new services to check that the template included relevant compliance approvals as a pre-clearance control mechanism.</p> <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 an extract of the training attendance and completion records for the audit period to determine whether staff participated in compliance training, including those individuals with outstanding training requirements as at the end of the prior reporting period and a sample of new starters within the current 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 July 2020 to 2 February 2022 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. • Inspected the January 2022 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. 	<p>Compliance Team followed up with the individuals as well.</p> <p>We have made some performance improvement recommendations in respect of the training program. Refer to Appendix B (PIO 1).</p>
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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>	<ul style="list-style-type: none"> • Strategic approach to Ring-fencing compliance that defines the scope of activities to ensure compliance with Ring-fencing obligations • Financial results analysis 	<ul style="list-style-type: none"> • Inspected the DNSP's Ring-fencing Guideline Compliance Plan July 2017 (strategic approach Ring-fencing compliance) to check the services the DNSP is limited to provide with respect to its internal accounting procedures. • Inspected the January 2022 Financial Performance Report to determine whether the financial results analysis conducted by Essential Energy includes an analysis of expenditure results and variances from forecasts or budgeted outcomes. • 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. • Reviewed the DNSP's annual assessment of exempt service areas (those that have fewer than 25,000 connection points within a 100km radius of the office). 	None
Cost Allocation and Attribution			
<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>	<ul style="list-style-type: none"> • Accounting codes for distribution and non-distribution services • Application of the Cost Allocation Method (CAM) • Financial results analysis • Reviewing and maintaining accounting records 	<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 2021. <p>We considered the appropriateness of Essential Energy's CAM as part of this audit engagement. Our procedures</p>	<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</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</p>			



<p>attribute other costs to the distribution services it provides.</p>		<p>included:</p>	<p>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>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>		<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. • Updated our understanding of how the transition to the Oracle ERP has impacted the processes associated with cost allocation for the period post 31 July 2021 through a combination of enquiry with management and inspection of underlying documents. • Obtained an understanding of the improvement activity implemented by management during the regulatory period in response to the prior period improvement opportunity raised and inspected a sample of monthly cost allocation journals for evidence of review and approval. This included sighting evidence of newly implemented validation checks within the supporting files of the monthly journals selected for testing. • Inspected the January 2022 Financial Performance Report to determine whether the financial results analysis conducted by Essential Energy includes an analysis of expenditure results and variances from forecasts or budgeted outcomes. 	<p>As a result of the implementation of the new ERP system in August 2021 and change management activities being undertaken by the business, overhead costs are currently being allocated to distribution and non-distribution services based on budgeted percentages as opposed to actual direct cost percentage allocators. Management have advised the allocation of overheads will be updated to an actual direct cost percentage allocation basis as part of the 30 June 2022 regulatory year-end close process.</p> <p>Refer to PIO 2 contained under Appendix B.</p>
<p>Obligations to not discriminate</p>			
<p>4.1(b) A DNSP must not discriminate (either directly or indirectly) between a related electricity service provider and a</p>	<ul style="list-style-type: none"> • Strategic approach to Ring-fencing compliance that defines the scope of 	<ul style="list-style-type: none"> • Inspected Essential Energy’s Ring-fencing Guideline Compliance Plan July 2017 (strategic approach to Ring-fencing compliance) to determine whether Essential 	<p>Training and awareness:</p> <p>We have made some performance improvement</p>



<p>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>	<p>activities to ensure compliance with Ring-fencing obligations.</p> <ul style="list-style-type: none"> • Training and awareness. • Quarterly compliance reporting of information relating to registers and breaches. 	<p>Energy’s approach aligns to the services the DNSP is limited to provide.</p> <ul style="list-style-type: none"> • 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 supporting company policies and procedures to assess whether these clearly articulate Essential Energy’s approach to compliance with the obligations outlined in the Ring-fencing Guideline. 	<p>recommendations in respect of the training program. Refer to Appendix B (PIO 1).</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 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</p>		<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 Ring-fencing training materials to determine whether the content accurately reflected Essential Energy’s obligation to not provide other services. • Inspected an extract of the training attendance and completion records for the audit period to determine whether staff participated in compliance training, including those individuals with outstanding training requirements as at the end of the prior reporting period and a sample of new starters within the current 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 July 2020 to 2 February 2022 to determine whether there were any breaches against the obligations. 	<p>Refer to our observations under 4.1.(b) above.</p>



<p>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>		<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. 	
<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"> Strategic approach to Ring-fencing compliance that defines the scope of activities to ensure compliance with Ring-fencing obligations. Quarterly compliance reporting of information relating to registers and breaches. Regional office register. 	<ul style="list-style-type: none"> Inspected Essential Energy’s Ring-fencing Guideline Compliance Plan July 2017 (strategic approach Ring-fencing compliance) to determine whether DNSP branding is independent and separate from the RESP. Obtained management’s analysis of services offered in Regional Offices 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 (those that have less than 25,000 connection points within a 100km radius of the office). Checked that the compliance exceptions are contained within CEOP2477 Ring-fencing Procedure document, which is accessible from Essential Energy’s intranet for employees to refer to as required. 	<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</p>



		<ul style="list-style-type: none"> • Inspected supporting company policies and procedures to check that these clearly articulate Essential Energy’s approach to compliance with the obligations outlined in the Ring-fencing Guideline. • 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 July 2020 to 2 February 2022 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. • Inspected the Regional office register to check whether information identified the appropriate classification of offices. • Obtained evidence that the Regional office register is checked, validated, and updated by the Compliance Team on an annual basis. 	<p>transition to the new regulatory treatment of type 1-4 metering services. That waiver expired 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.</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</p>	<ul style="list-style-type: none"> • Strategic approach to Ring-fencing compliance that defines the scope of activities to ensure compliance with Ring-fencing obligations. • Quarterly compliance reporting of information 	<ul style="list-style-type: none"> • Inspected the Staff sharing register to determine whether information identified the roles of the staff that were shared across entities. • Obtained the Staff sharing register to check whether there had been changes made since the previous period. • Obtained an understanding of the process undertaken by the Compliance Team to validate the register as current. 	<p>Refer to our observations under 4.2.1(a) above.</p>



<p>provider.</p>	<p>relating to registers and breaches. • Staff sharing register.</p>		
<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>	<ul style="list-style-type: none"> • A standard set of Key Performance Indicators across all employees. • Quarterly Management Reporting of information relating to registers and breaches. 	<ul style="list-style-type: none"> • Inspected Essential Energy’s STI Plan Information Booklet (April 2017) to check that remuneration incentives and other benefits provided to DNSP staff do not incentivise staff to act in a manner that is contrary to the obligations. • Enquired of management whether there had been any changes to incentive arrangements during the compliance period. • 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 July 2020 to 2 February 2022 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>None.</p>
<p>Branding and cross-promotion</p>			
<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</p>	<ul style="list-style-type: none"> • Strategic approach to Ring-fencing compliance. • Regional office analysis. • Regional office register. • Quarterly compliance reporting of information 	<ul style="list-style-type: none"> • Inspected Essential Energy’s Ring-fencing Guideline Compliance Plan July 2017 (strategic approach Ring-fencing compliance) to determine whether DNSP branding is independent and separate from the RESP. • Inspected the AER’s approval of service classifications for the 2019-24 regulatory period, which allows Essential 	<p>Refer to our observations under 4.2.1(a) above.</p>



<p>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>	<p>relating to registers and breaches.</p>	<p>Energy to provide alternate control services which were previously covered under transitional waivers.</p> <ul style="list-style-type: none"> 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 register is checked, validated, and updated by the Compliance Team on an annual basis. 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 July 2020 to 2 February 2022 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>Office and staff registers</p>			
<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>	<ul style="list-style-type: none"> Regional office and staff registers. Quarterly compliance reporting of information relating to registers and breaches. 	<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 	<p>Refer to our observations under 4.2.1(a) above.</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 publicly available on its website.</p>		<p>registers on an annual basis and publish them on Essential Energy’s public website.</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 July 2020 to 2 February 2022 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>Information access and disclosure</p>			
<p>4.3.2 Subject to this clause 4.3, a DNSP must:</p> <p>a) keep confidential information confidential; and</p> <p>only use confidential information for the purpose for which it was acquired or generated.</p>	<ul style="list-style-type: none"> IT restrictions on information access. Information sharing protocol. Training and awareness. 	<ul style="list-style-type: none"> Conducted a 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 Essential Energy’s Information Sharing Protocol to determine whether it has a procedure to ensure third parties are bound to keep confidential information confidential. Inspected Essential Energy’s Information Sharing Protocol to assess Essential Energy’s approach to the maintaining confidentiality of the data it holds. 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 	<p>Information Sharing Protocol:</p> <p>We observed that the recommendation in the prior year report to update the Ring-fencing FAQs document to improve guidance and documentation on how confidential information is managed, including the basis for appropriate disclosure to third-party service providers and other unauthorised individuals has been completed during the regulatory period from 1 July 2020 to 2 February 2022.</p> <p>We observed that there were no</p>



		<p>which it was acquired or generated.</p> <ul style="list-style-type: none"> Inspected an extract of the training attendance and completion records for the audit period to determine whether staff participated in compliance training, including those individuals with outstanding training requirements as at the end of the prior reporting period and a sample of new starters within the current period. 	<p>information sharing requests in the regulatory period ended 1 July 2020 to 2 February 2022.</p> <p>Training and awareness:</p> <p>We have made some performance improvement recommendations in respect of the training program. Refer to Appendix B (PIO 1).</p>
<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>	<ul style="list-style-type: none"> Information Sharing Protocol. Training and awareness 	<ul style="list-style-type: none"> Inspected Essential Energy’s Information Sharing Protocol to assess Essential Energy’s approach to the maintaining confidentiality of the data it holds. 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 an extract of the training attendance and completion records for the audit period to determine whether staff participated in compliance training, including those individuals with outstanding training requirements as at the end of the prior reporting period and a sample of new starters within the current period. 	<p>Refer to our observations under 4.3.2 above.</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>			
<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</p>			



<p>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>4.3.4(e) Where a DNSP discloses information referred to in clause 4.3.4(a) to any other legal entity under this clause 4.3.4, it must do so on terms and conditions that require the other legal entity to comply with clause 4.3.2 and 4.3.3(a) to (d) in relation to that information as if the other legal entity was a DNSP.</p>			
<p>4.3.5(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 4.3.4(a), and must make the register publicly available on its website.</p>	<ul style="list-style-type: none"> • Information register to capture information requests from all service providers. 	<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 	<p>Refer to our observations under 4.3.2 above.</p>
<p>4.3.5(b) For each legal entity that has requested that a DNSP provide access to information</p>			



<p>identified in clause 4.3.4(a), the DNSP's information register must:</p> <p>i. identify the kind of information requested by the legal entity; and</p> <p>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>			
<p>4.3.5(c) A legal entity may request that the DNSP include it on the information register in relation to some or all of the kinds of information that the DNSP is required to provide under clause 4.3.4(a), and the DNSP must comply with that request.</p>			
<p>Service Providers</p>			
<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</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. 	<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>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"> • Obtained a list of active procurement contracts for the regulatory period and enquired of management as to the nature of the services provided, noting none related to contestable services. 	
<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>	<ul style="list-style-type: none"> • Training and awareness. 	<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, 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. • Inspected an extract of the training attendance and completion records for the audit period to determine whether staff participated in compliance training, including those individuals with outstanding training requirements as at the end of the prior reporting period and a sample of new starters within the current period. • 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 enquired of management as to the nature of the services provided, noting none related to 	<p>Training and awareness:</p> <p>We have made some performance improvement recommendations in respect of the training program. Refer to Appendix B (PIO 1).</p>



		<p>contestable services.</p> <ul style="list-style-type: none"> 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 July 2020 to 2 February 2022. 	
Waivers register			
<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>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; 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. 	<ul style="list-style-type: none"> Waiver register established and updated. 	<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 application within the regulatory compliance period to sight approval by the AER in relation to clauses 4.2.1, 4.2.2, 4.2.3 and 4.2.4 of the Ring-fencing Guideline until 30 June 2024 to provide training courses to Accredited Service Providers. 	None.
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. 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>	<ul style="list-style-type: none"> • Policies and Procedures - CEOP2477, CEOP2480 & CEOP2476. • Quarterly compliance reporting of information relating to registers and breaches. • Strategic approach to Ring-fencing compliance. 	<ul style="list-style-type: none"> • Inspected Essential Energy's Ring-fencing Guideline Compliance Plan July 2017 (strategic approach to Ring-fencing compliance) to determine whether Essential Energy's approach aligns to the services the DNSP is limited to provide. • 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 supporting company policies and procedures to assess whether these clearly articulate Essential Energy's approach to compliance with the obligations outlined in the guideline. • 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 July 2020 to 2 February 2022 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>None.</p>
<p>Compliance Reporting</p>			
<p>6.2.1 a) A DNSP must prepare an annual Ring-fencing compliance report each regulatory year in</p>	<ul style="list-style-type: none"> • Ring-fencing Compliance Report for the period 1 July 2020 to 2 February 2022; and 	<ul style="list-style-type: none"> • Inspected Essential Energy's Compliance Report for the period 1 July 2020 to 2 February 2022 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). 	<p>Breach identified and reported by Essential Energy to the AER: Refer to our observations under 4.2.1(a) above.</p>



<p>accordance with this clause 6.2.1, and submit it to the AER in accordance with clause 6.2.2.</p> <p>b) The annual compliance report must identify and describe, in respect of the regulatory year to which the report relates:</p> <p>i. the measures the DNSP has taken to ensure compliance with its obligations under this Guideline;</p> <p>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>c) The annual compliance report must be accompanied by an assessment of compliance by a suitably qualified independent authority.</p>	<ul style="list-style-type: none"> • Quarterly compliance reporting of information relating to registers and breaches. 	<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 July 2020 to 2 February 2022 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. 	
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<p>d) Annual compliance reports may be made publicly available by the AER.</p>			
<p>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>	<ul style="list-style-type: none"> • Breach management process and register. • Quarterly compliance reporting of information relating to registers and breaches. 	<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 material breach and managers are educated on assessing breaches and notifying the AER with 5 days. • Inspected the breach register and checked that the breach notification occurred within the prescribed timeframe (5 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 July 2020 to 2 February 2022 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>Breach identified and reported by Essential Energy to the AER:</p> <p>Refer to our observations under 4.2.1(a) above.</p>
<p>7.1. 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</p>	<ul style="list-style-type: none"> • Essential Energy’s Ring-fencing compliance plan • Confirm service 	<ul style="list-style-type: none"> • Inspected Essential Energy’s Ring-fencing Guideline Compliance Plan July 2017 (strategic approach to Ring-fencing compliance) to determine whether Essential Energy’s approach aligns to the services the DNSP is 	<p>None.</p>



<p>as soon as reasonably practicable, having regard to the likely costs of having to fully comply with those obligations any sooner but, in any event, must fully comply with those obligations by no later than 1 January 2018;</p> <p>b) where a distribution determination applicable to a DNSP results in a change in the classification of a distribution service provided by the DNSP, and that change puts the DNSP in breach of an obligation under this Guideline, the DNSP must comply with that obligation within 12 months of the commencement date of the distribution determination.</p>	<p>classification</p> <ul style="list-style-type: none"> • Quarterly compliance reporting of information relating to registers and breaches. 	<p>limited to provide.</p> <ul style="list-style-type: none"> • 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 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 July 2020 to 2 February 2022 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. 	
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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 July 2020 to 2 February 2022. 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.

Ref	Recommendation	Management’s response
<p>PIO 1</p>	<p>Continuous uplift of training allocations, materials, and monitoring</p> <p>Essential Energy should consider taking a targeted, risk-based approach to assigning training modules tailored to employee roles. The criteria for determining which staff should be assigned Ring-fencing training should be documented in a policy, procedure, or process document.</p> <p>In addition, we recommend training materials are updated to include practical examples and scenario-based learnings leveraging:</p> <ul style="list-style-type: none"> • Detailed content from field staff training around how to log potential breaches and • Frequently asked questions asked by staff. <p>Finally, as a result of the transition of learning systems from EKAS to Oracle Learning Cloud in the current period, there is an opportunity to improve data management and reporting of Ring-fencing training completion by developing a standardised process and/or naming convention for tagging and tracking Ring-fencing modules in the Oracle Learning Cloud system. In addition, the Recordkeeping of Employee Learning Records Support Guide should be updated to reflect the transition to the Oracle Learning Cloud system.</p>	<p>Essential Energy will consider these recommendations and look to implement the improvements in line with other business priorities and resource availability.</p>
<p>PIO 2</p>	<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 at a principle level, the document should be updated to reflect the use of the Oracle accounting system and be made specific to</p>	<p>The CAM document will be reviewed and updated where required to reflect the transition to Oracle ERP.</p> <p>In line with the identification and resolution of ERP data, the intent is to move to utilisation of actual data for calculation of CAM allocators from the month ending 31 May 2022.</p>



Ref	Recommendation	Management's response
	<p>post-ERP implementation process controls.</p> <p>In addition, as a result of the implementation of the new ERP system in August 2021 and change management activities being undertaken by the business since, at the time of this report, overhead costs are being allocated to distribution and non-distribution services based on budgeted percentages as opposed to actual direct cost percentage allocators.</p> <p>We recommend management establish processes and monitoring activities in advance of the 30 June 2022 regulatory year end to ensure that the CAM is being applied as intended through the new ERP system and based on actual results for the year ending 30 June 2022.</p> <p>Furthermore, we recommend management consider documenting practical guidance on how the CAM procedures are expected to be applied, including impact assessments and escalation protocols of any changes to past practice that require consultation and reporting to the Compliance Team.</p>	<p>In addition, Management will review current process change practices for the CAM.</p>