



COMPLIANCE STATEMENT

September 2017

1.0 Introduction

Ring-fencing refers to the separation of monopoly services and contestable services where a regulated business also offers services into a competitive market.

The Australian Energy Regulator (AER) Ring-Fencing Guideline Electricity Distribution November 2016 (Guideline) is the first consistent cross-jurisdictional ring-fencing guideline. The Guideline has replaced ring-fencing arrangements under the Independent Pricing and Regulatory Tribunal.

The objective of the Guideline is to separate monopoly and contestable electricity services of Distribution Network Service Providers (DNSPs) to promote competition in the provision of electricity services and prevent:

- Cross subsidisation between monopoly services and other services
- Discrimination in favour of affiliated entities providing contestable electricity services.

The AER seeks to achieve this objective by requiring all DNSPs to separate legal, accounting and functional aspects of regulated distribution services from other services that may be provided currently or in the future.

The AER requires DNSPs to comply with the obligations contained within the Guideline as soon as reasonably practicable, with full compliance required no later than 1 January 2018.

This document sets out Endeavour Energy's approach to ring fencing prepared in response to the AER's Ring-Fencing Guideline.

1.1 About Endeavour Energy

The business and our predecessors have been supplying electricity for more than 100 years. We manage one of Australia's largest energy networks. Every day we distribute electricity to over 2.4 million people in households and businesses across 24,800 square kilometres of Sydney's Greater West, the Blue Mountains, Southern Highlands, the Illawarra and the South Coast.

Endeavour Energy is 50.4 percent owned by an Australian-led consortium of long-term investors in the private sector operating the network under a 99-year lease. The private sector consortium comprises Australia's Macquarie Infrastructure and Real Assets; AMP Capital on behalf of REST Industry Super; Canada's British Columbia Investment Management Corporation; and Qatar Investment Authority. The remaining 49.6 percent is held by the State of NSW via a corporation constituted under the *Electricity Retained Interest Corporations Act 2015*.

2.0 Approach to compliance

2.1 Overall approach to compliance

Endeavour Energy has developed its approach to compliance and implementation plan with a focus on achieving the objective of the Guideline by separating Endeavour's monopoly and contestable electricity services. Endeavour Energy's starting point was a top-down approach, to understand which of Endeavour Energy's services would need to be separated from Endeavour's core direct control services.

Endeavour Energy undertook a gap analysis for each service classification to determine the scope of compliance activity required for each ring fencing obligation. The outcomes of this gap analysis informed the development of the compliance approach. The gap analysis identified the core focus of the compliance approach would be to separate unregulated distribution services and other services from Endeavour's direct control services.

Endeavour Energy used a bottom up approach to develop the compliance approach, addressing each obligation individually across all impacted services. The compliance approach identifies the activities Endeavour Energy will undertake to implement the required changes to become compliant with the Guideline.

2.2 Implementation approach

Endeavour Energy's overarching approach to implementing the Guideline is to separate all unregulated distribution services and other services it provides into a new Affiliated Entity (AE), which will operate under a separate brand. The AE will be considered a related electricity service provider with respect to the Contestable Electricity Services (CES) it provides.

In connection with the provision of Direct Control Services (DCS), Endeavour Energy will treat the AE on an arms-length basis, on similar terms to other participants in the relevant markets. It will review, update and communicate policies and procedures prohibiting discrimination and enhance system and information access controls to prevent discrimination between an AE and other participants. These will build on existing policies and procedures in place to support the contestable works market in NSW and IPART Ring fencing requirements.

Endeavour Energy will continue to provide corporate and other permitted functions to the AE, however these functions will be provided on arm's length terms, via a Services Agreement. Endeavour Energy will also seek to share staff, property and offices where the Guideline allows such sharing.

Endeavour Energy intends to improve access to information for all market participants in the longer term. In the short-term, Endeavour Energy will transition the AE to information and access arrangements used currently by accredited service providers in NSW, and treat the new affiliated legal entity on an arms-length basis.

2.3 Potential waivers being considered

Endeavour Energy is currently seeking a waiver for its security lighting service and other services impacted by reclassification. The guideline requires this service to be separated from a network operator's business because of its current classification. However, Endeavour Energy anticipates that the classification of security lighting service is likely to change from 1 July 2019. If this happens, the guideline would no longer require this service to be separated from from a network operator's business.

In this case, Endeavour Energy considers application of the obligations in the AER's guideline could result in separation costs which would ultimately be unnecessary and may be passed on to consumers. The requested waiver would have the same effect as if the service was reclassified immediately, thereby avoiding potentially unnecessary costs.

Table 1 below provides a summary of Endeavour Energy's implementation approach for each of the guideline obligations.

Table 1 – Summary of Endeavour Energy’s implementation approach and compliance actions

Issue	Obligation	Endeavour Energy’s approach to compliance	Compliance will be measured by completing key actions
Cross-subsidies	Legal separation	We will only provide services associated with our role as a Distribution Network Services Provider when trading as Endeavour Energy	<ul style="list-style-type: none"> ✓ We will create a new AE to provide non distribution services under a new name ✓ We will implement employee transfer / secondments ✓ We will embed compliance control assessments into our policies and procedures
	Account separation & cost allocation	<p>Accounts – We will establish & maintain procedures that demonstrate the nature & extent of transactions with its affiliated entities</p> <p>Costs – We will not allocate or attribute costs to Distribution Services that relate to other services</p>	<ul style="list-style-type: none"> ✓ We will implement a logically separate region within the ERP system that provides separate accounting processes and data ✓ We will implement for the AE a new charge-out billing solution
Non-discrimination	Not discriminate	We will not directly or indirectly discriminate in favour of our affiliated entities.	<ul style="list-style-type: none"> ✓ We will educate our people to treat our affiliated entities on an arms-length basis, on similar terms to other participants in relevant markets
	No cross-promotion	We will not advertise or promote the services of our affiliated entities Brand – We will implement a branding solution for vehicles, shared staff, and public documents.	<ul style="list-style-type: none"> ✓ We will amend our Advertising and Promotional Materials policies and procedures to control promotion of AE services, and that this promotion is only conducted by direct employees of the AE ✓ We will communicate effectively with all impacted external stakeholders
	Functional separation	Physical separation – We will operate independent and separate offices to our affiliated entities	<ul style="list-style-type: none"> ✓ We will remove, for all employees dedicated to AE, unrestricted access to the head office location or any other area that is used by DNSP staff that cannot be shared
		Staff sharing – Staff directly involved in the provision or marketing of Direct Control Services with access to confidential information will not be involved in the provision or marketing of contestable services by our affiliated entities.	<ul style="list-style-type: none"> ✓ We will review staff that are shared on a periodic basis and update the Staff Sharing Register as required. Where staff cannot be shared, we will either review job descriptions to separate roles or discontinue certain activities.
	Information access & disclosure	Protection – We will protect confidential information provided by a customer or prospective customer for Direct Control Services and only use that information for the purpose it was provided	<ul style="list-style-type: none"> ✓ We will amend our Information Management policies to improve Confidential Information controls
		Sharing – where we acquire information for Direct Control Services and share it with an affiliated entity, we will provide equal access to others by establishing an information sharing protocol and register of information requests	<ul style="list-style-type: none"> ✓ We will establish, maintain and keep an information register of all legal entities that request access to Confidential Electricity Information and will make the register public
Disclosure – We will not disclose confidential information obtained in providing Direct Control Services to any party without the approval of the customer or potential customer to whom that information relates		<ul style="list-style-type: none"> ✓ We will modify our Information Systems to improve access controls to provide the AE with the same access as external parties in relevant markets whilst not compromising our obligations related to privacy and confidentiality 	

3.0 Implementation plan timeline

Endeavour Energy has prepared for internal use an implementation plan to allocate the compliance activities and actions identified for relevant business areas. Endeavour Energy will use this plan to track progress and report issues for decision marking. The Board shall provide oversight to Ring Fencing team and the application of Ring Fencing Guidelines.

In preparing for the end of the transitional period, Endeavour Energy shall:

- Create a legally separate AE, and confirm it operates functionally and physically separate from Endeavour Energy (i.e. ring fenced people, process and technology).
- Publish registers on our website (specifically Information, Office and Staff sharing registers) to make transparent the requests to access our services on an equal access basis.
- Prepare and deliver briefing materials for our staff and key stakeholders to assist them in understanding the changes associated with Ring-fencing.

In establishing the standalone AE, we shall conduct an independent review of the physical site and interfaces with Endeavour Energy systems to confirm the information flows operate as they do for our external parties (e.g. currently authorised Accredited Services Providers).

4.0 Cost considerations

Based on the activities outlined, Endeavour Energy does not expect that the estimated implementation costs will exceed the threshold for cost pass through.

Endeavour Energy also does not expect there to be material impacts on ongoing operational costs, either for the DNSP or the AE, based on the implementation approach outlined in this paper.

5.0 GLOSSARY

TERM	MEANING
AE	<ul style="list-style-type: none">• Affiliated Entity - in relation to a DNSP, it means a legal entity which Endeavour Energy holds a direct or indirect legal or equitable interest that provides contestable electricity services in certain markets.
CES	<ul style="list-style-type: none">• Contestable Electricity Services – services classified by the AER as other distribution services or other electricity services.
DCS	<ul style="list-style-type: none">• Direct Control Services. A classification applied to regulated distribution services
Confidential Electricity Information	<ul style="list-style-type: none">• Confidential Electricity Information means information about electricity networks, electricity customers or electricity services, (other than aggregated financial information; or other service performance information) that identify customer or class of customer acquired whilst providing DCS.
Information Sharing Protocol	<ul style="list-style-type: none">• Information Sharing Protocol (Protocol) covers the sharing on an equal basis of person-identifiable confidential data, with the individual's express consent, unless a legal or statutory requirement applies. The Protocol will be underpinned by service specific operational agreements that are designed to meet the specific data sharing needs of that entity.