

AER Ring-fencing Guideline Electricity Transmission Compliance Report

ElectraNet Pty Ltd

April 2024

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1. Executive summary

1.1 Introduction

The Australian Energy Regulator (AER) published the Ring-fencing Guideline (the Guideline) for Electricity Transmission on 15 August 2002 (subsequently revised August 2005, July 2022 and March 2023) 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 to perform a “reasonable assurance engagement” as defined by Standards on Assurance Engagements, pursuant to Section 6.2.1 (c) Compliance Reporting of the Guideline to report on ElectraNet Pty Ltd’s (“ElectraNet”) compliance with the following clauses of the Guideline for the transitional period 1 March 2023 to 31 December 2023:

- i. Clause 3.1(c) - Legal Separation
- ii. Clause 4.4.1(a) - Functional Separation
- iii. Clauses 6.2.1 - Compliance Procedures and Compliance Reporting

1.3 Scope

The scope of the engagement includes the following that is detailed in the AER Annual compliance reporting and independent assessment under the Guideline:

- ▶ An attestation from the TNSP signed by the officer (as defined in clause 1.4 of the Guideline) that the information provided by the TNSP to the assessor was complete and correct.
- ▶ A statement from the assessor (EY) detailing the 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 TNSP.

1.4 Methodology

ElectraNet has prepared an annual compliance report under the Guideline for the transitional period from 1 March 2023 to 31 December 2023.

We obtained an understanding of the Ring-fencing Guideline and other engagement circumstances specific to Clause 3.1(c), Clause 4.4.1 (a) and clause 6.2.1, sufficient to enable the identification and assessment of the risk of non-compliance with the Guideline.

We tested the obligation clauses as per the Guideline and conducted interviews with key stakeholders to understand how ElectraNet satisfies each obligation. From our interviews we identified the key policies and procedures, processes and controls that management has put in place to satisfy each obligation.

We performed an analysis of the key controls that management has put into place to comply with each obligation, to understand whether control gaps exist which could enable an obligation to remain unsatisfied.

We then tested the operating effectiveness of the identified controls to determine whether ElectraNet complied, in all material respects, with the Guideline for the transitional period from 1 March 2023 to 31 December 2023.

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 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.

1.6 Conclusion

Refer to Section 4 of the report for the full Auditor's Statement.

2. Summary of audit findings

2.1 Summary of audit findings in 2023

Ref	Compliance Obligation	Finding	Management response	Grading
4.4.1 (a)	A TNSP must ensure that any new or varied agreement between the TNSP and service provider for the provision of services of the TNSP that enables or assist the TNSP to provide prescribed transmission service, requires the service provider to comply, in providing those services, with clauses 4.1, 4.2.1 and 4.3 of the Guidelines as if the service provider was the TNSP	<p>We note management's view is that existing supplier contracts in place prior to 1 March 2023 which related to prescribed transmission services, contained a clause requiring the service provider to comply with all applicable laws. In most cases, they require the service provider to comply with any obligation or requirement which a law places on ElectraNet as though it had been placed on the service provider. Management considers this clause to meet the obligations of the Guideline.</p> <p>In October 2023, management performed further assessment and determined that better practice is to explicitly include ring fencing clauses within the contracts.</p> <p>We sampled a selection of contracts and contract variations entered from October 2023 to 31 December 2023 to assess whether the relevant ring-fencing clauses have been included noting inclusion is only intended to occur for relevant services to provide prescribed transmission services, and the initial process implemented was largely dependent on the timing of contractor negotiations on contractor variations.</p> <p>We recommend management continue to refine the process by implementing further controls for identifying and assessing contract or variations to contracts for inclusion of the ring-fencing clause and implement a documented approval process for contract variations going forward.</p>	We acknowledge the process improvement recommendation identified. Our process will be reviewed, and refinements made by 30 June 2024.	Partially effective

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
	Catastrophic	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 3.1 of the report.

Green	Effective	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	Partially Effective	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	Ineffective	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. Detailed audit findings

3.1 Detailed audit findings

Instrument Clause Event: Ring-fencing Guideline Electricity Transmission Version 4

Obligation: Legal separation - Section 3

Guidance Assessment Criteria and Assessment Controls

Ref	Compliance Obligation	Process Description	Testing	Grading
3.1(c)	<p>A TNSP must not;</p> <ul style="list-style-type: none"> i. Enter into any new agreement ii. Agree to a material variation to an existing agreement <p>Where such new or varied agreement grants another legal entity the right to use any energy storage device which is owned, operated or controlled by the TNSP, unless it is for the dual purpose of providing that TNSP with network support service.</p>	<p>Legal are responsible for the review of new (or varied) contract agreements.</p> <p>During the transitional year, ElectraNet (as TNSP) did not enter into any new agreements, or material variation to existing agreements, to grant a third party the right to use a Battery Energy Storage System (BESS), operated or controlled by ElectraNet (as TNSP).</p> <p>Prior to the transitional year, ElectraNet (as TNSP) had entered into an arrangement with AGL Dalrymple Pty Ltd ("AGL") under which AGL would be entitled to use a BESS owned by ElectraNet at ElectraNet's Dalrymple substation located on the York Peninsula in South Australia.</p> <p>This arrangement commenced in October 2017 for 12 years, prior to the introduction of the Guideline on 1 March 2023. On that basis, the contract is grandfathered and should ElectraNet wish to extend this contract, a waiver would be sought from the AER.</p>	<p>Discussion held with:</p> <p>Manager Regulation</p> <p>Senior Advisor - Regulation & Finance</p> <p>Procedures performed:</p> <p>We obtained and inspected ElectraNet's Ring-fencing directive which demonstrates that it complies with AER's requirement on legal separation.</p> <p>We evaluated the process undertaken by management to ensure all arrangements were correctly identified and in compliance with the Guidelines.</p> <p>We confirmed with management if there were any new projects or variation of existing projects that has taken place. As part of this process, we obtained the previously existing Battery Energy Storage System agreement that exists between ElectraNet and AGL and noted right of use of any energy storage device which is owned, operated and controlled by ElectraNet.</p> <p>Observation:</p> <p>Based upon the procedures performed, no exceptions were noted on ElectraNet's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> ▶ There were no new agreements or material variation to existing agreements to grant the right to use any energy storage unit which is owned, operated or controlled by ElectraNet. ▶ ElectraNet's preventive control to ensure all procurement arrangements entered are managed in accordance with the Guideline, includes 	Effective

Ref	Compliance Obligation	Process Description	Testing	Grading
			<p>mandatory consultation with the legal team.</p> <ul style="list-style-type: none"> ▶ The existing contract for Dalrymple would require a waiver or transfer of ownership from ElectraNet to another legal entity on renewal. <p>Recommendations:</p> <p>None noted.</p>	

Obligation: Functional Separation - Section 4

Guidance Assessment Criteria and Assessment Controls

Ref	Compliance Obligation	Process Description	Testing	Grading
4.4.1 (a)	A TNSP must ensure that any new or varied agreement between the TNSP and service provider for the provision of services of the TNSP that enables or assist the TNSP to provide prescribed transmission service, requires the service provider to comply, in providing those services, with clauses 4.1, 4.2.1 and 4.3 of the Guidelines as if the service provider was the TNSP	<p>With the introduction of the Transmission Ring-Fencing Guidelines on 1 March 2023, and the requirements of clause 4.4.1(a) of those Guidelines, a review was undertaken by the legal, regulatory and communications teams of existing service provider contracts.</p> <p>The review concluded that contracts in place prior to 1 March 2023 contained a clause requiring the contractor to comply with all applicable laws and, in most cases, to comply with any obligation or requirement which a law places on ElectraNet as though it had been placed on the service provider. ElectraNet initially understood these clauses as sufficient to meet the obligations of the Guideline.</p> <p>ElectraNet further considered the standard terms of contracts in light of the Guideline during 2023 and reached the view that it would be preferable for contracts to refer to ring-fencing explicitly commencing from October 2023.</p> <p>Occasionally a supplier will require the contract to be on the supplier's T&Cs. In those cases, legal review and approval of the T&Cs is required, and if ring-fencing drafting is necessary, it will be included by the legal team as part of the negotiations of those T&Cs.</p> <p>Any variation agreements require legal review and approval. If a contract under which the supplier is assisting the TNSP to perform prescribed transmission services is to be varied, legal will review</p>	<p>Discussion held with:</p> <p>Manager Regulation</p> <p>Senior Advisor - Regulation & Finance</p> <p>Legal Counsel</p> <p>Procedures performed:</p> <p>We obtained and inspected the Ring-fencing directive which demonstrates that it complies with AER's requirement on legal separation.</p> <p>We evaluated the process undertaken by management to ensure all arrangements were correctly identified and in compliance with the Guidelines by performing the following procedures:</p> <ul style="list-style-type: none"> • Confirmed with management that standard terms and conditions are used when contracting with suppliers and third parties. Should the terms and conditions need to be amended, ElectraNet's legal team would be required to review the contract and approve. • We note the ring-fencing clauses were intended to be included into supplier contracts from October 2023 onwards, noting existing contracts contain obligations to comply with all applicable laws and/or ElectraNet Policies and Procedures. 	Partially effective

Ref	Compliance Obligation	Process Description	Testing	Grading
		<p>and approve - ensuring the appropriate ring-fencing drafting is included.</p> <p>The procurement team has also been provided with ring-fencing training and are aware of the requirements for the ring-fencing clause to be included, adding an additional layer of controls.</p> <p>Further, ElectraNet issued adhoc ring-fencing communications to their service providers through a contractor forums.</p>	<ul style="list-style-type: none"> • Sampled a selection of contracts entered into from October 2023 to 31 December 2023 to ensure the relevant ring-fencing clauses have been included. • Obtained the speaking notes to service providers at a contractor forum in November 2023. <p>Observation:</p> <p>Based upon the procedures performed, we noted the following:</p> <ul style="list-style-type: none"> ▶ Management's view is that existing supplier contracts in place prior to 1 March 2023 which related to prescribed transmission services, contained a clause requiring the service provider to comply with all applicable laws. In most cases, they require the service provider to comply with any obligation or requirement which a law places on ElectraNet as though it had been placed on the service provider. Management considers this clause to meet the obligations of the Guideline. ▶ In October 2023, management performed further assessment and determined that better practice is to explicitly include ring fencing clauses within the contracts. ▶ We sampled a selection of contracts and contract variations entered from October 2023 to 31 December 2023 to assess whether the relevant ring-fencing clauses have been included noting inclusion is only intended to occur for relevant services to provide prescribed transmission services, and the initial process implemented was largely dependent on the timing of contractor negotiations on contractor variations. ▶ ElectraNet's preventive control to ensure all procurement arrangements entered are managed in accordance with the Guideline, includes mandatory consultation with the legal team. 	

Ref	Compliance Obligation	Process Description	Testing	Grading
			<p>Recommendations:</p> <p>We recommend management continue to refine the process by implementing further controls for identifying and assessing new contract or variations to contracts for inclusion of the ring-fencing clause, and implement a documented approval process going forward.</p>	

Obligation: Reporting - Section 6

Guidance Assessment Criteria and Assessment Controls

Ref	Compliance Obligation	Process Description	Testing	Grading
6.2.1 (a)(b) (c)(d) and (e)	<p>A TNSP 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>The annual compliance report must identify and describe, in respect of the calendar year to which the report relates;</p> <ol style="list-style-type: none"> The measure the TNSP has taken to ensure compliance with its obligation under the Guidance Any breached of the Guideline by the TNSP, or which otherwise relates to the TNSP. All other services provided by the TNSP in accordance with clause 3.1 The purpose of all transactions between the TNSP and an affiliated entity. <p>The annual compliance report must be accompanied by an</p>	<p>The regulation team is responsible for preparing and submitting the annual ring-fencing compliance report to the AER within 4 months of the end of the calendar year in line with section 6 of the Guideline.</p> <p>The annual report is to be prepared on a calendar year basis and should be assessed by an independent assessor under assurance standard ASAE3100.</p> <p>The Regulation Team is responsible for managing the independent assessor's engagement and process.</p> <p>ElectraNet has engaged Ernst and Young as the independent authority to assess its annual compliance report.</p>	<p>Discussion held with:</p> <p>Manager Regulation</p> <p>Senior Advisor - Regulation & Finance</p> <p>Procedures performed:</p> <p>We obtained and inspected management's annual compliance report.</p> <p>We obtained management's regulation team reporting calendar noting target dates prior to the deadline communicated by the AER.</p> <p>Observation:</p> <p>Based upon the procedures performed, no exceptions were noted with ElectraNet's compliance against the obligation with key point(s) below:</p> <ul style="list-style-type: none"> ElectraNet has regulatory compliance monitoring and reporting process to facilitate compliance assurance. <p>Recommendations:</p> <p>None noted.</p>	Effective

Ref	Compliance Obligation	Process Description		Grading
	<p>assessment of compliance with each provision of this Guideline (except 6.2.2 and 6.2.3) by a suitable qualified independent authority.</p> <p>A TNSP annual compliance report may, in relation to clause 3.2 of this Guideline be based on information provided by the AER under a regulatory information instrument for the TNSP's most recent regulatory year. If so that annual compliance report must cover in relation to clause 3.2 of the Guideline, the entirety of that regulatory year.</p> <p>Annual compliance report may be made publicly available by the AER</p>			

4. Auditor Statement

Independent assurance report to the Directors of ElectraNet Pty Ltd

Opinion

We have undertaken a reasonable assurance engagement, as defined by Standards on Assurance Engagements, to report on whether the Annual Compliance Report of ElectraNet Pty Ltd (the "Company") presents fairly the Company's compliance, in all material respects, with the transitional compliance requirements ("compliance requirements") as evaluated against the *Ring-fencing Guideline - Electricity Transmission Version 4* (the "Guideline"), for the transitional period of 1 March 2023 to 31 December 2023 for the purpose of reporting to the Australian Energy Regulator.

In our opinion, drawing attention to our audit findings in Summary of Audit Findings, ElectraNet Pty Ltd's Annual Compliance Report presents fairly, in all material respects, the Company's compliance with the compliance requirements as evaluated against the Guideline for the transitional period 1 March 2023 to 31 December 2023.

Basis for opinion

We conducted our engagement in accordance with Standard on Assurance Engagements ASAE 3100 *Compliance Engagements* issued by the Auditing and Assurance Standards Board.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

ElectraNet Pty Ltd's responsibilities

The Company is responsible for:

- a. Providing an Annual Compliance Report with respect to the outcome of the evaluation of the compliance activity against the compliance requirements, which accompanies this independent assurance report;
- b. Identification of the compliance requirements if not identified by law and regulation;
- c. The compliance activity undertaken to meet the compliance requirements; and
- d. Identification and implementation of controls which will mitigate those risks that prevent the compliance requirements being met and monitor ongoing compliance.

Our independence and quality management

We have complied with the independence and relevant ethical requirements, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Auditing Standard ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Assurance practitioner's responsibilities

Our responsibility is to express an opinion, on the Company's Annual Compliance Report with the compliance requirements, in all material respects as evaluated against the Guideline, for the transitional period of 1 March 2023 to 31 December 2023. ASAE 3100 requires that we plan and

perform our procedures to obtain reasonable assurance about whether, the Company’s Annual Compliance Report, presents fairly, in all material respects, the Company’s compliance with the compliance requirements as evaluated against the Guideline for the transitional period of 1 March 2023 to 31 December 2023.

An assurance engagement to report on the Company’s Annual Compliance Report with respect to the entity’s compliance with the compliance requirements involves performing procedures to obtain evidence about the compliance activity and controls implemented to meet the compliance requirements. The procedures selected depend on our judgement, including the identification and assessment of risks of material misstatements in the Annual Compliance Report are likely to arise.

Inherent limitations

Because of the inherent limitations of an assurance engagement, together with the internal control structure it is possible that fraud, error, or non-compliance with compliance requirements may occur and not be detected.

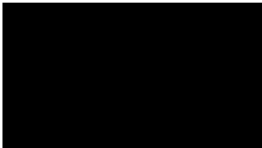
Our methodology involved obtaining an understanding of the Ring-fencing Guidelines, identifying the obligation clauses as per the Ring-fencing Guideline applicable to ElectraNet Pty Ltd, and designing and performing procedures to determine whether management controls are in place to satisfy the obligation clauses as per the Ring-fencing Guideline. Our tests of controls were primarily conducted using inquiry, observation, and inspection procedures. In certain situations, we have relied upon representations from management through inquiry only.

A reasonable assurance engagement for the transitional period of 1 March 2023 to 31 December 2023 does not provide assurance on whether compliance with the compliance requirements will continue in the future.

Restriction on use of report

This assurance report has been prepared in accordance with the requirements of the *Ring-fencing Guideline - Electricity Transmission Version 4*. Our report is intended solely for use by ElectraNet Pty Ltd and the Australian Energy Regulator (collectively the “Recipients”) pursuant to the terms of our engagement agreement dated 30 November 2023..

We disclaim all responsibility to any other party for any loss or liability that the other party may suffer or incur arising from or relating to or in any way connected with the contents of our report, the provision of our report to the other party or the reliance upon our report by the other party.



Ernst & Young
Adelaide
30 April 2024