

# **AER Ring-fencing Guideline Electricity Distribution Compliance Report**

AusNet Electricity Services  
Pty Ltd

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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 for Electricity Distribution on 30 November 2016 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* for the review period 1 January 2019 to 31 December 2019. The review includes contents of the compliance report if they accurately reflect the activities taken by AST is compliant with 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 Electricity Distribution Ring-fencing 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 in the course of 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.

## 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 transaction 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 provided to inappropriately promote contestable electricity services provided by its affiliates. This can be both direct promotion through advertisement arrangements, or indirect promotion through the use of Mondo branding on AST assets such as trucks, stationaries and webpages.

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

## 1.6 Overall observations

This is the third year AST is assessed for its ring-fencing compliance. Through interviews conducted and assurance procedures performed, we have observed that the ring-fencing compliance environment at AST has matured compared against assessments performed in prior years.

AST has actively addressed prior period recommendations, and continued to enhance its compliance processes including an introduction of a new compliance tracking and monitoring system. AST's actions taken to address prior period recommendations are summarised in Section 2 below.

We have also observed that historical arrangements between AST and its affiliates providing contestable electricity service are in the process of being phased out, including vegetation management services which have since been brought inhouse by AST. Where there are new transactions with Mondo such as the [REDACTED], we have observed relevant controls in place to demonstrate ring-fencing compliance. The overall value of transactions between AST and Mondo is [REDACTED] for the year ended 31 December 2019.

Through this year's assessment performed, we have identified a number of recommendations for AST's continuous improvement. These recommendations, along with management's responses, are summarised in Section 3.1 below.



## 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 or not 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.

## 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. 2018 auditor recommendations

The following table outlines AST' response and actions taken against recommendations raised by the auditors in 2018 and our relevant observations:

Clause	Obligations	Recommendations in 2018	Observation in 2019
4.1(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: i. direct control services by the DNSP (whether to itself or to any other legal entity); and / or ii. contestable electricity services by any other legal entity.	<ul style="list-style-type: none"> <li>Management ensure the 2170 employees who have not yet completed the training program do so as soon as possible.</li> <li>As a matter of urgency, Siriwann Sao completes the Ring-Fencing training.</li> <li>For shared staff outlined under the Staff and Site Sharing Register published on AusNet Services' website <a href="https://www.ausnetservices.com.au/en/Misc-Pages/Links/About-Us/Electricity-Ring-Fencing-Compliance">https://www.ausnetservices.com.au/en/Misc-Pages/Links/About-Us/Electricity-Ring-Fencing-Compliance</a>, we recommend that the position description of these staff be updated to include their Ring-Fencing obligations and their commitments in accordance with the AusNet Service Ring-Fencing Policy.</li> </ul>	<p>AST has revised the Ring-fencing online training module and enhanced the enrolment process by utilising a new learning system which streamlines the training registration process. Based on our testing performed, we identified there are 79 employees have yet to complete the training as at 31 December 2019.</p> <p>Based on the training completion report obtained by EY, Siriwann Sao has completed the training for compliance year 2019.</p> <p>The staff sharing register on AST website has been updated to include position description of relevant shared staff. However, while position descriptions and shared staff categories (ie Senior management, project delivery role and Engineering roles) are included, these do not directly align to and are not mapped to business titles used within the business. Refer to EY recommendation in Section 3.1 below.</p>
4.2.1(a)	A DNSP must use offices that are separate from any offices from which a related electricity service provider provides contestable electricity services.	<ul style="list-style-type: none"> <li>AusNet Services develop a procedure to ensure all new personnel are only provided access to locations relevant for their role and entity.</li> <li>AusNet Services develop a procedure to monitor the access across sites, particularly in those instances employees are seconded or shared for a period of time between AusNet Services and the affiliated entity.</li> <li>AusNet Services allocate the responsibility of monitoring adherence to the above-mentioned recommended employees to a team of individuals within AusNet Services.</li> <li>AusNet Services discuss the sharing of common amenities at the Beaconsfield site with the AER to ensure the AER are comfortable that AusNet Services are not in breach of the Guideline.</li> </ul>	<p>AST has implemented an employee recruitment checklist for responsible hiring manager to demonstrates their confirmation on Ring-fencing obligation compliance including building access considerations.</p> <p>The completed checklist requires approval from the employee's direct manager, Legal team and the relevant EGM of the business unit. Building access forms are also put in place that will be approved by reporting manager or EGM of the business unit to ensure new or seconded employee access passes are relevant for the staff member's role.</p> <p>AST has implemented a site access review process performed by the Compliance team. Refer to Section 3.1 below on EY observation and recommendation related to this review.</p> <p>Based on Beaconsfield role analysis performed by AST, there are effective controls in place to ensure Mondo employees are not accessible to the confidential</p>

Clause	Obligations	Recommendations in 2018	Observation in 2019
			electricity information, therefore the risk likelihood of the discrimination could occur is low.
	A DNSP must establish, maintain and keep a register that identifies: (a) the classes of offices to which it has not applied; and (b) the nature of the positions (including a description of the roles, functions and duties) of its members of staff and must make the register publicly available on its website.	<ul style="list-style-type: none"> <li>AusNet Services maintain a database or document outlining the nature of positions to actual position/titles that is read in conjunction with the Staff Sharing Register.</li> <li>Allocate responsibility of the upkeep and maintenance of the Staff Sharing Register and Secondment Register to a dedicated Team or individual, who would in return undertake spot checks across the business.</li> </ul>	<p>Based on our review on AST employee listing, the actual position/titles in the employee listing is not linked to the nature of positions on staff sharing register. (eg Company Secretary is included on the register, but not business titles such as Deputy Company Secretary are not included nor mapped to the positions on the register).</p> <p>Refer to Section 3.1 below on EY observation and recommendation.</p> <p>It is the direct report manager's responsibility to update the Compliance team if there are any changes are required to be made to the Staff Sharing Register and Secondment Register.</p> <p>The Compliance team performs an annual Staff Sharing and Site Access Review. Through our procedures performed, we identified that the data used in review contained obsolete data such as the inclusion of retired employees.</p> <p>Refer to Section 3.1 below on EY observation and recommendation.</p>
4.3.2 (a) (b)	A DNSP must: (a) keep confidential information confidential (b) only use confidential information for the purpose for which it was acquired or generated	<ul style="list-style-type: none"> <li>AusNet Services form a consistent view of what constitutes confidential information for AusNet Services and reflect across all relevant policies.</li> <li>AusNet Services implement an active monitoring program to monitor instance where large volumes of data or records from systems containing confidential information is shared between the affiliated entity and AusNet Service or across each individual entity.</li> </ul>	<p>Based on our procedures, AST has amended the Ring-Fencing policy by adding the definition of confidential information as well as developing a decision tree to assist the AST employees to determine what constitutes confidential information. Other than that, AST has included the training module regarding confidential information so that the wider business is aware of it.</p> <p>We have not observed the implementation of an active monitoring program as recommended by the auditor in 2018.</p> <p>We recommend that AST implement additional ring-fencing monitoring measures including the monitoring of frequency of the employee accessing confidential information for a list of identified high risk employees.</p> <p>We also recommend that AST consider the implementation of system controls to identify and control access to confidential information at a transaction or document level.</p>

Clause	Obligations	Recommendations in 2018	Observation in 2019
			Refer to Section 3.1 below on EY observation and recommendation.
4.3.3 (a)-(g)	<p>A DNSP must not disclose confidential information to any person, including a related electricity service provider, unless:</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 in response 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) 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>	<ul style="list-style-type: none"> <li>AusNet Services form a consistent view of what constitutes confidential information for AusNet Services and reflect across all relevant policies.</li> <li>AusNet Services implement an active monitoring program to monitor instance where large volumes of data or records from systems containing confidential information is shared between the affiliated entity and AusNet Service or across each individual entity.</li> </ul>	<p>Based on our procedures, AST has amended the Ring-Fencing policy by adding the definition of confidential information as well as developing a decision tree to assist the AST employees to determine what constitutes confidential information. Other than that, AST has included the training module regarding confidential information so that the wider business is aware of it.</p> <p>We have not observed the implementation of an active monitoring program as recommended by the auditor in 2018.</p> <p>We recommend that AST implement additional ring-fencing monitoring measures including the monitoring of frequency of the employee accessing confidential information for a list of identified high risk employees.</p> <p>We also recommend that AST consider the implementation of system controls to identify and control access to confidential information at a transaction or document level.</p> <p>Refer to Section 3.1 below on EY observation and recommendation.</p>
6.2.1 (a), (b) (c)	<p>A DNSP must prepare an annual ring—fencing compliance report each regulatory year.</p> <p>The annual compliance report must identify and describe, in respect of the regulatory year to which the report relates:</p> <p>i. the measures the DNSP has taken to ensure compliance with its obligations under this Guideline;</p>	<ul style="list-style-type: none"> <li>AusNet Services allocate the responsibility of closing out open Ring-Fencing compliance matters to a dedicated team or person. In instances the open items require a longer time to address, we recommend that AusNet Services communicate an extension with the AER.</li> </ul>	<p>AST has allocated the Compliance Team to actively follow up on the open recommendations from prior year. The compliance system keeps track of all open items and is configured to send automated reminders to responsible persons for action against open recommendations.</p> <p>We also recommend that AST considers pro-active communication with the AER for extensions on</p>

Clause	Obligations	Recommendations in 2018	Observation in 2019
	<p>ii. any breaches of this Guideline by the DNSP, or which otherwise relate to the DNSP; and</p> <p>iii. all other services provided by the DNSP in accordance with clause 3.1; and</p> <p>iv. the purpose of all transactions between the DNSP and an affiliated entity.</p> <p>The annual compliance report must be accompanied by an assessment of compliance by a suitably qualified independent authority.</p>		<p>recommendations that remain in progress beyond the anticipated implementation timeframe.</p>
6.3	<p>A DNSP must notify the AER in writing within 5 (five) business days of becoming aware of a material breach of its obligations under this Guideline.</p>	<ul style="list-style-type: none"> <li>AusNet Services consider and document a view as to what constitutes a material breach for AusNet Services and prepare relevant business communication.</li> <li>AusNet Services migrate all Ring-Fencing enquiry to [REDACTED]</li> </ul>	<p>Per AST's latest Ring-Fencing policy, management will inform AER on any breaches as soon as practical. AER will determine if the breach is material or not after discussion with AST Compliance Team, Regulatory or Legal Team.</p> <p>Per our procedures performed, AST has updated the Ring fencing training module, which includes the clarifications to all employees that the right functional mailbox to be [REDACTED] for all Ring-Fencing enquiries.</p>
	<p>Outstanding actions items from 2017 report</p>	<p>AusNet Services review service agreements with RESPs to ensure that the terms are compliant with the guideline.</p>	<p>A range of existing services, eg Calibration&amp; Protection Testing; HV asset testing; Analysis of voltage issues at Yackandandah etc provided by CES/Mondo to AST have been rolled forward from 2017 and specified in Statements of Works (SoWs).</p> <p>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 detected. These SoWs will expire in 2020.</p> <p>We recommend that AST reviews these expiring SoWs and to put these services through formal procurement processes (ie market testing) before granting any extension to these SoWs.</p> <p>Refer to Section 3.1 below on EY observation and recommendation.</p>

### 3. Summary of audit findings

#### 3.1 Summary of findings

Clause	Obligations	Risk rating	Observation and recommendation	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> <ul style="list-style-type: none"> <li>i. direct control services by the DNSP (whether to itself or to any other legal entity); and / or</li> <li>ii. contestable electricity services by any other legal entity.</li> </ul>	Moderate	<p>AST has developed a training program which is required to be attended and completed by the most impacted employees.</p> <p>As at 31 Dec 2019, 1842 employees (96%) have completed the training, and 79 employees (4%) are yet to complete the training. As at end of March, it is still 79 employees are yet to complete the training.</p> <p>We understand that 33 of the 79 employees are on leave that might not be able to complete the training anytime soon. We recommend the training be completed by these employees, or if they employees are on extended leave, the reason for the leave should be documented and retained.</p> <p>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.</p>	<p>AusNet Services is actively following up the remaining 46 staff members (2.4% of total staff population) required to complete the online module (based on enrolments in 2019). AusNet Services will provide the AER confirmation once this has been achieved.</p> <p>Owners: [REDACTED]</p> <p>Status: In Progress</p> <p>Due: 31 July 2020</p> <p>AusNet Services has established processes to monitor training completion for returning staff or new hires from 1 January 2020. A summary of this process involves a monthly report extracted from HR systems to identify employee changes (new hires, return from extended leave, end of employment etc) which is then cross referenced with ring-fencing module enrolments and completion. Once staff are enrolled in the mandatory module, they are provided 90 days to complete it.</p> <p>Given the dynamic nature of employment, the Electricity Distribution Interface Manager (EDIM), uses these two reports to monitor and update the master training completion log to track training completion. Changes such as extended leave, termination, new hires are noted for the purpose of tracking training completion.</p> <p>Line managers are responsible to ensure that their team members complete all mandatory training (this is enabled by SuccessFactors which allows line managers to view what outstanding training staff are required to complete).</p> <p>In addition to managers ensuring staff complete their training, the EDIM will provide additional follow up emails to staff who have not completed the module by the due date.</p>
4.1(c)	Without limiting its scope, clause 4.1(b) requires a DNSP to:	Moderate	AST formalised the evaluation and decision-making process, which demonstrates its service arrangements with Mondo represents the best cost and efficiency outcome for AST.	Mondo (the contestable arm of AusNet Services) provides limited services to AusNet Services as the DNSP. In 2019, Mondo provided AusNet Services (as the DNSP) 4 services

Clause	Obligations	Risk rating	Observation and recommendation	Management response
	<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>AST has implemented multiple control mechanisms for the cost of services such as budget setting and monitoring. Dedicated AST personnel are accountable for the budgets for these services.</p> <p>A range of existing services, eg Calibration&amp; Protection Testing; HV asset testing; Analysis of voltage issues at Yackandandah etc provided by CES/Mondo to AST have been rolled forward from 2017 and specified in Statements of Works (SoWs).</p> <p>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 detected. These SoWs will expire in 2020.</p> <p>We recommend that AST reviews these expiring SoWs and to put these services through formal procurement processes (ie market testing) before granting any extension to these SoWs.</p>	<p>– all of which had a SoW in place that was linked to the overarching Master Services Agreement (MSA).</p> <p>The MSA has been established in line with clause 4.1 of the Ring-fencing guideline and outlines the same terms and conditions as any other provider that AusNet Services has an established MSA with.</p> <p>A re-evaluation of services provided by Mondo is to be performed upon expiry of the SoW. This process was established in 2019, however has not been enacted yet as there has not been an expired Mondo SoW to review and potentially renew or extend. In 2020 however, 3 of the 4 noted SoWs are due for expiry and therefore will be required to be reviewed and market tested before any potential extension or renewal is granted.</p> <p>Owners ██████████</p> <p>Status: In Progress</p> <p>Due: 31 December 2020</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.	Moderate	<p>AST has identified two locations where RES and Mondo employees share offices. While AST has demonstrated remediation actions to the two locations, we identified that the data used in the Full Site Access Review performed by the Compliance Team contained obsolete data such as office spaces no longer used by the organisation and retired employees.</p> <p>We recommend that the Compliance Team performs a Full Site Access Review on a regular basis, to ensure the data used in the reviews are up to date.</p> <p>Of the sample testing performed over building access form approval, three out of 25 forms were not able to be located by AST.</p> <p>We recommend that AST keep track of the building access approval forms, and perform periodic reviews on the process to ensure AST is compliant with Ring-Fencing Guideline.</p>	<p>An annual review is conducted by the Compliance team and Electricity Distribution Interface manager. This is an annual reoccurring event (in September) and is monitored and tracked in the Compliance database (Enablon). The review is focused on ensuring the current controls are effective.</p> <p>In terms of the reference to any obsolete offices, these will be noted and removed for future reviews.</p> <p>With regard to the missing approval forms, this has been raised with the building services team to investigate why the approval forms could not be located.</p> <p>The review in 2019 for site access conducted by AusNet Services (which used access list to offices, not the overarching approval forms) confirmed that staff had access to sites related to their role.</p> <p>Status: Closed (this is incorporated as part of Annual Compliance monitoring activities)</p> <p><i>Please Note: as this is part of AusNet Services Ring-fencing Compliance Program activities, evidence of this will be included in Annual Ring-fencing AusNet Services</i></p>

Clause	Obligations	Risk rating	Observation and recommendation	Management response
				<i>Compliance Reports as part of Compliance Task Compliance Results (which is featured in the appendix section of AusNet Services Annual report).</i>
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.	Low	<p>AST has appropriately identified distinct roles for its RES and Mondo employees, ensuring there are no staff sharing that is not in line with the Guideline. Employees shared are included in the staff sharing register, published on the AST website, which is publicly available.</p> <p>We recommend AST to define the role in 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 subjected to staff sharing.</p>	<p>From an administrative perspective some project delivery roles represented in the public register were grouped together (eg "Project Manager/Team Lead" was used to cover various iterations of this role such as Senior Project Manager, Project Team Leader, Project Manager – People Lead).</p> <p>Based on this observation from EY we have updated the public staff register to include the exact same title featured in the spreadsheet that is used internally by AusNet Services to track the roles that should be on the public register to assist with future audits.</p> <p>Status – Closed (as at 14 May 2020)</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.	Low	<p>The AST remuneration policy does not give its staff an incentive to act in a manner contrary to the Guideline</p> <p>We understand that the short-term incentive (STI) plans offered to all eligible AST employees (RES and Mondo) include incentives that are linked to Group wide financial performance (RES and Mondo combined), and other business and personal KPIs.</p> <p>We understand this arrangement is considered in compliance with the ring-fencing guideline.</p> <p>We recommend management to 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 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.</p>	<p>AusNet Services maintains a '4.2.2 Staff Register list' (maintained between EDIM and Compliance). Within this register is a list of staff who "cannot be shared". AusNet Services treats these identified staff members as high-risk in terms of the Guideline's definition.</p> <p>As per EY's recommendation, AusNet Services will provide high risk employees a biannual communication (via email) of their key responsibilities under the Ring-fencing Guideline to reinforce and remind staff of their obligations under the ring-fencing guideline.</p> <p>(This will be an additional measure to the mandatory online training all employees are required to perform every 2 years).</p> <p>Owner: [REDACTED]</p> <p>Status: In Progress</p> <p>Due: 31 May 2020 (Initial sent by 31 May, then every 6 months)</p>



Clause	Obligations	Risk rating	Observation and recommendation	Management response
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>	Low	<p>We recognise that AST has established a register of the nature of shared positions in line with the Guideline.</p> <p>We note that the nature of positions included in the register is not linked to actual positions/titles used within the business.</p> <p>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.</p>	<p>From an administrative perspective some project delivery roles represented in the public register were grouped together (eg "Project Manager/Team Lead" was used to cover various iterations of this role such as Senior Project Manager, Project Team Leader, Project Manager – People Lead).</p> <p>Based on this observation from EY we have updated the public staff register to include the exact same title featured in the spreadsheet that is used internally by AusNet Services to track the roles that should be on the public register to assist with future audits.</p> <p>Monthly reports provided and used by EDIM and Compliance for the purpose of tracking training enrolments (ie used for identifying new hires, extended leaves, terminations etc) will be used as the authoritative source for staff titles in the '4.2.2 Staff Register list' and subsequently the public staff sharing register. This will ensure alignment and accuracy across databases and registers for the effective monitoring of this obligation.</p> <p>Status – Closed (as at 14 May 2020)</p>
4.3.2	<p>Subject to this clause 4.3, a DNSP must:</p> <p>(a) keep confidential information confidential; and</p> <p>(b) only use confidential information for the purpose for which it was acquired or generated.</p>	Moderate	<p>AST has in place a personal information privacy policy and procedures. Based on the job description and information accessible to these Mondo employees, we consider that the confidential information obligation is expected to be met as these employees do not have incentives to access or use confidential information outside the execution of their roles.</p> <p>However, as there are no practical system controls in place to ensure these employees do not access confidential information for inappropriate uses, AST should better ensure compliance with controls recommended per below:</p> <p>We recommend management to 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 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.</p> <p>We recommend that management consider the implementation of system controls to identify and control</p>	<p>AusNet Services conducted a system control review in 2019 to assess the effectiveness of system access controls related to systems with "confidential electricity information". As part of this review, SAP access to distribution project related information is assessed. In addition, as a key preventative control to ensure that SAP distribution project data is not accessed by Mondo, if a Mondo person has requested access, the SAP approval team will not process this request. Instead it is forwarded to the EDIM for review and approval (It will only be approved if there is a SoW in place).</p> <p>To continually review the effectiveness of controls related to information security AusNet Services will continue to perform an annual control effectiveness review with a focus of access controls related to 'high risk' employees and systems/information they have access to.</p> <p>Status – Closed.</p> <p><i>Please Note: as this is part of AusNet Services Ring-fencing Compliance Program activities, evidence of this will be included in Annual Ring-fencing AusNet Service Compliance Reports as part of Compliance Task</i></p>

Clause	Obligations	Risk rating	Observation and recommendation	Management response
			<p>access to confidential information at a transaction or document level. This would complement the broader existing controls in place on system access at an application or company code level.</p> <p>We also recommend management perform periodic SAP access reviews of CES users, to detect and prevent any unauthorised access to confidential information.</p>	<p><i>Compliance Results (which is featured in the appendix section of AusNet Services Annual report).</i></p>
6.3	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.	Low	<p>AST has used compliance calendar as a reminder to manually keep track of breach reporting deadline to AER per the reporting requirement under Ring-fencing guideline.</p> <p>We recommend that AST to build in the reminder notification into breach reporting system for the purpose of complying the guideline by submitting the written report to AER within five working days.</p>	<p>Costs associated with a system enhancement like this could only be justified in the current environment if there were noted cases of not achieving this metric and or the volume of instances would indicate that investment in technology is required.</p> <p>To impress the importance of this requirement (as well as any other reportable breach), the Compliance Manager's role description and goal performance is assessed on the delivery of any breach reporting metrics and timelines mandated in regulatory instruments (ie Ring-fencing guideline, ESC Compliance and Performance Reporting Guideline).</p> <p>AusNet Services is satisfied that the current processes and controls (in terms of role performance, communication of policy and training) is suitable to meet the requirement of this obligation.</p> <p>Status: Closed</p>

### 3.2 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

### 3.3 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.

<b>Green</b>	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.
<b>Amber</b>	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.
<b>Red</b>	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.

## 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' legal entity structure complies with the legal separation requirements of the Guideline.	<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 have used AST' ABN number as noted on the distribution licence approved by AER.</p> <p>Observation:</p> <p>Based upon the evidence obtained above, no exceptions had been noted on 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

Ref	Compliance Obligation	Process Description	Testing	Grading
3.1(b)	A DNSP may provide distribution services and transmission services, but must not provide other services.	<p>All arrangements entered into by AST will need to be reviewed by the AST Contracts team and Legal team to ensure compliance with the Guideline.</p> <p>AST identified a few arrangements that are not in accordance with the Guideline. AST has applied for waivers from the AER for these arrangements and were granted waivers by AER in December 2017.</p> <ul style="list-style-type: none"> <li>Mt Baw Baw: The Alpine Resorts Commission and AST have a Power Reticulation Agreement dating from 1997 to build, own, operate and supply LPG and electrical energy at Mt Baw Baw in Eastern Victoria.</li> <li>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: <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> </li> </ul>	<p>Discussion held with: Compliance Manager</p> <p>Procedures performed:</p> <p>We reviewed the process undertaken by management to ensure all arrangements are correctly identified and in compliance with the Guideline.</p> <p>We have reviewed the services tracker which details the description of services provided, contractual term, and ring-fencing compliance status throughout the 2019 compliance year.</p> <p>For contractual arrangements that requires actions to be in compliance with the Guideline, we have tested a sample of arrangements to sight to novation agreements and legal consultations.</p> <p>We understand that Mt Baw Baw wavier will expire on 15 May 2020. AST is not going to extend the wavier and will update the approved waiver register on AST's website.</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, with the exception of those included in the waiver registers, as approved by the AST.</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>	Strong
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>Discussion held with: Compliance Manager, Regulatory Accounting Manager, Senior Investment and Planning Analyst</p> <p>Procedures performed:</p> <p>We obtained and reviewed the AST internal accounting procedure manual - "Transactions with affiliated</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
		<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 or by the presence of a "trading partner" field within SAP. AST applies cost allocation methodology generates intercompany receivables and payables that recorded in the financial statements.</p> <p>AST has the quarterly review meeting with procurement team to make sure the appropriateness of accounting treatment between AST and its affiliated entities.</p> <p>AST maintains records of transactions with related parties and is required to disclose these transactions in its financial statements.</p> <p>Related party transactions 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>entities" and noted that it addresses transactions between AST and its affiliated entities.</p> <p>We obtained and reviewed the transaction report between AST and affiliated entities in which the accounting treatment is in line with the internal accounting manual. As at the date of this report, AST is generating the transaction listing between AST and its affiliated entities.</p> <p>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:</p> <p>Based upon the discussions held and procedures performed, no exceptions had been noted on AST' compliance against the obligation with key point(s) 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:</p> <p>None noted.</p>	
3.2.2	<p>(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 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</p>	<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 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> <ol style="list-style-type: none"> <li>Labour cost – through the payroll 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</li> </ol>	<p>Discussion held with:</p> <p>Compliance Manager, Regulatory Accounting Manager, Senior Investment and Planning Analyst</p> <p>Procedures performed:</p> <p>We have obtained and reviewed the CAM, noting that it addresses allocation and attribution of costs between distribution services and non-distribution services.</p> <p>We have checked that AST' existing CAM is 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 is aligned with the existing CAM.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions had been noted on AST's</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
	<p>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>2. Material costs and invoiced contract and service cost – through direct costing/attribution to asset related work codes and cost driver approach</p> <p>3. 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 RES Finance team on a quarterly basis by applying a cascade of two approaches:</p> <ol style="list-style-type: none"> <li>1. Time sheeting: for cost centres that complete timesheets and where those timesheets cover the majority of the cost centre available time.</li> <li>2. 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.</li> </ol> <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. The RES Finance Team also performs a monthly analysis of the financial results on a cost allocation basis for each regulated network, as well as the unregulated business of AST.</p> <p>Costs such as finance costs, corporate tax and other costs below the EBIT line are considered at corporate level.</p>	<p>compliance against the obligation with key point(s) 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 Activity based costing (ABC) Surveys 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 have obtained and reviewed the February (old CAM) and November 2019 (New CAM) ABC survey, cost center 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 fixed allocation driver will not be amended unless the owner of the driver initiated that with finance team.</li> </ul> <p>Recommendations: None noted.</p>	

#### Obligation: Functional separation – Section 4

#### Guidance Assessment Criteria and Assessment Controls

Ref	Compliance Obligation	Process Description	Testing	Grading
4.1(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 enhanced its online training program in relation to the topic of Ring-fencing for electricity distribution policy, which includes a do's and don'ts when dealing with affiliated entities. Below are the three approach</p> <ul style="list-style-type: none"> <li>- Broadcast message via intranet that outlines where resources are relating to key ringfencing educational information</li> <li>- Online module for in scope staff</li> </ul> <p>All AST employees are accessible to the ringfencing intranet site at any time. Upon completion of the training, employees would receive a completion report to prove the training is complete. The compliance team monitors the completion status of the online training.</p> <p>The Ring-fencing project team has reviewed all existing arrangements where Mondo provides services to AST and external DNSPs.</p> <p>Together with the legal team, AST has developed various Statement of Works for the respective services provided by Mondo which include, but is not limited to chemical testing services, metering services, HV asset testing and others.</p> <p>A Master Service Agreement is 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 format, to ensure the terms and conditions set out are not discriminating against an external party.</p>	<p>Discussion held with: Compliance Manager, Business Analyst, Manager of Business Planning and Commercial</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 into between AST and Mondo.</p> <p>Also refer to section 4.1(c) below on our assessment of AST' 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 a number of AST employees have not yet completed the required training. We have also identified that the training completion tracker is not fully up to date as certain terminated employees are not removed from the tracker.</li> </ul> <p>Recommendations:</p> <ul style="list-style-type: none"> <li>• [Low] AST has developed a training online module which is required to be attended and completed by the most impacted employees (1842 of employees had performed). To date, 79 employees (as at 24 April 2020) are yet to complete the training program. We understand that 33 of the 79 employees are on leave that might not be able to complete the training anytime soon. We recommend the training be completed by these employees, or if they employees are on extended</li> </ul>	Moderate



Ref	Compliance Obligation	Process Description	Testing	Grading
			<p>leave, the reason for the leave should be documented and retained.</p> <ul style="list-style-type: none"> <li>[Low] 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>	
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 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>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 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>Discussion held with: Compliance Manager, Business Analyst, Manager of Business Planning and Commercial</p> <p>Procedures performed: We obtained and reviewed the Statement of Works (SOW) and Master Service Agreement (MSA) entered into between AST and Mondo.</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 in order to demonstrate its compliance against this obligation. We have selected one sample transaction between AST and Mondo and obtained evidence of AST' use of this decision-making framework.</p> <p>We obtained and reviewed an example of the waiver of competition form for the SoW entered between Mondo and AST in 2019 (ie Lidar).</p> <p>Observation: 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> </ul>	Moderate

Ref	Compliance Obligation	Process Description	Testing	Grading
		<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. 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 particular 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 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 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 purchasing scenario used when the purchase is greater than \$20,000. The procurement team will perform the sourcing for such cases. Where Procurement decides to proceed with recommending the purchase with only one quote, then a waiver of competition must also be completed and approved by the Sourcing Execution Manager.</p> <p>For compliance year 2019, transactions between AST and Mondo total [REDACTED]. These transactions include:</p> <p>SoW #1 Condition monitoring and others [REDACTED]</p> <p>SoW #2 Chemist Testing: [REDACTED]</p> <p>SoW #3 Calibration and Projects: [REDACTED]</p>	<ul style="list-style-type: none"> <li>For new arrangements with Mondo, AST has developed signed SoWs with the involvement of commercial team, finance team and procurement team to demonstrate the arrangements are entered into at arm's length.</li> <li>We have identified a number of existing SoWs with Mondo which will expire in 2020. The services covered by these SoWs have not been marketed tested since the transition in 2017.</li> </ul> <p>Recommendations:</p> <p>[Moderate] A range of existing services, eg Calibration &amp; Protection Testing; HV asset testing; Analysis of voltage issues at Yackandandah etc provided by CES/Mondo to AST have been rolled forward from 2017 and specified in Statements of Works (SoWs).</p> <p>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 detected. These SoWs will expire in 2020.</p> <p>We recommend that AST reviews these expiring SoWs and to put these services through formal procurement processes (ie market testing) before granting any extension to these SoWs.</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	AST Ring-fencing project team performed a full site access review in August 2019. The review including 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	Discussion held with: Compliance Manager, Distribution Network Interface Manager	Moderate

Ref	Compliance Obligation	Process Description	Testing	Grading
	provider provides contestable electricity services.	<p>provide separate workspaces for staff, such as creating separate and restricted sections of a site or the floor of a building with access card controls and separate kitchen/tea facilities. Shared areas and facilities such as lifts, foyers and car parks are considered acceptable.</p> <p>The basis of the location analysis is to identify locations where there are both DNSPs employees and Mondo employees, which is in conflict with the Guideline.</p> <p>There are 2 shared locations are remained after the analysis, namely Freshwater Place and Beaconsfield.</p> <ul style="list-style-type: none"> <li>Freshwater Place: Relocated all Mondo employees to Level 26 and revoke all access to Level 31</li> <li>Beaconsfield: AST has separated Mondo employees and DNSPs employees by building a separation wall in the office, with separate access into the office.</li> </ul> <p>Each profit centre manager will have to monitor the employees' movements at each location and report to the Compliance team on a quarterly basis.</p>	<p>Procedures performed:</p> <p>We obtained and reviewed the Full Site Access Review performed by the Compliance Team and Building Services team who performed analysis of the sites that needs remedial action to comply with the Guideline.</p> <p>We obtained the list of new employees in 2019, and reviewed the site access approval forms for sampled employees.</p> <p>We obtained the seconded employee register and selected samples of employees seconded in the compliance year. 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>Observation:</p> <p>Based upon the discussions held and procedures performed, we noted:</p> <ul style="list-style-type: none"> <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 25 samples to test the approval process on building access forms. We have identified that three out of 25 approvals are unable to be located by AST.</li> <li>We identified that the data used in the Full Site Access Review performed by the Compliance Team contained obsolete data such as office spaces no longer used by the organisation and retired employees.</li> </ul> <p>Recommendations:</p> <p>[Moderate] We recommend that the Compliance Team performs the Full Site Access Review on a regular basis, and ensure the data used in the review are up to date.</p> <p>We recommend that AST keep track of the building access approval forms, and perform periodic reviews of the process to ensure AST is compliant with the Ring-Fencing guideline.</p>	

Ref	Compliance Obligation	Process Description	Testing	Grading
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.</p> <p>In line with the Guideline, roles providing corporate services are exempted from the obligation. AST has identified the following roles to be out of scope.</p> <ul style="list-style-type: none"> <li>• Executives</li> <li>• Technology</li> <li>• Administration</li> <li>• Payroll</li> </ul> <p>AST has identified a list of roles that are shared between the RES and Mondo. 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 the ring-fencing 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 between the regulated business and Mondo, 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>Discussion held with: Compliance Manager, Distribution Network Interface Manager</p> <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> <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 had been noted on AST's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> <li>• AST has 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 the actual roles in AST.</li> </ul> <p>Recommendations:</p> <p>[Low] We recommend AST to define the role in 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 subjected to staff sharing.</p>	Strong
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	<p>AST has a Performance Development and STI Human Resource Policy Manual in place, which addresses remuneration, incentives and KPIs of employees. The policy was reviewed in by Head of Remuneration and Head of People and Change for any risk to non-compliance with the Guideline.</p> <p>The short-term incentives (STI) plans of AST for eligible employees are based on business performance of the whole AST</p>	<p>Discussion held with: Compliance Manager, Head of Remuneration</p> <p>Procedures performed:</p> <p>We obtained and reviewed the remuneration policy and noted that it is the internal performance development</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
	DNSP's obligations under this Guideline.	<p>Group and divisional and individual key performance indicators, the group result includes the results of both the RES and Mondo businesses. Finance performance criteria considered are EBITDA and Return on Equity.</p> <p>For RES employees, KPI includes financial performance of the whole AST Group and an element of RES performance. This is vice versa with the Mondo employees, where it includes an element of Mondo performance.</p> <p>Management is of the view that the risk that the incentive arrangement 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 AST Code of Conduct</li> <li>RES or Mondo specific performance is only one of the contributors to group performance</li> <li>It is difficult for one individual to make a material impact on group performance</li> <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>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> </ul>	<p>and STI manual details the remuneration, incentive and KPIs of employees.</p> <p>We have obtained sample KPI scorecards for RES 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> <ul style="list-style-type: none"> <li>The AST remuneration policy does not give its staff an incentive to act in a manner contrary to the Guideline</li> </ul> <p>Recommendations:</p> <p>[Low] We understand that the short-term incentive (STI) plans offered to all eligible AST employees (RES and Mondo) include incentives that are linked to Group wide financial performance (RES and Mondo combined), and other business and personal KPIs.</p> <p>We understand this arrangement is considered in compliance with the ring-fencing guideline.</p> <p>We recommend management to 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 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.</p>	
4.2.3	(a) A DNSP: 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>AST has implemented training program to outline the branding and marketing requirements per the ring-fencing guideline to the whole business. This includes to ensure 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 policy to address the requirement of separate branding includes</p> <ul style="list-style-type: none"> <li>All office signage, vehicles branding for Mondo where an AST logo or tagline is used</li> </ul>	<p>Discussion held with: Compliance Manager</p> <p>Procedures performed:</p> <p>We have visited the AST website to review if there are any contestable electricity services being published on the website.</p> <p>We reviewed the online training slides that AST business to communicate the branding requirement per the Guideline.</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
	<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>	<ul style="list-style-type: none"> <li>Review websites and social media platforms, including email signatures</li> <li>I employee uniform between Mondo and RES</li> </ul>	<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 included a branding policy in its Ring-fencing policy to address separate branding for its RES and Mondo business.</li> </ul> <p>Recommendations:</p> <p>None noted.</p>	
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>As at the date of this report, there are not sites shared, hence the register for office sharing is nil.</p> <p>The staff sharing register describes the nature of positions including the roles, functions and duties of these roles.</p> <p>The staff sharing register was prepared based on the staff needed to perform specific services Mondo has requested or expected to request of AST. The completeness of the register is regularly monitored and updated through the approval process for services Mondo requests of AST.</p> <p>While AST has prepared the register based on the nature of the positions being shared, which is consistent with the Guideline, we understand that there is no formal document or database to link the natures of positions in the register to actual positions/titles used within the business.</p>	<p>Discussion held with:</p> <p>Compliance Manager, Distribution Network Interface 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> </ul>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
			<ul style="list-style-type: none"> <li>AST has a checklist for the hiring manager to assess potential actions are required when seconding employees.</li> </ul> <p>Recommendations:</p> <p>[Low] We recognise that AST has established and maintained a register of the nature of the shared positions in line with the Guideline.</p> <p>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.</p> <p>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.</p>	
4.3.2	<p>Subject to this clause 4.3, a DNSP must:</p> <p>(a) keep confidential information confidential; and</p> <p>(b) only use confidential information for the purpose for which it was acquired or generated.</p>	<p>AST has a Privacy Policy in place, that was last reviewed in March 2018. 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>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 Regulation 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. The Ring-fencing project team and the Technology team have reviewed the list of system access for all systems that are used by Mondo business units. The identified systems are reviewed to determine if they contain electricity information which needs to be restricted per the Guideline. The Technology team then performed an exercise to remove Mondo system access to DNSP systems which may contain electricity information. This includes creating role-based access to control visibility of data via shared systems.</p> <p>SAP Ring Fencing Project created and deployed new Mondo roles to 28 Mondo users in SAP. There are proper procedures and risk mitigation process in place:</p>	<p>Discussion held with: Compliance Manager, Distribution Network Interface Manager</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 are not Mondo employees.</p> <p>We reviewed the process undertaken by management to reorganise user system access, including SAP system where there are multiple role access security functions.</p> <p>We also checked management's assessment of systems that contain confidential information and user access of systems that contain confidential information against Mondo employee listing.</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>	Moderate

Ref	Compliance Obligation	Process Description	Testing	Grading
		<p>1. Mondo roles are clearly labelled in the system with a Suffix of "_CES" in SAP.</p> <p>2. Mondo roles restrict users to perform functions within their Mondo organisational areas.</p> <p>3. 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 will be doing the physical changes in SAP.</p> <p>4. Quarterly review of Mondo users and their accesses performed by Compliance team. If there are any anomalies, will be escalated to Security team.</p> <p>System access is monitored continuously by the respective profit centres managers and reports to the Compliance team on a quarterly basis.</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 28 Mondo employees with access to RES SAP</li> <li>Within the sample testing performed of Mondo employee's access to electricity information, we identified that three roles have access to confidential information. Their access to RES information is limited to the extent required to perform their duties.</li> </ul> <p>The Compliance Manager and Distribution Network Interface Manager perform annual review on CES users with access to RES SAP. It is a manual detective control designed to ensure that SAP access is aligned to the division.</p> <p>Based on the job description and information accessible to these Mondo employees, we consider that the confidential information obligation is expected to be met as these employees do not have incentives to access or use confidential information outside the execution of their roles.</p> <ul style="list-style-type: none"> <li>However, as there are no practical system controls in place to ensure these employees do not have access to confidential information, AST should ensure compliance with controls recommended below.</li> </ul> <p>Recommendations:</p> <p>[Moderate] We recommend management to 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 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.</p> <p>[Moderate] We recommend management perform periodic SAP access reviews on CES users, to detect and prevent any unauthorised access to confidential information.</p> <p>[Low] We recommend that management consider the implementation of system controls to identify and</p>	



Ref	Compliance Obligation	Process Description	Testing	Grading
			control access to confidential information at a transaction or document level. This would complement the broader existing controls in place on system access at an application or company code level.	
4.3.3	A DNSP must not disclose confidential information to any person, including a related electricity service provider, unless an exemption applies.	<p>The exemptions listed by AER in the Guideline are</p> <ul style="list-style-type: none"> <li>(a) the DNSP has first obtained the explicit informed consent of the relevant customer, or prospective customer, to whom the confidential information relates;</li> <li>(b) the disclosure is required by, or for the purpose of complying with any law;</li> <li>(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);</li> <li>(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;</li> <li>(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;</li> <li>(f) the disclosure is solely for the purposes of research by a legal entity other than a related electricity service provider of the DNSP;</li> <li>(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</li> <li>(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.</li> </ul> <p>The Ring-fencing project team has reviewed the exemptions in the Guidance and deem not applicable for AST.</p>	<p>Discussion held with: Compliance Manager, Distribution Network Interface Manager</p> <p>Procedures performed: We have discussed with management AST consideration of the exemptions per the Guideline.</p> <p>Observation: 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> <li>• AST has in place a process to protect confidential information.</li> </ul> <p>Recommendations: None noted.</p>	Strong
4.3.4	(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	AST has implemented protocols to govern its information sharing process and protection of confidential information in its Ring-fencing Policy. The policy includes developing an information sharing protocol and register, which is publicly available on AST website. The document details the type of	<p>Discussion held with: Compliance Manager, Distribution Network Interface Manager</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
	<p>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>information that can be shared and the terms on which information will be shared. All information request will be made via a ring-fencing mailbox, which is maintained by the Regulation team. The regulation team will assess if the information requested is appropriate to be shared and will seek consultation from the legal team. 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>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>	
4.3.5	<p>(a) A DNSP must establish, maintain and keep a register of all:</p> <ol style="list-style-type: none"> <li>related electricity service providers;</li> <li>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.</li> </ol> <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>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. 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. The information register is maintained by the Regulation team, as any information request goes through the Regulation team as well. There are no shared information and no information request received as at the date of the report.</p>	<p>Discussion held with:</p> <p>Compliance Manager, Distribution Network Interface Manager</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 had been 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> </ul>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
	<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>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, if the DNSP engaged in the conduct itself, would be contrary to the DNSP's obligations under clause 4 of this Guideline.</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>Compliance Manager, Manager Regulatory Framework</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>Recommendation:</p> <p>None noted.</p>	Strong

## 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 has a few existing arrangements that are not aligned with the Guideline includes:</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 has applied for a waiver in regard to the services provided. The AER has approved 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.</p> <p>The AER has categorised the waiver applications into 6 waiver groups, namely</p> <ol style="list-style-type: none"> <li>1. Reclassification of services</li> <li>2. Legal/ functional separation</li> <li>3. Branding</li> <li>4. Regional service delivery</li> <li>5. ActewAGL gas businesses</li> <li>6. Regional offices</li> </ol> <p>Whereby AST qualifies under category 1.</p> <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. On a quarterly basis, the AST Compliance system would send the Manager Regulatory Framework a prompt or reminder 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 waiver register will be done via the Corporate Affairs team.</p>	<p>Discussion held with: Compliance Manager</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

## 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. 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>Discussion held with: Compliance Manager, Compliance Officer</p> <p>Procedures performed: We obtained and reviewed the Ring-fencing Policy which demonstrates that it complies with AER's requirement on compliance procedures. We obtained and reviewed the compliance spreadsheet tracker populated by the Compliance team which includes input from responsible person. We obtained and reviewed the compliance calendar utilised by Compliance team which includes all the reminder to submit the report.</p> <p>Observation: 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: 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>Each obligation clauses under the Guideline is put under a Responsible person in 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: Compliance Manager, Compliance Officer</p> <p>Procedures performed: We have been engaged by AST to perform as the independent authority to assess compliance in relation to ring fencing. We have obtained and reviewed management's draft annual compliance report</p> <p>Observation: Based upon the discussions held and procedures performed, no exceptions were noted with AST's</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
			<p>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: None noted.</p>	
6.3	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>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 ring-fencing 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 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 the 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 then responsible to provide update to AER to close the issue.</p> <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 Management Committee.</p>	<p>Discussion held with: Compliance Manager, Compliance Officer</p> <p>Procedures performed: 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: 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> <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 2019.</li> </ul> <p>Recommendations: We recommend that AST to build in the reminder notification into breach reporting system for the purpose of complying the guideline by submitting the written report to AER within 5 working days.</p>	Strong

## 5. Auditor statement

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

We have audited AusNet Electricity Services Pty Ltd's (AES) 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 2019.

### Assurance Practitioner's responsibility

AES 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 AES 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 AES 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 2019.

### 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 AES 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 AES 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 AES and the AER. However, we agree that the audit report may be published at the AER's discretion on AER's website.