



31 July 2017

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Dear Ms Groves

Ausgrid Ring-Fencing Guideline Compliance Strategy and waiver applications

Ausgrid welcomes the opportunity to submit to the Australian Energy Regulator (AER) its Ring-Fencing Guideline (Guideline) Compliance Strategy and waiver applications in accordance with the AER's request of 17 February 2017.

Ausgrid remains committed to complying with its obligations under the Guideline and will be compliant with the Guideline's requirements by 1 January 2018 (Day 1), supported by a small number of targeted waivers. Ausgrid's future compliant operating model is underpinned by robust analysis of Guideline obligations and comprehensive consultation across the business. The extensive work that has occurred on the future operating model has provided a clear line of sight of Guideline impacts and positioned the business to achieve Day 1 compliance.

Ausgrid is seeking three waivers which are intended to ensure an orderly and timely transition to compliance; a reduction in the costs of achieving compliance and minimisation of the impacts of compliance for specific customer groups.

Specifically Ausgrid requests:

- an 18 month waiver to allow the treatment of certain services under the Guideline as if the service classifications that are anticipated to apply at the commencement of the next regulatory control period were in operation
- a six month waiver from legal separation for Ausgrid to continue to provide Other Services while it resolves resourcing issues for its Affiliated Entity
- a waiver until the end of the next regulatory control period which would allow Ausgrid to provide specific restoration services (Other Services) under limited circumstances.

Ausgrid would welcome the opportunity to discuss its Compliance Strategy or waiver applications with AER. If the AER has any questions or requires clarification on any aspect of the enclosed documents, please do not hesitate to contact me on (02) 9269 4501.

Yours sincerely

A handwritten signature in black ink, appearing to read "R. Lewis", written over a horizontal line.

Robert Amphlett Lewis
Executive General Manager, Strategy and Regulation

Encl:

- Ausgrid Ring-Fencing Compliance Strategy
- Ausgrid Ring-Fencing Waiver Applications

Ausgrid Ring-Fencing Guideline Formal Compliance Strategy

31 July 2017



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1. Compliance approach

This Ring-Fencing Guideline Formal Compliance Strategy (Compliance Strategy) outlines Ausgrid's approach to compliance with the Australian Energy Regulator's (AER) Ring-Fencing Guideline (Guideline).

The objective of the Compliance Strategy is to provide the AER and stakeholders with transparency and comfort with respect to Ausgrid's compliance with the Guideline. The Compliance Strategy takes into account the proposed strategic direction of Ausgrid's new Affiliated Entity (AE), the establishment of which will be finalised over coming months.

As this document demonstrates, Ausgrid is committed to achieving compliance with the Guideline. Ausgrid will work with the AER and the independent authority to ensure that its compliance approach mitigates any risk of cross-subsidies or discrimination; and with its customers and other key stakeholders to ensure that compliance is achieved and maintained with minimal disruption and impact.

The development of Ausgrid's Compliance Strategy has occurred in the context of a significant transformation of its business structure and strategy during recent months, including as a consequence of the change in Ausgrid's ownership and the requirements of the Guideline. Through this process of transformation, Ausgrid has had the opportunity to review how to optimally and compliantly segregate its regulated and contestable services and as a consequence, is confident in its ability to achieve functional separation by Day 1.

This Compliance Strategy is structured as follows:

- *Compliance approach*

This section sets out Ausgrid's overarching approach to compliance and the fundamental operational concepts underpinning its compliant future state.

- *Impacted services*

This section sets out examples of how Ausgrid intends to comply with the range of Guideline obligations impacting specific suites of services, including the interpretations of key provisions assumed by Ausgrid.

- *Compliance Strategy by Guideline element*

This section provides an overview of Ausgrid's approach to compliance for each of the key elements of the Guideline. While this builds out some discussion of some of the services described in the preceding section, it also provides additional information on how Ausgrid intends to comply more generally with each set of obligations.

- *Ongoing compliance and reporting*

This section sets out how Ausgrid intends to support compliance with the Guideline and the procedures in place to capture breaches.

Ausgrid would welcome the opportunity to discuss its Compliance Strategy with AER. If the AER has any questions or requires clarification on any aspect of this document, please do not hesitate to contact:

Robert Amphlett Lewis
Executive General Manager, Strategy and Regulation
Email: rob.amphlettlewis@ausgrid.com.au
Phone: (02) 9269 4501

1.1. High level approach

Ausgrid is targeting compliance with the Guideline by Day 1, supported by minimal waivers which seek to support and reduce the cost of Ausgrid's transition to full compliance or to minimise customer impacts for select groups of customers.

1.1.1. Two pillar operating model

Ausgrid's ring-fencing compliance will be supported by a 'two pillar' approach to service provision. This approach is based on the principles that:

- Ausgrid, as the DNSP, will only provide Direct Control Services (DCS) ie. Standard Control Services (SCS) and Alternative Control Services (ACS) and will cease to provide all non-DCS
- A legally separate AE will be established to provide all Contestable Electricity Services (CES) i.e. Other Distribution Services (ODS), Other Electricity Services (OES), and Other Non-Electricity Services (ONES).

The purpose of the two pillar approach is to simplify the division between DCS and CES at an operational level, so as to clearly distinguish the ring-fenced and non-ring-fenced services, staff, offices and information. This will support a clear understanding of roles, and a compliant culture, which will underpin ring-fencing compliance.

The only anticipated exception to the two pillar approach will be distribution asset rental services (for example, leasing poles to other entities to provide telecommunications services) which will be functionally but not legally separate. The AER has indicated that this service will in future be an unclassified distribution service (UDS).

On Day 1, it is envisaged the AE will share a number of Ausgrid's corporate services in a manner compliant with the Guideline.

1.1.2. Outsourcing of DCS from Ausgrid to AE

To ensure a logical and efficient grouping of services, the AE will provide some DCS support to Ausgrid through a service provider relationship. For example, Ausgrid is intending an operating model in which all metering services (DCS, UDS and CES) will be delivered by its AE on an arm's length basis. Under this model Ausgrid would:

- Cease providing ODS and OES (such as type 1-4 metering services, and billing and data management services to embedded networks), and the AE would become the provider of these services
- Continue providing DCS (such as maintaining legacy type 5-6 meters and meter reading) and would outsource work to its AE for delivery.

It is important to note that, while this is a delivery option for metering services, Ausgrid will be prepared to deal or offer to deal with third party service providers, and will not preference the AE over other service providers. For the purpose of transitioning to Day 1 compliance however, the AE would be the initial service provider for these services.

1.2. Progress to Day 1

1.2.1. Development and establishment of future operating model

The development of Ausgrid's future compliant state has involved significant work focussed on developing a compliant and effective structure for both the new Operations division, tasked with the delivery of distribution services (and transmission services); and the new Emerging Energy Solutions division, tasked with pursuing growth businesses and emerging

energy solutions. The successful development of these divisions, and the associated operational arrangements, have provided the foundation of Ausgrid's ring-fencing compliance.

This work involved significant consultation with a range of stakeholders, as illustrated by the following activities.

Service	Stage 1 activities
01 Dec 2016	NSW Government entered into a partnership with AustralianSuper and IFM Investors to operate the Ausgrid distribution network under a long-term lease.
14 Dec 2016	'Have your say' Employee Survey was undertaken seeking views from all employees on working for Ausgrid, the challenges faced and ideas for improving Ausgrid.
15 Jan 2017	Stakeholder Perceptions Research Report was released based on a study evaluating stakeholder perceptions of Ausgrid's performance, aspirations and reputation. 124 stakeholders gave their views.
09 Feb 2017	Employee Survey results were published with 54% of employees sharing their feedback.
27 Mar 2017	Phase 2 of the Transformation program was launched, using cross-functional teams to implement programs to build a sustainable future, provide value to customers, communities and stakeholders, reduce costs and explore ways to become more efficient.
29 Mar 2017	The Peak Consultative Committee, comprising Senior Executives, Managers of Divisions, Union Officials and employee representatives, confirmed the new Ausgrid structure.
29 Mar 2017	Company-wide roadshows, presented by the CEO and Senior Executives, detailing the results of the employee survey, the purpose, vision and values of Ausgrid, the new Ausgrid structure, the need for change and the transformation steps to be taken.
15 Apr 2017	Branch managers were appointed in the new Ausgrid structure.
17 Apr 2017	The new Ausgrid structure was released and circulated to all employees.
19 Jun 2017	The new Ausgrid structure was refined.
01 Jul 2017	Changes to Ausgrid's accounting financial management reporting system were finalised to reflect organisational changes.

Ausgrid has now commenced the second stage of this transformation work which involves the establishment and resourcing of the AE. Ausgrid expects the AE to be established by early September 2017. Similar to the first stage, this second stage will involve significant consultation with stakeholders, including unions and shareholders, as well as with business units.

1.2.2. Operational analysis

Ausgrid is well advanced in its operational analysis, which has informed and will underpin the scope of its ring-fencing implementation program. This has included:

- analysing its services to apply a ring-fencing classification to each service currently provided
- identifying services for which a classification or reclassification decision is required
- identifying staff roles and offices which may be captured by separation obligations and therefore require further examination.

Ausgrid is finalising its operational analysis targeting impacted areas of the business to identify applicable exemptions with respect to impacted staff and locations, and inform the development of controls to ensure an appropriate information separation.

Ausgrid anticipates that the AE will be established by early-September 2017. Once the AE is created, Ausgrid can commence negotiating and implement resourcing arrangements to deliver the Other Services from the AE.

1.3. Assumptions

The following key assumptions underpin the Compliance Strategy:

- Ausgrid will achieve compliance by 1 January 2018 (Day 1), subject to the granting of requested waivers
- all CES, including ODS, will be delivered from an AE, with legal separation under the operating model requiring a short-term waiver
- the Guideline amendments released in draft by the AER on 4 July 2017, will apply as drafted
- waiver applications will be approved by the AER in full
- the AER will accept the response by the NSW distribution businesses to the Preliminary Framework and Approach, including where this proposes new and revised classifications for services
- regional exemptions do not apply to Ausgrid.

2. Impacted Services

This section provides examples of how Ausgrid intends to comply with the range of Guideline obligations impacting specific suites of services, including the interpretations of key provisions assumed by Ausgrid. The following section then provides an overview of Ausgrid's approach to compliance, by Guideline element, for completeness.

2.1. Services provided by the AE

The three areas of Other Services activity to be provided by the AE are summarised below.

Metering and Data Services

The Metering and Data Services branch will deliver a range of DCS and CES metering services to Ausgrid and to other customers. It is being established such that:

- the Sales and Marketing team will only provide CES and will not share systems (without access controls) or staff with the remainder of the Metering and Data Services branch
- the Field Services team will provide services across DCS and CES, subject to ensuring that the functional separation requirements under the Guideline are met. Branding strategies for uniforms and vehicles are being developed by Ausgrid
- the back office function comprises staff who work across DCS and CES metering services. These roles will be subject to further analysis to finalise Ausgrid's position on the exemptions to staffing and locational separation that may apply, where separation will be needed, and how it will be achieved.

Infrastructure Services

The Infrastructure Services branch will be organised into five sections being: Telecommunications; High Voltage Infrastructure; Contestable Works; Embedded Networks/Major Infrastructure; Asset Management; Testing and Measurement. This branch will operate separately from Ausgrid and consistently with the Guideline by measures including:

- using systems and applications with the appropriate access controls as well as discrete AE systems
- implementing policies and training which prohibit staff from accessing or requesting Confidential Information held by Ausgrid
- ensuring that any secondment of staff from Ausgrid to the AE is on a fully dedicated basis, supported by the functional separation controls to ensure Guideline compliance.

Distributed Energy Services.

This branch will provide new service offerings relating to Distributed Energy Services not currently provided by Ausgrid.

2.2. Corporate and other shared functions

Corporate services and other shared functions include general administration, accounting, payroll, human resources, legal, regulatory and/or information technology support functions. These will be fully costed and accounted for in accordance with the CAM. Service Level Agreements are under development with respect to these arrangements. All and any sharing of information involved in these processes will continue to be scrutinised over coming months to ensure that the information separation obligations under the Guideline, including with respect to confidential information, are met.

2.3. Distribution asset rental and contestable telecommunications activities

Distribution asset rental involves the leasing of distribution assets (e.g. poles and ducts, or office space) to third parties (e.g. telecommunication businesses). The AER's final Framework and Approach indicates that:

- the rental service will be classified as a UDS, and will therefore fall under a Guideline classification as an ODS
- a new activity has been added under Common Services, activities related to 'shared asset facilitation' of distributor assets, which recognises that there is an SCS aspect of work associated with the asset rental function.

Activities related to 'shared asset facilitation' of distributor assets will be provided by Ausgrid as a SCS and will involve, for example, accessing Ausgrid systems to identify the availability of assets, establishing standards and protocols for their lease and negotiating contracts for shared asset provision and invoicing.

Consistent with other contestable market participants, the AE will offer value added services, classified as OES under the Guideline, through its Infrastructure Services branch. This will involve providing services, as a service provider, to third parties, such as consulting and infrastructure services provided to telecommunications companies seeking access to Ausgrid infrastructure. In providing OES, the AE will operate with full separation from Ausgrid in its provision of DCS, and will not seek access to Confidential Information held by Ausgrid to provide these services. Ausgrid will comply with any functional separation requirements with regard to its DCS relating to distribution asset rental.

3. Compliance Strategy by Guideline element

This section sets out Ausgrid's strategy for complying with each element of the Guideline. While this builds out some discussion of some of the services previously described, it also provides additional information on how Ausgrid intends to comply more generally with each set of obligations.

3.1. Legal separation

Ausgrid currently provides a range of services that are not distribution services, which the Guideline prohibits Ausgrid from providing in the future. Further, Ausgrid currently employs a range of staff that work across both distribution and non-distribution services.

3.1.1. Proposed operating model

The AE will provide a range of CES as set out previously. Importantly, the AE will not only provide the services which Ausgrid will be prohibited from providing (i.e. OES and ONES), but will also provide ODS. Ausgrid is of the view that this two pillar approach will consolidate a clearer understanding of roles within both Ausgrid and the AE and more quickly establish a compliant culture than if there was both a legally separate AE and an AE that was functionally but not legally separate from Ausgrid.

Where staff are made available by Ausgrid to the AE, costs will be allocated to the AE on a fully-loaded basis, meaning for example, that the AE will incur an appropriate allocation of labour on-costs, overtime and stand-down time, and this allocation will be undertaken in accordance with Ausgrid's CAM.

3.1.2. Classification and reclassification

Where a service is not currently classified, and the service meets the definition of a distribution service, Ausgrid has sought classification as a SCS, ACS or UDS through its response to the AER's Preliminary Framework and Approach.

Ausgrid is seeking a transitional waiver that would allow it to immediately apply, for the purpose of ring-fencing compliance, the service classifications as proposed in Ausgrid's response to the AER's Preliminary Framework and Approach. The classification of services in conjunction with the AER's approval of the associated waiver application will allow Ausgrid to continue to provide the service under the Guideline.

As noted above, Ausgrid intends to transfer ODS to the AE, however classification of a service as a distribution service, where appropriate, will allow Ausgrid the flexibility to revisit its operating model in the future if required.

3.2. Accounts

3.2.1. CAM review

Ausgrid's existing CAM was approved prior to the finalisation of the Guideline and will be reviewed to ensure that it supports Ausgrid's compliance with the Guideline. The review will ensure that the CAM will maintain compliance with the intent of the Guideline and fairly attribute and allocate costs associated with distribution services to Ausgrid.

In the interim, Ausgrid will allocate costs to distribution services consistent with the principles of its existing CAM and those of the Cost Allocation Guidelines.

3.2.2. Account separation

Ausgrid is undertaking a review to ensure that it can comply with its account separation requirements. This includes consideration of measures such as the creation of new internal order numbers; the development and implementation of a new chart of accounts for the AE; and the need to build new entities/accounts into Ausgrid's financial management reporting system.

3.3. *Discrimination*

Many of the functional separation measures discussed above are key to Ausgrid's approach to ensure Ausgrid does not breach its Guideline obligations with respect to discrimination. Ausgrid has identified higher risk activities across its operations where distribution services interface with contestable activities and is looking at measures to reduce these risks and ensure a level playing field amongst service providers.

3.3.1. Service providers that are an AE

As previously discussed, where the AE will become a service provider to Ausgrid, Ausgrid will be prepared to deal or offer to deal with third party service providers, for services provided by its AE, and will not preference the AE over other service providers.

The key example of this is that the AE, will provide services to Ausgrid for Type 5-7 metering. Ausgrid will periodically review its service provider contract for metering services to identify the potential for more beneficial terms and conditions (such as pricing) with other service providers. It is noted that for the purpose of transitioning to Day 1 compliance, the AE will be the initial service provider for these services.

3.4. *Staffing and locational separation*

Under its current operating model, Ausgrid staff provide a range of services, with individual staff roles working across DCS, ODS, OES and/or ONES in some instances. Similarly there are offices that provide DCS alongside ODS, OES and/or ONES. Ausgrid has undertaken operational analysis which indicates the roles that may be impacted by staffing separation obligations. This process is being supplemented with analysis of whether staff have access to Electricity Information and the opportunity to use it to discriminate. This is enabling Ausgrid to identify impacted staff and offices, and design appropriate controls.

3.4.1. Classification and reclassification

Where a service is not currently classified, and the service meets the definition of a DCS, Ausgrid has sought classification as a SCS or ACS through its response to the AER's Preliminary Framework and Approach, for its 2019-24 regulatory control period. This, in conjunction with a waiver for the transitional period to commencement of the next regulatory control period, will allow Ausgrid to continue to provide these services alongside other DCS.

3.4.2. Metering services

Under the proposed operating model, DCS and CES metering services will be provided by Ausgrid's AE. Ausgrid will ensure that its agreement with the AE for DCS metering services includes staffing and locational separation requirements.

This will mean that while field services staff are likely to be used across DCS and CES services (subject to meeting functional separation requirements), there may be other staff for which roles will need to be dedicated to either DCS or CES. The review of potentially

impacted roles and locations will continue over coming months to ensure that adequate separation is established for both staff and offices.

3.4.3. Separate and secure access arrangements

To ensure locational separation, where required, Ausgrid is implementing the necessary physical access restrictions, including relocation of staff to new offices or secured floors as necessary.

3.4.4. Compliance measures

The application of these measures will be dependent on the specific circumstances being considered. Compliance measures Ausgrid will consider include:

- *Exit ODS or OES*

Ausgrid will exit simple restoration and complex restoration services provided to non-life support customers during business hours. Ausgrid may additionally exit an ODS or OES, particularly where associated waiver applications prove unsuccessful. Profitability and customer reliance on these services will be taken into account in reaching a business decision.

- *Cease performing CES tasks*

For an individual staff role, tasks that constitute providing or marketing a CES may cease with the relevant position description updated accordingly. This is being considered where the staff member spends minimal time on CES tasks. The CES task may be delivered by another role providing CES only, within or outside the relevant section or branch.

- *Cease performing DCS tasks*

Changes may be implemented where a staff member may cease performing tasks that constitute providing or marketing a DCS. This is being considered where the staff member spends minimal time on DCS tasks.

- *Consolidate multiple roles within sections/branches*

Where a section or a branch has multiple staff that perform DCS and CES tasks, Ausgrid is considering consolidating the role such that each staff member is only providing one service or the other. The ability to apply these options depends on factors such as locational issues, and the skills and expertise of staff.

3.5. Branding separation

A brand is being developed for use by the AE which will be independent and separate to Ausgrid branding.

Ausgrid is identifying all and any circumstances where it currently promotes DCS and CES. Potential areas of risk may be where customers approach Ausgrid in relation to a service provided by the AE, and this is most likely to occur through the call centre. Policies, communications and training will be established to ensure that staff are aware of their obligations not to promote the services of an AE.

The amended Guideline, which was released in July 2017, contains an additional branding provision which is important to Ausgrid's Compliance Strategy. That is that branding used to provide the distribution asset rental service does not have to be independent and separate from Ausgrid branding. Should this additional provision be changed, Ausgrid would consider submitting a waiver from the branding obligation on the distribution asset rental service.

3.5.1. Metering Services

Ausgrid will engage the AE to provide both type 5, 6 and some 7 metering services. While some staff providing these services are field staff without the ability to use Electricity Information to discriminate, and may therefore work across both DCS and CES, all staff roles involved in the service provision are being reviewed to ensure compliance.

Currently some metering services are provided by field staff bearing the branding of the third party service provider and Ausgrid. Ausgrid is considering continued use of this practice of using common branding across DCS and CES metering services, noting that there will not be the Ausgrid branding used for both sets of services.

3.6. Information access and disclosure

The Guideline does not permit Ausgrid to disclose Confidential Information to any person, including the AE unless one of a number of conditions is met. One of these conditions allows the disclosure of information to the AE as long as Ausgrid provides access to this information to competitors of the AE. Ausgrid is committed to compliance with all of its legal obligations with respect to Confidential Information of customers and others.

Ausgrid is reviewing its systems and applications to identify which of these contain Confidential Information and any additional controls to restrict access.

3.7. Service Providers

Ausgrid uses a range of service providers to deliver its DCS. As and when the contracts with these Service Providers are amended, provisions will be included requiring the service provider to act as if it were Ausgrid in meeting the Guideline's requirements relating to discrimination, staff and locational separation, and information access and disclosure.

As discussed previously, Ausgrid will review its contracts with its AE as a service provider from time to time. The purpose of this review will be to test the market in terms of that particular service and understand the terms and conditions it may be able to procure elsewhere.

3.8. Waivers

Ausgrid is committed to achieving compliance with the Guideline by Day 1, supported by a small number of targeted waivers.

These waivers are intended to ensure: an orderly and timely transition to compliance; a reduction in the costs of achieving compliance; and minimisation of the impacts of compliance for certain customer and stakeholders groups.

The following three waivers are requested:

1. Services to be classified or reclassified – this short term transitional waiver would operate for 18 months and bridge the period until the Australian Energy Regulator's (AER) service classification decision takes effect for the 2019-24 regulatory control period. This waiver would allow Ausgrid to apply the Guideline as if certain service classifications were already in place.
2. Non-distribution services (Other Services) – this short term transitional waiver from Ausgrid's legal separation obligations with respect to Other Services, would apply up to 1 July 2018. It is intended to allow sufficient time for Ausgrid to implement resourcing arrangements to deliver the Other Services from the AE. Importantly, a waiver up to 1 July 2018 is being sought from the Guideline's requirement for legal

separation only and Ausgrid confirms that it will comply with all functional separation obligations in relation to Other Services from Day 1.

3. Non-distribution supply restoration services – this waiver would allow Ausgrid to continue to provide non-distribution supply restoration services, using Ausgrid branding, staff and offices, in limited circumstances. It is intended to minimise the impact of the Guideline's operation for a discrete group of customers, by permitting the provision of services to life-support customers, whose health and safety is paramount, and other customers seeking restoration of supply out of business hours.

4. Ongoing compliance and reporting

4.1. Compliance support measures

To facilitate compliance on an ongoing basis Ausgrid will:

- develop targeted communications material for circulation to the business setting out expectations under the Guideline
- develop general training programs for rollout across the business
- develop targeted training programs, especially for impacted staff and services, which is tailored for use by Ausgrid or its AE, and by service, role and seniority across the business
- review and update as necessary impacted policies, procedures and protocols so that a clear view of compliant activity is articulated
- update impacted role descriptions for activities that staff will or won't undertake in the future
- update current breach reporting procedures to ensure these are appropriate for capturing Guideline breaches.

Analysis to support the development of these materials is being finalised and over the coming months, documentation will be developed or updated.

4.2. Compliance monitoring and reporting breaches

To ensure proactive identification of breaches throughout the business, Ausgrid will leverage existing systems and protocols for immediately reportable breaches similar to the framework in place for capturing National Energy Customer Framework breaches.

Underpinning compliance measures will be a centralised register of Guideline obligations and internal controls. Specifically, Ausgrid proposes to develop an operationalised compliance matrix which sets out for each compliance obligation: the business area responsible for ensuring compliance; risk ratings; controls; and control owners. The matrix will be used by the Compliance team to monitor, report on and demonstrate compliance.

4.3. Independent auditor

To ensure that compliance is effective and meets external expectations, an independent authority will be engaged to review the Implementation Program prior to completion to ensure that it is likely to support a successful annual compliance report, and to provide interim recommendations. It is intended that this independent authority would then be engaged to perform the actual review of the annual compliance report.

To review its compliance under the Guideline, Ausgrid intends to engage a third party who is independent from Ausgrid and its AE.

As the review of the annual compliance report involves an 'assessment of compliance', and includes the review of non-financial information, Ausgrid intends to engage a qualified assurance practitioner as defined in ASAE 3000 (*Assurance engagements other than audits or reviews of historical financial information*).

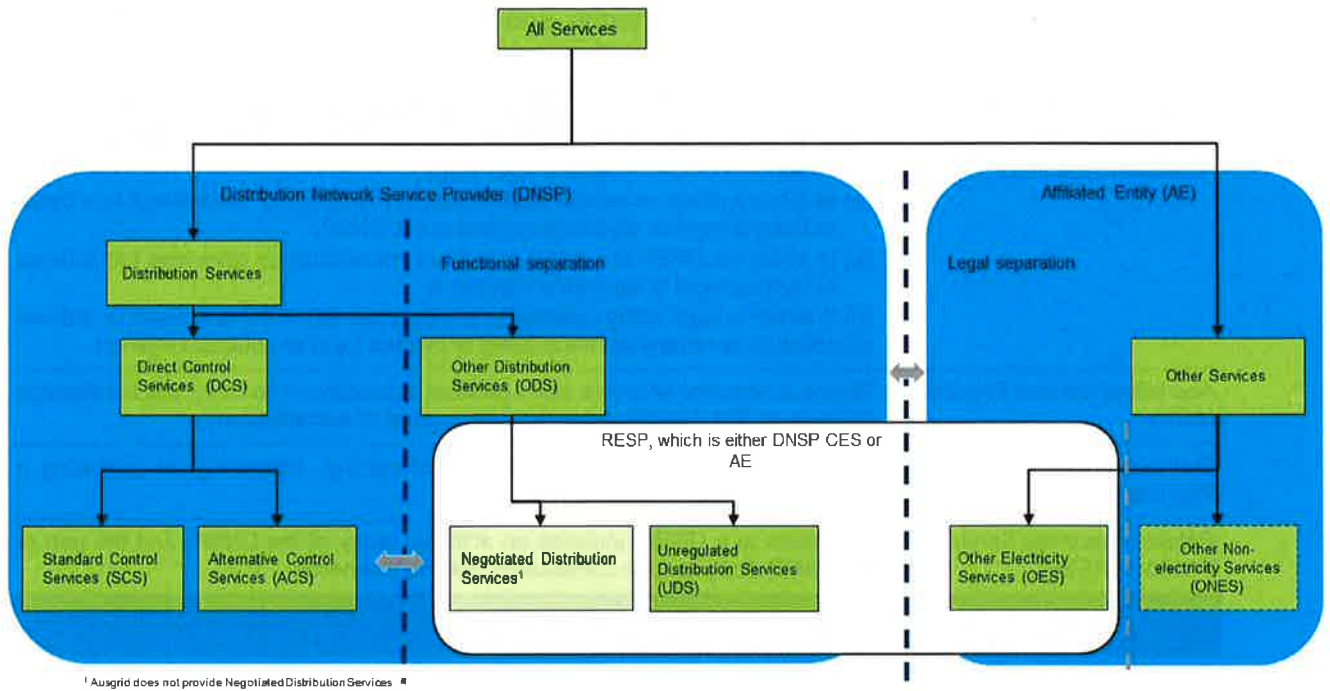
The requirements of this independent authority would be consistent with the review requirements for non-financial information reported in the AER's Regulatory Information Notices, and would allow the independent authority to provide a 'negative assurance' opinion on the annual compliance report.

Appendix A – Acronyms

The following table sets out key defined terms and acronyms used in this Compliance Strategy.

Defined term - Entities	Service definition
Affiliated Entity (AE)	In relation to a DNSP, means a legal entity: (a) which is a direct or indirect shareholder in the DNSP or otherwise has a direct or indirect legal or equitable interest in the DNSP; (b) in which the DNSP is a direct or indirect shareholder or otherwise has a direct or indirect legal or equitable interest; or (c) in which a legal entity referred to in paragraph (a) or (b) is a direct or indirect shareholder or otherwise has a direct or indirect legal or equitable interest.
Accredited Service Provider (ASP)	Means a provider who has been granted accreditation to carry out contestable services on the Ausgrid network under a grant of accreditation.
Distribution Network Service Provider (DNSP)	A person who engages in the activity of owning, controlling, or operating a distribution system (i.e. Ausgrid).
Related Electricity Service Provider (RESP)	In relation to a DNSP, includes an affiliated entity of the DNSP; and the part of the DNSP that provides contestable electricity services.
Defined term - Services	
Alternative Control Service (ACS)	A distribution service that is a DCS but not a SCS.
Contestable Electricity Services (CES)	ODS and OES.
Direct Control Network Service (DCS)	An electricity network service which the National Electricity Rules (NER) specify as a service the price for which, the AER specifies, in a Ausgrid determination as a service the price for which, or the revenue to be earned from which, must be regulated under the Ausgrid determination.
Distribution Service	A service provided by means of, or in connection with, a distribution system.
Electricity Services	Services that are necessary or incidental to the supply of electricity to consumers of electricity, including the generation of electricity; electricity network services; the sale of electricity (relevant to definition of electricity information).
Other Distribution Services (ODS)	A distribution services other than DCS. Note: As Ausgrid does not provide negotiated distribution services this applies only to distribution services that are not classified (i.e. UDS).
Other Electricity Services (OES)	Services for the supply of electricity or that are necessary or incidental to the supply of electricity, other than transmission services or distribution services.
Other Services	Services other than transmission services or distribution services.
Other Non-Electricity Service (ONES)	An Other Service that is not an OES.
Standard Control Service (SCS)	A DCS that is subject to a control mechanism based on Ausgrid's total revenue requirement.
Unclassified Distribution Services	This is not a defined term in the National Electricity Law (NEL) or Rules, or through the AER's Framework and Approach. However, a UDS is a distribution service that is not classified as DCS or negotiated distribution services by the AER.

Appendix B - Key ring-fencing terms illustrated



Ausgrid Ring-Fencing Guideline Waiver Applications

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1. Overview

Ausgrid is committed to achieving compliance with the AER's Ring-Fencing Guideline (Guideline) by 1 January 2018 (Day 1), supported by a small number of targeted waivers.

These waivers are intended to ensure: an orderly and timely transition to compliance; a reduction in the costs of achieving compliance; and minimisation of the impacts of compliance for certain customer and stakeholders groups.

The following three waivers are requested:

1. Services to be classified or reclassified – this short term transitional waiver would operate for 18 months and bridge the period until the Australian Energy Regulator's (AER) service classification decision takes effect for the 2019-24 regulatory control period. This waiver would allow Ausgrid to apply the Guideline as if certain service classifications were already in place.
2. Non-distribution services (Other Services) – this short term transitional waiver from Ausgrid's legal separation obligations with respect to Other Services (OS), would apply up to 1 July 2018. It is intended to allow sufficient time for Ausgrid to implement resourcing arrangements to deliver OS from the AE. Importantly, a waiver up to 1 July 2018 is being sought from the Guideline's requirement for legal separation only and Ausgrid will comply with all functional separation obligations in relation to OS from Day 1.
3. Non-distribution supply restoration services – this waiver would allow Ausgrid to continue to provide non-distribution supply restoration services, using Ausgrid branding, staff and offices, in limited circumstances. It is intended to minimise the impact of the Guideline's operation for a discrete group of customers, by permitting the provision of services to life-support customers, whose health and safety is paramount, and other customers seeking restoration of supply out of hours.

The waivers and supporting information are detailed in this document, which should be considered Ausgrid's application for the purposes of clause 5.2 of the Guideline.

Ausgrid would welcome the opportunity to discuss its waiver application with the AER. If the AER has any questions or requires clarification on any aspect of this document, please do not hesitate to contact:

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2. Services to be classified or reclassified

Ausgrid seeks a transitional waiver which would expire on 30 June 2019, to bridge the period until commencement of the AER's service classification decision for the 2019-24 regulatory control period on 1 July 2019. This waiver would allow Ausgrid to apply the Guideline as if the service classifications anticipated to apply in the 2019-24 regulatory control period were already in place.

2.1. Service description

Ausgrid, the other NSW distribution businesses and the AER, have developed a list of services and accompanying service classifications that are anticipated to apply for the 2019-24 regulatory control period. The consultative process supporting the development of the services list has involved the AER publicly releasing its Preliminary Framework and Approach in March 2017, and the distribution businesses refining and adding to this list to ensure appropriate service coverage and classification.

Informal feedback indicates that the AER has no unresolved concerns at officer level regarding the NSW distribution businesses' proposed service classifications. While the Final Framework and Approach for NSW will be released in July 2018, it is noted that the AER has until its final Distribution Determination in early 2019 to make changes to the proposed service classifications.

This waiver application assumes that the position submitted by Ausgrid in response to the AER's Preliminary Framework and Approach, and the AER's subsequent officer-level feedback, will reflect the AER's final position. Should this not be the case, it may be necessary for Ausgrid to submit an additional or alternative waiver application.

The Framework and Approach process identified a number of services that Ausgrid and/or the AER considers appropriate for either initial classification or reclassification for the 2019-24 regulatory control period, including to take account of the impact of the Guideline on the future provision of services (noting that the existing classification of services was developed in the absence of a national framework for ring-fencing).

In particular, classification or reclassification is considered necessary for:

- Functions associated with the provision of Standard Control Services (SCS) that are core functions in operating and maintaining the network, but should be separately identified to provide clarity in a ring-fencing context.
- Services which are currently unclassified or classified as Unclassified Distribution Services (UDS), but would be more appropriately reclassified as Alternative Control Services (ACS).
- Services which meet the definition of a 'distribution service' under the National Electricity Rules (NER), but which have not previously been classified by the AER (Ausgrid considers most of these to be UDS).

These are discussed in detail below.

2.1.1. Functions associated with the provision of SCS

There is a range of core functions which Ausgrid performs in order to operate and maintain its shared network (referred to by the AER as common distribution services). The activities underpinning these common distribution services are treated as SCS. The NSW distribution businesses have proposed to more clearly articulate these activities within the Framework and Approach to ensure clarity for ring-fencing purposes.

These functions, which all relate to common distribution services, are set out in the table below.

Service	Functions
Common distribution services	Works to fix damage to the network (including emergency recoverable works) or to support another distributor during an emergency event
	Activities related to 'shared asset facilitation' of distributor assets
	Bulk supply point metering
	Rectification of simple customer fault (e.g. fuse) relating to a life support customer. <i>Note that this service is also the subject of a separate waiver which would allow Ausgrid to continue providing this service, if reclassification as a Direct Control Service (DCS) does not occur.</i>
	Emergency disconnect for safety reasons and work conducted to determine if a customer outage is related to a network issue
	The relocation of assets that form part of the distribution network but not relocations requested by a third party (including a customer)
	Network demand management for distribution purposes
	Training internal staff and contractors undertaking direct control services
The planning, design repair, maintenance, construction and operation of the distribution network	

2.1.2. Services without a classification which are proposed to be classified as ACS

There is a range of services that are currently unclassified but that would be more appropriately classified as ACS. These fall into two categories:

- the services did not exist when the AER classified services for the current regulatory control period, e.g. metering services relating to Power of Choice reforms
- recent analysis has identified that these services would be more appropriately classified as ACS e.g. there are a range of network safety services which were previously unclassified, but which only Ausgrid can provide and which are provided to customers on a user-pays basis.

These services are set out in the table below.

Service	Activities
Design related services	The provision of engineering consulting (related to shared network)
Access permits, oversight and facilitation	Facilitation of generator connection and operation on the network
	Facilitation of activities within clearances of distributor's assets, including physical and electrical isolation of assets.
	Provision of approved materials/equipment to Authorised Service Providers (ASPs) for connection asset that will become part of the shared network
	Specialist services where the design or construction is non-standard, technically complex or environmentally sensitive and any enquiries related to distributor assets
Networks safety services	Assessing an application from an ASP or manufacturer to consider approval of alternative material and equipment items that are not specified in the Approved Materials List
	Provision of traffic control services by the distributor where required
	Fitting of tiger tails, high load escort
	De-energising wires for safe approach (e.g. for tree pruning)
	Neutral integrity test

Service	Activities
	Work undertaken to determine the cause of a customer fault where there may be a safety impact on the network or related component
Rectification works to maintain network safety	Work involved in managing and resolving pre-summer bush fire inspection of customer vegetation or aerial mains defects where the customer has failed to do so
Planned Interruption – Customer requested	Customer request to move a planned interruption with agreement to fund the additional costs of performing this distribution service outside of normal business hours
Training	Provision of training to third parties for network related access
Customer initiated asset relocation works	Relocation of assets that form part of the distribution network in circumstances where the relocation was initiated by a third party (including a customer); and could impact the safety or security of the network The termination of cable at zone substations and first joint out, where a work health and safety assessment determines that an ASP should not be given the required access to the zone substation; and the connection is fully dedicated to the specific customer connection
Termination of cable at zone substation – distributor required performance	The termination of cable at zone substations and first joint out, where a work health and safety assessment determines that an ASP should not be given the required access to the zone substation; and the connection is fully dedicated to the specific customer connecting.
Meter recovery and disposal - type 5 and 6	Removal of a current transformer (CT) type 5 or 6 meter where a permanent disconnection has been requested, at the request of the customer or their agent.
Emergency meter maintenance	Distributor called out due to a power outage caused by external metering provider's equipment failure and distributor has had to restore power to the customer's premises. This fee will also be levied when a metering provider has request the distributor to check a potentially faulty network connection and no fault is found.
Distributor arranged outage for the purpose of replacing meter	At the request of a retailer or metering coordinator provide notification to affected customers and facilitate the disconnection/reconnection of customer metering installations where a retailer planned interruption cannot be conducted.
Meter consumption data	Customer requested provision of data in excess of requirements under rule 28 of the NERR

2.1.3. Services classified as UDS which are proposed to be classified as ACS

Ausgrid's security light (Lighting Solutions) service is currently classified as UDS. Ausgrid considers however that as the service relies on attachment to an existing distribution network infrastructure, and as competition for the service is limited, an ACS classification is therefore more appropriate. These security light services are charged on a user-pays basis.

2.1.4. Services without a classification which are proposed to be classified as UDS

Ausgrid provides a number of services which were not classified as distribution services for the current regulatory control period. Services which are currently not classified, but which through the Framework and Approach process and discussion with the AER have been identified as appropriate for classification as distribution services and further, as UDS, are as follows:

Service	Activities
Distribution asset rental	Rental of distribution assets to third parties (e.g. office space rental, pole and duct rental etc.)
Contestable metering support roles	Includes metering coordinator (except where the DNSP is the initial metering coordinator), metering data provider and metering provider for meters installed or replaced after 1 December 2017
Non-standard connection services	Asset relocations requested by a third party (including a customer) which are unlikely to impact on the safety or security of the network <hr/> Conversion to aerial bundled cable (i.e. reducing the number of overhead lines by combining them) <hr/> Reserve or duplicate supplies (beyond what a DNSP is required to provide) <hr/> Unless a work health and safety assessment determines that an ASP should not be given the required access, termination of cable at zone substations and first joint out (where the connection is fully dedicated to the specific customer connecting)
Type 5-6 meter data management to other electricity distributors	The provision of type 5-6 meter data management to other electricity distributors

2.2. Guideline impact

The classification for a given service underpins the scope of the ring-fencing obligations for the regulatory control period in which the classification applies. The proposed changes to service classifications for the next regulatory control period impact the Guideline's implications for the delivery of those services from 1 July 2019.

In the absence of a waiver, Ausgrid would be required to establish a range of compliance measures pursuant to the Guideline's requirements which would apply for an 18 month period from 1 January 2018 to the commencement of the next regulatory control period on 1 July 2019. After this transitional period, the changes in classification would mean that these measures would need to be modified or withdrawn. This would mean incurring unnecessary cost, confusion for internal staff and a negative impact on the efficient delivery of the service.

The impact of the Guideline varies by how a service is currently classified and what its proposed (and assumed) future classification will be. The following subsections set out the impact of the Guideline by both the current and proposed service classification.

2.2.1. Services without a classification which are associated with provision of SCS

Ausgrid could continue to provide these functions under the Guideline and without a waiver based on its view that these are core functions to support the delivery of SCS. However, an independent authority will be required to assess compliance with the Guideline and will rely on service classifications made by the AER.

This poses a risk that these functions are considered by the AER, or an independent authority, to be UDS, or even non-distribution services (OS), until they are classified in the

next regulatory control period. There is a small chance that failing to implement functional, or even legal, separation for these services may call into question compliance with Guideline.

2.2.2. Services without a classification which are proposed to be classified as ACS

Where Ausgrid provides services in the current regulatory control period without a service classification and these are likely to be classified as ACS in the forthcoming regulatory control period these services might be considered, by the AER or an independent authority, to be UDS or even Other Services during the transitional period.

This poses a risk that these functions are considered to be UDS, or even non-distribution services (OS), until they are classified in the next regulatory control period. There is a small chance that failing to implement functional, or even legal, separation for these services may call into question compliance with Guideline.

2.2.3. Services classified as UDS which are proposed to be classified as ACS

Ausgrid Lighting Solutions services would be required to functionally separate as a UDS, but could continue to be provided by Ausgrid, for the 18 month transitional period prior to the commencement of the next regulatory control period.

The proposed reclassification however would obviate the need for functional separation and associated costs to be incurred.

2.2.4. Services without a classification which are proposed to be classified as UDS

Non-distribution services are subject to the most restrictive ring-fencing obligations under the Guideline. This is because they cannot be provided by Ausgrid, and where provided by an AE, must be subject to a range of separation obligations.

During the 18 month transitional period, Ausgrid would need to implement legal separation, which would no longer be required upon commencement of the next regulatory control period. For example legal separation obligations would require compliance measures such as novating service contracts to a new entity and then back to Ausgrid. This would be achieved with considerable customer confusion and service impact. Functional separation obligations would continue to apply.

2.3. *Waiver description*

Ausgrid seeks a temporary waiver from the legal separation, office, staff, branding and cross-promotions obligations, for a transitional period from Day 1 until the end of the current regulatory control period, when the new service classifications take effect.

The waiver would allow Ausgrid to treat services, for ring-fencing purposes, as if the services for the forthcoming regulatory control period already apply. Specifically, this means that Ausgrid is seeking a waiver from:

- The legal, staffing, locational, branding and cross-promotions obligations where services are not classified but are anticipated to be classified as SCS or ACS in the forthcoming regulatory control period.
- The staffing, locational, branding and cross-promotions obligations where services are UDS, but are anticipated to be classified as SCS or ACS in the forthcoming regulatory control period, i.e. a waiver from the Guideline's functional separation ring-fencing obligations.
- The legal separation obligation where services are not classified, but are anticipated to be classified as UDS in the forthcoming regulatory control period, noting that Ausgrid will continue providing these services subject to the Guideline's functional

separation requirements. While it is Ausgrid's intention to provide these services from an AE, it is seeking a waiver for these services in the event it is unable to transfer the services in time for Day 1 compliance.

The waiver would commence on 1 January 2018 and expire on 1 July 2019 (i.e. at the commencement of the next regulatory control period).

2.4. Waiver justification

Obtaining a waiver for the services identified above would allow Ausgrid to apply the service classifications that it is understood the AER intends to make for the next regulatory control period for the transitional period. Ausgrid could therefore avoid the expense and effort (such as ensuring staff and office separation, changes to systems and applications, and novation of contracts) and minimise the customer impacts (such as confusion regarding the entity providing the service), associated with implementing unnecessary compliance measures for an 18 month period.

2.4.1. Cost and benefits of compliance without a waiver

There will be a significant cost and resource burden to implement staff and office separation for the transitional period. Preliminary analysis indicates that there are 17 teams and 6 offices across Ausgrid which provide services classified as DCS and services which are unclassified, but proposed to be classified as DCS.

The cost of implementing these changes would be 'wasted effort' as the need for separation would cease at the commencement of the next regulatory control period, when the classification of these services changes to DCS.

2.4.2. Customer impacts

In circumstances where a waiver is not granted, Ausgrid would be required to use a different brand to provide any of the services falling into the categories of UDS or Other Electricity Services (OES). It would be confusing for customers who have traditionally received these services from "Ausgrid", to then receive it from another brand purely for the transitional period. It is submitted that there are no customer benefits of branding separation under these circumstances.

2.4.3. Cross-subsidisation

Ausgrid's Cost Allocation Method (CAM) in addition to Ausgrid's compliance with cost allocation and attribution obligations under the Guideline address the risk of cross-subsidisation from non-distribution to distribution services. Regardless of the classification that applies to a service, Ausgrid allocates and attributes costs to distribution services, and within distribution services, in accordance with its CAM and the Cost Allocation Principles.

2.4.4. Discrimination

For services that will be classified or reclassified as SCS or ACS, Ausgrid considers that there is no opportunity for the affected staff to discriminate in favour of the AE because the services that will be reclassified in the next regulatory control period are not contestable services, despite those services not currently being classified.

For example, the provision of services relating to Power of Choice reforms (as set out in the Preliminary Framework and Approach) includes activities such as confirming or correcting metering or network billing information in market B2B or network billing systems, due to insufficient or incorrect information received from retailers or metering providers. Ausgrid as

the distribution business is best positioned to provide this service and limited competition exists for it.

For services that will be classified as UDS, Ausgrid considers that there will be no incremental impact with respect to the obligation not to discriminate. This is because, regardless of whether these services are UDS or OS, Ausgrid will be required to comply with the full range of functional separation requirements (i.e. discrimination, staffing and locational separation, information access and disclosure restrictions). As per the AER's Explanatory Statement to the Guideline, it is these functional separation obligations which are targeted at addressing discrimination¹. Ausgrid is committed to ensuring compliance with these obligations.

2.4.5. Additional compliance measures

Each service will be subject to the full suite of compliance measures established by Ausgrid based on the anticipated service classification for the 2019-24 regulatory control period. For instance, although legal separation will not be implemented for services without a classification which are proposed to be classified as UDS, functional separation (such as staffing and office separation) will be implemented.

2.4.6. National Electricity Objective

This waiver would promote efficient investment in, and efficient operation of electricity services for the long term interests of consumers of electricity with respect to price. This is because the costs of implementing compliance measures for the transitional period and any associated legacy costs would ultimately flow through to customers and there would be loss of continuity in the regulatory treatment of Ausgrid services.

¹ AER Electricity Distribution Ring-fencing Guideline Explanatory Statement, p.5, November 2016.

3. Non-distribution services (Other Services)

Ausgrid seeks a short term transitional waiver, up to 1 July 2018, from the legal separation obligations that would apply to Other Services (OS) provided by Ausgrid pursuant to Section 3.1 of the Guideline.

The waiver is sought to allow sufficient time for Ausgrid to establish its Affiliated Entity (AE) and implement resourcing arrangements to deliver OS from the AE.

Importantly, Ausgrid will comply with the Guideline's functional separation obligations in relation to the OS to be provided by the AE from the Guidelines existing services transitional commencement date of 1 January 2018.

3.1. Service description

Ausgrid currently provides a range of services which are not distribution services, and are therefore classified under the Guideline as OS. These OS include:

- Metering services – Billing services for embedded networks management
- Metering services – Web graphics and associated analysis for embedded networks
- Network test – High Power Testing
- Network test – Not distribution network related
- Network test – Fault location on other networks
- Network test – Chemical and Calibration Laboratories
- Asset relocations
- Major infrastructure projects
- General contracting
- Asset ownership/non-regulated
- Transmission – Oil-filled cables on other networks
- Transmission – Maintenance on third party installations
- Illumination Consulting
- Contestable construction works
- Customer connections – Sydney Water Neutral Networks Testing
- Telco fibre and asset construction.

The above list does not include services which are not currently classified, but have been identified for classification as a distribution service, and are subject to Ausgrid's proposed waiver for 18 months, as a transitional arrangement until commencement of the next regulatory control period. Should that waiver not be approved, the services listed in sections 2.1.2 and 2.1.4 of this submission would also need to be considered for the purposes of this waiver application.

Ausgrid's intention is for all OS, as well as Unclassified Distribution Services (UDS), to be provided from its AE once the AE is formally established. Prior to the AE commencing operation, resourcing arrangements need to be implemented.

3.2. Guideline impact

3.2.1. Legal separation

Establishing and resourcing the AE is subject to challenges and dependencies arising out of Ausgrid's industrial environment and statutory obligations. Due to the significant obligations to consult with unions and employees Ausgrid will be unable to comply with its obligations to cease providing OS by 1 January 2018.

Ausgrid will implement the legal separation requirements for these services no later than 1 July 2018.

3.2.2. Functional separation

Ausgrid will implement the functional separation requirements for these services no later than 1 January 2018.

3.3. Waiver description

Ausgrid is seeking a short term transitional waiver from the Guideline's prohibition on providing OS. This waiver is sought on the basis that Ausgrid anticipates that there will be significant barriers to being able to establish its AE resourcing arrangements in time for Day 1 compliance. It is therefore proposed that this waiver commence on 1 January 2018 and expire on 1 July 2018.

The waiver for legal separation, in conjunction with measures to achieve functional separation, will mean that OS are treated for ring-fencing purposes in the same manner as UDS. That is, OS will be provided by the part of Ausgrid that provides Contestable Electricity Services (CES) and this will be treated as a Related Electricity Service Provider (RESP).

3.4. Waiver justification

Ausgrid's current statutory and industrial environment creates a number of challenges in resourcing an AE to provide OS currently provided by Ausgrid.

3.4.1. Development and establishment of future operating model

The development of Ausgrid's future compliant state is a significant process being progressed through two distinct stages, in conjunction with other organisational transformation processes being performed.

The first stage, which is now complete, was focussed on developing a compliant and effective structure for:

- the Ausgrid Operations division, tasked with the delivery of direct control services (DCS); and
- services (ODS and OS) that will be delivered in a new Emerging Energy Solutions division, which will be tasked with pursuing contestable growth opportunities and emerging energy solutions. This will ultimately become the AE.

This phase incorporated the perspectives of a range of stakeholders and involved significant consultation to ensure optimised and balanced outcomes across the business. The extent of consultation involved in this process is illustrated by the following activities.

Service	Stage 1 activities
01 Dec 2016	NSW Government entered into a partnership with AustralianSuper and IFM Investors to operate the Ausgrid distribution network under a long-term lease.
14 Dec 2016	'Have your say' Employee Survey was undertaken seeking views from all employees on working for Ausgrid, the challenges faced and ideas for improving Ausgrid.
15 Jan 2017	Stakeholder Perceptions Research Report was released based on a study evaluating stakeholder perceptions of Ausgrid's performance, aspirations and reputation. 124 stakeholders gave their views.
09 Feb 2017	Employee Survey results were published with 54% of employees sharing their feedback.
27 Mar 2017	Phase 2 of the Transformation program was launched, using cross-functional teams to implement programs to build a sustainable future, provide value to customers, communities and stakeholders, reduce costs and explore ways to become more efficient.
29 Mar 2017	The Peak Consultative Committee, comprising Senior Executives, Managers of Divisions, Union Officials and employee representatives, confirmed the new Ausgrid structure.
29 Mar 2017	Company-wide roadshows, were presented by the CEO and Senior Executives, detailing the results of the employee survey, the purpose, vision and values of Ausgrid, the new Ausgrid structure, the need for change and the transformation steps to be taken.
15 Apr 2017	Branch managers were appointed in the new Ausgrid structure.
17 Apr 2017	The new Ausgrid structure was released and circulated to all employees.
19 Jun 2017	The new Ausgrid structure was refined.

The second stage of Ausgrid's transition to an operating model that will comply with the Guideline involves significant consultation with unions as well as with business units and their representatives. This is likely to result in significant lead times for Ausgrid to establish its Affiliated Entity (AE) and implement resourcing arrangements to deliver the OS from the AE.

3.4.2. Fair Work Act

The Fair Work Act² imposes a number of statutory obligations on Ausgrid which impact the resourcing of employees to an AE. Importantly, Ausgrid is a National System Employer under the Fair Work Act and must comply with the statutory obligations to negotiate an

² Fair Work Act 2009 (Cth)

enterprise agreement, which provides the terms and conditions of employment to Ausgrid's employees.

3.4.3. Enterprise agreement

Ausgrid is continuing negotiations for a replacement enterprise agreement under its new ownership arrangement, following the nominal expiration of the current enterprise agreement on 18 December 2014. Negotiations to finalise the replacement enterprise agreement have been lengthy and complicated due to the existing industrial environment, however it is anticipated that a new enterprise agreement will be agreed in the coming months, assuming there are no further complications during the negotiation and approval process. This complicates the challenge of putting in place resourcing arrangements for the AE.

3.4.4. Cross-subsidisation

Ausgrid's Cost Allocation Method (CAM) addresses the risk of cross-subsidisation from non-distribution to distribution services. Regardless of the classification that applies to a service, Ausgrid allocates and attributes costs to distribution services, and within distribution services, in accordance with its CAM and the Cost Allocation Principles.

Further, by Day 1, Ausgrid will have established separate internal accounting procedures to ensure that it will be able to demonstrate the extent and nature of transactions between the part of Ausgrid providing DCS, and the AE in providing OS. Any transactions will therefore be clear and auditable.

3.4.5. Discrimination

Ausgrid considers that the granting of a waiver will have no adverse incremental impact with respect to its obligations not to discriminate. This is because regardless of whether OS are provided from the Ausgrid Related Electricity Service Provider (RESP) or from an AE, Ausgrid will comply with the full range of functional separation requirements aimed at mitigating any opportunity to discriminate.

Ausgrid's approach to compliance with the Guideline will be to treat these services and their provision by the AE completely at arm's length and in compliance with the Guideline.

3.4.6. Additional compliance measures

Ausgrid will provide OS through its RESP and as such the provision of the services will be subject to the functional separation requirements, as discussed above.

Although a waiver for six months is requested, Ausgrid aims to comply as soon as it is able and should this occur the waiver would expire shortly thereafter.

3.4.7. National Electricity Objective

The proposed waiver will promote efficient operation and use of electricity services for the long term interests of consumers of electricity with respect to reliability, and security of supply of electricity. Complexities related to the interaction of Ausgrid industrial arrangements and ring-fencing compliance timeframes should therefore not jeopardise the provision of these OS.

4. Non-distribution supply restoration services

Ausgrid seeks a waiver that would allow Ausgrid to continue to provide non-distribution supply restoration services, using Ausgrid branding, staff and offices, in limited circumstances.

It is intended to minimise the impact of the Guideline's operation for a discrete group of customers, by permitting the provision of services to life-support customers, whose health and safety is paramount, and other customers seeking restoration of supply out of business hours.

4.1. Service description

Ausgrid currently offers four supply restoration services, the provision of which is triggered by an investigation of an outage (i.e. a fault) at a customer's premises.

While the investigation of the outage is a Standard Control Service (SCS), the associated restoration services are non-distribution services, and treated as Other Electricity Services (OES) for the purposes of the Guideline.

These services are disaggregated into:

- life support customers (any hours), or non-life-support customers (out of business hours); and
- simple restoration work, or complex restoration work.

There are consequently four services being considered for a waiver:

1. Simple restoration work for life support customers
2. Simple restoration work for non-life support customers, out of business hours
3. Complex restoration work for life support customers
4. Complex restoration work for non-life support customers, out of business hours.

4.1.1. Proposed classifications for simple restoration work

The NSW distribution businesses have flagged simple restoration work for life support customers as appropriate for classification as a DCS through the response to the AER's Preliminary Framework and Approach. For life support customers, it has been proposed that simple restoration work should be classified as a SCS on the basis that ensuring supply to life support customers is a critical component of running a network and can be achieved with minimal incremental cost. This work would be undertaken with no charge to the individual customer.

Despite the above proposed classification as DCS, Ausgrid is submitting this waiver application to the AER to mitigate the risk of the AER making an alternative classification in its final service classification decision which is not due until early 2019.

4.1.2. Simple restoration work and complex restoration work

Simple work for the restoration of supply (as identified through a callout to investigate an outage) is broadly defined by Ausgrid as:

- taking less than 15 minutes to complete
- using minimal, and available, materials.

Simple restoration work would typically involve a task such as:

- replacing a fuse or circuit breaker assembly.

Complex work for the restoration of supply (as identified through a callout to investigate an outage) is broadly defined by Ausgrid as:

- taking greater than 15 minutes to complete
- using more expensive, yet available, materials.

Complex restoration work would typically involve tasks such as:

- replacing fuses with additional safety precautions such as temporary disconnections at the Point of Attachment (this is dependent on the site)
- repairing hot water services (eg replace a thermostat or element).

4.1.3. Life support customers

Life support customers rely on a continuous power supply for medical equipment and are entitled to special protections to support continuity of energy supply. Ausgrid is required to comply with key protections and obligations for life support customers under instruments such as the National Energy Retail Law and National Energy Retail Rules and must put in place measures to support the safety of these at-risk customers.

4.1.4. Service summary

The table below summarises key aspects of each of the four services for ease of reference.

	Life-support customer	Non-life support customer
Simple restoration work	<p>1. Simple restoration work for life support customers</p> <p>Fee: No fee</p> <p>Time performed: All hours</p> <p>Current service classification: None</p> <p>Proposed service classification: SCS (or DCS under Guideline).</p>	<p>2. Simple restoration work for non-life support customers</p> <p>Fee: Incremental cost (applying approach used for ACS)</p> <p>Time performed: Out of business hours</p> <p>Current service classification: None</p> <p>Proposed service classification: None as non-distribution service (or OES under Guideline).</p>
Complex restoration work	<p>3. Complex restoration work for life support customers</p> <p>Fee: Incremental cost (applying approach used for ACS)</p> <p>Time: All hours</p> <p>Current service classification: None</p> <p>Proposed service classification: None as non-distribution service (or OES under Guideline).</p>	<p>4. Complex restoration work for non-life support customers</p> <p>Fee: Incremental cost (applying approach used for ACS)</p> <p>Time performed: Out of business hours</p> <p>Current service classification: None</p> <p>Proposed service classification: None as non-distribution service (or OES under Guideline).</p>

4.2. Guideline impact

These restoration services are not currently classified as distribution services, and meet the definition of OES under the Guideline. This means that Ausgrid will be prohibited from providing the services from 1 Jan 2018. At this point there is no intention for the AE to provide either simple restoration work or complex restoration work to restore supply.

From a functional separation perspective, Ausgrid would need to ensure separation between its DCS and simple restoration work or complex restoration work services, meaning that the work would involve the use of separate staff and branding, and would be subject to the Guideline's information access and disclose restrictions.

It is anticipated that the requirement for an additional party to be involved in the delivery of this suite of restoration services, either an AE or another service provider, will have both cost and restoration time impacts for customers.

These impacts are discussed in detail below.

4.3. Waiver description

Ausgrid is seeking a waiver from legal, staffing, locational, and branding and cross-promotion obligations in relation to the suite of four services listed in 4.1.

Ausgrid proposes that this waiver would commence on 1 January 2018 and would expire on 30 June 2024, at the end of the next regulatory control period.

4.4. Waiver justification

4.4.1. Life support customers – simple restoration work and complex restoration work

As highlighted by the AER, "obligations to life support customers are critical, and a priority for the AER. These customers are dependent on their energy supply to power important medical equipment"³.

Ausgrid's objective of minimising interruptions for its life support customers (services 1 and 3 above) is consistent with these principles, in seeking to ensure that supply is returned to these customers without delay and thereby mitigating safety concerns.

Ausgrid does not consider it appropriate for there to be any delay in restoring power to a life-support customer, when qualified staff are onsite to immediately perform the task and identifying another service provider to undertake the task would take time. It is therefore critical that a waiver for life-support customers be approved for both simple restoration work and complex restoration work.

4.4.2. Cost and benefits of compliance without a waiver

Key impacts in the absence of a waiver are:

- *Inefficient service delivery.*

Staffing separation requirements would mean that staff called out to investigate a customer outage could not ensure restoration of supply. The outcome of this would be a duplication in call out costs. The sunk cost incurred by Ausgrid in investigating the fault cannot be leveraged by the customer.

³ AER Chairman Andrew Reeves, 19 December 2012, <https://www.aer.gov.au/news-release/aer-takes-enforcement-action-on-life-support-obligations>

- *Longer wait times.*

Legal separation requirements would mean that where the need for simple work or complex work to restore supply is identified out of hours there will be a potentially long time before a suitably qualified professional is available to perform restoration work. To illustrate, a worst case scenario would arise where a fault is identified late on Christmas Eve, or at the commencement of the Easter break. A customer could be without electricity for many days if restoration services were not available.

- *Health and safety risks.*

Extended customer outages, even for non-life-support customers, could result in health and safety issues, particularly during excessively hot or cold weather and for vulnerable customers.

There are no financial benefits to individual customers in the absence of a waiver.

4.4.3. Cross-subsidisation

The CAM addresses the risk of cross-subsidisation from non-distribution to distribution services. Regardless of the classification that applies to a service, Ausgrid allocates and attributes costs to distribution services, and within distribution services, in accordance with its CAM and the Cost Allocation Principles.

Ausgrid will establish separate internal accounting procedures to ensure that it can demonstrate the extent and nature of transactions between the part of Ausgrid providing DCS and the part of Ausgrid providing complex restoration work in response to an identified outage (and simple restoration work also should the AER classify these as non-DCS in its final classification. Any transactions will thus be clear and auditable.

The service charge will be developed on a cost recovery basis, with the incremental cost of undertaking restoration work built up consistent with how ACS costs are built up. It is noted that no portion of the SCS callout charge will be recovered from the customer or built into the simple restoration work or complex restoration work charge. In the event that the customer were to choose a third party to undertake the work no part of the SCS cost would be recovered from the customer, so the charge is being consistently applied.

4.4.4. Discrimination

It is not intended that an AE will continue will provide these restoration services either during or outside of business hours. Ausgrid's ability and incentive to discriminate, in providing DCS, in favour of its AE is therefore mitigated.

Ausgrid will have policies and protocols in place, for restoration services where a waiver does not apply. These will ensure that the staff at the contact centre and onsite personnel responding to an outage, direct customers to electrical service providers on an equitable basis. Standard wording and descriptions will accompany communications where Ausgrid is prohibited from performing restoration work. For example:

- "The work you require to be performed can be done by any licensed electrical contractor; you can find a local contractor by searching online, in your local newspaper or through the white pages. You can check a license by contacting the Department of Fair Trading through their website www.fairtrading.nsw.gov.au or by phone 13 32 20."; or
- "The work you require to be performed can only be done by an accredited service provider level 1/2/3, you can find a list of ASP's by contacting the Department of Resources and Energy through their website www.resourcesandenergy.nsw.gov.au or by phone 13 77 88."

4.4.5. Additional compliance measures

Ausgrid will also develop advertising and communications to advise customers of its new policy, and the cessation of some restoration work (as described above).

4.4.6. National Electricity Objective

The granting of a waiver would further support the National Electricity Objective by promoting efficient operation of its network for the long term interests of:

- all customers with respect to the price, reliability and security of electricity supply by ensuring that restoration of supply is provided in the quickest and most efficient possible way
- life support customers with respect to safety, reliability and security of electricity supply.

5. Compliance checklist

The table below demonstrates that Ausgrid has supplied information required under the Guideline to support its waiver application. It is noted that not all Guideline information requirements are relevant to all waivers and this is identified where relevant.

Clause	Waiver requirement	Waiver 1 section reference	Waiver 2 section reference	Waiver 3 section reference
5.2(a)	The obligation in respect of which Ausgrid is applying for a waiver	2.3	3.3	4.3
5.2(b)	The reasons why Ausgrid is applying for the waiver	2.4	3.4	4.4
5.2(c)	Details of the service, or services, in relation to which Ausgrid is applying for the waiver	2.1	3.1	4.1
5.2(d)	The proposed commencement date and expiry date (if any) of the waiver and the reasons for those dates	2.3	3.3	4.3
5.2(e)	Details of the costs associated with Ausgrid complying with the obligation if the waiver of the obligation were refused	2.4.1	N/a	4.4.2
5.2(f)	The regulatory control period(s) to which the waiver would apply	2.1.3	3.3	4.3
5.2(g)	Any additional measures Ausgrid proposes to undertake if the waiver were granted	2.4.5	3.4.6	4.4.5
5.2(h)	The reasons why Ausgrid considers the waiver should be granted with reference to the matters specific in clause 5.3.2(a), including the benefits, or likely benefits, of the grant of the waiver to electricity consumers	2.4.6	3.4.7	4.4.6
5.3.2(a)(i)	Reference to consistency with the National Electricity Objective	2.4.6	3.4.7	4.4.6
5.3.2(a)(ii)	The potential for cross-subsidisation and discrimination if the waiver is granted or refused	2.4.3	3.4.4	4.4.3
		2.4.4	3.4.5	4.4.4
5.3.2(a)(iii)	Whether the benefit, or likely benefit, to electricity consumers of the DNSP complying with the obligation (including any benefit, or likely benefit, from increased competition) would be outweighed by the cost to the DNSP of complying with the obligation	2.4.1	N/a	4.4.2