

AER Ring-fencing Guideline Electricity Distribution Compliance Review

AusNet Electricity Services
Pty Ltd

30 April 2018

Redaction Notation Key:

C.I.C. - Commercial-in-Confidence

L1 - Location 1

L2 - Location 2

L3 - Location 3

L4 - Location 4

L5 - Location 5

P.I. - Personal Information

S.S.R. - Safety & Security Reasons

Contents

| | | |
|-----|---|----|
| 1. | Executive summary..... | 1 |
| 1.1 | Introduction | 1 |
| 1.2 | Background..... | 1 |
| 1.3 | Scope | 1 |
| 1.4 | Methodology | 2 |
| 1.5 | Limitations..... | 2 |
| 1.6 | Executive comment..... | 2 |
| 1.7 | Conclusion | 2 |
| 2. | Summary of audit findings..... | 3 |
| 2.1 | Summary of findings | 3 |
| 2.2 | Risk ranking of issues reported | 8 |
| 2.3 | Legend: Overall grading definition..... | 8 |
| 3. | Detailed audit findings | 9 |
| 3.1 | Detailed audit findings..... | 9 |
| 4. | Auditor statement | 30 |

1. Executive summary

1.1 Introduction

AusNet Electricity Services Pty Ltd ("AES") is a subsidiary of AusNet (No. 9) Pty Ltd. AES engages in the delivery of electricity to consumer connection points in Victoria.

The Australian Energy Regulator ("AER") published the Ring-fencing Guideline for Electricity Distribution on 30 November 2016 under the National Electricity Rules, to provide for functional separation of regulated and competitive business activities to promote competition in the provision of electricity services. The Guideline is effective from 1 December 2016 and Distribution Network Service Providers ("DNSP") are required to comply no later than 1 January 2018. As required by the Guideline, AES will issue its first Annual Compliance Report by 30 April 2018.

1.2 Background

Ernst and Young ("We or we") has been engaged under an arrangement with AES to perform an independent review of AES's compliance with the requirements under the *AER's Electricity Distribution Ring-fencing Guideline* for the review period as at 1 January 2018. The review includes contents of the compliance report if they accurately reflect the activities taken throughout the transitional year by AES.

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

1.3 Scope

The scope of the review includes the following that is detailed in the AER Annual compliance reporting and independent assessment under the Electricity Distribution Ring-fencing Guideline: Guidance note for Victorian DNSPs reporting on the 2017 transitional year, section 3.2:

- ▶ 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 AES Team members responsible for each of the obligation clauses. An understanding of the processes, procedures and controls in place at AES 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 Limitations

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

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

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

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

1.6 Executive comment

Management accepts the results of the audit and will consider the best way to address each recommendation.

1.7 Conclusion

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

Refer to Section 4 of the report for the full Auditor's Statement.

2. Summary of audit findings

2.1 Summary of findings

| Clause | Obligations | Risk rating | Observation and recommendation | Management response |
|--------|--|-------------|---|--|
| 4.1(b) | <p>A DNSP must not discriminate (either directly or indirectly) between a related electricity service provider and a competitor (or potential competitor) of a related electricity service provider in connection with the provision of:</p> <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> | Moderate | We understand that Master Service Agreements have been put in place to govern transactions between AES and CES businesses (Select Solutions, Geomatic Technologies). As these agreements are not signed to date, they may not be legally binding. We recommend management ensure the agreements are signed and retained. | <p>Action:</p> <p>The Master Service Agreements have been agreed by all parties, and approved by all relevant stakeholders. As the parties are operating under the terms and conditions of these MSAs already, it would be difficult for either party to argue they are not legally binding. These have been executed and put into the contracts database as at 30 April.</p> <p>Responsibility: [REDACTED] P.I.</p> <p>Date: [REDACTED] C.I.C.</p> |
| | | Low | AusNet has developed a training program which is required to be attended and completed by the most impacted employees (144 of employees had completed the training at the date of this report). At the time of our audit (15 March 2018), 27 employees were yet to complete the training program. We recommend management ensure the training is completed by the 27 employees. | <p>Action:</p> <p>All available staff have completed the training as at 30 April.</p> <p>Responsibility: [REDACTED] P.I.</p> <p>Date: [REDACTED] C.I.C.</p> |
| 4.1(c) | <p>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> | Moderate | <p>A range of existing services, eg Calibration & Protection Testing; HV asset testing; Analysis of voltage issues at Yackandandah etc provided by CES to AES have been rolled forward and specified in Statements of Works (SOW) governed by Master Services Agreements put in place by the business.</p> <p>These arrangements have been put in place without a formal procurement process (eg benchmark against other market participants and/or tendered) which creates a risk of favourable pricing or other arrangements not being detected. We recognise that:</p> <ul style="list-style-type: none"> Management has performed an assessment on the commercial possibility of discontinuing these services with CES but concluded it is more cost effective to retain CES at this time for reasons such as lack of appropriate alternative service providers Management has implemented multiple control mechanisms for the cost of these services such as | <p>Action:</p> <p>AusNet Services management will:</p> <ul style="list-style-type: none"> document evaluation process that was undertaken and key reasons for the approach adopted; monitor each such SOW on an annual basis to identify any material internal and external changes (ie new providers or technology, cost reduction opportunities); and evaluate whether a tender or other market testing process is necessary to ensure best cost and efficiency outcome for these services as the terms of the SOW approach expiration (1-3 year terms) <p>Responsibility: [REDACTED] P.I.</p> <p>Date: [REDACTED] C.I.C.</p> |

| Clause | Obligations | Risk rating | Observation and recommendation | Management response |
|--------|--|-------------|---|---|
| | 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>budget setting and monitoring. Dedicated AES personnel are accountable for the budgets for these services</p> <p>We recommend that management formalise the evaluation and decision making process to demonstrate service arrangements with CES represents the best cost and efficiency outcome for AES.</p> <p>We recommend management reviews the SOWs on an annual basis to identify any changes relevant of circumstances (eg suitable alternative service provider becoming available) and to put these services through formal procurement processes (ie. market testing) on a periodic basis.</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. | Low | <p>AusNet has identified four locations where RES and CES employees share offices. While AusNet has demonstrated remediation actions to the four identified affected locations, the assessment performed by management to isolate affected location to the four sites from all AusNet locations is not evident.</p> <p>We recommend that management develop a process and maintain records of the assessment performed to demonstrate evidence that the other locations are not affected. This will also allow for an established process to be applied against future sites developed (if any) to ensure compliance against the Guideline's location sharing requirements.</p> | <p>Action:</p> <p>AusNet Services management will update staff allocation and building services procedures to ensure that existing sites continue to be utilised in compliance with the Guideline and that all new sites follow the same process.</p> <p>Responsibility: [REDACTED] P.I.</p> <p>Date: [REDACTED] C.I.C.</p> |
| | | Moderate | <p>AusNet carried out a staff movement analysis during the ring-fencing transition year to ensure no inappropriate co-location of RES employees and CES employees exists. Based on discussion with AES, it is noted that subsequent movements of staff between locations is not updated in the employee records system. Monitoring of staff movement is manually done by the Ring-fencing obligation clause owner. We recommend that AusNet develops a process to ensure the register is up to date through periodic reviews.</p> | <p>Action:</p> <p>Management will review staff movement and secondment procedures that currently exist to confirm that site information is regularly updated and that the Guideline requirements are considered when moving staff.</p> <p>Responsibility: [REDACTED] P.I.</p> <p>Date: [REDACTED] C.I.C.</p> |
| 4.2.2 | (a) Subject to this clause 4.2.2, a DNSP must ensure that its staff involved in the provision or marketing of direct control services are not also involved in the provision or marketing of contestable electricity services by a related electricity service provider. | Low | <p>We understand that not all employees are employed by the legal entity that their role is associated with (ie CES employees legally employed by RES entity). While we have not identified issues related to cost allocation or staff sharing associated with these employment, we recommend that management and consider aligning the employing legal entity with the relevant roles, or maintain a clear register of CES employees employed by RES.</p> | <p>Action:</p> <p>Management will continue to allocate all new employees to the appropriate non RES entity. No retrospective entity changes will be made due to endorsed company position and cost impact. We will continue to review our position but are confident that the cost allocation remains appropriate.</p> |

| Clause | Obligations | Risk rating | Observation and recommendation | Management response |
|--------|--|-------------|--|---|
| | | | | Responsibility: [REDACTED] P.I. Date: [REDACTED] C.I.C. |
| 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. | Moderate | <p>We understand that the short-term incentive (STI) plans offered to all eligible AusNet employees (RES and CES) include incentives that are linked to Group wide financial performance (RES and CES combined), and other business and personal KPIs.</p> <p>We were advised the linkage to group profit is designed to ensure that the total incentive pool is "affordable" given the group results.</p> <p>We recognise that as part of the consultation process for development of the guideline, AES and other stakeholders made a recommendation to the AER that the Guideline should allow all employees to legitimately share in the financial performance of a group. We understand that the AER accepted the change in the final decision, noting in the Explanatory Statement that 'the Draft Guideline may have prevented participation in group-wide employee share schemes or other group-wide performance incentives and discriminates against less senior staff.'</p> <p>Notwithstanding the correspondences with the AER, we recommend management evaluate the appropriateness of Group wide financial performance as a calculation input under the STI plan, given the potential for this type of arrangement creating an incentive which is in conflict with the Guideline. We are aware of some DNSP's which have designed incentive plans which link regulated business employee bonuses to regulated business profit and similarly, non-regulated employee bonuses with non-regulated profit.</p> <p>AusNet Services is a listed group, and the Code of Business Conduct (refer clause 5) requires that employees at times comply with all applicable laws and regulations. As such, management consider the risk of employees contravening the guideline, motivated by the current STI arrangement to be low.</p> <p>As part of the development of the guideline AusNet Services and other stakeholders made recommendation regarding the drafting of clause 4.2.2 (c) which was ultimately reflected in the guideline.</p> | Action: Management will confirm that the STI is heavily weighted toward the performance of the business that the employee works in. Going forward we will ensure that ring-fencing compliance continues to be a key factor in considering the efficacy of the scheme. Responsibility: [REDACTED] P.I. Date: [REDACTED] C.I.C. Management has confirmed the above. |

| Clause | Obligations | Risk rating | Observation and recommendation | Management response |
|--------|--|-------------|--|---|
| 4.2.4 | A DNSP must establish, maintain and keep a register that identifies: (a) the classes of offices to which it has not applied clause 4.2.1(a) by reason of clauses 4.2.1(b)i. or 4.2.1(b)iii.; and (b) the nature of the positions (including a description of the roles, functions and duties) of its members of staff to which it has not applied clause 4.2.2(a) by reason of clauses 4.2.2(b)i.a., 4.2.2(b)i.b., 4.2.2(b)iii. or 4.2.2(d); | Low | We recognise that AusNet has established a register of the nature of shared positions in line with the Guideline. We note that the nature of positions included in the register is not linked to actual positions/titles used within the business. 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. | Action: Management will maintain a table of staff positions which are shared, to ensure that there is effective correspondence between staff shared and the 'nature of descriptions' described. The table will be referenced in the compliance reporting database as a monitoring prompt. Responsibility: [REDACTED] P.I. Date: [REDACTED] C.I.C. |
| 4.3.3 | A DNSP must not disclose confidential information to any person, including a related electricity service provider, unless an exemption applies. | Moderate | We understand that the executive leadership team (including the Managing Director) provide input into decisions via the executive leadership team which impact both the RES and CES businesses. Notwithstanding that Officers are exempt from the staff sharing requirement of the guideline per clause 4.2.2(d), we recommend a protocol to be established to ensure any potential conflicts of interest are appropriately identified and managed under a structured framework and confidential information kept confidential. | Action: Management maintains the view that executive arrangements are consistent with the intent of the Guideline. The two divisions (Regulated Energy Services and Commercial Energy Services) conduct their business independently. Additionally, the company's ring-fencing policy applies across the group, and so executives are informed on the obligations of the Guideline and the company's objective of ensuring the Guideline is complied with. For corporate executive level forums, management will review agenda items for any potential ring-fencing conflicts and take appropriate action as required to meet the ring fencing obligations. Responsibility: [REDACTED] P.I. Date: [REDACTED] C.I.C. |
| | | Moderate | We recommend that management develop a consistent framework to assess information which is considered confidential and that the confidential information is identified and clearly communicated in detail to all relevant employees including the executive management team. We recommend that the framework include case studies or examples to support organizational understanding of the Guideline requirement. The framework could be used to explain the level of which metering data is considered confidential - Is it at the supply point level, aggregated street level, aggregated feeder level, aggregated zone substation level, and aggregated whole of network level? | Action: Management will document the interpretation of confidential network information and include it in the Ring-fencing policy. Responsibility: [REDACTED] P.I. Date: [REDACTED] C.I.C. |

| Clause | Obligations | Risk rating | Observation and recommendation | Management response |
|--------|---|-------------|---|--|
| 6.3 | A DNSP must notify the AER in writing within five business days of becoming aware of a material breach of its obligations under this Guideline. The AER may seek enforcement of this Guideline by a court in the event of any breach of this Guideline by a DNSP, in accordance with the NEL. | Low | Based on our discussion with management, we note that there is written interpretation of a material breach in the ring-fencing policy or the breach policy. AES has not yet considered fully the extent of a breach that would be defined as material. We recommend that management consider the interpretation of "material breach" in the Guideline and document this interpretation. | Action: Management will consider the meaning of "material breach" and develop guidance to assist employees with identifying such potential breaches. Responsibility: [REDACTED] P.I. Date: [REDACTED] C.I.C. |
| | | Low | The Guideline specifies that a DNSP must notify AER in writing within 5 business days of becoming aware of a material breach. The AES Breach notification and escalation process does not specify the period required to determine the existence of a breach. We recommend AusNet document how breaches will be reported internally through management and the board before being communicated to AER. | Action: AusNet Services' Compliance Policy & Framework and Breach Notification & Escalation process are due for revision in March 2019. The documentation will amend to specify the timelines for reporting all breaches to management (including ring fencing), where appropriate the Board and AER. Responsibility: [REDACTED] P.I. Date: [REDACTED] C.I.C. |

2.2 Risk ranking of issues reported

This table outlines the assessment framework of risk rating allocated to observations and recommendations raised, as summarised in section 2.1 of the report.

| | | Potential Occurrence | | | | |
|------------------|---------------|----------------------|---------------|----------|----------|----------|
| | | Isolated Instances | Few Instances | Some | Often | Many |
| Potential Impact | Insignificant | Low | Low | Low | Low | Moderate |
| | Minor | Low | Low | Low | Moderate | Moderate |
| | Moderate | Moderate | Moderate | Moderate | Moderate | Moderate |
| | Major | Moderate | Moderate | Moderate | High | High |
| | Catastrophic | High | High | High | High | High |

2.3 Legend: Overall grading definition

This table outlines the assessment framework of compliance against the specific obligations within the Guideline, as discussed in section 3.1 of the report.

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

3. Detailed audit findings

3.1 Detailed audit findings

Instrument Clause Event: Ring-fencing Guideline Electricity Distribution

Obligation: Prevention of cross subsidies – Section 3

Guidance Assessment Criteria and Assessment Controls

| Ref | Compliance Obligation | Process Description | Testing | Grading |
|--------|--------------------------------|---|---|---------|
| 3.1(a) | A DNSP must be a legal entity. | AES' legal entity structure complies with the legal separation requirements of the Guideline. | <p>Test performed:</p> <p>We performed an ASIC search on AES to ensure that it is a separate legal entity. To undertake the search, we have used AES ABN number as noted on the distribution license approved by AER.</p> <p>Observation:</p> <p>Based upon the evidence obtained above, no exceptions had been noted on AusNet's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none">AES is a legal entity. <p>Recommendation:</p> <p>None noted.</p> | Strong |

| Ref | Compliance Obligation | Process Description | Testing | Grading |
|--------|--|---|--|---------|
| 3.1(b) | A DNSP may provide distribution services and transmission services, but must not provide other services. | <p>AES Contracts team, Legal team and Regulation team has reviewed the list of services provided by AES. Through the review, AES has carried out the following action:</p> <ul style="list-style-type: none"> Identified and novated utility and metering services arrangements which are contestable electricity services to Select Solutions Pty Ltd Terminated utility and metering services arrangements which are contestable electricity services prior to 1 January 2018 Resolved not to extend arrangements that are contestable electricity Services after the expiry term in year 2017 <p>AES identified two arrangements that are not in accordance with the Guideline. AES has applied for waivers from the AER for these arrangements and were granted waivers by AER in December 2017.</p> <ul style="list-style-type: none"> Mt Baw Baw: The Alpine Resorts Commission and AES 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. Other non-distribution services: there are several contracts for the provision of services that do not meet the Guideline service classification restrictions, for which AES is the legal entity on the contract documentation. The services includes: <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>For contracts with a term beyond the transition period, AES' approach to compliance involves novating the contracts to a separate entity or establishing new contracts between that entity and the third party.</p> <p>All future arrangements entered into by AES will need to be reviewed by the Legal team to ensure compliance with the Guideline.</p> | <p>Discussion held with: Ring Fencing Project Manager, Senior Commercial Lawyer, Manager Regulatory Framework</p> <p>We have reviewed the process undertaken by management to identify all services provided by AES, which is based on all existing contractual arrangements under AES with other parties.</p> <p>We have reviewed the services tracker which details the description of services provided, contractual term, and ring-fencing compliance status throughout the transitional period of 1 January 2017 to 31 December 2017.</p> <p>For contractual arrangements that requires actions to be Low with the Guideline, we have tested a sample of arrangements to sight to novation agreements and legal consultations.</p> <p>We have reviewed the process undertaken by management to ensure future arrangements are correctly identified and is in compliance with the Guideline.</p> <p>Observation: Based upon the discussions above, no exceptions had been noted on AusNet's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> AES solely provides distribution services and transmission services, with the exception of those included in the waiver registers, approved by AER. AES has carried out appropriate action plan to achieve compliance during the transitional period of 1 January 2017 to 31 December 2017. AES has preventive controls to ensure future arrangements entered into are in accordance with the Guideline, including mandatory consultation with the legal team. <p>Recommendation: None noted.</p> | Strong |

| 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>AES developed an Accounting Policy Manual specific for transactions with affiliated entities in December 2017. The policy defines related party and affiliated entities, also details how profit and loss and balance sheet transactions are identified and reported separately. It also outlines intercompany transactions with related parties must be offered on the same terms that it would to an unrelated party.</p> <p>AES has the obligation to have the transactions with affiliated entities in an arms -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. AES applies cost allocation methodology generates intercompany receivables and payables that recorded in the financial statements.</p> <p>AES has the quarterly review meeting with procurement team to make sure the appropriateness of accounting treatment between AES and its affiliated entities.</p> <p>AES maintains records of transactions with related parties and is required to disclose these transactions in its financial statements.</p> <p>Related party transactions are identified in SAP via a customer or vendor code. All revenue has a customer Code and all operating expenses has a vendor code. Related party customers and vendors are set up in SAP with an 'RPT-xxx' as an identifier.</p> | <p>Discussion held with: Ring Fencing Project Manager, Senior Finance Business Partner – RES, Senior Finance Business Partner – Corporate</p> <p>We have obtained and reviewed the AES internal accounting procedure manual - "Transactions with affiliated entities" and noted that it addresses transactions between AES and its affiliated entities.</p> <p>We obtained and reviewed the transaction report between AES and affiliated entities in which the accounting treatment is in line with the internal accounting manual. As at the date of this report, AES is generating the transaction listing between AES and its affiliated entities.</p> <p>We have reviewed management process to identify affiliated entities by sighting related party identifier codes on SAP system, in the specific format of RPT-XXX.</p> <p>Observation:</p> <p>Based upon the discussions above, no exceptions had been noted on AusNet's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> AES has a process in place to establish and maintain appropriate internal accounting procedures to ensure that it can demonstrate the extent and nature of transactions between AES and its affiliated entities. <p>Recommendation:</p> <p>None noted.</p> | Strong |

| Ref | Compliance Obligation | Process Description | Testing | Grading |
|-------|---|--|--|---------|
| 3.2.2 | <p>(a) A DNSP must allocate or attribute costs to distribution services in a manner that is consistent with the Cost Allocation Principles and its approved CAM, as if the Cost Allocation Principles and CAM otherwise applied to the allocation and attribution of costs between distribution services and non-distribution services.</p> <p>(b) A DNSP must only allocate or attribute costs to distribution services in accordance with clause 3.2.2(a), and must not allocate or attribute other 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>AES 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 November 2014. The Finance team has reviewed the November version of CAM and noted that it is consistent with the Cost Allocation Principles per the Guideline, including the extended cost allocation requirements. Specifically, AES' CAM not only requires cost allocation between direct control services and other distribution services, it also demonstrates cost allocation for the allocation and attribution of costs between distribution services and other services.</p> <p>There are three types of operating cost for AES 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 on the basis of an ABC approach 2. Material costs and invoiced contract and service cost – through direct costing/attribution to asset related work codes and activity based costing approach 3. Directly cost items – through system based, general ledger attribution due to the nature of the cost, eg property taxes, license fees, network charges. <p>Hence no further actions required to make changes to the CAM. This review was approved by Group Financial Controller in March 2017. The CAM was approved by AER on 19 December 2014 and is publicly available on the AER website.</p> <p>As the existing CAM was effective November 2014, the finance team is currently performing its 5 year CAM update, which will be submitted for approval in July 2018. Minor changes will be made to the CAM, with no expected conflicts to the Cost Allocation Principles per the Guideline. The revised CAM will be submitted to AER for approval.</p> <p>AusNet use of company code in SAP to allow accurate allocations of Direct cost and Indirect cost.</p> <p>Cost Allocation Process - Direct Cost:</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>Discussion held with:</p> <p>Ring Fencing Project Manager, Senior Finance Business Partner – RES, Senior Finance Business Partner – Corporate</p> <p>We have obtained the reviewed the CAM, noting that it addresses allocation and attribution of costs between distribution services and non-distribution services.</p> <p>We have checked that AES existing CAM is approved by AER.</p> <p>We reviewed the process undertaken by the finance team to allocate and attribute costs to distribution services, and note that it is aligned with the existing CAM.</p> <p>Observation:</p> <p>Based upon the discussions above, no exceptions had been noted on AusNet's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> • AES has a process in place to allocate costs to distribution services and is consistent with the Cost Allocation Principles and AER approved CAM. • AES 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. • AES maintains records in relation to costs allocation. • We have obtained and reviewed the December 2017 ABC surveys that used to allocate the indirect costs pool which were incurred in the process of developing the capital asset. <p>Recommendation:</p> <p>None noted.</p> | Strong |

| Ref | Compliance Obligation | Process Description | Testing | Grading |
|-----|-----------------------|--|---------|---------|
| | | <p>Cost Allocation Process – Overheads/ indirect costs</p> <p>AusNet uses an activity based costing (ABC) survey input, which is prepared by the respective profit centre managers at every month end. The ABC survey listing breaks down the activities taken by team members during the month, and other non-labour costs in their respective profit centre overhead pools. Based on this review, the manager will include in their ABC survey an estimated percentage of their labour and non-labour costs in the overhead pool which were incurred in the process of constructing or developing a capital asset. The ABC survey and percentage analysis is provided to the Regulatory Finance Team, where they derive an overhead rate which is input into the SAP system. The Regulatory Finance Team also performs an analysis of the overhead rate as compared to prior period's average to pick up any significant variances.</p> <p>Costs such as finance costs, corporate tax and other costs below the EBIT line are considered at corporate level.</p> | | |

Obligation: Functional separation – Section 4

Guidance Assessment Criteria and Assessment Controls

| Ref | Compliance Obligation | Process Description | Testing | Grading |
|--------|--|---|---|----------|
| 4.1(b) | <p>(b) A DNSP must not discriminate (either directly or indirectly) between a related electricity service provider and a competitor (or potential competitor) of a related electricity service provider in connection with the provision of:</p> <p>i. direct control services by the DNSP (whether to itself or to any other legal entity); and / or</p> <p>ii. Contestable electricity services by any other legal entity.</p> | <p>In order to achieve compliance with the "non-discrimination" requirements in the Ring-Fencing Guideline, AusNet has sought to educate relevant employees about the Ring-fencing requirements. In December 2017, AusNet rolled out an 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. All AusNet employees who are managers and above were required to complete the mandatory training by 16 February 2018. Upon completion of the training, employees would receive a certificate of competency. The Regulation team monitors the completion status of the online training.</p> <p>The Ring-fencing project team has reviewed all existing arrangements where CES provides services to AES and external DNSP. Together with the legal team, AES has developed various Statement of Works for the respective CES provisions of services, which include, but is not limited to chemical testing services, metering services, HV asset testing and others. A Master Service Agreement is also developed to formalise existing and future arrangements for contestable electricity services provided by affiliated entities to AES, and for any direct control services provided by AES to any affiliated entity. The Master Service Agreement is developed based on a third party contract format, to ensure the terms and conditions set out are not discriminating against an external party.</p> | <p>Discussion held with:</p> <p>Ring Fencing Project Manager, Senior Commercial Lawyer, Manager Regulatory Framework</p> <p>We have obtained and sighted the online training program of Ring-Fencing Program and reviewed the training report included the details of employees who has completed the training and completion rate.</p> <p>Observation:</p> <p>Based upon the evidence obtained above, no exceptions had been noted on AusNet's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> AES has control process in place to ensure that there is no discrimination between a related electricity service provider and an external DNSP. <p>Recommendation:</p> <ul style="list-style-type: none"> [Moderate] We understand that Master Service Agreements have been put in place to govern transactions between AES and CES businesses (Select Solutions, Geomatic Technologies). As these agreements are not signed to date, they may not be legally binding, we recommend management ensure the agreements are signed and retained. [Low] AusNet has developed a training program which is required to be attended and completed by the most impacted employees (144 of employees had performed). To date, 27 employees (as at 15 March 2018) have yet to complete the training program, we recommend management to ensure the training is completed by these employees. | Moderate |
| 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,</p> | <p>As part of the Ring-fencing transitional activities, AES has refined existing procurement and other contracting processes for obtaining, or providing, services from, or to, affiliated entities, including any contracting requirements and legal approval. This includes a change in the Delegation of Authority matrix, where RES staff are restricted from making a decision for another affiliated entity.</p> | <p>Discussion held with:</p> <p>Ring Fencing Project Manager, Senior Commercial Lawyer, Head of Procurement</p> <p>We have obtained and reviewed the Statement of Works (SOW) and Master Service Agreements (MSA).</p> | Moderate |

| Ref | Compliance Obligation | Process Description | Testing | Grading |
|-----|--|--|---|---------------|
| | <p>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>For the range of identified services that CES has provided to AES, management has taken one of the three actions below:</p> <ol style="list-style-type: none"> 1. Terminated the services with CES 2. Moved certain regulated activities back into AES (ie vegetation management) 3. A range of existing services provided by CES to AES have been approved to be continued based on commercial assessment conducted by the business. These services have been put under Master Services Agreements and are identified in specific Statements of Works (SOWs). <p>These services represent services that after business assessment is determined to be most cost efficient for the business (and network customers) to be continued with CES.</p> <p>The reasons for this conclusion include:</p> <ul style="list-style-type: none"> • lack of appropriate alternative service providers • continuity of service, particularly for services based on cycles or associated sunk costs (such as developed software or systems) • the cost and time involved in a market or benchmarking process not justifiable, for low volumes and low values services • system integration issues [REDACTED] <p>[REDACTED] C.I.C.</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 CES do not have any decision making power on the budget setting process • Specific AES 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. | <p>We have obtained and review an example of the waiver of competition forms.</p> <p>We have reviewed the procurement and tender process undertaken by AES.</p> <p>Observation:</p> <p>Based upon the evidence obtained above, no exceptions noted on following:</p> <ul style="list-style-type: none"> • AES has control process in place to ensure that there is no discrimination between a related electricity service provider and an external party. • AES 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. <p>Recommendation:</p> <p>[Moderate] A range of existing services, eg Calibration& Protection Testing; HV asset testing; Analysis of voltage issues [REDACTED] etc provided by CES to AES have been rolled forward and specified in Statements of Works (SOW) governed by Master Services Agreements put in place by the business.</p> <p>These arrangements have been put in place without a formal procurement process (eg benchmark against other market participants and/or tendered) which creates a risk of favourable pricing or other arrangements not being detected.</p> <p>We recognise that:</p> <ul style="list-style-type: none"> • Management performed an assessment on the commercial possibility of discontinuing these services with CES but concluded it is more cost effective to retain CES at this time for reasons such as lack of appropriate alternative service providers • Management has implemented multiple control mechanisms for the cost of these services to be controlled such as budget setting and monitoring. Dedicated AES personnel are accountable for the budgets of these services <p>We recommend that management formalise the evaluation and decision making process to demonstrate</p> | <p>S.S.R.</p> |

| Ref | Compliance Obligation | Process Description | Testing | Grading |
|-------|---|--|---|----------|
| | C.I.C. | <ul style="list-style-type: none"> All SOWs have a limited timeframe from 12 months to a maximum of 3 years No mark-up is charged on these services provided and cross-charge from CES to AES is only allowable on cost basis with no margin to be added to top <p>The total value of these services is budgeted to be \$2.5m for 2018.</p> <p>Management represented that the commercial assessment performed did not involve a formal procurement process. Management represented that as the SOWs expire, it is expected that the business will initiate formal procurement procedures for the services performed under the SOWs.</p> <p>AusNet has a Procurement Principles and Procurement Framework in place, whereby all services with the value of above [REDACTED] will need to go through a strategic procurement process, which the Procurement team will determine the best way to engage the market. This could be via a formal tender, a negotiation or other method deemed to obtain best value for money. The approach taken for the procurement of services is not necessarily determined or driven by the particular Division or Affiliated Parties for which the goods and services are being sourced. Rather, the sourcing approach is determined by a number of considerations including the nature of the goods and services, market factors and the procurement strategy. These considerations will lead to decisions on the appropriate approach which may be any of open tender, closed tender, single-source, panels, sourcing through collaboration and others.</p> <p>Arrangements with value between [REDACTED] and [REDACTED] will be sourced by the Procurement team through market testing.</p> <p>For arrangements with value below [REDACTED], an approved purchase order is required, and the business unit will have to present several quotations for comparison purposes.</p> <p>There is a waiver of competition purchasing scenario are used when the purchase is greater than [REDACTED] and not linked to an outline agreement in SAP. The procurement team will perform the sourcing for such cases. Where Procurement decides to proceed with recommending the purchase with only one quote, then a waiver of competition must also be completed and approved by the Sourcing Execution Manager.</p> | <p>service arrangements with CES represents the best cost and efficiency outcome for AES.</p> <p>We recommend that management reviews these SOWs on an annual basis to identify any changes relevant of circumstances (eg suitable alternative service provider becoming available) and to put these services through formal procurement processes (ie market testing) on a periodic basis.</p> <p>C.I.C.</p> <p>C.I.C.</p> <p>C.I.C.</p> | |
| 4.2.1 | (a) Subject to this clause 4.2.1, in providing direct control services, a | AES Ring-fencing project team has performed a shared location analysis which is a process of analysing all the listed sites | Discussion held with: | Moderate |

| Ref | Compliance Obligation | Process Description | Testing | Grading |
|-----|--|--|--|---------|
| | <p>DNSP must use offices that are separate from any offices from which a related electricity service provider provides contestable electricity services.</p> <p>L1, L2, L3 and L4</p> <p>S.S.R. *L1 [REDACTED]: Relocated all CES employees to Level 26 and revoke all access to Level 31</p> <p>S.S.R. *L2 [REDACTED] This is a transmission site, although under distribution services, is not in scope for Ring-fencing. Hence, no conflict noted.</p> <p>S.S.R. *L3 [REDACTED] AES has separated CES employees and DNSPs employees by building a separation wall in the office, with separate access into the office.</p> <p>S.S.R. *L4 [REDACTED] Relocated CES employees to new location at</p> <p>S.S.R. *L5 [REDACTED] 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>indicates the details of Permissible Staff Cohabitation by site in May 2017. Through this analysis, AusNet had 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 work spaces for staff, such as creating separate and restricted sections of a site or the floor of a building with access card controls and separate kitchen / tea facilities. Shared areas and facilities such as lifts, foyers and car parks are considered acceptable. The basis of the location analysis is to identify locations where there are both DNSPs employees and CES employees, which is in conflict with the Guideline.</p> <p>AES has identified the 4 affected locations, namely [REDACTED]. AES carried out remediation actions to resolve all affected locations by 1 January 2018.</p> | <p>Ring Fencing Project Manager, Building Services Manager</p> <p>We have obtained and reviewed the share location analysis performed by Ring Fencing Team who performed analysis on the sites that needs remedial action to comply with the Guideline.</p> <p>We have obtained and reviewed evidence of remedial actions performed.</p> <p>Observation:</p> <p>Based upon the evidence obtained above, no exceptions had been noted on AusNet's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> AES has separate offices from which a related electricity service provider provides contestable electricity services. <p>Recommendation:</p> <p>[Low] AusNet has identified four locations where RES and CES employees share offices. While AusNet has demonstrated remediation actions to the four identified affected locations, the assessment performed by management to isolate affected location to the four sites from all AusNet locations is not evident.</p> <p>We recommend that management develop a process and maintain records of the assessment performed to demonstrate evidence that the other locations are not affected. This will also allow for an established process to be applied against future sites developed (if any) to ensure compliance against the Guideline's location sharing requirements.</p> <p>[Low] AusNet has provided the location listing and the conclusion analysis where 4 sites requires action to be compliant with the Guideline. We have not received documentation or analysis in arriving at the 4 impacted sites.</p> <p>We recommend that management develop a</p> <p>[Moderate] AusNet has carried out a staff movement analysis during the transition year to ensure no inappropriate co-location of RES employees and CES employees exists. Based on discussion with AES, it is noted that future movements of staff between locations is not updated in the employee records system.</p> | |

| Ref | Compliance Obligation | Process Description | Testing | Grading |
|-------|--|---|---|----------|
| | | | Monitoring of staff movement is manually done by the Ring-fencing obligation clause owner. We recommend that AusNet develops a process to ensure the register is up to date through periodic reviews. | |
| 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 Ring-fencing Project Team has developed a decision tree together with the Legal team and Regulatory team, based on the Guideline to identify staff impacted by this clause. The assessment focuses on identifying staff with access to "electricity information" and which have the opportunity to use that information to engage in conduct that would provide a competitive advantage to an affiliated entity.</p> <p>In line with the Guideline, roles providing corporate services are exempted from the obligation. AES has identified the following roles to be out of scope.</p> <ul style="list-style-type: none"> • Executives • Technology • Administration • Payroll <p>AES has identified a list of roles that are shared between the RES and CES. These roles are listed in the staff sharing register and is published on to the AusNet website. These roles are involved in the provision or marketing of direct control services, who are also involved in the provision or marketing of contestable electricity services by a related electricity service provider, but have no electricity information, or no opportunity to use that electricity information to engage in conduct that is contrary to the ring-fencing guideline.</p> <p>In AES Ring-fencing policy, AES is required to ensure continuous compliance in relation to staff sharing. The Human Resource /People team is responsible to capture all new hires and staff movements between the regulated business and CES, and maintains the register on the website. All new staffs or change in role will have to go through the developed Staff Sharing Decision Tree, which requires approval from RES Manager, Legal team and General Manager. This is communicated to the HR team, who then updates the staff sharing register.</p> | <p>Discussion held with:</p> <p>Ring Fencing Project Manager, HR Services Manager</p> <p>We obtained and reviewed management's assessment on identifying staff with access to electricity information and assessed against requirement of the decision tree.</p> <p>We obtained examples of time charged by RES employees into CES projects and noted the shared roles are contained within the staff sharing register.</p> <p>Observation:</p> <p>Based upon the evidence obtained above, no exceptions had been noted on AusNet's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> • AES has appropriately identify distinct roles for its RES and CES 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 AusNet website, which is publicly available. <p>Recommendation:</p> <p>[Low] We understand that not all employees are employed by the legal entity that their role is associated with (ie CES employees legally employed by RES entity). While we have not identified issues related to cost allocation or staff sharing associated with these employment, we recommend that management and consider aligning the employing legal entity with the relevant roles, or maintain a clear register of CES employees employed by RES.</p> | Strong |
| 4.2.2 | (c) The remuneration, incentives and other benefits (financial or otherwise) a DNSP provides to a member of its staff must not give the member of staff an incentive to act | <p>AusNet has a Performance Development and STI Human Resource Policy Manual in place, which addresses remuneration, incentives and KPIs of employees. The policy is reviewed in [REDACTED] by Head of Remuneration and Head of People and Change for any risk to non-compliance with the Guideline.</p> | <p>Discussion held with:</p> <p>Ring Fencing Project Manager, Head of Remuneration</p> <p>We have obtained and reviewed the remuneration policy and noted that it is the internal performance</p> | Moderate |

C.I.C.

| Ref | Compliance Obligation | Process Description | Testing | Grading |
|-----|--|---|---|---------|
| | in manner that is contrary to the DNSP's obligations under this Guideline. | <p>The short-term incentives (STI) plans of AusNet for eligible employees are based on business performance of the whole AusNet Group and divisional and individual key performance indicators. The group result includes the results of both the RES and CES businesses. Finance performance criteria considered are [REDACTED]. C.I.C.</p> <p>For RES employees, KPI includes financial performance of the whole AusNet Group and an element of RES performance. This is vice versa with the CES employees, where it includes an element of CES performance.</p> <p>Management is of the view that the risk that the incentive arrangement will incentivise staff to take advantage of electricity information to boost performance is low as there are the following safeguards in place:</p> <ul style="list-style-type: none"> Against the AusNet Code of Conduct RES or CES specific performance is only one of the contributors to group performance It is difficult for one individual to make a material impact on group performance Any manipulation of the results that is significant is likely to stand out in preparation of statutory financial statements STI will be held back or employee will be dismissed if a breach of Code of Conduct/ Ring-fencing policy is detected 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>development and STI manual details the remuneration, incentive and KPIs of employees.</p> <p>Observation:</p> <p>Based upon the evidence obtained above, no exceptions had been noted on AusNet's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> AusNet remuneration policy does not give its staff an incentive to act in manner contrary to the Guideline <p>Recommendation:</p> <p>[Moderate] We understand that the short-term incentive (STI) plans offered to all eligible AusNet employees (RES and CES) include incentives that are linked to Group wide financial performance (RES and CES combined), and other business and personal KPIs.</p> <p>We were advised the linkage to group profit is designed to ensure that the total incentive pool is "affordable" given the group results.</p> <p>We recognise that as part of the consultation process for development of the Ring-fencing guideline AES and other stakeholders made a recommendation to the AER that the Guideline should allow all employees to legitimately share in the financial performance of a group. We understand that the AER accepted the change in the final decision, noting in the Explanatory Statement that 'the Draft Guideline may have prevented participation in group-wide employee share schemes or other group-wide performance incentives and discriminates against less senior staff.'</p> <p>Notwithstanding the correspondences with the AER, we recommend management evaluate the appropriateness of Group-wide financial performance as a calculation input under the STI plan, given the potential for this type of arrangement to creating an incentive which is in conflict with the Guideline. We are aware of some DNSP's which have designed incentive plans which link regulated business employee bonuses to regulated business profit and similarly, non-regulated employee bonuses with non-regulated profit.</p> <p>AusNet Services is a listed group, and the Code of Business Conduct (refer clause 5) requires that</p> | |

| Ref | Compliance Obligation | Process Description | Testing | Grading |
|-------|---|--|--|---------|
| | | | <p>employees at times comply with all applicable laws and regulations</p> <p>Also for development of the guideline AusNet Services and other stakeholders made a recommendation regarding the drafting of clause 4.2.2 (c) which was ultimately reflected in the guideline.</p> | |
| 4.2.3 | <p>(a) A DNSP:</p> <p>i. must use branding for its direct control services that is independent and separate from the branding used by a related electricity service provider for contestable electricity services, such that a reasonable person would not infer from the respective branding that the DNSP and the related electricity service provider are related;</p> <p>ii. must not advertise or promote its direct control services and its contestable electricity services that are not direct control services together (including by way of cross-advertisement or cross-promotion);</p> <p>iii. must not advertise or promote contestable electricity services provided by a related electricity service provider other than the DNSP itself.</p> | <p>AusNet People, Safety, Culture team performed an organisation-wide brand review project in the transitional year, which included reviews that the branding used for direct control services is separate and independent from the branding used for contestable electricity services. AES updated all current physical and digital branding livery and collateral. The changes carried out includes</p> <ul style="list-style-type: none"> Communicating to AusNet business as a whole the branding requirements in relation to the Guideline Update all office signage, vehicles branding for CES where an AES logo or tagline is used Review websites and social media platforms, including email signatures Update employee uniform | <p>Discussion held with:</p> <p>Ring Fencing Project Manager</p> <p>We have visited the AusNet website to review if there are any contestable electricity services being published on the website.</p> <p>We reviewed the online training slides that AusNet business to communicate the branding requirement per the Guideline.</p> <p>Observation:</p> <p>Based upon the evidence obtained above, no exceptions had been noted on AusNet's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> AusNet has included branding policy in its Ring-fencing policy to address separate brandings for its RES and CES business. <p>Recommendation:</p> <p>None noted.</p> | Strong |
| 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 AusNet Human Resource team is responsible for maintaining and updating the office sharing and staff sharing register, which is publicly available on the AusNet website.</p> <p>As at the date of this report, there are not sites shared, hence the register for office sharing is nil.</p> <p>The staff sharing register describes the nature of positions including the roles, functions and duties of these roles.</p> <p>The staff sharing register was prepared based on the staff needed to perform specific services CES has requested or expected to request of AES. The completeness of the register is</p> | <p>Test performed:</p> <p>We have reviewed the site sharing and staff sharing register published on AusNet website.</p> <p>We have 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> | Strong |

| Ref | Compliance Obligation | Process Description | Testing | Grading |
|-------|---|--|---|---------|
| | | <p>regularly monitored and updated through the approval process for services CES requests of AES.</p> <p>While AusNet has prepared the register based on the nature of the positions being shared, which is consistent with the Guideline, we understand that there is no formal document or database to link the natures of positions in the register to actual positions/titles used within the business.</p> <p style="text-align: center;">C.I.C.</p> | <p>Observation:</p> <p>Based upon the evidence obtained above, no exceptions had been noted on AusNet's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> AES has establish and maintained an office sharing register AES has establish and maintained a staff sharing register <p>Recommendation:</p> <p>[Low] We recognise that AusNet has established and maintained a register of the nature of the shared positions in line with the Guideline.</p> <p>We note that the nature of positions included in the register is not linked to actual positions/titles used within the business.</p> <p>To allow for effective monitoring of staff sharing arrangements, we recommend that a document or database be maintained to link the natures of positions in the register to actual positions/titles used within the business.</p> | |
| 4.3.2 | <p>Subject to this clause 4.3, a DNSP must:</p> <p>(a) keep confidential information confidential; and</p> <p>(b) only use confidential information for the purpose for which it was acquired or generated.</p> | <p>AusNet has a Privacy policy in place, [REDACTED]. The Privacy Policy encompasses treatment of personal information, which is interpreted as confidential information in the Ring-fencing Guideline context. The Ring-fencing policy has extended the privacy policy to electricity information.</p> <p>All AusNet 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>AES identified a risk that where technology systems are shared across businesses for economies of scale, disclosure of information that is otherwise protected by the Guideline may occur. The Ring-fencing project team and the Technology team have review the list of system access for all systems that are used by CES business units, ie Select Solution and Geomatic Technologies. The identified systems are reviewed to determine if they contain electricity information which needs to be restricted per the Guideline. The Technology team then performed an exercise to remove CES system access to DNSP</p> | <p>Discussion held with:</p> <p>Ring Fencing Project Manager, Manager ICT Enterprise System</p> <p>We have obtained the privacy policy and reviewed the interpretation of confidential information.</p> <p>We have performed testing on the list of employees with system access to electricity information to ensure that they are not CES employees.</p> <p>We have reviewed the process undertaken by management to reorganise user system access, including SAP system where there are multiple role access security functions.</p> <p>We also checked management's assessment of systems that contain confidential information and user access of systems that contain confidential information against CES employee listing.</p> <p>Observation:</p> <p>Based upon the evidence obtained above, no exceptions had been noted on AusNet's compliance against the</p> | Strong |

| Ref | Compliance Obligation | Process Description | Testing | Grading |
|-------|---|--|---|----------|
| | | <p>systems which may contain electricity information. This includes creating role-based access to control visibility of data via shared systems.</p> <p>SAP Ring Fencing Project created and deployed new CES roles to 280 CES users in SAP ECC. There are proper procedures and risk mitigation process in placed:</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 CES 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. 4. Quarterly review of CES users and their accesses performed by Compliance team. If there are any anomalies, will be escalated to Security team. <p>System access is monitored continuously by the respective profit centres managers and reports to the Compliance team on a quarterly basis.</p> | <p>obligation with key point(s) below:</p> <ul style="list-style-type: none"> • AusNet has in place a personal information privacy policy and procedures • Within the sampled testing performed of CES employee's accessibility of electricity information, we identified that three roles have access to specific RES information. Their access to RES information is limited to the extent required to perform their duties. <p>We noted these roles are assigned to users in the Material Services Group and Infrastructure – Energy and Mining who still require access to Distribution data to perform their Job responsibility.</p> <p>Based on the job description and information accessible to these CES employees, we consider that the confidential information obligation is expected to be met.</p> <p>Recommendation: None noted.</p> | |
| 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> <ol style="list-style-type: none"> (a) the DNSP has first obtained the explicit informed consent of the relevant customer, or prospective customer, to whom the confidential information relates; (b) the disclosure is required by, or for the purpose of complying with any law; (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); (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; (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>Discussion held with:</p> <ul style="list-style-type: none"> • Ring Fencing Project Manager, Manager Regulatory Framework, Senior Commercial Lawyer • We have discussed with management AES consideration of the exemptions per the Guideline. <p>Observation:</p> <ul style="list-style-type: none"> • Based upon the evidence obtained above, no exceptions had been noted on AusNet's compliance against the obligation with key point(s) below: • AusNet has in place a process to maintain and keep an information register. • AusNet has in place a process to govern information sharing with an affiliated entity. • AusNet has in place a process to protect confidential information. <p>Recommendation: [Moderate] We understand that the executive leadership team (including the Managing Director) provide input</p> | Moderate |

| Ref | Compliance Obligation | Process Description | Testing | Grading |
|-------|---|--|---|---------|
| | | <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>The Ring-fencing project team has reviewed the exemptions in the Guidance and deem not applicable for AES.</p> | <p>into decisions via the executive leadership team which impact both the RES and CES businesses.</p> <p>Notwithstanding that Officers are exempt from the staff sharing requirement of the guideline per clause 4.2.2(d), we recommend a protocol to be established to ensure any potential conflicts of interest are appropriately identified and managed under a structured framework and confidential information kept confidential.</p> <p>[Moderate] We recommend that management develop a consistent framework to assess information which is considered confidential and that the confidential information is identified and clearly communicated in detail to all relevant employees including the executive management team.</p> <p>We recommend that the framework include case studies or examples to support organizational understanding of the Guideline requirement.</p> <p>The framework could be used to explain the level of which metering data is considered confidential – Is it at the supply point level, aggregated street level, aggregated feeder level, aggregated zone substation level, and aggregated whole of network level?</p> | |
| 4.3.4 | <p>(a) Subject to clause 4.1(c)iv. and to this clause 4.3.4, where a DNSP shares confidential information with a related electricity service provider, or where confidential information that a DNSP has disclosed under clause 4.3.3(f) is then disclosed by any person to a related electricity service provider of the DNSP, the DNSP must provide access to that confidential information (including the derived information) to other legal entities on an equal basis.</p> <p>(d) Without limiting clause 4.3.4(a), a DNSP must establish an information sharing protocol that sets how and when it will make the information referred to in clause</p> | <p>AusNet has implemented protocols to govern its information sharing process and protection of confidential information in its Ring-fencing Policy. The policy include developing an information sharing protocol and register, which is publicly available on AusNet 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 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>Discussion held with: Ring Fencing Project Manager, Manager Regulatory Framework, Senior Commercial Lawyer</p> <p>We obtained and reviewed the information sharing protocol and register to ensure that AES has in place appropriate information handling procedures and policies.</p> <p>Observation: Based upon the evidence obtained above, no exceptions noted for the following:</p> <ul style="list-style-type: none"> AusNet has in place a process to maintain and keep an information register. AusNet has in place a process to govern information sharing with an affiliated entity. AusNet has in place a process to protect confidential information. | Strong |

| Ref | Compliance Obligation | Process Description | Testing | Grading |
|-------|---|---|---|---------|
| | <p>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>Recommendation:</p> <p>None noted.</p> | |
| 4.3.5 | <p>(a) A DNSP must establish, maintain and keep a register of all:</p> <ul style="list-style-type: none"> i. related electricity service providers; 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>(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> <ul style="list-style-type: none"> i. identify the kind of information requested by the legal entity; and 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>(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</p> | <p>AusNet 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 AusNet 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>Ring Fencing Project Manager, Manager Regulatory Framework, Senior Commercial Lawyer</p> <p>We obtained and reviewed the information sharing protocol and register to ensure that AES has in place appropriate information handling procedures and policies.</p> <p>Observation:</p> <p>Based upon the evidence obtained above, no exceptions had been noted on AusNet's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> • AusNet has in place a process to maintain and keep an information register. <p>Recommendation:</p> <p>None noted.</p> | Strong |

| Ref | Compliance Obligation | Process Description | Testing | Grading |
|-------|--|--|--|----------|
| | required to provide under clause 4.3.4(a), and the DNSP must comply with that request. | | | |
| 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>The Ring-fencing project team has reviewed all existing arrangements where CES provides services to DNSP. Together with the legal team, AES has developed various Statement of Works for the respective CES 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 AES, and for any direct control services provided by AES 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>AusNet has a Procurement Principles and Procurement Framework in place, which we have assessed as part of Clause 4.1(c).</p> | <p>Discussion held with:</p> <p>Ring Fencing Project Manager, Manager Regulatory Framework, Senior Commercial Lawyer</p> <p>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>We obtained the email that AES sent to suppliers to notify them the in place of Ring-Fencing Policy.</p> <p>Observation:</p> <p>Based upon the evidence obtained above, no exceptions had been noted on AusNet's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> AusNet has in place a process to ensure arrangements with service providers are in accordance with the Guideline <p>Recommendation:</p> <p>None noted.</p> | Moderate |

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 AES' analysis of its circumstances against the Guideline, AES 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 regards to the services provided. The AER has approved the waiver application in relation to AusNet's obligation to comply with clauses 3.1, 4.2.1, 4.2.2 and 4.2.3 of the Guideline from 18 December 2017 to 31 December 2020.</p> <p>The AER has categorised the waiver applications into 6 waiver groups, namely</p> <ol style="list-style-type: none"> 1. Reclassification of services 2. Legal/ functional separation 3. Branding 4. Regional service delivery 5. ActewAGL gas businesses 6. Regional offices <p>Whereby AES qualifies under category 1.</p> <p>The Regulatory team maintains the waiver register, and is responsible to submit a waiver to AER in the event that there may be a need for additional waivers. On a quarterly basis, the AusNet 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 AusNet website. Any changes to the waiver register will be done via the Corporate Affairs team.</p> | <p>Discussion held with:</p> <p>Ring fencing Project Manager, Manager Regulatory Framework, Senior Regulatory Economist</p> <p>We have obtained and reviewed waiver register to assess that details included are as required by the Guideline.</p> <p>We also visited the website to make sure the consistency of the waivers obtained.</p> <p>We have reviewed the Final decision document from AER and note that these waivers are included in the document.</p> <p>We have reviewed management's process to maintain the waiver register.</p> <p>Observation:</p> <p>Based upon the evidence obtained above, no exceptions had been noted on AusNet's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> AES has process in place to establish and maintain the waiver register <p>Recommendation:</p> <p>None noted.</p> | Strong |

Obligation: Compliance and enforcement – Section 6

Guidance Assessment Criteria and Assessment Controls

| Ref | Compliance Obligation | Process Description | Testing | Grading |
|-------|---|---|--|---------|
| 6.1 | A DNSP must establish and maintain appropriate internal procedures to ensure it complies with its obligations under this Guideline. The AER may require the DNSP to demonstrate the adequacy of these procedures upon reasonable notice. However, any statement made or assurance given by the AER concerning the adequacy of the DNSP's compliance procedures does not affect the DNSP's obligations under this Guideline. | <p>AES 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 AES. 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 regards to the status of compliance for each Guideline obligation. Inputs include movements or changes in their respective areas, and how these changes aligns to the obligation. The Compliance team collates the information on the status and progress and any issues noted.</p> <p>AES 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 AES.</p> | <p>Discussion held with:</p> <p>Ring fencing Project Manager, Senior Business Continuity and Compliance Analyst</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 have observed the Ring fencing email inbox set up by the project team.</p> <p>Observation:</p> <p>Based upon the evidence obtained above, no exceptions had been noted on AusNet's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> AES has regulatory compliance monitoring and reporting process to facilitate compliance assurance <p>Recommendation:</p> <p>None noted.</p> | Strong |
| 6.2.1 | <p>(a) A DNSP must prepare an annual ring-fencing compliance report each regulatory year in accordance with this clause 6.2.1, and submit it to the AER in accordance with clause 6.2.2.</p> <p>(c) The annual compliance report must be accompanied by an assessment of compliance by a suitably qualified independent authority.</p> | <p>Each obligation clauses under the Guideline is put under a Responsible person in AES. Each quarter, the Compliance team obtains input from the respective responsible person in regards to the status of compliance for each Guideline obligation. The Compliance team collates the information on the status and progress and any issues noted, to prepare the annual ring-fencing compliance report.</p> <p>AES has engaged Ernst and Young as the independent authority to assess its annual compliance report.</p> | <p>Discussion held with:</p> <p>Ring fencing Project Manager, Senior Business Continuity and Compliance Analyst</p> <p>We have obtained and reviewed the Draft Ring Fencing Compliance Plan.</p> <p>We have been engaged by AES to perform as the independent authority to assess compliance in relation to ring fencing.</p> <p>We have obtained and reviewed management's draft annual compliance report</p> | Strong |

| Ref | Compliance Obligation | Process Description | Testing | Grading |
|-----|--|--|---|----------|
| | | | <p>Observation:</p> <p>Based upon the evidence obtained above, no exceptions had been noted on AusNet's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> AES has regulatory compliance monitoring and reporting process to facilitate compliance assurance <p>Recommendation:</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>AES compliance reporting includes a process for reporting breaches and for Compliance team review and escalation. AES has extended its Breach Notification, Escalation and Corrective Action Procedure to meet the ring-fencing Guideline.</p> <p>When a potential breach is raised by an employee to the Regulation team, it is communicated to the Compliance team, who then raise the issue with the line manager. The potential breach is recorded in the compliance system, which will subsequently be addressed by closing it out as not a breach or to escalate to the regulator. Compliance team may consult the Legal team if the potential breach may result in a physical injury or material financial losses. The General Manager and Managing Director is notified of the breach within 24 hours and Compliance team is required to provide a preliminary notification to AER, followed by a written report on the breach within 5 working days.</p> <p>Corrective actions is 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 is completed, the plan is updated and closed in the Compliance system. Compliance team is then responsible to provide update to AER to close the issue.</p> <p>A breach register is maintained, and forms the basis for breach reporting to executive management and the Audit and Risk Management Committee.</p> | <p>Discussion held with:</p> <p>Ring fencing Project Manager, Manager Regulatory Framework, Senior Regulatory Economist, Senior Business Continuity and Compliance Analyst</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 evidence obtained above, No exceptions had been noted on AusNet's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> AES has regulatory compliance monitoring and reporting process to facilitate compliance assurance <p>Recommendation:</p> <p>[Low] Based on our discussion with management, we note that there is written interpretation of a material breach in the ring-fencing policy or the breach policy. AES has not yet considered fully the extent of a breach that would be defined as material. We recommend that management consider the interpretation of "material breach" in the Guideline and document this interpretation.</p> <p>[Low] The Guideline specifies that a DNSP must notify AER in writing within 5 business days of becoming aware of a material breach. The AES Breach notification and escalation process does not specify the period required to determine the existence of a breach.</p> | Moderate |

| Ref | Compliance Obligation | Process Description | Testing | Grading |
|-----|-----------------------|---------------------|--|---------|
| | | | We recommend AusNet document how breaches will be reported internally through management and the board before being communicated to AER. | |

Mooroolbark and Yackandandah projects:

We have specifically conducted interviews of management on the arrangement of the Mooroolbark and Yackandandah projects with summary below.

The Mooroolbark project is a minigrid project led by AES. The project was initiated from the Demand Management Incentive Scheme (DMIS). There are no transactions with affiliated contestable energy service providers for the project based on information received.

Yackandandah is a project initiated by Mondo Energy, an affiliated entity of AES. The project involved primarily the sale of battery storage and solar panels to households. There is no involvement of AES except for the connection to the grid in its capacity as the distribution service provider. These services were provided separately, and we have sighted contracts demonstrating that the services Mondo Energy provided did not include arranging for the connection of the products to the grid.

A second stage of the Yackandandah project is under development where AES may engage Mondo for services in relation to customer communication. No transactions in relation to the second stage have occurred at the date of this report.

4. Auditor statement

Independent assurance report to the members of AusNet Electricity Services

We have audited AusNet Electricity Services Pty Ltd's (AES) compliance with specific regulatory obligations in the *Ring-fencing Guideline Electricity Distribution* published by the Australian Energy Regulator (AER), as defined in the "Terms of Reference" for the year ended 31 December 2017.

Assurance Practitioner's responsibility

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

Our responsibility is to express a reasonable assurance conclusion on compliance with the specific regulatory obligations as defined in the scope. Our audit has been conducted in accordance with applicable Standards on Assurance Engagements (ASAE 3100 *Compliance Engagements*) and the "Terms of Reference" to provide reasonable assurance that the AES has complied with the *Ring-fencing Guideline Electricity Distribution*. Our procedures included undertaking a walkthrough of the systems/process by which compliance data is captured and reported, conducting interviews with process owners, obtaining audit evidence and sample testings. Where applicable we have reviewed relevant Regulations and Codes, Company policies and made inquiries of management. These procedures have been undertaken to form a conclusion as to whether AES has complied in all material respects, with the *Ring-fencing Guideline Electricity Distribution*, as measured by the Terms of Reference for the year ended 31 December 2017.

Inherent limitations

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

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

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

Independence

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

Conclusion

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

Restriction on distribution

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

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organisation and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organisation, please visit ey.com.

© 2018 Ernst & Young, Australia
All Rights Reserved.

ED None

In line with EY's commitment to minimize its impact on the environment, this document has been printed on paper with a high recycled content.

Liability limited by a scheme approved under Professional Standards Legislation.

ey.com