

**TRANSMISSION OPERATIONS (AUSTRALIA) PTY LTD**  
**LICENCE APPLICATION**

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**APPLICATION FOR TRANSMISSION LICENCE**

**by**

**Transmission Operations (Australia) Pty Ltd**

**ACN 159 526 520**

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## **1 Introduction**

Transmission Operations (Australia) Pty Ltd ACN 159 526 520 (**TOA**) plans to be an active market participant and to undertake the design, construction, operation and ownership of transmission assets (including connection and extension services) in Victoria.

TOA has finalised contractual arrangements with Meridian Energy Australia Ltd's (**Meridian**) entity Mt Mercer Wind Farm Pty Ltd (**MWF**). Meridian plans to build a 130MW Mt Mercer Wind Farm (**MMWF**) which is located approximately 30km south of Ballarat, Victoria. TOA will design, construct, operate, maintain and own the assets required to connect MMWF to the existing transmission network.

TOA (or proposed 'licensee') for the Transmission Licence for the Victorian jurisdiction provides the following application details in accordance with the 'Guidance Note for Application for Electricity Licences' issued by the Essential Services Commission (**ESC**) in Victoria in 2006.

### **1.1 Information on Applicant and Nature of Application**

#### *Applicant Details*

Transmission Operations (Australia) Pty Ltd, ACN 159 526 520 and ABN 21 159 526 520.

TOA has provided a copy of the Certificates of Registration in Attachment A of the confidential application.

#### *Registered Office*

Transmission Operations (Australia) Pty Ltd  
Level 8  
40 Market Street  
Melbourne VIC 3000

#### *Contact Person*

Eric Lindner  
Chief Executive Officer  
Mob: 0403582555

### **1.2 Regulatory History**

There have been no previous prosecutions or regulatory complaints made against TOA.

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### **1.3 Corporate Structure**

TOA confirms that the following entities contribute to the provision of transmission services:

- International Infrastructure Services Company Ltd of the British Virgin Islands – Australian Branch (ABN 159 738 084) (**IISC-AU**) provides services to TOA under a Utility Support Services Agreement. See below for further detail of IISC-AU;
- CHED Services Pty Ltd (ACN 112 304 622) (**CHED Services**) provides services to IISC-AU under a Utility Support Services Agreement. See below for further detail of CHED Services; and
- Powercor Network Services Pty Ltd (ACN 123 230 24) (**PNS**) provides network services to TOA under two Network Services Agreements; an EPC (Engineering, Procurement & Construction) Contract and an ongoing Operations and Maintenance (O&M) Contract (currently a Heads of Agreement Deed to be replaced by a long term O & M Services Contract). See below for further detail of PNS

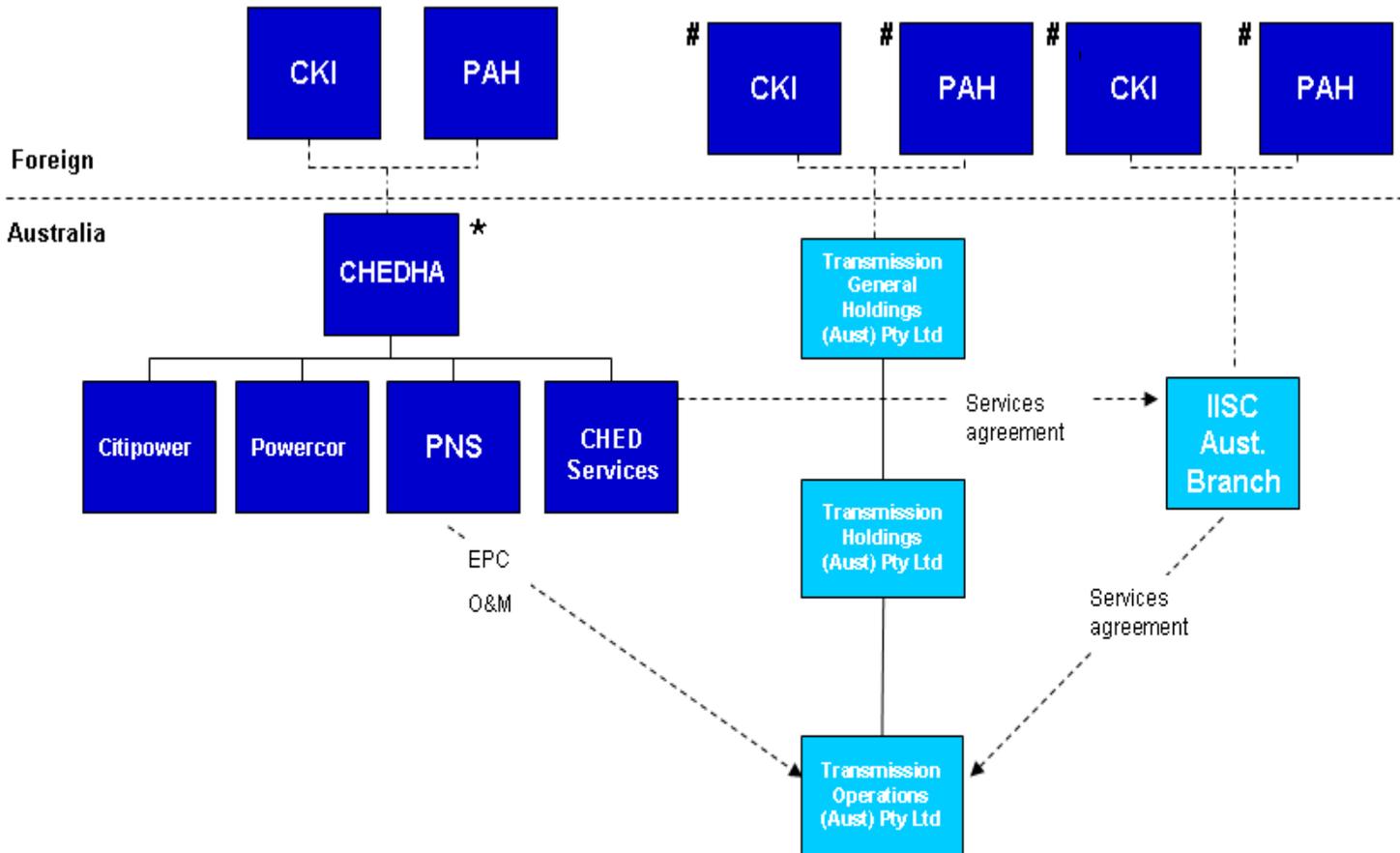
The following entities are the ultimate owners of TOA:

- Cheung Kong Infrastructure Holdings Ltd (**CKI**) owns 50% of TOA; and
- Power Assets Holdings Ltd (**PAH**) owns 50% of TOA.

No other entities have the capacity to determine the outcome of decisions about TOA's financial and operating policies.

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The corporate structure for TOA is shown in the following chart below:



# TOA and IISC-Aust Branch ultimately owned by CKI and PAH

\* CHEDHA Holdings is 23% owned by CKI and 28% owned by PAH. The remaining shareholding is held by Spark Infrastructure listed on the Australian Stock Exchange

Note: CKI and PAH are both listed on the Hong Kong Stock Exchange

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### *Overview of CKI*

CKI is one of the largest overseas infrastructure investors in Australia. It has investments in electricity and gas distribution as well as water businesses and includes SA Power Networks Ltd (**SA Power Networks**), Envestra Ltd (**Envestra**), CitiPower Pty (**CitiPower**) and Powercor Australia Ltd (**Powercor**). In the United Kingdom, CKI has a comprehensive portfolio of investments in gas and electricity distributions; water and waste services as well as electricity generation. They include Northern Gas Networks, a major gas distribution business that serves the North of England and UK Power Networks, one of the United Kingdom's largest power distributors supplying electricity to London, South East England and East of England.

### *Overview of PAH*

CKI is the major shareholder of PAH, with a 38.87% stake in the company. PAH is the holding company of The Hong Kong Electric Company Ltd (**HK Electric**) and Power Assets Investments Ltd (**PAI**). PAH subsidiary HK Electric is responsible for the generation, transmission and distribution of electricity to Hong Kong Island and Lamma Island. PAI is the investment arm of the Group and has acquired, predominately jointly with CKI, interests in power and utility-related businesses in the United Kingdom, Australia, mainland China, New Zealand, Canada and Thailand. In Australia PAH also have investments in SA Power Networks, CitiPower and Powercor

### *Overview of IISC-AU*

IISC-AU is registered as a foreign company under the Corporations Act 2001.

IISC-AU is 100% owned by International Infrastructure Services Company Hong Kong Ltd (**IISC – HK**). IISC-HK provides back office and engineering services to utility companies around the world, including Canada and New Zealand, through its international branch structure.

### *Overview of PNS*

PNS is a project management, supply chain service, engineering, design and construction services business. PNS operate in markets across Australia and internationally, providing solutions to electricity utilities, land developers, infrastructure providers and commercial/industrial energy consumers.

PNS services a wide range of Australian and international clients, including Powercor and CitiPower. PNS provide Powercor and CitiPower various services including: customer and connection services; asset replacement services; maintenance services; asset performance (fault) services; and network development.

PNS's significant projects have included works (design, engineer, procure and construct) for the development of Melbourne's Docklands and major electrical works for the

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commissioning of the Basslink DC Interconnector between Victoria and Tasmania. Recent projects include Creek Road redevelopment in central Hobart, Tasmania, a major wind farm project at Gunning, ACT, and two substation contracts in NSW.

*Overview of CHED Services*

CKI and PAH also have combined ownership of 51% of CHED Services. CEHD Services provides specialist corporate and metering services for a number of clients including Powercor and CitiPower. The corporate services include: Finance and Tax; Company Secretarial and Legal; Human Resources; Corporate Affairs; Regulation; Customer Services; Information Technology and Office Administration. The metering services include: new connections; fault replacements; customer initiated replacements; meter maintenance and AMI meter project management and accelerated rollout.

*Summary*

TOA intends to utilise via contractual arrangements the expertise of IISC-AU, PNS and other entities of which CKI/PAH have ownership interest to support its operations on an ongoing basis. Section 1.4 outlines the contract and agreements and how TOA benefits from this arrangement.

## **1.4 Organisation Structure**

*Shareholders*

TOA is not a publicly listed company.

TOA has only one shareholder which is held indirectly by Transmission General Holdings (Aust) Pty Ltd (**TGH**). TGH is ultimately owned 50% each by CKI and PAH.

The key personnel represent vast experience in the electricity industry, holding senior management positions in ETSA Utilities, CitiPower and Powercor.

**Eric Lindner**

Chief Executive Officer

Dr Lindner is the Chief Executive Officer of TOA. He previously held the position of Company Secretarial of ETSA Utilities (now SA Power Networks). He has more than 35 years of experience in the electricity industry covering planning, research, design, environmental management, regulatory affairs and a wide range of corporate functions.

**Simon Lucas**

Company Secretarial

Mr Lucas is the Company Secretary of TOA, and as such oversees key corporate governance and Board-related functions. Separately, he is the Company Secretary of the CHEDHA Holdings Group and manages the Audit, Real Estate and Legal Services Division of Powercor and CitiPower.

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**Julie Williams**

Public Officer

Ms Williams is the Public Officer of TOA. Separately, Julie is Chief Financial Officer for Powercor and CitiPower.

TOA's other key personnel functions are provided via contractual arrangements with IISC-AU and PNS. Refer to section 1.5 of the application.

*TOA Board*

The Board represent vast experience in the electricity industry both in Australia and internationally.

CKI and PAH are entitled to appoint an equal number of Directors to the Board.

**Peter Tulloch**

Chairman

Mr Tulloch is Chairman of TOA, CHEDHA Holdings and its subsidiaries, including the CitiPower and Powercor Group Companies and is Chairman of SA Power Networks. He is also a Non-executive Director of CK Life Sciences Int'l (Holdings) Inc.

**Shane Breheny**

Director

Mr Breheny is a Director of TOA. He is also a Director and Chief Executive Officer of CHEDHA Holdings and its subsidiaries, including CitiPower and Powercor Australia. With more than 24 years service to the Victorian energy industry, he has also held the positions of Chief Executive Officer of Electricity Services Victoria, Managing Director of CitiPower, Chief Financial Officer and Executive Director Finance for Powercor Australia. He is Deputy Chairman and an Executive Board member of the Committee for Geelong and immediate past Chairman of Energy Networks Association (retired December 2011).

**Andrew Hunter**

Director

Mr Hunter is a Director of TOA. He is also a Director of CHEDHA Holdings and its subsidiaries, including CitiPower and Powercor Australia. He is also an Executive Director and the Deputy Managing Director of Cheung Kong Infrastructure Holdings Ltd and an Executive Director of Power Assets Holdings Ltd.

**Dominic Chan**

Director

Mr Chan is a Director of TOA. He is also a Director of CHEDHA Holdings and its subsidiaries, including CitiPower and Powercor Australia. Mr Chan is also an Alternate Director to Mr Kam Hing Lam, an Executive Director of Power Assets Holdings Ltd. He is also a Director of Envestra Ltd. Mr Chan is a fellow of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants.

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### **1.5 Contracts and Agreements**

As briefly described above, TOA has sought to adopt a service model that will enable it to both deliver the initial project with MMWF and focus on its long term asset ownership and performance.

TOA's CEO will utilise three key streams of service to both operate the company as well as meet the needs of the first project. These are:

- a) IISC-AU: to provide back office and engineering services support to TOA during construction of assets and on an ongoing, long term basis
- b) PNS: to initially construct the assets for TOA in order to meet its contractual arrangements with MMFW
- c) PNS: to provide ongoing maintenance of the assets

In doing so, has entered into the following arrangements:

- Utility Support Services Agreement (**Head Agreement**) – this Agreement was entered into in 2012 with IISC-AU. Under the terms of this Agreement, IISC-AU provides specialist corporate and network services to TOA, including the Chief Executive Officer, Finance, the Company Secretary, Legal, Human Resources, Corporate Affairs, Regulation, Customer Services, Network Control Room, Network Development and Management, Information Technology and Office Administration.
- Utility Support Services Agreement (**Agreement**) – this Agreement was entered into in 2012 with IISC-AU and CHED Services. Under the terms of this Agreement, CHED Services provides specialist corporate and network services to IISC-AU, including the Chief Executive Officer, Finance, the Company Secretary, Legal, Human Resources, Corporate Affairs, Regulation, Customer Services, Network Control Room, Network Development and Management, Information Technology and Office Administration.
- Network Services Agreements – these Agreements were entered into in 2012 with PNS and relate to MMWF. Under the terms of these Agreements, PNS provides
  - a) Construction services via the EPC Contract (General Conditions of Contract for Design & Construct – Mt Mercer Wind farm Works Contract)
  - b) Operation and Maintenance services via the Heads of Agreement Deed for O&M including customer and connection services, asset replacement services and asset performance (fault services) to TOA.

TOA has provided the Head Agreement (Attachment B), the Agreement (Attachment D) in support of its transmission licence on a confidential basis. In addition, TOA has provided on a confidential basis the Network Services Agreements between TOA and PNS, specifically, EPC Contract, General Conditions of Contract for Design & Construct – Mt Mercer Wind

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farm Works Contract (Attachment F) and Heads of Agreement Deed for O&M (Attachment G) in support of its transmission licence..

## **1.6 Licence**

### *Types of Licence*

TOA seeks a licence to undertake the construction, operation and ownership of transmission assets in Victoria.

TOA has not sought previously a licence application.

### *Date of Licence*

The date of application of the licence is November 2012.

### *Current Licence*

CKI and PAH have investments in several Australian regulated service providers including SA Power Networks; Powercor, CitiPower and Envestra. SA Power Networks, Powercor and CitiPower hold an Electricity Distribution Licence and Envestra hold a Gas Distribution Licence.

### *Licence Conditions*

TOA seeks the standard licence conditions.

## **1.7 Electricity Industry Participation**

SA Power Networks, Powercor, CitiPower and Envestra are members of the Energy Network Association of Australia. All of the businesses are active participants in the National Electricity Market (NEM) development and seek representation on all relevant committees.

## **2 The Commission's Objectives**

TOA believes that the granting of the licence is consistent with the Commission's objectives set out under sub-sections 8(1) and (2) of the ESC ACT for the following reasons:

### **2.1 To protect the long term interest of Victorian consumers with regard to the price, quality and reliability of essential services**

The granting of the licence is consistent with this objective because the granting of the licence will provide a commercial alternative to the customer and increase competition in the market.

TOA can provide cost efficient and reliable end-to-end transmission services and generate substantial cost savings for customers.

**2.2 To facilitate efficiency in regulated industries and the incentive for long-term investments**

The granting of the licence is consistent with this objective because providing competitive end-to-end transmission services contributes to the long-term investment of transmission connection services. The most immediate opportunities for TOA to build own and operate transmission assets are in Victoria, facilitated by the current arrangements allowing for competitive tendering for connection assets. TOA seeks to grow its business beyond Victoria and has a long term strategy to bid for future tenders.

**2.3 To facilitate the financial viability of regulated industries**

The granting of the licence is consistent with this objective because in providing more cost efficient transmission services TOA will improve the financial viability of the Victorian transmission services industry. A more competitive market facilitates a greater level of discipline on businesses to ensure an appropriate allocation of risk and return.

**2.4 To ensure that the misuse of monopoly or non-transitory market power is prevented**

The granting of the licence is consistent with this objective because it will result in the creation of an alternative transmission service provider other than the incumbent Transmission Network Service Provider (TNSP). A more competitive market facilitates a greater level of discipline on businesses to provide a competitive offer to customers and restrains the misuse of monopoly or non-transitory market power.

**2.5 To facilitate effective competition and promote competitive market conduct**

The granting of the licence is consistent with this objective because the granting of the licence will provide a commercial alternative to the customer and increase competition in the market.

**2.6 To ensure that regulatory decision making has regard to the relevant health, safety, environmental and social legislation applying to the regulated industry**

The granting of the licence is consistent with this objective because the development and operation of all TOA involved projects, including MMWF, will be subject to all relevant health, safety, environmental and social legislation applying to the Victorian electricity industry.

**2.7 To ensure that users and consumers (including low income or vulnerable customers) benefit from the gains from competition and efficiency**

The granting of the licence is consistent with this objective because the granting of the licence will provide a commercial alternative to the customer and increase competition in the market.

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**3. Information on Financial Viability**

CKI and PAH are part of a multinational organisation that have participated in the long term ownership and operation of energy infrastructure assets for many years both in Australia and internationally. Refer to section 1.3 which provides an overview of CKI's and PAH's operations.

TOA is therefore capable of meeting the financial viability requirements of providing competitive transmission connection services in Victoria. TOA has provided on a confidential basis a number of documents in support of its transmission licence application; including:

- TOA's business plan (Attachment P)
- TOA's bank statements (Attachment Q)
- CKI and PAH 2011 Annual Reports (Attachment H and J)
- CKI and PAH Standard & Poor Reports(Attachment I and K)

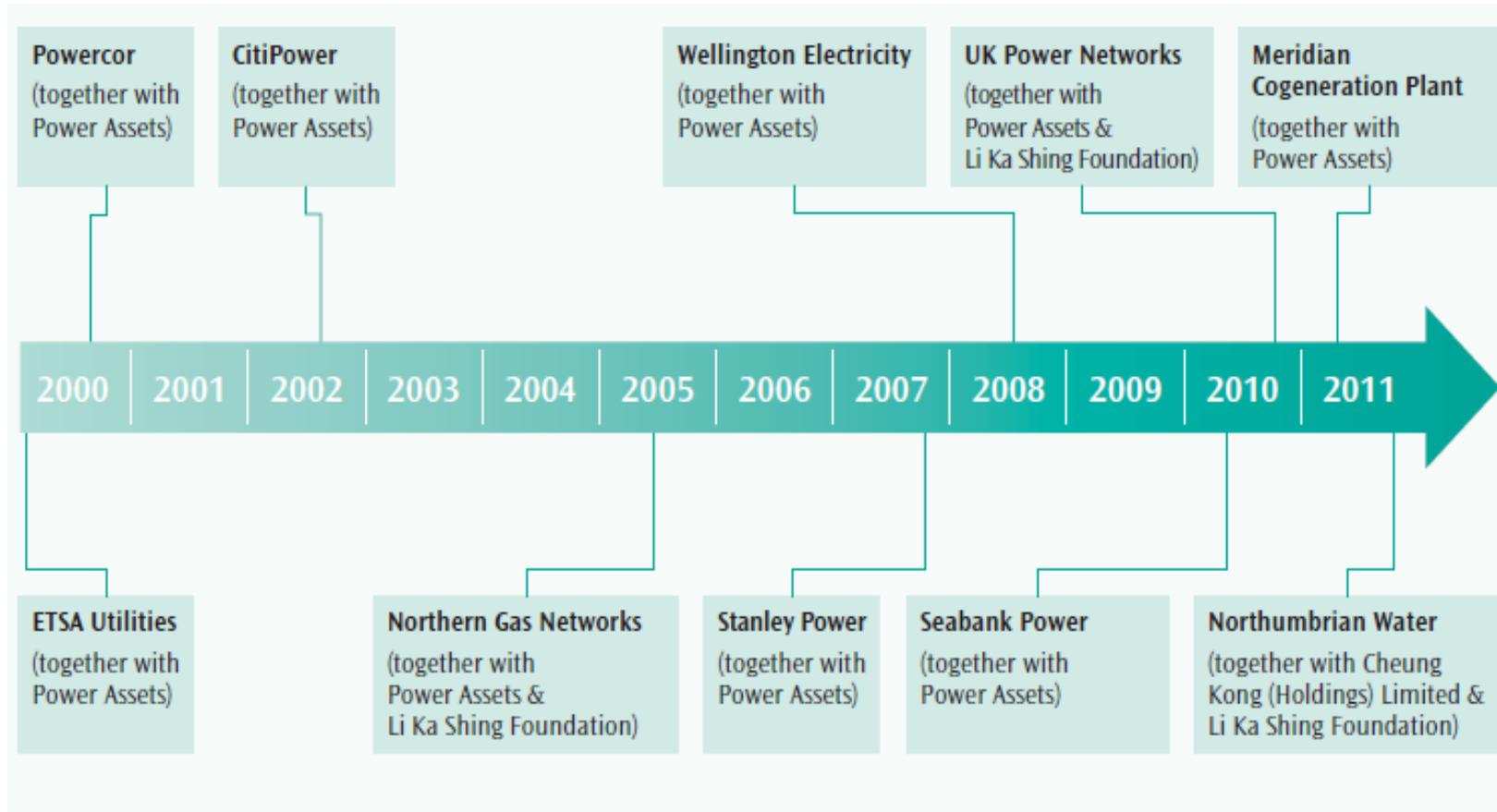
*Financial viability of CKI*

Listed on the Stock Exchange of Hong Kong in July 1996, CKI's market capitalisation was over HK\$110 billion as of September 28, 2012. CKI owns infrastructure assets in Hong Kong, Mainland China, the United Kingdom, Australia, New Zealand and Canada. Currently, CKI's operations encompass electricity generation and distribution, gas distribution, toll roads, water treatment and distribution, as well as infrastructure materials.

In 1997, CKI acquired a controlling stake in Hong Kong Electric Holdings Limited (**HEH**), since renamed Power Assets Holdings Ltd (**PAH**). PAH (previously HEH) was the sole electricity generator and distributor of electricity to Hong Kong Island and Lamma Island via HK Electric. Over the past decade, HEH with CKI has expanded rapidly with a growing portfolio outside Hong Kong.

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The diagram below outlines CKI's major infrastructure projects acquired since 2000:



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In 2011, CKI performed strongly, with the following performance indicators:

- profit attributable to shareholders (HK\$ million) 7,745;
- earnings per share (HK\$) 3.38;
- dividends per share (HK\$) 3.38; and
- total assets (HK\$ million) 57,873.

CKI is the largest publicly listed company on The Stock Exchange of Hong Kong and is one of the constituent shares of the Hang Seng Index and Hang Seng Corporate Sustainability Index.

CKI have an A- (stable) credit rating.

*Financial viability of PAH*

In 2011, HEH changed its name to PAH. As reflected by the new name, PAH continues to pursue a strategy of investing in power and utility-related businesses outside Hong Kong. Refer to the above diagram that outlines PAH's major infrastructure projects acquired since 2000. These investments in recent years have become a major part of PAH's overall operations, providing a strong financial position.

In 2011, PAH performed strongly, with the following performance indicators:

- profit attributable to shareholders (HK\$ million) 9,075;
- earnings per share (HK\$) 4.24;
- dividends per share (HK\$) 2.32; and
- fixed assets (HK\$ million) 48,799.

PAH is listed on The Stock Exchange of Hong Kong and is one of the constituent shares of the Hang Seng Index and Hang Seng Corporate Sustainability Index.

PAH have an A+ (stable) credit rating.

#### **4. Competency in Operation**

Under the service model and ownership group, TOA has access to a vast breadth of expertise, knowledge and skill required to provide transmission connection services and register as a Market Participant and TNSP in the NEM. As outlined in sections 1.3 and 1.5, this expertise is obtained via long term contractual arrangements with established group entities and/or companies of which CKI and PAH have ownership interest in Australia.

TOA also benefits from the participation of the Board members who bring expertise, knowledge and skill from other parts of the multinational group and the CEO, who is significant long term experience at an executive level in the energy industry. See section 1.4

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#### **4.1 Service Model**

##### *IISC-AU Expertise*

TOA have appointed IISC-AU to provide specialist corporate and network services, including Finance, Legal, Human Resources, Regulation, Network Development and Management, and Office Administration.

IISC-AU has access to its owners' vast level of experience providing services to utility companies around the world.

##### *CHED Services Expertise*

IISC-AU have appointed CHED Services to provide specialist corporate and network services, including Finance, Legal, Human Resources, Regulation, Network Development and Management, and Office Administration.

CHED Services provide specialist corporate and metering services for a number of clients including Powercor and CitiPower. The corporate services include: Chief Executive Officer, Finance; the Company Secretary and Legal; Human Resources; Corporate Affairs; Regulation; Customer Services; Information Technology and Office Administration. The metering services include: new connections; fault replacements; customer initiated replacements; meter maintenance and AMI meter project management and accelerated rollout.

##### *PNS Expertise*

TOA have appointed PNS to provide network services, including construction and maintenance services, customer and connection services, asset replacement services and asset performance (fault services).

PNS operate in markets across Australia and internationally, providing solutions to electricity utilities, land developers, infrastructure providers and commercial/industrial energy consumers.

PNS services a wide range of Australian and international clients, including Powercor and CitiPower. PNS provide Powercor and CitiPower various services including: customer and connection services, asset replacement services, maintenance services, asset performance (fault) services and network development.

#### **4.2 Contracts**

TOA has already finalised contractual agreements with Meridian entity MMWF.

The Mt Mercer project involves TOA building, owning and operating the connection assets for the MMWF. The project involves the following components:

- 21km single circuit monopoly overhead line from the gantry at the Wind Farm substation through to the terminal station;
- transformers 132kV to 220kV; and
- a terminal station linking into the existing SP AusNet 220kV transmission line.

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The Meridian Connection Services Agreement has been provided as part of the confidential application in **Attachment M**.

The Network Services Agreement for Elaine Terminal Station between the Australian Energy Market Operator Ltd (AEMO) and TOA has been provided as part of the confidential application in **Attachment N**.

The Project Co-ordination Deed for Elaine Terminal Station and Interface between AEMO, MWF, SPI PowerNet Pty Ltd (SPI) and TOA has been provided as part of the confidential application in **Attachment O**.

### **4.3 Governance, Risk and Compliance Management**

#### *Governance*

The Board is responsible for overall corporate governance. Section 1.3 'Organisation Structure' outlines in detail the vast level of experience from the Board members.

The responsibility of the Board includes:

- contributing to the development of and approving the corporate strategy;
- reviewing and approving business plans, the annual budget and financial plans, including available resources and major capital expenditure initiatives;
- overseeing and monitoring:
  - organisational performance and the achievement of TOA's strategic goals and objectives;
  - progress of major capital expenditures and other significant corporate projects. Including any acquisitions or divestments;
  - monitoring financial performance,
  - appointing, assessing performance and, if necessary, removing the Chief Executive Officer, Chief Financial Officer, Company Secretarial and senior management;
  - ensuring there are effective management processes in place and approving major corporate initiatives;
  - enhancing and protecting the reputation of TOA; and
  - ensuring the significant risks facing TOA, including those associated with its legal compliance obligations, have been identified and that appropriate and adequate control, monitoring, accountability and reporting mechanisms are in place.
- identification and management of risk and compliance matters