

AusNet

Electricity Transmission Ring-fencing Guideline

2023 Annual Compliance Report

Tuesday, 30 April 2024



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1. Executive Summary

This document is AusNet Transmission Group Pty Ltd's (**AusNet** or **TNSP**) Annual Compliance Report (**Report**) as per the reporting requirements outlined in the Australian Energy Regulator's (**AER**) Ring-fencing Guideline for Transmission (**Guideline**). In this report, a reference to AusNet is a reference to the TNSP and its related bodies corporate.

As per reporting requirements in the Guideline, this report has been assessed by an independent authority, Ernst & Young (**EY**). A copy of their Assessment of Compliance accompanies this document.

This Report contains detail on the four (4) reporting requirements as per the Reporting Obligation in the Guideline. Table 1 summarises the compliance outcome of these requirements and any related findings or recommendations provided by EY through their independent assessment.

REPORT REQUIREMENTS	AUSNET'S ASSESSMENT
Measures to ensure compliance	Compliance to the Guideline is supported by a targeted training sessions for departments directly impacted and an intranet page that provides information regarding Ring-fencing requirements.
Breaches of the Guideline	A breach management process exists to manage and treat potential or actual breaches. No breaches of versions 3 and 4 of the Guideline were identified or reported during 2023.
Other services provided	AusNet does not deliver other services, except to the extent permitted under clause 3 of the Guideline or under and in accordance with Waivers granted under the Guideline.
Purpose of transactions between TNSP and affiliated entities	Data produced and verified by the finance team satisfies that AusNet Services has applied its Cost Allocation Methodology (CAM) to prevent cross-subsidies.

Table 1: Reporting requirements summary

2. Background Information

2.1. The Guideline's purpose

The Australian Energy Regulator's (**AER**) Electricity Transmission Ring-fencing Guideline Version 4 (**Guideline**) aims to:

- Promote the National Electricity Objective by providing for the accounting and functional separation of the provision of prescribed transmission services by transmission network service providers (TNSPs) from the provision of other services by TNSP's or by their affiliate entities.
- Promote competition in the provision of electricity services.

Version 3 of the Transmission Ring-fencing Guideline commenced on 6 July 2022 and Version 4 of the Transmission ring-fencing Guideline commenced on 1 March 2023. While some requirements of Version 4 were effective immediately, there was a 12-month transition period that applied and TNSP's were required to comply as soon as reasonably practical and no later than 1 March 2024.

Clause 7(b) sets out those parts of the Guideline that commenced immediately:

Clause 3.1(c)	Requires legal separation with respect to the use of energy storage devices where they are used for anything other than provision of network support services, i.e., new or varied agreements must not allow use of TNSP-owned storage devices except to provide network support services.
Clause 4.4.1(a)	Requires service provider agreements related to the provision of prescribed transmission services to require service providers to comply with specific clauses (4.1, 4.2.1 and 4.3) of the Guideline. These clauses ensure non-discrimination (treatment of related parties and competitors).
Clauses 6.2.1 and 6.2.2	Requires annual compliance reporting commencing with a report for the 2023 calendar year to be submitted by end-April 2024. This includes an auditor assessment.
Clause 6.3	Requires breach reporting to AER within 15 business days of becoming aware of any breach of the Guideline.
Clause 7(c)	Requires that compliance with version 3 of the Guideline is maintained until the TNSP is fully compliant with version 4, except to the extent that non-compliance with version 3 is necessary in order to comply with version 4.

This annual compliance report will demonstrate compliance with version 4 of the Guideline and the relevant provisions that were in force during the 9-month reporting period.

2.2. Purpose of this report

This report delivers AusNet's Annual Ringfencing Compliance Report covering the period 1 March 2023 to 31 December 2023 (**reporting period**) under version 4 of the Guideline.

This is AusNet's 1st annual compliance report submitted under the Guideline.

Clause 6.1 of the Guideline requires that AusNet must establish and maintain appropriate internal procedures to ensure it complies with its obligations under the Guideline. Additionally, AusNet may be required to demonstrate the adequacy of these procedures.

The report has been structured in line with the reporting obligation and identifies and describes for the 2023 Reporting period:

1. the measures the TNSP has taken to ensure compliance with its obligations under this Guideline; (see section 4.1)
2. any breaches of this Guideline by the TNSP, or which otherwise relate to the TNSP (see section 4.3);
3. all other services provided by the TNSP in accordance with clause 3.1 (see section 4.4); and
4. the purpose of all transactions between the TNSP and an affiliated entity (see section 4.5).

The Assessment of Compliance by a suitably qualified independent authority (Ernst & Young) accompanies this report.

3. About AusNet Services

3.1. Overview

AusNet Services owns and operates Victoria's electricity transmission network. The network serves Victoria, covering an area of approximately 227,600 square kilometres and serving a population of over 5.9 million people, or more than 2.1 million households and businesses. (Refer to **Figure 1**).

The Victorian network is centrally located among Australia's five eastern states, and it provides important connections between South Australia, New South Wales and Tasmania. The design and tendering for new construction of the Victorian transmission network is undertaken by the Australian Electricity Market Operator (**AEMO**) under arrangements that are unique to Victoria. In addition, our transmission customers have responsibility for planning their transmission connection assets; AusNet Services does not have responsibility for planning augmentations to the Victorian transmission system.

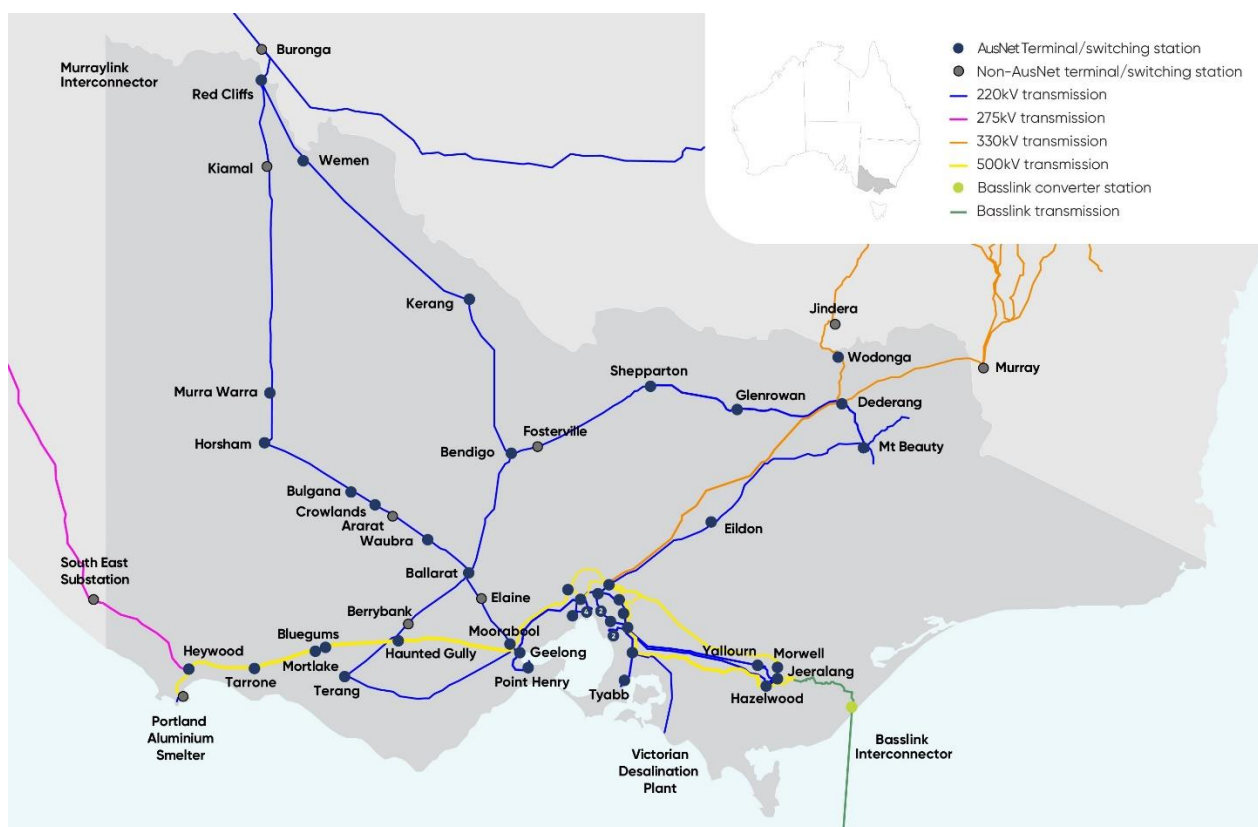


Figure 1: AusNet Transmission networks

3.2. Corporate Ownership and Structure

Effective 16 February 2022, AusNet Services Ltd (now AusNet Pty Ltd) was acquired via a Scheme of Arrangement by Australian Energy Holdings No 4 Pty Ltd, a company controlled by Brookfield Asset Management, and was delisted from the Australian Stock Exchange with effect from 17 February 2022.

Prior to the Brookfield acquisition, AusNet Services Ltd, the head company of AusNet Services, was approximately 32 per cent owned by Singapore Power, approximately 20 per cent owned by State Grid of China and about 48 per cent broadly publicly owned and was publicly listed on the Australian Securities Exchange (ASX) under code AST.

AusNet's business structure includes functional business divisions, support functions to facilitate the core operations of the business. AusNet is managed and overseen by our Executive Leadership Team and the AusNet Board of Directors.

4. Annual Compliance Report

4.1. Measures to ensure compliance

Sub-clause 6.2.1(b)(i) requires TNSPs to report on 'the measures the TNSP has taken to ensure compliance with its obligations under this Guideline.'

The new guideline commenced on 1 March 2023 and while some clauses were effective immediately, there was a 12-month transition period that applied and TNSPs were required to comply as soon as reasonably practical and no later than 1 March 2024.

To ensure adherence during this transition period AusNet focused on awareness, targeted training, and internal policy and procedure updates to reflect the updated obligations. Key activities undertaken during the reporting period aimed at improving ring-fencing awareness and implementation. Some of these activities include:

- A significant focus during the transition period was creating awareness and dissemination information about the Guideline, highlighting key obligations and their importance. AusNet conducted awareness sessions to ensure that employees understand their responsibilities in compliance with the Guidelines.
- Development of ring-fencing training packs and artefacts.
- Targeted training sessions have been conducted for departments directly impacted by the Guideline to enhance ring-fencing awareness.
- Development of a transmission ring-fencing intranet page which provides information regarding ring-fencing requirements.
- Internal procedures have been reviewed and revised to align with the Guidelines, incorporating new compliance requirements.
- Established compliance reporting mechanisms for relevant employees to raise compliance concerns or seek clarification on the transmission ring-fencing guidelines.

AusNet utilizes a 'three lines of defence' approach to compliance management.



Figure 2: Three lines of defence approach

In terms of compliance to the Guideline, the owners of the controls ('Responsible Persons' are typically managers within the operational area that are responsible for obligation adherence) ensure adequate processes, systems and controls are in place that ensure compliance or detect when a non-compliance occurs or may occur (first line).

The monitoring and internal reporting of compliance adherence is generally performed by the Regulatory Compliance Team (second line). During this 12-month transition period the obligation owners would engage with both the legal team and the regulatory compliance team with progress updates and concerns.

In terms of third line defence, the independent assessment of our compliance report provides additional assurance of the effectiveness of compliance adherence.

The appendices contain information in relation to ring-fencing compliance during 2023:

- Appendix 1: Summary of the measures of compliance relevant to ring-fencing obligations; and

- Appendix 2: Additional information about AusNet Services' compliance management framework and approach.

As all provisions in Version 4 of the Guideline are now in effect as of 1 March 2024, AusNet will initiate the periodic completion of compliance tasks relating to the obligations in its compliance management system.

Clause 4.4.1: Procurement Process

From 1 March 2023, the procurement, major projects and legal teams were made aware of the requirement to ensure that appropriate ring-fencing clauses were included in any new or varied agreements entered into by AusNet Transmission Group Pty Ltd for the provision of prescribed transmission services, or to assist in the provision of prescribed transmission services. The vast majority of suppliers for prescribed transmission services are engaged under existing master panel agreements. AusNet's management's view was that any works contract or statement of works issued under a master panel agreement (such as the Strategic Portfolio Services Panel Agreement) was not a new or varied agreement for the purposes of the transmission ring-fencing guideline. Further, any such contract included an obligation on the supplier to comply with all laws relevant to their activities (which would include ring-fencing laws).

However, from August 2023, AusNet management elected to update and improve its risk control processes to provide additional certainty in respect of transmission ring-fencing provisions in supplier contracts. This updated process meant that from 15 August 2023:

- procurement templates were updated on AusNet's 'template database' in Ariba to include explicit transmission ring-fencing clauses;
- AusNet's standard form purchase order T&Cs were updated to include the relevant ring-fencing provisions; and
- the template 'works contracts' and 'statement of works' issued under the master panel agreement for non-contestable transmission works was updated to include transmission ring-fencing provisions.

The procurement and major projects teams are permitted to sign contracts in the same form as the templates without legal review and approval (which from 15 August 2023 onwards incorporated the transmission ring-fencing guidelines). Any amendments to those template documents are required to obtain legal review and approval, giving additional comfort that the ring-fencing clauses will not be removed during negotiation. Where a contract is to be varied, legal must review and approve before the variation agreement is signed. Where a contract is to be signed on the supplier's terms and conditions, legal must review and approve before signing. This process provides AusNet with the comfort that transmission ring-fencing provisions are in place in all relevant AusNet Transmission Group Pty Ltd contracts.

This process was identified in the independent compliance assessment as an area whereby enhanced monitoring can potentially assist in strengthening ring-fencing compliance. A review of these controls will be conducted and implemented by 15 August 2024.

4.2. Breaches

Under clause 6.2.1 (b)(ii), any breaches of the Guideline by the TNSP must be reported in the annual compliance report. This includes any breaches already reported to the AER and any breaches not already reported to the AER during the calendar year.

No breaches of the Guideline (versions 3 and 4) were reported or identified during 2023.

4.3. Other services

In accordance with clause 6.2.1 (b)(iii), AusNet is required to include in its Report 'all other services' provided by the TNSP in accordance with clause 3.1".

Clause 3.1 of the Guideline sets out the specific circumstances under which an affiliate entity of a TNSP can provide 'other services' without breaching the Guideline. Specifically, the provision of 'other services' is subject to the granting of ring-fencing obligation waivers by the AER (clause 3.1(f)).

As at 31 December 2023, there were no ring-fencing obligation waivers in place for AusNet.

Waiver information is available in AusNet Waiver register which is published on AusNet website¹ as per clause 5.7.

4.4. Transactions with affiliated entities

Sub-Clause 6.2.1(b)(iv) of the Guideline requires that distributors report on the purpose of all transactions between them and their affiliated entities.

The schedule of 'purpose of transactions' is provided in **Appendix 3**.

4.5. Independent assessment

AusNet engaged Ernst and Young to provide an independent assessment of compliance based on AusNet Services' 2023 annual compliance report.

AusNet's management comments in relation to any recommendations and findings by Ernst and Young are included in the final assessment report provided to the AER.

¹ [Transmission ring-fencing compliance \(ausnetservices.com.au\)](https://www.ausnetservices.com.au)

A. Appendix 1: Measures for Compliance

Table 2 provides an overview of the ring-fencing compliance controls for each Ring-fencing Guideline version 4 obligations that came into effect on 1 March 2023

Control	Control Type	Description	3.1 Legal Separation	4.4.1 Conduct of service providers	6.2.1 Annual Compliance report	6.2.2 Timing of the Annual report	6.3 Compliance Breaches	7(c) Transitional arrangements
Ring-fencing Policy	Preventative	<p>This policy:</p> <ul style="list-style-type: none"> explains how AusNet Services ensures that the AER's Electricity Transmission Ring-fencing Guideline is complied with and managed within the business; and applies to all employees, contractors and suppliers working for AusNet Services. <p>The policy represents a single reference guide for our compliance approach and training of staff on their obligations.</p>	✓	✓	✓		✓	✓
Targeted Training material	Preventative	Performed targeted training sessions for departments directly impacted.	✓	✓	✓		✓	✓
Dedicated Ring-fencing knowledge page	Preventative	<p>Complements the targeted training.</p> <p>A dedicated page on the intranet has been established to house information, all AusNet Services staff can access to help with Ring-fencing Compliance items.</p> <p>The page is maintained by the Compliance Team.</p>	✓	✓	✓	✓	✓	

Control	Control Type	Description	3.1 Legal Separation	4.4.1 Conduct of service providers	6.2.1 Annual Compliance report	6.2.2 Timing of the Annual report	6.3 Compliance Breaches	7(c) Transitional arrangements
Dedicated email address	Detective	Dedicated internal email address for members of the Regulation and Compliance team to address any ringfencing queries raised by staff and or regulators.	✓	✓	✓		✓	✓
Breach Management	Corrective	AusNet Services' Ring-fencing Policy and Enterprise Compliance Policy and Regulatory compliance frameworks accounts for responsibilities in managing any breach (Ringfencing requirements included).	✓	✓	✓		✓	
Ring-fencing Compliance Report Schedule/Plan	Preventative	A document established that outlines the key dates and tasks to prepare AusNet Services annual compliance report.			✓	✓	✓	
Independent Assessment of Compliance	Detective	AusNet Services engages an independent authority (as per requirements of cl 6) to validate its Annual Compliance Report. This activity also serves as a mechanism to detect any potential non-compliances.	✓	✓	✓	✓	✓	
AusNet Corporate Structure	Preventative	Illustrates the legal separation of AusNet services groups. This is monitored and maintained by the Company Secretary as it relates to various corporate governance requirements.	✓					

Table 2: Summary compliance controls against Ring-fencing obligations

B. Appendix 2: Supplementary Compliance Management Information

AusNet maintains an enterprise Compliance Policy and a Regulatory Compliance Framework which is managed by the Regulatory Compliance Function and aligns with compliance standard ISO 37301:2021 Compliance Management System.

The effectiveness of the Compliance Policy and Framework is overseen by the Audit and Risk Committee (ARC) and the AusNet Board with the Regulatory Compliance Function providing confidential compliance papers to the ARC and Board on a regular basis. As part of this oversight, the effectiveness of the Policy and Framework is also subject to periodic audit by external regulators and auditors.

Additionally, the Regulatory Compliance Function provides a range of compliance awareness training, advisory and assurance services.

Obligations are identified, recorded and assigned to 'responsible persons' in a centralised compliance management database. Responsible Persons ensure that these obligations are appropriately embedded in business activities including policies, processes, procedures, digital systems and tasks.

AusNet adopts a risk-based approach to compliance monitoring and assurance with Responsible Persons periodically attesting to the state of compliance. The attestations and supporting evidence provided by Responsible Persons is independently reviewed by the Regulatory Compliance Function from a quality perspective and, where appropriate, clarification of responses is sought.

Processes also exist for employees, including contractors, to report potential regulatory breaches at any time.

Where applicable, the Regulatory Compliance Function ensures that breaches are reported to the relevant agency/regulator within prescribed timeframes and monitors delivery of corrective actions.

C. Appendix 3: Purpose of Transactions

Tables 3 & 4 summarise the purpose of transactions (type, description and nature of work) between AusNet and affiliated entities during 2023. Costs associated with the transaction have also been provided as requested by the AER.

Legal entity	Description	Type of work	Nature	Direct Mondo Projects \$	Projects \$	Direct charge from Mondo \$
Geomatic.AI Pty Ltd	General Expense	Engineering services	Engineering services	-		-

Table 3: Operating expenditure (OPEX) summary

Legal entity	Description	Type of work	Nature	Direct Mondo Projects \$	Projects \$	Direct Charge from Mondo \$
Mondo Power Pty Ltd	Revenue	Lease and metering revenue	Lease and metering revenue	-		-
AusNet Electricity Services Pty Ltd	Revenue	Transmission network charges	Exit charges for use of Transmission network	-		-
AusNet Electricity Services Pty Ltd	Revenue	Transmission network charges	Network Charges	-		-
AusNet Electricity Services Pty Ltd	Cost of Sales	NUoS	Network use of services	-		-
Mondo Power Pty Ltd	Intercompany Contracts	Meter Data services	Meter Data services	-		-
AusNet Services Holdings Pty Ltd	Interest Expense	Interest Expenses	Interest on borrowing	-		-

Table 4: Transactions with Other Affiliate Entities Summary