

# Ring-fencing Compliance Report

1 January 2023 – 31 December 2023

1 February 2024

Official

TasNetworks acknowledges the palawa (Tasmanian Aboriginal community) as the original owners and custodians of lutruwita (Tasmania). TasNetworks, acknowledges the palawa have maintained their spiritual and cultural connection to the land and water. We pay respect to Elders past and present and all Aboriginal and Torres Strait Islander peoples.

# 1 Contents

<b>1</b>	<b>Background</b>	<b>3</b>
1.1	Purpose	3
1.2	Corporate Overview	3
<b>2</b>	<b>Measures to ensure compliance</b>	<b>5</b>
2.1	Obligations to establish and maintain accounts	5
2.2	Obligation not to discriminate	6
2.3	Offices, staff, branding and promotions	6
2.4	Information access and disclosure obligations	8
2.5	Conduct of Service Providers	8
<b>3</b>	<b>Breaches</b>	<b>8</b>
<b>4</b>	<b>Other services</b>	<b>9</b>
<b>5</b>	<b>Transactions with affiliated entities</b>	<b>9</b>
<b>6</b>	<b>Waivers</b>	<b>10</b>
6.1	Background	10
6.2	Temporary waivers	10
6.3	Historical waivers due to nature of electricity sector	10

# 1 Background

The Australian Energy Regulator (**AER**) has produced the Electricity Distribution Ring-Fencing Guideline (**Distribution Guideline**), and the Electricity Transmission Ring-fencing Guideline (**Transmission Guideline**) (together, **the Guidelines**) which impose obligations on both Distribution and Transmission Network Service Providers (**DNSPs**) (**TNSPs**) targeted at:

- preventing discrimination in favour of their related parties to disadvantage competitors operating in these markets;
- preventing using revenue earned from regulated services to cross-subsidise contestable services; and
- ensuring a DNSP/TNSP handles ring-fenced information appropriately.

The Transmission Guideline has transitional arrangements in place, permitting a 12-month grace period, ending 1 March 2024, to allow TNSPs time to establish business practises aligned with the new requirements. A sample of clauses require immediate compliance, including clause 6.2 Reporting, which obligates TasNetworks to develop an Annual Compliance Report.

This Annual Ring-Fencing Compliance Report, for the 12 months ended 31 December 2023 (**Report**) has been produced to fulfil TasNetworks reporting requirements in the Guidelines. Due to the transitional arrangements in place for transmission, the Report will address only the clauses that require compliance within the timeframe of the reporting period.

For the period from 1 January 2023 to 31 December 2023, Tasmanian Networks Pty Ltd (ACN 167 357 299) (**TasNetworks**) and affiliated entities, Fortytwo24 Pty Ltd (ACN 117 987 925) (**42-24**), TasNet Connections Pty Ltd (ACN 633 576 628) (**TNC**) and Marinus Link Pty Ltd (ACN 630 194 562) (**Marinus Link**), have undertaken a number of compliance activities, including:

- uplifting organisation-wide understanding of ring-fencing requirements in response to new Transmission Guidelines;
- compliance training for staff and detailing exemptions, where they apply;
- balancing separate accounts;
- separating assets using cost allocation and attribution methods; and
- adherence to disclosure, protection and sharing of confidential information policies.

## 1.1 Purpose

TasNetworks has prepared this Report and provided it to the AER in accordance with the Guidelines requirement 6.2 Reporting. TasNetworks confirms that the Report is compliant with the Guidelines and does not claim confidentiality over this Report.

## 1.2 Corporate Overview

TasNetworks differs from other DNSPs and TNSPs, as it is an integrated transmission and distribution business, which means that both of The Guidelines must be adhered to.

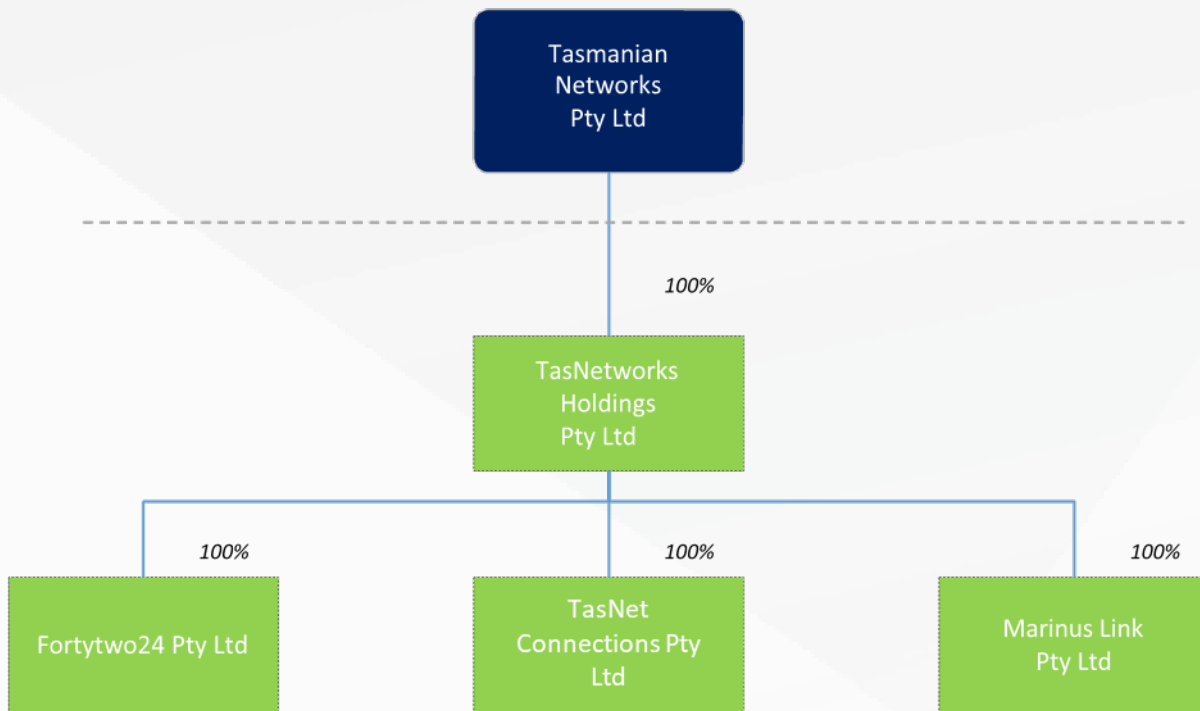
While the Transmission Guideline require ring fencing between Prescribed Transmission Services and Non-regulated Transmission Services, the transitional arrangements in place, covering the 2023 calendar year allows TasNetworks to offer these services concurrently without ring-fencing restrictions. No further ring-fencing of Negotiated or Non-regulated transmission services is deemed necessary.

Recognising that TasNetworks would likely provide some services that would not comply with the Distribution Guideline when first introduced, FortyTwo24 Pty Ltd (**42-24**), previously called AuroraCom

Pty Ltd, became a wholly owned subsidiary of TasNetworks Holdings from 1 July 2018. Since this time, TasNetworks has created two more wholly owned subsidiaries of TasNetworks Holdings. They are:

1. TasNet Connections Pty Ltd; and
2. Marinus Link Pty Ltd.

Image 1 shows the relationships between the entities:



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

- Telecommunications;
- Data centre services; and
- IT Services

Marinus Link does not undertake any contestable electricity services. While it does intend to undertake prescribed transmission services when it is operational, there are no requirements to ring-fence Marinus Link's services from TasNetworks' services.

In 2023, TNC has been progressing towards operationalisation as a subsidiary of TasNetworks. As a business unit of TasNetworks in 2023, TNC has supplied non-regulated transmission services, as is allowed according to the transitional arrangements in the Transmission Guideline.

TasNetworks distribution service offering is aligned with the service categories in the AER's Classification of Services from the 2019-24 Determination and TasNetworks transmission services are aligned with the service classification in the National Electricity Rules.

## 2 Measures to ensure compliance

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

A mandatory ring-fencing training package is required for all TasNetworks new starters, and a new obligation has been imposed in 2023 that existing employees must complete a ring-fencing training course every 2 years. The new obligation resulted in over 750 TasNetworks team members completing the training, resulting in a renewed sense of awareness and vigilance for ring-fencing. The training includes:

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

Additional training has been delivered over time, targeting employees most likely to work in both the unregulated and regulated parts of the business. In 2023, training was provided in relation to the upcoming changes in the Transmission Guidelines, and what this means for TasNetworks team members, primarily regarding information sharing and obligations not to discriminate.

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

### 2.1 Obligations to establish and maintain accounts

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

#### 2.1.1. Cost capture and financial management systems

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

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

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

- Regulated Transmission services;
- Non-regulated Transmission services;
- Negotiated Transmission services;
- Direct Control Distribution services;
- Unregulated Distribution services;
- Other Distribution services; and
- Negotiated Distribution services.

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

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

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

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

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

TasNetworks has three main types of costs:

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

The arrangements that have been in place for the Distribution Guideline regarding cost capturing and financial management systems also meet the obligations of the Transmission Guideline. Therefore, TasNetworks in its capacity as a TNSP is compliant with the cost capture and financial management systems requirements.

## 2.2 Obligation not to discriminate

Clause 4.1 of the Guidelines place an obligation on the DNSP/TNSP to not discriminate (either directly or indirectly) between a related electricity service provider (**RESP**) and a competitor (or potential competitor) of a RESP in connection with the provision of:

- direct control services/prescribed transmission services by the DNSP/TNSP (whether to itself or to any other legal entity); and/or
- contestable electricity services by any other legal entity (distribution only).

This obligation does not apply to TasNetworks as a DNSP, as the subsidiaries are not engaged in the provision of contestable electricity services as defined in the Distribution Guidelines during this reporting period.

This obligation does not apply to TasNetworks as a TNSP during the reporting period due to the transitional arrangements in the Transmission Guidelines.

## 2.3 Offices, staff, branding and promotions

### 2.3.1. Physical separation/co-location

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

This obligation does not apply to TasNetworks as a DNSP, as the subsidiaries are not engaged in the provision of contestable electricity services as defined in the Distribution Guidelines during this reporting period.

### 2.3.2. Staff sharing

Clause 4.2.2(a) of the Distribution Guideline obligates the DNSP to ensure that its staff involved in the provision or marketing of direct control services are not also involved in the provision or marketing of contestable electricity services by a RESP.

This obligation does not apply to TasNetworks as a DNSP, as the subsidiaries are not engaged in the provision of contestable electricity services as defined in the Distribution Guidelines during this reporting period.

Clause 4.3 of the Transmission Guideline obligates the TNSP to ensure that its marketing staff involved in the provision of prescribed transmission services are not staff involved in the provision of contestable electricity services by a RESP, or vice versa.

TasNetworks has not shared marketing staff with TNC during the reporting period. Additionally, this obligation does not apply to TasNetworks as a TNSP during the reporting period due to the transitional arrangements in the Transmission Guidelines.

### **2.3.3. Branding and cross promotion**

Clause 4.2.3(a) of the Distribution Guideline obligates the DNSP to use branding for its direct control services that is independent and separate from the branding used by a RESP for contestable electricity services, such that a reasonable person would not infer from the respective branding that the DNSP and the RESP are related.

The DNSP must not advertise or promote its direct control services and its contestable electricity services that are not direct control services together (including by way of cross-advertisement or cross-promotion).

The DNSP must not advertise or promote contestable electricity services provided by a related electricity service provider other than the DNSP itself.

This clause does not apply to TasNetworks, as the subsidiaries are not engaged in the provision of contestable electricity services during this reporting period. However, TasNetworks has chosen to enact controls to ensure it does not breach clause 4.2.3(a).

### **2.3.4. Office and staff registers**

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

- 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.; and
- ii. the staff positions (including a description of the roles, functions and duties) of those of 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);
- 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.

Clause 4.2.4 (b) states that '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)'.

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



Register is available on TasNetworks' external website, as per the Guideline requirements. During 2023 TasNetworks has updated its Shared Office Register as per its requirements in the Guidelines.

TasNetworks' [Shared Staff Register](#) details all TasNetworks shared staff providing contestable electricity services as defined by the Guideline. The Shared Staff Register is available on TasNetworks' external website, as per the Guideline requirements.

## 2.4 Information access and disclosure obligations

TasNetworks has developed protocols and registers to:

- prevent the disclosure of information (clause 4.3.2/4.2.2 of the Distribution/Transmission Guideline);
- prevent the sharing of information (clause 4.3.3/4.2.3 of the Distribution/Transmission Guideline); and
- establish an information sharing register (clause 4.3.4/4.2.4 of the Distribution/Transmission Guideline).

TasNetworks has published its [Information Sharing Protocol](#) on its external website, as per clause 4.3.3(d) of the Guideline. This document sets out the process through which TasNetworks will share information, pursuant to clause 4.3.3/4.2.3 of the Distribution/Transmission Guideline, and the disclosure of information, pursuant to clause 4.3.2/4.2.2 of the Distribution/Transmission Guideline.

TasNetworks' [Information Sharing Register](#) details all the legal entities who have requested to be included and any confidential information that they have requested as defined by the Guideline.

To assist staff with managing information within the TasNetworks Group (including the subsidiaries), TasNetworks created an internal document titled Distribution Ring-fencing Information Protocol. This document addresses clauses from the Guidelines associated with information access and disclosure.

Additionally, to assist staff with managing the additional expectations as a result of the updated Transmission Guideline, an internal protocol has been developed to provide guidance regarding information sharing, and other key components of functional separation.

## 2.5 Conduct of Service Providers

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

To ensure compliance with these obligations under the Guidelines, TasNetworks has a software platform to manage contract creation, and contemporary contract templates to ensure that all ring-fencing obligations are defined and managed.

# 3 Breaches

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

## 3.1 Telecommunication contract novations

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

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

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

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

In June 2020, the AER instigated a meeting with TasNetworks to discuss the progress of the telecommunication novations. At this meeting, the AER agreed with TasNetworks that there was little TasNetworks or 42-24 could do to expedite the progress of the novations. As such, TasNetworks and the AER agreed to continue to report quarterly as to the progress of the contract novations.

As of 31 December 2023 there currently remains only 1 contract requiring novation. While continuing to seek a process to get counter party approval to novate the contract continues, 42-24 is managing the invoicing of all non-transmission services along with all day-to-day customer and agreement management.

## 4 Other services

Clause 6.2.1(b)iii. of the Guidelines require DNSPs/TNSPs to report all Other services provided by the DNSP/TNSP in accordance with clause 3.1 of the Guidelines. TasNetworks did not provide any Other services, that being services that are not transmission or distribution services in the period of this Report.

## 5 Transactions with affiliated entities

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

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

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

TasNetworks and 42-24 are also parties to an intercompany loan agreement, under which 42-24 is able to borrow funds from TasNetworks. The loan agreement is not currently being utilised.

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

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

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

TasNetworks and Marinus Link are parties to an intercompany loan agreement. Under this agreement, Marinus Link is able to borrow funds from TasNetworks. There is also currently a 12 monthly rolling agreement, whereby TasNetworks agrees to support Marinus Link as a going concern. This may include not seeking repayment of any loan repayments until such time as it is able to do so. It also includes a requirement for Marinus Link to pay interest to TasNetworks at a rate equivalent to the cost of funds that TasNetworks borrows at in addition to the margin set out in the agreement.

## 6 Waivers

### 6.1 Background

TasNetworks has had two types of waivers, namely waivers:

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

### 6.2 Temporary waivers

TasNetworks had two temporary waivers in place for the period 1 January 2023 to 31 December 2023. They relate to the provision of community batteries, and a waiver for Reliability and Emergency Reserve Trader (RERT) services. Further details may be found in [TasNetworks Waiver Register](#).

### 6.3 Historical waivers due to nature of electricity sector

TasNetworks sought a number of temporary waivers in 2017 that primarily arose due to the timing between the commencement of the Guideline and service classification decisions and/or the ability to establish the necessary legal structures. A further waiver was sought in 2019 to assist with TasNetworks exiting from the provision of services related to the provision of Aurora Pay As You Go (APAYG) metering support services. These waivers have now expired.

Copies of TasNetworks' previous waivers and the AER's decisions can be found on the [AER's website](#).



[www.tasnetworks.com.au](http://www.tasnetworks.com.au)

Ring-fencing Compliance Report  
Official