

Electricity Distribution Ring-fencing Guideline Compliance Plan

Table of Contents

- 1 Introduction 3**
- 2 Overview 3**
- 3 Our approach to achieving compliance 4**
 - 3.1 Governance structure 4
 - 3.2 Compliance assessment approach 5
 - 3.3 Project Approach 5
- 4 Implementation plan 7**
 - 4.1 Legal Separation 7
 - 4.2 Establish and maintain accounts 7
 - 4.3 Obligation to not discriminate 8
 - 4.4 Physical separation and staff sharing 9
 - 4.5 Branding and cross promotion 9
 - 4.6 Information access and disclosure 11
 - 4.7 Service providers 11
 - 4.8 Waiver register 11
 - 4.9 Compliance and enforcement 11
 - 4.10 Accessibility of information 12
- 5 Cost estimate 12**
- 6 Waiver applications 12**

1 Introduction

The Australian Energy Regulator (**AER**) published the Ring-fencing Guideline (**Guideline**) for Electricity Distribution on 30 November 2016 under the National Electricity Rules (NER). The Guideline aims to promote competition in Contestable Electricity Services and it imposes obligations on Distribution Network Service Providers (**DNSP**) to prevent certain cross-subsidisation and discrimination.

The Guideline is effective from 1 December 2016. A transition period applies for “existing services” and DNSPs are required to comply as soon as reasonably practical and no later than 1 January 2018.

AusNet Electricity Services Pty Ltd (**AES**) is committed to fully implementing the Guideline and has dedicated significant resources to ensuring that our business meets the requirements of the guideline, whilst minimising costs and disruption to customers. This document explains, in practical terms, what steps AusNet Services is undertaking to achieve compliance with the Guidelines. These activities include:

- changes to policies, procedures, reports, and associated training to ensure ongoing compliance in a business as usual context;
- changes to existing business arrangements; and
- waiver applications where modifying existing arrangements is not practicable in the short term.

As set out in this document, we anticipate achieving full compliance with the Guideline by 1 January 2018 as required by the Guideline.¹ Our compliance with the Guideline will be assessed by a suitably qualified independent authority in our first Annual Compliance Report, which we will submit by 30 April 2018.

2 Overview

This document is AES’ Compliance Plan. It details AES’ approach to achieving compliance with the AER’s Electricity Distribution Ring-fencing Guideline (the **Guideline**).

Section 3 sets out AES’ approach to achieving compliance with the Guideline, including our governance structure and project approach.

Section 4 sets out AES’ implementation plan to achieve compliance with each clause of the Guideline and identifies:

- where current arrangements comply with the Guideline;
- potential compliance issues under the Guideline; and
- proposed methods for achieving compliance, including waiver applications.

Section 5 estimates the costs to AES of achieving compliance.

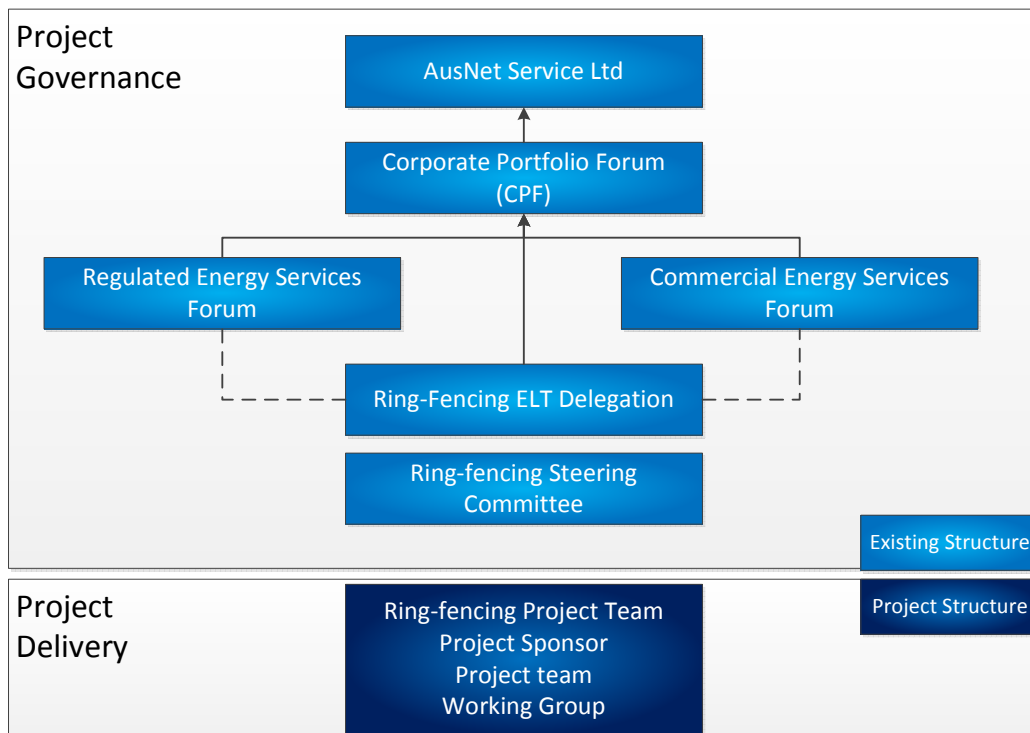
Section 6 provides an overview of the waiver applications.

¹ Noting that we are submitting a limited number of waiver applications for specific issues where compliance is not practicable in this regulatory period.

3 Our approach to achieving compliance

3.1 Governance structure

The AusNet Services Group (the **Group**) governance structure for overseeing business changes and ensuring compliance with the Guideline is set out below.



The Ring-fencing Steering Committee represents the advisory body for the Group’s response to the Guideline and provides unity of direction across the Group. The Committee members are general management representatives from across the business. The Committee meets on a monthly basis to manage compliance approach, progress, budget tracking and overall project delivery. The Committee provides regular updates to the Executive Leadership Team (ELT) and ultimately the Board.

The Steering Committee endorsed the following design principles for the project:

- achieve full compliance within the transition period, and be able to demonstrate compliance;
- minimise costs to the organisation and to our customers; and
- minimise business disruption, by maintaining current business processes and structures where possible.

A dedicated Project Team was established to design, implement and manage the response to the Guideline. The Project Team is supported by a Working Group comprised of senior representatives from Legal, Regulatory and Strategy business units, and other parts of the business as required. Once project delivery is complete, compliance with the guidelines will be handed over to existing business owners.

3.2 Compliance assessment approach

In accordance with the Guideline, AES must prepare an annual ring-fencing compliance report. This report must describe the measures AES has taken to ensure compliance with the Guideline and identify:

- i. any breaches of this Guideline by the DNSP, or which otherwise relate to the DNSP; and
- ii. all other services provided by the DNSP in accordance with clause 3.1; and
- iii. the purpose of all transactions between the DNSP and an affiliated entity.

Our annual compliance report must be accompanied by an assessment of compliance by a suitably qualified independent authority.

We will engage a suitably qualified independent authority to conduct a compliance assessment of our Annual Compliance Report. We will ensure that this authority is engaged with a comprehensive terms of reference, which will ensure that the compliance report satisfies stakeholders that we have met our obligations under the Guideline. We will submit our first compliance report to the AER by 30 April 2018 as required by the Guideline.

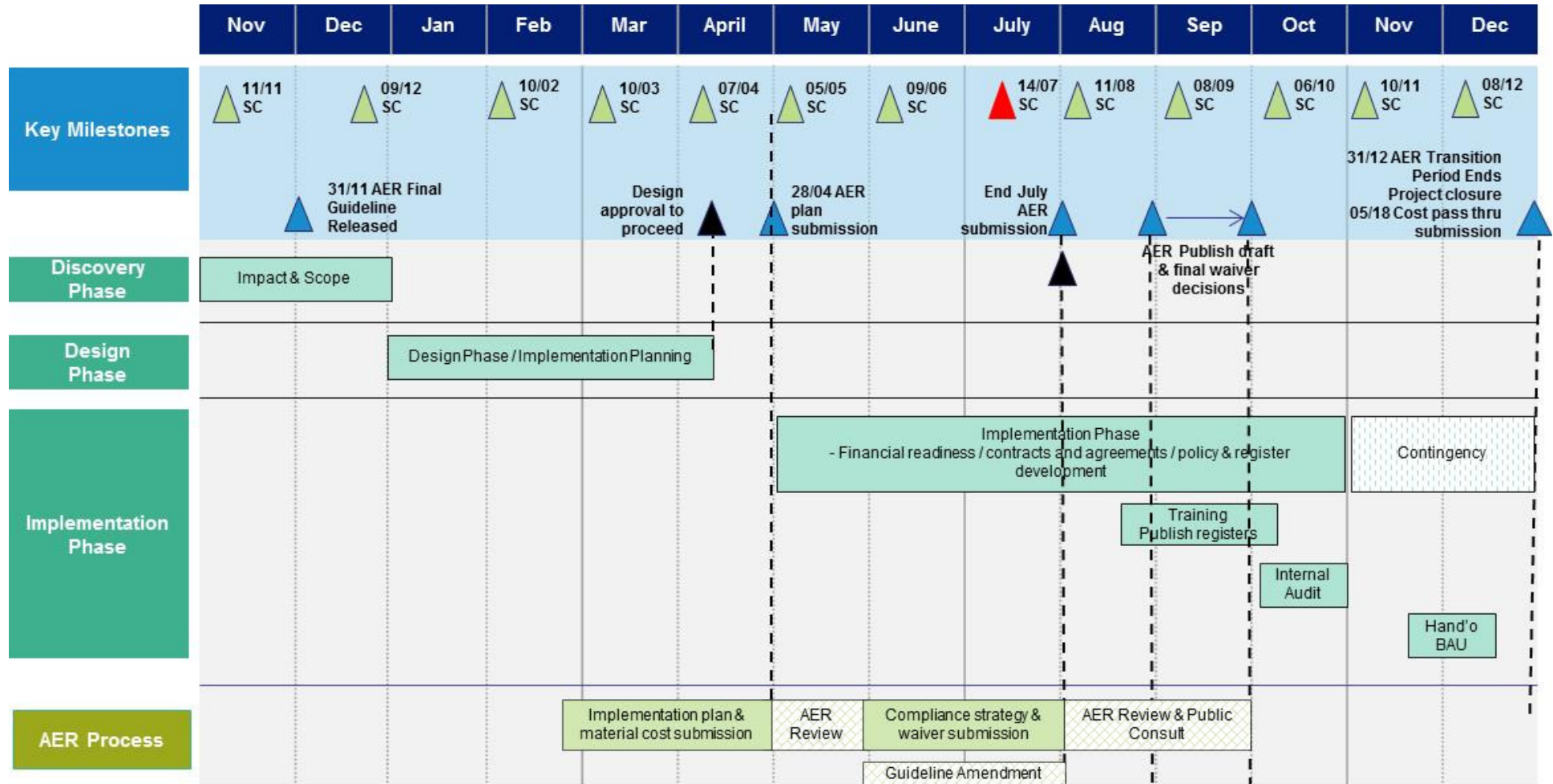
3.3 Project Approach

AES developed an approach to achieve compliance within the transition period across three phases:

- Discovery: August to December 2016: Developed a preliminary view of scope and impact to the Group based on the draft Guideline and established principles for the Design Phase.
- Design: January to April 2017: Developed a detailed view of change requirements in response to the Guideline, identified areas of non-conformance and developed an Implementation Plan.
- Implementation: May to December 2017:
 - Prepare an overarching framework so that the business can meet its obligations under the Guideline. This includes:
 - A new Ring-fencing policy, which will establish processes and procedures for operating in a Ring-fenced environment and offer clear communication to our employees on the behavioural change requirements.
 - Updating or creating policies and procedures, as well as a reporting and compliance framework.
 - Training staff and transitioning ongoing compliance activities into Business as Usual (BAU) roles.
 - Modify existing business arrangements for compliance; and
 - Where appropriate, apply for waivers.

The “Plan on a Page” below summarises this approach and key milestones.

AES – Ring-Fencing Compliance Plan



4 Implementation plan

4.1 Legal Separation

4.1.1 Separate legal entity

Clause 3.1(a) of the Guideline requires that the DNSP is a separate legal entity.

AES' legal entity structure complies with the legal separation requirements of the Guideline and therefore, no changes are required.

4.1.2 Provision of Distribution Services only

Clause 3.1(b) provides that AES may provide Distribution Services and Transmission Services, subject to limited exceptions. We have identified two issues with our arrangements under this requirement of the Guideline.

Mt Baw Baw

The Alpine Resorts Commission and AES have a Power Reticulation Agreement dating from 1997 to build, own, operate and supply LPG and electrical energy at Mt Baw Baw in Eastern Victoria. The contractual arrangements were implemented in accordance with government policies at that time and are supported by state-based statutory approvals and regulatory exemptions. As explained in detail in the attached waiver application, we consider it appropriate to allow this arrangement to continue until the expiration of the existing agreement on 15 May 2020.

Other non-distribution services

In addition to the Mt Baw Baw Power Reticulation Agreement, there are several contracts for the provision of services that do not meet the Guideline service classification restrictions, for which AES is the legal entity on the contract documentation.

For contracts with a term beyond the transition period, the Group's approach to compliance involves novating the contracts to a separate entity or establishing new contracts between that entity and the third party.

4.2 Establish and maintain accounts

Clause 3.2 of the Guideline requires the DNSP to:

- allocate or attribute costs to distribution services consistent with the Cost Allocation Principles and its approved Electricity Distribution Cost Allocation Methodology (CAM), including in relation to the allocation and attribution of costs between distribution services and non-distribution services;
- establish and maintain records that demonstrate compliance with the cost allocation requirements; and
- establish and maintain appropriate internal accounting procedures to ensure that it can demonstrate the extent and nature of transactions between it and its affiliates.

4.2.1 Transactions between DNSP and affiliated entities

AES is developing a new “Accounting Policy for Transactions with Affiliated Entities” to set out a procedure for commercial transactions between AES (being the DNSP) and its affiliated entities in a Ring-fenced environment and provide training for all relevant staff.

This new policy will be implemented before the end of the transition period.

To the extent not already in place, service and other relevant legal agreements on “arms-length” terms will be put in place between the DNSP and its affiliated entities in relation to:

- direct control services provided by the DNSP to its affiliated entities (including, if applicable, itself); and
- contestable electricity services provided by affiliates,

that detail, among other things, the scope of the services provided and key commercial and legal positions.

4.2.2 Cost allocation and attribution

AES’ CAM describes the principles for cost allocation between categories of distribution services. The CAM complies with the extended cost allocation requirements of the Guideline. Specifically, AES’ CAM not only requires cost allocation between direct control services and other distribution services, it also demonstrates cost allocation for the allocation and attribution of costs between distribution services and other services.

No further actions are required to achieve compliance with this clause of the Guideline.

4.3 Obligation to not discriminate

Clause 4.1 of the Guideline requires that the DNSP must not discriminate between an affiliated entity and a competitor (which includes a competitor’s customers) in connection with the provision of direct control services by the DNSP and/or ‘contestable electricity services’ by any other legal entity.

Ensuring compliance with this requirement involves AES implementing several behavioural and separation measures including:

- developing a Ring-fencing policy which sets out do’s and don’ts when dealing with affiliated entities, accompanied by staff training;
- refining existing procurement and/or other contracting processes for obtaining, or providing, services from, or to, affiliated entities, including any contracting requirements and legal approval;
- to the extent not already in place, formalising existing arrangements for contestable electricity services provided by affiliated entities to AES, and for any direct control services provided by AES to any affiliated entity (including, if applicable, itself) – see also section 4.2.1; and
- reviewing access controls to any shared information systems containing information that AES has obtained from dealings with an affiliated entity’s competitor to ensure no inadvertent disclosure to other parts of the Group.

AES has undertaken a robust scoping exercise to identify where these issues may exist and ensure that the appropriate control will be applied in each circumstance. Action on these items is progressing and we envisage full compliance by the end of the transition period.

4.4 Physical separation and staff sharing

4.4.1 Physical separation / co – location

Clause 4.2.1 of the Guideline requires that the DNSP, in providing direct control services must use separate offices from the affiliated entity providing contestable electricity services. A “separate office” can be an access-restricted area or floor within a common building. Shared sites need to be published on an Office Register.

We have identified one site where Ring-fenced staff and staff providing or marketing contestable electricity services currently co-reside. Access controls will be implemented to create separate offices within this location and it will be recorded in the Office Register.

We envisage full compliance by the end of the transition period.

4.4.2 Staff sharing

Clause 4.2.2 of the Guideline requires the DNSP to implement controls to prevent certain staff involved in providing direct control services from also providing or marketing contestable electricity services by an affiliated entity. The Ring-fencing Project Team developed a decision tree based on the Guideline to identify staff impacted by this clause.

The decision tree sets out the following steps in identifying roles within the Ring-fence:

1. identify groups and individuals who meet certain exemption criteria;
2. identify remaining groups with access to “electricity information”;
3. identify groups with access to “electricity information” and which have the opportunity to use that information to engage in conduct contrary to the Guideline,

and was developed by the Working Group after extensive consultation and workshopping with subject matter experts, including senior members of the Group’s legal and regulatory teams.

Our Human Resources team is responsible for applying this approach to all existing DNSP staff, to capture new staff, as well as staff changes and creating/updating the staff register as necessary. Our Ring-fencing policy document will set our approach to staff-sharing, accompanied by training and ongoing compliance monitoring. The nature and positions of shared DNSP staff will be published on a Staff Register that, in accordance with the Guideline, will be made available on AES’ website.

We envisage full compliance by the end of the transition period.

4.5 Branding and cross promotion

Clause 4.2.3 requires that the DNSP use branding for its direct control services that is separate and independent from the branding used by any part of the DNSP or its affiliated entities that provide contestable electricity services.

4.5.1 Branding

On 4 July 2017 the AER published the Draft Amended Ring-fencing Guideline and accompanying Explanatory Statement. This addressed a number of concerns put forward by AES, particularly with respect to what AES considered were unintended consequences in relation to branding separation requirement. The amended Guideline addresses AES’ concerns in this regard, and, consequently, if the amended Guideline is adopted, AES does not anticipate having to lodge a cost pass through with respect to the Guideline (see further details in section 5).

4.5.2 Branding of affiliated entities that provide contestable electricity services

AES is reviewing and checking that the branding used by it for direct control services is separate and independent from the branding used by its related electricity service providers (including, if applicable, itself) for contestable electricity services and, to the extent necessary to ensure compliance, will update all current physical and digital branding livery and collateral by the end of the transition period.

AES will continuously review and monitor its branding (physical and digital) for direct control services to ensure it remains separate and independent from the branding used by its related electricity service providers (including, if applicable, itself).

AES will also implement policies and practices to ensure that it does not:

- jointly promote its direct control services and its contestable electricity services; or
- promote or advertise contestable electricity services provided by its related electricity service providers (other than itself).

We envisage full compliance by the end of the transition period.

4.5.3 Branding negotiated and unclassified services

There are a number of services offered by AES and classified by the AER in the 2016-20 EDPR Final Decision for Victorian DNSPs as negotiated and unclassified distribution services:

Negotiated services	Unclassified services
<ul style="list-style-type: none"> - Alteration and relocation of distributor public lighting assets - New public lights (that is, new lighting types not subject to a regulated charge and new public lighting at greenfield sites) - Reserve feeder construction 	<ul style="list-style-type: none"> - Emergency recoverable works - Installation, repair and maintenance of watchman lights

In AES’s 2016-20 EDPR Final Decision the AER contemplated that AES has a role to play in each of these services. The best time to contemplate a change to these services is when the AER next considers service classification as part of the Framework and Approach paper for the 2021-25 regulatory period. AES considers a continuation of these arrangements, at least until the start of the next regulatory period, is appropriate.

We note that the AER’s approach to service classification is evolving, for example in the New South Wales (NSW) Preliminary Framework and Approach the negotiated services classification has not been applied and we would expect that this evolution may continue in the next Victorian decision. Particularly as the Australian Energy Markets Commission (AEMC) is considering a rule change request from the Coalition of Australian Governments that if successful, would enable the AER to develop a service classification guideline.

AES is submitting a waiver application to allow us to continue to provide these services, among other things, utilising the brand used by AES for its direct control services until the next regulatory control period. To attempt to provide these services utilising a different brand, would be very confusing for the relevant customer, and involve a not-insignificant cost. Consequently, in the absence of a waiver, it is likely AES would cease to provide such services, until appropriate reclassification.

4.6 Information access and disclosure

Clause 4.3 of the Guideline requires staff to protect confidential information and places controls around information sharing with an affiliated entity. AES must also establish protocols to govern this process and publish a register setting out the kind of information sought by any entity, and add entities to the register if they wish to receive similar information from the DNSP.

We are reviewing the use of shared technology systems to ensure that when systems are shared across the Group, disclosure of information that is otherwise protected by the Guideline does not occur.

We have identified a small number of systems that may require enhanced controls to ensure compliance with the Guideline. These controls include the following options:

- implement, monitor and enforce information-sharing policies and procedures which prohibit certain staff accessing certain information in shared systems; and/or
- role-based access control visibility of data in shared systems.

We are making a case-by-case assessment for each shared system, taking into account the cost and time to implement the control. Our preference is to adopt administrative rather than system controls, which are likely to be complex and attract significant costs.

Action on these items is progressing and we envisage full compliance by the end of the transition period.

4.7 Service providers

Clause 4.4.1 (a) of the Guideline requires many of the functional separation obligations to also be honoured by a DNSP's third party service providers in arrangements negotiated going forward.

Accordingly, AES will include in all new or varied agreements with service providers that enable or assist AES to supply direct control services, the relevant requirements of the Guideline. We will also provide written advice to existing suppliers of services that enable AES to supply direct control services of the introduction of the Guideline and its relevance for provision of services to AES.

We envisage full compliance by the end of the transition period.

4.8 Waiver register

Clause 5.7 requires AES to publish and maintain a Waiver Register showing all approved waivers on the website.

We envisage full compliance by the end of the transition period.

4.9 Compliance and enforcement

Clause 6.2.1 requires AES to prepare an annual Ring-fencing compliance report for the AER along with an assessment of compliance by a suitably qualified independent authority. We envisage full compliance by the end of the transition period.

Clause 6.3 requires AES to report compliance breaches to the AER within five business days. AES will expand its existing regulatory compliance monitoring and reporting process to facilitate compliance assurance and meet this reporting requirement. We envisage establishment of appropriate procedures and training completion by the end of the transition period.

4.10 Accessibility of information

The following documents will be accessible via a central location on AES' website:

- AES' Electricity Distribution Ring-fencing Guideline Compliance Plan (this document);
- Office Register;
- Staff Register;
- Information Register; and
- Waiver Register.

5 Cost estimate

We note that on 4 July 2017 the AER published the Draft Amended Ring-fencing Guideline and accompanying Explanatory Statement. This addressed a number of drafting concerns put forward by AES.

While the work required to implement the Guideline is, regardless, occupying significant resources with commensurate costs, if the draft amended Guideline is adopted the costs will not rise to a level sufficient to necessitate a pass through application.

6 Waiver applications

AES is seeking two waivers in order to be compliant with the Guideline as at 1 January 2018. These waivers are in relation to:

- the provision of services by AES at Mt Baw Baw; and
- the branding of negotiated and unclassified services.

The above waiver applications are attached to this Compliance Plan.