

# AER Ring-fencing Guideline Electricity Transmission Compliance Report

AusNet Transmission Group  
Pty Ltd

*April 2024*

## Contents

1.	Executive summary.....	1
1.1	Introduction .....	1
1.2	Background.....	1
1.3	Scope .....	1
1.4	Methodology .....	1
1.5	Executive comment.....	2
1.6	Conclusion .....	2
2.	Summary of audit findings.....	3
2.1	Summary of audit findings in 2023.....	3
2.2	Risk ranking of issues reported .....	3
2.3	Legend: Overall grading definition.....	4
3.	Detailed audit findings .....	5
3.1	Detailed audit findings.....	5
4.	Audit Opinion .....	10

# 1. Executive summary

## 1.1 Introduction

AusNet Transmission Group Pty Ltd (“ATG” or “TNSP”) is a subsidiary of Ausnet Services (Transmission) Pty Ltd. ATG owns and operates the Victorian electricity transmission network.

The Australian Energy Regulator (“AER”) published the Ring-fencing Guideline Electricity Transmission Version 4 (“the Guideline”) for Electricity Transmission on 15 August 2002 (subsequently revised in August 2005, July 2022 and March 2023) under the National Electricity Rules, to provide for functional separation of regulated and competitive business activities to promote competition in the provision of electricity transmission services.

## 1.2 Background

Ernst and Young (“We” or “we”) has been engaged to perform a “reasonable assurance engagement” as defined by Standards on Assurance Engagements, pursuant to Section 6.2.1 (c) Compliance Reporting of the Guideline to report on ATG’s compliance with the following clauses of the Guideline for the transitional period 1 March 2023 to 31 December 2023:

- i. Clause 3.1(c) – Legal Separation
- ii. Clause 4.4.1(a) – Functional Separation
- iii. Clauses 6.2.1 – Compliance Procedures and Compliance Reporting

## 1.3 Scope

The AER’s Annual compliance reporting and independent assessment requirements under the Guideline require the following:

- ▶ An attestation from the TNSP signed by the officer (as defined in clause 1.4 of the Guideline) that the information provided by the TNSP to the assessor was complete and correct.
- ▶ A statement from the assessor detailing the assessment methodology and how relevant standards were used to design that methodology and implement the assessment. This could include a description of the type of sampling and auditing procedures used, and how the assessment methodology aligned with relevant ISO or ASAE standards chosen to guide the assessment.
- ▶ A statement from the assessor detailing any areas of the assessment where information was inconsistent, incomplete, or incorrect, and the degree to which this has negatively impacted the assurance level.
- ▶ The nature of any issues or concerns that were raised by the assessor during the undertaking its assessment that may or may not have been subsequently addressed by the TNSP.

## 1.4 Methodology

ATG has prepared an annual compliance report under the Guideline for the transitional period from 1 March 2023 to 31 December 2023.

We obtained an understanding of the Ring-fencing Guideline and other engagement circumstances specific to Clause 3.1(c), Clause 4.4.1 (a) and clause 6.2.1, sufficient to enable the identification and assessment of the risk of non-compliance with the Guideline.

We tested the obligation clauses as per the Guideline and conducted interviews with key stakeholders to understand how ATG satisfies each obligation. From our interviews we identified the key policies and procedures, processes and controls that management has put in place to satisfy each obligation.

We performed an analysis of the key controls that management has put into place to comply with each obligation, to understand whether control gaps exist which could enable an obligation to remain unsatisfied.

We then conducted limited sample testing over the identified controls to determine whether ATG complied, in all material respects, with the Guideline for the transitional period from 1 March 2023 to 31 December 2023.

Compliance has been assessed to a level of reasonable assurance in accordance with Standard on Assurance Engagement ASAE3100 Compliance Engagements, based on sample sizes determined using professional judgement.

## 1.5 Executive comment

Except unless otherwise stated in the management responses in sections 2 and 3.1, Management accepts the results of the audit and will demonstrate corrective steps to address each recommendation.

## 1.6 Conclusion

Refer to Section 4 of this report for the full Audit Opinion.

## 2. Summary of audit findings

### 2.1 Summary of audit findings in 2023

Ref	Compliance Obligation	Finding	Management response	Grading
4.4.1 (a)	A TNSP must ensure that any new or varied agreement between the TNSP and service provider for the provision of services of the TNSP that enables or assist the TNSP to provide prescribed transmission service, requires the service provider to comply, in providing those services, with clauses 4.1, 4.2.1 and 4.3 of the Guidelines as if the service provider was the TNSP.	<p>We sampled a selection of contracts and contract variations entered from 1 March 2023 to 31 December 2023 to assess whether the relevant ring-fencing clauses have been included within service provider contracts for the provision of services of ATG to provide prescribed transmission services.</p> <p>We noted an instance from our sample whereby the ringfencing provisions were not explicitly included within the contract.</p> <p>We recommend management continue to refine the process by implementing further controls for identifying and assessing contract or variations to contracts for inclusion of the ring-fencing provisions.</p>	We acknowledge the process improvement recommendation. A review of these controls will be conducted and implemented by 15 August 2024.	Partially effective

### 2.2 Risk ranking of issues reported

This table outlines the assessment framework of risk rating allocated to observations and recommendations raised, as summarised in section 3.1 of the report.

		Potential Occurrence				
		Isolated Instances	Few Instances	Some	Often	Many
Potential Impact	Insignificant	Low	Low	Low	Low	Moderate
	Minor	Low	Low	Low	Moderate	Moderate
	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
	Major	Moderate	Moderate	Moderate	High	High
	Catastrophic	High	High	High	High	High

## 2.3 Legend: Overall grading definition

This table outlines the assessment framework of compliance against the specific obligations within the Guideline, as discussed in section 3.1 of the report.

Green	Effective	Most requirements of the license condition have been met with some minor failures or breaches. Findings noted are considered minor and require routine efforts to correct in the normal course of business.
Amber	Partially Effective	Key requirements of the license condition have been met but only minor achievements in compliance have been demonstrated. Findings noted are considered significant and require substantial effort to correct.
Red	Not Effective	The requirements of the license condition have not been met, or adequate, relevant and suitable information to form an objective determination on compliance was not available to demonstrate compliance. Findings noted are considered material in nature and require urgent remedial action.

### 3. Detailed audit findings

#### 3.1 Detailed audit findings

Instrument Clause Event: Ring-fencing Guideline Electricity Transmission Version 4

Obligation: Legal separation – Section 3

Guidance Assessment Criteria and Assessment Controls

Ref	Compliance Obligation	Process Description	Testing	Grading
3.1(c)	<p>A TNSP must not;</p> <ul style="list-style-type: none"> <li>i. Enter into any new agreement</li> <li>ii. Agree to a material variation to an existing agreement</li> </ul> <p>Where such new or varied agreement grants another legal entity the right to use any energy storage device which is owned, operated or controlled by the TNSP, unless it is for the dual purpose of providing that TNSP with network support service.</p>	<p>Any contract (whether it be a new contract or a variation to an existing contract), requires legal review and approval. On that basis, the AusNet legal team monitors contractual activity to ensure that no such contracts/variations are entered into without an AER waiver.</p> <p>During CY23, ATG did not enter into any new agreement, or material variation to existing agreement, to grant a third party the right to use an energy storage unit owned, operated or controlled by ATG (as TNSP).</p> <p>Prior to CY23, ATG had a proposal to enter into an arrangement with Mondo Power Pty Ltd under which Mondo would be entitled to use a battery system owned by ATG at ATG's Rowville terminal station for the dual purpose of providing ATG (as TNSP) with network support services and trading the battery's energy in the market. This arrangement was not formalised prior to the introduction of the Guideline on 1 March 2023. No contract has been entered into for this proposal and ATG is seeking a waiver from the AER in relation to this arrangement prior to entering into a contract.</p>	<p>Discussion held with:</p> <ul style="list-style-type: none"> <li>Compliance Manager</li> <li>Legal Counsel</li> <li>Regulatory Compliance Officer</li> </ul> <p>Procedures performed:</p> <p>We obtained and inspected the Ring-fencing Policy which demonstrates that it complies with AER's requirement on legal separation.</p> <p>We inspected the process undertaken by management to ensure all arrangements were correctly identified and in compliance with the Guidelines by performing the procedures outlined below:</p> <ul style="list-style-type: none"> <li>• We confirmed if there were any new projects or variation of existing projects that had taken place during the transitional period.</li> <li>• We obtained the existing Master Procurement Agreement (MPA) and Statements of Work (SOW) that exist between ATG and Mondo and confirmed no provision for right of use of any energy storage device which is owned, operated and controlled by ATG.</li> </ul> <p>Observations:</p> <p>Based upon the procedures performed, no exceptions were noted on ATG's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> <li>• There were no new agreements or material variation to existing agreements to grant the</li> </ul>	Effective

Ref	Compliance Obligation	Process Description	Testing	Grading
			<p>right to use any energy storage unit which is owned, operated or controlled by ATG.</p> <ul style="list-style-type: none"> <li>As per the existing signed SOW, Mondo does not have the right to use any energy storage device which is owned or controlled by ATG.</li> <li>ATG has preventive controls to ensure procurement arrangements entered are managed in accordance with the Guideline, including mandatory consultation with the legal team as demonstrated with the Rowville terminal agreement.</li> </ul> <p>Recommendations: None noted.</p>	

#### Obligation: Functional Separation – Section 4

#### Guidance Assessment Criteria and Assessment Controls

Ref	Compliance Obligation	Process Description	Testing	Grading
4.4.1 (a)	A TNSP must ensure that any new or varied agreement between the TNSP and service provider for the provision of services of the TNSP that enables or assists the TNSP to provide prescribed transmission service, requires the service provider to comply, in providing those services, with clauses 4.1, 4.2.1 and 4.3 of the Guidelines as if the service provider was the TNSP.	<p>With the introduction of the Transmission Ring-Fencing Guidelines on 1 March 2023, and the requirements of clause 4.4.1(a) of those Guidelines, all of the template procurement contracts to which the TNSP may be a party were updated to include the reference of clause 4.4.1 (a) whereby the service provider should comply with clause 4.1, 4.2.1 and 4.3 of the Guideline at all times.</p> <p>The updated templates have been uploaded to the 'template database' on Ariba. The Procurement team, when looking to engage a supplier for a contract valued at greater than [REDACTED] is required to obtain that form of contract from the 'template database' on Ariba. Any amendments to those template documents are required to be approved by ATG legal, so ATG is comfortable that amendments/deletions of the ring-fencing clause will not occur.</p> <p>Where the value of the supplier contract is valued at less than [REDACTED] the Procurement team and business unit will issue an Order Form to which the Purchase Order T&amp;Cs apply. The PO T&amp;Cs are on the ATG website and were updated to incorporate the relevant ring-fencing clause – see clause 4.1(f) of the PO T&amp;Cs. The</p>	<p>Discussion held with: Compliance Manager Legal Counsel Regulatory Compliance Officer</p> <p>Procedures performed: We obtained and inspected the Ring-fencing Policy which demonstrates that it complies with AER's requirement on functional separation. We inspected the process undertaken by management to ensure all arrangements were correctly identified and in compliance with the Guidelines. We obtained and inspected the Procurement Policy dated 20 December 2023 to ensure that it has in place appropriate procedures and policies in the context of the Guideline. We inspected the existing templates of contracts, ie purchase order, consultancy agreement, design and construct agreement, service agreements, supply and</p>	Partially effective



Ref	Compliance Obligation	Process Description	Testing	Grading
		<p>PO T&amp;Cs are rarely, if ever, amended, but if amendments are required by the supplier, those amendments require legal review and approval.</p> <p>Occasionally a supplier will require the contract to be on the supplier's T&amp;Cs. In those cases, legal review and approval of the T&amp;Cs is required, and if ring-fencing drafting is necessary, it will be included by the legal team as part of the negotiations of those T&amp;Cs.</p> <p>Any variation agreements require legal review and approval, so if a contract under which the supplier is assisting the TNSP to perform prescribed transmission services is to be varied, legal will review and approve – ensuring the appropriate ring-fencing drafting is included.</p> <p>Further, the Procurement team has been provided with ring-fencing training and are aware of the requirements for the ring-fencing clause to be included, adding an additional layer of controls.</p>	<p>installation of equipment agreement to ensure the relevant ring-fencing clauses are included noting this process was implemented in August 2023.</p> <p>We inspected the Ariba database for the above agreements to ensure the agreements are made available to employees.</p> <p>We sampled a selection of contracts entered from 1 March 2023 to 31 December 2023 to ensure the relevant ring-fencing clauses have been included.</p> <p>We obtained the Ring-fencing Module slides provided to the Procurement team in February 2024.</p> <p>Observations:</p> <p>Based upon the procedures performed, we noted the following:</p> <ul style="list-style-type: none"> <li>• Upon inspection of existing templates in Ariba, we confirmed the relevant ring-fencing provisions have been incorporated within the templates.</li> <li>• We inspected the Procurement Policy document and have confirmed that all contracts that are greater than [REDACTED] requires the use of a contract template as approved by the legal team and for contracts less than [REDACTED] requires a Purchase order to be generated.</li> <li>• ATG has preventive controls to ensure all procurement arrangements entered into are managed in accordance with the Guideline, including mandatory consultation with the legal team, when applicable.</li> <li>• Based on a sampled selection of contracts and contract variations entered from 1 March 2023 to 31 December 2023, we noted an instance in our sample whereby the ring-fencing provisions were not explicitly included within the contract.</li> </ul> <p>Recommendations:</p> <p>We recommend management continue to refine the process by implementing further controls for identifying and assessing contract or variations to contracts for inclusion of the ring-fencing provisions.</p>	

## Obligation: Reporting – Section 6

### Guidance Assessment Criteria and Assessment Controls

Ref	Compliance Obligation	Process Description		Grading
6.2.1 (a)(b) (c)(d) and (e)	<p>A TNSP must prepare an annual ring-fencing compliance report each calendar year in accordance with this Clause 6.2.1 and submit it to the AER in accordance with Clause 6.2.2</p> <p>The annual compliance report must identify and describe, in respect of the calendar year to which the report relates;</p> <ol style="list-style-type: none"> <li>The measure the TNSP has taken to ensure compliance with its obligation under the Guidance</li> <li>Any breached of the Guideline by the TNSP, or which otherwise relates to the TNSP.</li> <li>All other services provided by the TNSP in accordance with Clause 3.1</li> <li>The purpose of all transactions between the TNSP and an affiliated entity.</li> </ol> <p>The annual compliance report must be accompanied by an assessment of compliance with each provision of this Guideline (except 6.2.2 and 6.3) by a suitable qualified independent authority.</p>	<p>ATG has internal procedures in place to ensure it complies with its obligations under the Guideline. 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.</p> <p>ATG 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.</p> <p>ATG will initiate the annual attestation process mentioned above during 2024 with most of the clauses coming into effect from 1 May 2024 as currently ATG are reporting on transitional arrangements.</p>	<p>Discussion held with:</p> <p>Legal Counsel</p> <p>Compliance Manager</p> <p>Procedures performed:</p> <p>We have been engaged by ATG to perform assessment of compliance of each provision of this Guideline (except 6.2.2 and 6.3) as the independent authority to assess compliance in relation to ring fencing.</p> <p>We have obtained and reviewed management's compliance report.</p> <p>Observation:</p> <p>Based upon the procedures performed, no exceptions were noted with ATG's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> <li>ATG has regulatory compliance monitoring and reporting process to facilitate timely and accurate compliance reporting to the AER.</li> </ul> <p>Recommendations:</p> <p>None noted.</p>	Effective

Ref	Compliance Obligation	Process Description		Grading
	<p>A TNSP annual compliance report may, in relation to clause 3.2 of this Guideline be based on information provided by the AER under a regulatory information instrument for the TNSP's most recent regulatory year. If so that annual compliance report must cover in relation to clause 3.2 of the Guideline, the entirety of that regulatory year.</p> <p>Annual compliance report may be made publicly available by the AER.</p>			

## 4. Audit Opinion

### Independent assurance report to the Directors of AusNet Transmission Group Pty Ltd

#### Opinion

We have undertaken a reasonable assurance engagement, as defined by the Standards on Assurance Engagements, to report on whether the Annual Compliance Report of AusNet Transmission Group Pty Ltd (“the Company”) presents fairly the Company’s compliance, in all material respects, with the transitional compliance requirements (“compliance requirements”) as evaluated against the *Ring-fencing Guideline – Electricity Transmission Version 4* (the “Guideline”), for the transitional period of 1 March 2023 to 31 December 2023 for the purpose of reporting to the Australian Energy Regulator.

In our opinion, drawing attention to our audit findings in Summary of Audit Findings, Company’s Annual Compliance Report presents fairly, in all material respects, the Company’s compliance with the compliance requirements as evaluated against the Guideline for the transitional period 1 March 2023 to 31 December 2023.

#### Basis for opinion

We conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3100 *Compliance Engagements* issued by the Auditing and Assurance Standards Board.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### AusNet Transmission Group Pty Ltd’s responsibilities

The Company is responsible for:

- a. Providing an Annual Compliance Report with respect to the outcome of the evaluation of the compliance activity against the compliance requirements, which accompanies this independent assurance report;
- b. Identification of the compliance requirements if not identified by law and regulation;
- c. The compliance activity undertaken to meet the compliance requirements; and
- d. Identification and implementation of controls which will mitigate those risks that prevent the compliance requirements being met and monitor ongoing compliance.

#### Our independence and quality management

We have complied with the independence and relevant ethical requirements, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Auditing Standard ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

## Assurance practitioner’s responsibilities

Our responsibility is to express an opinion, on the Company’s Annual Compliance Report with the compliance requirements, in all material respects as evaluated against the Guideline, for the transitional period of 1 March 2023 to 31 December 2023. ASAE 3100 requires that we plan and perform our procedures to obtain reasonable assurance about whether, the Company’s Annual Compliance Report, presents fairly, in all material respects, the Company’s compliance with the compliance requirements as evaluated against the Guideline for the transitional period of 1 March 2023 to 31 December 2023.

An assurance engagement to report on the Company’s Annual Compliance Report with respect to the entity’s compliance with the compliance requirements involves performing procedures to obtain evidence about the compliance activity and controls implemented to meet the compliance requirements. The procedures selected depend on our judgement, including the identification and assessment of risks of material misstatements in the Annual Compliance Report are likely to arise.

## Inherent limitations

Because of the inherent limitations of an assurance engagement, together with the internal control structure it is possible that fraud, error, or non-compliance with compliance requirements may occur and not be detected.

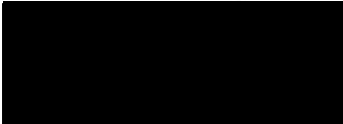
Our methodology involved obtaining an understanding of the Guideline, identifying the obligation clauses as per the Guideline applicable to the Company, and designing and performing procedures to determine whether management controls are in place to satisfy the obligation clauses as per the Guideline. Our tests of controls were primarily conducted using inquiry, observation, and inspection procedures. In certain situations, we have relied upon representations from management through inquiry only.

A reasonable assurance engagement for the transitional period of 1 March 2023 to 31 December 2023 does not provide assurance on whether compliance with the compliance requirements will continue in the future.

## Restriction on use of report

This assurance report has been prepared in accordance with the requirements of the *Ring-fencing Guideline - Electricity Transmission Version 4*. Our report is intended solely for use by AusNet Transmission Group Pty Ltd and the Australian Energy Regulator (collectively the “Recipients”) pursuant to the terms of our engagement agreement dated 19 February 2024.

We disclaim all responsibility to any other party for any loss or liability that the other party may suffer or incur arising from or relating to or in any way connected with the contents of our report, the provision of our report to the other party or the reliance upon our report by the other party.



Ernst & Young

Melbourne  
30 April 2024