

AusNet Electricity Services Pty Ltd

Electricity Distribution Price Review 2021–26

Appendix 1D: Related Party Arrangements

PUBLIC

Submitted: 30 January 2020

1 Overview

1.1 Introduction

AusNet Electricity Services Pty Ltd ABN 91 064 651 118 (**AusNet Electricity Services**), part of the AusNet Services Group comprising AusNet Services Ltd and its subsidiaries, is required to submit to the Australian Energy Regulator (**AER**) a regulatory proposal for its distribution business for the upcoming regulatory control period.

The Regulatory Information Notice (**RIN**) issued to AusNet Electricity Services requires that a DNSP's proposal must contain specified information about 'related parties'.

This document summarises the related party arrangements that are expected to exist during the forthcoming 2021-26 regulatory control period.

1.2 AusNet Services Group

The relevant licensed entity, AusNet Electricity Services, is part of the AusNet Services Group which is listed on the Australian Stock Exchange (**ASX**).

As a publicly listed group, the AusNet Services Group is committed to achieving high standards of corporate governance and is subject to the rules of the ASX. The Board has adopted the definition of independence set out in the *ASX Principles and Recommendations*. Other than the Managing Director, the Board is made up of 4 independent directors and 4 non-independent directors.

Each of the directors, other than the Managing Director, is subject to re-election in accordance with ASX Listing Rules and candidates are sought on the basis of their ability to complement the Board's current composition as well as their independence. The Board acknowledges that all directors – whether independent or not – should bring an independent judgement to bear on Board decisions and each director has access to independent professional advice in appropriate circumstances.

The Board assesses the materiality of any given relationship that may affect independence on a case by case basis. Each director is required to regularly disclose to the Board all information that may be relevant to this assessment, including their interests in contracts and other directorships and offices held.

The formal charter adopted by the Board requires, among other things, that directors declare any conflict of interest and where necessary or appropriate to recuse themselves in any such matter where the director is conflicted. Directors are also bound by AusNet Services' corporate policies regarding business conduct, dealings, and conflicts of interest.

Independent decision making is further supported through the Audit and Risk Management Committee, to which related party transactions are referred for review. The Audit and Risk Management Committee is made up of a majority of independent directors, including the Chairman of the committee.

1.3 Document structure

The remainder of this document is structured as follows:

- Section 2 presents a summary of AusNet Services Group's corporate structure;
- Section 3 presents a summary of AusNet Services Group's relationship with its majority securityholders; and
- Section 4 presents a summary of AusNet Services Group's arrangements with Zinfra Pty Ltd ABN 98 156 517 305 (**Zinfra**).

2 AusNet Services Group Corporate Structure

The AusNet Services Group is Victoria's largest energy transmission and distribution business, delivering electricity and gas to over 1.3 million business and residential customers across the state. AusNet Services Group's network assets include 100% of Victoria's electricity transmission network, an electricity distribution network in the state's east and a natural gas distribution network in western Victoria.

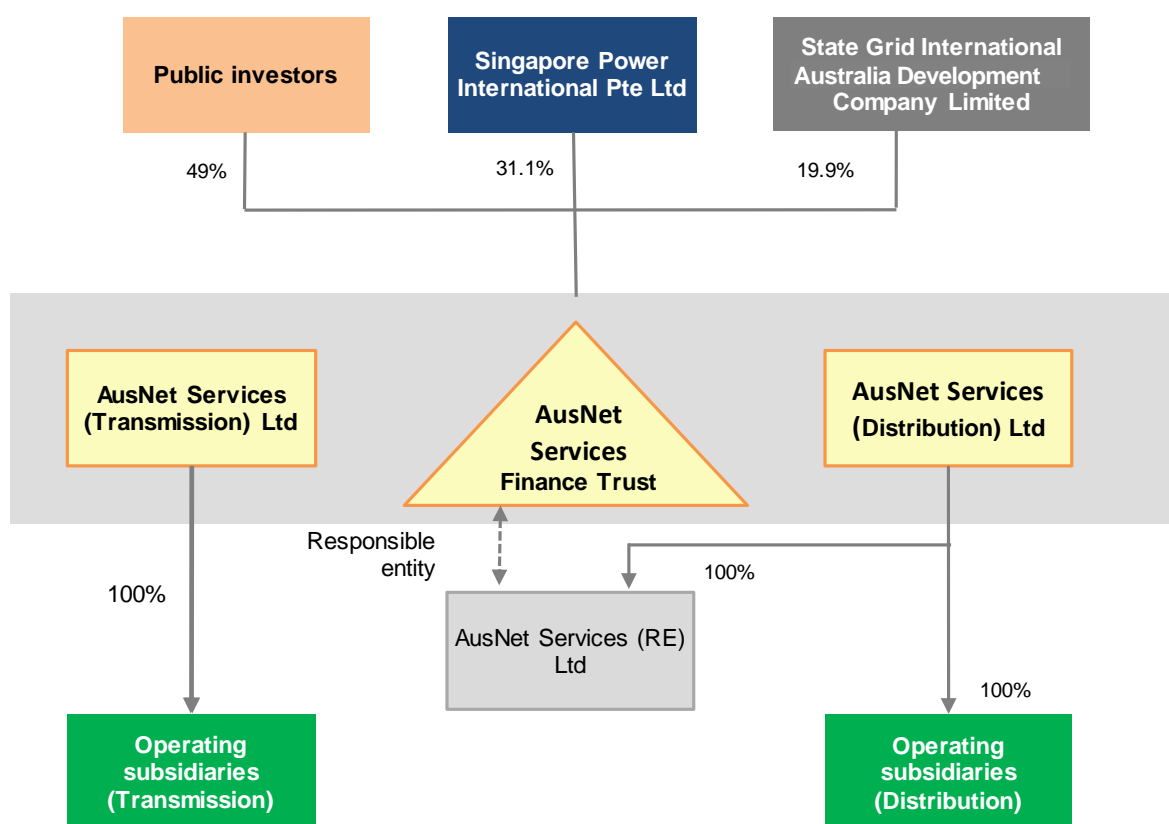
AusNet Services Group is a publicly listed group company on the ASX. The AusNet Services Group is owned 31.1% by Singapore Power International Pte Ltd (**SPI**), 19.9% by State Grid International Australia Development Company Ltd (**SGIAD**) and 49% by external investors.

AusNet Services Group's corporate structure, shown in the figure below, provides clear separation between Transmission and Distribution (electricity and gas) assets, services, costs and revenues. The AusNet Services Group comprises 3 principal entities, namely AusNet Services (Distribution) Ltd and subsidiaries, AusNet Services (Transmission) Ltd and subsidiaries and AusNet Services Finance Trust.

As a publicly listed group, AusNet Services Group is committed to achieving high standards of corporate governance and is subject to the rules of the ASX.

In addition to the matters outlined in section 1.2, separate individuals undertake the roles of Chairman and Managing Director, thus emphasising the clear division of responsibility between Board and management functions.

Figure 2.1: AusNet Services Group corporate structure



3 AusNet Services Group Relationship with Major Securityholders

Neither SPI nor the other members of the Singapore Power Group are related bodies corporate or related parties of the AusNet Services Group under the *Corporations Act 2001* (Cth) (**Corporations Act**).

Further, neither SGIAD nor any other members of the State Grid Corporate of China Group are related bodies corporate or related parties of the AusNet Services Group under the Corporations Act.

The AER defines ‘related party’ for the purposes of the RIN as an entity that controls or exerts significant influence on the DNSP or which has the capacity to determine the outcome of decisions about the DNSP’s financial and operating policies.

Neither SGIAD nor SPI are controlling shareholders (owning 50% or more) of AusNet Electricity Services and neither entity has the capacity to determine the outcome of decisions about financial or operating policies. In any event, there are no agreements in place between SGIAD/SPI and AusNet Electricity Services that would constitute a related party arrangement.

4 AusNet Services Group Relationship with Zinfra Pty Ltd - SPSPA

The major securityholders of the AusNet Services Group, SPI and SGIAD, also own 40% and 60% respectively of Zinfra Pty Ltd. Zinfra and AusNet Electricity Services are not related bodies corporate under the Corporations Act.

In the absence of guidance on what constitutes “significant influence”, and without suggesting that a relationship of control or significant influence exists, we outline at section 4.1 below the arrangements between the AusNet Services Group and Zinfra because of the interest that SPI & SGIAD hold in that entity.

4.1 Capital Works Agreement – SPSPA

Following an extensive market request for proposal (**RFP**) initiated in July 2018, AusNet Services Group entered into a Strategic Portfolio Services Panel Agreement (**SPSPA**) with 4 providers, including Zinfra.

The SPSPA, which is on arms-length terms that are consistent across all panel members, is for an initial 5 year term with options for further 12 month terms.

C-I-C

5 AusNet Services Group Captive Insurer

C-I-C