

AusNet

Electricity Distribution Ring-fencing Guideline

2023 Annual Compliance Report

Tuesday, 30 April 2024



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1. Executive Summary

This document is AusNet Electricity Services Pty Ltd's (**AusNet** or **DNSP**) Annual Compliance Report (**Report**) as per the reporting requirements outlined in the Australian Energy Regulator's (**AER**) Ring-fencing Guideline for Electricity Distribution (**Guideline**). In this report, a reference to AusNet is a reference to the DNSP and its related bodies corporate.

As per reporting requirements in the Guideline, this report has been assessed by an independent authority, Ernst & Young (**EY**). A copy of their Assessment of Compliance accompanies this document.

This Report contains detail on the four (4) reporting requirements as per the reporting obligation in the Guideline. Table 1 summarises the compliance outcome of these requirements and any related findings or recommendation provided by EY through their independent assessment.

REPORT REQUIREMENTS	AUSNET'S ASSESSMENT
Measures to ensure compliance	<p>Compliance to the guideline is supported by an online training module that all employees are required to complete and an intranet page that provides additional practical information regarding adherence to ring-fencing requirements. These serve as foundational measures to foster a strong ring-fencing compliance culture.</p> <p>This is further supported by periodic completion of 'compliance tasks' related to the obligations in the Guideline in AusNet Services' Compliance Management System (CMS) by obligation owners.</p>
Breaches of the Guideline	<p>A breach management process exists to manage and treat potential or actual breaches.</p> <p>No breaches of the guideline were identified or reported during 2023.</p>
Other services provided	<p>AusNet does not deliver other services, except to the extent permitted under clause 3 of the Guideline or under and in accordance with Waivers granted under the Guideline.</p>
Purpose of transactions between DNSP and affiliated entities	<p>Data produced and verified by the finance team satisfies that AusNet Services has applied its Cost Allocation Methodology (CAM) to prevent cross-subsidies.</p>

Table 1: Reporting requirements summary

2. Background Information

2.1. The Guideline's purpose

The Australian Energy Regulator's (**AER**) Ring-fencing Guideline (**Guideline**) for Electricity Distribution aims to:

- promote the National Electricity Objective by providing for the accounting and functional separation of the provision of direct control services by DNSPs from the provision of other services by them, or by their affiliated entities (i.e., prevent cross-subsidisation and discrimination); and
- promote competition in the provision of contestable electricity services.

The Guideline became effective in December 2016. A transition period applied for "existing services" and DNSPs were required to comply as soon as reasonably practical and no later than 1 January 2018. In 2018, AusNet submitted its first compliance report based on the transitional period and was found to be compliant with the requirements of the Guideline.

Version 3 of the Guideline was published by the AER on 3 November 2021 and came into effect on 3 February 2022.

2.2. Purpose of this report

This report delivers AusNet's Annual Ring-fencing Compliance Report for 2023 as per Clause 6.2.1 of the Guideline.

This is AusNet's 6th annual compliance report submitted under the Guideline.

Clause 6.1 of the Guideline requires that AusNet must establish and maintain appropriate internal procedures to ensure it complies with its obligations under the Guideline. Additionally, AusNet may be required to demonstrate the adequacy of these procedures.

The report has been structured in line with the reporting obligation and identifies and describes for the 2023 calendar year:

1. the measures the DNSP has taken to ensure compliance with its obligations under this Guideline (see section 4.1);
2. any breaches of this Guideline by the DNSP, or which otherwise relate to the DNSP (see section 4.3);
3. all other services provided by the DNSP in accordance with clause 3.1 (see section 4.4); and
4. the purpose of all transactions between the DNSP and an affiliated entity (see section 4.5).

The Assessment of Compliance by a suitably qualified independent authority (Ernst & Young) accompanies this report.

3. About AusNet Services

3.1. Overview

AusNet Services owns and operates the primary Victorian electricity transmission network, one of five electricity distribution networks, and one of three gas distribution networks in Victoria. These are all regulated assets.

In terms of Electricity Distribution Networks, AusNet owns and operates the poles and wires that supply electricity to more than 834,648 customers in Melbourne's north, east and across eastern Victoria. (Refer to **Figure 1**).

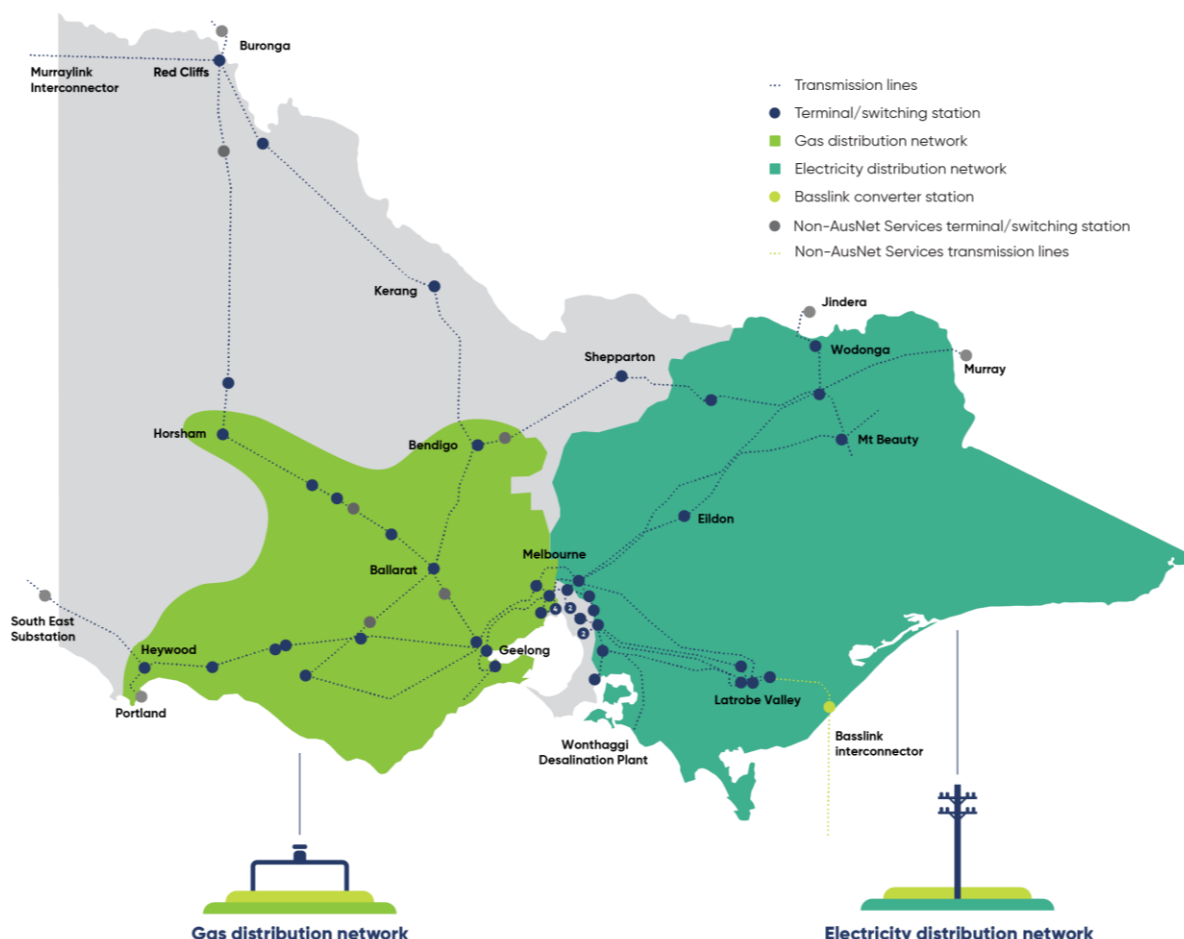


Figure 1: AusNet electricity and gas networks

The contestable electricity services business of AusNet is primarily conducted by Mondo Power Pty Ltd, (ABN 73 097 962 395) under the brand 'Mondo'.

Services provided by Mondo include metering, asset intelligence, telecommunication solutions and advanced energy management solutions that enable community energy hubs and solar mini grids.

3.2. Corporate Ownership and Structure

Effective 16 February 2022, AusNet Services Ltd was acquired via a Scheme of Arrangement by Australian Energy Holdings No 4 Pty Ltd, a company controlled by Brookfield Asset Management, and was delisted from the Australian Stock Exchange with effect from 17 February 2022.

Prior to the Brookfield acquisition, AusNet Services Ltd, the head company of AusNet Services, was approximately 32 per cent owned by Singapore Power, approximately 20 per cent owned by State Grid of China and about 48 per cent broadly publicly owned and was publicly listed on the Australian Securities Exchange (ASX) under code AST.

AusNet's business structure includes functional business divisions, support functions to facilitate the core operations of the business. AusNet is managed and overseen by our Executive Leadership Team and the AusNet Board of Directors.

4. Annual Compliance Report

4.1. Measures to ensure compliance

Sub-clause 6.2.1(b)i requires DNSPs to report on 'the measures the DNSP has taken to ensure compliance with its obligations under this Guideline.'

AusNet utilises a 'three lines of defence' approach to compliance management.¹

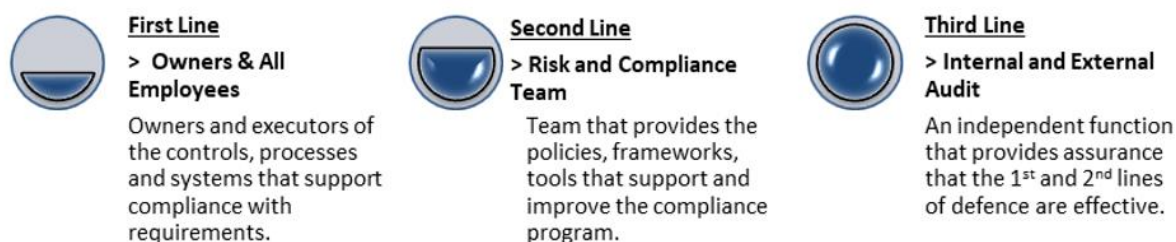


Figure 2: Three lines of defence approach

In terms of compliance with the Guideline, the owners of the controls ('Responsible Persons' are typically managers within the operational area that are responsible for obligation adherence) ensure adequate processes, systems and controls are in place that ensure compliance or detect when a non-compliance occurs or may occur (first line).

The monitoring and internal reporting of compliance adherence is generally performed by the Compliance Team (second line). Responsible Persons annually report the status of compliance, and whether a breach has occurred, to the obligations via a Compliance Management System. Responses are reviewed by the Compliance Team to ensure the responses demonstrate controls are in place and implemented in operations.

In terms of third line defence, the independent assessment of our compliance report provides additional assurance of the effectiveness of compliance adherence.

The appendices contain information in relation to ring-fencing compliance during 2023:

- Appendix 1: Summary of the measures of compliance relevant to ring-fencing obligations; and
- Appendix 2: Additional information about AusNet Services' compliance management framework and approach.

Clause 4.4.1: Procurement Process

The Procurement and major projects teams are permitted to sign contracts in the same form as the templates without legal review and approval. Any amendments to those template documents are required to obtain legal review and approval, giving additional comfort that the ring-fencing clauses will not be removed during negotiation. Where a contract is to be varied, legal must review and approve before the variation agreement is signed. Where a contract is to be signed on the supplier's terms and conditions, legal must review and approve before signing. This process provides AusNet with the comfort that distribution ring-fencing provisions are in place in all relevant AusNet Electricity Services Pty Ltd contracts.

We are aware of a control failure which meant that AusNet's standard explicit ring-fencing drafting was not included in a contract in which DNSP engaged a supplier to assist in the provision of direct control services. However, given that the contract included an obligation on the supplier to comply with all laws (defined to include requirements of an authority) and AusNet policies and procedures relevant to the works or the contract, AusNet's view is that the supplier was required to comply with all relevant ring-fencing obligations and no breach of the Guideline has occurred. However, the independent compliance assessment has indicated that enhanced monitoring in relation to AusNet's process for procurement and legal sign-off for procurement contracts could potentially assist in

¹ Source, AusNet Services Compliance Policy and Framework

strengthening ring-fencing compliance. A review of these controls will be conducted and implemented by 15 August 2024.

4.2. Ring-fencing good practice examples

Connections

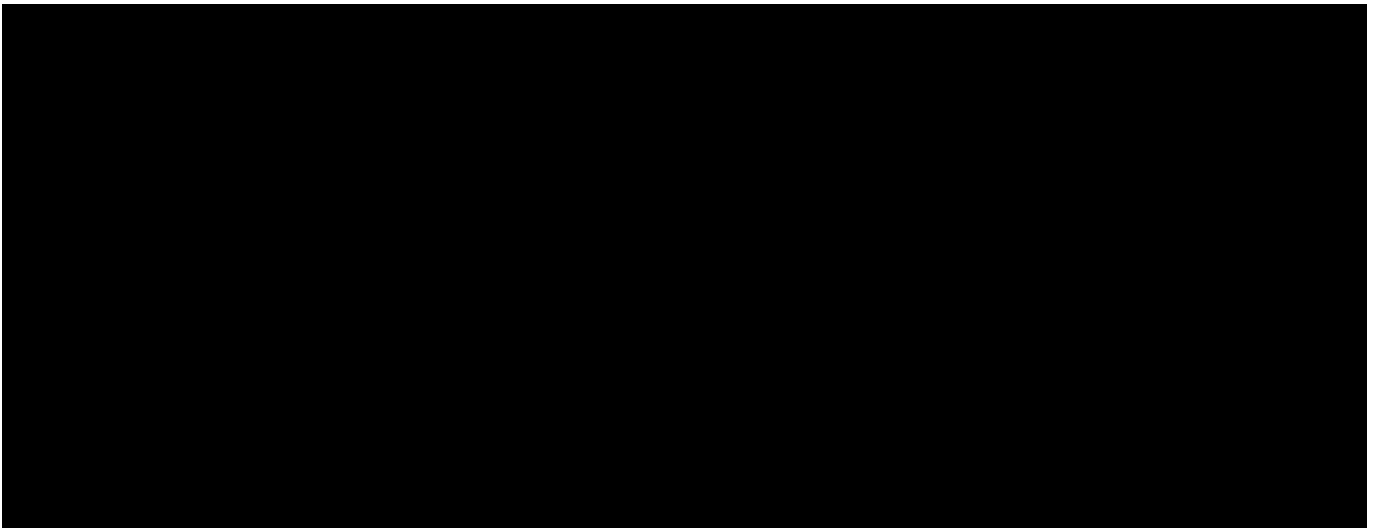
In the 2023 regulatory year, the AusNet team received 15 connection requests to the Distribution Network. None of the requests were from Mondo.

The number of connection requests received from 3rd parties compared to those received from Mondo demonstrates there has been no bias towards our contestable service provider and that there is increasing competition in the provision of contestable electricity services.

Trials with Contestable Electricity Service Providers

As part of the regulated energy service business endeavours in the network innovation area, and specifically within technology solution trials and pilot projects, numerous opportunities to work with various players in the contestable environment occurred during 2023.

These included the following:



4.3. Breaches

Under clause 6.2.1 (b)ii any breaches of the Guideline by the DNSP must be reported in the annual compliance report. This includes any breaches already reported to the AER and any breaches not already reported to the AER during the calendar year.

No breaches of the guideline were reported or identified during 2023.

4.4. Other services

In accordance with clause 6.2.1 (b)iii, AusNet is required to include in its Report '**all other services**' provided by the **DNSP** in accordance with clause 3.1.

Clause 3.1 of the Guideline sets out the specific circumstances under which DNSPs can provide 'other services' without breaching the Guideline. Specifically, the provision of 'other services' is subject to the granting of ring-fencing obligation waivers by the AER (clause 3.1 (d)vi).

As at 31 December 2023, there were no ring-fencing obligation waivers in place for AusNet and AusNet had not provided any services under the Reliability and Emergency Reserve Trader (RERT) services class waiver granted by the AER effective from 14 December 2022.

Waiver information is available in the AusNet waiver register which is published on AusNet website² as per clause 5.7.

4.5. Transactions with affiliated entities

Sub-Clause 6.2.1 (b)iv of the Guideline requires that distributors report on the purpose of all transactions between them and their affiliated entities.

The schedule of 'purpose of transactions' is provided in **Appendix 3**.

4.6. Independent assessment

AusNet engaged Ernst and Young (**EY**) to provide an independent Assessment of Compliance based on AusNet Services' 2023 annual compliance report.

AusNet's management comments in relation to any recommendations and findings by EY are included in the final assessment report provided to the AER.

² [Distribution ring-fencing compliance \(ausnetservices.com.au\)](https://ausnetservices.com.au)

A. Appendix 1: Measures for Compliance

Table 3 provides an overview of the ring-fencing compliance controls for each Ring-fencing Guideline obligation.

Control	Control Type	Description	3.1 Legal Separation	3.2.1 Separate accounts	3.2.2 Cost allocation and attribution	4.2.3 Branding and cross-promotion	4.4.1 Conduct of service providers	4.2.1 Physical separation/co-location	4.2.2 Staff sharing	4.2.4 Office and staff registers	4.1 Obligation to not discriminate	4.3.2 Protection of confidential information	4.3.3 Disclosure of information	4.3.4 Sharing of information, Ring-fencing 4.3.5 Information register	5. Waivers	6 Compliance and Enforcement	6.2.3 Regulated Stand-alone power systems reporting
Ring-fencing Policy	Preventative	<p>This policy:</p> <ul style="list-style-type: none"> explains how AusNet Services ensures that the AER's Electricity Distribution Ring-fencing Guideline is complied with and managed within the business; and applies to all employees, contractors and suppliers working for AusNet Services. <p>The policy represents a single reference guide for our compliance approach and training of staff on their obligations.</p>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Online Training Module	Preventative	A Ringfencing Training module is available for all employees.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Dedicated Ring-fencing knowledge page	Preventative	<p>Complements the training.</p> <p>A dedicated page on the intranet has been established to house information, quick reference guides and checklist tools all AusNet Services staff can access to help with Ring-fencing Compliance items.</p> <p>The page is maintained by the Compliance Team.</p>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	

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Dedicated email address	Detective	Dedicated internal email address for members of the Regulation and Compliance team to address any ringfencing queries raised by staff and or regulators.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Compliance Attestations	Detective	Obligation Owners periodically attest to the Compliance status of their obligations, including whether or not a breach has occurred during the reporting period.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Breach Management	Corrective	AusNet Services' Ring-fencing Policy and Compliance Policy and Frameworks accounts for responsibilities in managing any breach (ring-fencing requirements included).	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ring-fencing Compliance Report Schedule/Plan	Preventative	A document established that outlines the key dates and tasks to prepare AusNet Services annual compliance report.														✓	
Independent Assessment of Compliance	Detective	AusNet Services engages an independent authority (as per requirements of cl 6) to validate its Annual Compliance Report. This activity also serves as a mechanism to detect any potential non-compliances.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

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Site Separation	Preventative	Access controls to prevent staff who are not exempt under 4.2.1 to be co-located.						✓	✓								
System Access Change	Preventative	Users associated with the provision of Contestable Electricity Services were removed from systems that stored distribution network information.									✓	✓	✓				
Financial Procedures	Preventative	<p>The key preventative controls include:</p> <ul style="list-style-type: none"> The creation of an accounting policy for Transactions with Affiliated Entities This policy outlines the requirement to record financial transactions in the correct legal entity and how financial information for different types of services are collated within the DNSP. It also details how financial items are correctly allocated as well as how intercompany transactions are to be separately recorded within each legal entity; Removal of access within our project system module for relevant staff to prevent them from setting up prohibited projects under the DNSP legal entity; and Removal of access within our indirect cost allocation system for relevant staff to prevent the ability to allocate 		✓	✓												

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		unregulated or prohibited costs to the DNSP legal entity															
Master Services Agreement	Preventative	<p>AusNet Services Master Services Agreements (MSAs) with affiliated entities provides inputs to its regulated services.</p> <p>These include Statements of Work (SOW) to apply for services in place at the time ring-fencing commenced.</p> <p>Any additional services provided by an affiliate would be subject to separate negotiation.</p> <p>The MSAs provide a basis for ensuring compliant financial transactions between the entities.</p>					✓				✓	✓	✓				
Staff Sharing Register and Staff Sharing Check List tool	Preventative	This is a public register of the nature of staff positions being shared.								✓							
AusNet Corporate Structure	Preventative	<p>Illustrates the legal separation of AusNet services groups.</p> <p>This is monitored and maintained by the Company Secretary as it relates to various corporate governance requirements.</p>	✓														

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Information Sharing Protocol	Preventative	Published on Internet. This is an established protocol to govern this process and publish a register setting out the kind of information sought by any entity, and to add entities to the register if they wish to receive similar information from the DNSP.										✓	✓	✓		✓	
Financial Reporting and Reviews	Detective	Financial reviews are undertaken throughout the year to ensure compliance with the accounting requirements of the guideline. In particular: <ul style="list-style-type: none"> The results of the indirect cost allocation process are reviewed monthly by the finance team to ensure that costs have been appropriately allocated and that significant variances or movements compared to previous periods are understood The profit and loss of the DNSP is reviewed regularly throughout the year to ensure that only appropriate costs and revenues are recognised and that no prohibited services are being provided. In addition, a more thorough review is performed as part of the preparation of the annual regulatory accounts, which are subject to independent audit Controls are in place to identify and notify the finance team of related party transactions that 		✓	✓												

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		have occurred to ensure that they are adequately disclosed in our statutory financial statements and regulatory accounts.															
Waiver register	Preventative	This is the public register of the granted waivers													✓		
Regulated Stand-alone power systems	Preventative	This is the public register of regulated stand-alone power systems															✓

Table 3: Summary compliance controls against Ring-fencing obligations

B. Appendix 2: Supplementary Compliance Management Information

AusNet maintains a Compliance Policy and Framework which is managed by the Regulatory Compliance Function and aligns with compliance standard ISO 37301:2021 Compliance Management System.

The effectiveness of the Compliance Policy and Framework is overseen by the Audit and Risk Committee (GRC) and the AusNet Board with the Regulatory Compliance Function providing confidential compliance papers to the GRC and Board on a regular basis. As part of this oversight, the effectiveness of the Policy and Framework is also subject to periodic audit by external regulators and auditors.

Additionally, the Regulatory Compliance Function provides a range of compliance awareness training, advisory and assurance services.

Obligations are identified, recorded and assigned to 'responsible persons' in a centralised compliance management database. Responsible Persons ensure that these obligations are appropriately embedded in business activities including policies, processes, procedures, digital systems and tasks.

AusNet adopts a risk-based approach to compliance monitoring and assurance with Responsible Persons periodically attesting to the state of compliance. The attestations and supporting evidence provided by Responsible Persons is independently reviewed by the Regulatory Compliance Function from a quality perspective and, where appropriate, clarification of responses is sought.

Processes also exist for employees, including contractors, to report potential regulatory breaches at any time.

Where applicable, the Regulatory Compliance Function ensures that breaches are reported to the relevant agency/regulator within prescribed timeframes and monitors delivery of corrective actions.

C. Appendix 3: Purpose of Transactions

Tables 4 to 6 summarise the purpose of transactions (type, description and nature of work) between AusNet and affiliated entities during 2023. Costs associated with the transaction have also been provided as requested by the AER.

Legal entity	Description	Type of work	Nature	Direct Mondo Projects \$	Projects \$	Direct charge from Mondo \$
Mondo Power Pty Ltd	Inspection and Maintenance	Condition Monitoring	Direct Project	-	-	-
Mondo Power Pty Ltd	Inspection and Maintenance	Chemical Testing	Direct Project	-	-	-
Mondo Power Pty Ltd	Inspection and Maintenance	Calibration and Projects	Direct Project	-	-	-
Mondo Power Pty Ltd	Inspection and Maintenance	Non-invasive testing	Direct Project	-	-	-
Mondo Power Pty Ltd	Inspection and Maintenance	Other management and support costs	Direct Project	-	-	-
Mondo Power Pty Ltd	Inspection and Maintenance	Metering Services	Direct Project	-	-	-
Mondo Power Pty Ltd	Shared assets	Facilities Access Arrangements	Direct Project	-	-	-
Mondo Power Pty Ltd	Overheads	Unregulated works	Indirect Costs	-	-	-

Table 4: Operating expenditure (OPEX) summary

Legal entity	Description	Type of work	Nature	Direct Mondo Projects \$	Projects \$	Direct Charge from Mondo \$
Mondo Power Pty Ltd	Outsourced Labour	Non-invasive testing	Timesheeting	-	-	-
Mondo Power Pty Ltd	Outsourced Labour	Metering Services	Timesheeting	-	-	-
Geomatic.ai. Pty Ltd ³	Direct Project	Supply LiDAR Equipment	Direct Project	-		-

Table 5: Capital expenditure (CAPEX) summary

Legal entity	Description	Type of work	Nature	Direct Mondo Projects \$	Projects \$	Direct Charge from Mondo \$
AusNet Transmission Group Pty Ltd	Revenue	NUOS	Network Use of Services	-		-
AusNet Transmission Group Pty Ltd	Cost of Sales	Transmission network charges	Exit charges for use of Transmission Network	-		-
AusNet Transmission Group Pty Ltd	Cost of Sales	Transmission network charges	Network charges	-		-
AusNet Services Holdings Pty Ltd	Interest Expense	Interest Expense	Interest on borrowings	-		-

Table 6: Transactions with Other Affiliate Entities Summary

³ On 15 Feb 2022 AusNet sold a controlling stake in Geomatic.ai Pty Ltd. As a result of this transaction AusNet's remaining ownership is 20%