



## Independent Reasonable Assurance Report to the Directors of Essential Energy

### Conclusion

In our opinion, Essential Energy's Statement of Compliance that the entity has complied with the Ring Fencing Guidelines published by the Australian Energy Regulator is, in all material respects, fairly presented for the six month period ended 30 June 2018.

### Other matter - Reissuance of reasonable assurance report

We note that this independent reasonable assurance report supersedes our previous independent reasonable assurance report to the directors of Essential Energy dated 5 November 2018 on the Statement of Compliance Report for the six month period ended 30 June 2018, signed and approved by the directors on 5 November 2018. Our conclusion is not modified in respect of this matter.

### Scope

The subject of our assurance engagement is whether Essential Energy's Statement of Compliance that the entity has complied with the Ring Fencing Guidelines published by the Australian Energy Regulator (AER) on 17 October 2017 (Ring Fencing Guidelines) is, in all material respects, fairly presented for the six month period ended 30 June 2018. This Statement of Compliance will accompany 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 judgement to plan our procedures and assess the risk of material misstatements in Essential Energy's Statement of Compliance;
- considered internal controls implemented to meet the compliance requirements of the Ring Fencing Guidelines; however, we do not express a conclusion on their effectiveness; and
- ensured that the engagement team possesses the appropriate knowledge, skills and professional competencies.



## Summary of Procedures Performed

In Appendix A, we have summarised each of the Ring-Fencing Guidelines, Essential Energy's response to the requirement and details of what procedures we have performed. Our conclusion is not modified in respect of these procedures performed.

## Other observations

Our observations on immaterial matters are set out in Appendix B below. Our conclusion is not modified in respect of these immaterial 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 compliance requirements of the Ring Fencing Guidelines.

## 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 six month period ended 30 June 2018 does not provide assurance on whether compliance with the compliance requirements of the Ring Fencing Guidelines 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 for the purpose of compliance with the Ring Fencing Guidelines and may not be suitable for another purpose.

The AER is responsible for the integrity of AER's website where our report is attached to the website version of the Statement of Compliance. We have not been engaged to report on the integrity of 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 this Statement of Compliance. If users of the Statement of Compliance are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the Statement of Compliance to confirm the information contained in this website version of the Statement of Compliance.

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



## Management's Responsibility

Management are responsible for:

- the compliance activities undertaken to meet the compliance requirements of the Ring Fencing Guidelines;
- identification of risks that threaten compliance with the Ring Fencing Guidelines identified above being met; and identifying, designing and implementing controls to enable compliance with the Ring Fencing Guidelines to be met; and monitoring ongoing compliance; and
- providing a Statement of Compliance with respect to the outcome of their evaluation of the compliance activity against the Ring Fencing Guidelines, which accompanies this independent assurance report.

KPMG

## Our Responsibility

Our responsibility is to perform a reasonable assurance engagement in relation to Essential Energy's Statement of Compliance with the Ring Fencing Guidelines for the six month period ended 30 June 2018 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* 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.

D N Ridehalgh

Partner

Sydney

31 January 2019



## Appendix A – Summary of procedures performed

In this section, we present additional details on our procedures performed on Essential Energy’s compliance activities with the relevant requirements of the Ring Fencing Guidelines for the six month period ended 30 June 2018. This information has been provided in accordance with the requirements 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	Compliance requirement	Essential Energy Compliance Response	Procedures Performed	Exceptions
3.1(a)	A DNSP must be a legal entity.	<p>Essential Energy is a New South Wales statutory State Owned Corporation under the State Owned Corporations Act 1989.</p> <p>This establishes EE as a legal entity and is consistent with ring-fencing obligations in clause 3.1(a) of the guidelines.</p> <p><b>Strategic approach to ring fencing guidelines</b></p> <p>EE has adopted the strategic approach to ring-fencing compliance by withdrawing from the provision of Other Services, including Contestable Electricity Services, except in limited circumstances where:</p> <ul style="list-style-type: none"> <li>- The competitive market is not able to provide the service at reasonable cost and quality; and</li> <li>- A waiver from the AER has been granted EE to provide the other service or a regional office exemption exists.</li> </ul> <p><b>Waivers and Waiver Register</b></p> <p>EE has identified Other Services that it should provide for the benefit of its customers due to:</p> <ul style="list-style-type: none"> <li>- A lack of a competitive market to provide those services, and</li> <li>- Whether an exemption applies (e.g. a regional office exemption).</li> </ul> <p>Where exemptions do not apply, EE will apply for a waiver from the AER in order to provide Other Services and maintain compliance with the guideline.</p>	We performed an ABN search noting Essential Energy is a New South Wales statutory State Owned Corporation.	N/a
3.1(b)	A DNSP may provide distribution services and transmission services, but must not provide other services.		<p>We obtained and inspected internal documents noting EE’s strategic approach to ring-fencing compliance.</p> <p>We obtained and inspected copies of waivers in operation during the compliance period and considered EE’s processes and procedures in place for compliance with the guideline.</p> <p>We also obtained a copy of the waiver register, which is available on EE’s external website. The register was then considered for completeness and accuracy with no issues noted.</p>	N/a

Ref	Compliance requirement	Essential Energy Compliance Response	Procedures Performed	Exceptions
		<p><b>Approval of New Services</b> EE has an Innovation team who look at new services. Part of their process during the feasibility stage is to engage the Compliance Reporting Team to explore any regulatory issues, including ring-fencing, that need to be considered if the new service is to be adopted. During the compliance period, this process was informal in nature however has now been formalised.</p> <p><b>Training and Awareness</b> All staff are required to undergo training on EE's ring-fencing obligations. Training is targeted at three groups depending on their role.</p> <p>EE introduced ring-fencing training to new staff as part of their induction process into EE in October 2018, and periodic refresher training will also be introduced to maintain the required awareness and knowledge among staff.</p> <p>The initial training was delivered to employees February to April 2018. A gap analysis was performed in October to identify new employees who had not completed the ring-fencing training. These employees were then enrolled to complete the ring-fencing training in EE's online training system.</p> <p>Completion of training during the original rollout was reviewed in July 2018. Ring-fencing training is also being included as part of the induction training package for new employees.</p> <p><b>Quarterly Compliance Reporting</b> The Compliance Reporting Team requests quarterly information from business managers on their activities, which covers required changes to registers and breaches of the guidelines. This assists in detecting breaches by drawing upon business manager's knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches. For the 2017/18 compliance period, the business was requested to provide this information once which covered the period 1 January to 30 June 2018. This will be requested on a quarterly basis going forward.</p>	<p>We considered the process that is undertaken by EE to approve new services.</p> <p>We inspected the Ring Fencing training materials and checked that they accurately describe EE's obligation to not provide other services.</p> <p>We checked training completion records for the period from 1 January to 30 June 2018.</p> <p>We obtained copies of the compliance reporting performed for the period from 1 January to 30 June 2018.</p>	<p>Refer to Point 1 in Appendix B for detailed observation in regards to this procedure</p> <p>Refer to Point 2 in Appendix B for detailed observation in regards to this procedure</p> <p>N/a</p>



Ref	Compliance requirement	Essential Energy Compliance Response	Procedures Performed	Exceptions
		<p><b>Financial Results Review</b> Financial results are reviewed by management and the Finance Team monthly, including revenue results and variances from expected or budgeted outcomes. This can assist in detecting breaches where revenues are unexplained or vary significantly from what is expected.</p>	<p>We obtained and considered copies of management's review of the April, May and June financial results.</p>	<p>N/a</p>
3.2.1(a)	<p>A DNSP must establish and maintain appropriate internal accounting procedures to ensure that it can demonstrate the extent and nature of transactions between the DNSP and its affiliated entities.</p>	<p><b>Strategic approach to ring fencing guidelines</b> EE has adopted the strategic approach to ring-fencing compliance by withdrawing from the provision of Other Services, including Contestable Electricity Services, except in limited circumstances where:</p> <ul style="list-style-type: none"> <li>- The competitive market is not able to provide the service at reasonable cost and quality; and</li> <li>- A waiver from the AER has been granted to EE to provide the other service or a regional office exemption exists.</li> </ul> <p><b>Financial Results Review</b> Financial results are reviewed by management and the Finance Team monthly, including revenue results and variances from expected or budgeted outcomes. This can assist in detecting breaches where revenues are unexplained or vary significantly from what is expected.</p>	<p>We obtained and inspected internal documents noting EE's strategic approach to ring-fencing compliance.</p> <p>We obtained and considered copies of management's review of the April, May and June financial results.</p>	<p>N/a</p>
3.2.2	<p>DNSP must:</p> <p>(a) Allocate or attribute costs to distribution services in a manner that is consistent with the Cost Allocation Principles and its approved CAM, as if the Cost Allocation Principles and CAM otherwise applied to the allocation and attribution of costs between distribution services and non-distribution services.</p> <p>(b) Only allocate or attribute costs to distribution services in accordance with clause 3.2.2(a), and must not allocate or attribute other costs to the distribution services it provides.</p>	<p><b>Accounting codes for distribution and non-distribution services</b> EE maintains a chart of accounts in its accounting system that distinguishes distribution and non-distribution services based on the business unit those services are provided by. This prevents confusing transactions between distribution and non-distribution services when the Finance Team attributes expenditure and revenue to various accounts.</p> <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>We have obtained and considered EE'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.</p> <p>We also considered the process that is undertaken by the Finance Team to attribute costs and checked it is in line with the CAM. A sample of 40 projects was selected for testing</p>	<p>N/a</p>

Ref	Compliance requirement	Essential Energy Compliance Response	Procedures Performed	Exceptions
	<p>(c) Establish, maintain and keep records that demonstrate how it meets the obligations in clauses 3.2.2(a) and 3.2.2(b).</p>	<p><b>Reviewing and maintaining accounting records</b> 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> <p>There were instances where EE performed unclassified services, e.g. minor defect rectification to restore customer supply, and incurred these costs as standard control. These services were performed under the Provider of Last Resort waiver and are also proposed to be reclassified as standard control in the next regulatory period.</p> <p><b>Financial results review</b> EE maintains and applies its current CAM so that costs are allocated to non-distribution services (e.g. Essential Water) in accordance with the CAM.</p> <p>Management accounts are reviewed on a monthly basis by managers and variances from expectations investigated. This process can assist in detecting allocation of expenditure and revenues that are inconsistent with the CAM.</p>	<p>attribution of related costs in accordance with the CAM.</p> <p>The Finance Team keeps records of how the costs have been allocated in the underlying system. These records for the Regulatory Information Notice (RIN) which is subject to assurance by KPMG on an annual basis. This includes consideration of the CAM.</p> <p>N/a</p>	
4.1(b)	<p>A DNSP must not discriminate (either directly or indirectly) between a related electricity service provider and a competitor (or potential competitor) of a related electricity service provider in connection with the provision of:</p> <ul style="list-style-type: none"> <li>i) Direct control services by the DNSP (whether to itself or to any other legal entity); and / or</li> <li>ii) Contestable electricity services by any other legal entity.</li> </ul> <p>Without limiting its scope, clause 4.1(b) requires a DNSP to:</p>	<p><b>Strategic approach to ring fencing guidelines</b> EE has adopted the strategic approach to ring-fencing compliance by withdrawing from the provision of Other Services, including Contestable Electricity Services, except in limited circumstances where:</p> <ul style="list-style-type: none"> <li>- The competitive market is not able to provide the service at reasonable cost and quality; and</li> <li>- A waiver from the AER has been granted to EE to provide the other service or a regional office exemption exists.</li> </ul> <p><b>Training and awareness</b> As noted previously, all staff are required to undergo training on EE' 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</p>	<p>We obtained and inspected internal documents noting EE's strategic approach to ring-fencing compliance.</p> <p>N/a</p>	<p>N/a</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</li> </ul>		<p>We inspected the Ring Fencing training materials and checked that they accurately describe EE's obligation not to discriminate.</p>	<p>Refer to Point 2 in Appendix B for detailed observation in regards to this procedure</p>



Ref	Compliance requirement	Essential Energy Compliance Response	Procedures Performed	Exceptions
	<p>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 service provider and a competitor (or potential competitor) of the related electricity service provider;</p> <p>iv) subject to clause 4.3(b), not disclose to a related electricity service provider information the DNSP has obtained through its dealings with a competitor (or potential competitor) of the related electricity service provider where the disclosure would, or would be likely to, provide an advantage to the related electricity service provider.</p>	<p>service are provided with training that includes obligations to not discriminate.</p> <p>Training is delivered via EE's online training system and completion by staff is recorded and monitored.</p> <p>The initial training was delivered to employees February to April 2018. A gap analysis was performed in October to identify new employees who had not completed to the ring-fencing training. These employees were then enrolled to complete the ring-fencing training in EE's online training system.</p> <p><b>Quarterly Reporting</b> The Compliance Reporting Team requests quarterly information from business managers on their activities, which covers required changes to registers and breaches of the guidelines. This assists in detecting breaches by drawing upon business manager's knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches. For the 2017/18 compliance period, the business was requested to provide this information once which covered the period 1 January to 30 June 2018. This will be requested on a quarterly basis going forward.</p>	<p>We checked training completion records for the period from 1 January to 30 June 2018.</p> <p>We obtained copies of the compliance reporting performed for the period from 1 January to 30 June 2018.</p>	<p>N/a</p>
4.2.1(a)	<p>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> EE has adopted the strategic approach to ring-fencing compliance by withdrawing from the provision of Other Services, including Contestable Electricity Services, except in limited circumstances where:</p> <ul style="list-style-type: none"> <li>- The competitive market is not able to provide the service at reasonable cost and quality; and</li> <li>- A waiver from the AER has been granted to EE to provide the other service or a regional office exemption exists.</li> </ul> <p><b>Quarterly Reporting</b> The Compliance Reporting Team requests quarterly information from business managers on their activities, which covers required changes to registers and breaches of the guidelines. This assists in detecting breaches by drawing upon business manager's knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches.</p>	<p>We obtained and inspected internal documents noting EE's strategic approach to ring-fencing compliance.</p> <p>We obtained copies of the compliance reporting performed for the period from 1 January to 30 June 2018.</p>	<p>N/a</p> <p>N/a</p>



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		<p>For the 2017/18 compliance period, the business was requested to provide this information once which covered the period 1 January to 30 June 2018. This will be requested on a quarterly basis going forward.</p> <p><b>Regional office register</b> EE 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.</p> <p>This register is checked and updated by the Compliance Reporting Team on a yearly basis. The initial register was created to meet the 1 January 2018 compliance date and due to the low likelihood of any change was not reviewed during the compliance period, going forward it will be reviewed on a yearly basis.</p>	<p>We have considered the process undertaken by EE in determining which offices qualify for a regional office exemption.</p> <p>We also obtained a copy of the regional office register, which is available on EE's external website. The register was then considered for completeness and accuracy with no issues noted.</p>	<p>Refer to Point 3 in Appendix B for detailed observation in regards to this procedure</p>
4.2.2(a)	<p>A DNSP must ensure: (a) that its staff involved in the provision or marketing of direct control services are not also involved in the provision or marketing of contestable electricity services by a related electricity service provider.</p>	<p><b>Strategic approach to ring-fencing compliance</b> EE has adopted the strategic approach to ring-fencing compliance by withdrawing from the provision of Other Services, including Contestable Electricity Services, except in limited circumstances where:</p> <ul style="list-style-type: none"> <li>- The competitive market is not able to provide the service at reasonable cost and quality; and</li> <li>- A waiver from the AER has been granted to EE to provide the other service or a regional office exemption exists.</li> </ul> <p><b>Quarterly Reporting</b> The Compliance Reporting Team requests quarterly information from business managers on their activities, which covers required changes to registers and breaches of the guidelines. This assists in detecting breaches by drawing upon business manager's knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches. For the 2017/18 compliance period, the business was requested to provide this information once which covered the period 1 January to 30 June 2018. This will be requested on a quarterly basis going forward.</p> <p><b>Staff sharing register</b> EE 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.</p>	<p>We obtained and inspected internal documents noting EE's strategic approach to ring-fencing compliance.</p> <p>We obtained copies of the compliance reporting performed for the period from 1 January to 30 June 2018.</p>	<p>N/a</p> <p>N/a</p>
			<p>We have considered the process undertaken by EE in determining what staff can be shared.</p>	<p>Refer to Point 3 in Appendix B for detailed observation</p>

Ref	Compliance requirement	Essential Energy Compliance Response	Procedures Performed	Exceptions
		<p>This register is checked and updated by the Compliance Reporting Team on a yearly basis. The initial register was created to meet the 1 January 2018 compliance date and due to the low likelihood of any change was not reviewed during the compliance period, going forward it will be reviewed on a yearly basis.</p>	<p>We also obtained a copy of the staff sharing register, which is available on EE's external website. The register was then considered for completeness and accuracy with no issues noted.</p>	<p>in regards to this procedure</p>
4.2.(c)	<p>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 obligation under this Guideline.</p>	<p>EE 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>We considered whether any remuneration, incentives or other benefits or KPIs existed which would be contrary to the DNSP's obligations.</p>	<p>N/a</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, 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 services provided by a related electricity service provider.</li> </ul>	<p><b>Strategic approach to ring-fencing compliance</b> EE has adopted the strategic approach to ring-fencing compliance by withdrawing from the provision of Other Services, including Contestable Electricity Services, except in limited circumstances where:</p> <ul style="list-style-type: none"> <li>- The competitive market is not able to provide the service at reasonable cost and quality; and</li> <li>- A waiver from the AER has been granted to EE to provide the other service or a regional office exemption exists.</li> </ul> <p><b>Regional office analysis</b> EE has undertaken an analysis of its regional offices to determine whether each office qualifies for the regional office exemption, which would allow shared branding and promotion without breaching the guidelines. This analysis was undertaken as part of the ring-fencing compliance implementation process and informs the regional office register.</p> <p>EE intends the Compliance Reporting Team to undertake this analysis on an annual basis to ensure the regional office register is accurate and up to date.</p> <p><b>Regional office register</b> EE maintains a regional office register that is used by business units as a reference for offices that qualify for the regional office exemption and assists with complying with clause 4.2.3(a) of the guideline. This register is checked and updated by the Compliance Reporting Team on a yearly basis.</p>	<p>We obtained and inspected internal documents noting EE's strategic approach to ring-fencing compliance.</p> <p>We have considered the process undertaken by EE in determining which offices qualify for a regional office exemption.</p> <p>We also obtained a copy of the regional office register, which is available on EE's external website. The register was then considered for completeness and accuracy with no issues noted.</p>	<p>N/a</p> <p>Refer to Point 3 in Appendix B for detailed observation in regards to this procedure</p>



Ref	Compliance requirement	Essential Energy Compliance Response	Procedures Performed	Exceptions
	<p><b>Quarterly Reporting</b> The Compliance Reporting Team requests quarterly information from business managers on their activities, which covers required changes to registers and breaches of the guidelines. This assists in detecting breaches by drawing upon business manager's knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches. For the 2017/18 compliance period, the business was requested to provide this information once which covered the period 1 January to 30 June 2018. This will be requested on a quarterly basis going forward.</p>	<p><b>Quarterly Reporting</b> The Compliance Reporting Team requests quarterly information from business managers on their activities, which covers required changes to registers and breaches of the guidelines. This assists in detecting breaches by drawing upon business manager's knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches. For the 2017/18 compliance period, the business was requested to provide this information once which covered the period 1 January to 30 June 2018. This will be requested on a quarterly basis going forward.</p>	<p>We obtained copies of the compliance reporting performed for the period from 1 January to 30 June 2018.</p>	<p>N/a</p>
4.2.4	<p>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)(ii); 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), 4.2.2(b)(iii) or 4.2.2(d); and must make the register publicly available on its website.</li> </ul>	<p><b>Regional office and staff registers</b> The Compliance Reporting Team at EE 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>We have considered the process undertaken by EE in determining which offices qualify for a regional office exemption and which staff can be shared.</p> <p>We also obtained a copy of the regional office and staff sharing registers, which are available on EE's external website. These registers were then considered for completeness and accuracy with no issues noted.</p>	<p>N/a</p>
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> <li>(b) Only use confidential information for the purpose for which it was acquired or generated.</li> </ul>	<p><b>Quarterly Reporting</b> The Compliance Reporting Team requests quarterly information from business managers on their activities, which covers required changes to registers and breaches of the guidelines. This assists in detecting breaches by drawing upon business manager's knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches. For the 2017/18 compliance period, the business was requested to provide this information once which covered the period 1 January to 30 June 2018. This will be requested on a quarterly basis going forward.</p> <p><b>IT restrictions on information access</b> EE 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>	<p>We obtained copies of the compliance reporting performed for the period from 1 January to 30 June 2018.</p>	<p>N/a</p>



Ref	Compliance requirement	Essential Energy Compliance Response	Procedures Performed	Exceptions
		<p>These secured IT systems and access management ensures confidential information is kept confidential.</p> <p><b>Information sharing protocol</b> EE has established an information sharing protocol that sets out the process for sharing information with other entities, including ASPs and potential related electricity service providers. This protocol ensures that the use of confidential information is only for the purposes for which it was acquired or generated.</p> <p><b>Training and awareness</b> As noted previously, all staff are required to undergo training on EE's ring-fencing obligations. This includes training around confidential information.</p>	<p>We considered the information sharing protocol put in place by EE.</p> <p>We inspected the Ring Fencing training materials and checked that they accurately describe EE's obligations in regards to confidentiality.</p> <p>We checked training completion records for the period from 1 January to 30 June 2018.</p>	<p>N/a</p> <p>Refer to Point 2 in Appendix B for detailed observation in regards to this procedure</p>
4.3.3	<p>A DNSP must not disclose confidential information to any person, including a related electricity service provider, unless an exemption applies.</p>	<p><b>Information sharing protocol</b> EE 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> <ul style="list-style-type: none"> <li>- Confidential information is not disclosed inappropriately;</li> <li>- Confidential information is only used for the purpose for which it was acquired or generated; and</li> <li>- Confidential information, where disclosed to a related electricity service provider, is provided to other legal entities on an equal basis.</li> </ul>	<p>We considered the information sharing protocol put in place by EE.</p>	<p>N/a</p>
4.3.4	<p>(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</p>	<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 EE's website.</p>		



Ref	Compliance requirement	Essential Energy Compliance Response	Procedures Performed	Exceptions
	<p>entities, and must make that protocol publicly available on its website.</p> <p>(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><b>Training and awareness</b> As noted previously, all staff are required to undergo training on EE's ring-fencing obligations. This includes training around confidential information and its disclosure.</p>	<p>We inspected the Ring Fencing training materials and checked that they accurately describe EE's obligations in regards to confidentiality.</p> <p>We checked training completion records for the period from 1 January to 30 June 2018.</p>	<p>Refer to Point 2 in Appendix B for detailed observation in regards to this procedure</p>
4.3.5	<p>a) 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 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) For each legal entity that has requested that a DNSP provide access to information identified in clause 4.3.4(a), the DNSP's information register must:</p> <ul style="list-style-type: none"> <li>i. Identify the kind of information requested by the legal entity; and</li> <li>ii. Describe the kind of information requested by the legal entity in sufficient detail to enable other legal entities to make an informed decision about whether to request that kind of information from the DNSP.</li> </ul> <p>(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><b>Information register</b> EE 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 EE has received no information requests but has policies and procedures in place to address this requirement when it arises.</p>	<p>We considered the information sharing register and accessed EE's website to check it is publicly available.</p>	<p>N/a</p>



Ref	Compliance requirement	Essential Energy Compliance Response	Procedures Performed	Exceptions
4.4.1	<p>A DNSP:</p> <p>(a) must ensure that any new or varied agreement between the DNSP and a service provider for the provision of services to the DNSP requires the service provider to comply, in providing those services, with:</p> <ul style="list-style-type: none"> <li>iii. 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; as if the service provider was the DNSP.</li> </ul> <p>(b) 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>New terms and conditions for service providers</b>  A ring-fencing assessment process has been embedded within Procurement procedures and the Procurement Plan template. Guidance has been provided to employees in the Procurement procedure. A specific procurement awareness training session was held to build awareness and understanding.</p> <p>Where a ring-fencing impact is identified the Regulatory and Legal teams will be involved to ensure the correct clauses are included in the relevant contracts. EE's standard terms and conditions have also been updated to include ring-fencing considerations.</p> <p><b>Training and awareness</b>  All staff are required to undergo training on EE's ring-fencing obligations, as noted above. This includes the requirement around incentives to consistent with EE's obligations under clause 4 of the Guideline.</p>	<p>We obtained copies of the procurement procedures, procurement plan template and updated standard terms and conditions and checked the relevant requirements have been included.</p> <p>We inspected the Ring Fencing training materials and checked that they accurately describe EE's obligations in regards to engaging with service providers.</p> <p>We checked training completion records for the period from 1 January to 30 June 2018.</p>	<p>N/a</p> <p>Refer to Point 2 in Appendix B for detailed observation in regards to this procedure</p>
5.7	<p>(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"> <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>	<p><b>Waiver register establishment and update</b>  EE has created a Waiver Register, which is published on EE 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 EE by the Compliance Reporting Team.</p>	<p>We accessed EE's external website and sighted that the waiver register was publically available.</p> <p>The register was then considered as to whether all appropriate detail was included, with no exceptions being noted.</p>	<p>N/a</p>
6.1	<p>A DNSP must establish and maintain appropriate internal procedures to ensure it complies with its obligations under this Guideline.</p>	<p><b>Policies and Procedures</b>  EE has the following policies and procedures in place that guides its internal compliance procedures. It is also imbedded in the training provided to employees:</p>	<p>We considered the policies and processes in place to achieve compliance for the period from 1 January to 30 June 2018.</p>	<p>N/a</p>

Ref	Compliance requirement	Essential Energy Compliance Response	Procedures Performed	Exceptions
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> </ol>	<ul style="list-style-type: none"> <li>- Ring-Fencing Policy – CCEP2476. This policy applies to all EE employees, contractors and service providers and outlines EE’s approach to compliance with the obligations outlined in the Ring-Fencing Guideline.</li> <li>- Ring-Fencing Procedure - CCEP2477. This document provides guidance to EE employees on how to adhere to the Ring-Fencing Policy</li> <li>- Ring-Fencing Compliance Monitoring and Reporting - CCEP2480. This document outlines the processes for undertaking breach management and reporting and preparing the annual compliance report.</li> </ul> <p><b>Quarterly Reporting</b> The Compliance Reporting Team requests quarterly information from business managers on their activities, which covers required changes to registers and breaches of the guidelines. This assists in detecting breaches by drawing upon business manager’s knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches. For the 2017/18 compliance period, the business was requested to provide this information once which covered the period 1 January to 30 June 2018. This will be requested on a quarterly basis going forward.</p> <p><b>Strategic approach to ring-fencing compliance</b> EE has adopted the strategic approach to ring-fencing compliance by withdrawing from the provision of Other Services, including Contestable Electricity Services, except in limited circumstances where:</p> <ul style="list-style-type: none"> <li>- The competitive market is not able to provide the service at reasonable cost and quality; and</li> <li>- A waiver from the AER has been granted to EE to provide the other service or a regional office exemption exists.</li> </ul> <p><b>Ring-fencing Compliance Report</b> EE has prepared a Ring-fencing Compliance Report to comply with clause 6.2.1. The Ring-fencing Compliance Report is compiled by the Compliance Reporting Team, based upon results from reporting that covered the period 1 January to 30 June 2018 where information was requested from business managers on their activities, which covers any required changes to registers and breaches of the guidelines. The Quarterly Reporting process will be used for this process for future compliance periods. The compliance report will be submitted to the AER.</p>	<p>We have examined the quarterly reporting and supporting information performed by EE as at 30 June 2018.</p> <p>N/a</p> <p>We obtained and inspected internal documents noting EE’s strategic approach to ring-fencing compliance.</p> <p>N/a</p> <p>As part of preparing this report, we have considered the ring-fencing compliance report prepared by Essential Energy for the period ended 30 June 2018. We have prepared this report as an independent reasonable assurance report.</p> <p>N/a</p>	



Ref	Compliance requirement	Essential Energy Compliance Response	Procedures Performed	Exceptions
	<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>	<p><b>Quarterly Reporting</b> The Compliance Reporting Team requests quarterly information from business managers on their activities, which covers required changes to registers and breaches of the guidelines. This assists in detecting breaches by drawing upon business manager's knowledge of their operations and requiring them to confirm compliance with the guidelines or report any breaches. For the 2017/18 compliance period, the business was requested to provide this information once which covered the period 1 January to 30 June 2018. This will be requested on a quarterly basis going forward.</p> <p><b>Compliance Report Review</b> EE has engaged KPMG to undertake an assessment of compliance.</p>	<p>We obtained copies of the compliance reporting performed for the period from 1 January to 30 June 2018.</p>	<p>N/a</p>
6.2.2	<p>Subject to clause 6.2.2(b), a DNSP must submit its annual compliance report to the AER within four months of the end of the regulatory year to which the compliance report relates.</p>		<p>The original version of EE's Compliance Report and our report was dated 5 November 2018. EE engaged with the AER prior to 31 October 2018 to request a short extension in lodging its initial compliance report.</p> <p>At the request of the AER, our report was reissued to include further information regarding the procedures performed as detailed in Appendix A.</p>	<p>N/a</p>
6.3	<p>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.</p>	<p><b>Breach management process</b> EE has a breach management and reporting process in place based on the introduced National Energy Customer Framework regulatory changes. This process has been adjusted to be suitable for ring-fencing but ensures that material breaches are reported to the AER within five days. Requirements included within company policy and procedure documents.</p>	<p>We have considered the breach management and reporting policies and procedures.</p>	<p>N/a</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> EE implementation activities ensured compliance by 1 January 2018 except for services under the Provider of Last Resort waiver which were required to be compliant as soon as reasonably practical (i.e. on implementation of the Provider of Last Resort process).</p>	<p>We performed a gap analysis by matching the requirements of the Guidelines to EE's Compliance Report for missing disclosures and requirements not addressed by the waivers.</p>	<p>N/a</p>





Ref	Compliance requirement	Essential Energy Compliance Response	Procedures Performed	Exceptions
	<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>Confirm service classifications</b>            EE's next determination comes into effect from 1 July 2019. The business has been working with the AER to confirm service classifications, including seeking waivers where appropriate, so does not expect there to be anything that would make them non-compliant.</p>	<p>We held discussions with EE management regarding their engagement with the AER to confirm service classifications and seek waivers for future compliance periods.</p>	<p>N/a</p>



## Appendix B – Summary of observations of immaterial matters

In this section, we present additional details on our of immaterial matters in relation Essential Energy’s compliance activities with the relevant requirements of the Ring Fencing Guidelines for the six month period ended 30 June 2018. This information has been provided in accordance with the requirements 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.

	Observation	Recommendation	Management’s responses
1	<p>Whilst we understand that Essential Energy’s Innovation team engage with the Compliance Reporting Team during the assessment of the feasibility of new services to be offered by the Company, we did not identify any formal guidelines or policies in place for assessing regulatory issues, including ring fencing, prior to a new service being adopted.</p>	<p>We recommend management consider implementing a formal policy and set of procedures to assess the compliance of any new service offerings with the Ring Fencing Guidelines prior to the business case for the new service being approved.</p>	<p>The Innovation team has developed and implemented a concept brief process which requires the assessment of the concept to identify, among other things, any Regulatory risks and issues, including specific questions on Ring-fencing. The concept brief is the first step in the development process for new services and must be approved before a business case is developed.</p>
2	<p>Whilst we observed that the Essential Energy process for rolling out initial required training on the Ring Fencing Guidelines included a mechanism to track attendees, we did not identify any formal guidelines in place to address non-attendance.</p> <p>In addition, we observed that during the compliance period, the training program associated with the Ring Fencing Guidelines was not incorporated into the staff induction process and the process for rolling out refresher training to existing employees had not yet been finalised.</p>	<p>We recommend management develop and document specific policies and procedures to monitor training attendance and follow-up non-attendance.</p> <p>In addition, we recommend that management incorporate training on Ring Fencing Guidelines into the formal staff induction process and formalise a plan for ongoing refresher training for existing employees.</p>	<p>Essential Energy introduced ring-fencing training to new staff as part of their induction process into Essential Energy in October 2018, and periodic refresher training will also be introduced to maintain the required awareness and knowledge among staff.</p> <p>Initial Ring-fencing training was delivered to employees during January and February 2018. A gap analysis was performed in October 2018 to identify new employees who had not completed the ring-fencing training. These employees were then enrolled to complete the ring-fencing training in Essential Energy’s online training system (EKAS).</p> <p>Completion of training during the original rollout was reviewed in July 2018.</p> <p>Essential Energy’s EKAS system contains inbuilt attendance monitoring and escalation processes to ensure employees complete mandatory training.</p>



	Observation	Recommendation	Management's responses
<b>3</b>	We observed that there was no formal policy in place establishing the frequency of the required review and update to the regional office and staff sharing registers.	We recommend that management consider implementing a policy to review and update the regional office and staff sharing registers.	Essential Energy will implement an annual review of the regional office and staff sharing registers. An annual review is considered sufficient due to the low likelihood of any material change occurring that would affect these registers.

