
Electricity Distribution Ring-fencing Guideline

2024 Annual Compliance Report

Wednesday, 30 April 2025

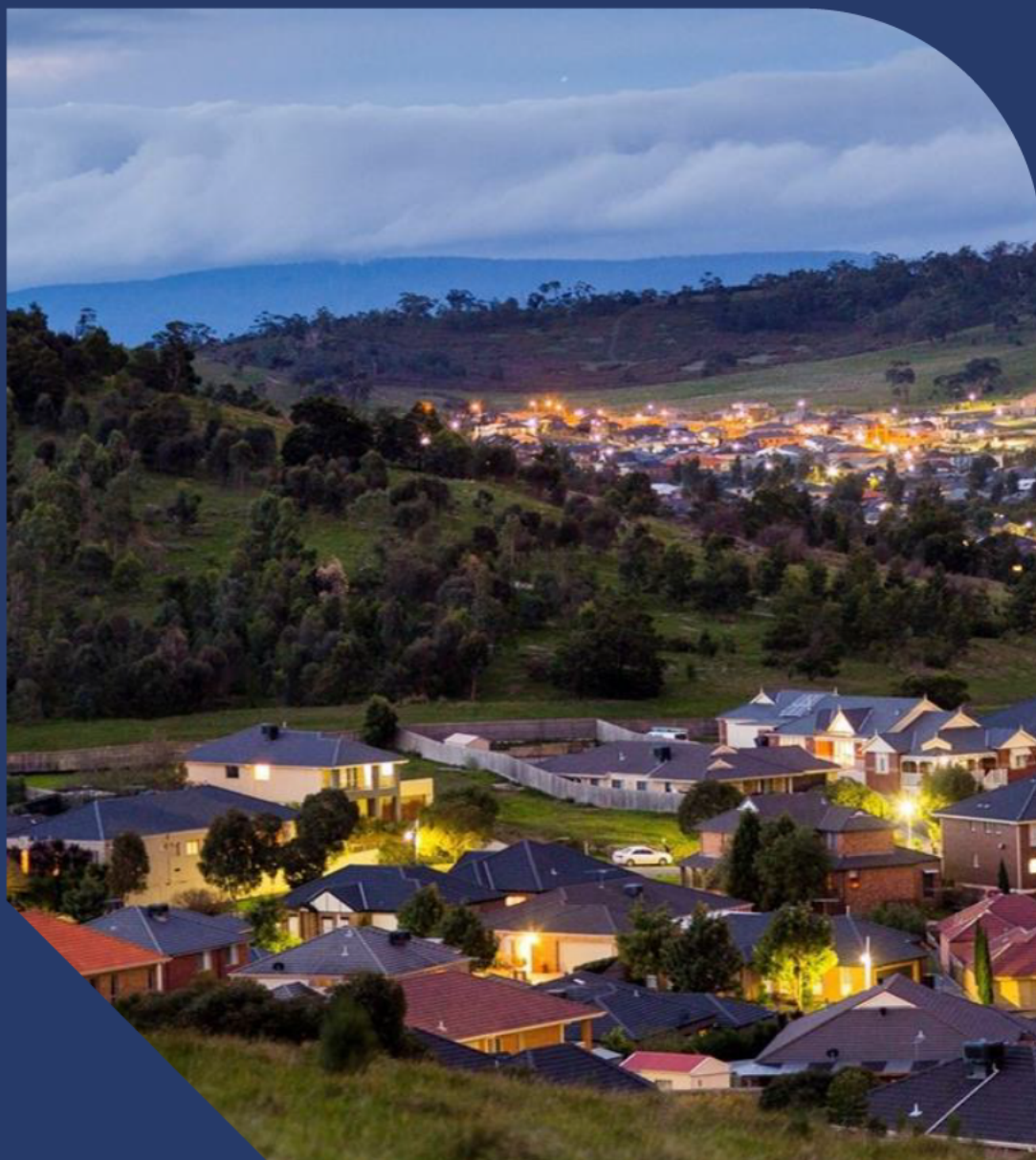


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1. Executive Summary

This document is the 2024 Annual Compliance Report (**Report**) for AusNet Electricity Services Pty Ltd (**AusNet or AES**) in accordance with the reporting requirements outlined in the Australian Energy Regulator (**AER**) Ring-fencing Guideline for Electricity Distribution, version 3 (**Guideline**). In this Report, a reference to AusNet is a reference to the distribution network service provider (**DNSP**) and its related entities.

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 reporting requirements as per the Reporting Obligation in the Guideline. **Table 1** summarises the compliance outcome of these requirements.

Table 1: Reporting requirements summary

REPORT REQUIREMENTS	AUSNET'S ASSESSMENT
Measures to ensure compliance	<p>Compliance with 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's 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 2024.</p>
Other services provided	<p>AusNet does not deliver other services, except to the extent permitted under clause three 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 has applied its Cost Allocation Methodology (CAM) to prevent cross-subsidies.</p>

2. Purpose

2.1. The Guideline's purpose

The Guideline 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).
- Promote competition in the provision of contestable electricity services.

2.2. Purpose of this report

This Report delivers AusNet's Annual Ring-fencing Compliance Report covering the period 1 January 2024 to 31 December 2024 (**reporting period**) under version 3 of the Guideline.

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

Clause 6.1 of the Guideline requires that AusNet establishes and maintains 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 2024 calendar year:

- The measures the DNSP has taken to ensure compliance with its obligations under this Guideline (section 4.1).
- Any breaches of this Guideline by the DNSP, or which otherwise relate to the DNSP (section 4.3).
- All other services provided by the DNSP in accordance with clause 3.1 (section 4.4).
- Purpose of all transactions between the DNSP and an affiliated entity (section 4.5).

The Assessment of Compliance by a suitably qualified independent authority (EY) accompanies this Report.

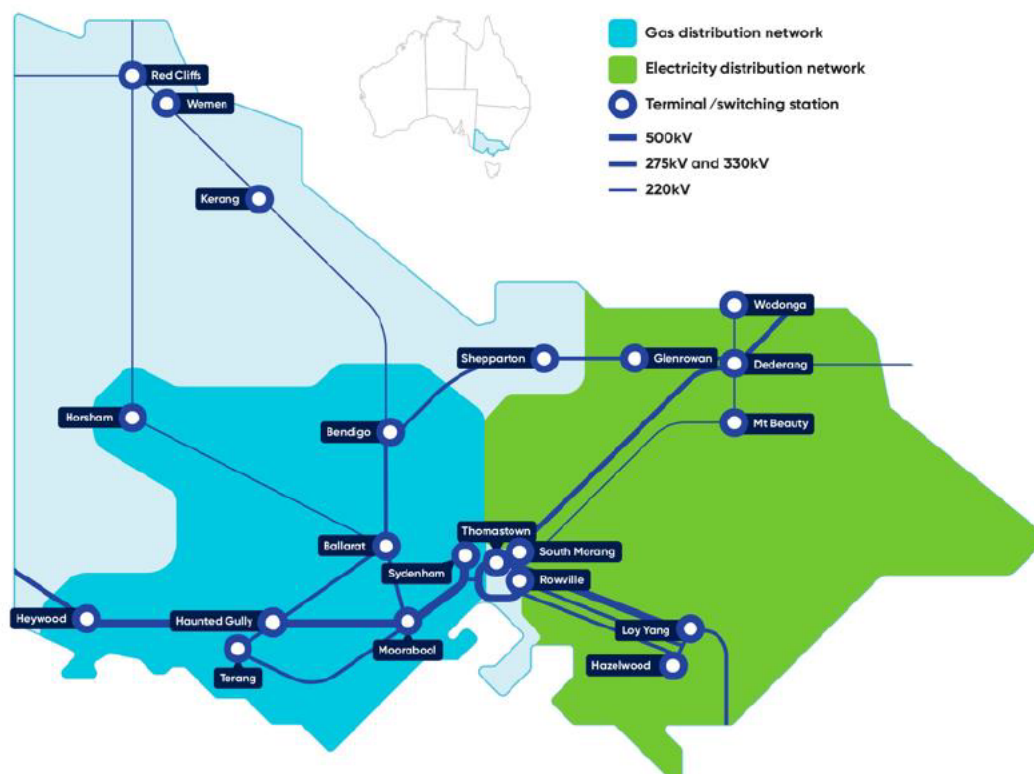
3. About AusNet

3.1. Overview

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

AusNet's distribution network feeds electricity to over 800,000 customers across 80,000 square kilometres. This covers eastern and north-eastern Victoria, including Melbourne's north and east (**Figure 1**).

Figure 1: AusNet electricity and gas networks



3.2. Corporate Ownership and Structure

Effective 16 February 2022, AusNet Services Ltd (now AusNet Pty 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 (**ASX**) with effect from 17 February 2022.

AusNet is managed and overseen by our Executive Leadership Team and the AusNet Board of Directors. During part of the reporting period AusNet undertook a major organisational restructure (May – October 2024), transitioning from a 'functional' operating model to a 'line of business' (**LoB**) model, with many business units changing reporting lines and responsibilities (**the restructure**). The four LoBs are:

- Electricity Distribution.
- Electricity Transmission.
- Gas and Metering.
- Development and Future Networks.

The four LoBs are supported by five enabling functions:

- People and Safety.
- Group Operations.
- Digital and Technology.
- Finance, Strategy and Legal.
- Compliance, Risk and Corporate Affairs.

4. Annual Compliance Report

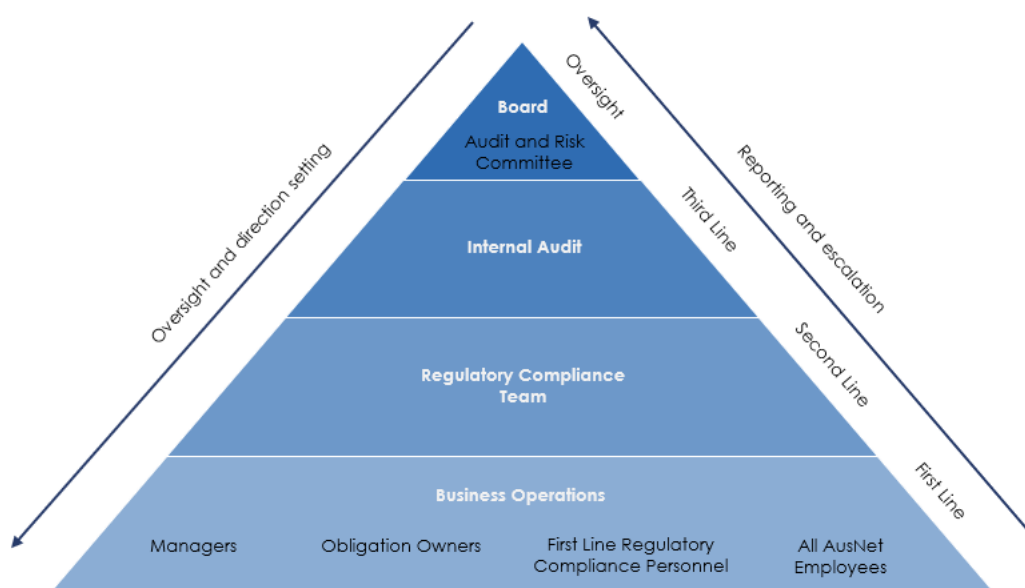
4.1. Compliance measures

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

4.1.1. AusNet’s compliance management approach

AusNet utilises a ‘three lines’ approach to compliance management, as shown in Figure 2.

Figure 2: Three lines approach



Source: AusNet Regulatory Compliance Framework.

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) establish adequate processes, systems and controls for meeting compliance obligations and to detect when a non-compliance occurs or may occur (first line).

The monitoring and internal reporting of compliance adherence is primarily performed by the Compliance Team (second line).

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

Additional information about AusNet’s compliance management framework and approach can be found in Appendix 2.

4.1.2. AusNet’s compliance measure for version 3 of the Guideline

Appendix 1 provides a summary of the measures of compliance relevant to ring-fencing obligations for version 3 of the Guideline.

4.1.3. AusNet’s response to EY’s recommendations in relation to the 2023 Annual Compliance Report

In assessing AusNet’s Electricity Distribution Ring-Fencing Compliance Report 2023, EY recommended that AusNet implement further controls for identifying and assessing new contracts or contract variations for the inclusion of the ring-fencing clause and implement a document approval process. AusNet management acknowledged this recommendation and agreed to implement it by 15 August 2024.

On 29 November 2024, AusNet corresponded with the AER to advise the implementation date of 15 August 2024 had been delayed as a result of the restructure and the review of major contracts would be conducted before 31 January 2025 covering the period 15 August to 15 December 2024 (**the Review**). The Procurement team undertook the Review by identifying:

- The total number of contracts executed between 15 August and 15 December 2024.
- Contracts where ring-fencing clauses were not required i.e. out of scope, expired or closed.
- Contracts where ring-fencing clauses were incorporated.
- Contracts where ring-fencing clauses were required.

The Procurement team completed the Review by 31 January 2025 and made the findings outlined in Table 2. The Distribution contract marked 'Ring-fencing clause required in contract' did not include a ring-fencing clause however it required the supplier to comply with 'legislative requirements' which necessarily includes ring-fencing obligations.

Table 2: Findings from the Review

NUMBER OF CONTRACTS			REVIEW FINDING
Dx*	Tx*	Dx & Tx	
25	32	7	Ring-fencing clause not required in contract i.e. out of scope, expired or closed.
13	9	2	Ring-fencing clause incorporated in contract.
1	2	-	Ring-fencing clause required in contract.

Note: 91 major contracts were executed and reviewed in the period 15 August and 15 December 2024.

* Dx indicates Distribution, Tx indicates Transmission.

EY also recommended that AusNet review existing contracts between Mondo and Ausnet for a subset of metering services and take them through formal reviewing processes (e.g., market testing or benchmarking) prior to renewing the contracts.

AusNet has a robust procurement process where all services valued ████████ need to go through a strategic market engagement. This could be via a formal tender, a negotiation or other methods. The Procurement team also consider the number of providers of the services and whether a formal market testing process will deliver value to consumers.

The services in question are highly specialised, in a small market with a limited number of service providers. As such, market testing each time the contract is up for renewal is impractical and unfeasible. AusNet undertakes other methods to value the efficiency of the cost of these services, including comparing the cost of these services to regulated allowances and by understanding the build-up of the service charges.

In addition, AusNet will be reviewing the basis on which each service in question is provided, as some or all of these services may be self-provided by AES (whether or not through the use of shared staff or resources). If this review determines that some or all of these services in question are self-provided by AES, such services will not be affiliate transactions and the question of market testing or benchmarking would not be relevant (but in this case AusNet will review the application of cost allocation methodology and staff sharing requirements).

4.1.4. Ring-fencing good practice examples

Connections

In the 2024 calendar year, the AusNet team received 13 connection requests to the Distribution Network. This includes one connection application from Mondo for connection of their battery energy storage system (BESS) at Corryong.

The number of connection requests received from third 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 2024.



4.2. 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 2024.

4.3. 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 2024, there was one ring-fencing waiver in place for AusNet, but AusNet had not provided any services under this waiver. With respect to the class waivers granted by the AER to DNSPs, AusNet had not provided any services under the Reliability and Emergency Reserve Trader (**RERT**) services class waiver or the battery program class waiver.

Waiver information is available in the AusNet waiver register which is published on AusNet’s website¹ as per clause 5.7.

¹ [Distribution ring-fencing compliance \(ausnetservices.com.au\)](https://ausnetservices.com.au)

4.4. 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**.

4.5. Independent assessment

AusNet engaged EY to provide an independent assessment of compliance based on AusNet's 2024 annual compliance report. AusNet management's comments in relation to any recommendations and findings by EY are included in the final assessment report provided to the AER.

A. Appendix 1: Measures for Compliance

Table 3: An overview of the ring-fencing compliance controls for version 3 of the Guideline.

Control	Control Type	Description	3.1 Legal Separation	3.2.1 Separate accounts	3.2.2 Cost allocation and attribution	4.1 Obligation to not discriminate	4.2.1 Physical separation/co-location	4.2.2 Staff sharing	4.2.3 Branding and cross-promotion	4.2.4 Office and staff registers	4.3.1 Protection of ring-fenced information	4.3.2 Disclosure of information	4.3.3 Sharing of information, 4.3.4 Information register	4.4.1 Conduct of service providers	5. Waivers	6 Compliance, reporting, 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 complies with the AER's Electricity Distribution Ring-fencing Guideline applies to all employees, contractors and suppliers working for AusNet. <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 distribution ring-fencing training module is available and required to be completed by 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 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 ring-fencing queries raised by staff and or regulators.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Compliance Attestations	Detective	Obligation Owners periodically attest to the Compliance status of their obligations, including whether a breach has occurred during the reporting period.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Breach Management	Corrective	AusNet's Ring-fencing Policy and Enterprise Compliance Policy and Regulatory compliance framework account 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's annual compliance report.														✓	
Independent Assessment of Compliance	Detective	AusNet engages an independent authority, per cl 6.2.1(c), 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 unregulated or prohibited costs to the DNSP legal entity. 		✓	✓												

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Master Services Agreement	Preventative	AusNet's Master Services Agreements (MSAs) with affiliated entities provides inputs to its regulated services. These include Statements of Work (SOW) to apply for services in place at the time ring-fencing commenced. Any additional services provided by an affiliate would be subject to separate negotiation. The MSAs provide a basis for ensuring compliant financial transactions between the entities.				✓					✓	✓		✓			
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	Illustrates the legal separation of AusNet groups. This is monitored and maintained by the Company Secretary as it relates to various corporate governance requirements.	✓														
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.									✓	✓	✓			✓	

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Financial Reporting and Reviews	Detective	<p>Financial reviews are undertaken throughout the year to confirm compliance with the accounting requirements of the Guideline. In particular:</p> <ul style="list-style-type: none"> The results of the indirect cost allocation process are reviewed monthly by the finance team to confirm 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 confirm 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. <p>Controls are in place to identify and notify the finance team of related party transactions that have occurred to confirm that they are adequately disclosed in our statutory financial statements and regulatory accounts.</p>		✓	✓												
Waiver Register	Preventative	This is the public register of the granted waivers													✓		

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Regulated Stand-alone power systems	Preventative	This is the public register of regulated stand-alone power systems															✓

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 (**ARC**) and the AusNet Board with the Compliance team providing confidential compliance papers to the ARC 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 Compliance team 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 confirm 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 Compliance team 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 Compliance team confirms 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, 5 & 6 summarise the purpose of transactions (type, description and nature of work) between AusNet and affiliated entities during 2024. Costs associated with the transaction have also been provided as requested by the AER.

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	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 5: Capital expenditure (CAPEX) summary

Legal entity	Description	Type of work	Nature	Direct Mondo Projects \$	Projects \$	Direct Charge from Mondo \$
Mondo Power Pty Ltd	Outsourced Labour	Unregulated Capital Works	Direct Project			
Geomatic.ai. Pty Ltd	Direct Project	Supply LIDAR Equipment	Direct Project			

Table 6: Transactions with other affiliate entities 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			