

AER Ring-fencing Guideline for Electricity Distribution Compliance Report

AusNet Electricity Services Pty Ltd

June 2021

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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 (Electricity Distribution) (Version 2)* on 17 October 2017 under the National Electricity Rules (the Guideline), 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 Guideline for the review period 1 January 2020 to 31 December 2020. The review includes contents of the compliance report if they accurately reflect the activities taken by AST is compliant with the Guideline.

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

1.3 Scope

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

- ▶ A statement from the assessor detailing assessment methodology and how relevant standards were used to design that methodology and implement the assessment. This could include a description of the type of sampling and auditing procedures used, and how the assessment methodology aligned with relevant ISO or ASAE standards chosen to guide the assessment.
- ▶ A statement from the assessor detailing any areas of the assessment where information was inconsistent, incomplete, or incorrect, and the degree to which this has negatively impacted the assurance level.
- ▶ The nature of any issues or concerns that were raised by the assessor 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 electricity services provided by AST or its affiliates.

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

- ▶ Inappropriate advantage provided to affiliates on commercial transactions
This risk can arise through preferential treatment of affiliates through procurement processes to award contracts to affiliates that are not at arm's length. Employees may be incentivised to do so when inappropriate remuneration or performance evaluation frameworks are in place.
- ▶ Inappropriate access of confidential electricity information
This risk can arise through inappropriate physical or system access by staff, or inappropriate staff sharing arrangements. Employees in the affiliate providing contestable electricity services may benefit from inappropriate use of confidential electricity information both in transactions with AST and business development with external customers.
- ▶ Inappropriate promotion of affiliates providing contestable electricity services
This risk can arise through AST using its position as a regulated electricity services provider to inappropriately promote contestable electricity services provided by its affiliates. This can be both direct promotion through 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 fourth year AST has been assessed for its ring-fencing compliance. Through interviews conducted and assurance procedures performed, we have observed that the ring-fencing compliance environment at AST is mature and generally robust, but that some matters raised in the prior year remain outstanding.

It was noted that during the period AST undertook an organisational restructure that consolidated a range of activities previously undertaken under Mondo and the energy services part of AST into a single Growth and Future Networks (G&FN) division within which the Mondo branding is still used for service delivery. We have considered this restructure in the design and execution of our procedures against the Guidelines. Consistent with the prior period we have continued to observe that historical arrangements between AST and its affiliates providing contestable electricity service are in the process of being phased out. We have observed relevant controls in place to demonstrate ring-fencing compliance. The overall value of transactions between AST and Mondo was █████ for the year ended 31 December 2020.

We also observed in our procedures during the period that AST has embarked on a new collaboration with AEMO and Mondo known as Project EDGE (Energy Demand and Generation Exchange). This is a multiyear project is designed to demonstrate an off-market, proof-of-concept Distributed Energy Resource (DER) Marketplace that efficiently operates DER to provide both wholesale and local network services within the constraints of the distribution network within the Hume region of Victoria. The project has also received financial support from the Australian Renewable Energy Agency (ARENA). As part of our procedures we made enquiries with key operational personnel involved with this project as well as those in compliance regarding relevant consideration of the Guidelines in the execution of the project objectives. Our observations of this are discussed in section 4.1 below.

Through this year's assessment performed, we identified one new recommendation for AST's continuous improvement, along with seven observations on similar points raised in the prior year.

These observations and recommendations, along with management's responses, are summarised in section 3.1 and section 2 respectively.

1.7 Limitations

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

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

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

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

1.8 Executive comment

Except unless otherwise stated in the management responses in sections 2 and 3.1, 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. 2019 Auditor Recommendations

The following table outlines AST' response and actions taken against our recommendations in response to our 2019 findings as well as our relevant observations and findings in the current year:

Clause	Obligations	Recommendations in 2019	Observations and findings in 2020	Management Response
4.1(b)	<p>A DNSP must not discriminate (either directly or indirectly) between a related electricity service provider and a competitor (or potential competitor) of a related electricity service provider in connection with the provision of:</p> <p>i. direct control services by the DNSP (whether to itself or to any other legal entity); and / or</p> <p>ii. contestable electricity services by any other legal entity.</p>	<ul style="list-style-type: none"> Management to ensure the 79 employees who have not yet completed the training program do so as soon as possible. We also observed that 33 of these employees were on extended leave and would not be able to complete the training anytime soon. 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. 	<ul style="list-style-type: none"> This was an observed improvement in the current year with only 15 employees not having completed their training as at 31 December 2020. However, it was noted that many of the people who had not completed their training were also on extended leave, illustrating a similar issue to the prior period. We also noted that there were a small number of terminated employees on the tracker. We restate our recommendation from 2019 that a periodic review be performed of terminated employees and employees that are on extended leave to ensure they are not included on the register. 	<ul style="list-style-type: none"> The Compliance team has actively followed up the remaining staff members required to complete the online training module. Management note that a refresh of the mandatory compliance training completion monitoring process is in progress, with the timely completion of mandatory compliance training to be a FY22 Compliance KPI.
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>	<ul style="list-style-type: none"> A range of existing services, eg Calibration & Protection Testing; HV asset testing; Analysis of voltage issues at Yackandandah etc provided by CES/Mondo to AST were rolled forward in 2019 from 2017 and specified in Statements of Works (SoWs). 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. We recommend that AST reviews these expiring SoWs and put these services 	<ul style="list-style-type: none"> We observed in the current year that the works undertaken by Mondo for AST at Yackandandah had ended. However, in our current year procedures we noted that there were several historical SOWs relating to calibration, chemical testing and software modelling that remained in place between Mondo and AST and had not been market tested through formal procurement processes in recent years. In line with our detailed findings below relating to clause 4.1 (c) we restate our recommendation that AST reviews these SoWs and put these services through formal procurement processes 	<ul style="list-style-type: none"> While Management acknowledges the recommendation and commits to undertaking a formal procurement process for these services, it is noted that Mondo may legitimately remain (applying non-discriminatory criteria) the preferred supplier, in which case, while a tender or market test may not be appropriate, a price/value exercise would provide additional evidence on non-discrimination or subsidisation.

Clause	Obligations	Recommendations in 2019	Observations and findings in 2020	Management Response
	<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>through formal procurement processes (ie market testing) before granting any extension to these SoWs.</p>	<p>(ie market testing) before granting any extension to these SoWs.</p>	
4.2.1	<p>(a) Subject to this clause 4.2.1, in providing direct control services, a DNSP must use offices that are separate from any offices from which a related electricity service provider provides contestable electricity services.</p>	<ul style="list-style-type: none"> 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 Guideline 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. 	<ul style="list-style-type: none"> We noted that in the current year AST utilises a service portal to facilitate building access requests from which logs and forms can be easily produced. However, despite the use of the system above we noted that through discussions with management that an access review was performed, however evidence of this could not be produced. We recommend that evidence of future reviews is retained in an accessible format. 	<ul style="list-style-type: none"> Management commits that site access reviews will be undertaken during the remainder of the 2021 calendar year with evidence of these site reviews to be retained. Management notes that all building access requests are via the ServiceNow Portal, with electronic records of each request and approvals retained. Periodic process reviews of building access requests will be undertaken by the Compliance Team with evidence of the reviews retained.
4.2.2	<p>(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>	<ul style="list-style-type: none"> We recommend AST define roles in the staff sharing register to be consistent with the actual role in the business so that it is easy to identify the list of employees who are subject to staff sharing arrangements. 	<ul style="list-style-type: none"> It was observed in the current year this recommendation was not adopted and that the roles in the staff sharing register and actual roles of staff in the business remain inconsistent. We restate our recommendation that AST define roles in the staff sharing register to be consistent with the actual role in the business so that it is easy to identify the list of employees who are subject to staff sharing arrangements. 	<ul style="list-style-type: none"> While management acknowledges the recommendation, particularly to the extent that exact role titles are not linked the register, the register still, by and large, captures the types and characteristics of roles that are shared and there will always be a lag, as new role titles are created quite frequently. Management commits to undertaking an annual reconciliation against actual

Clause	Obligations	Recommendations in 2019	Observations and findings in 2020	Management Response
				<ul style="list-style-type: none"> role titles, with evidence of the reconciliation to be retained. In addition, it is noted that not all shared roles are required to be listed on the register.
4.2.2	(c) The remuneration, incentives and other benefits (financial or otherwise) a DNSP provides to a member of its staff must not give the member of staff an incentive to act in a manner that is contrary to the DNSP's obligations under this Guideline.	<ul style="list-style-type: none"> We recommend management identify a list of high-risk employees who have relevant access to confidential information, decision making authority and financial incentives linked to both RES and Mondo performance. We recommend management put in place additional ring-fencing monitoring measures (eg monitoring of frequency of the employee accessing confidential information) and provide additional ring-fencing training for these identified employees. 	<ul style="list-style-type: none"> Through discussions with management it was noted that an assessment was performed as part of the organisational restructure, however evidence of this could not be produced. We recommend that evidence of future assessments be retained in an accessible format. We also observed that AST has not implemented additional Ring-Fencing monitoring measures relating to the frequency or nature of information accessed. We recommended in response that management perform periodic reviews of systems with confidential information (SAP CES, SAP CIS, PowerOnFusion and SDME) to detect and prevent any unauthorised access to confidential information and evidence of this review is retained. 	<ul style="list-style-type: none"> As part of the organisational restructure, legal advice was provided but note this was deliberate and discrete given the sensitive nature of the organisational changes under consideration including the potential impacts on staff and employment status. AusNet Services maintains a '4.2.2 Staff Register list'. 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. Management commits to providing high risk employees with targeted 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. This targeted communication is an additional measure to the mandatory online training all employees are required to perform every 2 years. Additional controls to monitor access to confidential information will be considered, taking into account the functionality of existing systems.
4.2.4	A DNSP must establish, maintain and keep a register that identifies: (a) the classes of offices to which it has not applied clause 4.2.1(a) by reason of clauses 4.2.1(b)i. or 4.2.1(b)iii.; and	<ul style="list-style-type: none"> We recognise that AST has established and maintained a register of the nature of the shared positions in line with the Guideline. We note that the nature of positions for project type of roles included in the register is not linked to actual positions/titles used within the business. 	<ul style="list-style-type: none"> Consistent with our observations to Guideline 4.2.2 (a) we noted that AST has not adopted this recommendation and that the roles in the staff sharing register and actual roles in the business remain inconsistent. 	<ul style="list-style-type: none"> Refer to the Management response provided in relation to the observations and findings against clause 4.2.2(a) above.

Clause	Obligations	Recommendations in 2019	Observations and findings in 2020	Management Response
	(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.e., 4.2.2(b)i.b., 4.2.2(b)iii. or 4.2.2(d);	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Our recommendation in relation to this obligation is the same as 4.2.2 (a). 	
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>	<ul style="list-style-type: none"> 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. We recommend management perform periodic SAP access reviews on CES users, to detect and prevent any unauthorised access to confidential information. We recommend that management consider the implementation of system controls to identify and control access to confidential information at a transaction or document level. This would complement the broader existing controls in place on system access at an application or company code level. 	<ul style="list-style-type: none"> It was observed in the current year that this recommendation was not adopted AST has not identified a list of high-risk employees who have access to confidential information, decision making authority and financial incentives. We observed in the current year that management has not performed a periodic review of SAP CES users to prevent the unauthorised access to confidential information. We observed in the current year that controls of this nature had not been implemented and that system access controls remain the primary measure of information protection for AST. In line with our recommendation to 4.2.2 we recommend management perform periodic access reviews of key systems with confidential information and that evidence of this review is retained and easily accessible. 	<ul style="list-style-type: none"> AusNet Services maintains a '4.2.2 Staff Register list'. 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. Management commits to performing period system access reviews with a focus on the access of 'high risk' employees and systems/information they have access to. Additional controls to monitor access to confidential information will be considered, taking into account the functionality of existing systems.

3. Summary of audit findings

3.1 Summary of new findings in 2020

Clause	Obligations	Risk rating	Observation and recommendation	Management response
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>Through our discussions with management it was noted that during the 2020 compliance year AST had performed a comprehensive site access review. This review was designed to assess if staff in either the regulated or unregulated side of the business had access to sites that was consistent with both the requirements of their job description and the Guideline.</p> <p>It was noted in the execution of our testing that evidence of this site access could not be produced. Furthermore, the view of management was that site access was not viewed by the organisation as a priority in the period, given the challenges to the working environment brought by the COVID-19 pandemic and the fact that staff were largely not accessing sites.</p> <p>Despite these circumstances, we recommend evidence of future site reviews be prepared and retained in 2021.</p>	<p>While a site access review was commenced in early 2020, COVID-19 restrictions resulted in most employees (other than critical staff such as network controllers) working from home for most of the 2020 calendar year. However, the evidence of this review was not retained.</p> <p>As AST operates critical infrastructure, the priority of the business during much of 2020 was to ensure the continued distribution of electricity whilst not compromising the health and safety of critical staff required to continue to attend the office/depots to keep the electricity supply going. Consequently, a comprehensive site access review was not completed in 2020.</p> <p>Management commits that site access reviews will be undertaken during the remainder of the 2021 calendar year with evidence of these site reviews to be retained.</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.

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

4. Detailed audit findings

Instrument Clause Event: Ring-fencing Guideline Electricity Distribution

Obligation: Prevention of cross subsidies – Section 3

Guidance Assessment Criteria and Assessment Controls

Ref	Compliance Obligation	Process Description	Testing	Grading
3.1(a)	A DNSP must be a legal entity.	AST's legal entity structure complies with the legal separation requirements of the Guideline. The operational refresh did not involve any changes to the legal corporate structure. AusNet Electricity Services Pty Ltd is a legal entity.	<p>Procedures performed:</p> <p>We performed an ASIC search on AST to ensure that it is a separate legal entity. To undertake the search, we used AST's ABN number as noted on the distribution licence approved by AER.</p> <p>Observation:</p> <p>Based upon the evidence obtained above, no exceptions were noted as to AST's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> AST is a legal entity. <p>Recommendations:</p> <p>None noted.</p>	Strong
3.1(b)	A DNSP may provide distribution services and transmission services but must not provide other services.	<p>All arrangements entered by AST will need to be reviewed by the AST Contracts team and Legal team to ensure compliance with the Guideline.</p> <p>In 2019 AST identified an arrangement that was not in accordance with the Guideline. AST applied for waivers from the AER for this arrangement was granted a waiver by the AER in December 2017.</p> <ul style="list-style-type: none"> 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. This waiver has expired and is no longer required. AusNet no longer provides the relevant services to Mt Baw Baw. 	<p>Discussion held with:</p> <p>Head of Emerging Markets Legal Counsel Compliance Officer</p> <p>Procedures performed:</p> <p>We reviewed the process undertaken by management to ensure all arrangements were correctly identified and in compliance with the Guideline. We reviewed the services tracker which details the description of services provided, contractual term, and ring-fencing compliance status throughout the 2020 compliance year.</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
		<p>Other non-distribution services: there are several contracts for the provision of services that do not meet the Guideline service classification restrictions, for which AST is the legal entity on the contract documentation. The services include:</p> <ul style="list-style-type: none"> • 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) • emergency recoverable works • Reserve feeder construction. <p>These services have been extended in line with the commencement of the next electricity distribution pricing period. The services will be alternative control services under the framework with their approach expected to be approved by AER and a waiver no longer required for these services.</p>	<p>We made specific enquiries regarding permissibility of <i>Project Edge</i>, a multi-year project to demonstrate an off-market, proof-of-concept Distributed Energy Resource (DER) Marketplace that efficiently operates DER to provide both wholesale and local network services within the constraints of the distribution network.</p> <p>As part of our audit we reviewed materials provided by AST to the AER outlining the project aims, participants, deliverables and timeline. This included the approach for project Ring Fencing compliance which included the following key points:</p> <ul style="list-style-type: none"> • The appointment of a project dedicated Ring-Fencing Compliance Officer • The appointment of a project dedicated Regulated Information Triage role • Verbal training briefings given to project staff regarding the ring-fencing requirements of the project. <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"> • AST solely provides distribution services and transmission services, with the exception of those included in the waiver registers, as approved by the AST. • We noted in our review our enquiries regarding Project Edge that the roles had been appointed and that the briefings had been made to relevant staff. • AST has preventive controls to ensure all procurement arrangements entered are managed in accordance with the Guideline, including mandatory consultation with the legal team. <p>Recommendations:</p> <ul style="list-style-type: none"> • None noted. 	

Ref	Compliance Obligation	Process Description	Testing	Grading
3.2.1(a)	(a) A DNSP must establish and maintain appropriate internal accounting procedures to ensure that it can demonstrate the extent and nature of transactions between the DNSP and its affiliated entities.	<p>AST developed an Accounting Policy Manual specific for transactions with affiliated entities in December 2017. The policy defines related party and affiliated entities and also details how profit and loss and balance sheet transactions are identified and reported separately. It also outlines intercompany transactions with related parties must be offered on the same terms that it would to an unrelated party.</p> <p>AST has the obligation to agree the transactions with affiliated entities on 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 in the generation intercompany receivables and payables that are recorded in the financial statements.</p> <p>AST undertakes a 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 have a vendor code. Related party customers and vendors are set up in SAP with an 'RPT-xxx' as an identifier.</p>	<p>Discussion held with: Senior Investment and Planning Analyst Compliance Officer</p> <p>Procedures performed: We obtained and reviewed the AST internal accounting procedure manual - "Transactions with affiliated entities" and noted that it addressed transactions between AST and its affiliated entities. We obtained and reviewed the transaction report between AST and affiliated entities in which the accounting treatment was noted to be consistent with the internal accounting manual. As at the date of this report, AST is generating the transaction listing between AST and its affiliated entities. We have reviewed management process to identify affiliated entities by sighting related party identifier codes on SAP system, in the specific format of RPT-xxx. Observation: Based upon the discussions held and procedures performed, no exceptions were noted on AST's compliance against the obligation. With the point noted below:</p> <ul style="list-style-type: none"> 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. <p>Recommendations: None noted.</p>	Strong
3.2.2	(a) A DNSP must allocate or attribute costs to distribution services in a manner that is consistent with the Cost Allocation Principles and its approved CAM, as if the Cost Allocation Principles and CAM otherwise applied to the allocation and attribution of costs between distribution	<p>AST has in place an Electricity Distribution Cost Allocation Method (CAM) Accounting Policy Manual, which is reviewed and updated every 5 years. The existing CAM was effective in September 2019. The Finance team has reviewed the September version of CAM and noted that it is consistent with the Cost Allocation Principles per the Guideline, including the extended cost allocation requirements. Specifically, AST's 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>Discussion held with: Compliance Manager, Regulatory Accounting Manager, Senior Investment and Planning Analyst</p> <p>Procedures performed: We have obtained and reviewed the CAM, noting that it addressed the allocation and attribution of costs between distribution services and non-distribution services.</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
	<p>services and non-distribution services.</p> <p>(b) A DNSP must only allocate or attribute costs to distribution services in accordance with clause 3.2.2(a) and must not allocate or attribute other costs to the distribution services it provides.</p> <p>(c) A DNSP must establish, maintain and keep records that demonstrate how it meets the obligations in clauses 3.2.2(a) and 3.2.2(b).</p>	<p>There are three types of operating cost for AST services:</p> <ol style="list-style-type: none"> 1. 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 based on a cost driver approach 2. Material costs and invoiced contract and service cost – through direct costing/attribution to asset related work codes and cost driver approach 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>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 Networks and Technology Finance team on a quarterly basis by applying a cascade of two approaches:</p> <ol style="list-style-type: none"> 1. Time sheeting: for cost centres that complete timesheets and where those timesheets cover the majority of the cost centre available time. 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, etc. <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>We have checked that AST's existing CAM was approved by the AER.</p> <p>We reviewed the process undertaken by the finance team to allocate and attribute costs to distribution services and note that it was aligned with the existing CAM.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted as to AST's compliance against the obligation with key points below:</p> <ul style="list-style-type: none"> • AST has a process in place to allocate costs to distribution services and is consistent with the Cost Allocation Principles and AER approved CAM. • 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. • AST maintains records in relation to costs allocation. • We obtained and reviewed the April and May 2020 ABC survey, cost centre allocation spreadsheet to review the allocation of the indirect costs pool which were incurred in the process of developing the capital asset. • We observed that there had been no changes to cost centres as a result of the recent organisational restructure. • We observed that fixed allocation driver will not be amended unless the owner of the driver initiated that with finance team. <p>Recommendations:</p> <ul style="list-style-type: none"> • None noted. 	

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 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"> Broadcast message via intrant that outlines where resources are relating to key ringfencing educational information Online module for in scope staff <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>Together with the legal team, AST has developed various Statement of Works for the respective services provided by Energy Services and Technical Services which include, but is not limited to chemical testing services, metering services, HV asset testing and others.</p> <p>A Master Service Agreement has also been developed to formalise existing and future arrangements for contestable electricity services provided by affiliated entities to AST. 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>Any direct control services provided to affiliated entities are provided on equivalent terms and conditions, including price to non-affiliated entities receiving the same services in the same situation or circumstances. Examples include connection enquiries or connection services.</p>	<p>Discussion held with:</p> <p>Compliance Officer Technical Training Manager Legal Counsel</p> <p>Procedures performed:</p> <p>We obtained and sighted the Ring-fencing Module slides and reviewed the training report which included the details of employees who has completed the training and the relevant completion dates.</p> <p>We obtained and reviewed all relevant SoWs, contracts and the Master Services Agreement entered between AST and Mondo under Growth and Future Networks.</p> <p>Also refer to section 4.1(c) below on our assessment of AST’s procurement processes and controls.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, we noted:</p> <ul style="list-style-type: none"> AST has processes and controls in place to ensure that there is no discrimination between a related electricity service provider and an external DNSP. We have identified that several 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. <p>Recommendations:</p> <ul style="list-style-type: none"> [Low] AST has developed an online training module which is required to be attended and completed by the most impacted employees. To date, 17 employees are yet to complete the training program. We understand that 13 of the 17 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 the employees are on extended 	Strong

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"> [Low] We understand that there were terminated employees who are still included on the Ring-fencing training completion system. We recommend that AST perform a periodic review of the list to ensure new employees or terminated employees are added/removed from the list. 	
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"> 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 Specific AST personnel are responsible and accountable for establishing and managing the budget for each of these services Management undertakes active budget monitoring, including through the interrogation and assessment of year on year differences or trends and cost saving or efficiency opportunities. 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. 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 	<p>Discussion held with:</p> <p>General Manager Procurement Procurement Partner</p> <p>Procedures performed:</p> <p>We obtained and reviewed the Statement of Works (SOW) and Master Service Agreement (MSA) entered between AST and Energy Services provided under the Mondo brand.</p> <p>We reviewed the procurement and tender process undertaken by AST.</p> <p>We obtained and reviewed the decision-making framework AST adheres to in order to demonstrate its compliance against this obligation. We have selected one sample transaction between AST and Mondo and obtained evidence of AST's 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 2020.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, we noted:</p> <ul style="list-style-type: none"> AST has control process in place to ensure that there is no discrimination between a related electricity service provider and an external party. 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. AST has formalised the evaluation and decision-making process to demonstrate service 	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.</p> <p>This could be via a formal tender, a negotiation or other method deemed to obtain best value for money. The approach taken for the procurement of services is not necessarily determined or driven by the Division or Affiliated Parties for which the goods and services are being sourced. Rather, the sourcing approach is determined by a number of considerations including the nature of the goods and services, market factors and the procurement strategy. These considerations will lead to decisions on the appropriate approach which may be any of open tender, closed tender, single-source, panels, sourcing through collaboration and others.</p> <p>Arrangements with value between \$20,000 and \$1 million will be sourced by the Procurement team through market testing. A tender process will be implemented which includes technical review, commercial review and legal review. If there will be repeated purchase from the same supplier within a short time frame, a SAP purchase requisition created within an estimated value before engaging the supplier.</p> <p>For supplier requirements over \$250K value, it is mandatory for the Procurement team to be engaged by the business requestor and for the Procurement team to lead the strategic sourcing process. The only exception is for purchases aligned to an executed supplier contract, inclusive of a schedule of rates, up to the value of AUD \$1 million.</p> <p>For arrangements with value below \$20,000, an approved purchase order is required, and the business unit will have to present several quotations for comparison purposes.</p> <p>There is a waiver of competition (WoC) purchasing scenario used when the purchase is greater than \$50,000. If the WoC is between \$50k to \$250k it must be approved by the division managers and all WoCs greater than \$250k must be approved by the procurement team.</p> <p>For compliance year 2020, transactions between AST and Mondo total approximately [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>	<p>arrangements with Mondo are entered into at arm's length with no discrimination.</p> <ul style="list-style-type: none"> 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. <p>Recommendations:</p> <p>[Moderate] A range of existing services provided under the Mondo brand within G&FN to AST including condition monitoring, testing and calibration have been rolled forward on historical Statement of Works (SOWs). These arrangements have never been market tested.</p> <p>We recommend that AST reviews these SoWs and to put these services through formal procurement processes (ie market testing) before granting any extension to these SoWs.</p>	

Ref	Compliance Obligation	Process Description	Testing	Grading
		<p>SoW 3D Model – AIMS3D Viewer Development: ■■■</p> <p>In addition to these contractual arrangements, we noted AusNet has purchased services from Zinfra Pty Ltd an affiliate of AusNet. Zinfra is an affiliate of AusNet under the Guideline. Zinfra is a subsidiary of Jemena which in turn is a subsidiary of State Grid International, which holds approximately 20% of the listed shares in the head company of the AusNet Group. Despite this classification under the Guideline, AusNet and Zinfra/Jemena are separate and independent organisations and businesses. For example, they do not share staff (including management and board), systems or offices.</p> <p>Zinfra is on AusNet's panel of approved installation service contractors. This panel is primarily used for capital expenditure projects. AusNet spent ■■■ on distribution network projects with Zinfra in 2020. Zinfra is a contractor to AusNet and is subject to the same tendering and monitoring processes as other external contractors. Given this background and the organisational separation between AusNet and Zinfra, we have not focussed our work on this arrangement.</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.	<p>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 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, toilets, foyers and car parks are considered acceptable.</p> <p>The basis of the location analysis was and continues to be to ensure there are no offices which share both employees involved in the marketing or operation of direct control services (DCS employees) and employees involved in the marketing or operation of contestable electricity services (energy and technical services) (CES employees), which are not permitted by the Guideline to share an office (Prohibited Shared Offices). No Prohibited Shared Offices were identified in the review.</p> <p>While there are shared locations, namely Freshwater Place and Beaconsfield, they are not Prohibited Shared Offices. There are separate offices within each location (as per the definition in the Guideline) which ensure the requisite separation of relevant CES employees and DCS employees.</p>	<p>Discussion held with:</p> <ul style="list-style-type: none"> General Manager Risk and Compliance Legal Counsel Compliance Officer Building Services Manager <p>Procedures performed:</p> <p>We obtained the list of new employees in 2020 and reviewed the site access approval forms for sampled employees to ensure they met ring fencing requirements.</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. We additionally reviewed the site access for 18 personnel who had been moved into Growth and Future Networks as part of the restructure to determine if their access was appropriate for their new roles from ring fencing perspective.</p>	Moderate

Ref	Compliance Obligation	Process Description	Testing	Grading
		<ul style="list-style-type: none"> • Freshwater Place: relevant employees only have unaccompanied access to Level 26 (a separate office) and relevant DCS employees only have unaccompanied access to Levels 30 – 31. • Beaconsfield: there are separate and (unaccompanied) access restricted parts of the building that ensure the requisite office separation between relevant DCS employees and CES employees <p>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>While an additional site access review was commenced in early 2020, COVID-19 restrictions resulted in most employees (other than critical staff, such as network controllers) working from home for most of the calendar year 2020. As AST operates critical infrastructure the priority for the business during much of 2020 was to ensure the continued distribution of electricity, while not compromising the health and safety of critical staff required to continue to attend office/depots to keep the electricity going. Consequently, the access review was not completed in 2020.</p>	<p>Observation:</p> <p>Based upon the discussions held and procedures performed, we noted:</p> <ul style="list-style-type: none"> • Through discussions with management it was established that evidence of the site access review being performed in 2020 was not available. • AST has separate offices from which a related electricity service provider provides contestable electricity services. • AST has formal approval process on granting employee access to the respective level or office. • We selected a sample of 5 seconded employees and obtained evidence for each of these positions that they were staff able to be shared in line with the Guidelines. • We selected a sample 25 employees who had been granted building access through the ServiceNow portal for each of these we sighted that the appropriate documentation relating to Ring Fencing was completed by their manager upon granting of the access. • We selected a sample of 6 employees who had access to Flinders Street, Freshwater Place, Yarraville and Beaconsfield as at 31 December 2020. These are sites where Ring Fencing is of highest importance. We then obtained evidencing supporting the rationale for their access and its compliance with the Guidelines. • We reviewed the access of 18 employees who have been moved into G&FN as part of the restructure and determined that their access was appropriate given their role from a ring-fencing perspective. <p>Recommendations:</p> <p>[Moderate] We recommend that the Compliance Team performs the Full Site Access Review on a regular basis and ensures that evidence of this review is retained.</p> <p>[Moderate] 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 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 or otherwise engage in conduct contrary to clause 4.1 of the Guideline.</p> <p>In line with the Guideline, roles providing corporate services are exempted from the obligation. AST has identified the following types of roles to be out of scope from the requirement to include on the staff sharing register (under clauses 4.2.2(b)i.c / 4.2.4(b)):</p> <ul style="list-style-type: none"> • Executives • Technology • Administration • Payroll • Legal • Regulatory • Accounting/finance • Strategy and transformation • Design and back-office marketing support (not sales, business development or customer facing) <p>It should also be noted that to the extent that staff are not involved in the operation or marketing of contestable electricity services (which, in accordance with the relevant definitions under the Guideline, do not include Transmission services, gas network or connection services or water utility services) they are also not restricted from being shared and the roles and positions etc of such staff are not required to be included on the staff sharing register.</p> <p>AST has identified a list of roles that are shared in connection with the direct control services and contestable electricity services (eg Energy Services) . These roles are listed in the staff sharing register and is published on to the AST website. These roles are involved in the provision or marketing of direct control services, who are also involved in the provision or marketing of contestable electricity services by a related electricity service provider, but have no electricity information, or no opportunity to use that electricity information to engage in conduct that is contrary to clause 4.1 of the Guideline.</p>	<p>Discussion held with:</p> <ul style="list-style-type: none"> Corporate Communications Manager Senior Marketing Manager <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 were noted with AST’s compliance against the obligation with key points below:</p> <ul style="list-style-type: none"> • AST appropriately identified distinct roles for its RES and Mondo employees, ensuring there are no staff sharing that is not in line with the Guideline. • Employees shared are included in the staff sharing register, published on the AST’s website, which is publicly available. • Engineering roles included in the shared staff register are not reflective of the staff’s actual duties at AST. <p>Recommendations:</p> <p>[Low] We recommend AST define roles in the staff sharing register consistently with the actual role in the business, so that it is easy to identify the list of employees who are subjected to staff sharing.</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
		<p>In AST Ring-fencing policy, AST is required to ensure continuous compliance in relation to staff sharing. The Human Resource /People team is responsible to capture all new hires and staff movements that are (or which they are unsure may be) affected by Ring Fencing and maintains the register on the website.</p> <p>The responsible hiring manager of all staff sharing arrangements are required to complete the employee checklist which includes ring-fencing considerations. The completed checklist requires approval from the employee's direct manager, Legal team and the relevant EGM of the business unit. The approved checklist is then sent to the HR team, who updates the staff sharing register on AST's website where required.</p> <p>The Staff Sharing Register (which also contains the Office Sharing Register) was last updated on 13 May 2020, just before the commencement of the operational refresh. This update addressed a recommendation from the last ring-fencing audit that specific roles/positions (linked back to the actual roles be undertaken).</p> <p>While the work contemplated as part of the recent restructure has been progressed and following the restructure there has been an identification of the key risk roles and activities and their respective office locations, there has been no formal update to the staff register since 13 May 2020.</p> <p>A preliminary review of the staff sharing register (as at 13 May 2020) suggests that, apart, from title changes for Senior Managers (Directors and Officers) there are unlikely to be any significant changes to that section. With respect to the Project Delivery roles section, some roles may have been made redundant as part of the refresh, the names of some changed and some may have been consolidated. Some new role titles may have also been created, but it is unlikely the core role or duties of any such new roles would be materiality different, on the whole, to the roles currently listed under the Project Delivery section.</p>		
4.2.2	(c) The remuneration, incentives and other benefits (financial or otherwise) a DNSP provides to a member of its staff must not give the member of staff an incentive to act in manner that is contrary to the DNSP's obligations under this Guideline.	<p>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 Group and divisional and individual key performance indicators, the group result includes the results of all functions. Whole of</p>	<p>Discussion held with: Head of Remuneration Compliance Officer</p> <p>Procedures performed: We obtained and reviewed the remuneration policy and noted that it is the internal performance development</p>	Moderate

Ref	Compliance Obligation	Process Description	Testing	Grading
		<p>Group finance performance criteria considered are EBITDA and Return on Equity.</p> <p>Corporate functions, Network Management and Operations functions and Growth and Future Network functions each have financial performance (EBITDA) and return on equity of the whole AST Group as elements of KPI. The weighting of these elements varies between functions – but each weight is significant. Corporate and Network Management Operations functions also have whole of AST opex (albeit with different weightings) as KPI elements. Growth and Future Network functions also include function specific EBITDA and margin measures.</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"> • Inappropriate use of information is against the AST Code of Conduct. STI will be held back or employee will be dismissed if a breach of Code of Conduct/ Ring-fencing policy is detected • Each functions performance is only one of the contributors to overall AST group performance • Any manipulation of the results that is significant is likely to stand out in preparation of statutory financial statements • 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. 	<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> <p>We observed that G&FN staff have a 15% weighting to group EBITDA compared with 25% for corporate employees. The major driver for G&FN staff STIs remains G&FN EBITDA and Margin. As such the AST remuneration policy is not expected to give staff a material incentive to act in a manner contrary to the Guideline.</p> <p>Recommendations:</p> <p>[Moderate] We understand that the short-term incentive (STI) plans offered to all eligible AST employees (including G&FN) include incentives that are linked to Group wide financial performance (including G&FN), and other business and personal KPIs.</p> <p>We understand this arrangement is considered in compliance with the Guideline.</p> <p>We recommend management identify a list of high-risk employees who have relevant access to confidential information, decision making authority and financial incentives linked to the performance of AusNet Services regulated and unregulated businesses. We recommend management put in place additional ring-fencing monitoring measures (eg monitoring of frequency of the employee accessing confidential information) and provide additional ring-fencing training for these identified employees.</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	<p>AST has implemented a training program to outline the branding and marketing requirements per the Guideline to the whole business. This includes ensuring the branding used for direct control services is separate and independent from the branding used for contestable electricity services.</p> <p>AST has included guidance on branding requirements as part of its Ring-Fencing obligations. This policy covers:</p>	<p>Discussion held with:</p> <p>Corporate Communications Manager Senior Marketing Manager</p> <p>Procedures performed:</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
	<p>person would not infer from the respective branding that the DNSP and the related electricity service provider are related;</p> <p>ii. must not advertise or promote its direct control services and its contestable electricity services that are not direct control services together (including by way of cross-advertisement or cross-promotion);</p> <p>iii. must not advertise or promote contestable electricity services provided by a related electricity service provider other than the DNSP itself.</p>	<ul style="list-style-type: none"> All Mondo office signage and Mondo branded vehicles where an AST logo or tagline is used The design and layout of websites and social media platforms, including email signatures for branding that potentially breaches the Guidelines. The design of employee uniforms for both Mondo and AST 	<p>We 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 used by AST to communicate the branding requirement to employees per the Guidelines.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted with AST's compliance against the obligation with the key point(s) noted below:</p> <ul style="list-style-type: none"> AST has included a branding policy in its Ring-fencing policy to address separate branding for its RES and Mondo business. <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>In the update to the Staff and Office sharing register (as of 13 May 2020), the offices at FWP and Beaconsfield have been listed. Importantly, as per the Guideline, there are multiple offices at each of these sites.</p> <p>The staff sharing register describes the nature of positions including the roles, functions and duties of these roles. The staff sharing register was prepared based on the staff needed to perform roles in relation to both direct control services and contestable electricity services of an affiliate of the DNSP, in accordance with the requirements of the Guideline. The completeness of the register is regularly monitored and updated through the approval process.</p>	<p>Discussion held with:</p> <p>General Manager Risk and Compliance Legal Counsel Compliance Officer Building Services Manager</p> <p>Procedures performed:</p> <p>We reviewed the site sharing and staff sharing register published on AST's website.</p> <p>We reviewed the process undertaken to maintain and update the office sharing and staff sharing register.</p> <p>We have reviewed the content of the staff sharing register and note that it is in line with requirements of the Guideline.</p> <p>We checked consistency against management assessment performed and assessed against other information obtained throughout the audit and noted no inconsistent information.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted with AST's compliance against the obligation with key point(s) below:</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
			<ul style="list-style-type: none"> • AST has established and maintained an office sharing register • AST has established and maintained a staff sharing register • AST has maintained the secondment register with clear role description • AST has a checklist for the hiring manager to assess potential actions are required when seconding employees. <p>Recommendations: None noted.</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 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. Access to DNSP systems which may contain electricity information are restricted from Energy Services and Technical Services (CES Roles) other than in circumstances that are exempt under the Guideline. This includes creating role-based access to control visibility of data via shared systems.</p> <p>SAP Ring Fencing Project created and deployed new CES Roles users in SAP. There are formal procedures and risk mitigation process in place:</p> <ol style="list-style-type: none"> 1. CES Roles are clearly labelled in the system with a Suffix of “_CES” in SAP. 2. CES Roles restrict users to perform functions within their Mondo organisational areas. 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>Discussion held with: Legal Counsel Head of Engineering and Program Delivery Manager Network Growth Manager Network Planning Compliance Officer</p> <p>Procedures performed: We obtained the Privacy Policy and reviewed the interpretation of confidential information.</p> <p>We obtained and reviewed the Logging and Monitoring Policy, which ensures logging and monitoring systems are in place to allow detection of unauthorised information processing activities.</p> <p>We performed testing on the list of employees with system access to electricity information to ensure that they were appropriate employees in the context of the Guideline.</p> <p>We reviewed the process undertaken by management to reorganise user system access to SAP CES access, SAP CIS, Power On Fusion and SDME systems.</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"> • AST has in place a personal information privacy policy and procedures 	Moderate

Ref	Compliance Obligation	Process Description	Testing	Grading
		<p>4. Quarterly review of CES Roles 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 centre managers who reports to the Compliance team on a quarterly basis.</p>	<ul style="list-style-type: none"> We noted that there are zero Energy Services and Technology Services staff with access to RES SAP We noted that there were zero Energy Services zero and Technology Services staff with access to SAP CIS We noted that there were zero Energy Services and Technology Services staff with access to Power On Fusion We noted that there are four Energy Services and Technology Services staff with access to SDME. Through discussions with management we noted that this access was not appropriate and was requested to be removed. It was further noted by management that these employees did not access the SDME system despite having the access. AST determined that this was a not material breach and as a result it was not reported to the AER. We noted that in previous years an annual review was performed on system access such as SAP including CES and CIS modules as well as on systems containing confidential data in PowerOnFusion and SDME to determine if access was appropriate. Through discussions with management it was established that the access review for 2020 could not be evidenced. It was also noted that there were no practical system controls in place to ensure these employees do not have access to confidential information, refer to recommendations below. <p>Recommendations:</p> <p>[Moderate] We recommend management identify a list of high-risk employees who have relevant access to confidential information, decision making authority and financial incentives linked to both G&FN performance.</p> <p>We recommend that management put in place additional ring-fencing monitoring measures (eg monitoring of frequency of the employee accessing confidential information) and provide additional ring-fencing training for these identified employees.</p> <p>[Moderate] We recommend management perform periodic SAP CES, SAP CIS, PowerOnFusion and SDME</p>	

Ref	Compliance Obligation	Process Description	Testing	Grading
			access reviews, to detect and prevent any unauthorised access to confidential information and evidence of this review be retained in an easily accessible form.	
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> <p>(a) the DNSP has first obtained the explicit informed consent of the relevant customer, or prospective customer, to whom the confidential information relates;</p> <p>(b) the disclosure is required by, or for the purpose of complying with any law;</p> <p>(c) the disclosure is necessary to enable the DNSP to provide its distribution services, its transmission services or its other services (including by acquiring services from other legal entities);</p> <p>(d) the information has been requested by or on behalf of a customer, or potential customer, of another legal entity, and the disclosure is necessary to enable the legal entity to provide its transmission services, contestable electricity services or other services to the customer or potential customer;</p> <p>(e) the disclosure is solely for the purpose of providing assistance to another Network Service Provider to the extent necessary to respond to an event (such as an emergency) that is beyond the other Network Service Provider's reasonable control;</p> <p>(f) the disclosure is solely for the purposes of research by a legal entity other than a related electricity service provider of the DNSP;</p> <p>(g) where another DNSP is an affiliated entity of the DNSP, the disclosure is to the part of that other DNSP that provides that other DNSP's direct control services; or</p> <p>(h) a related electricity service provider of the DNSP has requested the disclosure and the DNSP complies with clause 4.3.4 in relation to that confidential information.</p>	<p>Discussion held with:</p> <p>Legal Counsel Head of Engineering and Program Delivery Manager Network Growth Manager Network Planning Compliance Officer</p> <p>Procedures performed:</p> <p>We have discussed with management AST consideration of the exemptions per the Guideline.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted on AST's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> • AST has in place a process to maintain and keep an information register. • AST has in place a process to govern information sharing with an affiliated entity. <p>AST has in place a process to protect confidential information.</p> <p>Recommendations:</p> <p>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 that a DNSP has disclosed under clause 4.3.3(f) is then disclosed by	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 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	<p>Discussion held with:</p> <p>Legal Counsel Head of Engineering and Program Delivery Manager Network Growth Manager Network Planning Compliance Officer</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
	<p>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>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"> • AST has in place a process to maintain and keep an information register. • AST has in place a process to govern information sharing with an affiliated entity. • AST has in place a process to protect confidential information. <p>Recommendations:</p> <p>None noted.</p>	
4.3.5	<p>(a) A DNSP must establish, maintain and keep a register of all:</p> <p>i. related electricity service providers;</p> <p>ii. other legal entities who provide contestable electricity services but who are not affiliates of the DNSP; who request access to information identified in clause 4.3.4(a), and must make the register publicly available on its website.</p> <p>(b) For each legal entity that has requested that a DNSP provide access to information identified in clause 4.3.4(a), the DNSP's information register must:</p> <p>i. identify the kind of information requested by the legal entity; and</p>	<p>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>Legal Counsel Head of Engineering and Program Delivery Manager Network Growth Manager Network Planning Compliance Officer</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 the key points noted below:</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
	<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>		<ul style="list-style-type: none"> AST has in place a process to maintain and keep an information register. <p>Recommendations: 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: General Manager Procurement Procurement Partner</p> <p>Procedures performed: We obtained and reviewed the updated standard terms and conditions for Supply of Goods & Service Agreement for orders up to \$75,000 and \$75,000 up to \$250,000.</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"> AST has in place a process to ensure arrangements with service providers are in accordance with the Guideline <p>Recommendations: 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's 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"> 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) Emergency recoverable works Reserve feeder construction. <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. The AER has granted an extension of the waiver for 6 months to align with the regulatory control period (1 Jul 21).</p> <p>The AER has categorised the waiver applications into 6 waiver groups, namely</p> <ol style="list-style-type: none"> 1. Reclassification of services 2. Legal/ functional separation 3. Branding 4. Regional service delivery 5. ActewAGL gas businesses 6. Regional offices <p>Whereby AST qualifies under category 1. After 1 July 2021, the waiver will not be required as the services will be classified as direct control services under AusNet Electricity's EDPR decision that takes effect as of 1 July 2021.</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</p>	<p>Discussion held with:</p> <p>Compliance Officer Senior Regulatory Economist</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"> AST has processes and controls in place to establish and maintain the waiver register <p>Recommendations:</p> <p>None noted.</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
		changes to the waiver register will be done via the Corporate Affairs team.		

Obligation: Compliance and enforcement – Section 6

Guidance Assessment Criteria and Assessment Controls

Ref	Compliance Obligation	Process Description	Testing	Grading
6.1	A DNSP must establish and maintain appropriate internal procedures to ensure it complies with its obligations under this Guideline. The AER may require the DNSP to demonstrate the adequacy of these procedures upon reasonable notice. However, any statement made or assurance given by the AER concerning the adequacy of the DNSP's compliance procedures does not affect the DNSP's obligations under this Guideline.	<p>AST has internal procedures in place to ensure it complies with obligations under the Guideline. Each obligation clauses under the Guideline is put under a Responsible person in AST.</p> <p>On a quarterly basis, the compliance system will automatically generate a prompt or a reminder to the responsible person to confirm the compliance status of the specific obligation. Also, the Compliance team obtains input from the respective responsible person in regard to the status of compliance for each Guideline obligation. Inputs include movements or changes in their respective areas, and how these changes align to the obligation. The Compliance team collates the information on the status and progress and any issues noted.</p> <p>AST has also set up a dedicated Ring-fencing email inbox to allow employees easy access to the project team to ask any questions or clarify policy and procedures put in place by AST.</p> <p>As a result of certain redundancies in connection with the operational refresh (commencing in May and concluding in September 2020), the compliance team has assumed additional Responsible person functions for clauses under the Guideline. Additional, new Responsible persons are expected to be identified, trained and inducted during 2021.</p>	<p>Discussion held with:</p> <p>Legal Counsel Compliance Officer</p> <p>Procedures performed:</p> <p>We obtained and reviewed the Ring-fencing Policy which demonstrates that it complies with AER's requirement on compliance procedures.</p> <p>We obtained and reviewed the compliance spreadsheet tracker populated by the Compliance team which includes input from responsible person.</p> <p>We obtained and reviewed the compliance calendar utilised by Compliance team which includes all the reminder to submit the report.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted with AST's compliance against the obligation with the key points noted below:</p> <ul style="list-style-type: none"> AST has regulatory compliance monitoring and reporting process to facilitate compliance assurance <p>Recommendations:</p> <p>None noted.</p>	Strong
6.2.1	(a) A DNSP must prepare an annual ring-fencing compliance report each regulatory year in accordance with this clause 6.2.1,	The responsibility for each obligation clause under the Guideline is assigned to a responsible person within AST. Each quarter, the Compliance team obtains input from the respective responsible person in regard to the status of compliance for each Guideline obligation. The Compliance team collates the information on the	<p>Discussion held with:</p> <p>Legal Counsel Compliance Officer</p> <p>Procedures performed:</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
	<p>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>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>We have been engaged by AST to perform as the independent authority to assess compliance in relation to ring fencing.</p> <p>We have obtained and reviewed management's draft annual compliance report</p> <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"> AST has regulatory compliance monitoring and reporting process to facilitate compliance assurance <p>Recommendations:</p> <p>None noted.</p>	
6.3	<p>A DNSP must notify the AER in writing within five business days of becoming aware of a material breach of its obligations under this Guideline. The AER may seek enforcement of this Guideline by a court in the event of any breach of this Guideline by a DNSP, in accordance with the NEL.</p>	<p>AST compliance reporting includes a process for reporting breaches and for Compliance team review and escalation. AST has extended its Breach Notification, Escalation and Corrective Action Procedure to meet the Guideline.</p> <p>When a potential breach is raised by an employee to the Regulation team, it is communicated to the Compliance team, who then raise the issue with the line manager, The potential breach is recorded in the compliance system, which will subsequently be addressed by closing it out as not a breach, not a material breach or to escalate to the regulator. Compliance team may consult the Legal team if the potential breach may result in a physical injury or material financial losses. The General Manager and Managing Director is notified of any confirmed material breach within 24 hours and Compliance team is required to provide a preliminary notification to AER, followed by a written report on the breach within 5 working days.</p> <p>Corrective actions are discussed and agreed on with involvement from the responsible person and the line manager. The responsible person is required to provide a progress update on the remediation actions to the Compliance team, which is agreed upon during planning. Once corrective measures are completed, the plan is updated and closed in the Compliance system. Compliance team is responsible for providing updates to the AER regarding material breaches to close out the issue.</p> <p>AST has also adjusted the policy and updated the ringfencing training to includes AER's feedback that, Compliance, Regulatory</p>	<p>Discussion held with:</p> <p>Legal Counsel</p> <p>Compliance Officer</p> <p>Procedures performed:</p> <p>We have held the discussion with management and obtained the breach notification, Escalation and Corrective Action Procedure which is in accordance with the Guideline.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted with AST's compliance against the obligation with the key points noted below:</p> <ul style="list-style-type: none"> AST has regulatory compliance monitoring and reporting process to facilitate compliance assurance AST has used compliance calendar as a reminder to keep track of breach reporting deadline to AER. We acknowledge that there were no breaches during the compliance year 2020 other than the late submission of the 2019 Ring-fencing compliance report to the AER. <p>Recommendations:</p> <p>None noted.</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
		<p>or Legal will engage with AER staff to determine the materiality of the potential breach rather than wait for the annual report to report the breach to AER in the event of a breach is identified.</p> <p>A breach register is maintained and forms the basis for breach reporting to executive management and the Audit and Risk Committee.</p>		

5. Auditor Statement

Independent assurance report to the members of AusNet Electricity Services

We have audited AusNet Electricity Services Pty Ltd's (AST) compliance with specific regulatory obligations in the *Ring-fencing Guideline Electricity Distribution* published by the Australian Energy Regulator (AER), as defined in the "Terms of Reference" for the year ended 31 December 2020.

Assurance Practitioner's responsibility

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

Our responsibility is to express a reasonable assurance conclusion on compliance with the specific regulatory obligations as defined in the scope. Our audit has been conducted in accordance with applicable Standards on Assurance Engagements (*ASAE 3100 Compliance Engagements*) and the "Terms of Reference" to provide reasonable assurance that the AST has complied with the *Ring-fencing Guideline Electricity Distribution*. Our procedures included undertaking a walkthrough of the systems/process by which compliance data is captured and reported, conducting interviews with process owners, obtaining audit evidence and sample testings. Where applicable we have reviewed relevant Regulations and Codes, Company policies and made inquiries of management. These procedures have been undertaken to form a conclusion as to whether AST has complied in all material respects, with the *Ring-fencing Guideline Electricity Distribution*, as measured by the Terms of Reference for the year ended 31 December 2020.

Inherent limitations

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

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

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

Independence

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

Conclusion

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

Restriction on distribution

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



Ernst & Young

1 June 2021