



Electricity Distribution Ring-Fencing Guideline

2020 Annual Compliance Report

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1 Executive Summary

This document is AusNet Electricity Services Pty Ltd's (**AusNet Electricity** or **DNSP**) Annual Compliance Report (**Report**) as per the reporting requirements outlined in the Australian Energy Regulator's (**AER**) Ring-fencing Guideline for Electricity Distribution (**Guideline**). In this report, a reference to **AusNet Services** is a reference to the DNSP and its related bodies corporate.

As per reporting requirements in the Guideline, this report has been assessed by an independent authority Ernst & Young (**EY**). A copy of their Assessment of Compliance accompanies this document.

This Report contains detail on the four (4) reporting requirements as per the Reporting Obligation in the Guideline. The table below summarises the compliance outcome of these requirements and any related findings or recommendation provided by EY through their independent assessment.

Report Requirement	AusNet Electricity's Assessment
Measures to Ensure Compliance	<p>Compliance to the guideline is supported by an online training module that all employees are required to complete and an intranet page that provides additional practical information regarding adherence to Ring-fencing requirements. These serve as foundational measures to foster a strong ring-fencing compliance culture.</p> <p>This is further supported by periodic completion of 'compliance tasks' related to the obligations in the Guideline in AusNet Services Governance, Risk Management and Compliance (GRC) system by obligation owners.</p>
Breaches of the Guideline	<p>Breach management process exists to manage and treat potential or actual breaches.</p> <p>No material breaches of the guideline were reported or identified during 2020.</p> <p>AusNet Electricity Services did however breach its obligation under 6.2.2 Timing of annual compliance reporting in 2020 as the 2019 annual compliance report was submitted to the AER on 15 May 2020 and not by the 30 April 2020 deadline.</p> <p>This matter was discussed with the AER in April 2020. The delayed submission was primarily attributed to the impact of the COVID-19 pandemic. The switch to a remote working environment impacted the delivery and execution of some audit activities such as the production of documents and also impacted access to staff (who were otherwise involved in crisis management functions).</p>
Other Services Provided	<p>AusNet Electricity does not deliver other services, except to the extent permitted under clause 3 of the Guideline or under and in accordance with Waivers granted under the Guideline.</p>
Purpose of Transactions between DNSP and affiliated entities	<p>Data produced and verified by the finance team satisfies that AusNet Services has applied its Cost Allocation Methodology (CAM) to prevent cross subsidies.</p>

2 Background Information

2.1 The Guideline's purpose

The Australian Energy Regulator's (AER) Ring-fencing Guideline (**Guideline**) for Electricity Distribution aims to:

- promote the National Electricity Objective by providing for the accounting and functional separation of the provision of direct control services by DNSPs from the provision of other services by them, or by their affiliated entities (i.e. prevent cross-subsidisation and discrimination); and
- promote competition in the provision of contestable electricity services.

The Guideline became effective in December 2016¹. A transition period applied for “existing services” and DNSPs were required to comply as soon as reasonably practical and no later than 1 January 2018. In 2018, AusNet Service submitted its first compliance report based on the transitional period and was found to be compliant with the requirements of the Guideline.

2.2 Purpose of this Report

This report delivers AusNet Electricity's Annual Ringfencing Compliance Report for 2020 as per Clause 6.1 of the Guideline. This is AusNet Electricity's fourth Annual Compliance report submitted under the Guideline.

Clause 6.1 of the Guideline requires that AusNet Electricity must establish and maintain appropriate internal procedures to ensure it complies with its obligations under the Guideline. Additionally, AusNet Electricity may be required to demonstrate the adequacy of these procedures.

The report has been structured in line with the reporting obligation and identifies and describes for the regulatory year²

- i. the measures the DNSP has taken to ensure compliance with its obligations under this Guideline; (see section 4.1)
- ii. any breaches of this Guideline by the DNSP, or which otherwise relate to the DNSP (see section 4.3);
- iii. all other services provided by the DNSP in accordance with clause 3.1 (see section 4.4); and
- iv. the purpose of all transactions between the DNSP and an affiliated entity (see section 4.5).

The Assessment of Compliance by a suitably qualified independent authority (Ernst & Young) accompanies this report.

¹ Version 2 of the Guideline was published by the AER on 17 October 2017

²² AusNet Services Regulatory Year, 1 January to 31 December

3 About AusNet Services

3.1 Assets

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

In terms of Electricity Distribution Networks, AusNet Electricity owns and operates the poles and wires that supply electricity to more than 768,000 customers in Melbourne’s north, east and across eastern Victoria. (Refer to **Figure 1**).

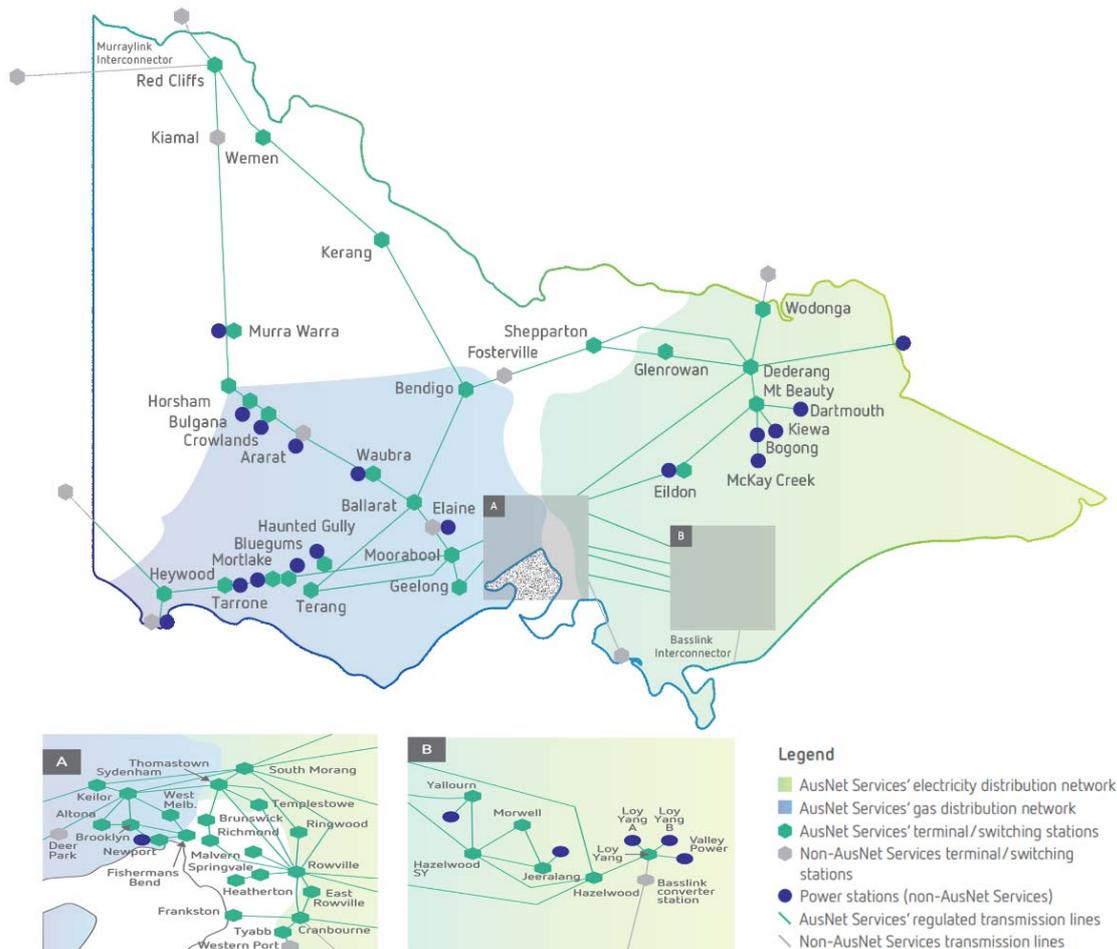


Figure 1: AusNet Services assets

The contestable electricity services business of AusNet Services is primarily conducted by Mondo Power Pty Ltd, (ABN 73 097 962 395) under the brand “Mondo”. Services provided by Mondo include metering, asset intelligence, telecommunication solutions and advanced energy management solutions that enable community energy hubs and solar mini grids.

3.2 Corporate Ownership and Structure

AusNet Services Ltd, the head company of AusNet Services, is approximately 32 per cent owned by Singapore Power, approximately 20 per cent owned by State Grid of China and about 48 per cent broadly publicly owned. AusNet Services Ltd is publicly listed on the Australian Securities Exchange (ASX) under code AST.

AusNet Services' business structure includes functional business divisions, support functions to facilitate the core operations of the business. AusNet Services is managed and overseen by our Executive Leadership Team and the AusNet Services Board of Directors.

4 Annual Compliance Report

4.1 Measure to ensure compliance

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

AusNet Services utilises a '3 lines of defence' approach to compliance management.³



Figure 2: 3 lines of defence approach

In terms of compliance to the Guideline, the owners of the controls ("Responsible Persons" are typically managers within the operational area that are responsible for obligation adherence) ensure adequate processes, systems and controls are in place that ensure compliance or detect when a non-compliance occurs or may occur (first line).

The monitoring and internal reporting of compliance adherence is generally performed by the Compliance Team (second line). Responsible Persons annually report the status of compliance, and whether a breach has occurred, to the obligations via a Compliance Management System. Responses are reviewed by the Compliance Team to ensure the responses demonstrate controls are in place and implemented in operations.

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

In the appendix is a range of supplementary evidence that demonstrates compliance measures performed in 2020.

Appendix 1: Summary of the measures of compliance relevant to Ring-fencing obligations. **Appendix 2:** Additional information about AusNet Services' Compliance Management framework and approach.

4.2 Ring-fencing good practice examples

Connections

In the 2020 Regulatory year, the AusNet Electricity team received 75 connection requests to the Distribution Network. There were none from Mondo. This demonstrates there has been no bias towards our contestable service provider and that there is increasing competition in the provision of contestable electricity services.

³ Source, AusNet Services Compliance Policy and Framework

Trials with Contestable Electricity Services Providers

As part of the regulated energy service business endeavours in the network innovation area, and specifically within technology solution trials and pilot projects, numerous opportunities to work with various players in the contestable environment occurred during 2020.

These included the following:



4.3 Breaches

Under clause 6.2.1(b)ii any breaches of the Guideline by the DNSP must be reported in the annual compliance report. This means that any material breaches already reported to the AER, and any breaches not already reported to the AER⁴ during the regulatory year.

No material breaches of the guideline were reported or identified during 2020.

AusNet Electricity did breach its obligation under **6.2.2 Timing of annual compliance reporting** in 2020 as the 2019 annual compliance report was submitted to the AER on 15 May 2020 rather than by the required 30 April 2020 deadline.

This matter was discussed with the AER in late April. The delayed submission was primarily attributed to the impact of the COVID-19 pandemic. The switch to a remote working environment impacted the delivery and execution of some audit activities such as the production of documents and also impacted access to staff (who were otherwise involved in crisis management functions).

4.4 Other services

In accordance with 6.2.1(b)iii, AusNet Services is required to include in its Report “**all other services**” provided by the **DNSP** in accordance with clause 3.1”.

Clause 3.1 of the Guideline sets out the specific circumstances under which DNSPs can provide ‘other services’ without breaching the Guideline. Specifically, the provision of ‘other services’ is subject to the granting of ring-fencing obligation waivers by the AER (clause 3.1(d)vi).

⁴ Material breaches to be reported within 5 business days as per clause 6.3

Annual Ring-fencing Compliance Report – 2020

A summary of the current and expired waivers is produced below for this report. This information is available on AusNet Services Waiver register, which is published on AusNet Services website⁵ as per clause 5.7.

During 2020, the Mt Baw Baw Waiver expired. This waiver has been removed from the public register. AusNet Electricity no longer provides the services that were the subject of the Mt Baw Baw Waiver.

The waiver related to reclassification of services expiry date has been extended by 6 months to align with the regulatory control period (1 July 2021).

Waiver	Expiry
Provide a waiver to the DNSP from its obligations under clauses 3.1, 4.2.1, 4.2.2 and 4.2.3, which enable AusNet Services to continue to provide the following activities (classified as Negotiated Services or Unclassified Services in the current applicable AER service classification): <ul style="list-style-type: none"> • Public Lighting and watchmen lights (includes installation of new public and watchman lights; alteration and relocation of distributor public lighting assets, repair and maintenance of watchman lights) • Reserve feeder construction • Emergency recoverable works 	1 July 2021 <i>(was 31 December 2020)</i>

4.5 Transactions with affiliated entities

Sub-Clause 6.2.1(b)iv of the Guideline requires that distributors report on the purpose of all transactions between them and their affiliated entities.

The schedule of 'purpose of transactions' is provided in **Appendix 3**.

4.6 Independent assessment

AusNet Services engaged Ernst and Young to provide an independent Assessment of Compliance based on AusNet Services 2020 Annual Compliance report.

AusNet Services' management comments in relation to any recommendations and findings by Ernst and Young are included in the final assessment report provided to the AER.

⁵ <https://www.ausnetservices.com.au/en/Misc-Pages/Links/About-Us/Electricity-Ring-Fencing-Compliance>

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Appendix 1: Measures for Compliance

Control	Control Type	Description	3.1 Legal Separation	3.2.1 Separate accounts	3.2.2 Cost allocation and attribution	4.2.3 Branding and cross-promotion	4.4.1 Conduct of service providers	4.2.1 Physical separation/co-location	4.2.2 Staff sharing	4.2.4 Office and staff registers	4.1 Obligation to not discriminate	4.3.2 Protection of confidential information	4.3.3 Disclosure of information	4.3.4 Sharing of information, Ring-fencing 4.3.5 Information register	5. Waivers	6 Compliance and Enforcement
Ring-fencing Policy	Preventative	<p>This policy:</p> <ul style="list-style-type: none"> explains how AusNet Services ensures that the AER's Electricity Distribution Ring-fencing Guideline is complied with and managed within the business; and applies to all employees, contractors and suppliers working for AusNet Services. <p>The policy represents a single reference guide for our compliance approach and training of staff on their obligations.</p>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Online Training Module	Preventative	A Ringfencing Training module is available for all employees.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Dedicated Ring-fencing knowledge page	Preventative	Complements the training. A dedicated page on the intranet has been established to house information, quick reference guides and checklist tools all AusNet Services staff can access to help with Ring-fencing Compliance items. The page is maintained by the Compliance Team.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

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Control	Control Type	Description	3.1 Legal Separation	3.2.1 Separate accounts	3.2.2 Cost allocation and attribution	4.2.3 Branding and cross-promotion	4.4.1 Conduct of service providers	4.2.1 Physical separation/co-location	4.2.2 Staff sharing	4.2.4 Office and staff registers	4.1 Obligation to not discriminate	4.3.2 Protection of confidential information	4.3.3 Disclosure of information	4.3.4 Sharing of information, Ring-fencing 4.3.5 Information register	5. Waivers	6 Compliance and Enforcement
Dedicated email address	Detective	Dedicated internal email address for members of the Regulation and Compliance team to address any ringfencing queries raised by staff and or regulators.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Compliance Attestations	Detective	Obligation Owners periodically attest to the Compliance status of their obligations, including whether or not a breach has occurred during the reporting period.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Breach Management	Corrective	AusNet Services' Ringfencing Policy and Compliance Policy and Frameworks accounts for responsibilities in managing any breach (Ringfencing requirements included).	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ring-fencing Compliance Report Schedule/Plan	Preventative	A document established that outlines the key dates and tasks to prepare AusNet Services annual compliance report.														✓
Independent Assessment of Compliance	Detective	AusNet Services engages an independent authority (as per requirements of cl 6) to validate its Annual Compliance Report. This activity also serves as a mechanism to detect any potential non-compliances.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

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Control	Control Type	Description	3.1 Legal Separation	3.2.1 Separate accounts	3.2.2 Cost allocation and attribution	4.2.3 Branding and cross-promotion	4.4.1 Conduct of service providers	4.2.1 Physical separation/co-location	4.2.2 Staff sharing	4.2.4 Office and staff registers	4.1 Obligation to not discriminate	4.3.2 Protection of confidential information	4.3.3 Disclosure of information	4.3.4 Sharing of information, Ring-fencing 4.3.5 Information register	5. Waivers	6 Compliance and Enforcement
Site Separation	Preventative	Access controls to prevent staff who are not exempt under 4.2.1 to be co-located.						✓	✓							
System Access Change	Preventative	Users associated with the provision of Contestable Electricity Services were removed from systems that stored distribution network information.									✓	✓	✓			
Financial Procedures	Preventative	The key preventative controls include: <ul style="list-style-type: none"> • The creation of an accounting policy for Transactions with Affiliated Entities This policy outlines the requirement to record financial transactions in the correct legal entity and how financial information for different types of services are collated within the DNSP. It also details how financial items are correctly allocated as well as how intercompany transactions are to be separately recorded within each legal entity; • Removal of access within our project system module for relevant staff to prevent them from setting up prohibited projects under the DNSP legal entity; and • Removal of access within our indirect cost allocation 		✓	✓											

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		system for relevant staff to prevent the ability to allocate unregulated or prohibited costs to the DNSP legal entity														

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Master Services Agreement	Preventative	AusNet Services Master Services Agreements (MSAs) with affiliated entities provides inputs to its regulated services. These include Statements of Work (SOW) to apply for services in place at the time ring-fencing commenced. Any additional services provided by an affiliate would be subject to separate negotiation. The MSAs provide a basis for ensuring compliant financial transactions between the entities.					✓				✓	✓	✓			
Staff Sharing Register and Staff Sharing Check List tool	Preventative	This is a public register of the nature of staff positions being shared.								✓						
AusNet Corporate Structure	Preventative	Illustrates the legal separation of AusNet services groups. This is monitored and maintained by the Corporate secretary as it relates to various corporate governance requirements.	✓													
Information Sharing Protocol	Preventative	Published on Internet. This is an established protocol to govern this process and publish a register setting out the kind of information sought by any entity, and to add entities to the register if they										✓	✓	✓		✓

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Control	Control Type	Description	3.1 Legal Separation	3.2.1 Separate accounts	3.2.2 Cost allocation and attribution	4.2.3 Branding and cross-promotion	4.4.1 Conduct of service providers	4.2.1 Physical separation/co-location	4.2.2 Staff sharing	4.2.4 Office and staff registers	4.1 Obligation to not discriminate	4.3.2 Protection of confidential information	4.3.3 Disclosure of information	4.3.4 Sharing of information, Ring-fencing 4.3.5 Information register	5. Waivers	6 Compliance and Enforcement
		wish to receive similar information from the DNSP.														
Financial Reporting and Reviews	Detective	<p>Financial reviews are undertaken throughout the year to ensure compliance with the accounting requirements of the guideline. In particular:</p> <ul style="list-style-type: none"> The results of the indirect cost allocation process are reviewed monthly by the finance team to ensure that costs have been appropriately allocated and that significant variances or movements compared to previous periods are understood The profit and loss of the DNSP is reviewed regularly throughout the year to ensure that only appropriate costs and revenues are recognised and that no prohibited services are being provided. In addition, a more thorough review is performed as part of the preparation of the annual regulatory accounts, which are subject to independent audit Controls are in place to identify and notify the finance team of related party transactions that have occurred to ensure that they are adequately disclosed in 		✓	✓											

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Control	Control Type	Description	3.1 Legal Separation	3.2.1 Separate accounts	3.2.2 Cost allocation and attribution	4.2.3 Branding and cross-promotion	4.4.1 Conduct of service providers	4.2.1 Physical separation/co-location	4.2.2 Staff sharing	4.2.4 Office and staff registers	4.1 Obligation to not discriminate	4.3.2 Protection of confidential information	4.3.3 Disclosure of information	4.3.4 Sharing of information, Ring-fencing 4.3.5 Information register	5. Waivers	6 Compliance and Enforcement
		our statutory financial statements and regulatory accounts.														
Waiver register	Preventative	This is the public register of the granted waivers													✓	

Appendix 2: Supplementary Compliance Management Information

AusNet Services maintains a Compliance Policy and Framework that is managed by the Governance Division and aligns with compliance standard AS/ISO 19600:2015.

The effectiveness of the Compliance Policy and Framework is overseen by the Board's Audit & Risk Committee (**ARC**). The effectiveness of the Policy and Framework is also subject to periodic audit by external regulators and auditors.

The Governance Division also provides a range of compliance awareness training, advisory and assurance services.

Obligations are identified, recorded and assigned to 'responsible persons' in a centralised database. Responsible Persons ensure that these obligations are appropriately embedded in business activities including policies, processes, procedures, systems and tasks.

AusNet Services adopts a risk-based approach to compliance monitoring and assurance with Responsible Persons periodically attesting to the state of compliance. The attestations and supporting evidence provided by Responsible Persons is independently reviewed by the Governance Division from a quality perspective and, where appropriate, clarification of responses is sought.

Processes also exist for employees, including contractors, to report potential regulatory breaches at any time.

Where applicable, the Governance Division ensures that breaches are reported to the relevant agency/ regulator within prescribed timeframes and monitors delivery of corrective actions.

The Governance Division also provides confidential compliance papers to the ARC on a regular basis.

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Appendix 3: Purpose of Transactions

The below list summarises the purpose of transactions (type, description and nature of work) between AusNet Services and affiliated entities. Costs associated with the transaction have also been provided as requested by the AER.

OPEX							
Legal entity	Description	Type of work	Nature	Direct Mondo Projects	Mondo Indirects	Projects	Timesheeting
Mondo Power Pty Ltd	Inspection and Maintenance	Condition Monitoring	Direct Project	██████			
Mondo Power Pty Ltd	Inspection and Maintenance	Chemical Testing	Direct Project	██████			
Mondo Power Pty Ltd	Inspection and Maintenance	Calibration and Projects	Direct Project	██████			
Mondo Power Pty Ltd	Inspection and Maintenance	Non-invasive testing	Direct Project	██████			
Mondo Power Pty Ltd	Inspection and Maintenance	Other management and support costs	Direct Project	██████			
Mondo Power Pty Ltd	Inspection and Maintenance	Metering Services	Direct Project	██████			
Mondo Power Pty Ltd	Shared assets	Facilities Access Arrangements	Direct Project	██████			
Mondo Power Pty Ltd	Non-Regulated Services	Materials Management	Direct Project	██████			
Mondo Power Pty Ltd	Overheads	Unregulated works	Indirect Costs		██████		
Mondo Power Pty Ltd	Outsourced Labour	Chemical Testing	Timesheeting				██████
Mondo Power Pty Ltd	Outsourced Labour	Condition Monitoring	Timesheeting				██████
Mondo Power Pty Ltd	Outsourced Labour	Faults & Emergency Works	Timesheeting				██████
Zinfra Pty Limited	Opex	Opex Works	Contractor			██████	

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CAPEX

Legal entity	Description	Type of work	Nature	Direct Mondo Projects	Mondo Indirects	Projects	Timesheeting
Mondo Power Pty Ltd	Direct Project	Unregulated Capital Works	Direct Project				
Mondo Power Pty Ltd	Outsourced Labour	Calibration and Projects	Timesheeting				
Mondo Power Pty Ltd	Outsourced Labour	Chemical Testing	Timesheeting				
Mondo Power Pty Ltd	Outsourced Labour	Metering Services	Timesheeting				
Mondo Power Pty Ltd	Outsourced Labour	Condition Monitoring	Timesheeting				
Mondo Power Pty Ltd	Outsourced Labour	Non-invasive testing	Timesheeting				
Mondo Power Pty Ltd	Outsourced Labour	Software Delivery	Timesheeting				
Zinfra Pty Limited	Capex	Capex works	Contractor				

OTHER AFFILIATE ENTITIES

Legal entity	Description	Type of work	Nature	Direct Mondo Projects	Mondo Indirects	Projects	Timesheeting
AusNet Transmission Group Pty Ltd	Revenue	NUOS	Network Use of Services				
AusNet Transmission Group Pty Ltd	Cost of Sales	Transmission network charges	Exit charges for use of Transmission Network				
AusNet Transmission Group Pty Ltd	Cost of Sales	Transmission network charges	Network charges				
AusNet Services Holdings Pty Ltd	Interest Expense	Interest Expense	Interest on borrowings				