



AusNet Electricity Services Pty Ltd

Electricity Distribution Price Review 2016–20

Appendix 1C: Related Party Arrangements (Public Version)

Submitted: 30 April 2015

1 Revenue

1.1 Overview

1.1.1 Introduction

AusNet Electricity Services Pty Ltd, ABN 91 064 651 118 (AusNet Electricity Services), part of the AusNet Services Stapled Group, is required to submit to the Australian Energy Regulator (AER) a regulatory proposal for its distribution business for the regulatory control period from 1st January 2016 to 31st December 2020.

The Regulatory Information Notice issued to AusNet Electricity Services on the 2nd of February 2015, requires that a DNSP'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 EDPR 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 2016-20 regulatory control period.

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 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 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 has also been terminated.

1.1.3 AusNet Services Group

The relevant licenced entity, AusNet Electricity Services, is part of the AusNet Services Group which is listed on the Australian and Singapore Securities Exchanges as a stapled security.

As a publicly listed group the AusNet Services Stapled 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 for 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 – Domain Umbrella Agreement (Confidential); and
- Attachment 2 – Capital Works Preferred Supplier Agreement, including Standard Terms (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.

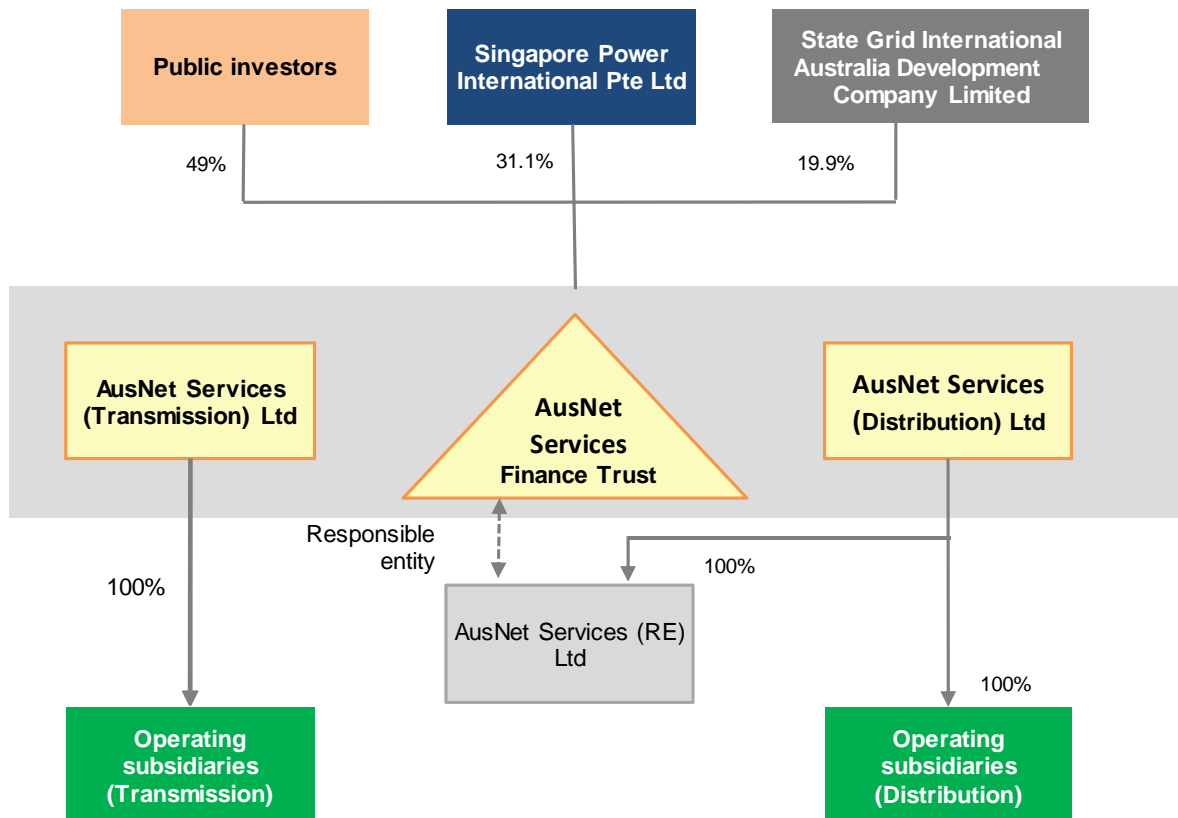
AusNet Services is a publicly group company on the Australian Securities Exchange (**ASX**) and the Singapore Exchange Securities Trading Limited (**SGX-ST**). The AusNet Services Group is owned 31.1% by Singapore Power International Pte Ltd, 19.9% by State Grid International Australia Development Company 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. The AusNet Services Group comprises three principal entities, namely AusNet Services (Distribution) Ltd and subsidiaries, AusNet Services (Transmission) Ltd and subsidiaries and AusNet Services Finance Trust.

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



AusNet Services is pursuing a restructure and simplification proposal (**Proposal**) under which the existing stapled entities would become wholly owned by a new listed entity (called **AusNet Services Ltd**). The Securityholder Booklet in relation to the Proposal, and an Information Memorandum in relation to AusNet Services Ltd, was released to the market on 22 April 2015. Following application to the Supreme Court of Victoria, meetings of securityholders are to be convened on 29 May 2015 to vote on schemes of arrangement, followed by general meetings, to effect the Proposal. It is currently expected that, subject to requisite approvals, the Proposal would be implemented on 18 June 2015. There would be no change to the composition of the AusNet Services management or the operations of AusNet Services as a result of the Proposal. The Board of directors of AusNet Services Ltd are the same as the current directors of the 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 stapled securities in AusNet Services and SGIAD (a wholly owned subsidiary of State Grid Corporation of China) holds 19.9% of the issued stapled securities in AusNet Services.

Prior to the Transaction described in section 1.1.2, SPI held 51.1% of the 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 securityholders of the AusNet Services Stapled 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 Stapled 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 term and were renewed in 2013. They were each renewed for an additional three year term 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 distribution services to the AusNet Services Stapled Group.

The Domain arrangements described in Section 2.2.1 include a Capital Works Preferred Supplier Agreement. The Capital Works Preferred Supplier Agreement established 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 Electricity Services Pty Ltd is not required to offer Jemena first rights of refusal on any particular capital works projects.

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3.1.1 Procurement of services / Basis of procurement

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Figure 2.2: Procurement Process

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3.1.2 Capital Works Preferred Supplier Agreement

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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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