

2024 Ring-Fencing Compliance Report

1 January 2024 – 31 December 2024

25 February 2025

Official

TasNetworks acknowledges the palawa (Tasmanian Aboriginal community) as the original owners and custodians of lutruwita (Tasmania). TasNetworks, acknowledges the palawa have maintained their spiritual and cultural connection to the land and water. We pay respect to Elders past and present and all Aboriginal and Torres Strait Islander peoples.

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1 Background

The Australian Energy Regulator (AER) has produced the Electricity Distribution Ring-Fencing Guidelines (**Distribution Guidelines**), and the Electricity Transmission Ring-Fencing Guidelines (**Transmission Guidelines**) (together, **the Guidelines**) which impose obligations on both Distribution and Transmission Network Service Providers (**DNSPs**) (**TNSPs**) targeted at:

- preventing discrimination in favour of their related parties to disadvantage competitors operating in these markets;
- preventing using revenue earned from regulated services to cross-subsidise contestable services; and
- ensuring a DNSP/TNSP handles ring-fenced information appropriately.

This Annual Ring-Fencing Compliance Report, for the 12 months ended 31 December 2024 (**Report**) has been produced to fulfil TasNetworks' reporting requirements in the Guidelines as set in clause 6.2.

During the reporting period, Tasmanian Networks Pty Ltd (ACN 167 357 299) (**TasNetworks**) and affiliated entities, Fortytwo24 Pty Ltd (ACN 117 987 925) (**42-24**), TasNet Connections Pty Ltd (ACN 633 576 628) (**TNC**) and up until 22 March 2024, Marinus Link Pty Ltd (ACN 630 194 562) (**Marinus Link**) undertook a number of compliance activities, including:

- compliance training for staff and detailing exemptions, where they apply;
- balancing separate accounts;
- separating assets using cost allocation and attribution methods;
- adhering to disclosure, protection and sharing of confidential information policies; and
- creating a hub for ring-fencing information and policies.

1.1 Purpose

TasNetworks has prepared this Report and provided it to the AER in accordance with the Guidelines requirement 6.2 Reporting. TasNetworks confirms that the Report is compliant with the Guidelines and does not claim confidentiality over this Report.

1.2 Corporate Overview

TasNetworks is a transmission and distribution business, which means that both Guidelines must be adhered to. During the reporting period, TasNetworks had three wholly owned subsidiaries. These being:

1. 42-24 Pty Ltd;
2. TNC Pty Ltd; and
3. Marinus Link Pty Ltd.

On 22 March 2024, Marinus Link Pty Ltd separated from TasNetworks Holdings and became a stand-alone entity.

Figure 1 shows the relationships between the entities up until 22 March 2024. Figure 2 shows the relationships between the entities after 22 March 2024.

Figure 1: TasNetworks Group up until 22 March 2024:

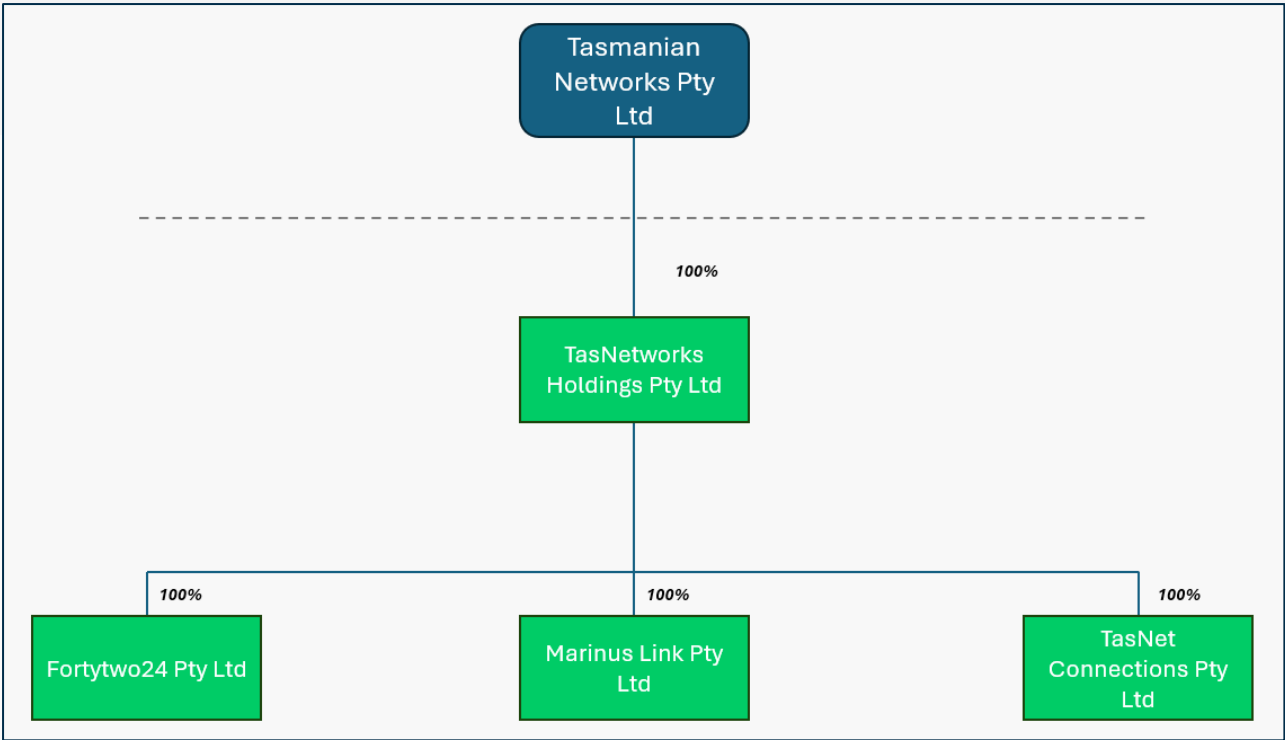
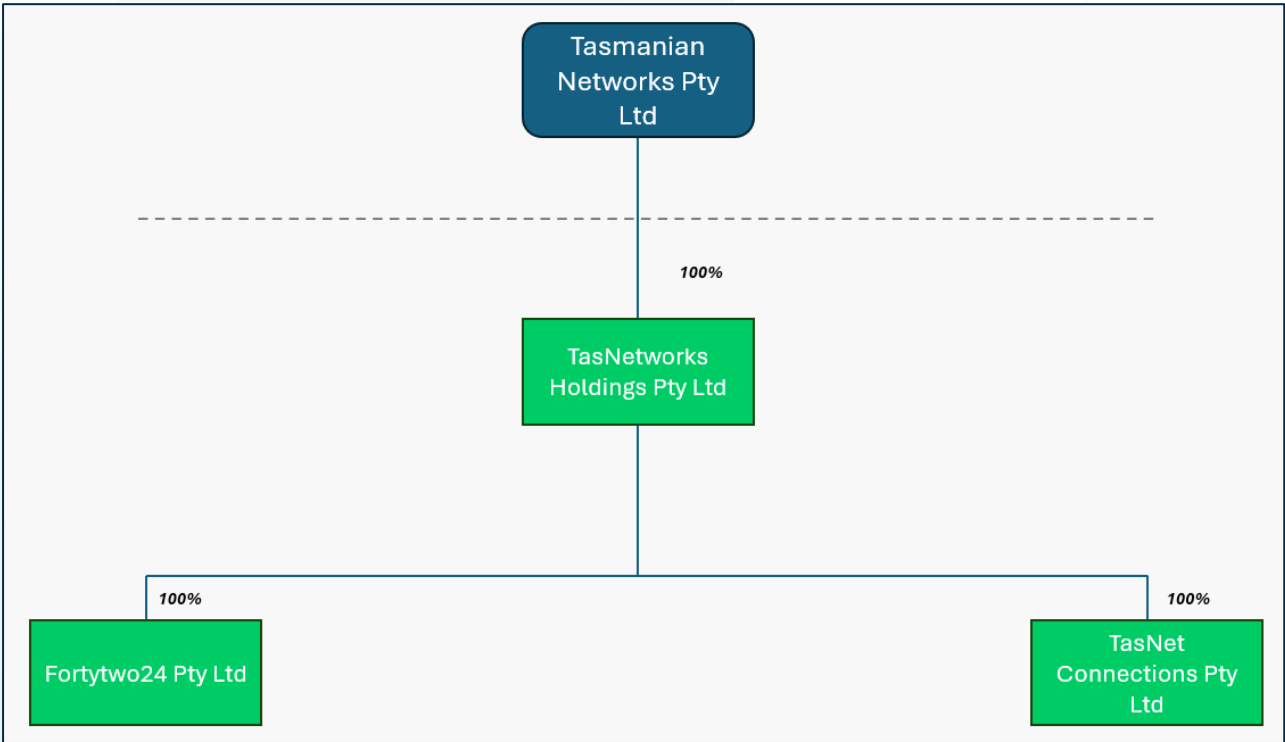


Figure 2: TasNetworks Group after 22 March 2024:



In 2024, 42-24 did not undertake any contestable electricity services as defined by the Distribution Guidelines. It did undertake a number of 'other services' that require legal separation¹, including:

- Telecommunications;
- Data centre services; and
- IT Services.

In 2024 Marinus Link did not undertake any contestable electricity services or other services. Therefore, there was no requirement to ring-fence its services from TasNetworks.

In 2024 TNC Pty Ltd did not operate as a subsidiary.

As a business unit of TasNetworks in 2024, TNC supplied contestable electricity services as defined by the Transmission Guidelines. To maintain compliance, relevant controls have been put in place as detailed further below. In 2024, TNC has not provided 'other services' and therefore does not require legal separation².

TasNetworks' distribution service offering is aligned with the service categories in the AER's Classification of Services from the 2019-24 and 2024-29 Regulatory Determinations and TasNetworks transmission services are aligned with the service classification in the National Electricity Rules (NER).

2 Measures to ensure compliance

Clause 6.2.1(b)i. of the Guidelines requires that the annual compliance report must identify and describe the measures the DNSP/TNSP has taken to ensure compliance with its obligations under the Guidelines, for the 12 months ended 31 December 2024.

A mandatory ring-fencing training package is required for all TasNetworks new starters along with the obligation that all existing employees must complete a refresher course every 2 years. These requirements aim to make all TasNetworks team members aware of ring-fencing obligations. The training includes:

- an introduction to ring-fencing;
- an overview of obligations to not discriminate according to 4.1(b) and (c) of the Guidelines;
- hypothetical scenarios which may be encountered by TasNetworks team members; and
- a short quiz.

In 2024, 219 team members completed ring-fencing training.

TasNetworks has also implemented advanced ring-fencing training that targets employees who are at a higher risk of violating ring-fencing requirements. Employees deemed to be higher risk include:

¹ Clause 3.1(b) of the Distribution Guidelines

² Clause 3.1(b) of the Transmission Guidelines

- teams with a specialised understanding of the network such as Asset Management and Network Operations;
- teams that provide corporate services;
- teams with specialised knowledge of the market such as supply chain teams; and
- project delivery teams who have knowledge of current and future projects.

In 2024, 98% of identified team members completed advanced ring-fencing training.

Measures used to ensure compliance with specific Guideline clauses are provided in the following sections.

2.1 Obligations to establish and maintain accounts

Below is an explanation of the procedures and processes used by TasNetworks to ensure that its distribution and transmission services have been classified as set out by the AER in the 2019-24 and 2024-29 Regulatory Determinations, the NER, and do not contravene clause 3.2 of the Guidelines.

2.1.1 Cost capture and financial management systems

TasNetworks' chart of accounts and costing systems have been established so that both operating and capital expenditure can be separately accounted for and reported in accordance with TasNetworks' AER approved Cost Allocation Method (CAM) and regulatory reporting requirements.

TasNetworks' principles, processes and policies all support compliance with the CAM. This includes the processes of attributing costs directly and of allocating shared costs to categories of service.

TasNetworks' cost allocation principles and policies consider the direct allocation of costs to:

- Regulated Transmission services;
- Non-regulated Transmission services;
- Negotiated Transmission services;
- Direct Control Distribution services;
- Unregulated Distribution services;
- Other Distribution services; and
- Negotiated Distribution services.

Costs that are not directly allocated to one particular service type (e.g. overhead costs) are subject to a shared allocation of costs between the services listed above.

The chart of accounts structure enables costs to be attributed directly to the categories of services provided by TasNetworks, 42-24, TNC and, up until 22 March 2024, Marinus Link or automatically allocates costs between them.

Incurred costs are allocated to the following chart of account dimensions in the financial systems:

- responsibility centre/department/cost centre - defined as the area in the business that is responsible for the work performed;

- functional area - defined as the nature of the work being performed and is also used to identify between capital and operating expenditure as well as the type of work and associated service classification (work category); and
- cost element/General Ledger code - defined as the nature of the costs incurred such as labour or contracted services.

The above dimensions form the basis of the cost hierarchy. Each dimension is assigned to a service classification. By establishing a clear relationship between dimensions and the categories of services, the financial systems ensure that costs are correctly attributed to the relevant service.

TasNetworks has three main types of costs:

- directly allocated or attributable costs (such as timesheet labour, materials, fleet, invoices for contracted services or via journal such as licences fees, etc.);
- on costs for labour, materials and fleet; and
- shared costs (allocated on the basis of causal cost allocators).

2.2 Obligation not to discriminate

Clause 4.1 of the Guidelines places an obligation on the DNSP/TNSP to not discriminate (either directly or indirectly) between a related electricity service provider (RESP) and a competitor (or potential competitor) of a RESP in connection with the provision of:

1. direct control services/prescribed transmission services by the DNSP/TNSP (whether to itself or to any other legal entity); and/or
2. contestable electricity services by any other legal entity (Distribution Guidelines only).

TasNetworks' subsidiaries were not engaged in the provision of contestable electricity services as defined by the Distribution Guidelines during the reporting period.

TasNetworks has put controls in place to meet the obligation not to discriminate between TNC and a competitor. These include:

- an Interactions between TasNetworks and TNC Policy which details how to make sure TasNetworks does not engage in anti-competitive behaviour;
- placing restrictions on what TNC employees can access within TasNetworks' document management system;
- conducting advanced training for team members that could have access to ring-fenced information; and
- keeping the information sharing register up to date to make sure that all competitors have equal access to information that is provided by TasNetworks to a RESP or legal entity.

During the reporting period, TasNetworks did not have enquiries from RESPs or legal entities regarding concerns of anti-competitive behaviour.

2.3 Offices, staff, branding and promotions

2.3.1 Physical separation/co-location

Clause 4.2.1(a) of the Distribution Guidelines obligates the DNSP to use offices that are separate from any offices in which a RESP provides contestable electricity services.

Although they did not provide contestable electricity services 42-24 operates out of separate offices. TNC operates out of the Lenah Valley Head Office, but did not provide contestable electricity services as defined by the Distribution Guidelines during the reporting period.

This obligation does not apply to TasNetworks as a TNSP, as there are no physical separation/co-location requirements in the Transmission Guidelines.

2.3.2 Staff sharing

Clause 4.2.2(a) of the Distribution Guidelines obligates the DNSP to ensure that its staff involved in the provision or marketing of direct control services are not also involved in the provision or marketing of a RESPs contestable electricity services.

TasNetworks' subsidiaries were not engaged in the provision of contestable electricity services as defined by the Distribution Guidelines during the reporting period.

Clause 4.3 of the Transmission Guidelines obligates the TNSP to ensure that its marketing staff involved in the provision of prescribed transmission services are not staff also involved in the provision of contestable electricity services by a RESP, or vice versa.

In the reporting period, TasNetworks has not had any marketing staff involved in the provision of prescribed transmission services also involved in the provision of contestable electricity services.

2.3.3 Branding and cross promotion

Clause 4.2.3(a) of the Distribution Guidelines obligates the DNSP to use branding for its direct control services that is independent and separate from the branding used by a RESP for contestable electricity services, such that a reasonable person would not infer from the respective branding that the DNSP and the RESP are related.

The DNSP must not advertise or promote its direct control services and its contestable electricity services together (including by way of cross-advertisement or cross-promotion).

The DNSP must not advertise or promote contestable electricity services provided by a related electricity service provider.

TasNetworks' subsidiaries were not engaged in the provision of contestable electricity services as defined by the Distribution Guidelines during the reporting period.

This obligation does not apply to TasNetworks as a TNSP, as there are no branding and cross promotion requirements in the Transmission Guidelines.

2.3.4 Office and staff registers

Clause 4.2.4 (a) of the Distribution Guidelines obligates the DNSP to establish, maintain and keep a register that identifies:

- RESPs who provide contestable electricity services that the DNSP has not physically separated or co-located from;
- the staff positions (including a description of the roles, functions and duties) of those staff positions who are involved in the provision of marketing direct control services and a RESPs contestable electricity services; and
- the staff positions referred to above which are held, or have been held within the previous three months, by a member of staff whose access to electricity information ceased upon, or in the 12 months prior to, commencing in that position, and the dates on which that member of staff commenced to hold and (if applicable) ceased to hold that position.

Clause 4.2.4 (b) states that 'no later than 15 January, 15 April, 15 July and 15 October each year, a DNSP must publish, on its website, an updated version of each of the registers referred to above. The DNSP must ensure that the information published in each updated version is current to the end of the calendar month that is immediately prior to the required publication date for that updated version under this clause 4.2.4(b)'.

TasNetworks' **Shared Office Register** details all the shared offices where TasNetworks provides direct control services and contestable electricity services as defined by the Distribution Guidelines. The Shared Office Register is available on TasNetworks' external website, as per the Distribution Guidelines requirements. During 2024 TasNetworks has updated its Shared Office Register as per its requirements.

Currently, TasNetworks' Shared Office Register lists the Lenah Valley Head Office, although as noted above TNC did not provide contestable electricity services as defined by the Distribution Guidelines during the reporting period.

TasNetworks' **Shared Staff Register** details all TasNetworks shared staff providing contestable electricity services as defined by the Guidelines. The Shared Staff Register is available on TasNetworks' external website, as per the Guidelines requirements.

Currently, TasNetworks' Shared Staff Register includes the Chief Executive Officer and Executive team, although as noted above TasNetworks' subsidiaries were not engaged in the provision of contestable electricity services as defined by the Distribution Guidelines during the reporting period.

2.4 Information access and disclosure obligations

TasNetworks has developed protocols to comply with the disclosure of information and sharing of information obligations (clauses 4.3.2 and 4.3.3 of the Distribution Guidelines and clauses 4.2.2 and 4.2.3 of the Transmission Guidelines).

TasNetworks has published its **Information Sharing Protocol** on its external website, as per clause 4.3.3(d) of the Distribution Guidelines and clause 4.2.3(d) of the Transmission Guidelines. This document sets out the process through which TasNetworks will share information, pursuant to clause 4.3.3/4.2.3 of the Distribution/Transmission Guidelines, and

the disclosure of information, pursuant to clause 4.3.2/4.2.2 of the Distribution/Transmission Guidelines.

To assist staff with managing information within the TasNetworks Group (including subsidiaries), TasNetworks created an internal document titled Distribution Ring-fencing Information Protocol. This document addresses clauses from the Guidelines associated with information access and disclosure.

Additionally, to assist staff with managing the additional expectations as a result of the updated Transmission Guidelines, an internal protocol has been developed to provide guidance regarding information sharing, and other key components of functional separation.

TasNetworks has also established an information sharing register (clause 4.3.4/4.2.4 of the Distribution/Transmission Guidelines). TasNetworks' [Information Sharing Register](#) details all the legal entities who have requested to be included and any confidential information that they have requested as defined by the Guidelines.

2.5 Conduct of Service Providers

TasNetworks must ensure that any new or varied agreement between TasNetworks and a service provider includes provisions requiring the service provider to comply with clause 4.4.1(a) of the Guidelines. TasNetworks must also not directly or indirectly encourage or incentivise a service provider to engage in conduct contrary to clause 4 of the Guidelines.

To ensure compliance with these obligations under the Guidelines, TasNetworks has a software platform to manage contract creation, and contemporary contract templates to ensure that all ring-fencing obligations are defined and managed.

3 Breaches

During the reporting period, TasNetworks did not identify any breaches of the Guidelines.

In December 2024, TasNetworks received an official warning notice from the AER regarding the novation of telecommunication contracts between TasNetworks and 42-24. In December 2024, TasNetworks responded with its reasoning as to why it was not breaching the Guidelines. Context is provided below.

3.1 Telecommunication contract novations

In preparation for new ring-fencing obligations in September 2017, TasNetworks identified that there were 49 telecommunication contracts that would require novation to 42-24. Noting that TasNetworks would not be able to novate all of the contracts in time for the new obligations, TasNetworks applied for and was granted a waiver by the AER to provide these services until June 2018.

At the time the waiver was about to expire, TasNetworks identified that 13 of the more complicated contracts would not be novated in time. Despite continued efforts over 2018-19, limited progress was made due to the lack of incentive for counterparties to novate contracts.

In March 2019, TasNetworks lodged a breach report with the AER in accordance with clause 6.3 of the Guidelines. An agreement was made that TasNetworks would provide quarterly reports to the AER on its progress towards novating the final contracts and becoming compliant.

On 27 February 2024, TasNetworks successfully novated its last remaining telecommunication contract and notified the AER via a letter stating it was now compliant with the Guidelines.

On 11 December 2024, the AER issued a 'warning letter' stating its concern with "TasNetworks' reported ongoing non-compliance with clause 3.1(b) of both the Distribution and Transmission Guidelines". TasNetworks has responded to the AER's letter, referring it to the February 2024 letter sent by TasNetworks in which it confirms its compliance.

4 Other services

Clause 6.2.1(b)iii. of the Guidelines require DNSPs/TNSPs to report all other services provided by the DNSP/TNSP in accordance with clause 3.1 of the Guidelines.

On 18 October 2024 TasNetworks carried out other services for a transmission customer.

4.1 Transmission Customer Fault Finding

On 17 October 2024, a transmission customer identified that it had a fault on one of its internal feeder ring mains. The customer inspected the above ground section of the cable run and was unable to locate the point of failure.

The cable that had experienced a fault fed critical parts of the customer's plant, some of which have a maximum of 2-4 hours before the customer's equipment would be at significant risk due to loss of electricity.

Given the urgent nature of the fault, the customer contacted its two testing providers in Tasmania but was advised by one provider that it was not able to assist with the specific fault, and the other provider that the earliest it would be able to assist was approximately 3 weeks.

On 18 October 2024, TasNetworks attended the customer's site and partially provided the fault-finding services. TasNetworks was forced to cease the fault finding due to dangerous weather conditions.

TasNetworks provided these services under clause 3.1(e)(iv) the Transmission Guidelines because it was providing assistance to the extent necessary to respond to an event (such as an emergency) that was beyond its reasonable control³. The facts below detail why these criteria were met:

- The services requested by the customer were not readily available in the market at the time and required special equipment and expertise to perform;

³ Clause 3.1(e)(iv) of the Transmission Guidelines

- The customer had already tried to locate available service providers but had been unable to after making multiple reasonable inquiries; and
- the provision of the other services by TasNetworks were provided to assist the customer in avoiding a potential emergency and significant financial loss. The value of services provided by TasNetworks was very low (less than \$5,000) compared to the significant loss which would have been suffered in the event the customer's equipment was interrupted by loss of electricity.

TasNetworks does not ordinarily provide these services to transmission customers.

5 Transactions with affiliated entities

TasNetworks and its affiliate, 42-24, are parties to a Master Business Services Agreement under which TasNetworks provides 42-24 with:

- corporate services (which include Board, Company Secretary and General Counsel support, commercial services, financial analysis and reporting, information management, information technology and human resources);
- access to staff to perform work on behalf of 42-24; and
- access to assets for 42-24 to fulfil relevant contract obligations.

Corporate services are charged on either a fixed charge or do and charge basis. Access to staff and assets are charged based on relevant pricing principles that recover operating expenses, overheads and asset costs.

TasNetworks and 42-24 are also parties to an intercompany loan agreement, under which 42-24 is able to borrow funds from TasNetworks. The loan agreement is not currently being utilised.

Up until 22 March 2024, TasNetworks and its affiliate Marinus Link were parties to a Master Business Services Agreement under which TasNetworks provided Marinus Link with:

- insurance;
- external audit;
- corporate shared services (such as finance); and
- access to staff to perform work on behalf of Marinus Link.

Corporate shared services were charged on an agreed annual fee utilising the cost allocation methodology. Access to staff is charged on a 'do and charge' basis.

TasNetworks and Marinus Link were parties to an intercompany loan agreement up until 22 March 2024. Under this agreement, Marinus Link was able to borrow funds from TasNetworks. There also was a 12 monthly rolling agreement, whereby TasNetworks agreed to support Marinus Link as a going concern. This included not seeking repayment of any loan repayments until such time as it was able to do so. It also included a requirement for Marinus Link to pay interest to TasNetworks at a rate equivalent to the cost of funds that TasNetworks borrowed at in addition to the margin set out in the agreement.

6 Waivers

6.1 Background

TasNetworks had two temporary waivers from the Distribution Guidelines (none from the Transmission Guidelines) for the period 1 January 2024 to 31 December 2024. These were:

- a class waiver for DNSP-led projects funded under the Australian Government's Community Batteries for Household Solar Program; and
- a waiver for Reliability and Emergency Reserve Trader services.

TasNetworks entered into a lease agreement for a community battery funded by the Commonwealth Government's Community Batteries for Household Solar Program. As required, TasNetworks sent the AER information about the contract within 20 days of it being executed.

TasNetworks did not deploy any community batteries in 2024 and therefore the annual reporting requirements required by the waiver do not apply for the reporting period.

Further details may be found in [TasNetworks Waiver Register](#).



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