

Annual Ring-fencing Compliance Report for 2017/18

Evoenergy

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1. Executive Statement

This 2017/18 Annual Ring-fencing Compliance Report is submitted in accordance with the requirement of section 6.2.2 of Ring-Fencing Guideline (**RFG**).

The period from 1 July 2017 to 31 December 2017 was a transitional period. Full compliance with the RFG was not required until after 1 January 2018.

In complying with the RFG Evoenergy has undertaken the following major tasks during 2017/18:

- Legally and financially separated the regulated and unregulated parts of ActewAGL Distribution (**AAD**).
- Rebranded the regulated part of AAD with a trading name Evoenergy as required by the AER.
- Established a Contestable Business Unit (**CBU**), which is responsible for the unregulated distribution electrical services as a Related Electricity Service Provider (**RESP**), and completed legal, staff, accounting and office separation as required by the RFG.
- Physically separated the staff and offices for the regulated direct control services (Evoenergy) and the contestable services (CBU).
- Established internal policies and procedures to comply with the RFG.

There were no recorded ring-fencing breaches recorded within Evoenergy during the 2017/18.

Evoenergy was in substantial compliance with the RFG as at 30 June 2018. There are a number of areas where full compliance was not achieved because of the limited time however these are continuing to be addressed under a structured program in 2018/19.

This Annual Ring-fencing Compliance Report is accompanied by an independent auditors report conducted by Ernst Young (EY), refer to Attachment A. The completed actions and the outstanding actions are noted in the independent auditor's findings and will be addressed in 2018/19 under a detailed action plan.

2. Introduction

On 30 November 2016, the Australian Energy Regulator (**AER**) released its final decision on the RFG. The RFG was developed as a requirement under Chapter 6, part H of the National Electricity Rules (**NER**) to introduce functional and accounting separation where distribution network service providers (**DNSPs**) provide direct control services and other services or entities affiliated with the DNSP (**affiliated entities**) provide other services. The RFG is binding on DNSPs.

Under the RFG, the period from 1 December 2016 to 31 December 2017 is a transition period, during which the DNSPs were required to implement the necessary controls to ensure compliance with the RFG (**Transition Period**). Full compliance is required by DNSPs no later than 1 January 2018 (**Compliance Date**).

On 17 October 2017, the AER released an update to the RFG. This is the final version of the RFG that must be complied with prior to the Compliance Date and is the version on which compliance has been assessed by Evoenergy.

The RFG requires DNSPs to report compliance against the RFG each year. This document (**Report**) is Evoenergy's submission against the reporting requirements of the RFG for the 2017/18 regulatory year.

Throughout the 2017/18 regulatory year, Evoenergy has implemented a number of compliance activities. These activities, including some controls, have not been operating for the full 2017/18 regulatory year. Notwithstanding this, Evoenergy confirms it is in compliance with the RFG as at 30 June 2018.

3. Purpose

This Annual Ring Fencing Compliance Report has been prepared by Evoenergy and is provided to the AER in accordance with clause 6.2.1(a) of the guideline.

This report has been prepared by Evoenergy for the 2017/18 regulatory year. This report identifies and describes:

- an explanation of the services currently provided
- the measures taken to ensure compliance with the obligations set out in the RFG
- breaches of the RFG
- The compliance program.

4. Prevention of Cross Subsidies

4.1 Legal separation

Guideline requirement

Clause 3.1 of the Guideline obligates DNSPs to be a legal entity and provide distribution services and transmission services, but must not provide other services.

Compliance with requirement

AAD (ABN 76 670 568 688) is a partnership of Jemena Networks (ACT) Pty Ltd (ABN 24 008 552 663) and Icon Distribution Investments Limited (ABN 83 073 025 224).

The partners are affiliated entities of AAD.

AAD's regulated electricity business trades as Evoenergy (ABN 76 670 568 688).

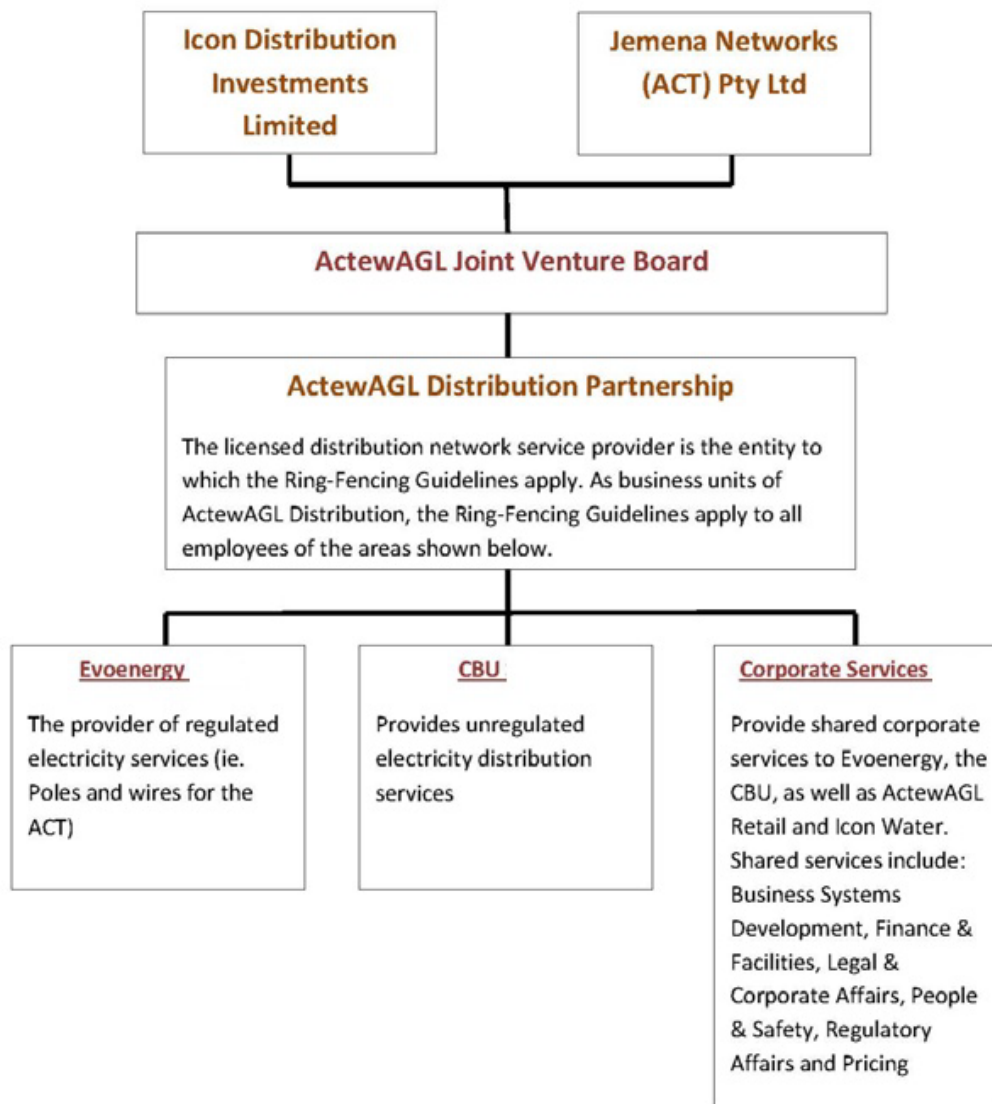


Figure 1. ActewAGL Distribution corporate structure

On 1 January 2018, in order to comply with the RFG the part of AAD that looks after the regulated electricity and gas businesses changed their name to Evoenergy. Previously, ActewAGL was the brand name for the retail business and the electricity and natural gas network business.

For consistency, the natural gas network business in the ACT, Queanbeyan, Jerrabomberra, Bungendore and Nowra were also rebranded as Evoenergy.

The AER allowed a transition period from 1 December 2016 to 1 January 2018 for the completion of the rebranding. The rebranding project was completed on schedule and involved rebranding fleet, uniforms, offices, documentation, advertising and the establishment of a separate website.

AAD will be submitting a Cost Pass Through application to the AER for the expenditure incurred during the rebranding project.

AAD is a registered DNSP in the National Electricity Market (**NEM**). Evoenergy is the trading name for the part of AAD responsible for regulated electricity distribution services.

The CBU was established on 1 January 2018 and is responsible for AAD's unregulated electrical distribution services.

The Corporate Services Division within AAD is responsible for the delivery of shared services to Evoenergy and CBU for Business Systems Development, Finance & Facilities, Legal & Corporate Affairs, People & Safety, Regulatory Affairs and Pricing support. Under a shared service agreement they also provide similar service support to ActewAGL Retail and Icon Water.

Evoenergy also owns and operates a natural gas business. The AER granted a waiver from the RFG for this part of the business on 31 July 2017, refer to **Section 7 Waivers**.

4.2 Establish and Maintain accounts

4.2.1 Separate Accounts

Guideline requirement

Clause 3.2.1 of the Guideline obligates DNSPs to 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.

Compliance with requirement

AAD maintains separate ledger accounts for all related entities within its core Oracle finance system, this includes Evoenergy, CBU and AAR.

Affiliated entities do not have separate ledger accounts but any transaction between AAD and an affiliated entity, generally Jemena Networks (ACT) Pty Ltd (ABN 24 008 552 663), is captured automatically on a project basis. Refer to **Section 15 - Transactions between a DNSP and affiliated entities** for further details.

4.2.2 Cost Allocation and attribution

Guideline requirement

Clause 3.2.2 of the Guideline obligates DNSPs to 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.

Compliance with requirement

AAD has Cost Allocation methodology (CAM) approved by the AER for the Regulatory Period 2014/15 to 2018/19. This requires accounting and cost allocation separation for all regulated and non-regulated transactions.

5. Functional Separation

5.1 *Obligation not to discriminate*

Guideline requirement

Clause 4.1 of the Guideline obligates DNSPs to not discriminate (either directly or indirectly) between a RESP and a competitor (or potential competitor) of a RESP in connection with the provision of:

- I. direct control services by the DNSP (whether to itself or to any other legal entity); and / or
- II. contestable electricity services by any other legal entity.

Compliance with requirement

Evoenergy has two RESP's that could be affected by this obligation – the CBU and ActewAGL Retail (AAR).

Evoenergy has an open procurement process for sourcing direct control services. The procurement process is managed by Corporate Services. It does not discriminate between any parties and prohibits the disclosure of any procurement information.

Evoenergy does not participate or have any involvement in the business activities of the CBU. Equally the CBU does not have any involvement in the direct control services operated by Evoenergy.

Evoenergy does not participate or have any involvement in the business activities of the AAR. Equally AAR does not have any involvement in the services operated by AAR. Ringfencing requirements between AAR and Evoenergy have historically been governed by the ACT Jurisdictional ring fencing guidelines. Business transactions are restricted to market B2B transactions under the NER, generally through MSATS.

5.2 *Offices, staff, branding and co-promotion*

5.2.1 *Physical separation / Co location*

Guideline requirement

Clause 4.2.1 of the Guideline obligates DNSPs to use offices that are separate from any offices from which a RESP provides contestable electricity services.

Compliance with requirement

Evoenergy has two RESP's that are impacted by this obligation – the CBU and AAR.

These businesses are located at the following separate physical addresses:

- Evoenergy – Corner Anketell and Oakden Streets Greenway ACT
- CBU - 16 Lithgow Street, Fyshwick ACT.
- AAR - ActewAGL House 40 Bunda Street Canberra ACT 2600

These details are included on the Office Register on the Evoenergy website. [Office Register](#)

5.2.2 Staff sharing

Guideline requirement

Clause 4.2.2 of the Guideline obligates a DNSP to 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 RESP.

Compliance with requirement

AAD separated its regulated and unregulated distribution services with the establishment of Evoenergy and the CBU on 1 January 2018.

During the period 1 January to 30 June 2018 compliance with this obligation was achieved by:

- CBU functions and staff were physically separated in different offices. CBU staff have been restricted in their access to Evoenergy offices to ensure that there was no involvement in the provision or marketing of direct control services.
- Restricted access for Evoenergy and CBU staff to their respective OT and IT systems unless it is under a specific project contract and then access is restricted to only the relevant systems and information.
- Employed CBU staff only under specific contracts with underpinning non-disclosure agreements.
- Established a staff register, refer to the Office and a Staff Register on the Evoenergy website. [Staff Register](#).

5.2.3 Branding and cross-promotion

Guideline requirement

Clause 4.2.3 of the Guideline obligates DNSPs to use branding for its direct control services that is independent and separate from the branding used by a RESP for contestable electricity services, such that a reasonable person would not infer from the respective branding that the DNSP and the RESP are related;

The DNSP 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);

The DNSP must not advertise or promote contestable electricity services provided by a RESP other than the DNSP itself.

Compliance with requirement

AAD completed:

- Rebranding its regulated distribution services to Evoenergy on 1 January 2018.
- Separating its unregulated distribution services with the establishment of the CBU on 1 January 2018.

During the period 1 January to 30 June 2018 there were no instances of cross-promotion between Evoenergy, AAR and CBU.

5.2.4 Office and Staff registers

Guideline requirement

Clause 4.2.4 of the Guideline obligates a DNSP to 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);

and must make the register publicly available on its website.

Compliance with requirement

There are no offices operated by Evoenergy or staff operating within any Evoenergy office to which the relevant clauses under Clause 4.2.4 do not apply.

The staff and office registers contain statements stating this fact.

5.2.5 Waiver

Guideline requirement

Clause 4.2.5 states that a DNSP can apply for a waiver of the obligations set out in clause 4.2.

Compliance with requirement

Evoenergy has not applied for any waiver relevant to Clause 4.2.

5.3 Information Access and disclosure

5.3.1 Protection of confidential information

Guideline requirement

Clause 4.3.2 states that a DNSP must keep confidential information confidential, and only use confidential information for the purpose for which it was acquired or generated.

Compliance with requirement

Evoenergy stores all confidential information on internal proprietary OT/IT systems which has restricted access for Evoenergy staff only. Evoenergy staff are aware of the definition and treatment of confidential information through internal guidance documents.

5.3.2 Disclosure of confidential information

Guideline requirement

Clauses 4.3.3 stipulates the disclosure conditions that apply to a DNSP for confidential information.

Compliance with requirement

Evoenergy requires non-disclosure agreements to be signed with external parties, including RESPs, if confidential information is to be exchanged.

Evoenergy staff are aware of the definition of confidential information through internal guideline documents and on-going training, including e-learning.

5.3.3 Sharing of Information

Guideline requirement

Clauses 4.3.4 stipulates the disclosure conditions that apply to a DNSP for confidential information.

Compliance with requirement

Evoenergy has established a Shared Information Register to record all instances of information sharing to a RESP; the shared confidential information is then made available to all other legal entities on an equal basis.

The Shared Information Register is accessible on the Evoenergy website, [Information Register](#).

During 2017/18 no confidential information was shared with RESPs.

5.3.4 Information Register

Guideline requirement

Clauses 4.3.5 that a DNSP must establish, maintain and keep a register of all:

- i. RESPs;
- 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.

Compliance with requirement

Any request for confidential information that is provided to a RESP is recorded on the Evoenergy Shared Information Register for access to other legal entities. Evoenergy staff advise incidences of shared information using an internal SharePoint site.

The Shared Information Register is accessible on the Evoenergy website, [Information Register](#).

During 2017/18 no confidential information was shared with RESPs that needed to be recorded on the Shared Information Register.

6. Service Providers

Guideline requirement

Clause 4.4.1 states that a DNSP must

(a) 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: i. clauses 4.1, 4.2.1, 4.2.2 and 4.3.2 of this Guideline; and ii. Clause 4.2.3 of this Guideline in relation to the brands of the DNSP; as if the service provider was the DNSP.

(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.

Compliance with requirement

Corporate Services provides information to all service providers within the contracts entered by each service provider.

6.1.1 Waiver

Guideline requirement

Clause 4.4.2 states that a DNSP can apply for a waiver of the obligations set out in clause 4.4.

Compliance with requirement

Evoenergy has not applied for any waiver relevant to Clause 4.4.

7. Waivers

Evoenergy applied for a waiver for its gas business from the RFG on 31 July 2018.

Aside from its electricity distribution network in the ACT, AAD owns and operates a gas distribution business in the ACT and surrounding area and a compressed natural gas business in the ACT.

On 31 July 2018 AAD sought a waiver from legal separation for its gas businesses, and also sought permission to continue to provide the gas services from within the same entity as its electricity distribution services:

- Regulated (covered) gas distribution pipelines in the ACT and Queanbeyan – Palerang area (ACT Gas Network) – this is a covered pipeline under Part 9 of National Gas Rules.
- Unregulated natural gas distribution pipelines in the Nowra network (Nowra Gas Network) – uncovered pipeline.
- An unregulated compressed natural gas refuelling facility in Fyshwick, a suburb of the ACT (CNG Refuelling Facility).

Each of the above is not an electricity distribution service. The RFG requires that they should be offered through a separate legal entity from AAD's regulated electricity distribution business.

The AER granted AAD a waiver until 30 June 2024 for its ACT Gas Network and its Nowra Gas Network, and until 30 June 2019 for its CNG Refuelling Facility.

8. Compliance and enforcement

Guideline requirement

Clause 6.1 of the Guideline obligates a DNSP to 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.

Compliance with requirement

A key existing procedure and system paramount in maintaining our compliance is the integration of the RFG obligations within AAD Legal Compliance System (**CMO**).

CMO contains the obligations detailed in the RFG. Each obligation is mapped against a responsible owner. All relevant RFG internal procedures and policies are mapped in CMO as controls. The owner must ensure that these controls are implemented and maintained to address the obligation. Upon doing so the owner confirms that the obligation has been addressed.

AAD operations are subject to a wide range of legal, regulatory and licence requirements. As such, our business has existing procedures and systems to support Evoenergy to identify, assess, adhere and monitor compliance to its many obligations. Evoenergy has a Risk Management and Legal Compliance policy administered at a corporate level which considers the principles of ISO 19600: Compliance Management systems. In terms of the RFG, AAD has incorporated its regulatory requirements into existing policies, procedures and systems where practical. Where necessary, new procedures or controls have been developed and implemented.

A key existing procedure and system paramount in maintaining our compliance is the integration of the RFG obligations within CMO. This system houses detail about the obligations, such as the description, instrument reference, its risk rating (as per AAD's risk matrix), obligation review frequency (as per risk rating) and the responsible person within the business for achieving compliance. Achieving compliance requires the responsible person to verify that AAD is compliant with the relevant obligation and continues to be equipped to be compliant in the future.

Given the importance AAD places on being compliant with its legislative and regulatory requirements, the CMO procedure and system is established in a manner that distributes reminders to the responsible persons to review their compliance obligations, in advance of a specified due date. If not completed by the due date, the Branch Manager who holds ultimate accountability for the relevant obligation will be notified of the non-response (which equates to non-adherence of the obligation).

This escalation path is critical for AAD and its staff to reinforce the importance of maintaining, monitoring and acknowledging its compliance with obligations. The system and process assists in maintaining awareness and knowledge of the obligations as it creates a trigger to periodically review, without prompt of an obvious event or trigger such as a complaint, system failure or organisational change which would otherwise suggest or indicate a potential non-compliance risk.

This procedure and process is a critical mechanism for AAD to produce and validate its compliance with the RFG and to subsequently document this Report.

9. Reporting Period

Guideline requirement

Clause 6.2.2 of the Guideline requires DNSPs to submit a compliance report to the AER annually, within four months of the end of each regulatory year.

Compliance with requirement

Evoenergy has compiled this requirement by submitting this Report, based on data from the regulatory year of **1 July 2017 to 30 June 2018**, by 31 October 2018. It should be

noted that the period from 1 July 2017 to 31 December 2017 was a transitional period. Full compliance with the RFG was not required until after 1 January 2018.

Evoenergy has implemented processes that will require responsible persons to complete their compliance responses to allow adequate time for this report to be prepared, validated and assessed by an independent auditor commencing in September. This enables Evoenergy to prepare and submit its Report, with due care and skill, in accordance with the RFG.

10. Measures to ensure compliance

Guideline requirement

Clause 6.2.1(b)(i) of the Guideline requires that the annual compliance report must identify and describe, in respect of the regulatory year, the measures the DNSP has taken to ensure compliance with its obligations under this Guideline.

Compliance with requirement

In order to ensure full compliance with the RFG, AAD has:

- separated the regulated and unregulated distribution service provision into two related entities – Evoenergy and the Contestable Business Unit.
- rebranded the regulated part of AAD to Evoenergy on 1 January 2018.
- physically separated the CBU from Evoenergy with the establishment of an independent office and restricted CBU staff access to Evoenergy facilities in accordance with the Ring Fencing RFG's.
- separated Evoenergy and CBU accounts.
- developed an E-Learning module and information sheets for staff education.
- entered all ring-fencing obligations in the Corporate CMO legal data base which allocates each obligation's responsibility to an internal responsible person and provide links to all relevant controls.
- established a central SharePoint reporting system accessible for all staff for information dissemination and breach reporting.
- Established a dedicated internal ring-fencing email address.
- established all required registers on the Evoenergy website for interested party and public access.
- restructured the Corporate Services shared services model, which provides all legal, safety, personnel, marketing and regulatory services to AAD, to ensure the correct allocation methodology between Evoenergy and the CBU.

AAD has an internal policy *Risk Management and Legal Compliance policy PO4930* which affirms the company's commitment to compliance with its legal and regulatory obligations. This establishes structures and management systems that manage and monitor regulatory requirements, create and maintain a compliance culture, and ensure all officers and staff within AAD, including contractors (through their contracts), are aware of these obligations and act accordingly

11. Breaches of the Guideline

Guideline requirement

Clause 6.2.1(b)(ii) of the Guideline requires DNSPs to report any breaches of the Guideline by the DNSP, or which otherwise relate to the DNSP.

Compliance with requirement

Based on internal monitoring and reporting processes, Evoenergy is of the view that there are no reportable breaches for the 2017/18 regulatory year, which as noted previously as a Transition Period, only required full compliance from 1 January 2018.

12. Registers

Evoenergy has established registers on its website for:

- Information register
- staff register
- office register
- Waivers register
- Listed legal entities
- Information request form
- Register inclusion form

These registers can be accessed on Evoenergy website:

<https://www.Evoenergy.com.au/legal/ring-fencing/information-sharing-protocol>

13. Ring-fencing Email Address

To help address any questions or confusion regarding the RFG Evoenergy has set up a dedicated email address [Ringfencing Enquiries@Evoenergy.com.au](mailto:Ringfencing.Enquiries@Evoenergy.com.au) This email address is for requesting forms, submitting any information requests and general information in regards to Ring-Fencing. The email address is monitored by the Evoenergy Regulatory Compliance section.

Evoenergy has also established a common SharePoint site that is accessible to all staff members to report breaches and access ring fencing information and procedures.

14. Other services provided by the DNSP

Guideline requirement

Section 6.2.1(b)(iii) requires DNSPs to report all other services provided by the DNSP.

Compliance with requirement

Other services offered by AAD in accordance with the Guideline are unregulated distribution services which is provided by the Contestable Business Unit (CBU).

These unregulated distribution services include:

- Type 1-4 metering services
- Contestable metering support roles (includes metering co-ordinator, meter data provider and metering provider).

15. Transactions between a DNSP and affiliated entities

Guideline requirement

Section 6.2.1(b)(iv) requires DNSPs to report the purpose of all transactions between the DNSP and its affiliated entities.

Compliance with requirement

AAD has two affiliated entities:

- a) Jemena Networks (ACT) Pty Ltd (ABN 24 008 552 663) and
- b) Icon Distribution Investments Limited (ABN 83 073 025 224).

AAD (ABN 76 670 568 688) is a partnership of Jemena Networks (ACT) Pty Ltd (ABN 24 008 552 663) and Icon Distribution Investments Limited (ABN 83 073 025 224).

The partners are affiliated entities of AAD.

AAD's regulated electricity business trades as Evoenergy (ABN 76 670 568 688).

During the 2017/18 reporting period AAD contracted Zinfra, a 100 per cent owned operating business of SGSP (Australia) Assets Pty Ltd (SGSPAA), to install OPGW in a number of locations within the Evoenergy network. SGSPAA is an affiliated entity through related ownership of Jemena Networks (ACT) by State Grid International Development (60 per cent) and Singapore Power International (40 per cent).

The contract, which was valued at \$1.45M, was awarded through an open market tendering process administered by the Corporate Service Procurement Section.

This is the only recorded transaction between AAD and an affiliated entity in 2017/18.

Evoenergy has two RESPs:

- a) ActewAGL Retail (AAR) where transactions were limited to National Electricity Market (NEM) B2B transactions only.

There were no other transactions between Evoenergy and AAR during the reporting period.

- b) Contestable Business Unit (CBU).

There were no transactions between Evoenergy and the CBU during the reporting period.

16. Independent Assessment of Compliance

Guideline requirement

Clause 6.2.1(c) of the Guideline requires DNSPs to ensure the annual compliance report must be accompanied by an assessment of compliance by a suitably qualified independent authority.

Compliance with requirement

AAD engaged the services of Ernst & Young to undertake a limited assurance review of AAD's compliance against the RFG requirements. Refer to Attachment A.

17. Attachment A

Attachment A: Independent assessor's report

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