

# Ausgrid Ring-Fencing Report

1 January - 31 December 2023



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## Overview

The *Ring-fencing Guideline Electricity Distribution Version 3* (the **Guideline**) requires each Distribution Network Service Provider (**DNSP**) to prepare a Ring-fencing compliance report each regulatory year. Ausgrid Operator Partnership (ABN 78 508 211 731) (**Ausgrid**) is a DNSP, and this document (**Report**) has been prepared in compliance with clause 6.2 of the Guideline and other applicable provisions.

The reference period for this Report is 1 January 2023 to 31 December 2023 (the **Period**). The Report addresses Ausgrid's adherence to Version 3 of the Guideline, as in force for the entirety of the Period.

Capitalised terms used in this Report, which are not otherwise defined in this Report, have the meaning given to them in the Guideline or the National Electricity Rules.

## Introduction

As mandated by the Guideline, this Report identifies and describes, in respect of the **Period**:

- The measures Ausgrid has taken to ensure compliance with the provisions of the Guideline;
- Any breaches of the Guideline by Ausgrid (or which otherwise relate to Ausgrid);
- All 'other services' provided by Ausgrid, in accordance with clause 3.1; and
- The purpose of all transactions between Ausgrid and its affiliated entity, PLUS ES Partnership (ABN 30 179 420 673) (**PLUS ES**).







## The Report in Summary

Topic	Summary of Section	Where to find in this Report
Breaches	Ausgrid had two breaches of the Guideline during the Period.	Section 1
Compliance Measures	During the Period, Ausgrid maintained appropriate internal procedures to ensure compliance with Guideline obligations.  During the Period, additional controls were introduced to further strengthen Ring-fencing compliance.	Section 2
Provision of 'Other Services'	Ausgrid provides 'other services' in accordance with clause 3.1 of the Guideline.	Section 3
Purpose of transactions with PLUS ES	Ausgrid's transactions with PLUS ES fall within the following four service categories: <ol style="list-style-type: none"><li>1. Metering related (Alternate Control Services)</li><li>2. Metering related (Standard Control Services)</li><li>3. Electrical and Fibre Services</li><li>4. Testing services.</li></ol>	Section 4

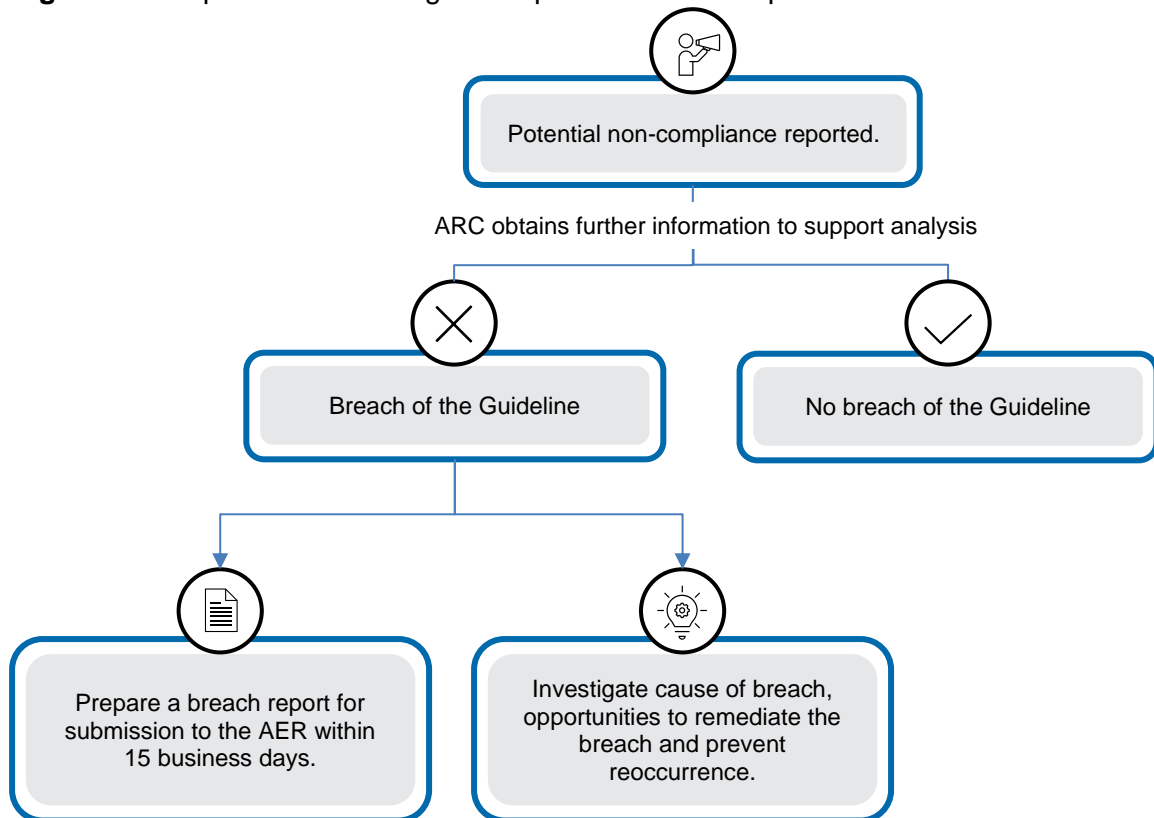
# 1. Breaches

In line with Ausgrid’s values, Ausgrid utilises its Compliance Management Framework (the Framework) to establish a mechanism that allows it to identify and escalate Ring-fencing (RF) related issues.

**Figure 1:** The various methods of identifying non-compliances

-  **Internal compliance reviews**
-  **Annual attestation of controls**
-  **Employees notify Audit, Risk and Compliance (ARC) team**
-  **Complaints or other feedback**
-  **Whistleblower process**
-  **Information Communication Technology (ICT) data loss identification and escalation process**

**Figure 2:** The process of dealing with a potential non-compliance.



The Table below shows Ausgrid’s breach history since 2018 to date.

**Table 1:** Table showing Breach History

<b>Period</b>	<b>Intentional Breaches to support Vulnerable Customers*</b>	<b>Unintentional Breaches</b>	<b>Total for report period</b>
<b>1 July 2018 – 30 June 2019</b>	35	4	39
<b>1 July 2019 – 30 June 2020</b>	6 <sup>1</sup>	0	6
<b>July 2020 – 31 December 2021</b>	NIL	NIL	NIL
<b>1 January 2022 – 31 December 2022</b>	NIL	NIL	NIL
<b>1 January 2023 – 31 December 2023</b>	2	NIL	2

\*During the Period, the majority of the contestable work performed by Ausgrid under its Vulnerable Customer Protocol fell within the terms of the ‘30-minute rule’, which is permitted under the AER’s 2019-24 Regulatory Determination (the Determination).

There were two intentional breaches of the Guideline, which were submitted to the AER in a timely manner.

#### **A. January 2023 Breach**

##### **Explanation**

A defective cross arm was identified on the elderly customer’s premises and supply was isolated. The customers were unable to engage a contractor despite multiple attempts, leaving them without power, water pumps or phone. The Vulnerable Customer Protocol was consulted and repairs were completed by Ausgrid to ensure the welfare of our customers.

##### **Actions taken to address any issues relating to the breach**

In accordance with clause 6.3 of the Guideline, this incident was reported to the AER within 15 business days of becoming aware of the breach.

##### **An assessment of the possible detriment and the timeline for any corrective/ remedial actions**

The elderly customers benefitted from Ausgrid’s timely intervention to restore power. No other corrective and remedial actions were necessary as there was no adverse impact on the contestable market.

#### **B. December 2023 Breach**

##### **Explanation**

Ausgrid consciously breached the ring-fencing guideline when it performed repairs to two defective private poles in order to address an immediate threat to life/safety for an elderly

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<sup>1</sup> All related to a severe storm response including customers who were without supply for over 7 days and there was difficulty finding an ASP/2 to perform the work.

and terminally ill vulnerable customer in a remote location ahead of a high heat period and long weekend.

**Actions taken to address any issues relating to the breach**

In accordance with clause 6.3 of the Guideline, Ausgrid reported this incident to the AER within 15 business days of becoming aware of the breach.

**An assessment of the possible detriment and the timeline for any corrective/ remedial actions**

The elderly vulnerable customer benefitted from Ausgrid's timely intervention to restore power. There were no ASPs in the vicinity able to complete the work. No other corrective and remedial actions were necessary as there was no adverse impact on the contestable market.

## 2. Compliance with the Guideline

### 2.1. Culture of compliance

Ausgrid maintained a strong Ring-fencing compliance culture throughout the Period. In particular, Ausgrid has observed:

- A strong top-down approach to compliance and governance specific to Ring-fencing obligations;
- Heightened employee awareness of our Ring-fencing obligations across all relevant groups in the organisation, for example via annual training and open communication between Ausgrid and PLUS ES employees;
- Compliance with Ring-fencing being given due consideration as the business underwent a restructure;
- Increased staff engagement with the Legal and ARC teams when questions over Ring-fencing arise; and
- Overall increasing compliance maturity as part of the continuing development of our compliance culture and Framework.

### 2.2. Compliance measures

Ausgrid's compliance program aims to ensure all regulatory and legislative requirements are met, including:



#### Obligations

Identification of compliance and risk activities that are, for example, associated with legislative and/or regulatory obligations (**Compliance Activity**).



#### Responsibility

Allocation of individual responsibility for each Compliance Activity at a management level.



#### Citations

Mapping the Compliance Activity to specific regulatory provisions (**citations**) with each citation being allocated a Subject Matter Expert (**SME**).



#### Controls

Identification of control(s) with respect to each citation with which the relevant SME must comply.



#### Attestation

Annual attestation of the efficacy of controls.



## 2.3. Ring-fencing Programme Enhancements

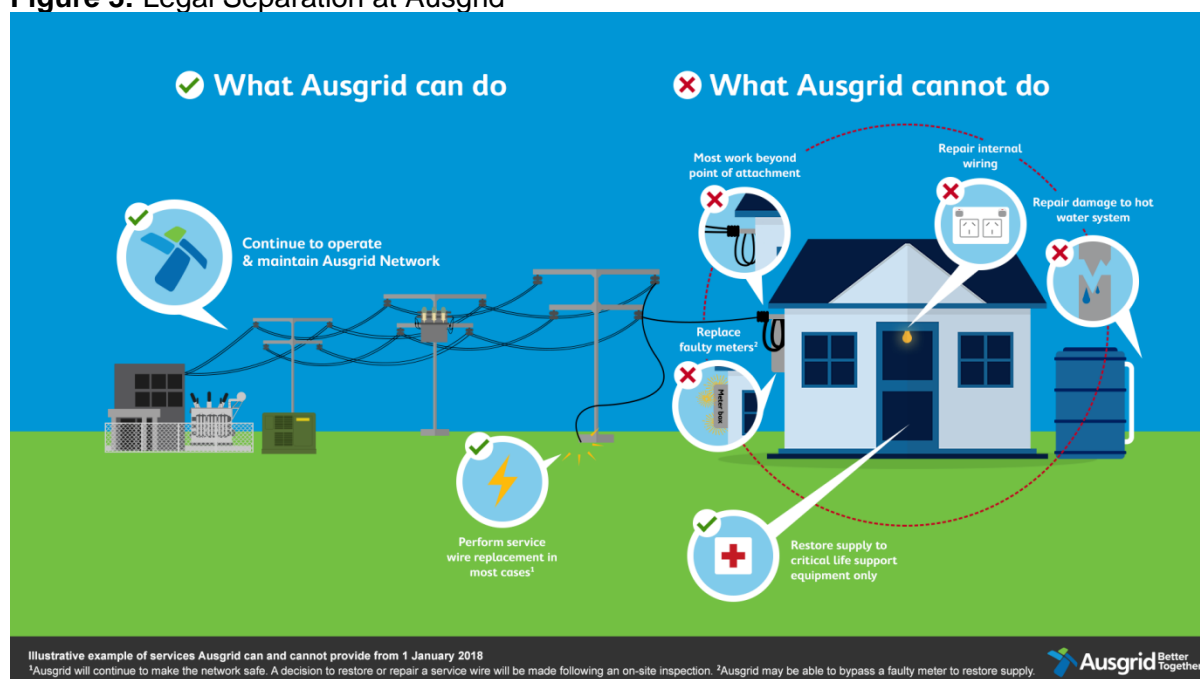
As part of our commitment to continuous improvement, this reporting period enhancements include<sup>2</sup> (but are not limited to):

- An audit (via Ausgrid's internal audit function) to review and refresh the controls in place for ring-fencing compliance;
- Improved monitoring of Ring-fencing compliance training using Power BI;
- Re-alignment and greater efficacy in managing Ring-fencing registers;
- Improved Vulnerable Customer Work Data Review – this ensures a further second-line of defence review of any jobs exceeding the 30-minute rule and potentially breaching the Guideline;
- Improved practice on how ring-fencing related documentation is managed, recorded and accessed and
- Updating the Ring-fencing Annual Report to include mandatory components of Waiver and Community Battery reporting.

## 2.4. Legal Separation

Ausgrid is permitted to provide dual function asset services but is prohibited from providing 'other services'<sup>3</sup>. Legal separation is achieved through the existence of PLUS ES, Ausgrid's 'Related Electricity Service Provider' (**RESP**) which provides all 'other services'<sup>4</sup>. This demarcation is illustrated in Figure 4, with the '30-minute rule' being an exception.

**Figure 3: Legal Separation at Ausgrid**



<sup>2</sup> Some of the items listed may be 'Work in Progress': Ausgrid does not represent that all of the initiatives were completed during the Period.

<sup>3</sup> In accordance with clause 3.1 of the Guideline.

<sup>4</sup> Permitted under the exception of clause 3.1(d) of the Guideline, and further outlined in Section 4 of this Report.

## 2.5. Cost Allocation Method

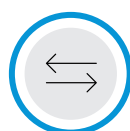
Ausgrid maintains an AER-approved cost allocation methodology (**CAM**) which attributes and allocates costs to individual lines of business including PLUS ES.

Ausgrid has the following controls in place to ensure the appropriate application of the CAM:



### Annual review of cost allocators and allocation methodology

This is subject to an annual audit in connection with the submission of Regulatory Information Notices (**RINs**).



### Monthly journal transfer and reconciliation processes

Journal transactions are recorded in accordance with the CAM and Corporate Service Agreement.



### Separate SAP systems

Ausgrid and PLUS ES have their own accounting systems and separate legal entities for the purposes of recording transactions between Ausgrid and PLUS ES.



### Accounting and Finance personnel

The team ensures compliance with and pragmatic application of the approved CAM and that Ausgrid and PLUS ES accounts are distinctly separated.

## 2.6. Functional Separation

### 2.6.1 Discrimination

Ausgrid avoids discriminating in favour of PLUS ES by embedding robust compliance controls within its processes and business culture, with the ARC team performing as a second line of defence.

### 2.6.2 Physical separation / co-location

Ausgrid's Procedure – PLUS ES Accommodation and Security (the Separation Procedure), which applies to all Ausgrid and PLUS ES staff, underpins the allocation of office space to PLUS ES and manages the risks associated with facilities shared between the two organisations, such as commonly available meeting rooms (shared amenities). ARC also conducts monitoring of the annual testing of physical segregation arrangements. Any adverse findings arising from these reviews are further investigated and where required, actions are implemented to rectify the issue or process.

### 2.6.3 Staff sharing

Ausgrid staff who are loaned to PLUS ES<sup>5</sup> are governed by robust controls which mandate the changeover of Ausgrid and PLUS ES uniforms, badges, ID cards, etc. at the beginning and cessation of each loan period.

Ausgrid also has the following innovative staff sharing compliance controls:

- Smart tools with inbuilt scripts in our HR systems, which identify staff movements and automatically set up system access rights for the duration of each staff sharing arrangement; and

<sup>5</sup> In accordance with clause 4.2.2 and supported by *Ausgrid Procedure - Temporary supply of Ausgrid staff to PLUS ES (Staff Sharing Procedure)*.

- Heightened cyber protection software and controls to protect confidential information.

## 2.6.4 Branding and cross promotion

Ausgrid and PLUS ES each have its own branding guidelines and marketing campaigns. Examples of separate branding include:



Ausgrid's Ring-fencing compliance program aims to prevent cross promotion of PLUS ES, particularly in the contestable electricity services market.

This obligation is emphasised through the following methods:

- Contact Centre leaders and staff, are provided with scripts which clearly advise staff not to mention or refer work to PLUS ES;
- Ausgrid field staff are trained to provide scripted refusals to customers who ask them to perform contestable work unless associated with our vulnerable customer protocols; and
- Staff are reminded of their Ring-fencing obligations by their managers, as well as through the annual training modules.

## 2.7. *Ensuring that Ausgrid's external service providers assist us to adhere to the Guideline*

- Ausgrid's standard contractual templates include a clause requiring the counterparty to do all that is necessary to ensure Ausgrid complies with the Guideline.
- Where necessary or appropriate, ring-fencing related training and reminders are also provided to external service providers.
- Quarterly reports were provided to the AER, detailing the frequency, volume and revenue received for each instance that Ausgrid provided short notice reserve to AEMO.

## 2.8. Waivers

Ausgrid was granted the following class waivers and provided quarterly updates to our website's waiver register:<sup>6</sup>

- To provide Reliability and Emergency Reserve Trader (**RERT**) services via voltage management, which exempts Ausgrid from functional separation obligations (clause 4.2 of the Guideline) under the class waiver. However, Ausgrid is not currently offering any RERT services;
- To participate in the Commonwealth Government's Community Batteries for Household Solar Program. For batteries funded under this program, Ausgrid is permitted to lease battery capacity to third parties and is exempt from its obligations to ensure legal and functional separation (**community battery class waiver**);<sup>7</sup> and
- To enable Ausgrid to bid to be a Network Operator for the Central-West Orana Renewable Energy Zone (**REZ**). However, as the NSW Government later clarified that DNSPs can bid for REZ projects and EnergyCo did not select Ausgrid as Network Operator for this project, the exemptions from certain Ring-fencing obligations under the class waiver are not applicable to Ausgrid.

## 2.9. Community Batteries

Ausgrid installed our first two community batteries in September and November 2023 under the community battery class waiver respectively. In March 2024, we consulted the AER on the reporting expectations under the community battery class waiver and received a confirmation that because these batteries were installed in the 2023 calendar year, the required information will be reported to AER in the 2024 calendar year annual compliance report with FY24 year data.

We will also not be engaging a third-party market provider until later this year when we have installed more batteries under this waiver.

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<sup>6</sup> In accordance with clause 5.7 of the Guideline.

<sup>7</sup> Waiving clauses 3.1, 4.2.1, 4.2.2 of the Guideline.

### 3. Other services

Ausgrid provides a range of other services as permitted under the Guideline.

**Table 2:** Ausgrid provision of other services under the protection of Guideline 3.1 (d)

Applicable Sub-Clause of 3.1(d)	Service(s) provided	Details
<b>i</b>	<p>We provide services to other legal entities such as Telecommunication providers and EV charging network providers, the rights to use our assets such as:</p> <ul style="list-style-type: none"> <li>• Poles</li> <li>• Dark fibre</li> <li>• Duct</li> <li>• Data backhaul service</li> <li>• Other structural network assets.</li> </ul>	The services are provided under licence arrangements and agreements.
<b>ii</b>	<p>The following corporate services were provided to PLUS ES:</p> <ul style="list-style-type: none"> <li>• General Administration</li> <li>• General Corporate</li> <li>• Accounting/Finance</li> <li>• Treasury</li> <li>• Human Resources/Payroll</li> <li>• ICT</li> <li>• Legal/Regulatory</li> <li>• Procurement</li> <li>• Fleet</li> <li>• Health, Safety and Environment</li> <li>• Company Secretary and Office of CEO</li> <li>• Audit</li> <li>• Corporate Affairs</li> <li>• Property &amp; Facilities.</li> </ul>	Ausgrid provided these services <sup>8</sup> to PLUS ES at an arm's length basis under the Services Agreements. <sup>9</sup>
<b>iii</b>	<p>The relevant office and staff provided to PLUS ES are noted in:</p> <ul style="list-style-type: none"> <li>• Office register</li> <li>• Staff sharing register.</li> </ul>	Ausgrid has allowed for staff sharing and co-location arrangements in limited and highly controlled circumstances <sup>10</sup> .
<b>iv</b>	<p>Electricity information was provided to PLUS ES as our contracted service provider for the following services:</p> <ul style="list-style-type: none"> <li>• Ausgrid's Metering Services; and</li> <li>• Ausgrid's Electrical and Fibre Services</li> </ul> <p>Electricity information is also provided to other service providers such as our vegetation management contractors.</p>	Ausgrid is permitted to provide electricity information to PLUS ES <sup>11</sup> , provided that any Ring-fenced information is protected <sup>12</sup> .

<sup>8</sup> In accordance with clause 3.1(d)ii.

<sup>9</sup> While adhering to its obligations under clause 3.2.

<sup>10</sup> In accordance with clause 3.1(d)iii, clause 4.2.1(b) and clause 4.2.2(b).

<sup>11</sup> In accordance with clause 3.1(d)(iv).

<sup>12</sup> In accordance with clause 4.3.

#### 4. Summary of transactions with PLUS ES

PLUS ES provides a range of services to Ausgrid. They are provided under the terms of four service agreements.

**Table 3:** PLUS ES provision of services to Ausgrid:

Transactions	Purpose
<p>Electrical and Fibre Services:</p> <ul style="list-style-type: none"> <li>• Ausgrid Fibre Optic Network</li> <li>• External third-Party Fibre Optic Duct Study Request – Facilities Access</li> <li>• Customer Works Associated with Substation Replacement Removal</li> <li>• Safety Standby Services for Customers Accessing Substations</li> <li>• Undergrounding of Service Mains</li> <li>• Subs-Transmission Network Maintenance</li> <li>• Specialist Projects</li> <li>• Facilities Access transactional work</li> <li>• Batteries design and installation</li> <li>• EV Charging design and installation</li> </ul>	<p>Ancillary to its own distribution and transmission services, Ausgrid contracts for certain services to specialised providers.</p> <p>(Facilities Access transactions include Billing of Ausgrid’s customers in Ausgrid’s billing system and the processing Ausgrid customer applications for new services with dedicated staff).</p>
<p>Testing Services:</p> <ul style="list-style-type: none"> <li>• Calibration Services</li> <li>• Electrical Testing Services</li> <li>• Conduct of Tests - Electrical Testing</li> <li>• Test Documentation - Electrical Testing</li> <li>• Record Retention and Ownership Electrical Testing</li> <li>• Consulting Services - Electrical Testing.</li> </ul>	<p>Ancillary to its own distribution and transmission services, Ausgrid contracts for certain services to specialised providers.</p>
<p>Metering Related (Alternative Control Services)</p>	<p>Provide Metering Services to enable Ausgrid Network to provide Alternate Control Services and related Ancillary Network Services.</p>
<p>Metering Related (Standard Control Services)</p>	<p>Provide Metering and related Services for the Ausgrid Network to enable it to provide Standard Control Services with respect to the Metering Points.</p>
<p>Metering Related (Additional Data)</p>	<p>Provide additional power quality data to enable monitoring of the network.</p>