



## Independent Reasonable Assurance Report to the Directors of Tasmanian Networks Pty Ltd

### Conclusion

In our opinion, Tasmanian Networks Pty Ltd's Ring Fencing Compliance Report that the entity has complied with the Ring-fencing Guideline Electricity Distribution is, in all material respects, fairly presented throughout the period ending 30 June 2018.

### Scope

The subject of our assurance engagement is whether Tasmanian Networks Pty Ltd's (TasNetworks) Ring Fencing Compliance Report (Compliance Report) that the entity has complied with Ring-fencing Guideline Electricity Distribution (the Ring-fencing Guidelines) is, in all material respects, fairly presented throughout the period ending 30 June 2018. This Statement will accompany our report, for the purpose of reporting to the Directors of TasNetworks.

### Basis for Our Conclusion

We conducted our engagement in accordance with Australian Standard on Assurance Engagements ASAE 3100 *Compliance Engagements* (ASAE 3100). We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

In accordance with ASAE 3100 we have:

- used our professional judgement to plan our procedures and assess the risk of material misstatements in TasNetworks' Compliance Report;
- considered internal controls implemented to meet the Ring-fencing Guidelines; however, we do not express a conclusion on their effectiveness; and
- ensured that the engagement team possess the appropriate knowledge, skills and professional competencies.

### Summary of Procedures

In Appendix One to this report, is a summary of each of the Ring-Fencing Guidelines, TasNetworks' response to the requirement and details of what procedures we have performed.

### How We Define Reasonable Assurance and Material Misstatement

- Reasonable assurance is a high level of assurance, but is not a guarantee that it will always detect a material misstatement in TasNetworks' Compliance Report when it exists.
- Instances of misstatement in TasNetworks' Compliance Report are considered material if, individually or in the aggregate, they could reasonably be expected to influence relevant decisions of the intended users taken on the basis of TasNetworks' compliance with the Ring-fencing Guidelines.



## Inherent Limitations

- Because of the inherent limitations of an assurance engagement, together with the internal control structure it is possible that fraud, error, or material misstatement in TasNetworks' Compliance Report may occur and not be detected.
- A reasonable assurance engagement throughout the period ending 30 June 2018 does not provide assurance on whether compliance with the Ring-fencing Guidelines will continue in the future.

## Use of this Assurance Report

This report has been prepared for the Directors of TasNetworks for the purpose of compliance with the Ring-fencing Guidelines and may not be suitable for another purpose. We disclaim any assumption of responsibility for any reliance on this report, to any person other than the Directors of TasNetworks and the Australian Energy Regulator (AER), or for any other purpose other than that for which it was prepared.

## Management's Responsibility

Management are responsible for:

- the compliance activities undertaken to meet the Ring-fencing Guidelines;
- identification of risks that threaten the Ring-fencing Guidelines identified above being met and identifying, designing and implementing controls to enable the Ring-fencing Guidelines to be met and, monitoring ongoing compliance;
- Providing a Compliance Report with respect to the outcome of the evaluation of the compliance activity against the Ring-fencing Guidelines, which accompanies this independent assurance report; and
- identification of the Ring-fencing Guidelines if not identified by law and regulation.

KPMG

## Our Responsibility

Our responsibility is to perform a reasonable assurance engagement in relation to TasNetworks' Compliance Report with the Ring-fencing Guidelines, throughout the period ended 30 June 2018 and to issue an assurance report that includes our conclusion.

## Our Independence and Quality Control

We have complied with our independence and other relevant ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board, and complied with the applicable requirements of Australian Standard on Quality Control 1 to maintain a comprehensive system of quality control.

Heather Hicks  
Partner  
Hobart  
24 October 2018



Appendix One — Results of testing performed

Ref	Compliance Obligation	Process Description	Testing	Result
3.1(a)	A DNSP must be a legal entity.	<p>TasNetworks obtained a waiver from the AER in regards to this requirement for the period ended 30 June 2018 as they were in the process of setting up a separate legal entity.</p> <p>TasNetworks separate legal entity FortyTwo-24 was ready for use at 1 July 2018.</p>	<p>We considered the waiver in place and checked it was applicable to the whole period and appropriately waived the requirement.</p> <p>We also obtained a copy of and reviewed the ASIC certificate of registration to check that FortyTwo-24 is a separate legal entity.</p>	No exceptions noted
3.1(b)	A DNSP may provide distribution services and transmission services, but must not provide other services.	TasNetworks obtained a waiver from the AER in regards to this requirement for services relating to metering for the period ending 30 June 2019 and the Bass Strait Islands for the period ended 30 June 2018.	We considered the waiver in place and checked it was applicable to the whole period and appropriately waived the requirement in regards to metering and Bass Strait services.	No exceptions noted
3.2.1(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.	TasNetworks did not have any transactions within its affiliated entity as it was dormant during the period 1 December 2017 to 30 June 2018.	<p>We obtained copies of TasNetworks' audited financial statements for the period ending 30 June 2018 and checked there were no transactions with the affiliated entity.</p> <p>KPMG also determined that there is a separate ledger within the accounting system to record FortyTwo-24's transactions.</p>	No exceptions noted

Ref	Compliance Obligation	Process Description	Testing	Result
3.2.2	<p>DNISP must:</p> <p>(a) 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) 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) 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>TasNetworks has an internal Cost Allocation Methodology (CAM) in place.</p> <p>It is noted that the TasNetworks Finance team retain records of how costs have been allocated within the General Ledger.</p>	<p>We have obtained and considered TasNetworks' CAM, and checked it addresses the allocation attribution of costs between distribution and non-distribution services and that it has been approved by the AER.</p> <p>We also considered the process that is undertaken by Finance to allocate and attribute costs across distribution and non-distribution services and checked it is in line with the CAM.</p> <p>Finance keep records of how the costs have been allocated within SAP. These records form the Regulatory Information Notice (RIN) which is subject to audit by the Tasmanian Audit Office on an annual basis. This includes consideration of the CAM.</p>	No exceptions noted
4.1(b)	<p>A DNISP 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 DNISP (whether to itself or to any other legal entity); and / or</p>	<p>TasNetworks had developed an online training which is mandatory for all staff. This training described TasNetworks obligation not to discriminate under the AER ring-fencing requirements. The completion of training is monitored with reminders sent to staff.</p>	<p>The training materials were considered and we checked that they accurately describe TasNetworks obligations not to discriminate.</p> <p>It was noted that training materials have been made available to staff, however not all staff have completed this training as at the time of our reportl.</p>	No exceptions noted



Ref	Compliance Obligation	Process Description	Testing	Result
	ii. contestable electricity services by any other legal entity.			
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> <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</p>	<p>TasNetworks have developed and distributed training materials regarding this to all staff.</p>	<p>We considered the Ring Fencing training materials and checked that these materials describe TasNetworks obligations not to discriminate.</p>	<p>No exceptions noted</p>



Ref	Compliance Obligation	Process Description	Testing	Result
	likely to, provide an advantage to the related electricity service provider.			
4.2.1(a)	A DNSP must use offices that are separate from any offices from which a related electricity service provider provides contestable electricity services.	<p>TasNetworks was granted a waiver in relation to the requirement for the period ended 30 June 2018.</p> <p>TasNetworks also did not have an operating related entity for the period ended 30 June 2018.</p>	<p>We inspected the waivers sought and noted that TasNetworks was exempt from applying the requirements of 4.2.1 in relation to metering and Bass Strait services.</p> <p>We also obtained a copy of the audited financial statements for FortyTwo-24 for the period ending 30 June 2018 and checked there were no transactions in the affiliated entity.</p>	
4.2.2(a)	<p>A DNSP must ensure:</p> <p>(a) 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> <p>(c) The remuneration, incentives and other benefits (financial or otherwise) a DNSP provides to a member of its staff must not give the member of staff an incentive to act in manner that is contrary to the DNSP's obligations under this guideline.</p>	<p>TasNetworks was granted a waiver in relation to the requirement for the period ended 30 June 2018 in relation to metering and Bass Strait services.</p> <p>TasNetworks also did not have an operating related entity for the period ended 30 June 2018.</p>	<p>We inspected the waivers sought and checked that TasNetworks was exempt from complying with the requirements of 4.2.2 in relation to metering and Bass Strait services.</p> <p>We also obtained a copy of the audited financial statements for FortyTwo-24 for the period ending 30 June 2018 and checked there were no transactions in the affiliated entity.</p>	No exceptions noted



Ref	Compliance Obligation	Process Description	Testing	Result
4.2.3(a)	<p>A DNSP:</p> <ul style="list-style-type: none"> <li>i. must use branding for its direct control services that is independent and separate from the branding used by a related electricity service provider, such that a reasonable person would not infer from the respective branding that the DNSP and the related electricity service provider are related.</li> <li>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).</li> <li>iii. must not advertise or promote services provided by a related electricity service provider.</li> </ul>	<p>TasNetworks was granted a waiver in relation to the requirement for the period ended 30 June 2018 in relation to metering and Bass Strait services.</p> <p>TasNetworks also did not have an operating related entity for the period ended 30 June 2018 therefore no branding of the related entity occurred.</p>	<p>We inspected the waivers sought and checked that TasNetworks was exempt from complying with the requirements of 4.2.3 in relation to metering and Bass Strait services.</p> <p>Further noted that TasNetwork's related entity has been given a name unrelated to TasNetworks, being FortyTwo-24.</p>	No exceptions noted
4.2.4	<p>DNSP must establish, maintain and keep a register that identifies:</p> <ul style="list-style-type: none"> <li>(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</li> <li>(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), 4.2.2(b)(iii) or 4.2.2(d); and must</li> </ul>	<p>TasNetworks was granted a waiver in relation to the requirement for the period ended 30 June 2018 in relation to metering and Bass Strait services.</p> <p>TasNetworks has established and maintained a shared office and shared staff registers that are publically available on its website.</p>	<p>We inspected the waivers sought and checked that TasNetworks was exempt from complying with the requirements of 4.2.4 in relation to metering and Bass Strait services.</p> <p>We also accessed TasNetworks external website to check the registers are publically available. The registers were then considered for completeness and accuracy with no issues noted.</p>	No exceptions noted



Ref	Compliance Obligation	Process Description	Testing	Result
	make the register publicly available on its website.			
4.3.2	Subject to this clause 4.3, a DNSP must: (a) keep confidential information confidential; and (b) only use confidential information for the purpose for which it was acquired or generated.	TasNetworks developed an information sharing protocol which was disseminated to staff, placed on the external website and included as part of the in house online ring-fencing training.  TasNetworks also developed an information sharing register which is publically available on the external website.	We considered the information sharing protocol and information sharing register.  In addition, TasNetworks' ring-fencing training materials were obtained and it was noted that these materials adequately describe TasNetworks obligations in regards to confidentiality.	No exceptions noted
4.3.3	Disclosure of information. A DNSP must not disclose confidential information to any person, including a related electricity service provider, unless: (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); or	TasNetworks has developed an information sharing protocol which was disseminated to staff, placed on the external website and including in the in house online ring-fencing training.	We considered the information sharing protocol.  We also considered TasNetworks' ring-fencing training materials and checked that these materials describe TasNetworks' obligations in regards to confidentiality.	No exceptions noted





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	(d) the DNSP complies with clause 4.3.4 in relation to that confidential information.			
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, it must provide access to that confidential information (including the derived information) to other legal entities on an equal basis.</p> <p>(d) Without limiting clause 4.3.4(a), a DNSP must establish an information sharing protocol that sets how and when it will make the information referred to in clause 4.3.4(a) available to legal entities, and must make that protocol publicly available on its website.</p> <p>(e) Where a DNSP discloses information referred to in clause 4.3.4(a) to any other legal entity under this clause 4.3.4, it must do so on terms and conditions that require the other legal entity to comply with clause 4.3.2 and 4.3.3(a) to (d) in relation to that information as if the other legal entity was a DNSP</p>	<p>TasNetworks developed an information sharing protocol which was disseminated to staff, placed on the external website and including in the in house online ring-fencing training.</p> <p>TasNetworks also developed an information sharing register which is publically available on the external website.</p>	<p>We considered the information sharing protocol and information sharing register.</p> <p>We also considered TasNetworks' ring-fencing training materials and checked that these materials describe TasNetworks obligations in regards to confidentiality.</p>	No exceptions noted
4.3.5	a) A DNSP must establish, maintain and keep a register of all legal entities (including related electricity service providers) who request	TasNetworks also developed an information sharing register which is publically available on the external website.	We considered the information sharing register and accessed TasNetworks website to check it is publically available.	No exceptions noted



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	<p>access to information identified in clause 4.3.4(a), and must make the register publicly available on its website.</p> <p>(b) For each legal entity that has requested that a DNSP provide access to information identified in clause 4.3.4(a), the DNSP's information register must:</p> <ul style="list-style-type: none"> <li>i. identify the kind of information requested by the legal entity; and</li> <li>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.</li> </ul> <p>(c) A legal entity may request that the DNSP include it on the information register in relation to some or all of the kinds of information that the DNSP is required to provide under clause 4.3.4(a), and the DNSP must comply with that request.</p>			
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 requires the service provider to comply, in providing those services,</p>	<p>TasNetworks has updated service provider contracting templates to include all requirements.</p>	<p>We obtained copies of the updated service provider contracting templates and checked the relevant requirements have been included.</p>	<p>No exceptions noted</p>

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	<p>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.</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>			
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>TasNetworks has established and maintained a register of all waivers granted by the AER. This register has been made publically available on TasNetworks external website. The waiver register includes all appropriate detail, including the description of the conduct to which the waiver or interim waiver applies and the terms and conditions of the waiver or interim waiver, as set out in the AER's written decision.</p>	<p>We accessed TasNetworks external website and sighted that the waiver register was publically available.</p> <p>The register was then considered as to whether all appropriate detail was included, with no exceptions being noted.</p>	<p>No exceptions noted</p>
6.1	<p>A DNSP must establish and maintain appropriate internal procedures to ensure it complies</p>	<p>TasNetworks has developed internal procedures to meet the requirements under the ring-fencing</p>	<p>We considered all processes in place to achieve compliance for the year ended 30 June 2018 with</p>	<p>Performance improvement opportunities</p>



Ref	Compliance Obligation	Process Description	Testing	Result
	with its obligations under this Guideline.	<p>guideline. For those requirements TasNetworks were not yet meeting, waivers have been appropriately applied for.</p> <p>To achieve compliance with those requirements that were waived for the period ending 30 June 2018, a compliance plan was also developed by TasNetworks.</p>	<p>limited issues noted.</p> <p>We considered all waivers and checked the compliance plan has adequately included the requirements to achieve full compliance going forward.</p>	<p>were identified and reported to Management.</p> <p>No material exceptions noted</p>
6.2.1	<p>A DNSP must:</p> <p>(a) 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>(b) The annual compliance report must identify and describe, in respect of the regulatory year to which the report relates:</p> <p>i. the measures the DNSP has taken to ensure compliance with its obligations under this Guideline;</p> <p>ii. any breaches of this Guideline by the DNSP, or which otherwise relate to the DNSP;</p> <p>iii. all other services provided by the DNSP in accordance with clause 3.1; and</p> <p>iv. the purpose of all transactions between the DNSP and an affiliated entity.</p>	<p>TasNetworks has prepared an annual ring-fencing compliance report for the period ended 30 June 2018.</p> <p>TasNetworks has engaged KPMG to perform a limited assurance engagement of the compliance report.</p>	<p>As part of preparing this report, we have considered the ring-fencing compliance report prepared by TasNetworks for the period ended 30 June 2018. We have prepared this report as an independent reasonable assurance report.</p>	<p>No exceptions noted</p>



Ref	Compliance Obligation	Process Description	Testing	Result
	(c) The annual compliance report must be accompanied by an assessment of compliance by a suitably qualified independent authority.			
6.2.2	Subject to clause 6.2.2(b), a DNSP must submit its annual compliance report to the AER within four months of the end of the regulatory year to which the compliance report relates.	Planned submission date is 31 October 2018 which is within the four month timeframe.	TasNetworks' Compliance Report has been finalised prior to 31 October 2018 and our report is also dated on or prior to this date.	No exceptions noted
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.	TasNetworks has an entity wide breach policy and procedure.  Requirements of reporting breaches and timeframe of reporting in relation to ring-fencing is included in staff training materials.	We have considered the breach policy and procedure.  We considered the training materials and check TasNetworks ring-fencing reporting requirements in relation to breaches are included.	No exceptions noted
7.1	A DNSP must: (a) fully comply with each of the obligations in clauses 3 and 4 of this Guideline in respect of its existing services as soon as reasonably practicable, having regard to the likely costs of having to fully comply with those obligations any sooner but, in any event, must fully comply with those obligations by no later than 1 January 2018; (b) where a distribution determination applicable to a DNSP results in a change in the classification of a distribution	Waivers sought where compliance from 1 January was not practical.	We performed a gap analysis by matching the requirements of the Guidelines to the Compliance Report for missing disclosures and requirements not addressed by the waivers.	No exceptions noted



Ref	Compliance Obligation	Process Description	Testing	Result
	service provided by the DNSP, and that change puts the DNSP in breach of an obligation under this Guideline, the DNSP must comply with that obligation within 12 months of the commencement date of the distribution determination.			