

AER Ring-fencing Guideline Electricity Distribution Compliance Report

AusNet Electricity Services Pty
Ltd

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1. Executive summary

1.1 Introduction

AusNet Electricity Services Pty Ltd (“AES”) is a subsidiary of AusNet Services Holdings Pty Ltd. AES engages in the delivery of electricity to consumer connection points in Victoria.

The Australian Energy Regulator (“AER”) published the Ring-fencing Guideline (the Guideline) for Electricity Distribution on 30 November 2016 (subsequently revised October 2017 and in November 2021¹) under the National Electricity Rules, to provide for functional separation of regulated and competitive business activities to promote competition in the provision of electricity services.

1.2 Background

Ernst and Young (“We or we”) has been engaged under an arrangement with AES to perform an independent review of AES’ compliance with the requirements under the *AER’s Electricity Distribution Ring-fencing Guideline version 3* for the review period 1 January 2022 to 31 December 2022. The review includes contents of the compliance report if they accurately reflect the activities taken by AES is compliant with the Guideline.

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

1.3 Scope

The scope of the review includes the following that is detailed in the AER Annual compliance reporting and independent assessment under the Guideline: An attestation from the DNSP signed by the relevant officer (as defined in clause 1.4 of the Guideline) that the information provided by the DNSP to the assessor was complete and correct.

- ▶ A statement from the assessor detailing assessment methodology and how relevant standards were used to design that methodology and implement the assessment. This could include a description of the type of sampling and auditing procedures used, and how the assessment methodology aligned with relevant ISO or ASAE standards chosen to guide the assessment.
- ▶ A statement from the assessor detailing any areas of the assessment where information was inconsistent, incomplete, or incorrect, and the degree to which this has negatively impacted the assurance level.
- ▶ The nature of any issues or concerns that were raised by the assessor during the undertaking its assessment that may or may not have been subsequently addressed by the DNSP.

1.4 Methodology

Interviews were held with the key AES Team members responsible for each of the obligation clauses. An understanding of the processes, procedures, and controls in place at AES was obtained from these interviews. Evidence obtained was gathered through enquiry and observations, tests of controls and representations received from management.

Compliance has been assessed to a level of reasonable assurance in accordance with *Standard on Assurance Engagement ASAE3100 Compliance Engagements*, based on sample sizes determined using professional judgement.

1.5 Commercial risks of non-compliance

Ring-fencing aims to ensure that customers experience the benefits of fair competition by requiring clearer separation between regulated services provided by AES on a monopoly basis and contestable energy services provided by AES or its affiliates.

The key risks of non-compliance in related to ring-fencing requirements include:

- ▶ Inappropriate advantage provided to affiliates on commercial transactions
This risk can arise through preferential treatment of affiliates through procurement processes to award contracts to affiliates that are not at arm's length. Employees may be incentivised to do so when inappropriate remuneration or performance evaluation frameworks are in place.
- ▶ Inappropriate access of confidential electricity information
This risk can arise through inappropriate physical or system access by staff, or inappropriate staff sharing arrangements. Employees in the affiliate providing contestable electricity services may benefit from inappropriate use of confidential electricity information both in transactions with AES and business development with external customers.
- ▶ Inappropriate promotion of affiliates providing contestable electricity services
This risk can arise through AES using its position as a regulated electricity services provider to inappropriately promote contestable electricity services provided by its affiliates. This can be both direct promotion through advertising arrangements, or indirect promotion using Mondo branding on AES assets such as trucks, stationery and webpages.

We have designed and executed our assurance procedures in recognition of these risks.

1.6 Overall observations

General Commentary

This is the sixth year AES has been assessed for its ring-fencing compliance. Through interviews conducted and assurance procedures performed, we have observed that the ring-fencing compliance environment at AES is shown to be mature and robust, however we have noted that there was one matter raised in the prior year that remains outstanding.

Changes to the Ring-fencing Guideline and AER Focus

As discussed above version 3 of the Ring-fencing guideline came into effect in November 2021 with specific revisions made for the following

- ▶ DNSPs providing generation services as part of a regulated SAPS (Stand Alone Power Systems).
- ▶ The use of batteries to provide contestable services (including DNSPs supplying excess battery capacity to third party providers of contestable services or using such capacity to provide other contestable services themselves).
- ▶ Clarifying and improving relevant obligations to make the guideline clearer and simpler to understand and apply.

As part of our planning procedures for our review we have also reviewed materials published by the AER with relevance to DNSPs for the 2022 compliance regime, namely the *Annual compliance and enforcement report 2021-22*. We noted from this documentation that the AER places specific focus on the following compliance areas relevant to DNSPs such as AES:

- ▶ The completion of ring-fencing training by DNSP employees.
- ▶ Compliance issues resulting from inadequate controls to protect ring-fenced information.

- ▶ Instances of repeated non-compliance.

As such we have given specific focus to these areas in the execution of our review procedures and documentation of results.

Changes to the DNSP and Its Environment

It was noted in February 2022 a significant transaction occurred where AES' ultimate parent company AusNet Services Limited (now AusNet Pty Ltd) was purchased by a Brookfield led consortium and delisted from the ASX. We have enquired about the significance of this transaction from a ring-fencing perspective as part of our interview procedures with various process owners within the organisation. From these enquires we noted that whilst the transaction has changed the organisation's ownership and governance structure the impacts on ring fencing have been minimal and within expectations.

We have considered this transaction in the design and execution of our procedures against the Guidelines. We have continued to observe that historical arrangements between AES and its affiliates, the extent of these services is like the previous year. We have observed relevant controls in place to demonstrate ring-fencing compliance. The overall value of transactions between AES and other businesses in the AusNet Services Limited Group such as Mondo Power Pty Ltd (Mondo) was ██████ for the year ended 31 December 2022 whilst the overall value of transactions with Zinfra was ██████

However, it is noted as a result of the transaction that occurred in February 2022, Zinfra ceased to be an affiliate of AES for ring-fencing purposes due to the owners of Zinfra, Singapore Power and State Grid International, ceasing to hold any ownership in, or control over, AES. We also noted during the period that AES incurred ██████ in transactions with a Geo-Spatial engineering provider Geomatic ai Pty Ltd (trading as Altavec). This business was formerly controlled by AusNet but was predominantly divested in February 2022 leaving AusNet with a ██████ interest, leaving the entity has an affiliate for ring fencing purposes under the guideline.

Through our procedures we noted that AES has continued to pursue various projects in collaboration with Mondo including Project EDGE, The Phillip Island Community Energy Storage System (PICESS) as well as a new project relating for the provision of Utility-Grade Stand-Alone Power System (SAPS) in areas of Victoria that experience distribution difficulties because of remoteness and bushfire risk.

Management has advised that the PICESS battery is not the type of battery for which a waiver from the AER is required and therefore is not considered to be in the scope of the guideline. A similar conclusion has been reached for the SAPS with Management advising that whilst AES has been responsible for the leadership of the project, the systems themselves are provided by a contestable party and are also not considered to be within the scope of the guideline.

As part of our procedures, we made enquiries with key operational personnel involved with these projects as well as those in the Compliance team regarding the consideration of the Guidelines in the execution of the projects. Our observations of this are discussed in section 4.1 below.

Through this year's assessment performed, we identified no new recommendations for AES' continuous improvement. We also noted that of the seven observations on similar points raised in the prior year, six showed improvement, leaving one residual point to be raised again with the recommendation being considered by management. These observations and recommendations, together with management's responses, are summarised in section 3.1 and section 2 respectively.

1.7 Limitations

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

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

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

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

1.8 Executive comment

Except unless otherwise stated in the management responses in sections 2 and 3.1, Management accepts the results of the audit and will demonstrate corrective steps to address each recommendation.

1.9 Conclusion

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

Refer to Section 5 of the report for the full Auditor's Statement.

2. Summary of audit findings

2.1 Summary of new findings in 2022

We have not identified any new findings as part of our procedures performed.

2.2 Risk ranking of issues reported

This table outlines the assessment framework of risk rating allocated to observations and recommendations raised, as summarised in section 3.1 of the report.

		Potential Occurrence				
		Isolated Instances	Few Instances	Some	Often	Many
Potential Impact	Insignificant	Low	Low	Low	Low	Moderate
	Minor	Low	Low	Low	Moderate	Moderate
	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
	Major	Moderate	Moderate	Moderate	High	High
	CatAESrophic	High	High	High	High	High

2.3 Legend: Overall grading definition

This table outlines the assessment framework of compliance against the specific obligations within the Guideline, as discussed in section 4.1 of the report.

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

3. 2021 Auditor Recommendations

The following table outlines AES' responses and actions taken against our recommendations in response to our 2021 findings as well as our relevant observations and findings in the current year that are relevant to these recommendations:

Clause	Obligations	Recommendations in 2021	Observations and findings in 2022	Management Response
4.1(b)	<p>A DNSP must not discriminate (either directly or indirectly) between a related electricity service provider and a competitor (or potential competitor) of a related electricity service provider in connection with the provision of:</p> <p>i. direct control services by the DNSP (whether to itself or to any other legal entity); and / or</p> <p>ii. contestable electricity services by any other legal entity.</p>	<ul style="list-style-type: none"> This was a slight regression in this area in the current year with 23 employees not having completed their training as of 8 March 2022 noting that only 11 of the 23 employees were required to complete this training prior to 31 December 2021. However, we observed that an improvement was made in this area with the introduction of a Power BI reporting dashboard which allowed management greater oversight over training completion. We noted through our procedures performed and discussions with management that our recommendation from 2020 has been adopted and periodic reviews of the training register are completed to ensure terminated employees and employees that are on extended leave to ensure they are not included. 	<ul style="list-style-type: none"> We note that this was an area of marked improvement with no instances of training non-compliance detected as part of our procedures. 	<p>Management notes that improvements have been made and compliance demonstrated with no instances of non-compliance.</p>
4.1(c)	<p>(c) Without limiting its scope, clause 4.1(b) requires a DNSP to:</p> <p>i. in dealing or offering to deal with a related electricity service provider, treat the related electricity service provider as if it were not a related electricity service provider (that is, 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</p>	<ul style="list-style-type: none"> We observed in 2021 that there continued to be several historical SOWs relating to calibration and testing that remained in place between Mondo and AES and had not been market tested through formal procurement processes. In line with our detailed findings below relating to the Guideline 4.1 (c) we recommend that AES reviews these SoWs and puts these services through formal procurement processes (i.e., market testing or benchmarking) before granting any extension to these SoWs. 	<ul style="list-style-type: none"> We observed that these historical SOWs continued to be a feature in 2022 and were not market tested since the prior period. We restate our previous recommendation that AES reviews these expiring SoWs and put these services through formal procurement processes (i.e., market testing or benchmarking) before granting any further extensions to these SoWs. 	<p>Management acknowledges the recommendations. However, management notes that, when applying non-discriminatory criteria, Mondo may still remain a legitimate preferred supplier (e.g., due to Mondo's position in the market as the most experienced provider of such services). On that basis, a full tender or market test process may not be appropriate, but in such circumstances, AusNet will provide evidence of non-discrimination or no subsidisation by way of undertaking a price / value exercise.</p>

Clause	Obligations	Recommendations in 2021	Observations and findings in 2022	Management Response
	<p>substantially the same terms and conditions.</p> <p>iii. in like circumstances, provide substantially the same quality, reliability and timeliness of service to a related electricity service provider and a competitor (or potential competitor) of the related electricity service provider.</p> <p>iv. subject to clause 4.3.3(b), not disclose to a related electricity service provider information the DNSP has obtained through its dealings with a competitor (or potential competitor) of the related electricity service provider where the disclosure would, or would be likely to, provide an advantage to the related electricity service provider.</p>			
4.2.1	<p>(a) Subject to this clause 4.2.1, in providing direct control services, a DNSP must use offices that are separate from any offices from which a related electricity service provider provides contestable electricity services.</p>	<ul style="list-style-type: none"> We note that AES carried out a broader Ring-Fencing review during the period. We obtained documentation of the project scope and purpose. We noted that this Ring-Fencing review did not involve a review of site access at the individual employee level. We restate our recommendation from the prior period that management carry out this review at the employee level and retain the evidence of the review in an accessible format. We also note that such a review is potentially of higher importance as the organisation looks to restructure its working environment with regards to the location and layout of its offices in the face of moving to hybrid working models in the wake of the COVID-19 pandemic. 	<ul style="list-style-type: none"> This was an area of improvement during the period. We note that AES carried out a site access review during the period with at both the employee and site level with key findings communicated by the compliance team during November 2022, this led to corrective action to be taken and site access to be modified as required to be compliant with the ring fencing guideline and appropriate for an employee's given role. 	<p>Management notes that improvements have been made and compliance demonstrated. The site access review is an important control in ensuring ongoing compliance amongst all employees.</p>

Clause	Obligations	Recommendations in 2021	Observations and findings in 2022	Management Response
4.2.2	(a) Subject to this clause 4.2.2, a DNSP must ensure that its staff involved in the provision or marketing of direct control services are not also involved in the provision or marketing of contestable electricity services by a related electricity service provider.	<ul style="list-style-type: none"> It was observed in the current year this recommendation was not adopted and that the roles in the staff sharing register and actual roles of the 29 seconded staff in the business remain inconsistent. We restate our recommendation that AES define roles in the staff sharing register to be consistent with the actual role in the business so that it is easy to identify the list of employees who are subject to staff sharing arrangements. 	<ul style="list-style-type: none"> This was an observed area of improvement in the current period. From our review of the staff sharing registered prepared by management and published on the website we were able to see commonality between the roles within the register and the roles within the business and HR source data. 	Management notes that improvements have been made and compliance demonstrated. The alignment of roles in the staff sharing register and actual roles within the business is a change we intend to maintain going forward.
4.2.2	(c) The remuneration, incentives and other benefits (financial or otherwise) a DNSP provides to a member of its staff must not give the member of staff an incentive to act in a manner that is contrary to the DNSP's obligations under this Guideline.	<ul style="list-style-type: none"> Through discussions with management, it was noted that a broader Ring-Fencing review was carried out during the period. We note that as part of this review management has identified the following teams as high risk from a ring-fencing perspective regarding system and site access. <ul style="list-style-type: none"> Contestable Energy Services <ul style="list-style-type: none"> Energy Services Asset & Utility Services Contestable Energy Services <ul style="list-style-type: none"> Electricity Distribution Network Planning & Strategy Electricity Distribution Customer Connections Customer Service & Resolutions <p>Management advised this review is ongoing, as part of this initiative at risk teams were identified and these teams were targeted as part of the building access and IT access reviews undertaken using data as at end September 2021.</p> <p>In addition, discussions/meetings have been held with managers/team members re ring-fencing obligations. Management has noted that it intends to build on this during 2022.</p> 	<ul style="list-style-type: none"> This was an area of improvement. We noted that management had completed a Ring-Fencing Refresh review in early calendar year 2022. This has included identifying risk at the employee level and considered key areas such as site and system access. We have obtained and reviewed documentation supporting this review as part of our procedures. We also noted that during the period management had launched a new Short Term Incentive Plan (STIP) plan had been introduced by management for rank-and-file employees and executives in 2022. From our review of the plan documentation nothing came to our attention to suggest that metrics or weightings in play represented issues from a ring-fencing perspective. 	Management notes that improvements have been made and compliance demonstrated with no identified instances of non compliance.

Clause	Obligations	Recommendations in 2021	Observations and findings in 2022	Management Response
4.2.4	<p>A DNSP must establish, maintain and keep a register that identifies:</p> <p>(a) the classes of offices to which it has not applied clause 4.2.1(a) by reason of clauses 4.2.1(b)i. or 4.2.1(b)iii.; and</p> <p>(b) the nature of the positions (including a description of the roles, functions and duties) of its members of staff to which it has not applied clause 4.2.2(a) by reason of clauses 4.2.2(b), i.e., 4.2.2(b)i. B., 4.2.2(b)iii. or 4.2.2(d);</p>	<ul style="list-style-type: none"> Consistent with our observations to Guideline 4.2.2 (a) we noted that AES has not adopted this recommendation and that the roles in the staff sharing register and actual roles in the business remain inconsistent. Our recommendation in relation to this obligation is the same as 4.2.2 (a). 	<ul style="list-style-type: none"> With respect to the recommendation made against 4.2.2 (a) we note that we were able to see commonality between the roles within the register and the roles within the business and HR source data, we conclude that this was an area of improvement. 	<p>Management notes that improvements have been made and compliance demonstrated.</p>
4.3.2	<p>Subject to this clause 4.3, a DNSP must:</p> <p>(a) keep ring-fenced information confidential; and</p> <p>(b) only use ring-fenced information for the purpose for which it was acquired or generated.</p>	<ul style="list-style-type: none"> We recommend management identify a list of high-risk employees who have relevant access to confidential information, decision making authority and financial incentives linked to both AES and Mondo performances. We recommend management to put in place additional ring-fencing monitoring measures (e.g., monitoring of frequency of the employee accessing confidential information) and provide additional ring-fencing training for these identified employees. We recommend management perform periodic SAP access reviews on CES users, to detect and prevent any unauthorised access to confidential information. We recommend that management consider the implementation of system controls to identify and control access to confidential information at a transaction or document level. This would complement the broader existing controls in place on system access at an application or company code level. 	<ul style="list-style-type: none"> This was an area of improvement. We noted that management had completed a Ring-Fencing Refresh review in early calendar year 2022. This has included identifying risk at the employee level and considered key areas such as site and system access. We have obtained and reviewed documentation supporting this review as part of our procedures. 	<p>Management notes that improvements have been made. Following the Ring-Fencing Refresh review in early 2022 the identification of high-risk employees will remain in place going forward.</p>

4. Detailed audit findings

4.1 Detailed audit findings

Instrument Clause Event: Ring-fencing Guideline Electricity Distribution

Obligation: Prevention of cross subsidies – Section 3

Guidance Assessment Criteria and Assessment Controls

Ref	Compliance Obligation	Process Description	Testing	Grading
3.1(a)	A DNSP must be a legal entity.	AES' legal entity structure complies with the legal separation requirements of the Guideline. The operational refresh did not involve any changes to the legal corporate structure. AusNet Electricity Services Pty Ltd is a legal entity.	<p>Procedures performed:</p> <p>We performed an ASIC search on AES to ensure that it is a separate legal entity. To undertake the search, we used AES' ABN number as noted on the distribution licence approved by AER.</p> <p>Observation:</p> <p>Based upon the evidence obtained above, no exceptions were noted as to AES' compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> AES is a legal entity. <p>Recommendations:</p> <p>None noted.</p>	Strong
3.1(b)	A DNSP may provide distribution services and transmission services but must not provide other services.	<p>All arrangements entered by AES will need to be reviewed by the AES Contracts team and Legal team to ensure compliance with the Guideline.</p> <p>Other non-distribution services: there are several contracts for the provision of services that do not meet the Guideline service classification restrictions, for which AES is the legal entity on the contract documentation. The services include:</p> <ul style="list-style-type: none"> public lighting and nightwatchman lights (including alteration and relocation of distributor public lighting assets; new public lights, and; installation, repair and maintenance of watchman lights) emergency recoverable works Reserve feeder construction. 	<p>Discussion held with:</p> <p>Senior Manager Compliance Legal Counsel Compliance Officer</p> <p>Procedures performed:</p> <p>We reviewed the process undertaken by management to ensure all arrangements were correctly identified and in compliance with the Guideline.</p> <p>We reviewed the services tracker which details the description of services provided, contractual term, and ring-fencing compliance status throughout the 2022 compliance year.</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
		<p>These services have been extended in line with the commencement of the next electricity distribution pricing period. The services will be alternative control services under the framework with their approach expected to be approved by ARENA and a waiver no longer required for these services.</p>	<p>We made enquiries regarding permissibility of the following projects under the guideline which had been identified in previous years.</p> <ul style="list-style-type: none"> • <i>Project Edge</i>, a multi-year project to demonstrate an off-market, proof-of-concept Distributed Energy Resource (DER) Marketplace that efficiently operates DER to provide both wholesale and local network services within the constraints of the distribution network. • <i>The Phillip Island Community Energy Storage System (PICES)</i>: A project underway by Mondo to install a battery on Phillip Island, one of the uses of which will be to provide network support to AES, which will help greater reliability in electricity supply for the Island, especially during peak holiday periods • <i>Utility Grade Stand Alone Power Systems (SAPS)</i>: An initiative undertaken by AusNet to install in front of the meter power generation systems in areas of rural and remote Victoria prone to distribution issues and bushfire risk. <p>As part of our audit, we reviewed materials provided by AES outlining the project aims, participants, deliverables, and timeline.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted with AES' compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> • AES solely provides distribution services and transmission services, apart from those included in the waiver registers, as approved by the AES. • We noted in our review our enquiries regarding the projects above that the roles had been appointed and that the briefings had been made to relevant staff. • AES has preventive controls to ensure all procurement arrangements entered are managed in accordance with the Guideline, including mandatory consultation with the legal team. <p>Recommendations:</p>	

Ref	Compliance Obligation	Process Description	Testing	Grading
			None noted.	

Ref	Compliance Obligation	Process Description	Testing	Grading
3.2.1(a)	(a) A DNSP must establish and maintain appropriate internal accounting procedures to ensure that it can demonstrate the extent and nature of transactions between the DNSP and its affiliated entities.	<p>AES developed an Accounting Policy Manual specific for transactions with affiliated entities in December 2017. The policy defines related party and affiliated entities, also details how profit and loss and balance sheet transactions are identified and reported separately. It also outlines intercompany transactions with related parties must be offered on the same terms that it would to an unrelated party.</p> <p>AES has the obligation to have the transactions with affiliated entities in an arm's length basis. For example, all intercompany transaction can be clearly identified by intercompany GL, partner company code or by the presence of a "trading partner" field within SAP. The cost allocation methodology generates intercompany receivables and payables that are recorded in the financial statements.</p> <p>AES maintains records of transactions with related parties and is required to disclose these transactions in its financial statements.</p> <p>Mondo related party transactions are captured via intercompany transactions. Related party transactions with Zinfra are identified in SAP via a customer or vendor code. All revenue has a customer Code and all operating expenses has a vendor code. Related party customers and vendors are set up in SAP with an 'RPT-xxx' as an identifier.</p>	<p>Discussion held with: Senior Manager Compliance Legal Counsel Regulatory Accounting Manager Compliance Officer</p> <p>Procedures performed: We obtained and reviewed the AES internal accounting procedure manual - "Transactions with affiliated entities" and noted that it addressed transactions between AES and its affiliated entities.</p> <p>We obtained and reviewed the transaction report between AES and affiliated entities in which the accounting treatment was noted to be consistent with the internal accounting manual. As at the date of this report, AES is generating the transaction listing between AES and its affiliated entities.</p> <p>We have reviewed management process to identify affiliated entities by sighting related party identifier codes on SAP system, in the specific format of RPT-xxx.</p> <p>Observation: Based upon the discussions held and procedures performed, no exceptions were noted on AES' compliance against the obligation. With the point noted below:</p> <ul style="list-style-type: none"> • AES has a process in place to establish and maintain appropriate internal accounting procedures and records to ensure that it can demonstrate the extent and nature of transactions between AES and its affiliated entities. • We note that Zinfra ceased to be a related party following the acquisition by the Brookfield led consortium in February 2022. • We enquired with management of the existence of any new identified related parties following the acquisition by Brookfield that should be considered from a ring-fencing perspective. It was noted that none had been identified. <p>Recommendations: None noted.</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
3.2.2	<p>(a) A DNSP must allocate or attribute costs (including costs allocated or attributed to the DNSP by a parent entity) to distribution services in a manner that is consistent with the Cost Allocation Principles and its approved CAM, as if the Cost Allocation Principles and CAM otherwise applied to the allocation and attribution of costs between distribution services and non-distribution services</p> <p>(b) A DNSP must only allocate or attribute costs to distribution services in accordance with clause 3.2.2(a) and must not allocate or attribute other costs to the distribution services it provides.</p> <p>(c) A DNSP must establish, maintain and keep records that demonstrate how it meets the obligations in clauses 3.2.2(a) and 3.2.2(b). (b) A DNSP must only allocate or attribute costs to distribution services in accordance with clause 3.2.2(a) and must not allocate or attribute other costs to the distribution services it provides.</p> <p>(c) A DNSP must establish, maintain and keep records that demonstrate how it meets the obligations in clauses 3.2.2(a) and 3.2.2(b).</p>	<p>AES has in place an Electricity Distribution Cost Allocation Method (CAM) Accounting Policy Manual, which is reviewed and updated every 5 years. The existing CAM was effective in September 2019. The Finance team has reviewed the September version of CAM and noted that it is consistent with the Cost Allocation Principles per the Guideline, including the extended cost allocation requirements. Specifically, AES CAM not only requires cost allocation between direct control services and other distribution services, it also demonstrates cost allocation for the allocation and attribution of costs between distribution services and other services.</p> <p>There are three types of operating cost for AES services:</p> <ol style="list-style-type: none"> 1. Labour costs – Are generated through the payroll system and are either directly costed/attributed to asset related work codes and activities via job orders and projects in the asset management system and labour timesheets, or allocated on the basis of a cost driver approach 2. Material costs and invoiced contract and service costs - through direct costing/attribution to asset related work codes and cost driver approach. 3. Directly costed items - through system based, general ledger attribution due to the nature of the cost, eg property taxes, license fees, network charges. <p>AES use of company code, cost centre, account and project number in SAP to allow accurate allocations of Direct cost and indirect cost.</p> <p>Cost Allocation Process - Direct costs</p> <p>Direct costing is combination of project creation, budget approval (business cases policy), time sheeting, invoice receipting (procurement/AP policies), material receipting (Logistics' policies) etc.</p> <p>Cost Allocation Process - Overheads/ indirect costs</p> <p>AES uses cost driver approach to allocate shared costs. The cost drivers are calculated by the Corporate Finance team on a quarterly basis by applying a cascade of two approaches:</p> <ol style="list-style-type: none"> 1. Time sheeting: for cost centres that complete timesheets and where those timesheets cover the majority of the cost centre available time. 2. Financial and Non-Financial Metrics: for cost centres where the unallocated costs relate to business support activities 	<p>Discussion held with: Senior Manager Compliance Legal Counsel Regulatory Accounting Manager Compliance Officer</p> <p>Procedures performed: We have obtained and reviewed the CAM, noting that it addressed the allocation and attribution of costs between distribution services and non-distribution services. We have checked that AES' existing CAM was approved by the AER. We reviewed the process undertaken by the finance team to allocate and attribute costs to distribution services and note that it was aligned with the existing CAM.</p> <p>Observation: Based upon the discussions held and procedures performed, no exceptions were noted as to AES' compliance against the obligation with key points below:</p> <ul style="list-style-type: none"> • AES has a process in place to allocate costs to distribution services and is consistent with the Cost Allocation Principles and AER approved CAM. • AES uses Activity based costing (ABC) Surveys which requires cost centre managers to accurately complete and submit the assessment of the split of the cost. Through this assessment, to ensure no non-regulated business cost is allocated to the regulated business. • AES maintains records in relation to costs allocation. • We obtained and reviewed the December 2022 percentage input file for the CAM. • We observed that there had been no changes to cost centres because of the recent organisational restructure. • We observed that fixed allocation driver will not be amended unless the owner of the driver initiated that with finance team. 	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
		<p>that are driven by or closely associated with a financial or non-financial metric, eq EBITDA, Revenue, and etc.</p> <p>Average of Other Cost Centres' Allocations: for management cost centres, cost drivers are based on the average cost allocations of the cost centres within their reporting hierarchy.</p> <p>Finance also performs a quarterly analysis of the financial results on a cost allocation basis for each regulated network, as well as the unregulated business of AES.</p> <p>Costs such as finance costs, corporate tax and other costs below the EBIT line are considered at corporate level..</p>	<p>Recommendations: None noted.</p>	

Obligation: Functional separation – Section 4

Guidance Assessment Criteria and Assessment Controls

Ref	Compliance Obligation	Process Description	Testing	Grading
4.1(b)	<p>(b) A DNSP must not discriminate (either directly or indirectly) between a related electricity service provider and a competitor (or potential competitor) of a related electricity service provider in connection with the provision of:</p> <p>i. direct control services by the DNSP (whether to itself or to any other legal entity); and / or</p> <p>ii. Contestable electricity services by any other legal entity.</p>	<p>In order to achieve compliance with the “non-discrimination” requirements in the Ring-Fencing Guideline, AES has sought to educate relevant employees about the Ring-fencing requirements.</p> <p>AES’ online training program on the topic of Ring-fencing for electricity distribution policy includes a do’s and don’ts when dealing with affiliated entities.</p> <p>Below are the approaches:</p> <p>A ring-fencing page on the AusNet intranet, The Loop, which contains resources relating to key ringfencing educational information</p> <p>Online training module for employees accessed via SuccessFactors</p> <p>All AES employees have access to the ringfencing intranet site at any time. Upon completion of the training, employees receive a completion report to prove the training is complete. The compliance team monitors the completion status of the online training.</p> <p>Together with the legal team, AES developed various Statement of Works for the respective services provided by Energy Services and Technical Services which include, but is not limited to chemical testing services, metering services, HV asset testing and others.</p> <p>Master Service Agreement(s) are also in place to formalise existing and future arrangements for contestable electricity services provided by affiliated entities to AES. The Master Services Agreement(s) was developed based on a third-party contract format, to ensure the terms and conditions set out are not discriminating against an external party.</p> <p>Any direct control services provided to affiliated entities are provided on equivalent terms and conditions, including price to non-affiliated entities receiving the same services in the same situation or circumstances. Examples include connection enquiries or connection services.</p>	<p>Discussion held with:</p> <ul style="list-style-type: none"> Senior Manager Compliance Legal Counsel Technical Training Manager Compliance Officer <p>Procedures performed:</p> <p>We obtained and sighted the Ring-fencing Module slides and reviewed the training report which included the details of employees who has completed the training and the relevant completion dates.</p> <p>We obtained and reviewed all relevant SoWs, contracts and the MAESer Services Agreement entered between AES, Mondo under Development and Future Networks as well as with Zinfra.</p> <p>We have also made specific enquiries about new projects such as: Project Edge, The Phillip Island Community Energy Storage System (PICISS) and the construction of utility grade standalone power systems, and the processes involved to ensure that these were compliant with respect to this guideline.</p> <p>Also refer to section 4.1(c) below on our assessment of AES’ procurement processes and controls.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, we noted:</p> <ul style="list-style-type: none"> From our review of the AER ring fencing briefing materials we noted that a specific emphasis was placed on the completion of training by relevant personnel at DNSPs. AES has processes and controls in place to ensure that there is no discrimination between a related electricity service provider and an external DNSP. We have not identified any AES employees that have not yet completed the required training. 	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
			<ul style="list-style-type: none"> • Inline with our prior period observations we also noted from our review of the organisational structure that management employees within D&FN are sometimes placed in a situation where they have direct reports on both sides of the ring-fence. Through discussions with management, we established that whilst this in appearance does present a potential conflict it is argued that the code of conduct and training which all staff are subject to does provide as safeguard here. As does the segregation of duties, for example the head of D&FN does not sit on the committee group associated with distribution capital expenditure. • We note that AES continues to use a Power BI reporting dashboard using a data feed from its training platform Success Factors. Our observation was that this provided more current qualitative and quantitative analysis of employee training completion. • With regards to our enquiries on the specific projects we found that the three aforementioned projects were subject to some competitive evaluation exercises. <p>Recommendations:</p> <ul style="list-style-type: none"> • None noted. 	
4.1(c-d)	<p>(c) Without limiting its scope, clause 4.1(b) requires a DNSP to:</p> <p>i. in dealing or offering to deal with a related electricity service provider, treat the related electricity service provider as if it were not a related electricity service provider (that is, 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</p>	<p>AES has a robust procurement and other contracting processes for obtaining, or providing, services from, or to, affiliated entities, including any contracting requirements and legal approval. This includes establish the Delegation of Authority matrix, where RES staff are restricted from making a decision for another affiliated entity.</p> <p>There are formal decision-making process implemented before contracting a related electricity service provider.</p> <p>AES has implemented Master Service Agreements (MSA) where ring-fencing clauses are included with related electricity service provider.</p> <p>Management represented that services provided to the DNSP by its affiliated entities under SoWs are subject to multiple control mechanisms:</p>	<p>Discussion held with:</p> <p>Members of the Procurement Team Senior Manager Compliance Legal Counsel Compliance Officer</p> <p>Procedures performed:</p> <p>We obtained and reviewed the Statement of Works (SOW) and Master Service Agreement (MSA) entered between AES and Energy Services provided under the Mondo brand.</p> <p>We reviewed the procurement and tender process undertaken by AES.</p> <p>We obtained and reviewed the decision-making framework AES adheres to demonstrate its compliance against this obligation.</p>	Moderate

Ref	Compliance Obligation	Process Description	Testing	Grading
	<p>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 4.3.2(b), not disclose to a related electricity service provider information the DNSP has obtained through its dealings with a competitor (or potential competitor) of the related electricity service provider where the disclosure would, or would be likely to, provide an advantage to the related electricity service provider.</p> <p>(d) A DNSP must not discriminate (either directly or indirectly) between any two legal entities, in connection with the supply of contestable electricity services by those legal entities, on the basis of the use by one or both of those legal entities of assets owned, operated or otherwise controlled (in whole or in part) by the DNSP.</p>	<ul style="list-style-type: none"> The budget allocated to these services is determined solely by RES, and Mondo do not have any decision-making power on the budget setting process Specific AES personnel are responsible and accountable for establishing and managing the budget for each of these services Management undertakes active budget monitoring, including through the interrogation and assessment of year-on-year differences or trends and cost saving or efficiency opportunities. All existing SoWs have a limited timeframe from 12 months to a maximum of 3 years. All new SoWs from compliance year 2019 onwards have a timeframe of 12 months and will be subject to annual review before any extension is granted. No mark-up is charged on these services provided and cross-charge from Mondo to AES is only allowable on cost basis with no margin to be added to top <p>AES has a Procurement Principles and Procurement Framework in place, whereby all services with the value of above [REDACTED] will need to go through a strategic procurement process, which the Procurement team will determine the best way to engage the market.</p> <p>This could be via a formal tender, a negotiation or other method deemed to obtain best value for money. The approach taken for the procurement of services is not necessarily determined or driven by the Division or Affiliated Parties for which the goods and services are being sourced. Rather, the sourcing approach is determined by a number of considerations including the nature of the goods and services, market factors and the procurement strategy. These considerations will lead to decisions on the appropriate approach which may be any of open tender, closed tender, single-source, panels, sourcing through collaboration and others.</p> <p>Arrangements with value between [REDACTED] and [REDACTED] will be sourced by the Procurement team through market testing. A tender process will be implemented which includes technical review, commercial review and legal review. If there will be repeated purchase from the same supplier within a short time frame, a SAP purchase requisition created within an estimated value before engaging the supplier.</p> <p>For supplier requirements over [REDACTED] value, it is mandatory for the Procurement team to be engaged by the business requestor</p>	<p>We have selected one sample transaction between AES and Mondo and obtained evidence of AES' use of this decision-making framework.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, we noted:</p> <ul style="list-style-type: none"> AES has control process in place to ensure that there is no discrimination between a related electricity service provider and an external party. AES performed detailed analysis (ie budgeted cost, volume of work) on services provided by related electricity service provider and has continued budget controlled during the service period. AES has formalised the evaluation and decision-making process to demonstrate service arrangements with Mondo are entered into at arm's length with no discrimination. We noted that there were no instances during the period where work was contracted to a third party with that party sub-contracting back to Mondo. We noted that there were no new SOWs signed with Mondo and Zinfra during the period. Consistent with prior period we noted that AES continues to engage Mondo on three SOWs relating to Condition Monitoring, Testing and Metering. These SOWs totalled [REDACTED] of combined Capex/Opex. Consistent with prior period we have noted that AES continue to engage affiliate Zinfra to provide approximately [REDACTED] worth of services as an affiliate under the TOMSA (Transmission Operating Management Services) agreement, these services pertained to the distribution business. However it is noted that as a result of the Brookfield transaction Zinfra was not an affiliate from February 2022 onwards, due to Singapore Power and State Grid International, ceasing to hold any ownership in, or control over, AES. . Therefore transactions following February 	

Ref	Compliance Obligation	Process Description	Testing	Grading
		<p>and for the Procurement team to lead the strategic sourcing process. The only exception is for purchases aligned to an executed supplier contract, inclusive of a schedule of rates, up to the value of AUD \$1 million.</p> <p>For arrangements with value below ██████ an approved purchase order is required, and the business unit will have to present several quotations for comparison purposes.</p> <p>There is a waiver of competition (WoC) purchasing scenario used when the purchase is greater than ██████. If the WoC is between ██████ to ██████ it must be approved by the division managers and all WoCs greater than ██████ must be approved by the procurement team.</p> <p>For compliance year 2022, transactions between AES and affiliates total approximately ██████. These transactions include:</p> <p><i>Transactions with Mondo</i></p> <ul style="list-style-type: none"> • Condition monitoring and others: ██████ (SOW #1) • Metering Services: ██████ (SOW # 3) • Chemical Testing, Calibration, Testing and Projects: ██████ (SOW #3 and #2) <p><i>Transactions with Zinfra</i></p> <p>Transactions with Zinfra during the period consisted of the following</p> <ul style="list-style-type: none"> • ██████ in Opex Works • ██████ in Capex works <p><i>Transactions with Geomatic ai Pty Ltd (trading as Altavec)</i></p> <ul style="list-style-type: none"> • Geospatial engineering services: ██████ 	<p>2022 have not been considered for the purposes of our procedures.</p> <ul style="list-style-type: none"> • Under this agreement AusNet engages Zinfra to provide services on as part of a suite of panel agreements for AusNet installation service contractors. • We also noted during the period that AES incurred ██████ in transactions with a Geo-Spatial engineering provider Geomatic ai Pty Ltd. This business was formerly controlled by AusNet but was predominantly divested in February 2022 leaving AusNet with a ██████ leaving the entity has an affiliate for ring fencing purposes under the guideline. • We note through our procedures performed and discussions with management that Zinfra, Mondo and Geomatic Ai are all subject to the same tendering and monitoring processes as other external contractors. <p>Recommendations: [Moderate] In line with the previous period there were range of existing services provided by under the Mondo brand within D&FN to AES including condition monitoring, testing and calibration have been rolled forward on historical Statement of Works (SOWs). These arrangements have never been market tested; we do note however that the overall level of expenditure has decreased from the prior year.</p> <p>We restate our recommendation that these SOWs are market tested or at least benchmarked during the period.</p>	
4.2.1	(a) Subject to this clause 4.2.1, in providing direct control services, a DNSP must use offices that are separate from any offices from which a related electricity service	AES introduced access controls including modifications to provide separate workspaces for staff, such as creating separate and restricted sections of a site or the floor of a building with access card controls and separate kitchen/tea facilities when the Ring-fencing Guideline came into effect. Shared areas and facilities such as lifts, toilets, foyers and car parks are considered acceptable.	Discussion held with: Legal Counsel Senior Manager Compliance Building Services Manager Compliance Officer	Strong

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	<p>provider provides contestable electricity services.</p>	<p>As part of the Ring-fencing Guideline implementation project, AES undertook a building access review to ensure there are no offices which share both employees involved in the marketing or operation of direct control services (DCS employees) and employees involved in the marketing or operation of contestable electricity services (energy and technical services) (CES employees), which are not permitted by the Guideline to share an office (Prohibited Shared Offices). No Prohibited Shared Offices were identified in the review.</p> <p>While there are shared locations, namely Freshwater Place and Beaconsfield, they are not Prohibited Shared Offices. There are separate offices within each location (as per the definition in the Guideline) which ensure the requisite separation of relevant CES employees and DCS employees.</p> <ul style="list-style-type: none"> •At Freshwater Place relevant CES employees only had unaccompanied access to Level 26 until March 2022 and post March 2022, to Level 29 (a separate office) and relevant DCS employees only have unaccompanied access to Levels 30-32. •Also, at Beaconsfield there are separate and (unaccompanied) access restricted parts of the building that ensure the requisite office separation between relevant DCS employees and CES employees. <p>Building access card requests</p> <p>All building access card requests are made via the ServiceNow Portal, with electronic records of each request and approvals retained.</p> <p>As part of the online request, the following question is asked:</p> <ul style="list-style-type: none"> • Is this position affected by Ringfencing? <p>The default answer is 'Yes' with a drop-down list containing 'No' and 'Unsure'.</p> <p>If the question response is 'Yes' or 'Unsure', the building access request is sent to the Senior Manager Compliance for approval or rejection.</p> <p>Note: in February 2023, this question was removed and all building access requests are work flowed to the Compliance team for ring-fencing approval.</p> <p>Review of building access in 2022</p> <p>The AES compliance team undertook a review of building access in November 2022.</p>	<p>Procedures performed:</p> <p>We obtained the list of new employees in 2022 and reviewed the site access approval forms for sampled 25 employees to ensure they met ring fencing requirements.</p> <p>We obtained the seconded employee register and selected samples of 5 employees seconded in the compliance year.</p> <p>For sampled secondees, we have obtained and reviewed the approved employee checklist which demonstrates the hiring manager's confirmation of ring-fencing obligation compliance related to the secondment arrangement.</p> <p>We additionally reviewed the site access for 6 personnel within the Development and Future Networks Team to determine if their access was appropriate for their new roles from ring fencing perspective.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, we noted:</p> <ul style="list-style-type: none"> • Through discussions with management, it was established that a review of building access was performed in November 2022 focused on identifying potentially inappropriate access from a ring fencing perspective at Freshwater Place and Beaconsfield. We reviewed the materials summarising the scope and results of this review and noted no instances of breaches detected. • AES has separate offices from which a related electricity service provider provides contestable electricity services. • AES has formal approval process on granting employee access to the respective level or office. • We selected a sample of 5 seconded employees and obtained evidence for each of these positions that they were staff able to be shared in line with the Guidelines. • We reviewed the access of 6 employees within Energy Services as part of Development and Future Networks which we consider to be of specific risk with regards to ring-fencing. We 	

Ref	Compliance Obligation	Process Description	Testing	Grading
		<p>This review focused on:</p> <ul style="list-style-type: none"> •Who has access to Beaconsfield and Freshwater Place and is this appropriate? •What building access do ‘higher risk’ team members have and is this appropriate? <p>If it was identified that a CES employee had access to an area which was not appropriate, building access logs for that employee was also reviewed.</p> <p>No ring-fencing breaches were identified as part of this building access review.</p> <p><i>Working from home</i></p> <p>Following the COVID-19 restrictions during calendar years 2020 and 2021 which resulted in most employees (other than critical staff, such as network controllers) working from home, flexible working arrangements continued during the calendar year 2022 where employees continued to work remotely on a part-time basis.</p> <p><i>NextSpace refurbishment</i></p> <p>Working at AusNet has been transformed by the NextSpace project which introduced a hot desking approach as part of office and depot refurbishments. Ring-fencing obligations were factored into the office renovations including the installation of security doors on level 29 to restrict access to this floor once the new internal stairs between levels 29 and 30 were commissioned in February 2023. Until the internal stairs, the only way to access level 29 and levels 30 to 32 was via the lift with building access cards preventing ring-fenced employees from accessing their prohibited floors.</p> <p>The refurbishment of Freshwater Place and other AES offices/depots resulted in the updating of the building access request form and guidance to the building services teams regarding which teams could access which buildings/floors, noting a number of teams have moved locations/floors to reflect the refurbishment and organisation restructures.</p>	<p>concluded their access was appropriate given their position.</p> <p>Recommendations: None Noted.</p>	
4.2.2	(a) Subject to this clause 4.2.2, a DNSP must ensure that its staff involved in the provision or marketing of direct control services are not also involved in the provision or marketing of	The Compliance team has performed a full site access analysis by reviewing the role and the associated access rights. The assessment focuses on identifying staff with access to “electricity information” and who have the opportunity to use that information to engage in conduct that would provide a competitive advantage to an affiliated entity or otherwise engage in conduct contrary to clause 4.1 of the Guideline.	Discussion held with: Corporate Communications Manager Senior Marketing Manager Legal Counsel Senior Manager Compliance	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
	<p>contestable electricity services by a related electricity service provider.</p>	<p>In line with the Guideline, roles providing corporate services are exempted from the obligation. AES has identified the following types of roles to be out of scope from the requirement to include on the staff sharing register (under clauses 4.2.2(b)i.c / 4.2.4(b.))):</p> <ul style="list-style-type: none"> • Executives • Technology • Administration • Payroll • Legal • Regulatory • Accounting/finance • Strategy and transformation • Design and back-office marketing support (not sales, business development or customer facing) <p>It should also be noted that to the extent that staff are not involved in the operation or marketing of contestable electricity services (which, in accordance with the relevant definitions under the Guideline, do not include Transmission services, gas network or connection services or water utility services) they are also are not restricted from being shared and the roles and positions etc of such staff are not required to be included on the staff sharing register.</p> <p>AES has identified a list of roles that are shared in connection with the direct control services and contestable electricity services (eg Energy Services) . These roles are listed in the staff sharing register and is published on to the AES website. These roles are involved in the provision or marketing of direct control services, who are also involved in the provision or marketing of contestable electricity services by a related electricity service provider, but have no electricity information, or no opportunity to use that electricity information to engage in conduct that is contrary to clause 4.1 of the Guideline.</p> <p>In AES Ring-fencing policy, AES is required to ensure continuous compliance in relation to staff sharing. The Human Resource /People team is responsible to capture all new hires and staff movements that are (or which they are unsure may be) affected by Ring-Fencing. The Compliance team reviews and updates the staff sharing register and maintains the register on the website.</p> <p>The responsible hiring manager of all shared staff are required to complete the employee checklist which includes ring-fencing</p>	<p>Compliance Officer</p> <p>Procedures performed:</p> <p>We obtained and reviewed a list of AES employees to identify any role description that do not comply with this obligation.</p> <p>We obtained and reviewed AES' staff sharing register and cross-checked against the employee listing for completeness.</p> <p>We obtained and reviewed the seconded employee register and noted no staff were seconded between AES and Mondo during the compliance year.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted with AES' compliance against the obligation with key points below:</p> <ul style="list-style-type: none"> • AES appropriately identified distinct roles for its RES and Mondo employees, ensuring there are no staff sharing that is not in line with the Guideline. • Employees shared are included in the staff sharing register, published on the AES' website, which is publicly available. <p>Recommendations:</p> <p>None noted.</p>	

Ref	Compliance Obligation	Process Description	Testing	Grading
		<p>considerations. The completed checklist requires approval from the employee's direct manager, the Legal team, and the relevant EGM of the business unit.</p> <p>The Staff Sharing Register (which also contains the Office Sharing Register) was last updated on 31 March 2023 and is updated on a quarterly basis as a responsibility of the compliance team</p>		
4.2.2	(c) The remuneration, incentives, and other benefits (financial or otherwise) a DNSP provides to a member of its staff must not give the member of staff an incentive to act in manner that is contrary to the DNSP's obligations under this Guideline.	<p>For all employees employed under individual employment agreements, fixed annual remuneration (base salary plus superannuation) is set with consideration for internal and external relativities following a consistent process. Different pay ranges may apply to different role types/families but are not differentiated by Business Unit or function. The setting and review of pay ranges is done by the People team. Annual fixed remuneration increase budgets and guidance are set at an organisational level with no differentiation by Business Unit or function. Individual annual increase amounts are generally determined by a combination of individual performance and an employee's position within the respective pay range. All decisions are calibrated and approved at a team, function/Business Unit and organisational level to promote fairness and equity.</p> <p>All benefits programs at AusNet are broadly accessible by all employees with no differentiation by Business Unit or function (an exception is those benefits that form part of specific industrial agreements that may be applicable only to employees in certain legal entities, e.g., Gas Distribution vs. Electricity Distribution, etc.).</p> <p>AusNet's Short-Term Incentive (STI) plans are based on business performance at an organisational level as well as individual performance assessed against role requirements, individual key performance indicators and mandatory and minimum expectations (e.g., training, compliance, conduct, behaviours, etc.).</p> <p>Organisational performance for the year is assessed against group wide HSE, strategic and financial performance criteria. For CY2022, the group-wide financial measures considered were EBITDAal, CFADR and Opex (excluding D&FN Opex). HSE performance is assessed at a group-wide basis against the organisational HSE Index and includes KPIs around RIFR, HiPo</p>	<p>Discussion held with:</p> <ul style="list-style-type: none"> Head of Remuneration and Compliance Legal Counsel Senior Manager Compliance Compliance Officer <p>Procedures performed:</p> <p>We obtained and reviewed the remuneration policy and internal comms to both executives and rank and file employees and noted that it is the internal performance development and STI manual details the remuneration, incentive and KPIs of employees.</p> <p>We have obtained sample KPI scorecards for AusNet and Mondo management</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted with AES' compliance against the obligation with key point(s) below:</p> <p>rem</p> <p>We observed that D&FN staff have a 15% weighting to group EBITDA compared with 20% for corporate employees. The major driver for D&FN staff STIs remains D&FN EBITDA and Margin. As such the AES remuneration policy is not expected to give staff a material incentive to act in a manner contrary to the Guideline.</p> <p>In line with prior period we also observed that executive personnel within D&FN because of the organisation's structure have direct reports on either side of ring fence. We enquired with management how incentive</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
		<p>incidents and Environmental hazards/near misses and incidents. For CY2022, strategic KPIs of CAB (growth I contracted asset base) and USAIDI (network reliability) were included in the organisational scorecard, representing strategic pillars of Growth and Customer.</p> <p>While assessment against these measures informs STI outcomes for all eligible employees, the Board retains absolute discretion to moderate outcomes at an organisational, function/Business Unit and individual basis having consideration for the context in which results were delivered, including factors such as unforeseen (or known but unquantifiable) events, and demonstrated behaviours, values, and leadership.</p> <p>All STI decisions are calibrated and approved at a team, function/Business Unit and organisational level to promote fairness and equity.</p> <ul style="list-style-type: none"> • Management is of the view that the risk that remuneration, benefits and/or incentive arrangements will incentivise staff to take advantage of electricity information to boost performance is low as there are the following safeguards in place: • Against the AusNet Code of Conduct • Each Business Unit's performance is only one of the contributors to overall AES group performance • It is difficult for one individual to make a material impact on group performance • Any manipulation of the results that is significant is likely to stand out in preparation of statutory financial statements • STI will be held back, or employee will be dismissed if a breach of Code of Conduct/ Ring-fencing policy is detected • STI and fixed remuneration processes include multiple layers of review at an individual, team, function/Business Unit and organisation level to calibrate outcomes and drive appropriateness, fairness, and equity • The linkage to group profit is designed to ensure that the total incentive pool is "affordable" given the group results, rather than encourage inappropriate information sharing in breach of the Guideline, and company Code of Conduct 	<p>related risks associated with this are managed, from which we established the following</p> <ul style="list-style-type: none"> - All D&FN staff, including managers/executives are subject to soft controls around ring-fencing training. - All distribution business Capex spend above \$1m requires the approval of the Investment Committee (which is currently chaired by the Chief Financial Officer). These execs identified by EY and other managers / executives on the D&FN business do not sit on this Investment Committee when discussing distribution business Capex spend. While members of the Emerging Markets team may be involved in the Investment Committee by presenting non-network solution business cases for approval, no managers / executives from D&FN are involved in the decision making when approving distribution business Capex spend above \$1m. - - In relation to distribution business Capex spend below \$1m, this spend needs to be approved by the relevant distribution business GM. As above, the Emerging Markets team may be involved in presenting business cases to the relevant distribution business GM, but no managers or executives from D&FN are involved in the Capex decision making process. <p>Recommendations: None noted.</p>	

Ref	Compliance Obligation	Process Description	Testing	Grading
		<ul style="list-style-type: none"> The STI Plan includes broad discretions of the Board over all elements of the plan, including the assessment of organisation and individual outcomes 		
4.2.3	<p>(a) A DNSP:</p> <p>i. must use branding for its direct control services that is independent and separate from the branding used by a related electricity service provider for contestable electricity services, such that a reasonable person would not infer from the respective branding that the DNSP and the related electricity service provider are related;</p> <p>ii. must not advertise or promote its direct control services and its contestable electricity services that are not direct control services together (including by way of cross-advertisement or cross-promotion);</p> <p>iii. must not advertise or promote contestable electricity services provided by a related electricity service provider other than the DNSP itself.</p>	<p>AES has implemented a training program to outline the branding and marketing requirements per the Guideline to the whole business. This includes ensuring the branding used for direct control services is separate and independent from the branding used for contestable electricity services.</p> <p>AES has included guidance on branding requirements as part of its Ring-Fencing obligations. This policy covers:</p> <ul style="list-style-type: none"> All Mondo office signage and Mondo branded vehicles where an AES logo or tagline is used The design and layout of websites and social media platforms, including email signatures for branding that potentially breaches the Guidelines. The design of employee uniforms for both Mondo and AES 	<p>Discussion held with:</p> <p>Corporate Communications Manager Senior Marketing Manager Legal Counsel Senior Manager Compliance Compliance Officer</p> <p>Procedures performed:</p> <p>We visited the AES website to review if there are any contestable electricity services being published on the website.</p> <p>We reviewed the online training slides used by AES to communicate the branding requirement to employees per the Guidelines.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted with AES' compliance against the obligation with the key point(s) noted below:</p> <ul style="list-style-type: none"> AES has included a branding policy in its Ring-fencing policy to address separate branding for its RES and Mondo business. <p>Recommendations:</p> <p>None noted.</p>	Strong
4.2.4	<p>(a) A DNSP must establish, maintain and keep a register that identifies:</p> <p>i. the 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.;</p>	<p>The AES Human Resource team is responsible for maintaining and updating the office sharing and staff sharing register, which is publicly available on the AES website.</p> <p>In the update to the Staff and Office sharing register (as of 31 December 2022), the offices at FWP and Beaconsfield have been listed. Importantly, as per the Guideline, there are multiple offices at each of these sites.</p> <p>The sites have been included in the register as there is still some permitted sharing of staff within offices at each of those</p>	<p>Discussion held with:</p> <p>Senior Manager Compliance Legal Counsel Compliance Officer</p> <p>Procedures performed:</p> <p>We reviewed the site sharing and staff sharing register published on AES' website.</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
	<p>ii. the staff positions (including a description of the roles, functions, and duties) of those staff positions to which it has not applied clause 4.2.2(a) by reason of clauses 4.2.2(b)i.a., 4.2.2(b)i.b., 4.2.2(b)iii. or 4.2.2(d);</p> <p>iii. the staff positions referred to in clause 4.2.4(a)ii. which are held, or have been held within the previous three months, by a member of staff whose access to electricity information ceased upon, or in the 12 months prior to, commencing in that position, and the dates on which that member of staff commenced to hold and (if applicable) ceased to hold that position.</p> <p>(b) No later than 15 January, 15 April, 15 July and 15 October each year, a DNSP must publish, on its website, an updated version of each of the registers referred to in clause 4.2.4(a). The DNSP must ensure that the information published in each updated version is current to the end of the calendar month that is immediately prior to the required publication date for that updated version under this clause 4.2.4(b).</p>	<p>locations. The other sites included on the Ringfenced staff and location document circulated earlier today (namely, depots, Flinders Street and Yarraville) are not shared sites within the meaning of the Guideline (e.g., direct control services and contestable electricity services are not both provided at any of those sites.</p> <p>The staff sharing register describes the nature of positions including the roles, functions, and duties of these roles. The staff sharing register was prepared based on the staff needed to perform roles in relation to both direct control services and contestable electricity services of an affiliate of the DNSP, in accordance with the requirements of the Guideline. The completeness of the register is regularly monitored and updated through the approval process.</p>	<p>We reviewed the process undertaken to maintain and update the office sharing and staff sharing register. We have reviewed the content of the staff sharing register and note that it is in line with requirements of the Guideline.</p> <p>We checked consistency against management assessment performed and assessed against other information obtained throughout the audit and noted no inconsistent information.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted with AES' compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> • AES has established and maintained an office sharing register • AES has established and maintained a staff sharing register • AES has maintained the secondment register with clear role description • AES has a checklist for the hiring manager to assess potential actions are required when seconding employees. <p>Recommendations:</p> <p>None noted.</p>	
4.3.1	<p>Subject to this clause 4.3, a DNSP must:</p> <p>(a) keep ring-fenced information confidential; and</p> <p>(b) only use ring-fenced information for the purpose for which it was acquired or generated.</p>	<p>AES has a Privacy Policy in place, that was IAES reviewed in May 2019. The Privacy Policy encompasses treatment of personal information, which is interpreted as ring-fenced information in the Ring-fencing Guideline context. The Ring-fencing Policy has extended the Privacy Policy to ring-fenced information.</p> <p>All AES employees are required to complete an online Privacy compliance training annually. Upon completing the training, employee will get a certificate of competency in relation to the</p>	<p>Discussion held with:</p> <p>Members of the Network Planning and Connections Teams</p> <p>Senior Manager Compliance</p> <p>Legal Counsel</p> <p>Compliance Officer</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
		<p>specific training. The Compliance team monitors the completion status of the mandatory training.</p> <p>AES identified a risk that where technology systems are shared across businesses for economies of scale, disclosure of information that is otherwise protected by the Guideline may occur. Access to DNSP systems which may contain electricity information are restricted from contestable teams other than in circumstances that are exempt under the Guideline. This includes creating role-based access to control visibility of data via shared systems.</p> <p>SAP Ring Fencing Project created and deployed new CES Roles users in SAP. There are proper procedures and risk mitigation process in placed:</p> <ol style="list-style-type: none"> 1. CES Roles are clearly labelled in the system with a Suffix of “_CES” in SAP. 2. CES Roles restrict users to perform functions within their Development & Future Network organisational areas. 3. New user set up requests, positions changes, additional access are approved by role manager which the user group belong to. Once approved, the AMS Security perform the physical changes in SAP. 	<p>Procedures performed:</p> <p>We obtained the Privacy Policy and reviewed the interpretation of confidential information.</p> <p>We obtained and reviewed the Logging and Monitoring Policy, which ensures logging and monitoring systems are in place to allow detection of unauthorised information processing activities.</p> <p>We performed testing on the list of employees with system access to electricity information to ensure that they were appropriate employees in the context of the Guideline.</p> <p>We reviewed the process undertaken by management to reorganise user system access to SAP CES access, SAP CIS, Power On Fusion, SDME and S Net Explore systems.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted with AES’ compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> • AES has in place a personal information privacy policy and procedures • We isolated a population of 221 Development and Future Networks employees from the HR MAESerfile working within: Asset and Utility Services, Commerical Development and Investments and Corporate Development. We then performed a cross check to the system access logs to see if these employees had access to the following systems (SAP CIS, SDME and Salesforce). • We then performed sample-based testing of the identified employees with access to the systems above. • Nothing came to our attention through the execution of our testing that the access held by the employees was inappropriate from a Ring-Fencing perspective. • It was noted that consistent with the prior period there were no practical system controls in place to ensure these employees do not have access to 	

Ref	Compliance Obligation	Process Description	Testing	Grading
			<p>confidential information, refer to recommendations below.</p> <ul style="list-style-type: none"> We note also that a Ring-Fencing review was carried out in early calendar year 2022. This has included identifying risk at the employee level and considered key areas such as site and system access. We have obtained and reviewed documentation supporting this review as part of our procedures. <p>Recommendations: None noted.</p>	
4.3.2	A DNSP must not disclose ring-fenced information to any person, including a related electricity service provider, unless an exemption applies.	<p>The exemptions listed by AER in the Guideline are</p> <p>the DNSP has first obtained the explicit informed consent of the relevant customer, or prospective customer, to whom the ring-fenced information relates;</p> <p>the disclosure is required by, or for the purpose of complying with any law;</p> <p>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);</p> <p>the information has been requested by or on behalf of a customer, or potential customer, of another legal entity, and the disclosure is necessary to enable the legal entity to provide its transmission services, contestable electricity services or other services to the customer or potential customer;</p> <p>the disclosure is solely for the purpose of providing assistance to the extent necessary to respond to an event (such as an emergency) that is beyond a Network Service Provider's reasonable control;</p> <p>the disclosure is solely for the purposes of research by a legal entity other than a related electricity service provider of the DNSP; where another DNSP is an affiliated entity of the DNSP,</p> <p>the disclosure is to the part of that other DNSP that provides that other DNSP's direct control services;</p>	<p>Discussion held with: Senior Manager Compliance Legal Counsel Compliance Officer</p> <p>Procedures performed: We have discussed with management AES consideration of the exemptions per the Guideline. Observation: Based upon the discussions held and procedures performed, no exceptions were noted on AES' compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> AES has in place a process to maintain and keep an information register. AES has in place a process to govern information sharing with an affiliated entity. <p>AES has in place a process to protect confidential information.</p> <p>Recommendations: None noted.</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
		<p>a related electricity service provider of the DNSP has requested the disclosure and the DNSP complies with clause 4.3.3 in relation to that ring-fenced information; or</p> <p>or another legal entity, other than a related electricity service provider of the DNSP, has requested the disclosure.</p>		
4.3.3	<p>(a) Subject to clause 4.1(c)iv. and to this clause 4.3.3, where a DNSP shares ring-fenced information with a related electricity service provider, or where ring-fenced information that a DNSP has disclosed under clause 4.3.2(f) is then disclosed by any person to a related electricity service provider of the DNSP, the DNSP must provide access to that ring-fenced information (including the derived information) to other legal entities on an equal basis.</p> <p>(b) A DNSP is only required by clause 4.3.3(a) to provide information to a legal entity where:</p> <p>i. the legal entity has requested that it be included on the information register in respect of information of that kind; and</p> <p>ii. the legal entity is competing, or is seeking to compete, with the DNSP, or a related electricity service provider of the DNSP, in relation to the provision of contestable electricity services.</p> <p>(c) A DNSP is not required by clause 4.3.3(a) to provide information to a legal entity where the DNSP has disclosed the information in the circumstances set out in clauses 4.3.2(a) to (e).</p>	<p>AES has included in its Ring-fencing policy setting out the contents of an information register, which includes organisations which have requested access to information and the kind of information sought.</p> <p>The Ring-fencing policy prohibits staff inappropriately sharing information, other than through the formal process listed out in the information sharing protocol, as published on the AES website.</p> <p>The information sharing register is maintained by the Compliance team.</p> <p>Information has been shared during CY2022 as detailed in the information sharing register published on the AES website: Ring-fencing compliance (ausnetservices.com.au)</p>	<p>Discussion held with:</p> <ul style="list-style-type: none"> Members of the Network Planning and Connections Teams Senior Manager Compliance Legal Counsel Compliance Officer <p>Procedures performed:</p> <p>We obtained and reviewed the information sharing protocol and register to ensure that AES has in place appropriate information handling procedures and policies.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted for the following:</p> <ul style="list-style-type: none"> • AES has in place a process to maintain and keep an information register. • AES has in place a process to govern information sharing with an affiliated entity. • AES has in place a process to protect confidential information. <p>Recommendations:</p> <p>None noted.</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
	<p>(d) Without limiting clause 4.3.3(a), a DNSP must establish an information sharing protocol that sets how and when it will make the information referred to in clause 4.3.3(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 4.3.3(a) to any other legal entity under this clause 4.3.3, it must do so on terms and conditions that require the other legal entity to comply with clause 4.3.1 and 4.3.2(a) to (d) in relation to that information as if the other legal entity was a DNSP.</p>			
4.3.4	<p>(a) A DNSP must establish, maintain and keep a register of all:</p> <ul style="list-style-type: none"> i. related electricity service providers; ii. other legal entities who provide contestable electricity services but who are not affiliates of the DNSP; <p>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>	<p>AES has included in its Ring-fencing policy setting out the contents of an information register, which includes organisations which have requested access to information and the kind of information sought.</p> <p>The Ring-fencing policy prohibits staff inappropriately sharing information, other than through the formal process listed out in the information sharing protocol, as published on the AES website.</p> <p>The information register is maintained by the Regulation team, as any information request goes through the Regulation team.</p> <p>There are no shared information and no information request received as at the date of the report.</p>	<p>Discussion held with:</p> <ul style="list-style-type: none"> Members of the Network Planning and Connections Teams Senior Manager Compliance Legal Counsel Compliance Officer <p>Procedures performed:</p> <p>We obtained and reviewed the information sharing protocol and register to ensure that AES has in place appropriate information handling procedures and policies.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions had been noted on AES'</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
	<p>i. identify the kind of information requested by the legal entity; and</p> <p>ii. describe the kind of information requested by the related electricity service provider or other legal entity in sufficient detail to enable other legal entities to make an informed decision about whether to request that kind of information from the DNSP</p> <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>compliance against the obligation with the key points noted below:</p> <ul style="list-style-type: none"> AES has in place a process to maintain and keep an information register. <p>Recommendations: None noted.</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 that enable or assist the DNSP to supply direct control services, requires the service provider to comply, in providing those services, with:</p> <p>i. clauses 4.1, 4.2.1, 4.2.2 and 4.3.2 of this Guideline; and</p> <p>ii. clause 4.2.3 of this Guideline in relation to the brands of the DNSP; as if the service provider was the DNSP.</p> <p>(b) must not, directly or indirectly, encourage or incentivise a service provider to engage in conduct which, if the DNSP engaged in the conduct itself, would be contrary to</p>	<p>Together with the legal team, AES has developed various Statement of Works for the respective Mondo provisions of services, which includes and not limited to chemical testing services, metering services, HV asset testing and others. A MAESer Service Agreement was also developed to formalise existing and future arrangements for contestable electricity services provided by affiliated entities to AES, and for any direct control services provided by AES to any affiliated entity. The MAESer Service Agreement is developed based on a third-party contract, to ensure the terms and conditions set out are not discriminatory against external parties</p> <p>AES has a Procurement Principles and Procurement Framework in place, which we have assessed as part of Clause 4.1(c).</p>	<p>Discussion held with:</p> <p>Members of the Procurement Team Senior Manager Compliance Legal Counsel</p> <p>Procedures performed:</p> <p>We obtained and reviewed the updated standard terms and conditions for Supply of Goods & Service Agreement for orders up to \$75,000 and \$75,000 up to \$250,000.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted with AES' compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> AES has in place a process to ensure arrangements with service providers are in accordance with the Guideline <p>Recommendations: None noted.</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
	the DNSP's obligations under clause 4 of this Guideline.			

Obligation: Waivers – Section 5

Guidance Assessment Criteria and Assessment Controls

Ref	Compliance Obligation	Process Description	Testing	Grading
5.7	<p>(a) A DNSP must establish, maintain and keep a register of all waivers (including any variation of a waiver) granted to the DNSP by the AER under clause 5 of this Guideline, and must make the register publicly available on its website.</p> <p>(b) The register established under clause 5.7(a) must include:</p> <ol style="list-style-type: none"> 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>Based on AES analysis of its circumstances against the Guideline, AES had a few existing arrangements that were not aligned with the Guideline including:</p> <ul style="list-style-type: none"> • Public lighting and nightwatchman lights (including: alteration and relocation of distributor public lighting assets; new public lights, and; installation, repair and maintenance of watchman lights); • Emergency recoverable works; • Reserve feeder construction. <p>It is noted that AusNet did not have any active waivers in place during the 2022 compliance year.</p>	<p>Discussion held with:</p> <ul style="list-style-type: none"> Senior Manager Compliance Legal Counsel Compliance Officer <p>Procedures performed:</p> <p>We have obtained and reviewed the waiver register to assess the register's inclusion of waiver details as required by the Guideline.</p> <p>We noted that AusNet did not have any active waivers in place during the 2022 compliance year.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted with AES' compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> • AES has processes and controls in place to establish and maintain the waiver register <p>Recommendations:</p> <p>None noted.</p>	Strong

Obligation: Compliance and enforcement – Section 6

Guidance Assessment Criteria and Assessment Controls

Ref	Compliance Obligation	Process Description	Testing	Grading
6.1	<p>A DNSP must establish and maintain appropriate internal procedures to ensure it complies with its obligations under this Guideline. The AER may require the DNSP to</p>	<p>AES has internal procedures in place to ensure it complies with obligations under the Guideline. Each obligation clauses under the Guideline is put under a Responsible person in AES.</p>	<p>Discussion held with:</p> <ul style="list-style-type: none"> Legal Counsel Senior Manager Compliance 	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
	<p>demonstrate the adequacy of these procedures upon reasonable notice. However, any statement made or assurance given by the AER concerning the adequacy of the DNSP's compliance procedures does not affect the DNSP's obligations under this Guideline.</p>	<p>On a quarterly basis, the compliance system will automatically generate a prompt or a reminder to the responsible person to confirm the compliance status of the specific obligation. Also, the Compliance team obtains input from the respective responsible person in regard to the status of compliance for each Guideline obligation. Inputs include movements or changes in their respective areas, and how these changes align to the obligation. The Compliance team collates the information on the status and progress and any issues noted</p> <p>AES has continued to use a dedicated ring fencing email inbox to allow employees easy access to the project team to ask any questions or clarify policy and procedures put in place by AES.</p>	<p>Compliance Officer</p> <p>Procedures performed:</p> <p>We obtained and reviewed the Ring-fencing Policy which demonstrates that it complies with AER's requirement on compliance procedures.</p> <p>We obtained and reviewed the compliance spreadsheet tracker populated by the Compliance team which includes input from responsible person.</p> <p>We obtained and reviewed the compliance calendar utilised by Compliance team which includes all the reminder to submit the report.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted with AES' compliance against the obligation with the key points noted below:</p> <ul style="list-style-type: none"> AES has regulatory compliance monitoring and reporting process to facilitate compliance assurance <p>Recommendations:</p> <p>None noted.</p>	
6.2.1 -2	<p>(a) A DNSP must prepare an annual ring-fencing compliance report each calendar 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 calendar year to which the report relates:</p>	<p>The responsibility for each obligation clause under the Guideline is assigned to a responsible person within AES. Each quarter, the Compliance team obtains input from the respective responsible person in regard to the status of compliance for each Guideline obligation. The Compliance team collates the information on the status and progress and any issues noted, to prepare the annual ring-fencing compliance report.</p> <p>AES has engaged Ernst and Young as the independent authority to assess its annual compliance report.</p>	<p>Discussion held with:</p> <p>Legal Counsel Senior Manager Compliance Compliance Officer</p> <p>Procedures performed:</p> <p>We have been engaged by AES to perform as the independent authority to assess compliance in relation to ring fencing.</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
	<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 with each provision of this Guideline (except clauses 6.2.2 and 6.3) by a suitably qualified independent authority.</p> <p>(d) A DNSP's annual compliance report may, in relation to clause 3.2 of this Guideline, be based on information provided to the AER under a regulatory information notice for the DNSP's most recent regulatory year. If so, that annual compliance report must cover, in relation to clause 3.2 of this Guideline, the entirety of that regulatory year.</p> <p>(e) Annual compliance reports may be made publicly available by the AER.</p> <p>Timing of annual compliance reporting</p> <p>(a) Subject to clause 7.2, a DNSP must submit its annual compliance report to the AER within four months of the end of the calendar year to which the compliance report</p>		<p>We have obtained and reviewed management's draft annual compliance report</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted with AES' compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> AES has regulatory compliance monitoring and reporting process to facilitate compliance assurance <p>Recommendations:</p> <p>None noted.</p>	

Ref	Compliance Obligation	Process Description	Testing	Grading
	<p>relates.</p> <p>(b) A DNSP is not required to submit an annual compliance report for its regulatory year in which this Guideline commences.</p>			
6.2.3	<p>Regulated stand-alone power systems reporting</p> <p>A DNSP must establish, maintain and keep a register that identifies, for each regulated stand-alone power system used by the DNSP to provide other services:</p> <ul style="list-style-type: none"> i. the local government area in which the regulated stand-alone power system is deployed; ii. the number of premises served by the regulated stand-alone power system; iii. the maximum demand, in kW, served by the regulated stand-alone power system; iv. the aggregated annual average energy consumption, in kWh, of the premises served by the regulated stand-alone power system; v. the revenue earned by the DNSP for providing other services by means of the regulated stand-alone power systems in the current calendar year; and vi. whether the DNSP has made a request, in writing, for the supply of the other 	<p>AES had no regulated stand-alone power systems in place in the 2022 Calendar year.</p> <p>The regulated stand-alone power system register is formally reviewed on a quarterly basis by the Compliance team.</p> <p>On a quarterly basis, the AES Compliance Management System sends an automated compliance task alert to the nominated member of the Compliance Team to perform a formal review of the register.</p> <p>Maintaining the regulated stand-alone power systems register also includes ensuring its visibility on the AES website. This is published on AES dedicated ring-fencing webpage: Ring-fencing compliance (ausnetservices.com.au)</p> <p>Changes to this webpage are performed by the Customer Communications team as directed by the Compliance teams.</p>	<p>Discussion held with:</p> <ul style="list-style-type: none"> Legal Counsel Senior Manager Compliance Compliance Officer <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted with AES' compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> • We observed that AES has last updated the RSAPs register on its website on the 31/3/23. <p>Recommendations:</p> <p>None noted.</p>	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
	<p>services by another legal entity (other than an affiliated entity of the DNSP). No later than 15 January, 15 April, 15 July and 15 October each year, a DNSP must publish, on its website, an updated version of the register referred to in clause 6.2.3(a).</p> <p>The DNSP must ensure that the information published in each updated version is current to the end of the calendar month that is immediately prior to the required publication date for that updated version under this clause 6.2.3(b).</p>			
6.3	<p>A DNSP must notify the AER in writing within 15 business days of becoming aware of a breach of its obligations under this Guideline, except for a breach of clause 6.2.2 or this clause 6.3 of this Guideline. The AER may seek enforcement of this Guideline by a court in the event of any breach of this Guideline by a DNSP, in accordance with the NEL.</p>	<p>AES compliance reporting includes a process for reporting breaches and for Compliance team review and escalation. AES has extended its Breach Notification, Escalation and Corrective Action Procedure to meet the Guideline.</p> <p>When a potential breach is raised by an employee to the Regulation team, it is communicated to the Compliance team, who then raise the issue with the line manager. The potential breach is recorded in the compliance system, which will subsequently be addressed by closing it out as not a breach, not a material breach or to escalate to the regulator. Compliance team may consult the Legal team if the potential breach may result in a physical injury or material financial losses. The General Manager and Managing Director is notified of any confirmed material breach within 24 hours and Compliance team is required to provide a preliminary notification to AER, followed by a written report on the breach within 5 working days.</p> <p>Corrective actions are discussed and agreed on with involvement from the responsible person and the line manager. The responsible person is required to provide a progress update on the remediation actions to the Compliance team, which is agreed upon during planning. Once corrective measures are completed, the plan is updated and closed in the Compliance system. Compliance team is responsible for providing updates to the AER regarding material breaches to close out the issue.</p> <p>AES has also adjusted the policy and updated the ringfencing training to include AER's feedback that, Compliance, Regulatory or Legal will engage with AER staff to determine the materiality of the potential breach rather than wait for the annual report to report the breach to AER in the event of a breach is identified.</p>	<p>Discussion held with:</p> <ul style="list-style-type: none"> Legal Counsel Senior Manager Compliance Compliance Officer <p>Procedures performed:</p> <p>We have held the discussion with management and obtained the breach notification, Escalation and Corrective Action Procedure which is in accordance with the Guideline.</p> <p>Observation:</p> <p>Based upon the discussions held and procedures performed, no exceptions were noted with AES' compliance against the obligation with the key points noted below:</p> <ul style="list-style-type: none"> • AES has regulatory compliance monitoring and reporting process to facilitate compliance assurance • AES has used compliance calendar as a reminder to 	Strong

Ref	Compliance Obligation	Process Description	Testing	Grading
		A breach register is maintained and forms the basis for breach reporting to executive management and the Audit and Risk Committee.	<p>keep track of breach reporting deadline to AER. We acknowledge that there is no breach happened during the compliance year 2022.</p> <p>Recommendations: None noted.</p>	

5. Auditor Statement

Independent assurance report to the members of AusNet Electricity Services

We have audited AusNet Electricity Services Pty Ltd.'s (AES) compliance with specific regulatory obligations in the *Ring-fencing Guideline Electricity Distribution* published by the Australian Energy Regulator (AER), as defined in the "Terms of Reference" for the year ended 31 December 2022.

Assurance Practitioner's responsibility

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

Our responsibility is to express a reasonable assurance conclusion on compliance with the specific regulatory obligations as defined in the scope. Our audit has been conducted in accordance with applicable Standards on Assurance Engagements (*ASAE 3100 Compliance Engagements*) and the "Terms of Reference" to provide reasonable assurance that the AES has complied with the *Ring-fencing Guideline Electricity Distribution*. Our procedures included undertaking a walkthrough of the systems/process by which compliance data is captured and reported, conducting interviews with process owners, obtaining audit evidence and sample testings. Where applicable we have reviewed relevant Regulations and Codes, Company policies and made inquiries of management. These procedures have been undertaken to form a conclusion as to whether AES has complied in all material respects, with the *Ring-fencing Guideline Electricity Distribution*, as measured by the Terms of Reference for the year ended 31 December 2022.

Inherent limitations

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

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

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

Independence

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

Conclusion

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

Restriction on distribution

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

The logo for Ernst & Young, featuring the company name in a stylized, handwritten-style font.

Ernst & Young

26 April 2022