

# AER Ring-fencing Guideline Electricity Distribution Compliance Report

AusNet Electricity Services  
Pty Ltd

*April 2022*

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# 1. Executive summary

## 1.1 Introduction

AusNet Electricity Services Pty Ltd (“AST”) is a subsidiary of AusNet Services Holdings Pty Ltd. AST engages in the delivery of electricity to consumer connection points in Victoria.

The Australian Energy Regulator (“AER”) published the Ring-fencing Guideline (the Guideline) for Electricity Distribution on 30 November 2016 (subsequently revised October 2017<sup>1</sup>) under the National Electricity Rules, to provide for functional separation of regulated and competitive business activities to promote competition in the provision of electricity services.

## 1.2 Background

Ernst and Young (“We or we”) has been engaged under an arrangement with AST to perform an independent review of AST’s compliance with the requirements under the *AER’s Electricity Distribution Ring-fencing Guideline version 2* for the review period 1 January 2021 to 31 December 2021. The review includes contents of the compliance report if they accurately reflect the activities taken by AST is compliant with the Guideline.

This reasonable assurance engagement was undertaken following the request of the Australian Energy Regulator (“AER”) pursuant to *Section 6.2 Compliance Reporting* of the Guideline.

## 1.3 Scope

The scope of the review includes the following that is detailed in the AER Annual compliance reporting and independent assessment under the Guideline: An attestation from the DNSP signed by the relevant officer (as defined in clause 1.4 of the Guideline) that the information provided by the DNSP to the assessor was complete and correct.

- ▶ A statement from the assessor detailing 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 DNSP.

## 1.4 Methodology

Interviews were held with the key AST Team members responsible for each of the obligation clauses. An understanding of the processes, procedures, and controls in place at AST was obtained from these interviews. Evidence obtained was gathered through enquiry and observations, tests of controls and representations received from management.

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.

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<sup>1</sup> Version 2 of the AER’s Electricity Distribution Ringfencing Guideline was published on 17 October 2017. On 3 November 2021, the AER published Version 3 of the guideline which came into effect on 3 February 2022

## 1.5 Commercial risks of non-compliance

Ring-fencing aims to ensure that customers experience the benefits of fair competition by requiring clearer separation between regulated services provided by AST on a monopoly basis and contestable energy services provided by AST or its affiliates.

The key risks of non-compliance in related to ring-fencing requirements include:

- ▶ Inappropriate advantage provided to affiliates on commercial transactions  
This risk can arise through preferential treatment of affiliates through procurement processes to award contracts to affiliates that are not at arm's length. Employees may be incentivised to do so when inappropriate remuneration or performance evaluation frameworks are in place.
- ▶ Inappropriate access of confidential electricity information  
This risk can arise through inappropriate physical or system access by staff, or inappropriate staff sharing arrangements. Employees in the affiliate providing contestable electricity services may benefit from inappropriate use of confidential electricity information both in transactions with AST and business development with external customers.
- ▶ Inappropriate promotion of affiliates providing contestable electricity services  
This risk can arise through AST using its position as a regulated electricity services provider to inappropriately promote contestable electricity services provided by its affiliates. This can be both direct promotion through advertising arrangements, or indirect promotion using Mondo branding on AST assets such as trucks, stationary and webpages.

We have designed and executed our assurance procedures in recognition of these risks.

## 1.6 Overall observations

This is the fifth year AST has been assessed for its ring-fencing compliance. Through interviews conducted and assurance procedures performed, we have observed that the ring-fencing compliance environment at AST is shown to be mature and robust, but that some matters raised in the prior year remain outstanding.

It was noted that in 2021 AST undertook a minor organisational restructure with the entity's Growth and Future Networks (D&FN) division which houses the unregulated Energy Services and Mondo divisions being renamed Development and Future Networks (D&FN). Through our discussions with management, we noted these changes were not thought to be significant as there were no changes to its underlying services and operations of this division.

We have considered this restructure in the design and execution of our procedures against the Guidelines. We have continued to observe that historical arrangements between AST and its affiliates, the extent of these services is similar to the previous year. We have observed relevant controls in place to demonstrate ring-fencing compliance. The overall value of transactions between AST and other businesses in the AusNet Services Limited Group such as Mondo was [REDACTED] for the year ended 31 December 2021 whilst the overall value of transactions with Zinfra was [REDACTED]

Through our procedures we noted that AST has continued to pursue various projects in collaboration with Mondo including Project EDGE, The Phillip Island Community Energy Storage System (PICCESS) as well as a new project relating for the provision of Utility-Grade Stand-Alone Power System (SAPS) in areas of Victoria that experience distribution difficulties because of remoteness and bushfire risk. As part of our procedures, we made enquiries with key operational personnel involved with these projects as well as those in the Compliance team regarding the consideration of the Guidelines in the execution of the projects. Our observations of this are discussed in section 4.1 below.

Through this year's assessment performed, we identified no new recommendations for AST's continuous improvement, however we identified seven observations on points similar to those raised in the prior year. These observations and recommendations, together with management's responses, are summarised in section 3.1.

## 1.7 Limitations

We have not identified, addressed or corrected any errors or defects in AST's computer systems, other devices or components thereof ("Systems"), whether due to imprecise or ambiguous entry, storage, interpretation or processing or reporting of data. We are not responsible for any defect or problem arising out of or related to data processing in any Systems.

None of the services or any reports constitute any legal opinion or advice. We have not conducted a review to detect fraud or illegal acts.

We are providing our report only for this engagement and for no other purpose and we disclaim any responsibility for the use of our report for a different purpose or in a different context.

In certain circumstances representations from management constitute the only form of audit evidence. In such cases, we have relied upon representations made.

## 1.8 Executive comment

Management accepts the results of the audit and will consider the best way to address each recommendation in line with management responses in section 3.

## 1.9 Conclusion

Based on the completion of the procedures described in this report, drawing attention to our audit findings in Summary of Audit Findings, in our opinion AST has complied, in all material respects with all areas of the audit scope.

Refer to Section 5 of the report for the full Auditor's Statement.

## 2. Summary of audit findings

### 2.1 Summary of new findings in 2021

We have not identified any new findings as part of our procedures performed.

### 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 4.1 of the report.

Green	Strong	Risk of future breaches is low. 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	Moderate	Risk of future breaches is moderate. 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	Weak	Risk of future breaches is high. 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. 2020 Auditor Recommendations

The following table outlines AST's responses and actions taken against our recommendations in response to our 2020 findings as well as our relevant observations and findings in the current year:

Clause	Obligations	Recommendations in 2020	Observations and findings in 2021	Management Response
4.1(b)	<p>A DNSP must not discriminate (either directly or indirectly) between a related electricity service provider and a competitor (or potential competitor) of a related electricity service provider in connection with the provision of:</p> <p>i. direct control services by the DNSP (whether to itself or to any other legal entity); and / or</p> <p>ii. contestable electricity services by any other legal entity.</p>	<ul style="list-style-type: none"> <li>Management to ensure the 15 employees who have not yet completed the training program do so as soon as possible. We also many of these employees were on extended leave and would not be able to complete the training anytime soon.</li> <li>We understand that there were terminated employees who are still included on the Ring-fencing training completion tracker. We recommend that AST to perform periodic review on the list to ensure new employees or terminated employees are added/removed from the list.</li> </ul>	<ul style="list-style-type: none"> <li>There was a slight regression in this area in the current year with 23 employees not having completed their training as at 8 March 2022 noting that only 11 of the 23 employees were required to complete this training prior to 31 December 2021.</li> <li>However, we observed that an improvement was made in this area with the introduction of a Power BI reporting dashboard which allowed management greater oversight over training completion.</li> <li>We noted through our procedures performed and discussions with management that our recommendation from 2020 has been adopted and periodic reviews of the training register are completed to ensure terminated employees and employees that are on extended leave to ensure they are not included.</li> </ul>	<p>The Compliance team has actively followed up the remaining staff members required to complete the online training module using the new Power BI reporting dashboard.</p> <p>There has been a significant focus on the completion of compliance-related training which has been re-enforced as part of the annual performance review process and employee communications.</p>
4.1(c)	<p>(c) Without limiting its scope, clause 4.1(b) requires a DNSP to:</p> <p>i. in dealing or offering to deal with a related electricity service provider, treat the related electricity service provider as if it were not a related electricity service provider (that is, as if it had no connection or affiliation with the DNSP);</p> <p>ii. in like circumstances, deal or offer to deal with a related electricity service provider and a competitor (or potential competitor) of the related</p>	<ul style="list-style-type: none"> <li>A range of existing services provided by Mondo to AST were rolled forward in 2019 from 2017 and specified in Statements of Works (SoWs). The majority of these were administered under master services agreement which was 3 years in length.</li> <li>These arrangements have been put in place without a formal procurement process (eg benchmark against other market participants and/or tendered) which creates a risk of favourable pricing or other arrangements not being</li> </ul>	<ul style="list-style-type: none"> <li>We observed in the current year that there continued to be several historical SOWs relating to calibration and testing that remained in place between Mondo and AST and had not been market tested through formal procurement processes. In line with our detailed findings below relating to the Guideline 4.1 (c) we recommend that AST reviews these SoWs and puts these services through formal procurement processes (ie market testing or benchmarking)</li> </ul>	<p>Management acknowledges the recommendation and commits to undergoing a formal procurement process in respect of the services the subject of the SOWs between Mondo and AST.</p> <p>However, management notes that, when applying non-discriminatory criteria, Mondo may still remain a legitimate preferred supplier (eg due to Mondo's position in the market as the most experienced provider of such services). On that basis, a full tender or market test process may not be appropriate, but in such circumstances AusNet will</p>

Clause	Obligations	Recommendations in 2020	Observations and findings in 2021	Management Response
	<p>electricity service provider on substantially the same terms and conditions;</p> <p>iii. in like circumstances, provide substantially the same quality, reliability and timeliness of service to a related electricity service provider and a competitor (or potential competitor) of the related electricity service provider;</p> <p>iv. subject to clause 4.3.3(b), not disclose to a related electricity service provider information the DNSP has obtained through its dealings with a competitor (or potential competitor) of the related electricity service provider where the disclosure would, or would be likely to, provide an advantage to the related electricity service provider.</p>	<p>detected. The majority of these SoWs expired 2020.</p> <p>We recommend that AST reviews these expiring SoWs and put these services through formal procurement processes (ie market testing) before granting any extension to these SoWs.</p>	<p>before granting any extension to these SoWs.</p> <ul style="list-style-type: none"> <li>We restate our previous recommendation that AST reviews these expiring SoWs and put these services through formal procurement processes (ie market testing or benchmarking) before granting any further extensions to these SoWs.</li> </ul>	<p>provide evidence of non-discrimination or no subsidisation by way of undertaking a price / value exercise.</p>
4.2.1	<p>(a) Subject to this clause 4.2.1, in providing direct control services, a DNSP must use offices that are separate from any offices from which a related electricity service provider provides contestable electricity services.</p>	<ul style="list-style-type: none"> <li>Through discussions with management, we noted that a site access review had been performed during the period, however, evidence of this review could not be provided to EY. We recommend that evidence of future reviews is retained in an accessible format.</li> </ul>	<ul style="list-style-type: none"> <li>We note that AST carried out a broader ring-fencing review during the period. We obtained documentation of the project scope and purpose.</li> <li>We noted that this ring-fencing review did not involve a review of site access at the individual employee level. We restate our recommendation from the prior period that management carry out this review at the employee level and retain the evidence of the review in an accessible format.</li> </ul> <p>We also note that such a review is potentially of higher importance as the organisation looks to restructure its working environment with regards to the location and layout of its offices in the face of moving to hybrid working models in the wake of the COVID-19 pandemic.</p>	<p>Management notes that a site access review on an individual employee level was commenced during 2021 calendar year. Management confirms that the process will be refined and embedded during the remainder of 2022 calendar year, with evidence retained.</p>



Clause	Obligations	Recommendations in 2020	Observations and findings in 2021	Management Response
4.2.2	(a) Subject to this clause 4.2.2, a DNSP must ensure that its staff involved in the provision or marketing of direct control services are not also involved in the provision or marketing of contestable electricity services by a related electricity service provider.	<ul style="list-style-type: none"> <li>We restate our previous recommendation that AST define roles in the staff sharing register to be consistent with the actual role in the business so that it is easy to identify the list of employees who are subject to staff sharing arrangements.</li> </ul>	<ul style="list-style-type: none"> <li>It was observed in the current year this recommendation was not adopted and that the roles in the staff sharing register and actual roles of the 29 seconded staff in the business remain inconsistent.</li> <li>We restate our recommendation that AST define roles in the staff sharing register to be consistent with the actual role in the business so that the employees who are subject to staff sharing arrangements can be readily identified.</li> </ul>	<p>Management notes that as part of the Guidelines' requirement to provide an updated form of staff sharing register, AusNet published an updated staff sharing register on its website prior to 15 April 2022. This updated staff sharing register included a more detailed list / description of shared staff roles.</p> <p>As part of the Guidelines' requirement to update the staff sharing register each calendar quarter, AusNet commits to undertaking a quarterly reconciliation of the role titles on the staff sharing register with actual role titles.</p>
4.2.2	(c) The remuneration, incentives and other benefits (financial or otherwise) a DNSP provides to a member of its staff must not give the member of staff an incentive to act in a manner that is contrary to the DNSP's obligations under this Guideline.	<ul style="list-style-type: none"> <li>We recommend management identify a list of high-risk employees who have relevant access to confidential information, decision making authority and financial incentives linked to both RES and Mondo performance. We recommend management put in place additional ring-fencing monitoring measures (eg monitoring of frequency of the employee accessing confidential information) and provide additional ring-fencing training for these identified employees.</li> </ul>	<ul style="list-style-type: none"> <li>Through discussions with management, it was noted that a broader ring-fencing review was carried out during the period. We note that as part of this review management has identified the following teams as high risk from a ring-fencing perspective regarding system and site access. <ul style="list-style-type: none"> <li>Contestable Energy Services <ul style="list-style-type: none"> <li>Energy Services</li> <li>Asset &amp; Utility Services</li> </ul> </li> <li>Contestable Energy Services <ul style="list-style-type: none"> <li>Electricity Distribution Network Planning &amp; Strategy</li> <li>Electricity Distribution Customer Connections</li> <li>Customer Service &amp; Resolutions</li> </ul> </li> </ul> <p>Management advised this review is ongoing, as part of this initiative at risk teams were identified and these teams were targeted as part of the building access and IT access reviews undertaken using data as at end September 2021.</p> </li> </ul>	<p>Management notes that it has completed, as part of the Ring-fencing Refresh review, its analysis of the high-risk teams. As a result of that review, on-going targeted ring-fencing training and awareness is provided to these high-risk teams.</p>

Clause	Obligations	Recommendations in 2020	Observations and findings in 2021	Management Response
			In addition, discussions/meetings have been held with managers/team members re ring-fencing obligations. Management has noted that it intends to build on this during 2022.	
4.2.4	A DNSP must establish, maintain and keep a register that identifies: (a) the classes of offices to which it has not applied clause 4.2.1(a) by reason of clauses 4.2.1(b)i. or 4.2.1(b)iii.; and (b) the nature of the positions (including a description of the roles, functions and duties) of its members of staff to which it has not applied clause 4.2.2(a) by reason of clauses 4.2.2(b), ie 4.2.2(b)i.b., 4.2.2(b)iii. or 4.2.2(d);	<ul style="list-style-type: none"> <li>We recognise that AST has established and maintained a register of the nature of the shared positions in line with the Guideline. We note that the nature of positions for project type of roles included in the register is not linked to actual positions/titles used within the business.</li> <li>To allow for effective monitoring of staff sharing arrangements, we recommend that a document or database be maintained to link the natures of positions in the register to actual positions/titles used within the business.</li> </ul>	<ul style="list-style-type: none"> <li>Consistent with our observations to Guideline 4.2.2 (a) we noted that AST has not adopted this recommendation and that the roles in the staff sharing register and actual roles in the business remain inconsistent.</li> <li>Our recommendation in relation to this obligation is the same as 4.2.2 (a).</li> </ul>	Please refer to management's responses in relation to the staff sharing register at section 4.2.2(a) above.
4.3.2	Subject to this clause 4.3, a DNSP must: (a) keep confidential information confidential; and (b) only use confidential information for the purpose for which it was acquired or generated.	<ul style="list-style-type: none"> <li>We recommend management identify a list of high-risk employees who have relevant access to confidential information, decision making authority and financial incentives linked to both AST and Mondo performances. We recommend management to put in place additional ring-fencing monitoring measures (eg monitoring of frequency of the employee accessing confidential information) and provide additional ring-fencing training for these identified employees.</li> <li>We recommend management perform periodic SAP access reviews on CES users, to detect and prevent any unauthorised access to confidential information.</li> <li>We recommend that management consider the implementation of system controls to identify and control access to confidential information at a transaction or document level. This would complement the broader existing controls</li> </ul>	<ul style="list-style-type: none"> <li>It was observed in the current year that this recommendation was not adopted. AST has not identified a list of high-risk employees who have access to confidential information, decision making authority and financial incentives.</li> <li>Through discussions with management, it was noted that a broader ring-fencing review was carried out during the period, however based on our review of the documentation provided this review does not yet identify high risk personnel and the information to which they have access. The work to date appears to focus on the identification of the high-risk teams only.</li> <li>We observed in the current year that controls of this nature had not been implemented and that system access controls remain the primary measure of information protection for AST.</li> </ul>	Management notes that it has completed, as part of the Ring-fencing Refresh review, its analysis of the high-risk teams. As a result of that review on-going targeted ring-fencing training and awareness is provided to these high-risk teams.

Clause	Obligations	Recommendations in 2020	Observations and findings in 2021	Management Response
		in place on system access at an application or company code level.	<ul style="list-style-type: none"> <li>In line with our recommendation to 4.2.2 we recommend management perform periodic access reviews of key systems with confidential information and that evidence of this review is retained and easily accessible.</li> </ul>	

## 4. Detailed audit findings

### 4.1 Detailed audit findings

Instrument Clause Event: Ring-fencing Guideline Electricity Distribution

Obligation: Prevention of cross subsidies – Section 3

Guidance Assessment Criteria and Assessment Controls

Ref	Compliance Obligation	Process Description	Testing	Grading
3.1(a)	A DNSP must be a legal entity.	AST's legal entity structure complies with the legal separation requirements of the Guideline. The operational refresh did not involve any changes to the legal corporate structure. AusNet Electricity Services Pty Ltd is a legal entity.	<p>Procedures performed:</p> <p>We performed an ASIC search on AST to ensure that it is a separate legal entity. To undertake the search, we used AST's ABN number as noted on the distribution licence approved by AER.</p> <p>Observation:</p> <p>Based upon the evidence obtained above, no exceptions were noted as to AST's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> <li>AST is a legal entity.</li> </ul> <p>Recommendations:</p> <p>None noted.</p>	Strong
3.1(b)	A DNSP may provide distribution services and transmission services but must not provide other services.	<p>All arrangements entered by AST will need to be reviewed by the AST Contracts team and Legal team to ensure compliance with the Guideline.</p> <p>In 2019 AST identified an arrangement that was not in accordance with the Guideline. AST applied for waivers from the AER for this arrangement was granted a waiver by the AER in December 2017.</p> <p>Other non-distribution services: there are several contracts for the provision of services that do not meet the Guideline service classification restrictions, for which AST is the legal entity on the contract documentation. The services include:</p> <ul style="list-style-type: none"> <li>public lighting and nightwatchman lights (including alteration and relocation of distributor public lighting assets; new public lights, and; installation, repair and maintenance of watchman lights)</li> </ul>	<p>Discussion held with:</p> <p>Manager, Engineering &amp; Program Management, Emerging Markets</p> <p>Procurement Business Partner</p> <p>Legal Counsel</p> <p>Senior Manager Compliance</p> <p>Procedures performed:</p> <p>We reviewed the process undertaken by management to ensure all arrangements were correctly identified and in compliance with the Guideline.</p> <p>We reviewed the services tracker which details the description of services provided, contractual term, and ring-fencing compliance status throughout the 2021 compliance year.</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
		<ul style="list-style-type: none"> <li>emergency recoverable works</li> <li>Reserve feeder construction.</li> </ul> <p>These services have been extended in line with the commencement of the next electricity distribution pricing period. The services will be alternative control services under the framework with their approach expected to be approved by ARENA and a waiver no longer required for these services.</p>	<p>We made enquiries regarding permissibility of the following projects under the guideline.</p> <ul style="list-style-type: none"> <li><i>Project Edge</i>, a multi-year project to demonstrate an off-market, proof-of-concept Distributed Energy Resource (DER) Marketplace that efficiently operates DER to provide both wholesale and local network services within the constraints of the distribution network.</li> <li><i>The Phillip Island Community Energy Storage System (PICESS)</i>: A project to be undertaken by Mondo to install a battery on Phillip Island to help greater reliability in electricity supply for the Island, especially during peak holiday periods</li> <li><i>Utility Grade Stand Alone Power Systems (SAPS)</i>: An initiative undertaken by AusNet to install in front of the meter power generation systems in areas of rural and remote Victoria prone to distribution issues and bushfire risk.</li> </ul> <p>As part of our audit, we reviewed materials provided by AST outlining the project aims, participants, deliverables, and timeline.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted with AST's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> <li>AST solely provides distribution services and transmission services, apart from those included in the waiver registers, as approved by the AST.</li> <li>We noted in our review our enquiries regarding the projects above that the roles had been appointed and that the briefings had been made to relevant staff.</li> <li>AST has preventive controls to ensure all procurement arrangements entered are managed in accordance with the Guideline, including mandatory consultation with the legal team.</li> </ul> <p>Recommendations:</p> <p>None noted.</p>	

Ref	Compliance Obligation	Process Description	Testing	Grading
3.2.1(a)	(a) A DNSP must establish and maintain appropriate internal accounting procedures to ensure that it can demonstrate the extent and nature of transactions between the DNSP and its affiliated entities.	<p>AST developed an Accounting Policy Manual specific for transactions with affiliated entities in December 2017. The policy defines related party and affiliated entities, also details how profit and loss and balance sheet transactions are identified and reported separately. It also outlines intercompany transactions with related parties must be offered on the same terms that it would to an unrelated party.</p> <p>AST has the obligation to have the transactions with affiliated entities in an arm's length basis. For example, all intercompany transaction can be clearly identified by intercompany GL, partner company code or by the presence of a "trading partner" field within SAP. The cost allocation methodology generates intercompany receivables and payables that are recorded in the financial statements.</p> <p>AST maintains records of transactions with related parties and is required to disclose these transactions in its financial statements.</p> <p>Mondo related party transactions are captured via intercompany transactions. Related party transactions with Zinfra are identified in SAP via a customer or vendor code. All revenue has a customer code and all operating expenses has a vendor code. Related party customers and vendors are set up in SAP with an 'RPT-xxx' as an identifier.</p>	<p>Discussion held with: Senior Manager Compliance Legal Counsel Regulatory Accounting Manager</p> <p>Procedures performed: We obtained and reviewed the AST internal accounting procedure manual - "Transactions with affiliated entities" and noted that it addressed transactions between AST and its affiliated entities. We obtained and reviewed the transaction report between AST and affiliated entities in which the accounting treatment was noted to be consistent with the internal accounting manual. As at the date of this report, AST is generating the transaction listing between AST and its affiliated entities. We have reviewed management process to identify affiliated entities by sighting related party identifier codes on SAP system, in the specific format of RPT-xxx.</p> <p>Observation: Based upon the discussions held and procedures performed, no exceptions were noted on AST's compliance against the obligation. With the point noted below:</p> <ul style="list-style-type: none"> <li>AST has a process in place to establish and maintain appropriate internal accounting procedures and records to ensure that it can demonstrate the extent and nature of transactions between AST and its affiliated entities.</li> </ul> <p>Recommendations: None noted.</p>	Strong
3.2.2	(a) A DNSP must allocate or attribute costs to distribution services in a manner that is consistent with the Cost Allocation Principles and its approved CAM, as if the Cost Allocation Principles and CAM otherwise applied to the allocation and attribution of costs between distribution	<p>AST has in place an Electricity Distribution Cost Allocation Method (CAM) Accounting Policy Manual, which is reviewed and updated every 5 years. The existing CAM was effective in September 2019. The Finance team has reviewed the September version of CAM and noted that it is consistent with the Cost Allocation Principles per the Guideline, including the extended cost allocation requirements. Specifically, AST CAM not only requires cost allocation between direct control services and other distribution services, it also demonstrates cost</p>	<p>Discussion held with: Senior Manager Compliance Legal Counsel Regulatory Accounting Manager</p> <p>Procedures performed: We have obtained and reviewed the CAM, noting that it addressed the allocation and attribution of costs</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
	<p>services and non-distribution services.</p> <p>(b) A DNSP must only allocate or attribute costs to distribution services in accordance with clause 3.2.2(a) and must not allocate or attribute other costs to the distribution services it provides.</p> <p>(c) A DNSP must establish, maintain and keep records that demonstrate how it meets the obligations in clauses 3.2.2(a) and 3.2.2(b).</p>	<p>allocation for the allocation and attribution of costs between distribution services and other services.</p> <p>There are three types of operating cost for AST services:</p> <p>Labour costs – Are generated through the payroll system and are either directly costed/attributed to asset related work codes and activities via job orders and projects in the asset management system and labour timesheets, or allocated on the basis of a cost driver approach</p> <p>Material costs and invoiced contract and service costs - through direct costing/attribution to asset related work codes and cost driver approach.</p> <p>Directly costed items - through system based, general ledger attribution due to the nature of the cost, eg property taxes, license fees, network charges.</p> <p>AST use of company code, cost centre, account and project number in SAP to allow accurate allocations of Direct cost and indirect cost.</p> <p>Cost Allocation Process - Direct costs</p> <p>Direct costing is combination of project creation, budget approval (business cases policy), time sheeting, invoice receipting (procurement/AP policies), material receipting (Logistics' policies) etc.</p> <p>Cost Allocation Process - Overheads/ indirect costs</p> <p>AST uses cost driver approach to allocate shared costs. The cost drivers are calculated by the Corporate Finance team on a quarterly basis by applying a cascade of two approaches:</p> <p>Time sheeting: for cost centres that complete timesheets and where those timesheets cover the majority of the cost centre available time.</p> <p>Financial and Non-Financial Metrics: for cost centres where the unallocated costs relate to business support activities that are driven by or closely associated with a financial or non-financial metric, eg EBITDA, Revenue, and etc.</p> <p>Average of Other Cost Centres' Allocations: for management cost centres, cost drivers are based on the average cost allocations of the cost centres within their reporting hierarchy.</p> <p>Finance also performs a quarterly analysis of the financial results on a cost allocation basis for each regulated network, as well as the unregulated business of AST.</p>	<p>between distribution services and non-distribution services.</p> <p>We have checked that AST's existing CAM was approved by the AER.</p> <p>We reviewed the process undertaken by the finance team to allocate and attribute costs to distribution services and note that it was aligned with the existing CAM.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted as to AST's compliance against the obligation with key points below:</p> <ul style="list-style-type: none"> <li>• AST has a process in place to allocate costs to distribution services and is consistent with the Cost Allocation Principles and AER approved CAM.</li> <li>• AST uses an indirect cost allocation methodology which requires cost centre managers to accurately complete and submit the assessment of the split of the cost. Through this assessment, to ensure no non-regulated business cost is allocated to the regulated business.</li> <li>• AST maintains records in relation to costs allocation.</li> <li>• We obtained and reviewed the January and December 2021 indirect cost allocation spreadsheet to review the allocation of the indirect costs pool which were incurred in the process of developing the capital asset.</li> <li>• We observed that there had been no changes to cost centres because of the recent organisational restructure.</li> <li>• We observed that fixed allocation driver will not be amended unless the owner of the driver initiated that with finance team.</li> </ul> <p>Recommendations:</p> <p>None noted.</p>	

Ref	Compliance Obligation	Process Description	Testing	Grading
		Costs such as finance costs, corporate tax and other costs below the EBIT line are considered at corporate level.		



Obligation: Functional separation – Section 4

Guidance Assessment Criteria and Assessment Controls

Ref	Compliance Obligation	Process Description	Testing	Grading
4.1(b)	<p>(b) A DNSP must not discriminate (either directly or indirectly) between a related electricity service provider and a competitor (or potential competitor) of a related electricity service provider in connection with the provision of:</p> <p>I. direct control services by the DNSP (whether to itself or to any other legal entity); and / or</p> <p>ii. Contestable electricity services by any other legal entity.</p>	<p>In order to achieve compliance with the “non-discrimination” requirements in the Ring-Fencing Guideline, AST has sought to educate relevant employees about the ring-fencing requirements.</p> <p>AST’s online training program on the topic of Ring-fencing for electricity distribution policy includes a do’s and don’ts when dealing with affiliated entities.</p> <p>Below are the approaches:</p> <p>A ring-fencing page on the AusNet intranet, The Loop, which contains resources relating to key ringfencing educational information</p> <p>Online training module for employees accessed via SuccessFactors</p> <p>All AST employees have access to the ringfencing intranet site at any time. Upon completion of the training, employees receive a completion report to prove the training is complete. The compliance team monitors the completion status of the online training.</p> <p>Together with the legal team, AST developed various Statement of Works for the respective services provided by Energy Services and Technical Services which include, but is not limited to chemical testing services, metering services, HV asset testing and others.</p> <p>Master Service Agreement(s) are also in place to formalise existing and future arrangements for contestable electricity services provided by affiliated entities to AST. The Master Service Agreement was developed based on a third-party contract format, to ensure the terms and conditions set out are not discriminating against an external party.</p> <p>Any direct control services provided to affiliated entities are provided on equivalent terms and conditions, including price to non-affiliated entities receiving the same services in the same situation or circumstances. Examples include connection enquiries or connection services.</p>	<p>Discussion held with:</p> <p>Senior Manager Compliance</p> <p>Legal Counsel</p> <p>Technical Training Manager</p> <p>Procedures performed:</p> <p>We obtained and sighted the Ring-fencing Module slides and reviewed the training report which included the details of employees who has completed the training and the relevant completion dates.</p> <p>We obtained and reviewed all relevant SoWs, contracts and the Master Services Agreement entered between AST, Mondo under Development and Future Networks as well as with Zinfra.</p> <p>We have also made specific enquiries about new projects such as: Project Edge, The Phillip Island Community Energy Storage System (PICESS) and the construction of utility grade standalone power systems, and the processes involved to ensure that these were compliant with respect to this guideline.</p> <p>Also refer to section 4.1(c) below on our assessment of AST’s procurement processes and controls.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, we noted:</p> <ul style="list-style-type: none"> <li>• AST has processes and controls in place to ensure that there is no discrimination between a related electricity service provider and an external DNSP.</li> <li>• We have identified that several AST employees have not yet completed the required training.</li> <li>• We also noted from our review of the organisational structure that management employees within D&amp;FN are sometimes placed in a situation where they have direct reports on both sides of the ring-fence. Through discussions with management, we established that whilst this in</li> </ul>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
			<p>appearance does present a potential conflict it is argued that the code of conduct and training which all staff are subject to does provide as safeguard here. As does the segregation of duties, for example the head of D&amp;FN does not sit on the committee group associated with distribution capital expenditure.</p> <ul style="list-style-type: none"> <li>We note that in the current year AST has introduced a Power BI reporting dashboard using a data feed from its training platform Success Factors. Our observation was that this provided more current qualitative and quantitative analysis of employee training completion.</li> <li>With regards to our enquiries on the specific projects we found that the three aforementioned projects were subject to some competitive evaluation exercises.</li> <li>However, we did note that the competitive evaluation process for PICES was carried out over the Christmas holiday period, overall it is concluded that whilst the process did happen it potentially may not have yielded the same impact as at other times of the year and could be seen as restrictive.</li> </ul> <p>Recommendations:</p> <ul style="list-style-type: none"> <li>[Low] AST has continued to use an online training module which is required to be attended and completed by the most impacted employees. As at 8 March 2022, 23 employees were overview re completion of the training program. We understand that whilst this number is low there were reasonable explanations for why employees hadn't completed their training such as: technological issues and being on leave.</li> <li>We recommend that AST carry out evaluation processes at more commercially viable periods of the year as to ensure greater opportunity of participation from participants in line with the guideline.</li> </ul>	
4.1(c)	(c) Without limiting its scope, clause 4.1(b) requires a DNSP to:	AST has a robust procurement and other contracting processes for obtaining, or providing, services from, or to, affiliated entities, including any contracting requirements and legal approval. This includes establish the Delegation of Authority	Discussion held with: Procurement Business Partner Senior Manager Compliance	Moderate

Ref	Compliance Obligation	Process Description	Testing	Grading
	<p>i. in dealing or offering to deal with a related electricity service provider, treat the related electricity service provider as if it were not a related electricity service provider (that is, as if it had no connection or affiliation with the DNSP);</p> <p>ii. in like circumstances, deal or offer to deal with a related electricity service provider and a competitor (or potential competitor) of the related electricity service provider on substantially the same terms and conditions;</p> <p>iii. in like circumstances, provide substantially the same quality, reliability and timeliness of service to a related electricity service provider and a competitor (or potential competitor) of the related electricity service provider;</p> <p>iv. subject to clause 4.3.3(b), not disclose to a related electricity service provider information the DNSP has obtained through its dealings with a competitor (or potential competitor) of the related electricity service provider where the disclosure would, or would be likely to, provide an advantage to the related electricity service provider.</p>	<p>matrix, where RES staff are restricted from making a decision for another affiliated entity.</p> <p>There are formal decision-making process implemented before contracting a related electricity service provider.</p> <p>AST has implemented Master Service Agreements (MSA) where ring-fencing clauses are included with related electricity service provider.</p> <p>Management represented that services provided to the DNSP by its affiliated entities under SoWs are subject to multiple control mechanisms:</p> <ul style="list-style-type: none"> <li>The budget allocated to these services is determined solely by RES, and Mondo do not have any decision-making power on the budget setting process</li> <li>Specific AST personnel are responsible and accountable for establishing and managing the budget for each of these services</li> <li>Management undertakes active budget monitoring, including through the interrogation and assessment of year-on-year differences or trends and cost saving or efficiency opportunities.</li> <li>All existing SoWs have a limited timeframe from 12 months to a maximum of 3 years. All new SoWs from compliance year 2019 onwards have a timeframe of 12 months and will be subject to annual review before any extension is granted.</li> <li>No mark-up is charged on these services provided and cross-charge from Mondo to AST is only allowable on cost basis with no margin to be added to top</li> </ul> <p>AST has a Procurement Principles and Procurement Framework in place, whereby all services with the value of above \$1 million will need to go through a strategic procurement process, which the Procurement team will determine the best way to engage the market.</p> <p>This could be via a formal tender, a negotiation or other method deemed to obtain best value for money. The approach taken for the procurement of services is not necessarily determined or driven by the Division or Affiliated Parties for which the goods and services are being sourced. Rather, the sourcing approach is determined by a number of considerations including the nature of the goods and services, market factors and the procurement strategy. These considerations will lead to decisions on the</p>	<p>Legal Counsel</p> <p>Procedures performed:</p> <p>We obtained and reviewed the Statement of Works (SOW) and Master Service Agreement (MSA) entered between AST and Energy Services provided under the Mondo brand.</p> <p>We reviewed the procurement and tender process undertaken by AST.</p> <p>We obtained and reviewed the decision-making framework AST adheres to demonstrate its compliance against this obligation.</p> <p>We have selected one sample transaction between AST and Mondo and obtained evidence of AST's use of this decision-making framework.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, we noted:</p> <ul style="list-style-type: none"> <li>AST has control process in place to ensure that there is no discrimination between a related electricity service provider and an external party.</li> <li>AST performed detailed analysis (ie budgeted cost, volume of work) on services provided by related electricity service provider and has continued budget controlled during the service period.</li> <li>AST has formalised the evaluation and decision-making process to demonstrate service arrangements with Mondo are entered into at arm's length with no discrimination.</li> <li>We noted that there were no instances during the period where work was contracted to a third party with that party sub-contracting back to Mondo.</li> <li>We noted that there were no new SOWs signed with Mondo and Zinfra during the period.</li> <li>Consistent with prior period we have noted that AST continues to engage affiliate Zinfra to provide approximately [REDACTED] worth of services under the TOMSA (Transmission Operating Management Services) agreement, these services pertained to the distribution business.</li> </ul>	

Ref	Compliance Obligation	Process Description	Testing	Grading
		<p>appropriate approach which may be any of open tender, closed tender, single-source, panels, sourcing through collaboration and others.</p> <p>Arrangements with value between \$20,000 and \$1 million will be sourced by the Procurement team through market testing. A tender process will be implemented which includes technical review, commercial review and legal review. If there will be repeated purchase from the same supplier within a short time frame, a SAP purchase requisition created within an estimated value before engaging the supplier.</p> <p>For supplier requirements over \$250K value, it is mandatory for the Procurement team to be engaged by the business requestor and for the Procurement team to lead the strategic sourcing process. The only exception is for purchases aligned to an executed supplier contract, inclusive of a schedule of rates, up to the value of AUD \$1 million.</p> <p>For arrangements with value below \$20,000, an approved purchase order is required, and the business unit will have to present several quotations for comparison purposes.</p> <p>There is a waiver of competition (WoC) purchasing scenario used when the purchase is greater than \$50,000. If the WoC is between \$50k to \$250k it must be approved by the division managers and all WoCs greater than \$250k must be approved by the procurement team.</p> <p>For compliance year 2021, transactions between AST and Mondo total approximately [REDACTED]. These transactions include:  Condition monitoring and others: [REDACTED]  Chemical Testing: [REDACTED]  Calibration, Testing and Projects: [REDACTED]</p> <p>Transactions with Zinfra during the period consisted of the following</p> <ul style="list-style-type: none"> <li>[REDACTED] in Opex Works</li> <li>[REDACTED] in Capex works</li> </ul>	<ul style="list-style-type: none"> <li>Under this agreement AusNet engages Zinfra to provide services on as part of a suite of panel agreements for AusNet installation service contractors.</li> <li>We note through our procedures performed and discussions with management that Zinfra is a contractor to AusNet and is subject to the same tendering and monitoring processes as other external contractors.</li> </ul> <p>Recommendations:  [Moderate] In line with the previous period there were range of existing services provided by under the Mondo brand within D&amp;FN to AST including condition monitoring, testing and calibration have been rolled forward on historical Statement of Works (SOWs). These arrangements have never been market tested; we do note however that the overall level of expenditure has decreased from the prior year.</p>	
4.2.1	(a) Subject to this clause 4.2.1, in providing direct control services, a DNSP must use offices that are separate from any offices from which a related electricity service provider provides contestable electricity services.	AST Ring-fencing project team performed a full site access review in August 2019. The review included an analysis on shared location which is a process of amended access controls and move staffs around to ensure site separation is in line with the Guideline. Access controls include any modifications to provide separate workspaces for staff, such as creating separate	Discussion held with: Legal Counsel Senior Manager Compliance Building Services Manager Procedures performed:	Moderate

Ref	Compliance Obligation	Process Description	Testing	Grading
		<p>and restricted sections of a site or the floor of a building with access card controls and separate kitchen/tea facilities.</p> <p>Shared areas and facilities such as lifts, toilets, foyers and car parks are considered acceptable. The basis of the location analysis was and continues to be to ensure there are no offices which share both employees involved in the marketing or operation of direct control services (DCS employees) and employees involved in the marketing or operation of contestable electricity services (energy and technical services) (CES employees), which are not permitted by the Guideline to share an office (Prohibited Shared Offices). No Prohibited Shared Offices were identified in the review.</p> <p>While there are shared locations, namely Freshwater Place and Beaconsfield, they are not Prohibited Shared Offices. There are separate offices within each location (as per the definition in the Guideline) which ensure the requisite separation of relevant CES employees and DCS employees.</p> <p>At Freshwater Place relevant CES employees only have unaccompanied access to Level 26 (a separate office) and relevant DCS employees only have unaccompanied access to Levels 30-31.</p> <p>Also, at Beaconsfield there are separate and (unaccompanied) access restricted parts of the building that ensure the requisite office separation between relevant DCS employees and CES employees.</p> <p><i>Building access card requests</i></p> <p>All building access card requests are made via the ServiceNow Portal, with electronic records of each request and approvals retained.</p> <p>As part of the online request, the following question is asked: Is this position affected by Ringfencing? The default answer is 'Yes' with a drop-down list containing 'No' and 'Unsure'.</p> <p>If the question response is 'Yes' or 'Unsure', the building access request is sent to the Senior Manager Compliance for approval or rejection.</p> <p>A ring-fencing checklist tool for site access is located on the Ring-fencing page on 'The Loop', the AusNet intranet site.</p>	<p>We obtained the list of new employees in 2021 and reviewed the site access approval forms for sampled 25 employees to ensure they met ring-fencing requirements.</p> <p>We obtained the seconded employee register and selected samples of 3 employees seconded in the compliance year.</p> <p>For sampled secondees, we have obtained and reviewed the approved employee checklist which demonstrates the hiring manager's confirmation of ring-fencing obligation compliance related to the secondment arrangement.</p> <p>We additionally reviewed the site access for 11 personnel within the Development and Future Networks to determine if their access was appropriate for their new roles from ring-fencing perspective.</p> <p>Observation: Based upon the discussions held and procedures performed, we noted:</p> <ul style="list-style-type: none"> <li>• Through discussions with management, it was established that a Ring-Fencing Refresh was performed during the period with attention given to the site access to ensure that access was appropriate given personnel's position in or out of the ring fence. We reviewed documentation associated with this initiative as part of our procedures. We did however note that this refresh did not go to a level of granularity as to review each individual employee's access.</li> <li>• AST has separate offices from which a related electricity service provider provides contestable electricity services.</li> <li>• AST has formal approval process on granting employee access to the respective level or office.</li> <li>• We selected a sample of 3 seconded employees and obtained evidence for each of these positions that they were staff able to be shared in line with the Guidelines.</li> <li>• We selected a sample 25 employees who had been granted building access through the One Service portal for each of these we sighted that the</li> </ul>	

Ref	Compliance Obligation	Process Description	Testing	Grading
		<p><i>Review of building access in 2021</i></p> <p>As part of the Ring-fencing Refresh project which kicked off in late September 2021, a review of building access has been undertaken.</p> <p>This review focused primarily on:</p> <ul style="list-style-type: none"> <li>Who has access to Beaconsfield and Freshwater Place and is this appropriate?</li> <li>What building access do 'higher risk' team members have and is this appropriate?</li> <li>If it was identified that a CES employee had access to an area which was not appropriate, building access logs for that employee was also reviewed.</li> <li>No material ring-fencing breaches were identified as part of this building access review.</li> </ul> <p><i>Working from home</i></p> <p>COVID-19 restrictions resulted in most employees (other than critical staff, such as network controllers) working from home for most of calendar years 2020 and 2021.</p> <p><i>NextSpace</i></p> <p>Working at AusNet is being transformed by the NextSpace project which is introducing a hot desking approach as part of office and depot refurbishments.</p> <p>Ring-fencing obligations are being factored into the office renovations.</p>	<p>appropriate documentation relating to ring-fencing was completed by their manager upon granting of the access.</p> <ul style="list-style-type: none"> <li>We reviewed the access of 11 employees within Energy Services as part of Development and Future Networks which we consider to be of specific risk with regards to ring-fencing. We concluded their access was appropriate given their position.</li> </ul> <p>Recommendations:</p> <p>[Moderate] We recommend that AST perform periodic reviews of building access process to ensure AST is compliant with the Guideline, we also recommend that evidence of these reviews be easily accessible for future reference.</p> <p>We also note that this recommendation is of greater relevance than 12 months ago given the return of employees to onsite and hybrid arrangements as restrictions ease relating to the COVID-19 pandemic.</p>	
4.2.2	(a) Subject to this clause 4.2.2, a DNSP must ensure that its staff involved in the provision or marketing of direct control services are not also involved in the provision or marketing of contestable electricity services by a related electricity service provider.	<p>The Compliance team has performed a full site access analysis by reviewing the role and the associated access rights. The assessment focuses on identifying staff with access to "electricity information" and who have the opportunity to use that information to engage in conduct that would provide a competitive advantage to an affiliated entity or otherwise engage in conduct contrary to clause 4.1 of the Guideline.</p> <p>In line with the Guideline, roles providing corporate services are exempted from the obligation. AST has identified the following types of roles to be out of scope from the requirement to include on the staff sharing register (under clauses 4.2.2(b)i.c / 4.2.4(b.)):</p> <ul style="list-style-type: none"> <li>Executives</li> <li>Technology</li> </ul>	<p>Discussion held with:</p> <ul style="list-style-type: none"> <li>Corporate Communications Manager</li> <li>Senior Marketing Manager</li> <li>Legal Counsel</li> <li>Senior Manager Compliance</li> </ul> <p>Procedures performed:</p> <p>We obtained and reviewed a list of AST employees to identify any role description that do not comply with this obligation.</p> <p>We obtained and reviewed AST's staff sharing register and cross-checked against the employee listing for completeness.</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
		<ul style="list-style-type: none"> <li>• Administration</li> <li>• Payroll</li> <li>• Legal</li> <li>• Regulatory</li> <li>• Accounting/finance</li> <li>• Strategy and transformation</li> <li>• Design and back-office marketing support (not sales, business development or customer facing)</li> </ul> <p>It should also be noted that to the extent that staff are not involved in the operation or marketing of contestable electricity services (which, in accordance with the relevant definitions under the Guideline, do not include Transmission services, gas network or connection services or water utility services) they are also are not restricted from being shared and the roles and positions etc of such staff are not required to be included on the staff sharing register.</p> <p>AST has identified a list of roles that are shared in connection with the direct control services and contestable electricity services (eg Energy Services) . These roles are listed in the staff sharing register and is published on to the AST website. These roles are involved in the provision or marketing of direct control services, who are also involved in the provision or marketing of contestable electricity services by a related electricity service provider, but have no electricity information, or no opportunity to use that electricity information to engage in conduct that is contrary to clause 4.1 of the Guideline.</p> <p>In AST Ring-fencing policy, AST is required to ensure continuous compliance in relation to staff sharing. The Human Resource /People team is responsible to capture all new hires and staff movements that are (or which they are unsure may be) affected by ring-fencing and maintains the register on the website.</p> <p>The responsible hiring manager of all staff sharing arrangements are required to complete the employee checklist which includes ring-fencing considerations. The completed checklist requires approval from the employee's direct manager, Legal team, and the relevant EGM of the business unit. The approved checklist is then sent to the HR team, who updates the staff sharing register on AST's website where required.</p> <p>The Staff Sharing Register (which also contains the Office Sharing Register) was last updated on 13 May 2020, just before the commencement of the operational refresh. This update</p>	<p>We obtained and reviewed the seconded employee register and noted no staff were seconded between AST and Mondo during the compliance year.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted with AST's compliance against the obligation with key points below:</p> <ul style="list-style-type: none"> <li>• AST appropriately identified distinct roles for its RES and Mondo employees, ensuring there are no staff sharing that is not in line with the Guideline.</li> <li>• Employees shared are included in the staff sharing register, published on the AST's website, which is publicly available.</li> <li>• Engineering roles included in the shared staff register are not reflective of the staff's actual duties at AST.</li> </ul> <p>Recommendations:</p> <p>[Low] We recommend AST define roles in the staff sharing register consistently with the actual role in the business, so that it is easy to identify the list of employees who are subjected to staff sharing.</p>	



Ref	Compliance Obligation	Process Description	Testing	Grading
		<p>addressed a recommendation from the last ring-fencing audit that specific roles/positions (linked back to the actual roles be undertaken).</p> <p>While the work contemplated as part of the recent restructure has been progressed and following the restructure there has been an identification of the key risk roles and activities and their respective office locations, there has been no formal update to the staff register since 13 May 2020.</p> <p>A preliminary review of the staff sharing register (as at 13 May 2020) suggests that, apart, from title changes for Senior Managers (Directors and Officers) there are unlikely to be any significant changes to that section. With respect to the Project Delivery roles section, some roles may have been made redundant as part of the refresh, the names of some changed and some may have been consolidated. Some new role titles may have also been created, but it is unlikely the core role or duties of any such new roles would be materiality different, on the whole, to the roles currently listed under the Project Delivery section.</p>		
4.2.2	(c) The remuneration, incentives and other benefits (financial or otherwise) a DNSP provides to a member of its staff must not give the member of staff an incentive to act in manner that is contrary to the DNSP's obligations under this Guideline.	<p>For all employees employed under individual employment agreements, fixed annual remuneration (base salary plus superannuation) is set with consideration for internal and external relativities following a consistent process. While different pay ranges may apply to different role types, the setting and review of pay ranges is done by the People team without consideration for the Business Unit or function the role sits within. Annual fixed remuneration increase budgets and guidance are set at an organisational level with no differentiation by Business Unit or function. Individual annual increase amounts are generally determined by a combination of individual performance and an employee's position within the respective pay range. All decisions are calibrated and approved at a team, function/Business Unit and organisational level to promote fairness and equity.</p> <p>All benefits programs at AusNet are broadly accessible by all employees with no differentiation by Business Unit or function (an exception is those benefits that form part of specific industrial agreements that may be applicable only to employees in certain legal entities, eg Gas Distribution vs. Electricity Distribution, etc).</p> <p>AusNet's Short-Term Incentive (STI) plans are based on business performance at an organisational and divisional level as well as individual performance assessed against role requirements,</p>	<p>Discussion held with:</p> <ul style="list-style-type: none"> <li>Head of Remuneration and Compliance</li> <li>Legal Counsel</li> <li>Senior Manager Compliance</li> </ul> <p>Procedures performed:</p> <p>We obtained and reviewed the remuneration policy and noted that it is the internal performance development and STI manual details the remuneration, incentive and KPIs of employees.</p> <p>We have obtained sample KPI scorecards for AusNet and Mondo management</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted with AST's compliance against the obligation with key point(s) below:</p> <p>We observed that D&amp;FN staff have a 15% weighting to group EBITDA compared with 25% for corporate employees. The major driver for D&amp;FN staff STIs remains D&amp;FN EBITDA and Margin. As such the AST remuneration policy is not expected to give staff a</p>	Strong



Ref	Compliance Obligation	Process Description	Testing	Grading
		<p>individual key performance indicators and mandatory and minimum expectations (eg training, compliance, conduct, behaviours, etc).</p> <p>For any employee to be eligible for a STI outcome, two performance gateways – one financial (ability to pay dividends) and one safety (zero fatalities) – must be met for the year. Assessment against these gateways is based on group-wide performance. If these gateways are met, organisational performance for the year is assessed against group-wide HSE and financial performance criteria. For FY2022, the group-wide financial measures considered were EBITDA and Return on Equity (ROE). While group-wide EBITDA and ROE factor into the organisational outcome for all functions and Business Units, for employees in Development &amp; Future Networks (D&amp;FN) these metrics contribute a different (though still significant) weighting to overall outcomes. The same STI measures were in place for FY2021 with slightly different weightings.</p> <p>Corporate functions, Network Management and Network Operations also have group-wide Opex (excluding D&amp;FN Opex) as a financial KPI, whereas D&amp;FN also includes Business Unit specific EBITDA and margin measures.</p> <p>While assessment against these measures informs the STI outcomes for functions and Business Units, the Board retains absolute discretion to moderate outcomes at an organisational, function/Business Unit and individual basis having consideration for the context in which results were delivered, including factors such as unforeseen (or known but unquantifiable) events and demonstrated behaviours, values and leadership.</p> <p>All STI decisions are calibrated and approved at a team, function/Business Unit and organisational level to promote fairness and equity.</p> <p>Management is of the view that the risk that remuneration, benefits and/or incentive arrangements will incentivise staff to take advantage of electricity information to boost performance is low as there are the following safeguards in place:</p> <ul style="list-style-type: none"> <li>• Against the AusNet Code of Conduct</li> <li>• Each Business Unit's performance is only one of the contributors to overall AST group performance</li> <li>• It is difficult for one individual to make a material impact on group performance</li> </ul>	<p>material incentive to act in a manner contrary to the Guideline.</p> <p>We noted as part of the broader Ring-Fencing Refresh review management identified a number of high-risk employees on a team basis, these are as follows:</p> <p>Contestable Energy Services:</p> <ul style="list-style-type: none"> <li>• Energy Services</li> <li>• Asset and Utility Services</li> </ul> <p>Regulated Energy Services</p> <ul style="list-style-type: none"> <li>• Electricity Distribution Network Planning &amp; Strategy</li> <li>• Electricity Distribution Customer Connections</li> <li>• Customer Service &amp; Resolutions</li> </ul> <p>We also observed that executive personnel within D&amp;FN as a result of the organisation's structure have direct reports on either side of ring fence. We enquired with management how incentive related risks associated with this are managed, from which we established the following:</p> <ul style="list-style-type: none"> <li>• All D&amp;FN staff, including managers/executives are subject to soft controls around ring-fencing training.</li> <li>• All distribution business Capex spend above \$1m requires the approval of the Investment Committee (which is currently chaired by the Chief Financial Officer). These execs identified by EY and other managers / executives on the D&amp;FN business do not sit on this Investment Committee when discussing distribution business Capex spend. While members of the Emerging Markets team may be involved in the Investment Committee by presenting non-network solution business cases for approval, no managers / executives from D&amp;FN are involved in the decision making when approving distribution business Capex spend above \$1m.</li> <li>• In relation to distribution business Capex spend below \$1m, this spend needs to be approved by the relevant distribution business GM. As above, the Emerging Markets team may be involved in presenting business cases to the relevant distribution business GM, but no managers or</li> </ul>	

Ref	Compliance Obligation	Process Description	Testing	Grading
		<ul style="list-style-type: none"> <li>Any manipulation of the results that is significant is likely to stand out in preparation of statutory financial statements</li> <li>STI will be held back or employee will be dismissed if a breach of Code of Conduct/ Ring-fencing policy is detected</li> <li>STI and fixed remuneration processes include multiple layers of review at an individual, team, function/Business Unit and organisation level to calibrate outcomes and drive appropriateness, fairness and equity</li> <li>The linkage to group profit is designed to ensure that the total incentive pool is “affordable” given the group results, rather than encourage inappropriate information sharing in breach of the Guideline, and company Code of Conduct</li> <li>The STI Plan includes broad discretions of the Board over all elements of the plan, including the assessment of organisation and individual outcomes</li> </ul>	<p>executives from D&amp;FN are involved in the Capex decision making process.</p> <ul style="list-style-type: none"> <li>We understand that the short-term incentive (STI) plans offered to all eligible AST employees (including D&amp;FN) include incentives that are linked to Group wide financial performance (including D&amp;FN), and other business and personal KPIs. We understand this arrangement is considered in compliance with the Guideline.</li> </ul> <p>Recommendations: None noted.</p>	
4.2.3	<p>(a) A DNSP:</p> <p>i. must use branding for its direct control services that is independent and separate from the branding used by a related electricity service provider for contestable electricity services, such that a reasonable person would not infer from the respective branding that the DNSP and the related electricity service provider are related;</p> <p>ii. must not advertise or promote its direct control services and its contestable electricity services that are not direct control services together (including by way of cross-advertisement or cross-promotion);</p> <p>iii. must not advertise or promote contestable electricity services provided by a related electricity service provider other than the DNSP itself.</p>	<p>AST has implemented a training program to outline the branding and marketing requirements per the Guideline to the whole business. This includes ensuring the branding used for direct control services is separate and independent from the branding used for contestable electricity services.</p> <p>AST has included guidance on branding requirements as part of its Ring-Fencing obligations. This policy covers:</p> <ul style="list-style-type: none"> <li>All Mondo office signage and Mondo branded vehicles where an AST logo or tagline is used</li> <li>The design and layout of websites and social media platforms, including email signatures for branding that potentially breaches the Guidelines.</li> <li>The design of employee uniforms for both Mondo and AST</li> </ul>	<p>Discussion held with: Corporate Communications Manager Senior Marketing Manager Legal Counsel Senior Manager Compliance</p> <p>Procedures performed: We visited the AST website to review if there are any contestable electricity services being published on the website. We reviewed the online training slides used by AST to communicate the branding requirement to employees per the Guidelines.</p> <p>Observation: Based upon the discussions held and procedures performed, no exceptions were noted with AST’s compliance against the obligation with the key point(s) noted below:</p> <ul style="list-style-type: none"> <li>AST has included a branding policy in its Ring-fencing policy to address separate branding for its RES and Mondo business.</li> </ul> <p>Recommendations: None noted.</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
4.2.4	<p>A DNSP must establish, maintain and keep a register that identifies:</p> <p>(a) the classes of offices to which it has not applied clause 4.2.1(a) by reason of clauses 4.2.1(b)i. or 4.2.1(b)iii.; and</p> <p>(b) the nature of the positions (including a description of the roles, functions and duties) of its members of staff to which it has not applied clause 4.2.2(a) by reason of clauses 4.2.2(b)i.a., 4.2.2(b)i.b., 4.2.2(b)iii. or 4.2.2(d);</p>	<p>The AST Human Resource team is responsible for maintaining and updating the office sharing and staff sharing register, which is publicly available on the AST website.</p> <p>In the update to the Staff and Office sharing register (as of 13 May 2020), the offices at FWP and Beaconsfield have been listed. Importantly, as per the Guideline, there are multiple offices at each of these sites.</p> <p>The sites have been included in the register as there is still some permitted sharing of staff within offices at each of those locations. The other sites included on the Ringfenced staff and location document circulated earlier today (namely, depots, Flinders Street and Yarraville) are not shared sites within the meaning of the Guideline (eg direct control services and contestable electricity services are not both provided at any of those sites).</p> <p>The staff sharing register describes the nature of positions including the roles, functions and duties of these roles. The staff sharing register was prepared based on the staff needed to perform roles in relation to both direct control services and contestable electricity services of an affiliate of the DNSP, in accordance with the requirements of the Guideline. The completeness of the register is regularly monitored and updated through the approval process.</p>	<p>Discussion held with:</p> <p>Senior Manager Compliance Legal Counsel Building Services Manager</p> <p>Procedures performed:</p> <p>We reviewed the site sharing and staff sharing register published on AST's website.</p> <p>We reviewed the process undertaken to maintain and update the office sharing and staff sharing register.</p> <p>We have reviewed the content of the staff sharing register and note that it is in line with requirements of the Guideline.</p> <p>We checked consistency against management assessment performed and assessed against other information obtained throughout the audit and noted no inconsistent information.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted with AST's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> <li>• AST has established and maintained an office sharing register</li> <li>• AST has established and maintained a staff sharing register</li> <li>• AST has maintained the secondment register with clear role description</li> <li>• AST has a checklist for the hiring manager to assess potential actions are required when seconding employees.</li> </ul> <p>Recommendations:</p> <p>None noted.</p>	Strong
4.3.2	<p>Subject to this clause 4.3, a DNSP must:</p> <p>(a) keep confidential information confidential; and</p>	<p>AST has a Privacy Policy in place, that was last reviewed in May 2019. The Privacy Policy encompasses treatment of personal information, which is interpreted as confidential information in the Ring-fencing Guideline context. The Ring-fencing Policy has extended the Privacy Policy to electricity information.</p>	<p>Discussion held with:</p> <p>Manager, Engineering &amp; Program Management Lead Engineer, Central Network Planning Manager, Network Connections Senior Manager Compliance</p>	Moderate

Ref	Compliance Obligation	Process Description	Testing	Grading
	<p>(b) only use confidential information for the purpose for which it was acquired or generated.</p>	<p>All AST employees are required to complete an online Privacy compliance training annually. Upon completing the training, employee will get a certificate of competency in relation to the specific training. The Compliance team monitors the completion status of the mandatory training.</p> <p>AST identified a risk that where technology systems are shared across businesses for economies of scale, disclosure of information that is otherwise protected by the Guideline may occur. Access to DNSP systems which may contain electricity information are restricted from Energy Services and Technical Services (CES Roles) other than in circumstances that are exempt under the Guideline. This includes creating role-based access to control visibility of data via shared systems.</p> <p>SAP Ring-Fencing Project created and deployed new CES Roles users in SAP. There are proper procedures and risk mitigation process in placed:</p> <p>CES Roles are clearly labelled in the system with a Suffix of “_CES” in SAP.</p> <p>CES Roles restrict users to perform functions within their Development &amp; Future Network organisational areas.</p> <p>New user set up requests, positions changes, additional access are approved by role manager which the user group belong to. Once approved, the AMS Security perform the physical changes in SAP.</p>	<p>Legal Counsel</p> <p>Procedures performed:</p> <p>We obtained the Privacy Policy and reviewed the interpretation of confidential information.</p> <p>We obtained and reviewed the Logging and Monitoring Policy, which ensures logging and monitoring systems are in place to allow detection of unauthorised information processing activities.</p> <p>We performed testing on the list of employees with system access to electricity information to ensure that they were appropriate employees in the context of the Guideline.</p> <p>We reviewed the process undertaken by management to reorganise user system access to SAP CES access, SAP CIS, Power On Fusion, SDME and S Net Explore systems.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted with AST’s compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> <li>• AST has in place a personal information privacy policy and procedures</li> <li>• We noted that there are 21 Energy Services and Technology Services staff with access to RES SAP</li> <li>• We noted that there were zero Energy Services zero and Technology Services staff with access to SAP CIS</li> <li>• We noted that there was one Energy Services and Technology Services staff with access to Power On Fusion</li> <li>• We noted that there was one Energy Services and Technology Services staff with access to S-Net Explore</li> <li>• We noted that management has undertaken a review of system access during the period as part of its broader ring-fencing refresh.</li> <li>• It was noted that consistent with the prior period there were no practical system controls in place to ensure these employees do not have access to</li> </ul>	

Ref	Compliance Obligation	Process Description	Testing	Grading
			<p>confidential information, refer to recommendations below.</p> <p>Recommendations:.</p> <p>[Moderate] We restate our recommendation from prior period that management put in place additional ring-fencing monitoring measures (eg monitoring of frequency of the employee accessing confidential information) and provide additional ring-fencing training for these identified employees.</p>	
4.3.3	<p>A DNSP must not disclose confidential information to any person, including a related electricity service provider, unless an exemption applies.</p>	<p>The exemptions listed by AER in the Guideline are</p> <p>(a) the DNSP has first obtained the explicit informed consent of the relevant customer, or prospective customer, to whom the confidential information relates;</p> <p>(b) the disclosure is required by, or for the purpose of complying with any law;</p> <p>(c) the disclosure is necessary to enable the DNSP to provide its distribution services, its transmission services or its other services (including by acquiring services from other legal entities);</p> <p>(d) the information has been requested by or on behalf of a customer, or potential customer, of another legal entity, and the disclosure is necessary to enable the legal entity to provide its transmission services, contestable electricity services or other services to the customer or potential customer;</p> <p>(e) the disclosure is solely for the purpose of providing assistance to another Network Service Provider to the extent necessary to respond to an event (such as an emergency) that is beyond the other Network Service Provider's reasonable control;</p> <p>(f) the disclosure is solely for the purposes of research by a legal entity other than a related electricity service provider of the DNSP;</p> <p>(g) where another DNSP is an affiliated entity of the DNSP, the disclosure is to the part of that other DNSP that provides that other DNSP's direct control services; or</p> <p>(h) a related electricity service provider of the DNSP has requested the disclosure and the DNSP complies with clause 4.3.4 in relation to that confidential information.</p>	<p>Discussion held with:</p> <p>Manager, Engineering &amp; Program Management Lead Engineer, Central Network Planning Manager, Network Connections Senior Manager Compliance Legal Counsel</p> <p>Procedures performed:</p> <p>We have discussed with management AST consideration of the exemptions per the Guideline.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted on AST's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> <li>• AST has in place a process to maintain and keep an information register.</li> <li>• AST has in place a process to govern information sharing with an affiliated entity.</li> </ul> <p>AST has in place a process to protect confidential information.</p> <p>Recommendations:</p> <p>None noted.</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
4.3.4	<p>(a) Subject to clause 4.1(c)iv. and to this clause 4.3.4, where a DNSP shares confidential information with a related electricity service provider, or where confidential information that a DNSP has disclosed under clause 4.3.3(f) is then disclosed by any person to a related electricity service provider of the DNSP, the DNSP must provide access to that confidential information (including the derived information) to other legal entities on an equal basis.</p> <p>(d) Without limiting clause 4.3.4(a), a DNSP must establish an information sharing protocol that sets how and when it will make the information referred to in clause 4.3.4(a) available to legal entities, and must make that protocol publicly available on its website.</p> <p>(e) Where a DNSP discloses information referred to in clause 4.3.4(a) to any other legal entity under this clause 4.3.4, it must do so on terms and conditions that require the other legal entity to comply with clause 4.3.2 and 4.3.3(a) to (d) in relation to that information as if the other legal entity was a DNSP.</p>	<p>AST has implemented protocols to govern its information sharing process and protection of confidential information in its Ring-fencing Policy.</p> <p>The Policy includes developing an information sharing protocol and register, which is publicly available on AST website. The document details the type of information that can be shared and the terms on which information will be shared. All information requests will be made via a ring-fencing mailbox, which is maintained by the Compliance team.</p> <p>The Regulation team assess if the information requested is appropriate to be shared and seek consultation from the Legal team.</p> <p>It is also the Regulation team's responsibility to maintain and update the information register, ensures that the register is publicly available and is disclosed appropriately per the Guidance.</p>	<p>Discussion held with:</p> <p>Legal Counsel  Manager, Engineering &amp; Program Management  Lead Engineer, Central Network Planning  Manager, Network Connections  Senior Manager Compliance</p> <p>Procedures performed:</p> <p>We obtained and reviewed the information sharing protocol and register to ensure that AST has in place appropriate information handling procedures and policies.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted for the following:</p> <ul style="list-style-type: none"> <li>• AST has in place a process to maintain and keep an information register.</li> <li>• AST has in place a process to govern information sharing with an affiliated entity.</li> <li>• AST has in place a process to protect confidential information.</li> </ul> <p>Recommendations:</p> <p>None noted.</p>	Strong
4.3.5	<p>(a) A DNSP must establish, maintain and keep a register of all:</p> <p>i. related electricity service providers;</p> <p>ii. other legal entities who provide contestable electricity services but who are not affiliates of the DNSP; who request access to information identified in clause 4.3.4(a), and must make the register publicly available on its website.</p>	<p>AST has included in its Ring-fencing policy setting out the contents of an information register, which includes organisations which have requested access to information and the kind of information sought.</p> <p>The Ring-fencing policy prohibits staff inappropriately sharing information, other than through the formal process listed out in the information sharing protocol, as published on the AST website.</p> <p>The information register is maintained by the Regulation team, as any information request goes through the Regulation team.</p>	<p>Discussion held with:</p> <p>Legal Counsel  Manager, Engineering &amp; Program Management  Lead Engineer, Central Network Planning  Manager, Network Connections  Senior Manager Compliance</p> <p>Procedures performed:</p> <p>We obtained and reviewed the information sharing protocol and register to ensure that AST has in place</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
	<p>(b) For each legal entity that has requested that a DNSP provide access to information identified in clause 4.3.4(a), the DNSP's information register must:</p> <p>i. identify the kind of information requested by the legal entity; and</p> <p>ii. describe the kind of information requested by the legal entity in sufficient detail to enable other legal entities to make an informed decision about whether to request that kind of information from the DNSP.</p> <p>(c) A legal entity may request that the DNSP include it on the information register in relation to some or all of the kinds of information that the DNSP is required to provide under clause 4.3.4(a), and the DNSP must comply with that request.</p>	<p>There are no shared information and no information request received as at the date of the report.</p>	<p>appropriate information handling procedures and policies.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions had been noted on AST's compliance against the obligation with the key points noted below:</p> <ul style="list-style-type: none"> <li>• AST has in place a process to maintain and keep an information register.</li> </ul> <p>Recommendations:</p> <p>None noted.</p>	
4.4.1	<p>A DNSP:</p> <p>(a) must ensure that any new or varied agreement between the DNSP and a service provider, for the provision of services to the DNSP that enable or assist the DNSP to supply direct control services, requires the service provider to comply, in providing those services, with:</p> <p>i. clauses 4.1, 4.2.1, 4.2.2 and 4.3.2 of this Guideline; and</p> <p>ii. clause 4.2.3 of this Guideline in relation to the brands of the DNSP; as if the service provider was the DNSP.</p> <p>(b) must not, directly or indirectly, encourage or incentivise a service provider to engage in conduct which,</p>	<p>Together with the legal team, AST has developed various Statement of Works for the respective Mondo provisions of services, which includes and not limited to chemical testing services, metering services, HV asset testing and others. A Master Service Agreement was also developed to formalise existing and future arrangements for contestable electricity services provided by affiliated entities to AST, and for any direct control services provided by AST to any affiliated entity. The Master Service Agreement is developed based on a third-party contract, to ensure the terms and conditions set out are not discriminatory against external parties</p> <p>AST has a Procurement Principles and Procurement Framework in place, which we have assessed as part of Clause 4.1(c).</p>	<p>Discussion held with:</p> <p>Senior Manager Compliance Legal Counsel Procurement Business Partner</p> <p>Procedures performed:</p> <p>We obtained and reviewed the updated standard terms and conditions for Supply of Goods &amp; Service Agreement for orders up to \$75,000 and \$75,000 up to \$250,000.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted with AST's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> <li>• AST has in place a process to ensure arrangements with service providers are in accordance with the Guideline</li> </ul> <p>Recommendations:</p> <p>None noted.</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
	if the DNSP engaged in the conduct itself, would be contrary to the DNSP's obligations under clause 4 of this Guideline.			



## Obligation: Waivers – Section 5

### Guidance Assessment Criteria and Assessment Controls

Ref	Compliance Obligation	Process Description	Testing	Grading
5.7	<p>(a) A DNSP must establish, maintain and keep a register of all waivers (including any variation of a waiver) granted to the DNSP by the AER under clause 5 of this Guideline, and must make the register publicly available on its website.</p> <p>(b) The register established under clause 5.7(a) must include:</p> <p>i. the description of the conduct to which the waiver or interim waiver applies; and</p> <p>ii. the terms and conditions of the waiver or interim waiver; as set out in the AER's written decision, provided by the AER to the DNSP, to grant (or vary) the waiver or interim waiver.</p>	<p>Based on AST analysis of its circumstances against the Guideline, AST had a few existing arrangements that were not aligned with the Guideline including:</p> <ul style="list-style-type: none"> <li>Public lighting and nightwatchman lights (including: alteration and relocation of distributor public lighting assets; new public lights, and; installation, repair and maintenance of watchman lights);</li> <li>Emergency recoverable works;</li> <li>Reserve feeder construction.</li> </ul> <p>The Regulatory team applied for a waiver in regard to the services provided with The AER approving the waiver application in relation to AST's obligation to comply with clauses 3.1, 4.2.1, 4.2.2 and 4.2.3 of the Guideline from 18 December 2017 to 31 December 2020. The AER then granted an extension of the waiver for 6 months to align with the regulatory control period (1 July 2021).</p> <p>This waiver expired on 1 July 2021 with these services now classified as direct control services under AusNet Electricity's EDPR decision for the 2021-2026 regulatory control period. AST currently has no waivers in place.</p> <p>The AER has categorised the waiver applications into 6 waiver groups, namely</p> <ul style="list-style-type: none"> <li>Reclassification of services</li> <li>Legal/ functional separation</li> <li>Branding</li> <li>Regional service delivery</li> <li>Regional offices</li> </ul> <p>The Regulatory team maintains the waiver register and is responsible to submit a waiver to AER in the event that there may be a need for additional waivers.</p>	<p>Discussion held with:</p> <p>Senior Manager Compliance</p> <p>Legal Counsel</p> <p>Procedures performed:</p> <p>We have obtained and reviewed the waiver register to assess the register's inclusion of waiver details as required by the Guideline.</p> <p>We have reviewed the Final Decision document from the AER and note that these waivers are included in the register.</p> <p>We have reviewed management's process to maintain the waiver register.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted with AST's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> <li>AST has processes and controls in place to establish and maintain the waiver register</li> </ul> <p>Recommendations:</p> <p>None noted.</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
		<p>On an annual basis, the AST Compliance Management System sends an automated compliance task alert to the nominated member of the Regulatory Team to perform an update on the waiver register, if necessary. Maintaining the waiver register also includes ensuring its visibility on the AST website. Any changes to the AST website are performed by the Customer Communications Team.</p>		

## Obligation: Compliance and enforcement – Section 6

### Guidance Assessment Criteria and Assessment Controls

Ref	Compliance Obligation	Process Description	Testing	Grading
6.1	A DNSP must establish and maintain appropriate internal procedures to ensure it complies with its obligations under this Guideline. The AER may require the DNSP to demonstrate the adequacy of these procedures upon reasonable notice. However, any statement made or assurance given by the AER concerning the adequacy of the DNSP's compliance procedures does not affect the DNSP's obligations under this Guideline.	<p>AST has internal procedures in place to ensure it complies with obligations under the Guideline. Each obligation clauses under the Guideline is put under a Responsible person in AST.</p> <p>On a quarterly basis, the compliance system will automatically generate a prompt or a reminder to the responsible person to confirm the compliance status of the specific obligation. Also, the Compliance team obtains input from the respective responsible person in regard to the status of compliance for each Guideline obligation. Inputs include movements or changes in their respective areas, and how these changes align to the obligation. The Compliance team collates the information on the status and progress and any issues noted</p> <p>AST has also set up a dedicated ring-fencing email inbox to allow employees easy access to the project team to ask any questions or clarify policy and procedures put in place by AST.</p> <p>As a result of certain redundancies in connection with the operational refresh (commencing in May and concluding in September 2020), the compliance team has assumed additional Responsible person functions for clauses under the Guideline. Additional, new Responsible persons are expected to be identified, trained and inducted during 2022.</p>	<p>Discussion held with:</p> <p>Legal Counsel Senior Manager Compliance</p> <p>Procedures performed:</p> <p>We obtained and reviewed the Ring-fencing Policy which demonstrates that it complies with AER's requirement on compliance procedures.</p> <p>We obtained and reviewed the compliance spreadsheet tracker populated by the Compliance team which includes input from responsible person.</p> <p>We obtained and reviewed the compliance calendar utilised by Compliance team which includes all the reminder to submit the report.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted with AST's compliance against the obligation with the key points noted below:</p> <ul style="list-style-type: none"> <li>AST has regulatory compliance monitoring and reporting process to facilitate compliance assurance</li> </ul> <p>Recommendations:</p> <p>None noted.</p>	Strong
6.2.1	<p>(a) A DNSP must prepare an annual ring-fencing compliance report each regulatory year in accordance with this clause 6.2.1, and submit it to the AER in accordance with clause 6.2.2.</p> <p>(c) The annual compliance report must be accompanied by an assessment of compliance by a suitably qualified independent authority.</p>	<p>The responsibility for each obligation clause under the Guideline is assigned to a responsible person within AST. Each quarter, the Compliance team obtains input from the respective responsible person in regard to the status of compliance for each Guideline obligation. The Compliance team collates the information on the status and progress and any issues noted, to prepare the annual ring-fencing compliance report.</p> <p>AST has engaged Ernst and Young as the independent authority to assess its annual compliance report.</p>	<p>Discussion held with:</p> <p>Legal Counsel Senior Manager Compliance</p> <p>Procedures performed:</p> <p>We have been engaged by AST to perform as the independent authority to assess compliance in relation to ring-fencing.</p> <p>We have obtained and reviewed management's draft annual compliance report</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
			<p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted with AST's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> <li>AST has regulatory compliance monitoring and reporting process to facilitate compliance assurance</li> </ul> <p>Recommendations:</p> <p>None noted.</p>	
6.3	<p>A DNSP must notify the AER in writing within five business days of becoming aware of a material breach of its obligations under this Guideline. The AER may seek enforcement of this Guideline by a court in the event of any breach of this Guideline by a DNSP, in accordance with the NEL.</p>	<p>AST compliance reporting includes a process for reporting breaches and for Compliance team review and escalation. AST has extended its Breach Notification, Escalation and Corrective Action Procedure to meet the Guideline.</p> <p>When a potential breach is raised by an employee to the Regulation team, it is communicated to the Compliance team, who then raise the issue with the line manager, The potential breach is recorded in the compliance system, which will subsequently be addressed by closing it out as not a breach, not a material breach or to escalate to the regulator. Compliance team may consult the Legal team if the potential breach may result in a physical injury or material financial losses. The General Manager and Managing Director is notified of any confirmed material breach within 24 hours and Compliance team is required to provide a preliminary notification to AER, followed by a written report on the breach within 5 working days.</p> <p>Corrective actions are discussed and agreed on with involvement from the responsible person and the line manager. The responsible person is required to provide a progress update on the remediation actions to the Compliance team, which is agreed upon during planning. Once corrective measures are completed, the plan is updated and closed in the Compliance system. Compliance team is responsible for providing updates to the AER regarding material breaches to close out the issue.</p>	<p>Discussion held with:</p> <p>Legal Counsel Senior Manager Compliance</p> <p>Procedures performed:</p> <p>We have held the discussion with management and obtained the breach notification, Escalation and Corrective Action Procedure which is in accordance with the Guideline.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted with AST's compliance against the obligation with the key points noted below:</p> <ul style="list-style-type: none"> <li>AST has regulatory compliance monitoring and reporting process to facilitate compliance assurance</li> <li>AST has used compliance calendar as a reminder to keep track of breach reporting deadline to AER. We acknowledge that there is no breach happened during the compliance year 2021.</li> </ul> <p>Recommendations:</p> <p>None noted.</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
		<p>AST has also adjusted the policy and updated the ringfencing training to includes AER's feedback that, Compliance, Regulatory or Legal will engage with AER staff to determine the materiality of the potential breach rather than wait for the annual report to report the breach to AER in the event of a breach is identified.</p> <p>A breach register is maintained and forms the basis for breach reporting to executive management and the Audit and Risk Committee.</p>		

## 5. Auditor Statement

### Independent assurance report to the members of AusNet Electricity Services Pty Ltd

We have audited AusNet Electricity Services Pty Ltd's (AST) compliance with specific regulatory obligations in the *Ring-fencing Guideline Electricity Distribution* published by the Australian Energy Regulator (AER), as defined in the "Terms of Reference" for the year ended 31 December 2021.

#### Assurance Practitioner's responsibility

AST is responsible for compliance with the specific regulatory obligations as defined in the scope.

Our responsibility is to express a reasonable assurance conclusion on compliance with the specific regulatory obligations as defined in the scope. Our audit has been conducted in accordance with applicable Standards on Assurance Engagements (*ASAE 3100 Compliance Engagements*) and the "Terms of Reference" to provide reasonable assurance that the AST has complied with the *Ring-fencing Guideline Electricity Distribution*. Our procedures included undertaking a walkthrough of the systems/process by which compliance data is captured and reported, conducting interviews with process owners, obtaining audit evidence and sample testings. Where applicable we have reviewed relevant Regulations and Codes, Company policies and made inquiries of management. These procedures have been undertaken to form a conclusion as to whether AST has complied in all material respects, with the *Ring-fencing Guideline Electricity Distribution*, as measured by the Terms of Reference for the year ended 31 December 2021.

#### Inherent limitations

Because of the inherent limitations of any assurance engagement, it is possible that fraud, error or non-compliance may occur and not be detected. An audit is not designed to detect all instances of non-compliance with the relevant Acts, Regulations and Codes as an audit is not performed continuously throughout the period and the audit procedures performed in respect of compliance with relevant Acts, Regulations and Codes are undertaken on a test basis. There are a number of inherent limitations associated with the data provided to us and used in assessing the accuracy of it:

- ▶ We have not assessed the operation of any IT general controls or application specific controls; and
- ▶ Due to the nature of the compliance with relevant Acts, Regulations and Codes we are unable to conclude on the completeness of breaches other than with respect to those identified through our procedures described above as relevant to the audit scope.

Our conclusion has been formed taking these inherent limitations into account.

#### Independence

In conducting our procedures, we have complied with the independent requirements of the Australian professional accounting bodies.

#### Conclusion

Based on the completion of the procedures described in this report, drawing attention to our audit findings in Summary of Audit Findings and Compliance Plans, in our opinion AST has complied, in all material respects with all areas of the audit scope.

## Restriction on distribution

Without modifying our conclusion, we draw attention to the fact the audit report is prepared to assist AST to meet the requirements of the *Ring-fencing Guideline Electricity Distribution* as published by the AER in undertaking an independent assessment of compliance to accompany the annual compliance report. As a result, the auditor statement may not be suitable for another purpose. Our statement is intended solely for AST and the AER. However, we agree that the audit report may be published at the AER's discretion on AER's website.



Ernst & Young

29 April 2022