



AusNet Transmission Group Pty Ltd

Transmission Revenue Reset 2017–2022

Appendix 1B: Related Party Arrangements (Public)

Submitted: 30 October 2015

1 Revenue

1.1 Overview

1.1.1 Introduction

AusNet Transmission Group Pty Ltd, ABN 91 064 651 118 (AusNet Transmission Group), 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 transmission business for the regulatory control period from [1 January 2017 to 31 December 2022].

The Regulatory Information Notice issued to AusNet Electricity Services on 1 September 2015, requires that a Transmission Network Service Provider's (**TNSP's**) proposal must contain specified information about 'related parties'.

Recent material changes to AusNet Services' circumstances have occurred which materially affected the related party arrangements prevailing at the time of the last Transmission Revenue Reset (**TRR**) 2014-2017 review. Specifically:

- The purchase of a 19.9% interest by State Grid International Australia Development Company Ltd (of China);
- Establishment of a Captive Insurer for the Group;
- Change in name from SP AusNet to AusNet Services in August 2014; and
- Unwinding of the majority of (what were previously) related party arrangements.

This document summarises the much simplified related party arrangements that will exist during the forthcoming 2017-22 regulatory control period.

In June 2015, the AusNet Services Group also undertook a restructure under which AusNet Services Ltd became the single head entity of the group in place of the then triple staple structure.

1.1.2 Background

In May 2013, Singapore Power Limited announced through its wholly owned subsidiary Singapore Power International Pte Ltd (**SPI**), that it had entered into an agreement with State Grid International Australia Development Company Limited (**SGIAD**) (a subsidiary of State Grid Corporation of China) under which SGIAD will acquire from SPI a 19.9% stake in AusNet Services (then, SP AusNet) (the **Transaction**).

The Transaction took effect from January 2014 following foreign investment approval by the Federal Treasurer. A condition of the approval is that at least 50% of the members appointed by SGIAD to the Board of AusNet Services are Australian citizens who are ordinarily resident in Australia.

Following that transaction a Termination Deed was agreed with the effect of:

- Termination of the Management Services Agreement between AusNet Services (then, SP AusNet) to SPI Management Services Pty Ltd (**SPIMS**), a wholly owned subsidiary of SPI, to provide management and administration services to the, then, AusNet Services Stapled Group; and
- An agreement to unwind shared information technology services provided to AusNet Services by Enterprise Business Services (Australia) Pty Ltd (**EBS**), a wholly owned subsidiary of SPIMS. This arrangement was put in place in September 2008.

AusNet Services Group transitioned existing SPIMS and EBS activities into AusNet Services Group, commencing on 1 April 2014. The transaction and termination deed did not impact the day-to-day operations, management or employees of AusNet Services Group.

A final impact flowing from the transaction was the change in name of the SP AusNet Group to AusNet Services Group, with consequential changes to its subsidiaries. The licence granted by Singapore Power Limited to AusNet Services Group for the use of its “flame logo” and image, the letters “SP” and the names “SP Australia Networks” and “SP AusNet” (and certain other intellectual property and marks) for consideration of \$1 million per year was also been terminated.

1.1.3 AusNet Services Group

The relevant licenced entity, AusNet Transmission Group, is part of the AusNet Services Group which is listed on the Australian and Singapore Securities Exchanges.

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 Australian and Singapore Securities Exchanges. In terms of independence, 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 four independent directors and three 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. Further, 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 in respect of any matter and where necessary or appropriate to recuse themselves in any such matter where the Director is conflicted. Directors are also bound by AusNet Services Code of Business Conduct, Guidelines for Dealing and Conflicts of Interest Guidelines.

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.

1.1.4 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 its related party agreements with SGSP (Australia) Assets Pty Ltd (formerly SPI (Australia) Assets Pty Ltd and certain of its subsidiaries; and
- Section 4 presents a summary of AusNet Services Group’s Captive Insurance arrangements.

The following confidential contracts are attached in support:

- Attachment 1 – Capital Works Preferred Supplier Agreement, including Standard Terms (Confidential); and
- Attachment 2 – Domain Umbrella Agreement (Confidential).

2 AusNet Services Group Corporate Structure

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 Victoria’s west.

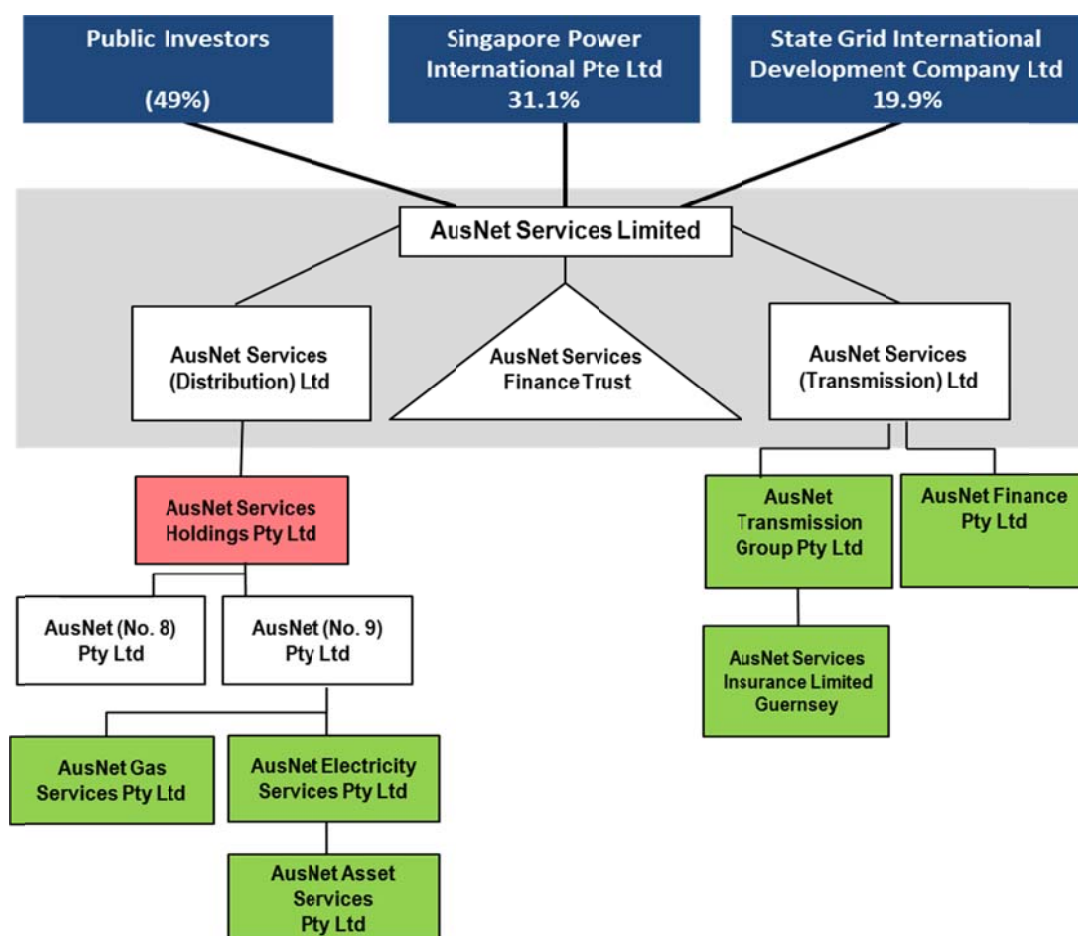
AusNet Services Ltd is a publicly listed company on the Australian Securities Exchange (**ASX**) and the Singapore Exchange Securities Trading Limited (**SGX-ST**). The AusNet Services Group is owned 31.1% by Singapore Power International Pte Ltd, 19.9% by State Grid International Australia Development Company Ltd and 49% by external investors.

AusNet Services’ corporate structure, shown in the figure below, provides clear separation between Transmission and Distribution (electricity and gas) assets, services, costs and revenues.

As explained in section 1.3.2, 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 Australian and Singapore Securities Exchanges.

In addition to the matters outlined in section 1.1.3, 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



In June 2015, AusNet Services Group undertook a restructure under which AusNet Services Ltd became the single head entity of the group in place of the then stapled entities.

2.1 AusNet Services Group Relationship with Major Securityholders

2.1.1 Corporations Law

As explained above, as a result of the Transaction described in section 1.1.2, SPI (a wholly owned subsidiary of Singapore Power Limited) now holds 31.1% of the issued shares in AusNet Services Ltd and SGIAD (a wholly owned subsidiary of State Grid Corporation of China) holds 19.9% of the issued shares in AusNet Services Ltd.

Prior to the Transaction described in section 1.1.2, SPI held 51.1% of the, then, issued stapled securities in AusNet Services and, as a consequence, it was both a Related Body Corporate, and a Related Party, of AusNet Services Group under the Corporations Act 2001 (Cth) (**Corps Act**).

As a result of the Transaction, SPI and the other members of the Singapore Power Group are no longer Related Bodies Corporate or Related Parties of AusNet Services Group under the Corps Act.

Further, neither SGIAD, nor any other members of the State Grid Corporate of China Group are Related Bodies Corporate or Related Parties of AusNet Services Group under the Corps Act.

2.1.2 Accounting Standards

Accounting standards have a wider definition of related parties compared to that under Corporations Law. AASB 124 Related Party Disclosures details the circumstances under which two entities are deemed to be related parties, including where “One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member)” (AASB 124 para 9(b)(ii)).

As a result, as at the date of this submission, Jemena and AusNet Services are still considered related parties for accounting standard purposes. AusNet Services statutory and regulatory financial statements will continue to show Jemena as a related party. This position has been confirmed by AusNet Services external auditors.

2.2 AusNet Services Group Relationship with SGSP (Australia) Assets Pty Ltd

The major security holders of the AusNet Services Group, Singapore Power International Pte Ltd and State Grid International Australia Development Company Ltd, also own 40% and 60% respectively of SGSP (Australia) Assets Pty Ltd (formerly, SPI (Australia) Assets Pty Ltd)). Within SGSP (Australia) Assets Pty Ltd are the subsidiaries of Jemena Asset Management Pty Ltd and ZNX (2) Pty Ltd.

As discussed in section 2.2.1, the Domain agreement was enacted in 2008 between the AusNet Services Group (then, SP AusNet Group) and SGSP (Australia) Assets Pty Ltd (then, SPI (Australia) Assets Pty Ltd) and certain of their subsidiaries to deliver value and efficiencies for the two groups. Quotations for work obtained from Jemena under this agreement have been sought in conjunction with quotes from members of AusNet Services’ installation service provider panel.

2.2.1 Domain Arrangements

On 30 September 2008, the AusNet Services Group announced that it had reached agreement with the Singapore Power Group on a number of operational agreements which delivers value for the AusNet Services Group.

Under the arrangements, the AusNet Services Group provide end-to-end network metering services, technical services and vegetation management services to the electricity and gas networks owned and managed by Jemena. The AusNet Services Group also assumed responsibility to deliver contestable metering services to Jemena’s existing customers. To ensure continued capital investment and deliver network growth, Jemena and the AusNet Services Group have entered into a Capital Works Preferred Supplier Agreement. Each of these arrangements, which are on arm’s-

length terms, were for an initial five year team and were renewed in 2013. They were each renewed for an additional three year and will continue for further five year terms unless terminated by either party. The arrangements may also be terminated early by either party in certain circumstances.

3 SGSP (Australia) Assets Pty Ltd

SGSP (Australia) Assets Pty Ltd (formerly SPI (Australia) Assets Pty Ltd), and its subsidiaries Jemena Asset Management Pty Ltd (ACN: 086 013 461) and ZNX (2) Pty Ltd (ACN: 104 352 650) (formerly Jemena Asset Management (6) Pty Ltd) together referred to as **Jemena**), provide the transmission services to the AusNet Services Group.

The Domain arrangements described in Section 2.2.1 include a Capital Works Preferred Supplier Agreement (**CWPSA** or **Agreement**). The CWPSA establishes a contractual framework under which the AusNet Services Group will endeavour to award an agreed target of capital works services to Jemena. This agreement, effective at the 29th September 2008, was for an initial five year term and was renewed in 2013. It was renewed for an additional three years and will continue for further five year terms unless terminated by either party by giving notice to terminate at the end of the current term. The contract does not specify any targets for individual businesses within the AusNet Services Group to award work and AusNet Transmission Group is not required to offer Jemena first rights of refusal on any particular capital works projects. The process for awarding works under the CWPSA is explained later in this section 3.

[REDACTED]

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[REDACTED]

3.1.1 Procurement of services / Basis of procurement

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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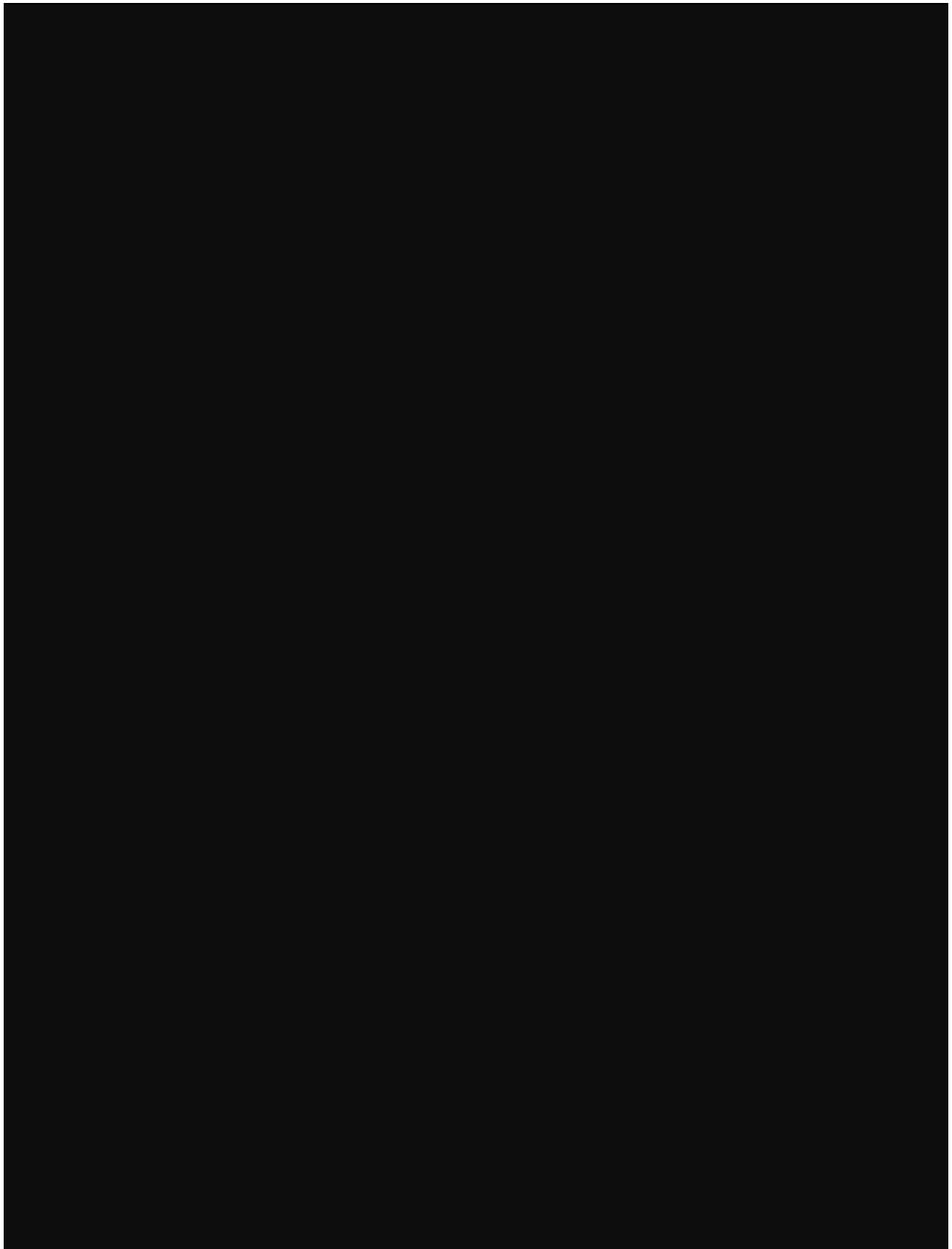
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Figure 2.2: Procurement Process



3.1.2 Capital Works Preferred Supplier Agreement (CWPSA)

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3.1.3 Awarding of Projects

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3.2 Copy of Contract

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4 AusNet Services Group Captive Insurer

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