

# Appendix 1B: Related Party Arrangements

**2023-27 Transmission Revenue Reset**

**PUBLIC**

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## 1 Related Party Arrangements

### 1.1 Overview

#### 1.1.1 Introduction

AusNet Transmission Group Pty Ltd, ABN 78 079 798 173 (**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 2022 to 31 December 2027.

The Regulatory Information Notice issued to AusNet Electricity Services on 15 July 2020 requires that a proposal submitted by a Transmission Network Service Provider (**TNSP**) contain specified information about transactions with 'related parties'.

Prior to submitting the 2017-2022 regulatory proposal, the AusNet Services Group underwent significant change that materially affected its related party arrangements. Specifically:

- State Grid International Australia Development Company Ltd (of China) purchased a 19.9% interest in AusNet Services Limited;
- a Captive Insurer was established for the Group;
- we changed our name from SP AusNet to AusNet Services;
- the majority of (what were previously) related party arrangements were unwound; and
- 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.

Further information about these changes is provided in Appendix 1B (Confidential) of AusNet Transmission Group's revenue proposal dated 29 October 2020.

This Appendix recaps the current structure and summarises the much-simplified related party arrangements that will exist during the forthcoming 2022-27 regulatory control period.

#### 1.1.2 AusNet Services Group

The relevant licenced entity, AusNet Transmission Group, is part of the AusNet Services Group which is listed on the Australian Securities 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. 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 Director, other than the Managing Director, is subject to re-election in accordance with ASX Listing Rules. Director 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 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 a 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 or potential conflict of interest in respect of any matter and where necessary or appropriate,

recuse themselves from any such matter in which they have a material personal interest or potential conflict of interest unless the Board resolves otherwise. Directors are also bound by and must comply with AusNet Services' Code of Business Conduct, Guidelines for Dealing in Securities, and the Conflicts of Interest Guidelines.

Independent decision making is further supported by the work of 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, one of whom is the Chair of the Committee.

## 1.2 Document structure

The remainder of this document is structured as follows:

- Section 2 explains the AusNet Services Group's corporate structure;
- Section 3 presents a summary of AusNet Services Group's arrangements with Zinfra Pty Ltd ABN 98 156 517 305 (**Zinfra**); and
- Section 4 summarises AusNet Services Group's Captive Insurance arrangements.

## 2 AusNet Services Group

### 2.1 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. The 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.

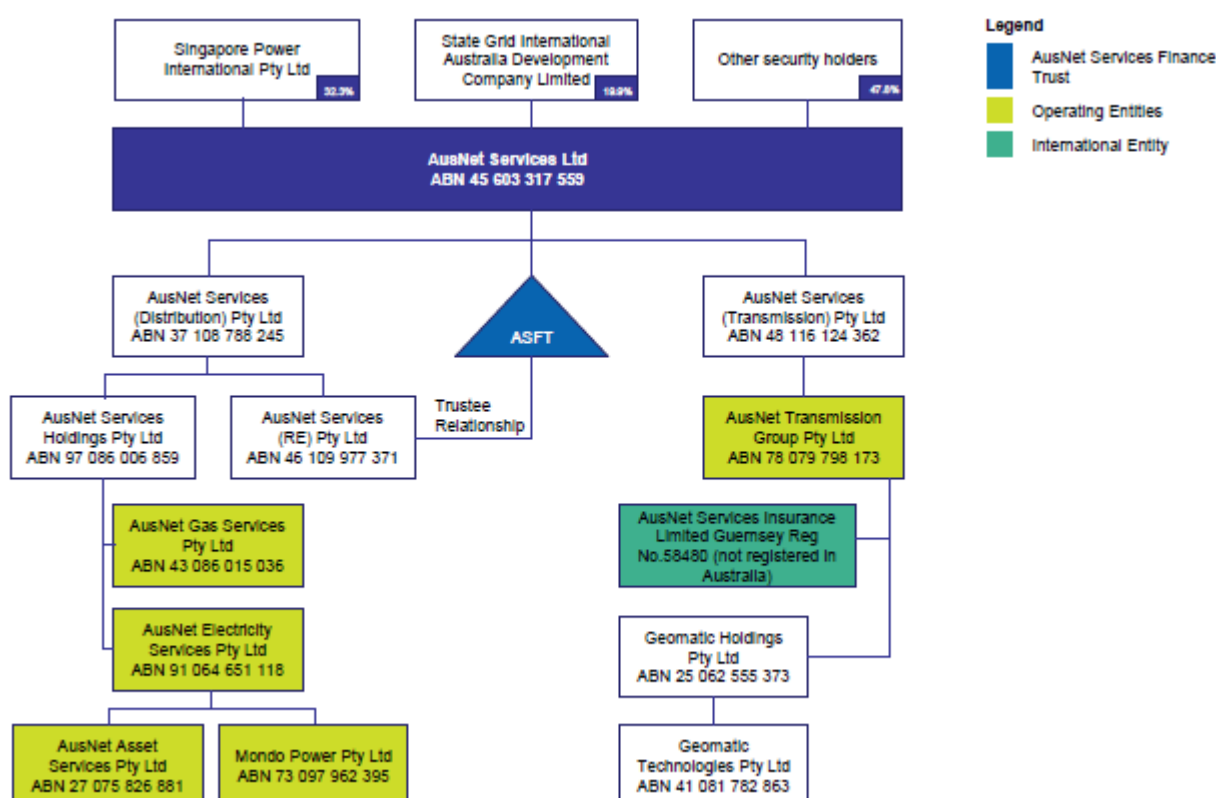
AusNet Services Ltd is a publicly listed company on the ASX. The AusNet Services Group is owned 32.3% by Singapore Power International Pte Ltd (**SPI**), 19.9% by State Grid International Australia Development Company Ltd (**SGIAD**) and 47.8% by external investors.

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 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.

In addition to the matters outlined in section 1.1.2, 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



## 2.2 Relationship with Major Securityholders

### 2.2.1 Corporations Law and RIN

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 is a related body corporate or related party 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 or SPI and AusNet Transmission Group that would constitute a related party arrangement.

### 2.2.2 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.

## 2.3 Relationship with Zinfra Pty Ltd

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 nor are they related parties as defined in the RIN.

Without suggesting that a relationship of control or significant influence exists, we provide an overview of the arrangements between the AusNet Services Group and Zinfra because of the interest that SPI and SGIAD hold in that entity and because, in the previous regulatory control period, Zinfra and the AusNet Services Group may have met the definition of a related party under the RIN.

### 2.3.1 Capital Works Agreement (SPSA)

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.

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### 2.3.2 Transmission Operations and Maintenance Services Agreement (TOMSA)

In February 2020, AusNet Services announced that, following a competitive tender process, it had concluded an agreement with Zinfra for the provision of ongoing operations and maintenance works on AusNet Services' transmission assets and substations. The TOMSA is for a period of five years, with the option to extend for two further three-year periods.

The TOMSA was tendered for, negotiated and entered into during the current regulatory control period. At all material times during this process, Zinfra was not, and continues not to be, a related party of AusNet Transmission Group under the RIN. However, because the parties may have previously met the definition of a related party under the RIN, the TOMSA is included for completeness.

## 3 AusNet Services Group Captive Insurer

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