



TasNetworks

Ring-Fencing Compliance Report

August 2020

## TasNetworks Ring-Fencing Compliance Report

### Table of Contents

1. Overview .....	2
1.1 Background .....	2
1.2 Purpose .....	2
1.3 Corporate Overview .....	2
2. Measures to ensure compliance.....	4
2.1 Obligation to establish and maintain accounts .....	5
2.2 Obligation not to discriminate.....	6
2.3 Offices, staff, branding and promotions.....	6
2.3.1 Physical separation/co-location.....	6
2.3.2 Staff sharing.....	6
2.3.3 Branding and cross promotion .....	6
2.3.4 Office and staff registers.....	6
2.4 Information access and disclosure obligations.....	7
2.5 Conduct of service providers.....	7
3. Breaches.....	7
3.1 Telecommunication contract novations.....	8
4. Other services.....	8
5. Transactions with affiliated entities.....	8
6. Waivers.....	9
6.1 Background .....	9
6.2 Temporary waivers.....	9
6.3 Waivers due to nature of electricity sector .....	9

# 1. Overview

## 1.1 Background

The Australian Energy Regulator (**AER**) released the most recent version of the Electricity Distribution Network Ring-Fencing Guideline (**Guideline**) on 17 October 2017. Development of these Guidelines were required under the National Electricity Rules (**NER**) to prevent cross-subsidisation and discrimination where Distribution Network Service Providers (**DNSPs**) provide direct control services and other services, or where entities affiliated with the DNSP (**affiliated entities**) provide other services. DNSPs are bound by the Guidelines, including any subsequent updates.

The Guidelines came into effect on 1 December 2016 and require DNSPs to report their compliance against the Guidelines each year. For the 2019-2020 regulatory year, Tasmanian Networks Pty Ltd (ACN 167 357 299) (**TasNetworks**) and affiliated entities, Fortytwo24 Pty Ltd (ACN 117 987 925) (**42-24**) and Marinus Link Pty Ltd (ACN 630 194 562) (**Marinus**), have undertaken a number of compliance activities, including: balancing separate accounts; separating assets using cost allocation and attribution methods; adherence to disclosure, protection and sharing of confidential information policies; compliance training for staff and detailing exemptions, where they apply.

This Annual Ring-Fencing Compliance Report, for the year ended 30 June 2020 (**Report**) is TasNetworks' submission against the reporting requirements of the Guideline for the 2019-2020 regulatory year.

## 1.2 Purpose

TasNetworks has prepared this Report and provided it to the AER in accordance with Guideline requirement 6.2 Compliance Reporting. TasNetworks does not claim confidentiality over this Report. TasNetworks confirms that the Report is compliant with the Guideline, with the exception of circumstances outlined later in this Report.

## 1.3 Corporate Overview

TasNetworks differs from other DNSPs, as it is an integrated transmission and distribution business. TasNetworks sought a waiver of clause 7.1(a)(ii) of the Transmission Ring-Fencing Guidelines to allow it to own and operate both the transmission business and the distribution business. TasNetworks was granted this waiver on 12 May 2014 and the AER waived TasNetworks obligation to comply with clause 7.1(a)(ii).

TasNetworks has made a key decision not to separate its transmission services from its direct control distribution services and to apply the NER definition of Transmission Services (which includes Prescribed, Negotiated and Unregulated transmission services). The provision of these services are able to continue together with regulated distribution services, with existing cost-allocation and asset sharing provisions continuing to apply. No further ring-fencing of Negotiated or Unregulated transmission services is deemed necessary.

Recognising that TasNetworks would likely provide some services that would not comply with the Guideline, 42-24, previously called AuroraCom Pty Ltd, became a wholly owned subsidiary of TasNetworks Holdings from 1 July 2018. Since this time, TasNetworks has created two more wholly owned subsidiaries of TasNetworks Holdings. They are:

1. Large Scale Renewables Pty Ltd, and
2. Marinus Link Pty Ltd.

## TasNetworks Ring-Fencing Compliance Report

Image 1 shows the relationships between the entities.

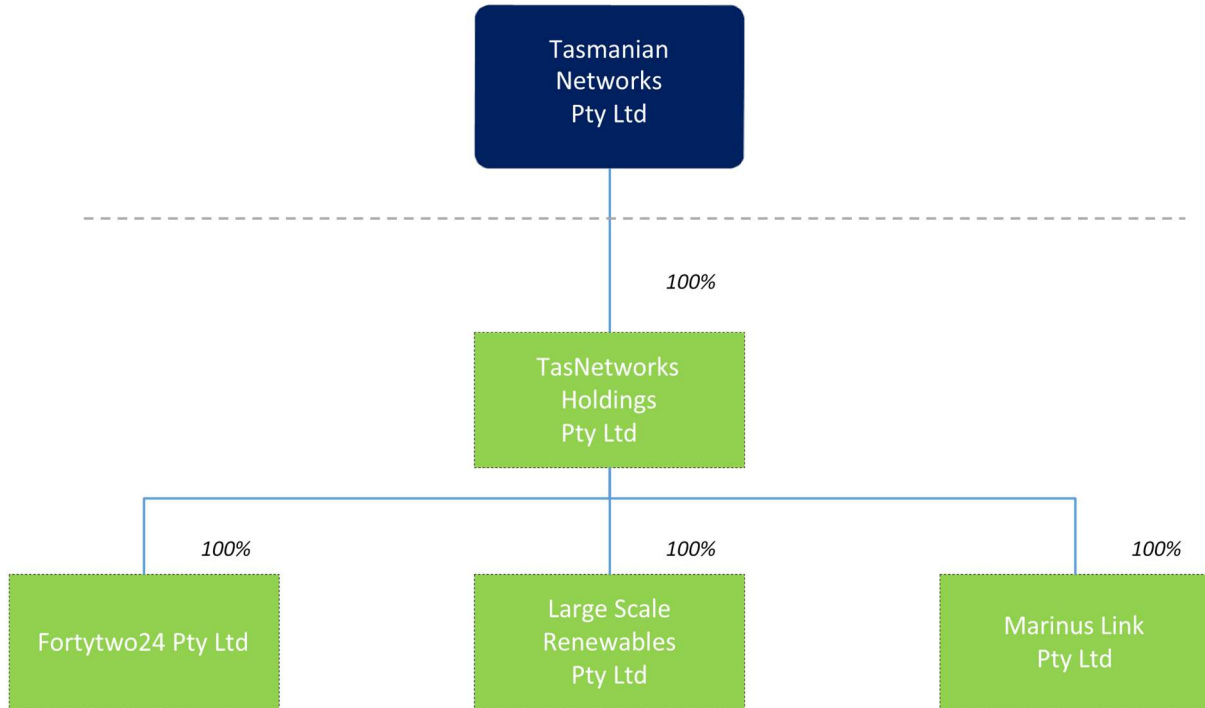


Image 1 - TasNetworks' Group Structure

Currently, 42-24 does not undertake any contestable electricity services. It does undertake a number of 'other services' that require legal separation, including:

- Telecommunications,
- Data centre services, and
- IT Services (including Infrastructure as a Service (**laaS**)).

Neither Large Scale Renewables Pty Ltd nor Marinus Link Pty Ltd provide distribution or other services.

Large Scale Renewable Pty Ltd is currently non-operational. It does not own any assets, holds no data and has no staff.

Image 2 illustrates the services attributable to TasNetworks and 42-24 implemented under this Guideline

# TasNetworks Ring-Fencing Compliance Report

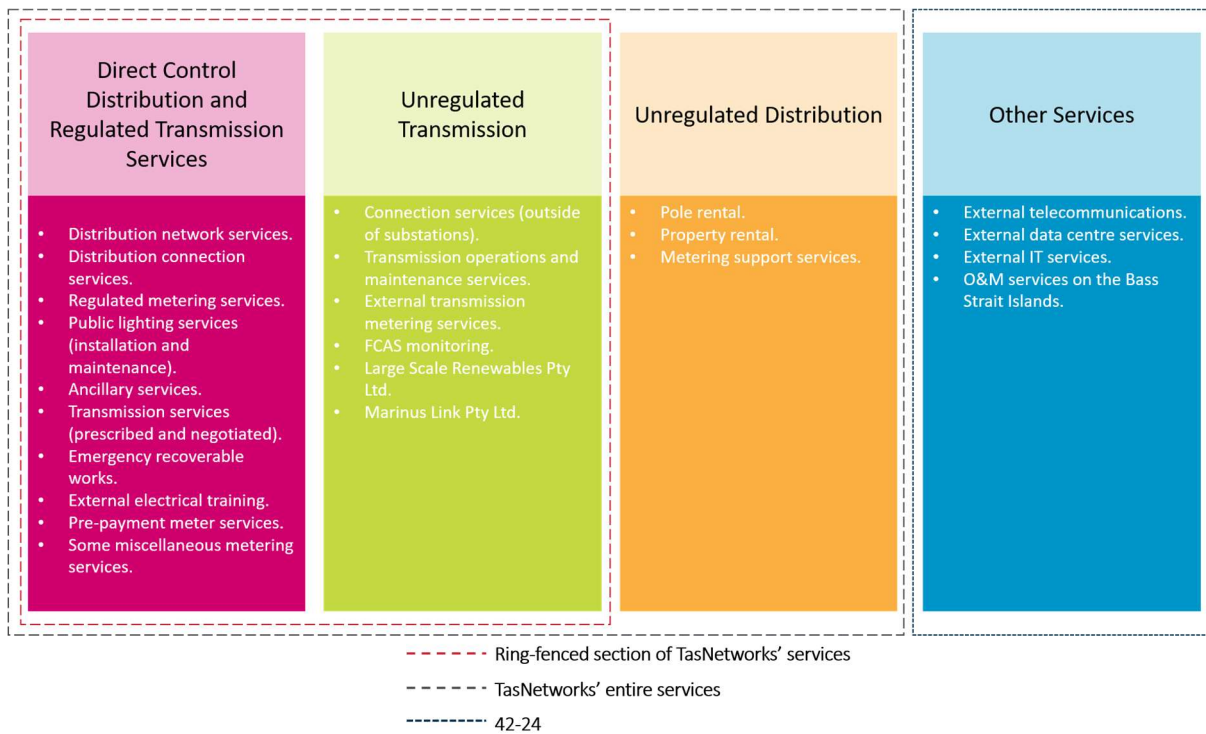


Image 2 – TasNetworks' Services

## 2. Measures to ensure compliance

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

A mandatory generic ring-fencing training package is available for all TasNetworks employees, including:

- an introduction to ring-fencing;
- an overview on obligations to not discriminate according to 4.1(b) and (c) of the Guideline;
- hypothetical scenarios which may be encountered by TasNetworks people; and
- a short quiz.

Additional training was delivered in 2018-19, targeting employees most likely to work in both the unregulated and regulated parts of the business. This training supported the Distribution Ring-fencing Information Protocol described in section 2.4.

Measures used to ensure compliance with specific Guideline clauses are provided in the following sections.

## TasNetworks Ring-Fencing Compliance Report

### 2.1 Obligation to establish and maintain accounts

Below is an explanation of the procedures and processes used by TasNetworks to ensure that its distribution services have been classified as set out by the AER in the current Distribution Determination and do not contravene clause 3.2 of the Guideline.

#### Cost capture and financial management systems

TasNetworks' chart of accounts and costing systems have been established so that both operating and capital expenditure can be separately accounted for and reported in accordance with TasNetworks' AER approved Cost Allocation Method (**CAM**) and regulatory reporting requirements.

TasNetworks' principles, processes and policies all support compliance with the CAM. This includes the processes of attributing costs directly and of allocating shared costs to categories of service.

TasNetworks' cost allocation principles and policies consider the direct allocation of costs to:

- Direct Control Distribution services,
- Regulated Transmission services,
- Unregulated Transmission services,
- Unregulated Distribution services,
- Other Distribution services, and
- Negotiated Distribution services.

Costs that are not directly allocated to one particular service type (e.g. overhead costs) are subject to a shared allocation of costs between the following:

- Direct Control Distribution services,
- Regulated Transmission services,
- Unregulated Transmission services,
- Unregulated Distribution services,
- Other Distribution services, and
- Negotiated Distribution services.

The chart of accounts structure enables costs to be attributed directly to the categories of services provided by TasNetworks or 42-24, or automatically allocates costs between them.

Incurred costs are allocated to the following chart of account dimensions in the financial systems:

- responsibility centre/department/cost centre - defined as the area in the business that is responsible for the work performed;
- functional area - defined as the nature of the work being performed and is also used to identify between capital and operating expenditure as well as the type of work and associated service classification (work category); and
- cost element/General Ledger code - defined as the nature of the costs incurred such as labour or contracted services.

The above dimensions form the basis of the cost hierarchy. Each dimension is assigned to a service classification. By establishing a clear relationship between dimensions and the categories of services, the financial systems ensure that costs are correctly attributed to the relevant service.

TasNetworks has three main types of costs:

- directly allocated or attributable costs (such as timesheet labour, materials, fleet, invoices for contracted services or via journal such as licences fees, etc.);
- on costs for labour, materials and fleet; and
- shared costs (allocated on the basis of causal cost allocators).

## 2.2 Obligation not to discriminate

Clause 4.1 of the Guideline places the obligation on the DNSP to not discriminate (either directly or indirectly) between a related electricity service provider and a competitor (or potential competitor) of a related electricity service provider (**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.

This obligation does not apply to TasNetworks, as the subsidiaries are not engaged in the provision of contestable electricity services.

## 2.3 Offices, staff, branding and promotions

### 2.3.1 Physical separation/co-location

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

This clause does not apply to TasNetworks, as the subsidiaries are not engaged in the provision of contestable electricity services.

### 2.3.2 Staff sharing

Clause 4.2.2(a) of the Guideline obligates the 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.

This clause does not apply to TasNetworks, as the subsidiaries do not provide contestable electrical services.

### 2.3.3 Branding and cross promotion

Clause 4.2.3(a) of the Guideline obligates the DNSP 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 related electricity service provider other than the DNSP itself.

While this clause does not apply to TasNetworks, as the subsidiaries do not provide contestable electrical services, TasNetworks has enacted controls to ensure content on its website does not breach clause 4.2.3(a).

### 2.3.4 Office and staff registers

Clause 4.2.4 of the Guideline obligates the DNSP to establish, maintain and keep a register that identifies 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 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.

TasNetworks' Shared Office Register details all the shared offices where TasNetworks provides direct control services and contestable electricity services as defined by the Guideline. The [Shared Office](#)

## TasNetworks Ring-Fencing Compliance Report

[Register](#) is available on TasNetworks' external website, as per the Guideline requirements. From 1 July 2019 to 30 June 2020, TasNetworks had no shared offices through which contestable electricity services were provided.

TasNetworks' Shared Staff Register details all TasNetworks shared staff providing contestable electricity services as defined by the Guideline. The [Shared Staff Register](#) is available on TasNetworks' external website, as per the Guideline requirements. From 1 July 2019 to 30 June 2020, TasNetworks had no shared staff providing contestable electricity services.

### 2.4 Information access and disclosure obligations

TasNetworks has developed protocols and registers in the interests of protection of confidential information (clause 4.3.2 of the Guideline), the disclosure of information (clause 4.3.3 of the Guideline), the sharing of information (clause 4.3.4 of the Guideline) and the establishment of an information sharing register (clause 4.3.5 of the Guideline).

TasNetworks has published its [Information Sharing Protocol](#) on its external website, as per clause 4.3.4(d) of the Guideline. This document sets out the process through which TasNetworks will share information, pursuant to clause 4.3.4 of the Guideline, and the disclosure of information, pursuant to clause 4.3.3 of the Guideline.

TasNetworks' Information Sharing Protocol also contains a link to our information sharing register. TasNetworks' [Information Sharing Register](#) details all the legal entities who have requested to be included on the information sharing register and any confidential information that they have requested as defined by the Guideline. TasNetworks released its information sharing register on its external website, as per the Guideline requirements.<sup>1</sup>

To assist staff with managing information within the TasNetworks Group (including the subsidiaries), TasNetworks has published an internal document titled Distribution Ring-fencing Information Protocol. This document addresses clauses from the Guideline associated with information access and disclosure. Additionally, a training program was developed and delivered to those teams identified as most likely to be impacted by the information sharing requirements in the Guideline.

### 2.5 Conduct of service providers

TasNetworks must ensure that any new or varied agreement between TasNetworks and a service provider includes provisions requiring the service provider to comply with clause 4.4.1(a) of the Guideline. TasNetworks must also not directly or indirectly encourage or incentivise a service provider to engage in conduct contrary to clause 4.4.1(b) of the Guideline.

To ensure compliance with these obligations under the Guideline, TasNetworks is finalising a review of our contract template to ensure all ring-fencing obligations are clearly defined. The current ring-fencing clauses have not been amended as part of this review.

## 3. Breaches

As required by Guideline clause 6.2.1(b)ii, TasNetworks has identified the following breach, which has been reported to the AER as per clause 6.3.

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<sup>1</sup> Currently there is nothing reported on the Register since TasNetworks does not have a related entity providing electricity services.



## TasNetworks Ring-Fencing Compliance Report

### 3.1 Telecommunication contract novations

In September 2017, in preparation for the introduction of ring-fencing, TasNetworks identified 49 telecommunications contracts which would require novation from TasNetworks to 42-24. Due to complex nature of the agreements, and the time expected before novations could be completed, TasNetworks applied for and was granted a waiver to continue to provide the services until 30 June 2018.

In June 2018, TasNetworks identified the possibility that some of the more complicated novations might overrun the 30 June 2018 deadline. At waiver expiry, 13 contracts remained outstanding. However, owing to the pre-emptive measures put in place, the expectation that contracts would soon be novated and the attendant lack of implications for the provision of contestable electricity services, TasNetworks did not submit a breach report considering the ring-fencing materiality threshold for reporting was not met.

Despite TasNetworks continued efforts, over the course of 2018-19, little further progress on novating contracts was made. This was solely due to a lack of any incentive for counterparties to execute the novation documentation. Owing to the slowed progress, TasNetworks informed the AER and sought advice on what further actions could be taken.

After initial conversations with the AER, TasNetworks lodged a breach report in March 2019. The AER responded in April 2019 informing TasNetworks that the AER considered TasNetworks to be in breach of Clause 3.1 of the Ring-Fencing Guideline. After further discussions with the AER, it was agreed that TasNetworks would submit an initial report by 31 May 2019, and quarterly thereafter, to inform the AER on the progress being made to transfer the remaining contracts.

In June 2020, the AER instigated a meeting with TasNetworks to discuss the progress of the telecommunication novations. At this meeting, the AER agreed with TasNetworks that there was little TasNetworks or 42-24 could do to expediate the progress of the novations. As such, TasNetworks and the AER agreed to continue to report quarterly as to the progress of the contract novations. In August 2020 TasNetworks will lodge a quarterly progress report stating that eight contracts are still awaiting novation.

## 4. Other services

Clause 6.2.1(b)iii. of the Guideline requires DNSPs to report all Other services provided by the DNSP in accordance with clause 3.1 of the Guideline. TasNetworks was granted a waiver for the provision of APAYG metering support services, as detailed in section 6 of this report. Excluding this service, during the 2019-20 regulatory year, TasNetworks did not provide any Other services, that being services that are not transmission or distribution services.

## 5. Transactions with affiliated entities

TasNetworks and its affiliate, 42-24, are parties to a Master Business Services Agreement under which TasNetworks provides 42-24 with:

- corporate services (which include Board, Company Secretary and General Counsel support, commercial services, financial analysis and reporting, information management, information technology and human resources);
- access to staff to perform work on behalf of 42-24; and
- access to assets for 42-24 to fulfil relevant contract obligations.

## TasNetworks Ring-Fencing Compliance Report

Corporate services are charged on either a fixed charge or do and charge basis. Access to staff and assets are charged based on relevant pricing principles that recover operating expenses, overheads and asset costs.

TasNetworks and 42-24 are also parties to an intercompany loan agreement, under which 42-24 is able to borrow funds from TasNetworks.

While, TasNetworks and its affiliate Marinus are parties to a Master Business Services Agreement under which TasNetworks provides Marinus with:

- insurance;
- external audit;
- corporate shared services (such as Board and governance and finance and administration); and
- access to staff to perform work on behalf of Marinus.

Corporate shared services are charged on an agreed annual fee utilising the cost allocation methodology. Access to staff is charged on a 'do and charge' basis.

TasNetworks and Marinus are parties to an intercompany loan agreement, under which Marinus is able to borrow funds from TasNetworks. There is also currently a 12 monthly rolling agreement, whereby TasNetworks generally agrees to support Marinus as a going concern. This may include not seeking repayment of any loan repayments until such time as it is able to do so.

## 6. Waivers

### 6.1 Background

TasNetworks has two types of waivers, namely waivers:

- of a temporary or transitional nature, where the cost of complying immediately from the introduction of the Guideline would outweigh any benefits that would accrue in this timeframe; and
- that reflect the nature of the electricity sector in Tasmania in that there are no viable alternative providers of the service.

### 6.2 Temporary waivers

TasNetworks did not have any ongoing temporary waivers in place for the period 1 July 2019 to 30 June 2020.

### 6.3 Waivers due to nature of electricity sector

In May 2019, TasNetworks sought a waiver from the AER with respect to the obligations under the functional separation provisions for Aurora Pay As You Go<sup>2</sup> (APAYG) metering support services, from 1 July 2019 to 30 June 2020. TasNetworks sought a waiver for the following provisions:

- 4.2.1 Physical separation/co-location;

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<sup>2</sup> Bespoke metering installations that are integrated with a payment fulfilment system that is reliant on a point of sale network where customers pre-pay for electricity to be transferred to the card operated meters.

## TasNetworks Ring-Fencing Compliance Report

- 4.2.2 Staff sharing;
- 4.2.3 Branding and cross-promotion;
- 4.2.4 Office and staff registers; and
- 4.4.1(a) Conduct of Service Providers

Specifically, TasNetworks sought a waiver with respect to the Guideline obligations relating to functional separation, and other obligations related to the provision of APAYG metering support services. The AER granted this waiver on 28 June 2019.

The reasoning for the waiver was that Aurora Energy indicated to TasNetworks its preference for TasNetworks to continue to provide APAYG metering support services beyond the expiry date of the then current ring-fencing waiver, which was due to expire on 30 June 2019. This was to allow time for Aurora Energy to fully decommission the remaining APAYG sites.

The waiver allowed TasNetworks to respond and rectify faults associated with APAYG meters outside of normal business hours, as well as provide APAYG metering support services.

With Aurora Energy nearing completion of its phased withdrawal of APAYG meters, TasNetworks ceased providing the services noted above by 30 June 2020 and hence did not request an extension of the waiver.

The table below sets out the waivers granted to TasNetworks, and includes a description of the conduct to which the waiver applies, expiry date and clauses waived. A maintained register of these waivers publically available via TasNetworks' website.

## TasNetworks Ring-Fencing Compliance Report

Table 1: TasNetworks' Waiver Register

Date waiver granted and commenced	Waiver title	Applicable services / conduct to which the waiver applies	Clauses waived	Expiry date of waiver	Status	Comments
18 December 2017	Re-classification waiver	The AER granted a waiver of TasNetworks' obligation (of the clauses outlined in the subsequent column) in relation to the following services: <ul style="list-style-type: none"> <li>• high load escorts;</li> <li>• public lighting and nightwatchman lights;</li> <li>• network safety services;</li> <li>• planned interruption – customer requested;</li> <li>• inspection services;</li> <li>• minor and legacy metering services; and</li> <li>• Network related training courses.</li> </ul>	4.2.1 4.2.2 4.2.3 4.2.4 4.4.1(a)	30 June 2019	Expired	The waiver allows for TasNetworks to continue providing services that will be reclassified and become direct control services in the 2019-2024 regulatory control period.
18 December 2017	Legal Separation waiver	The AER granted TasNetworks a waiver to allow TasNetworks additional time to establish an affiliated entity and transfer all contestable services to that entity.	3.1	30 June 2018	Expired	The waiver allowed TasNetworks time to ensure that the necessary due diligence processes, legal and taxation advice and statutory requirements were in place prior to the establishment of the new affiliated entity (42-24).

## TasNetworks Ring-Fencing Compliance Report

<b>18 December 2017</b>	Type 1-4 legacy meters	The AER granted TasNetworks a waiver to allow for the provision of type 1-4 metering services for a period of 18 months as TasNetworks transitions these meters to the new Metering Provider and can exit the market completely.	4.2.1	1 July 2019	Expired	
			4.2.2			
			4.2.3			
			4.2.4			
			4.4.1(a)			
<b>18 December 2017</b>	Metering Support Services	The AER granted TasNetworks a waiver so that it may continue to provide temporary metering support services to Aurora Energy under contract in Tasmania.	4.2.1	31 May 2018	Expired	TasNetworks exited the metering support services market prior to the 31 May 2018.
			4.2.2			
			4.2.3			
			4.2.4			
<b>18 December 2017</b>	Distribution support services on the Bass Strait Islands (BSI)	The AER granted a waiver of TasNetworks' obligations (of the clauses outlined in the subsequent column) so that it may continue to provide operations and maintenance support services to the BSI under a previous existing contract with Hydro Tasmania.	4.2.1	30 June 2018	Expired	
			4.2.2			
			4.2.3			
			4.2.4			
			4.4.1(a)			
<b>1 July 2019</b>	APAYG Metering Support Services	The AER provided TasNetworks with a waiver that enables TasNetworks to continue to provide fault response support, afterhours product support and bypass or removal (for customers who use life support equipment) of APAYG systems.	4.2.1	30 June 2020	Expired	
			4.2.2			
			4.2.3			
			4.2.4			
			4.4.1			



## Independent Reasonable Assurance Report to the Directors of TasNetworks Pty Ltd

### Conclusion

In our opinion, in all material respects, the Ring-Fencing Compliance Report has been prepared by Tasmanian Networks Pty Ltd in accordance with Ring-Fencing Guidelines for the period ended 30 June 2020.

### Scope

The subject of our assurance engagement is whether Tasmanian Networks Pty Ltd's (TasNetworks) Ring Fencing Compliance Report (Compliance Report) regarding compliance with Ring-fencing Guideline Electricity Distribution (the Ring-fencing Guidelines) is, in all material respects, fairly presented throughout the period ending 30 June 2020. This Statement will accompany our report, for the purpose of reporting to the Directors of TasNetworks.

### Basis for our Conclusion

We conducted our work in accordance with Australian Standard on Assurance Engagements ASAE 3000. We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

In accordance with the ASAE 3000 we have:

- used our professional judgement to assess the risk of material misstatement and plan and perform the engagement to obtain reasonable assurance that the Compliance Report is free from material misstatement, whether due to fraud or error;
- considered relevant internal controls when designing our assurance procedures, however we do not express a conclusion on their effectiveness; and
- ensured that the engagement team possesses the appropriate knowledge, skills and professional competencies.

### Summary of Procedures

In Appendix One to this report, is a summary of the Ring-Fencing Guidelines, the current compliance processes in place and details of testing 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 when it exists.
- Misstatements, including omissions, are considered material if, individually or in the aggregate, they could reasonably be expected to influence relevant decisions of the intended users of TasNetworks' Compliance Report.



## 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 2020 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 Pty Ltd for the purpose of providing an assurance conclusion on the Ring-Fencing Compliance Report 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 Pty Ltd and the Australian Energy Regulator (AER), or for any other purpose than that for which it was prepared.

## Management's Responsibility

Management are responsible for:

- determining that the criteria is appropriate to meet their needs and the needs of the Australian Energy Regulator;
- preparing and presenting the Ring-Fencing Compliance Report in accordance with the criteria; and
- establishing internal controls that enable the preparation and presentation of the Ring-Fencing Compliance Report that is free from material misstatement, whether due to fraud or error.

## Our Responsibility

Our responsibility is to perform a reasonable assurance engagement in relation to the Ring-Fencing Compliance Report for the period ended 30 June 2020, 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 (including Independence Standards)* issued by the Australian 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.

KPMG

16 October 2020



## Appendix 1:

Ref	Compliance Obligation	Process Description	Testing
3.1(a)	A DNSP must be a legal entity	<p><b>Addressed in section 1.3 Corporate Overview</b></p> <ul style="list-style-type: none"> <li>- FortyTwo-24 set up and became operational on 1 July 2018 to provide other distribution services.</li> <li>- Marinus Link Pty Ltd - registered on 20 May 2019, no distribution or other services provided.</li> <li>- Large Scale Renewables Pty Ltd – Registered on 23 November 2018, no distribution or other services provided.</li> </ul>	<p>KPMG reviewed the ASIC extract of all subsidiaries to verify separation accuracy.</p> <p>TasNetworks are complying with the requirements of section 3.1 (a) of the Guidelines.</p>
3.1(b)	A DNSP may provide distribution services and transmission services, but must not provide other services	<p><b>Addressed in section 1.3 Corporate Overview</b></p> <ul style="list-style-type: none"> <li>- FortyTwo-24 set up and became operational on 1 July 2018 to provide other distribution services.</li> <li>- Marinus Link Pty Ltd - registered on 20 May 2019, no distribution or other services provided.</li> <li>- Large Scale Renewables Pty Ltd – Registered on 23 November 2018, no distribution or other services provided.</li> </ul>	<p>KPMG has reviewed the ‘other services’ which are to be provided by TasNetworks’ subsidiaries and any breaches of these conditions.</p> <p>TasNetworks are complying with the requirements of section 3.1 (b) of the Guidelines.</p>
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.	<p><b>Addressed in section 1.3 Corporate Overview &amp; 2.1 Obligation to establish and maintain accounts</b></p> <ul style="list-style-type: none"> <li>- 1 July 2018 - FortyTwo-24 became operational</li> <li>- 20 May 2019 - Large Scale Renewables registered</li> <li>- 23 November 2018 - Marinus Link was registered</li> </ul> <p>All entities follow TasNetworks Cost Allocation Method (CAM), which has been approved by the AER. CAM allows each entity to have separate accounts within SAP and transactions to be allocated correctly.</p>	<p>KPMG has confirmed that all TasNetworks subsidiaries has its own ledger within SAP (accounting system) to record all transactions. Financials were audited by the Tasmanian Audit Office.</p> <p>KPMG has also selected a sample of 25 transactions to verify the nature and extent of allocated costs.</p> <p>TasNetworks are complying with the requirements of section 3.2.1 of the Guidelines.</p>





Ref	Compliance Obligation	Process Description	Testing
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><b>Addressed in 2.1 Obligation to establish and maintain accounts</b></p> <p>TasNetworks, FortyTwo24, Marinus Link and Large Scale Renewables apply the AER approved TasNetworks Cost Allocation Method.</p>	<p>KPMG has obtained and reviewed the CAM, and confirmed it addresses the allocation attribution of costs between distribution and non-distribution services and that it has been approved by the AER.</p> <p>KPMG also reviewed the process that is undertaken by Finance to allocate and attribute costs across distribution and non-distribution services and confirmed 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 RIN which is audited by the Tasmanian Audit Office on an annual basis. If there were errors within the CAM this would be identified through the RIN auditing process.</p> <p>KPMG has selected a sample of 25 transactions to verify the consistency of cost with the approved CAM.</p> <p>Furthermore, all subsidiaries are separately audited by the Tasmanian Audit Office.</p> <p>TasNetworks are complying with the requirements of section 3.2.2 of the Guidelines.</p>
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: i. direct control services by the DNISP (whether to itself or to any other legal entity); and / or ii. Contestable electricity services by any other legal entity.</p>	<p><b>Addressed in section 2.2 Obligation not to discriminate</b></p> <p>This obligation does not apply to TasNetworks as subsidiaries do not engage in the provision of contestable electricity services. However, the obligation is still delivered as part of the training process.</p>	<p>KPMG reviewed Ring Fencing training materials and determined that these materials describe TasNetworks obligations not to discriminate.</p> <p>KPMG reviewed that staff are given a time limit to complete the training and that overdue reminders will be sent.</p> <p>KPMG also reviewed the training listing which indicates how many staff members have completed the training, it was identified that 13 staff members have ring-fencing training that is overdue.</p> <p>TasNetworks are complying with the requirements of section 4.1 (b) of the Guidelines.</p>



Ref	Compliance Obligation	Process Description	Testing
4.1(c)	<p>Without limiting its scope, clause 4.1(b) requires a DNSP to:</p> <ul style="list-style-type: none"> <li>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);</li> <li>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;</li> <li>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;</li> <li>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.</li> </ul>	<p><b>Addressed in section 2.2 Obligation not to discriminate</b>            This obligation does not apply to TasNetworks as subsidiaries do not engage in the provision of contestable electricity services. However, the obligation is still delivered as part of the training process.</p>	<p>KPMG reviewed Ring Fencing training materials and determined that these materials describe TasNetworks obligations not to discriminate.</p> <p>KPMG reviewed that staff are given a time limit to complete the training and that overdue reminders will be sent</p> <p>KPMG also reviewed the training listing which indicates how many staff members have completed the training, it was identified that 13 staff members have ring-fencing training that is overdue. All 13 of these staff members are over 300 days overdue and are not in managerial positions.</p> <p>TasNetworks are complying with the requirements of section 4.1 (c) of the Guidelines.</p>
4.2.1(a)	<p>A DNSP must use offices that are separate from any offices from which a related electricity service provider provides contestable electricity services.</p>	<p><b>Addressed in section 2.3 Offices, staff, branding and promotions</b>            TasNetworks are not required to abide by Clause 4.2.1(a) to have separate office locations as subsidiaries do not engage in contestable electricity services.</p>	<p>KPMG inspected the AER guidelines and determined that TasNetworks was exempt from complying with the requirements.</p> <p>TasNetworks are complying with the requirements of section 4.2.1 (a) of the Guidelines.</p>



Ref	Compliance Obligation	Process Description	Testing
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><b>Addressed in section 2.3 Offices, staff, branding and promotions</b></p> <p>TasNetworks are not required to abide by Clause 4.2.2(a) to have separate staff, as subsidiaries do not engage in contestable electricity services.</p>	<p>KPMG inspected the AER guidelines and determined that TasNetworks was exempt from complying with the requirements.</p> <p>TasNetworks are complying with the requirements of section 4.2.2 (a) of the Guidelines.</p>
4.2.3(a)	<p>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, 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 services provided by a related electricity service provider.</p>	<p><b>Addressed in section 2.3 Offices, staff, branding and promotions</b></p> <p>This requirement does not apply to TasNetworks as its subsidiaries do not provide contestable electricity services. However, TasNetworks has enacted controls to ensure content on its website does not breach clause 4.2.3 (a).</p>	<p>KPMG has determined that TasNetworks is exempt from requirement 4.2.3(a) due to subsidiaries not providing contestable electricity services.</p> <p>Controls to ensure content on its website does not breach clause 4.2.3 (a) were also appropriate.</p> <p>TasNetworks are complying with the requirements of section 4.2.3 (a) of the Guidelines.</p>
4.2.4	<p>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), 4.2.2(b)(iii) or 4.2.2(d); and must make the register publicly available on its website.</p>	<p><b>Addressed in section 2.3 Offices, staff, branding and promotions</b></p> <p>TasNetworks maintains a register on the website. Due to TasNetworks subsidiaries not engaging in contestable electricity services, TasNetworks did not update the register.</p>	<p>KPMG reviewed the register and noted that there were no instances recorded. TasNetworks are exempt from this requirement as no subsidiaries provide contestable electricity services.</p> <p>TasNetworks are complying with the requirements of section 4.2.4 of the Guidelines.</p>

Ref	Compliance Obligation	Process Description	Testing
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><b>Addressed in section 2.4 Information access and disclosure obligations</b></p> <p>TasNetworks has developed protocols and registers in the interest of protection of confidential information, the disclosure of information, the sharing of information and the establishment of an information sharing register.</p> <p>TasNetworks has published its information sharing protocol and information sharing register on its external website to support the managing of information within the TasNetworks Group, an internal document titled distribution Ring-Fencing Information Protocol has been distributed across the unregulated and regulated business on the implications of the Guideline.</p> <p>TasNetworks considers that the compliance strategy and the mitigation strategy has addressed and continues to address the residual risks of non-compliance."</p>	<p>KPMG reviewed the Information Sharing Protocol, Information Sharing Register, and Information Distribution Protocol to confirm these documents have been developed.</p> <p>Due to all subsidiaries not engaging in contestable services, TasNetworks are not required to update the register.</p> <p>KPMG reviewed Ring Fencing training materials and determined that these materials describe TasNetworks obligations in regard to confidentiality.</p> <p>KPMG reviewed that staff are given a time limit to complete the training and that overdue reminders will be sent.</p> <p>KPMG also reviewed the training listing which indicates how many staff members have completed the training, it was identified that 13 staff members have ring-fencing training that is overdue.</p> <p>TasNetworks are complying with the requirements of section 4.3.2 of the Guidelines.</p>
4.3.3	<p>Disclosure of information A DNSP must not disclose confidential information to any person, including a related electricity service provider, unless:</p> <p>(a) the DNSP has first obtained the explicit informed consent of the relevant customer, or prospective customer, to whom the confidential information relates;</p> <p>(b) the disclosure is required by, or for the purpose of complying with any law,</p> <p>(c) the disclosure is necessary to enable the DNSP to provide its distribution services, its transmission services or its other services (including by acquiring services from other legal entities); or</p> <p>(d) the DNSP complies with clause 4.3.4 in relation to that confidential information</p>	<p><b>Addressed in section 2.4 Information access and disclosure obligations</b></p> <p>TasNetworks has developed protocols and registers in the interest of protection of confidential information, the disclosure of information, the sharing of information and the establishment of an information sharing register.</p> <p>TasNetworks has published its information sharing protocol and information sharing register on its external website to support the managing of information within the TasNetworks Group, an internal document titled distribution Ring-Fencing Information Protocol has been distributed.</p>	<p>KPMG reviewed the information sharing protocol.</p> <p>KPMG also reviewed TasNetworks ring-fencing training materials and determined that these materials describe TasNetworks obligations in regard to confidentiality.</p> <p>TasNetworks are complying with the requirements of section 4.3.3 of the Guidelines.</p>



Ref	Compliance Obligation	Process Description	Testing
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><b>Address in section 2.4 Information access and disclosure obligations</b></p> <p>TasNetworks has developed protocols and registers in the interest of protection of confidential information, the disclosure of information, the sharing of information and the establishment of an information sharing register.</p> <p>TasNetworks has published its information sharing protocol and information sharing register on its external website to support the managing of information within the TasNetworks Group, an internal document titled distribution Ring-Fencing Information Protocol has been distributed.</p>	<p>KPMG reviewed the information sharing protocol and information sharing register.</p> <p>KPMG also reviewed TasNetworks ring-fencing training materials and determined that these materials describe TasNetworks obligations in regard to confidentiality.</p> <p>TasNetworks are complying with the requirements of section 4.3.4 of the Guidelines.</p>
4.3.5	<p>a) A DNSP must establish, maintain and keep a register of all legal entities (including related electricity service providers) who request access to information identified in clause 4.3.4(a), and must make the register publicly available on its website.</p> <p>(b) For each legal entity that has requested that a DNSP provide access to information identified in clause 4.3.4(a), the DNSP's information register must:</p> <ol 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> </ol> <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>	<p><b>Address in section 2.4 Information access and disclosure obligations</b></p> <p>TasNetworks has developed protocols and registers in the interest of protection of confidential information, the disclosure of information, the sharing of information and the establishment of an information sharing register.</p> <p>TasNetworks has published its information sharing protocol and information sharing register on its external website to support the managing of information within the TasNetworks Group, an internal document titled distribution Ring-Fencing Information Protocol has been distributed.</p>	<p>KPMG reviewed the information sharing register and accessed TasNetworks website to confirm it is publicly available.</p> <p>TasNetworks are complying with the requirements of section 4.3.5 of the Guidelines.</p>

Ref	Compliance Obligation	Process Description	Testing
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, 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>	<p><b>Addressed in section 2.5 - Conduct of service providers</b></p> <p>To ensure compliance, TasNetworks undertook a review of their contract template to ensure all ring-financing obligations were clearly defined for all new or varied agreements.</p>	<p>KPMG reviewed the updated service provider contracting templates and confirmed the relevant requirements are included.</p> <p>TasNetworks updated its templates for contracting with service providers to include the requirements of the Guidelines, section 4.4.</p> <p>TasNetworks is in breach of this requirement and has a remediation plan in place with AER. They have been unable to transfer some service provider contracts to 42-24 as the service providers' lack incentive to sign and return the contracts.</p> <p>Excluding the known and disclosed breach relating to historical contracts, TasNetworks are complying with the requirements of section 4.4.1 of the Guidelines.</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: i. the description of the conduct to which the waiver or interim waiver applies; and 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><b>Addressed in section 6.0 Waivers</b></p> <p>TasNetworks stores an updated version of their waivers on their website, which is a publicly available location.</p>	<p>KPMG accessed TasNetworks external website and sighted that the waiver register was publicly available.</p> <p>The register was then reviewed to confirm if all appropriate detail was included.</p> <p>TasNetworks are complying with the requirements of section 5.7 of the Guidelines.</p>
6.1	<p>A DNSP must establish and maintain appropriate internal procedures to ensure it complies with its obligations under this Guideline.</p>	<p>TasNetworks has developed internal procedures to meet the requirements under the ring-fencing guideline. For those requirements TasNetworks were not yet meeting, waivers have been appropriately applied for.</p>	<p>KPMG reviewed all processes in place to achieve compliance for the year ended 30 June 2020 with limited issues noted.</p> <p>KPMG reviewed waivers and confirmed the compliance plan has considerations to achieve full compliance going forward.</p> <p>Inspected the compliance Framework and noted that the monitoring of compliance is decentralised to department level. Each department prepares a Compliance plan for each piece of legislation. We have Inspected the Compliance plan, it covered all the requirements of the guidelines.</p> <p>TasNetworks are complying with the requirements of section 6.1 of the Guidelines.</p>



Ref	Compliance Obligation	Process Description	Testing
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>(c) The annual compliance report must be accompanied by an assessment of compliance by a suitably qualified independent authority.</p>	<p><b>Addressed in section 1.2 Purpose</b></p> <p>TasNetworks has prepared an annual ring-fencing compliance report for the period ended 30 June 2020.</p> <p>TasNetworks has engaged KPMG to perform a limited assurance engagement of the compliance report.</p>	<p>KPMG have reviewed the draft ring-fencing compliance report prepared by TasNetworks for the period ended 30 June 2020.</p> <p>TasNetworks are complying with the requirements of section 6.2.1 of the Guidelines.</p>
6.2.2	<p>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</p>	<p>Planned submission date is prior to 31/10/2020 which is within the four-month timeframe.</p>	<p>KPMG confirmed through inquiry that TasNetworks are planning on submitting the compliance report by 31/10/2020.</p> <p>TasNetworks are complying with the requirements of section 6.2.2 of the Guidelines.</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.</p>	<p>TasNetworks has an entity wide breach policy and procedure.</p> <p>Requirements of reporting breaches and timeframe of reporting in relation to ring-fencing is included in staff training materials.</p>	<p>KPMG have reviewed the breach policy and procedure.</p> <p>KPMG reviewed the training materials and confirm TasNetworks ring-fencing reporting requirements in relation to breaches is included. We also reviewed staff completion lists in relation to the training and determined that 13 staff are overdue on completing their ring-fencing training.</p> <p>TasNetworks has reported one breach during the period.</p> <p>- Telecom breaches - Contracts with service provider companies are yet to be fully rolled over from TasNetworks to 42-24. A remediation plan that involves quarterly updates has been established with AER. TasNetworks are complying with the requirements of section 6.3 of the Guidelines.</p>



Ref	Compliance Obligation	Process Description	Testing
7.1	<p>A DNSP must:</p> <p>(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;</p> <p>(b) where a distribution determination applicable to a DNSP results in a change in the classification of a distribution 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</p>	<p><b>Addressed in section 3.0 Breaches</b></p> <p>TasNetworks is in breach of the AER Ring-Fencing guidelines for the outstanding conversion of customer contracts.</p>	<p>KPMG performed a gap analysis by matching the requirements of the Guidelines to the Compliance report for any missing disclosures and requirements not addressed.</p> <p>TasNetworks are complying with the requirements of section 7.1 of the Guidelines.</p>