



APPLICATION FOR TRANSMISSION LICENCE

by

Transmission Operations (Australia) 2 Pty Ltd

ACN 605 734 129

4 December 2015

NON-CONFIDENTIAL VERSION

**TRANSMISSION OPERATIONS (AUSTRALIA) 2 PTY LTD
LICENCE APPLICATION**

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1 Introduction

Transmission Operations (Australia) 2 Pty Ltd (**TOA2**) seeks a licence to transmit electricity for specific connection and extension assets associated with the Ararat Wind Farm.

TOA2 has entered into contractual arrangements with Ararat Wind Farm Pty Ltd (**AWF**). AWF plans to build a 240MW wind farm consisting of 75 turbines that will each have an expected rated capacity of up to 3.4MW. The farm is will be located between 9km to 17km northeast of Ararat, Victoria.

TOA2 will undertake the design, construction and commissioning of the connection assets, and then connect the wind farm to the connection assets and provide ongoing connection services to AWF. These connections assets are very similar to those designed and constructed and now being operated by TOA2's sister company, Transmission Operations (Australia) Pty Ltd (**TOA**) for the connection of the Mt Mercer wind farm. The transmission connection of the Mt Mercer wind farm was constructed on time and is operating with a very high level of reliability.

TOA2 passionately believes in increasing competition in the market and providing viable commercial alternatives to the customer. TOA2 has been explicitly established to create competition in these services and can provide cost efficient and reliable end-to-end transmission services including connection and extension services.

TOA2 (or proposed 'licensee') provides the following application details in accordance with the 'Guidance Note for Application for Electricity Licences' issued by the Essential Services Commission (**ESCV**) in Victoria in 2006, as well as ESCV's guidance note relating to the assessment of financial viability issued in 2014.

1.1 Information on Applicant and Nature of Application

Applicant Details

Transmission Operations (Australia) 2 Pty Ltd, ACN 605 734 129

Registered Office

Transmission Operations (Australia) 2 Pty Ltd
Level 9
40 Market Street
Melbourne VIC 3000

Contact Person

Eric Lindner
Chief Executive Officer
Mob: [REDACTED]

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1.2 Corporate Structure

The following entities are affiliated parties and contribute to the provision of transmission services:

- CHED Services Pty Ltd (ACN 112 304 622) (**CHED Services**) provides corporate services to International Infrastructure Services Company Ltd of the British Virgin Islands – Australian Branch (ABN 159 738 084) (**IISC-AU**) (and other clients) under a Utility Support Services Agreement (**USSA**);
- IISC-AU provides services to TOA2 under a Utility Support Services Agreement; and
- Powercor Network Services Pty Ltd (ACN 123 230 24) (**PNS**) provides connection services and network services to TOA2 under three Agreements; an Engineering, Procurement & Construction (**EPC**) Contract and two ongoing Operations and Maintenance (**O&M**) Contracts.

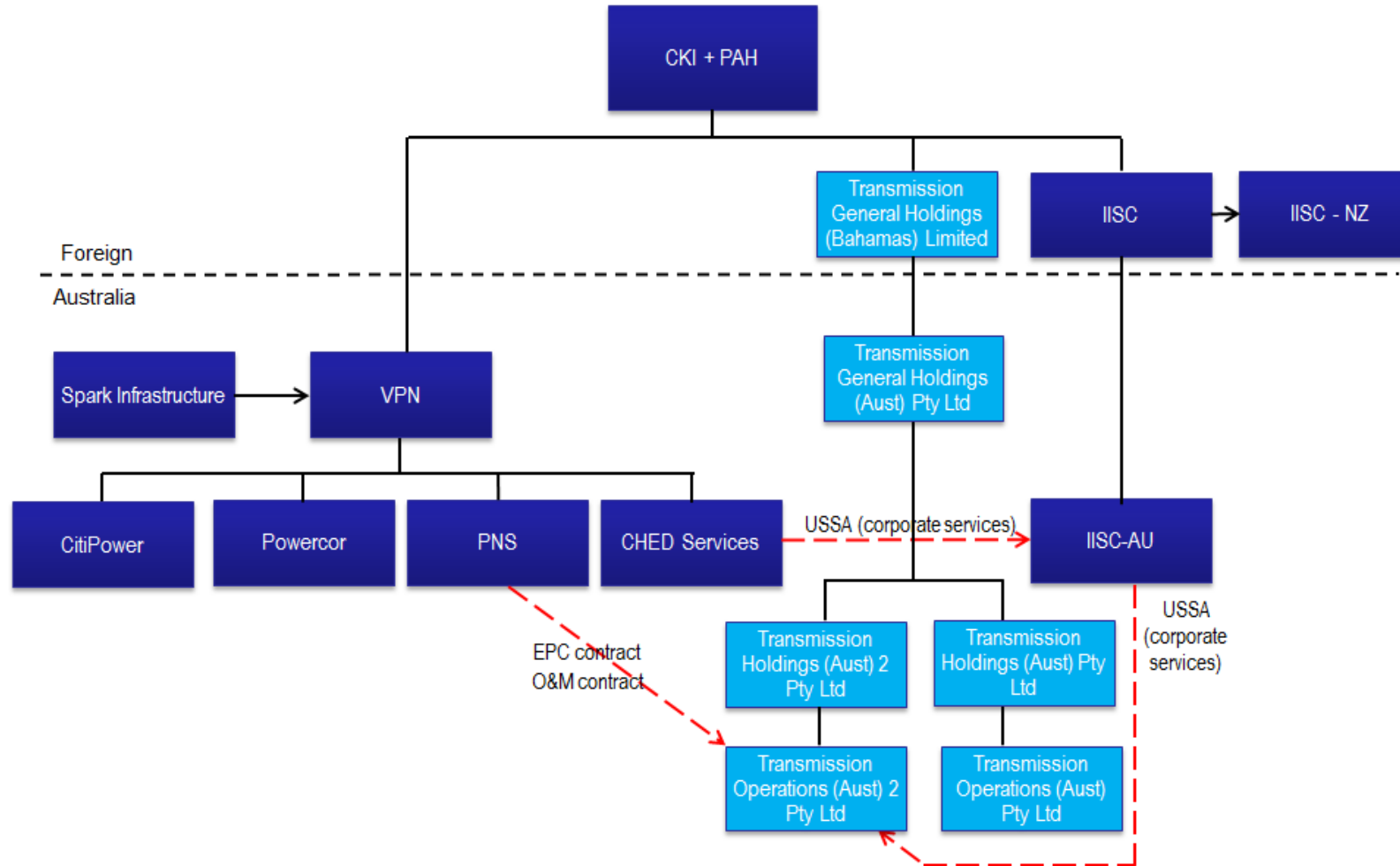
The following entities are the ultimate owners of TOA2:

- Cheung Kong Infrastructure Holdings Ltd (**CKI**) owns 50% of TOA2; and
- Power Assets Holdings Ltd (**PAH**) owns 50% of TOA2.

No other entities have the capacity to determine the outcome of decisions about TOA2's financial and operating policies.

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Figure 1: Corporate structure for TOA2



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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 Victorian Power Networks Pty Ltd (**VPN**), SA Power Networks Ltd (**SA Power Networks**), Australian Gas Networks Ltd (**AGN**), 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 Power Assets Investments Ltd (**PAI**), which 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. PAH also has a 49.9% interest in the Hong Kong Electric Company Ltd (**HK Electric**) which is responsible for the generation, transmission and distribution of electricity to Hong Kong Island and Lamma Island.

Overview of PNS

PNS is a wholly owned subsidiary of VPN. CKI and PAH have combined 51% ownership of VPN whilst Spark Infrastructure has a 49% interest. PNS provides design, construction, maintenance and management services across the electricity distribution and transmission sectors, as well as the communications sector. Its clients include Australia's largest electricity utilities, infrastructure developers, commercial/industrial clients, and telecommunications network owners.

Overview of CHED Services

CHED Services is also a wholly owned subsidiary of VPN. CHED Services provides specialist corporate and metering services for a number of clients including Powercor and CitiPower. The corporate services include: Finance, the 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.

Overview of IISC-AU

On 17 August 2012 IISC-AU was registered as a foreign company under the Corporations Act 2001. The Certificate of Registration of a Foreign Company is provided in **Attachment A**.

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.

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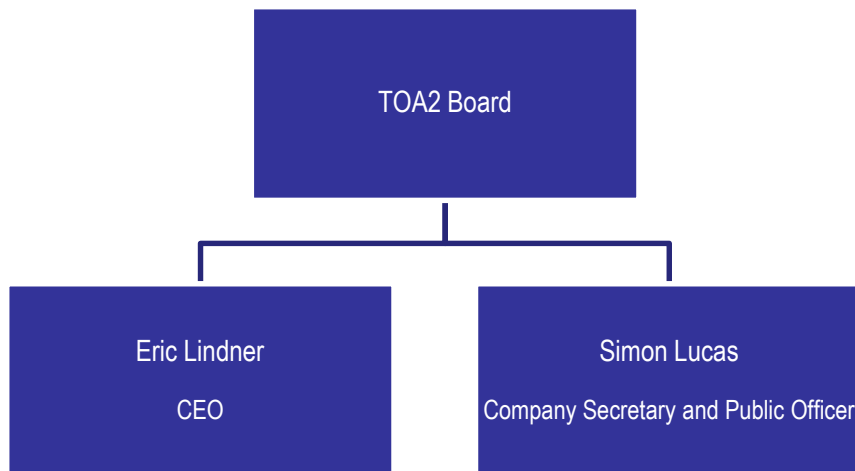
Summary

TOA2 intends to utilise via contractual arrangements the expertise of PNS, CHED Services and IISC-AU to support its operations on an ongoing basis. This replicates the contractual arrangements established by TOA for the successful Mt Mercer wind farm connection. Section 1.4 outlines in detail the contracts and agreements.

1.3 Organisation Structure

The organisational structure of TOA2 is shown in the figure below.

Figure 2 TOA2 organisational structure



Key personnel

The key personnel represent vast experience in the electricity industry, holding senior management positions in CitiPower and Powercor and SA Power Networks.

Eric Lindner

Chief Executive Officer

Dr Lindner is the Chief Executive Officer of TOA2. He previously held the Executive Management positions in SA Power Networks (formerly ETSA Utilities). He has more than 35 years of experience in the electricity industry covering planning, research, design, environmental management, and a wide range of corporate functions.

Simon Lucas

Company Secretary and Public Officer

Mr Lucas is the Company Secretary of TOA2 and the CHEDHA Holdings Group, and as such oversees key corporate governance and Board-related functions. He also manages the Audit, Real Estate and Legal Services Division of Powercor and CitiPower.

The functions of the other key personnel, such as CFO and Engineering executive will be fulfilled via the contractual arrangement with IISC-AU (and back to back to CHED Services).

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TOA2 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. All resolutions made by the Board must be passed by at least one Director representing both CKI and PAH and those made by way of written resolutions must be assented to by all Directors.

Andrew Hunter

Chairman

Mr Hunter is a Chairman of TOA2. He is also a Director of VPN and its subsidiaries, including CitiPower and Powercor. 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. Mr Hunter holds a Master of Arts and a Master of Business Administration. He is a member of the Institute of Chartered Accountants of Scotland and of the Hong Kong Institute of Certified Public Accountants.

Dominic Chan

Director

Mr Chan is a Director of TOA2. He is also a Director of VPN and its subsidiaries, including CitiPower and Powercor. 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 AGN. Mr Chan is a fellow of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants.

Timothy Rourke

Director

Mr Rourke is a Director of TOA2. He is also the Chief Executive Officer of CitiPower and Powercor. Mr Rourke has extensive experience in the energy industry, and prior to joining CitiPower and Powercor was the Asia Pacific Regional Executive for GE Aero Energy based in Singapore. His previous experience includes being Chief Executive Officer of GE Energy Infrastructure Australia and New Zealand, as well as senior executive roles with AGL, Southern Hydro Pty Ltd and Alliant Energy Australia.

Peter Tulloch

Director

Mr Tulloch is a Director of TOA2, Chairman of VPN 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. Mr Tulloch was educated in Scotland, is a Fellow of the Institute of Canadian Bankers and spent more than 30 years in banking in Asia prior to moving to Australia in late 2002.

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1.4 Contracts and Agreements

TOA2 has sought to adopt a service model that will enable it to better focus on its long term asset ownership and performance and that, in doing so, it has entered into the following arrangements with related entities:

- *Utility Support Services Agreement, IISC-AU with TOA2*; IISC-AU provides specialist corporate services to TOA2, including, Finance, Company Secretarial, Legal, Human Resources, Corporate Affairs, Regulation, Customer Services, Information Technology and Office Administration;
- Network Services and Connection Services Agreements — under the terms of these Agreements, PNS provides to TOA2:
 - a) Construction and network control services via the EPC Contract (General Conditions of Contract for Design & Construct – Ararat Wind farm Works Contract); and
 - b) Operation and Maintenance services including network and connection services, network control services, asset replacement services and asset performance (fault services).

Assessment of Service Model

The provision of corporate services by IISC-AU at a group level enables it to achieve scale efficiencies that would not otherwise be available to TOA2 on a standalone basis.

The nature of the services provided by PNS and the provision of these services to parties other than TOA2 means that it too is able to access economies of scale and scope, and other efficiencies, that would not otherwise be available to TOA2 operating on a standalone basis.

In view of the efficiencies available to both IISC-AU and PNS, the service provision model adopted by TOA2 can be expected to constitute a more efficient outcome than if the services were provided in-house on a standalone basis.

This contractual arrangement also allows TOA2 immediate access to best of kind service provision to its customers as well as access to the appropriate skills and expertise to oversee the establishment and provision of the ongoing appropriate governance structure for an entity licensed under the Electricity Industry Act 2000.

Utilisation of this model by TOA for the transmission connection of the Mt Mercer wind farm has demonstrated that it delivers high quality assets that operate with high reliability.

Assessment of incentives provided by the Utility Support Services Agreement and Network Services Agreements

The price payable by TOA2 for services provided under the Utility Support Services Agreement is fixed. The fixed nature of this Agreement means that, over the term of the Agreement, IISC-AU will be able to retain the benefit of any cost savings and will therefore have an incentive to pursue both productive and dynamic efficiencies for application to

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future projects. In addition, the fixed price requires IISC-AU to provide all necessary services required by TOA2 to run the newly established business.

The price payable by TOA2 for services provided under Network Services and Connection Services Agreements are also fixed. The fixed nature of these Agreement means that, over the term of the Agreement, PNS will be able to retain the benefit of any cost savings and will therefore have an incentive to pursue both productive and dynamic efficiencies for application to future projects.

Assessment of non-price terms of Utility Support Services Agreement and Network Services and Connection Services Agreements

The non-price terms and conditions specified in the Utility Support Services Agreement clearly define the roles and responsibilities of both TOA2 and IISC-AU and set out:

- the services to be provided, the service levels to be maintained by IISC-AU and the Key Performance Indicators (**KPIs**) to be met over the term of the contract;
- the circumstances in which TOA2 can terminate the contract or seek other remedies where IISC-AU fails to deliver the services or meet any applicable service level or KPI;
- the reporting requirements that IISC-AU must comply with; and
- the dispute resolution mechanism to be applied when any dispute about the price or non-price terms of the contract arise.

The Utility Support Services Agreement has been entered into on a non-exclusive basis and nothing in this Agreement will restrict the right of TOA2 to obtain services of any type from any other person or company.

In a similar manner to the Utility Support Services Agreement, the non-price terms and conditions specified in the Network Services and Connection Services Agreements clearly define the roles and responsibilities of both PNS and TOA2. It sets out:

- the services to be provided and the KPIs to be met over the terms of the contracts;
- the circumstances in which TOA2 can terminate the contracts or seek other remedies where PNS fails to deliver the services or meet any applicable service level or KPI;
- the ability of TOA2 to direct PNS to reduce the scope of, or cease to provide services;
- the reporting requirements that PNS must comply with; and
- the dispute resolution mechanism to be applied when any dispute about the price or non-price terms of the contract arise.

This assessment demonstrates that the governance arrangements and other provisions in these Agreements give rise to an appropriate allocation of risks and responsibilities and ensure that TOA2 retains sufficient control over its assets.

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Incorporation details

A copy of the Certificate of Registration for TOA2 is provided in **Attachment B**.

Shareholders

TOA2 is not a publicly listed company.

TOA2 has only one shareholder which is held indirectly by Transmission General Holdings (Aust) Pty Ltd (**TGHA**). TGHA is ultimately owned 50% each by CKI and PAH.

1.5 Licence

Nature and type of Licence

TOA2 seeks a licence to undertake the construction, operation and ownership of transmission assets at the Ararat Terminal Station and the associated connection assets.

Date of Licence

TOA2 seeks the licence to commence from 31 January 2016.

Current Licences

CKI and PAH have investments in several Australian regulated service providers including TOA, SA Power Networks, Powercor, CitiPower and AGN. The licences are:

- TOA holds an Electricity Transmission Licence for specific assets in Victoria;
- CitiPower and Powercor hold Electricity Distribution Licences for specified geographic areas in Victoria;
- SA Power Networks holds an Electricity Distribution Licence for its network in South Australia; and
- AGN holds Gas Distribution Licences for its gas distribution system in South Australia and its gas distribution areas in Victoria.

Licence Conditions

Given the current consultation relating to modernising the licensing framework, TOA2 is actively engaging with ESCV to discuss the proposed conditions.

As per TOA's submission to that consultation, TOA2 strongly supports an approach of providing a "level playing field" for participants in the electricity transmission sector.

1.6 Electricity Industry Participation

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

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2 The Commission's Objectives

TOA2 believes that the granting of the licence is consistent with the ESCV's objectives set out in section 8 and 8A of the *Essential Services Commission Act 2001 (Vic)*, as amended, for the reasons set out below.

2.1 Objective of the ESCV

To promote the long term interest of Victorian consumers having 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.

TOA2 can provide cost efficient and reliable end-to-end transmission services and generate substantial cost savings for customers.

2.2 Matters to which the ESCV must have regard

Have regard to the efficiency in regulated industries and the incentive for long-term investments

The granting of the licence is consistent with this matter because providing competitive end-to-end transmission services contributes to the long-term investment of transmission connection services. The most immediate opportunities for TOA2 to build, own and operate transmission assets are in Victoria, facilitated by the current arrangements allowing for competitive tendering for connection assets. TOA2 seeks to grow its business beyond Victoria and has a long term strategy to bid for future tenders.

Have regard to the financial viability of regulated industries

The granting of the licence is consistent with this matter because in providing more cost efficient transmission services TOA2 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.

The degree of, and scope for, competition within the industry, including countervailing market power and information asymmetries

The granting of the licence is consistent with this matter because it will provide a commercial alternative to the customer and increase competition in the market. A more competitive market facilitates a greater level of discipline on businesses to provide a competitive offer to customers and restrains the ability for use of countervailing market power and information asymmetries in the industry.

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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 matter because the development and operation of all TOA2 involved projects, including AWF, will be subject to all relevant health, safety, environmental and social legislation applying to the Victorian electricity industry. In addition, in meeting all relevant health, safety and environmental and social legislation, TOA2 will have the benefit of learnings from other CKI and PAH investments in Australia and global best practice. TOA2's sister company, TOA has demonstrated full compliance with all relevant health, safety, environment and social legislation.

The benefits and costs of regulation (excluding externalities and the gains from competition and efficiency) for consumers and users of products and services (including low income or vulnerable customers)

The granting of the licence is consistent with this matter because the granting of the licence will provide benefits to consumers as it provides a commercial alternative to the customer and increase competition in the market.

TOA2 is firmly of the belief that it can provide cost efficient and reliable end-to-end transmission services and generate substantial cost savings for customers.

The benefits and costs of regulation (excluding externalities and the gains from competition and efficiency) for regulated entities

The granting of this licence is consistent with this matter, as the benefits of granting TOA2 a licence outweighs any costs of regulation.

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3 Information on Financial Viability

TOA2 is capable of meeting the financial viability requirements of providing competitive transmission connection services in Victoria.

3.1 Financial viability of the entity

TOA2 is a viable entity on its own, as its operating costs are appropriately managed and/or forecast. The costs for which TOA2 is responsible are discussed in the table below.

Table 1 Terms underpinning costs

Service	Contracting party	Approx. proportion of total annual operating cash expenditure	Terms
Corporate Services	IISC AU	[X]	Fixed price. Terms and conditions, including costs, entered into via an arm's-length contract on similar basis to other corporate services contracts entered by the contracting parties.
Operations and Maintenance including network control services	PNS	[X]	Fixed price. Terms and conditions, including costs, entered into via an arm's-length contracts based on the same methodology as other contracts entered into by PNS nationally.
Financing	Westpac	[X]	Third party finance; 5 year facility and hedge in place (from June 2015).
Insurance	AON	[X]	Obtained through insurance broker. Forecasts of insurance premiums based on knowledge and experience.
Taxes		[X]	Forecast costs based on previous experience and detailed modelling.
Audit & tax	Deloitte	[X]	Forecast costs based on previous experience.

CKI and PAH, the ultimate owners of TOA2, have substantial assets and turnover as evidenced through the audited financial statements available in their annual reports, as well as displayed by other financial information.

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Financial viability of CKI

Since listing in 1996, CKI has grown from a regional infrastructure company with investments primarily in Hong Kong and Mainland China to one of the most important players in the global infrastructure arena today. CKI owns infrastructure assets in Hong Kong, Mainland China, the United Kingdom, the Netherlands, Australia, New Zealand and Canada. CKI's investments encompass energy infrastructure, transportation infrastructure, water infrastructure, waste management and infrastructure related business.

In 1997, CKI acquired a controlling stake in Hong Kong Electric Holdings Limited (**HEH**), since renamed Power Assets Holdings Ltd (**PAH**). PAH was the sole electricity generator and distributor of electricity to Hong Kong Island and Lamma Island via HK Electric. Over the past decade, PAH with CKI has expanded rapidly with a growing portfolio outside Hong Kong. The extensive range of CKI investments are available from:
<http://www.cki.com.hk/english/ourBusiness/home/index.htm>

In 2014, CKI performed strongly, with the following performance indicators:

- profit attributable to shareholders (HK\$ million) 31,782;
- earnings per share (HK\$) 13.03;
- dividends per share (HK\$) 2.000; and
- net assets (HK\$ million) 101,746.

The CKI Annual Report 2014 is provided in **Attachment C**.

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 a Standard & Poor's credit rating of A- (stable).¹

Financial viability of PAH

Power Assets Holdings Limited (**PAH**) is a global investor in power and utility-related businesses with investments in electricity generation, transmission and distribution, renewable energy, energy from waste and gas distribution.

Over the years, PAH has adopted a strategic approach to seek growth in stable and well-structured international markets. It has established a strong global presence with investments in Hong Kong, the United Kingdom, Australia, New Zealand, Mainland China, Canada, Thailand and the Netherlands.

¹ Cheung Kong Infrastructure Holdings Limited, The Chairman's letter for 2014, 25 February 2015, p. 5, available from: http://www.cki.com.hk/english/PDF_file/news/2015/20150225_1.pdf

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In 2014, PAH performed strongly, with the following performance indicators:

- profit attributable to shareholders (HK\$ million) 61,005;
- earnings per share (HK\$) 28.58;
- dividends per share (HK\$) 2.68; and
- net assets (HK\$ million) 123,088.

The PAH Annual Report 2014 is provided in **Attachment D**.

PAH is listed on The Stock Exchange of Hong Kong and is one of the constituent shares of the Hang Seng Index. PAH is also a member of the Dow Jones Sustainability Index Asia Pacific and one of the constituents in the Hang Seng Corporate Sustainability Index.

PAH have a Standard & Poor's credit rating of A- (stable).²

3.2 Financial viability of the activity

This section sets out the financial viability of the activity, in terms of revenues, costs and financing.

3.2.1 Revenues

TOA2's revenues are set out in two key contracts.

There are two elements to the revenue:

- First, TOA2 has entered into a Connection Services Agreement with AWF. This is provided at confidential **Attachment E**. [X]. The amending deed is provided at confidential **Attachment F**.
- Secondly, TOA2 has also entered into a Network Services Agreement with the Australian Energy Market Operator (**AEMO**) provided in confidential **Attachment G**. [X]. The amending deed is provided at confidential **Attachment H**.

[X]

3.2.2 Operating costs

TOA2 will incur costs in the construction and operation of the terminal station and connection assets. Operating costs are related to:

- O&M contracts with PNS relating to connections services in confidential **Attachment J**, and network services in confidential **Attachment K**;

² Power Assets Holdings Ltd, 2014 Annual Results – Chairman's Statement, 24 February 2015, p. 7, available from:
https://www.powerassets.com/en/MediaResources/PressReleases/Documents/20150224_1.pdf

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- corporate services provided through the Utility Support Services Agreement contract with IISC-AU at confidential **Attachment L**;
- other costs such as insurance which TOA2 will incur.

Insurance

TOA2 has adequate insurance. TOA2's insurance broker AON has provided a letter of assurance that the insurance coverage is adequate, and this is provided at confidential **Attachment M**. [X]

Tax

One of the variables that could change during the 25 year period is that the tax obligations arising to TOA2 could change as a result of 'change of law'. [X]

3.2.3 Financing costs

TOA2 has entered into a Facility Agreement with Westpac Banking Corporation for a period of five years. Under the agreement, the Lender provides funding to TOA2 in relation to the construction of the Ararat terminal station. The Facility Agreement is provided at confidential **Attachment N**.

[X]

3.3 Business plans and statements

A business plan covering the first five year period of undertaking the proposed licensed activity is provided at confidential **Attachment P** to demonstrate that TOA2 is financially viable.

The business plan has been independently verified by Sally McMahon and Associates. The review was conducted by Sally McMahon, a commercial economist and regulatory specialist, as well as Ailin Dolfi, a financial and management accountant. Both Ms McMahon and Ms Dolfi are independent of TOA2 and its associated companies. Please see their resume's at **Attachment Q**. A copy of the independent report is provided at confidential **Attachment R**.

A relevant officer of TOA2 is not able to make a statutory declaration that there is no material change in its financial position that has occurred since the end of the last financial year, given that TOA2 was established in May 2015.

A statutory declaration has been provided by Dr Lindner, CEO of TOA2, disclosing that he is not aware of any likely changes to the structure, operation or financing of the company or the licensed activity that could materially affect its financial viability or the financial viability of the Licenced Activity. Please find the statutory declaration provided at confidential **Attachment S**. This statutory declaration also confirms that the information provided in this licence application is true and correct.

4 Technical capacity

Under the service model and ownership group, TOA2 has access to a vast breadth of expertise, knowledge and skill required to viably operate as a Transmission Network Services Provider in the NEM.

4.1 Service Model

IISC-AU Expertise

TOA2 have appointed IISC-AU to provide specialist corporate and network services, including Finance, Company Secretarial, Legal, Human Resources, Corporate Affairs, Regulation, Customer Services, Information Technology and Office Administration.

IISC-AU has access to its owners' vast level of experience providing services to utility companies around the world. This is particularly achieved via its direct contractual arrangement with CHED Services to provide services as required of IISC-AU by TOA2.

The contract between TOA2 and IISC-AU requires the third party to:

- maintain adequate technical capacity;
- allow information to be provided to TOA2 and any regulatory body; and
- perform functions in a manner that allows TOA2 to comply with all relevant legal and regulatory obligations.

PNS Expertise

TOA2 have appointed PNS to provide network and connection services, including construction and maintenance services, network control room, network development and management, asset replacement services and asset performance (fault services).

PNS has extensive knowledge and abilities covering a full range of power industry disciplines, including electricity and telecommunications design, survey and drafting, material procurement, overhead and underground line construction, substation and terminal station construction, maintenance, operational assets management and specialist metering services.

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 also delivered the design and construction of the greenfield 220/132kV Elaine Terminal station project for TOA and now provide operational and maintenance services for that Terminal station. Further information regarding PNS service delivery is available from: <https://www.powercor.com.au/our-services/powercor-network-services/our-services/>

Section 1.4 'Contracts and Agreements' sets out in detail TOA2's service model and how it enables TOA2 to better focus on its long term asset ownership and performance.

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The contracts between TOA2 and PNS require the third party to:

- maintain adequate technical capacity;
- allow information to be provided to TOA2 and any regulatory body; and
- perform functions in a manner that allows TOA2 to comply with all relevant legal and regulatory obligations.

4.2 Group expertise

TOA2's ultimate owners CKI and PAH are one of the most important players in the global infrastructure arena. TOA2 has access to the expertise, knowledge and skill of a number of Australian network service providers such as CitiPower, Powercor, SA Power Networks, AGN, and TOA.

CitiPower Pty Ltd

CitiPower supplies electricity to around 325,000 distribution customers in Melbourne's CBD and inner suburbs. The company's primary role is the management of its 'poles and wires' network, and proudly operates the most reliable network in Australia. The 7,300 kilometre network is the most concentrated of the five Victorian distribution networks, serving an area of just 157 square kilometres. Almost half of CitiPower's electricity infrastructure is located underground, and multiple back-up and re-routing options exist should a fault occur somewhere in the network. CitiPower customers enjoy network availability of 99.99%.

Powercor Australia Ltd

Powercor is Victoria's largest electricity distributor, which supplies electricity to regional and rural centres in central and western Victoria, and Melbourne's outer western suburbs. Powercor services approximately 761,000 distribution customers, over a total network area of almost 150,000 square kilometres. The majority of Powercor's 85,900 kilometre network is overhead. Powercor customers enjoy network availability of 99.96%.

Although CitiPower and Powercor are two separate electricity distribution networks — each with its own assets, customers and brand — CitiPower and Powercor plan, manage and develop their operations as a single business. CitiPower and Powercor's senior management structure comprises individuals who are leaders in their chosen fields. With a wealth of skills, experience and industry relationships, the joint management team works together in achieving the vision and meeting the organisational goals.

SA Power Networks

SA Power Networks is one of South Australia's largest organisations, employing more than 1,900 people throughout metropolitan and regional South Australia. The role of SA Power Networks is to build, maintain, upgrade and extend an electricity distribution network currently delivering power to around 847,000 South Australian customers, via a network that covers approximately 178,200 square kilometres. The route length of the network is 88,200 km.

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Australian Gas Networks Ltd

Australian Gas Networks Limited is one of Australia's largest natural gas distribution companies. AGN owns about 2,200 kilometres of natural gas distribution networks and 1,120 kilometres of transmission pipelines, serving just under 1.2 million consumers in South Australia, Victoria, Queensland, New South Wales and the Northern Territory.

Transmission Operations Australia

TOA builds, owns and operates the connection for the Mt Mercer wind farm in Victoria to the state's existing electrical transmission network via a 22km 132kV power line and the Elaine Terminal Station. The terminal station steps the voltage up from 132kV to 220kV allowing the electricity to be transmitted to the National Electricity Market.

TOA received a high commendation award from the Australian Institute of Project Management for the Elaine Terminal Station project.

In 2014, the wind farm achieved full operational capacity allowing TOA to transmit 415 GWh of electricity.

4.3 Contracts

TOA2 has already finalised contractual agreements with AWF. The wind farm will comprise of up to 75 turbines, each with a blade tip height of up to 135m above ground level. There are five turbines proposed within Northern Grampians Shire Council area and 70 turbines proposed within Ararat Rural City Council area. The wind turbines will have an expected rated capacity of up to 3.4MW each.

AWF is a global consortium consisting of Renewable Energy Systems (RES), in partnership with General Electric (NYSE: GE) and Downer EDI Limited (ASX: DOW). The project will be financed by shareholder Partners Group, RES, OPTrust and GE.

The AWF project involves TOA2 building, owning and operating the transmission connection assets for the wind farm including:

- a 132kV overhead power line from the wind farm to the terminal station;
- a transformer to convert electricity from 132kV to 220kV; and
- a terminal station linking into the existing AusNet Services 220kV transmission line.

The project has already commenced and practical completion of the construction is required by TOA2 by 30 June 2016.

The relevant project contracts include the:

- Project Construction and Coordination Deed (**PCCD**) between TOA2, AWF, AEMO and AusNet Transmission Group, provided at confidential **Attachment T**;
- PCCD Side Deed, between TOA2, AWF, and AEMO provided at confidential **Attachment U**. This is also subject to the amending deed provided at Attachment H.

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4.4 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 TOA2's strategic goals and objectives;
 - compliance with the Code of Conduct;
 - 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 Secretary and senior management;
 - ensuring there are effective management processes in place and approving major corporate initiatives;
 - enhancing and protecting the reputation of TOA2; and
 - ensuring the significant risks facing TOA2, 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.

Risk and Compliance Management

TOA2 is at the establishment phase and as such does not have the scale to justify a separate Risk Management and Compliance Committee. Currently, the Board is responsible for ensuring TOA2 have identified and adequately managed risk and compliance matters.

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Policies and Procedures

TOA has a range of policies and procedures in place, and these will be adopted by TOA2. For example, this includes NEM-related policies such as System Operating Procedures and Local Black System Procedures.