



TransGrid

Application for transmission licence

Transgrid

20 March 2017

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1. Introduction

NSW Electricity Networks Operations Pty Limited ACN 609 169 959 as trustee for NSW Electricity Networks Operations Trust ABN 70 250 995 390 (**Transgrid** or **the Applicant**) seeks a licence to transmit electricity for specific connection and extension assets associated with the Deer Park 220kV/66kV Terminal Station at 279-329 Christies Road on the north western corner of Riding Boundary Road, Ravenhall, Victoria (**Deer Park Terminal Station**).

The Deer Park Terminal Station:

1. is being constructed as a result of Transgrid winning a tender released by the Australian Energy Market Operator (**AEMO**) in June 2014 for a contract for the construction, ownership, operation and maintenance of the terminal station;
2. consists of:
 - (a) the shared network assets being designed and constructed to AEMO requirements - these will form part of the Victorian transmission network and will be used by AEMO to provide shared transmission services; and
 - (b) the connection assets being constructed to Powercor requirements – these will be required to facilitate the supply of electricity to distribution networks in the vicinity of the terminal station; and
3. is currently in the final stages of completion, with energisation expected to take place before the end of May 2017, subject to receipt of the licence pursuant to this application.

The Deer Park Terminal Station will be owned and operated by Transgrid who will provide services to AEMO and to the Victorian electricity distributors in the vicinity of the terminal station.

As the operator of the Deer Park Terminal Station, Transgrid will need to hold a transmission licence under the *Electricity Industry Act 2000 (Vic)* (ss.16-20). The licence needs to be in place before the Deer Park Terminal Station is energised.

Transgrid believes in the benefits of competition in the market and providing viable commercial alternatives to the customer. The terminal station is a result of the Transgrid's first major competitive tender win in Victoria against other market participants. Successful completion of the terminal station will demonstrate the benefits of increased competition in the market, and will assist with establishing Transgrid reputation as a cost-efficient and reliable participant in the Victorian segment of the electricity market.

Transgrid (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

Full name of the Applicant

NSW Electricity Networks Operations Pty Limited ACN 609 169 959 as trustee for NSW Electricity Networks Operations Trust ABN 70 250 995 390

Registered office & business address

Level 1, 180 Thomas Street
Sydney NSW 2000

Contact person

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1.2 Corporate structure

Transgrid

NSW Electricity Networks Operations Pty Limited ACN 609 169 959 was incorporated on 6 November 2015. A copy of the company constitution is attached as confidential **Annexure 1**.

The company is a trustee of NSW Electricity Networks Operations Trust established by a trust deed dated 16 November 2015 (as amended on 18 November 2015) and, in its capacity as the trustee, is also the holder of the registered business name "TRANSGRID". Copies of the trust deed and the amendment are attached as confidential **Annexure 2**.

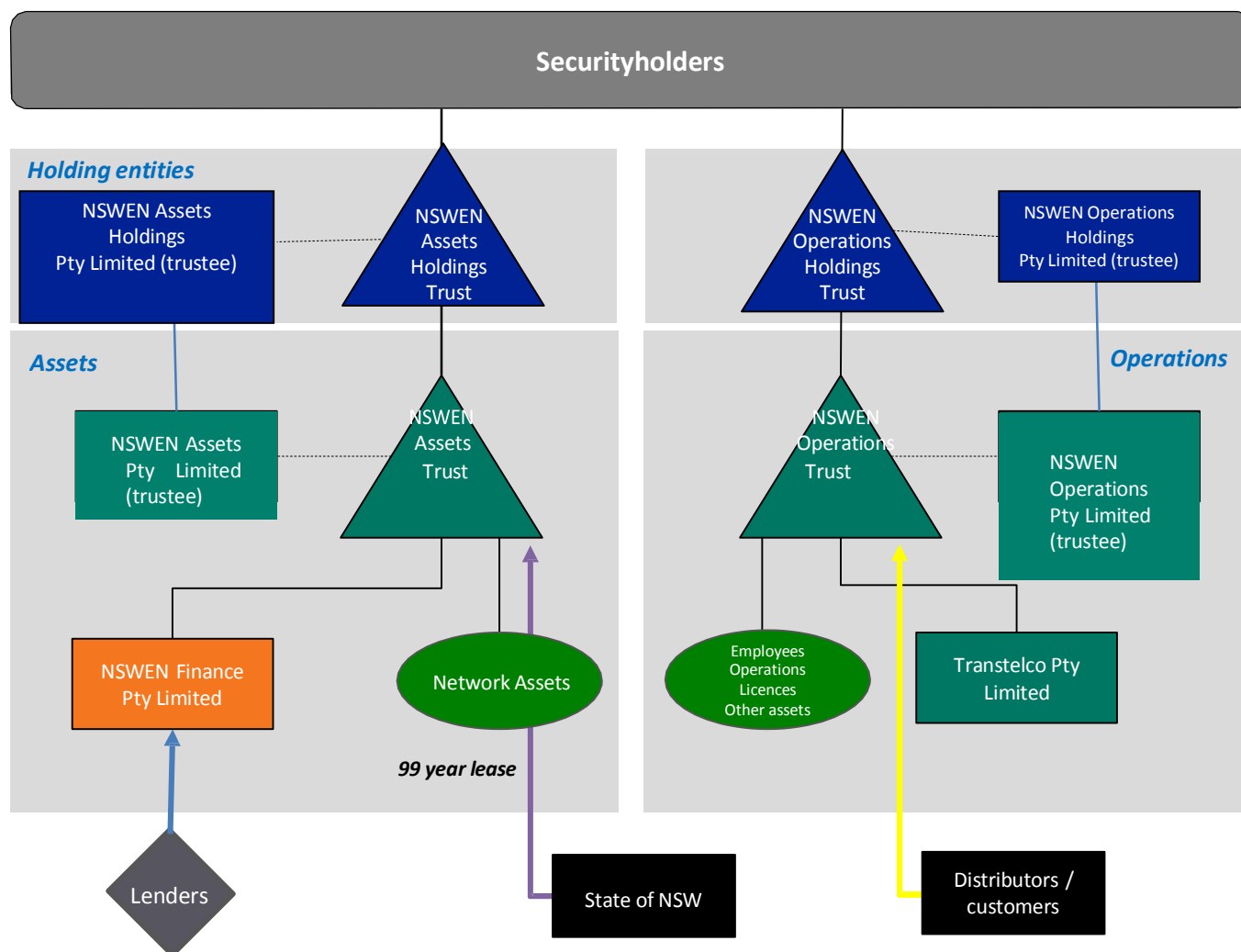
Further details about the company can be found on the company website: <https://www.transgrid.com.au>.

Background

The Transgrid electricity network was leased pursuant to a 99-year lease on 16 December 2015 following a successful bid by the Securityholders (as defined below) in an open tender process conducted by the NSW State Government.

The entities involved in the transaction are depicted in the simplified corporate structure diagram below. The main entities are the NSWEN Assets Trust, which owns the network assets, and NSWEN Operations Trust, which operates the network. Both are separate and independent entities and deal with each other at arm's length. Each has its own board and governance structure.

Corporate Structure Diagram



Description of the principal activities of the key entities in the structure

NSW Electricity Networks Assets Trust

- NSW Electricity Networks (**NSWEN**) Assets Trust entered into a 99-year lease with the NSW State Government over the transmission network assets, which it subleases to NSWEN Operations Trust.
- NSW Electricity Networks Assets Pty Limited is the trustee of the NSW Electricity Networks Assets Trust.
- NSWEN Finance Pty Limited is a subsidiary of NSWEN Assets Trust.
- NSW Electricity Networks Assets Holdings Proprietary Limited is the trustee of the NSW Electricity Networks Assets Holdings Trust.

NSW Electricity Networks Operations Trust

- NSW Electricity Networks (**NSWEN**) Operations Trust is the licenced operator of the transmission network, and holds all of the necessary rights, licences, systems and people to operate and manage the network.
- NSW Electricity Networks Operations Holdings Proprietary Limited is the trustee of the NSW Electricity Networks Operations Holdings Trust, and is the applicant for the electricity transmission licence referred to in this application as the “Applicant” and “Transgrid”.

- In conducting its operations, NSWEN Operations Trust makes all business decisions in relation to the use and operation of the network assets and derives all regulated and non-regulated revenue streams and incurs all the operating expenditure.
- NSW Electricity Networks Operations Pty Limited is the trustee of the NSW Electricity Networks Operations Trust.

Securityholders

A brief description of the Securityholders is set out in the table below. A table which also includes the Securityholders' percentage ownership interest is set out in confidential **Annexure 3**.

Securityholder	Description
Caisse de depot et placement du Quebec (CDPQ)	Institutional fund manager in Canada and North America, managing funds on behalf of long-term pension and insurance plans
Hastings Funds Management as manager of UTA Power Networks	Specialist Australia-based manager of infrastructure assets
Tawreed Investments Ltd	Wholly owned subsidiary of the Abu Dhabi Investment Authority, a globally diversified investment institution which invests on behalf of the Government of the Emirate of Abu Dhabi
Wren House Infrastructure Investments Asset Trust	Wholly owned indirect subsidiary and global direct infrastructure investment vehicle of the Kuwait Investment Authority
Spark Infrastructure Trust	Australian stock-exchange listed infrastructure investor with minority ownership interests in several other Australian electricity distribution networks

1.3 Organisation structure

Transgrid Employees

Transgrid has circa 1,000 full time equivalent employees who are qualified tradespeople, engineers, technicians, substation and transmission line designers, apprentices and cadets, administrators, professionals and managers.

Transgrid Senior Management Team

Transgrid's management team has considerable experience in electricity and investment management. Two changes in management have been made following the 99-year lease transaction to support the implementation of the business plan. Paul Italiano, the previous CEO of Western Power, has commenced at Transgrid as CEO, and Matthew Irwin, commenced as CFO, following the transaction.



Paul Italiano – Chief Executive Officer BBus MBA CPA

Paul has been Chief Executive Officer of Transgrid since 2 May 2016. Prior to joining Transgrid, Paul had been the Chief Executive Officer of Western Power since August 2012.

Paul has previously worked at Wesfarmers General Insurance as General Manager Business Services; at HBF Health Funds as General Manager Financial Services and Strategic Development; at Ernst & Young as Senior Manager Corporate Finance; and at the Royal Automobile Club as Chief Financial Officer.



Matthew Irwin – Chief Financial Officer B.Ag.Ec (Hons) MCom (Fin)

Matthew was appointed as Transgrid's Chief Financial Officer on 16 December 2015 and prior to this role was engaged by Hastings to be part of the acquisition process. Matthew has extensive industry and finance experience. This has included General Manager, Finance of members of the Leighton Group of companies and Chief Investment Officer and Chief Financial Officer for Transfield Services (now Broadspectrum). He also has over 13 years' experience in investment banking within the infrastructure sector.



Peter Horton – Executive Manager: Legal, Governance & Risk BA LLB

Peter has been an in-house lawyer for 30 years, including 23 years as a General Counsel.

Prior to joining Transgrid in February 2017, Peter's career included Group General Counsel and Company Secretary for QBE Insurance Group Limited (2014 to 2016) Group General Counsel and Company Secretary of Woolworths Limited (2005-2014), General Manager Legal and Company Secretary of WMC Resources Limited (1993-2005) and a Corporate Lawyer then Principal Solicitor at BHP Petroleum Pty Limited.

Peter was awarded the ACLA Australian Corporate Lawyer of the Year in 2002 and his teams were awarded the ACLA Australian Law Award for In-House Legal Department of the Year in 2004 and 2005 (WMC) and 2013 (Woolworths).

Peter is also a member of ACC Australia GC 100 Executive Committee.



Tony Meehan – Executive Manager: Strategy & Regulation BCom (Accounting, Finance and Systems) FCPA

Tony has worked at Transgrid for 38 years and has extensive experience across many Executive roles at Transgrid having previously held the roles Executive General Manager /Finance and Information Systems and Chief Information Officer. Tony has overseen Transgrid's last two regulated revenue determinations and the development of Transgrid's unregulated revenue stream. Tony is a Fellow of CPA Australia and prior to joining Transgrid held senior positions with the NSW Electricity Generator, Pacific Power.



Anna Matysek – Strategy Consultant: Strategy & Regulation B.Ec (Hons), M. Environment

Anna joined the Transgrid Executive team in November 2016 and has extensive experience in corporate strategy, business development, consulting, policy advice and modelling in the resources, energy and infrastructure sectors. Anna has previously held senior positions at Rio Tinto, the Australian Bureau of Agricultural & Resource Economics and Sciences, and in various consulting firms and the Productivity Commission.



Richard Lowe – Executive Manager: Business Growth

Richard has over 20 years' experience in Australian and international markets in mergers and acquisitions, financing and operations in the infrastructure and telecommunications sectors.

Across his career he has led successful bids and financed major projects and acquisitions valued at more than \$100 billion in Australasia, Asia, North America and Europe. He has a proven ability to develop new revenue streams in multiple infrastructure markets, a broad based understanding of energy, telecommunication and infrastructure markets and highly developed understanding of key stakeholder drivers, including government, industry and private sector.

His most recent position was Managing Director in Mumbai India for Macquarie Infrastructure's \$2bn infrastructure portfolio. Previous senior roles included Senior Advisor with the Asia Development Bank, Principal with PwC Infrastructure Advisory and Division Director with Macquarie Infrastructure Funds.



**Gerard Reiter – Executive Manager: Network Planning & Operations
BEng (Hons) RPEQ**

Gerard has worked at Transgrid for 5 years and is Executive Manager, Network Planning and Operations. He is responsible for determining Transgrid's strategic asset management decisions and investment strategies in addition to asset performance, environmental approvals, non-network solutions and system operations. Gerard has a deep knowledge of energy transmission businesses and has previously held Executive roles within Powerlink the transmission operator for the state of Queensland. He has international business experience having worked in Switzerland with ABB for 2 years, as well as consulting roles in Malaysia for TNB (Electric). Gerard is Chairman of the Board of the Australian Power Institute a position he has held since 2012.



**Michael Gatt – Executive Manager: Works Delivery Dip Elec Eng BCom
(Business)**

Michael has worked at Transgrid for 14 years and is Executive General Manager of Field Services. He has more than 20 years' experience in the electrical supply industry across a diverse range of responsibilities from technical roles, to policy development and senior management. He currently manages Transgrid's field facing workforce together with the functional areas of Health Safety and Environment. Michael has previously held board positions with the NSW Energy and Water Ombudsman and prior to joining Transgrid, Michael held senior roles with the Department of Energy Utilities and Sustainability, and worked as a Senior Adviser for the NSW Government.



**Chris Pemberton – Chief Information Officer & Executive Manager:
Corporate Services**

Chris joined the Transgrid Executive team in February 2017 and has extensive experience in improving business performance, service delivery and people engagement through a diverse background in strategy, infrastructure, operations, purchasing and engineering. Most recently the Group Head Corporate Services for Downer, Chris led the engineering services company's IT, procurement, shared services, property, business system transformation and fit for business functions. Prior to joining Downer, Chris held a number of senior leadership roles with Qantas.

Transgrid Board of Directors

An experienced board of directors is responsible for the overall corporate governance of Transgrid. This includes responsibility to provide effective guidance and direction, independence in decision making, and executive development and succession planning to ensure consumers continue to receive safe, reliable, affordable and sustainable energy.



Dr Kerry Schott AO – Director and Chair

Kerry Schott was appointed as Chair of NSWEN Operations Trust on 1 June 2016.

Kerry is a highly experienced leader in the Australian infrastructure space. She's held senior positions in both the private and public sector in Australia and overseas, including as Managing Director and CEO of Sydney Water Corporation, Deputy Secretary of NSW Treasury, a Managing Director of Deutsche Asset Management and Executive Vice President at Bankers Trust Australia. Kerry is an experienced Non-executive Director and Chair and currently serves on the boards of NBNCo, Infrastructure Australia and Moorebank Intermodal Company.



Rick Francis – Director and Deputy Chair

Rick Francis was appointed to the NSWEN Operations Trust Board on 16 December 2015 and Deputy Chair as of 1 June 2016.

Rick has over 18 years' experience in the Australian energy and energy infrastructure industries. He has been the Managing Director and Chief Executive Officer of Spark Infrastructure since May 2012. Prior to joining Spark Infrastructure he was employed by the ASX listed gas transmission and energy infrastructure business APA Group, where he was Chief Financial Officer for four years and by Origin Energy Limited for over eight years in a number of senior management roles including those of Group Financial Controller and Operations Manager, Energy Trading.



Kim Jackson – Director

Kim Jackson was appointed to the NSWEN Operations Trust Board on the 24 October 2016.

Kim is a highly experienced board member, investment banker and asset manager across a range of industries including airports, ports, hospitals natural gas & petroleum, desalination plants and electricity transmission. She has over 12 years' experience as an Investment Director at Hastings Funds Management on both the transaction and funds management side.






Jean-Étienne Leroux - Director

Jean-Étienne Leroux was appointed to the NSWEN Operations Trust Board on 16 December 2015.

Jean-Étienne has had the role of Regional Director, Transactions & Asset management in the Infrastructure team of La Caisse de dépôt et placement du Québec (CDPQ) since 2006.

Jean-Étienne is a director of the Port of Brisbane (Australia) and sits on the Oversight Committee of Fiera Axiom Infrastructure (Québec). He has served on the boards of InTransit BC (Vancouver, British Columbia), the Budapest Airport and South East Water (United Kingdom)

	<p>Jean-Étienne has a Bachelor of Business Administration (with concentrations in Finance and Quantitative Methods) and a Masters of Financial Engineering from HEC Montréal. He is a Chartered Financial Analyst (CFA).</p>
	<p>Brett Mitsch – Director</p> <p>Brett Mitsch was appointed to the NSWEN Operations Trust Board on 20 May 2016.</p> <p>Brett has over 20 years' experience in infrastructure, utility and corporate finance advisory in both Australia and the USA. Brett has advised on over \$56 billion of M&A transactions during this time working with private, government and infrastructure investor clients.</p> <p>Prior to joining Hastings in 2016 as the Portfolio Manager for the Utilities Trust of Australia, Brett worked at a number of investment banks most recently at Flagstaff Partners as well as Goldman Sachs, Citigroup, Lehman Brothers and The Chase Manhattan Bank. He has also worked in the corporate sector with EnergyAustralia in business development including involvement in a previous NSW power privatisation, as well as running his own corporate advisory firm providing advice to the mining sector on port and rail infrastructure development.</p>
	<p>Dr Warren Mundy – Director</p> <p>Warren Mundy was appointed to the NSWEN Operations Trust Board on 16 December 2015.</p> <p>Warren has held senior executive roles in the airports industry in both Australia and Europe and has worked for McKinsey and Company, the Reserve Bank and the WA Treasury Corporation.</p> <p>He recently retired as a Commissioner on the Australian Productivity Commission after six years of service. He was the Presiding Commissioner on the Commission's projects on Local Government as a Regulator, Regulator Engagement with Small Business, Access to Justice, International Tourism, and Business Set-up, Transfers and Closures.</p> <p>Warren is also a Director of the Sydney Desalination Plant, and served on the board of Airservices Australia for five and a half years, four and a half as Deputy Chair.</p>
	<p>Julie Stanley – Director</p> <p>Julie Stanley was appointed to the NSWEN Operations Trust board on 16 December 2015.</p> <p>Julie is a former Assurance and Advisory Partner at Deloitte, and has been a Director on the Regional Arts Victoria Board since 2015.</p> <p>Julie has a wealth of experience as a Registered Company Auditor. She has a deep understanding of the energy sector, having audited a variety of clients and having gained auditing exposure in the energy sector in Australia and the United Kingdom. She continues to specialize in the energy sector in Australia.</p>



Dr Keith Turner – Director

Keith Turner was appointed to the NSWEN Operations Trust Board on 16 December 2015.

Keith possesses extensive experience in the New Zealand energy sector. He served as Chief Executive Officer of Meridian Energy Limited from 1999 to 2008. Prior to that, he worked as a private energy expert advising a range of large corporate clients and Government. He has previously served in a number of senior roles in establishing Contact Energy, and in the Electricity Corporation of New Zealand, and the New Zealand Electricity Department, as well as many industry reform roles. Keith is currently a Non-Executive Director of SA Power Networks, Victoria Power Networks, CitiPower and Powercor, having been appointed to these roles in 2009.

Keith is a Director of Chorus NZ Limited and has previously been Deputy Chair of Auckland International Airport, and Chair of Fisher and Paykel Appliances Limited.

1.4 Contracts and agreements

Transgrid is a party to a number of key agreements in connection with the Deer Park Terminal Station dated 3 March 2015 and described below. These contracts were novated to Transgrid, together with all other key operational contracts, on 16 December 2015 at completion of the 99-year lease transaction.

Copies of these contracts and the novation deed (excluding the contract for sale of land, which is now complete) are attached as confidential **Annexure 4**.

Project Construction and Co-ordination Deed with AEMO, Powercor Australia Limited and AusNet Transmission Group Pty Ltd

This is an agreement for construction of the Deer Park Terminal Station. Transgrid is responsible for the design, procurement and project management. Transgrid has engaged Consolidated Power Projects, as the construction contractor to construct the terminal station.

AusNet is to construct the interface assets necessary to connect the Deer Park Terminal Station to the Victorian electricity transmission network. Transgrid is required to work with AusNet Services during the design and construction phases to ensure that the Deer Park Terminal Station works are appropriately integrated with the interface assets.

Transgrid is required to work with Powercor during the design and construction phases to ensure that the Deer Park Terminal Station works are appropriately integrated with the works that Powercor might be carrying out as the incumbent distribution network service provider.

Network Services Agreement with AEMO

Transgrid agrees to provide transmission services to AEMO following completion of the Deer Park Terminal Station pursuant to this agreement.

Exit Services Agreement with Powercor Australia Limited

Transgrid agrees to provide exit services to Powercor pursuant to this agreement.

Contract for Sale of Land with AusNet

This is a contract pursuant to which Transgrid purchased the land on which the Deer Park Terminal Station is being constructed. The contract is now complete and Transgrid is registered as the owner of the land.

Following commissioning, Transgrid has plans to outsource the first response/emergency standby requirements to either Powercor or AusNet Services. Other than this Transgrid plans to use its own resources and expertise to operate and maintain the Deer Park Terminal Station in accordance with applicable law and licence conditions.

1.5 Nature of licence application

Nature and type of licence

Transgrid seeks a transmission licence under the *Electricity Industry Act 2000 (Vic)* to transmit electricity for the Deer Park Terminal Station, and to operate the assets at the Deer Park Terminal Station and associated connection assets.

Date of Licence

Transgrid requests the licence to be granted with effect from 31 May 2017. This is the date when Transgrid anticipates energisation of the Deer Park Terminal Station can occur.

Current Licences

Transgrid is a registered participant in the National Electricity Market.

Transgrid holds the following key licences in respect of the electricity transmission assets operated by Transgrid.

- NSW transmission operator's licence under section 93A of the *Electricity Supply Act 1995* (NSW) for assets in NSW.
- ACT utility services (electricity transmission) licence under the *Utilities Act 2000* (ACT) for assets in the ACT.

Copies of the licences are attached as confidential **Annexure 5**.

In addition, Transgrid holds a carrier licence under the *Telecommunications Act 1997* (Cth).

Transgrid is a declared transmission system operator and is exempted by AER from registration for the Deer Park Terminal Station. See confidential **Annexure 6** – Ministerial Order dated 11 December 2015 made under *National Electricity (Victoria) Act 2005* (Vic), Victorian Government Gazette S397, and AER exemption AER-N0219/14.

Licence Conditions

Transgrid understands that the transmission licence will have conditions, which are substantially the same as, and not more onerous than, the conditions contained in the latest electricity transmission licence issued by ESCV prior to the date of this application (i.e. the licence issued to Transmission Operations (Australia) 2 Pty Ltd on 22 June 2016).

Assuming this is correct, Transgrid does not seek variations to those licence conditions. If ESCV proposes to vary or impose different licence conditions, Transgrid requests ESCV to give Transgrid the opportunity to be consulted about the proposed conditions prior to the licence being issued.

1.6 Electricity industry participation

Transgrid is an active participant in National Electricity Market development and seeks representation on relevant committees. Transgrid is a member of the Energy Networks Association, including executive representation on its key committees.

2. The ESC's Objectives

The Applicant believes that the granting of the licence is consistent with ESC's objectives set out in section 8 and 8A of the *Essential Services Commission Act 2001* (Vic) for the reasons stated below.

2.1 Objectives of the ESC

"To promote the long term interests of Victorian Consumers, having regard to the price, quality and reliability of essential services."

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

Transgrid can provide cost efficient, quality and reliable services to customers in Victoria.

2.2 Matters to which the ESC must have regard

(a) Efficiency in the electricity industry and incentives for long term investment

The granting of the licence is consistent with this matter because it will increase competition in the market which will promote efficiency in the industry. Transgrid seeks to grow its business, including in Victoria, and has a strategy to participate in future tenders, where appropriate.

(b) The financial viability of the industry

The granting of the licence is consistent with this matter because it will increase competition in the market. A more competitive market facilitates a greater level of discipline on businesses within the industry to ensure an appropriate allocation of risk and return. This will improve the financial viability of the industry.

(c) 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 objective because participation of Transgrid in the market, through a Deer Park Terminal Station, provides a commercial alternative to the customer and increases competition in the market. A more competitive market places a greater level of discipline on participants in the market and requires them to provide a more competitive offering to their customers. A more competitive market also restrains any temptation for other market participants to use their market power or exploit information asymmetries (if any).

(d) The relevant health, safety, environmental and social legislation applying to the industry

The granting of the licence is consistent with this matter because the operation of the Deer Park Terminal Station and any other possible Transgrid projects and activities in Victoria is subject to all relevant health, safety, environmental and social legislation applying to the Victorian electricity industry. Transgrid, as a long-standing operator in NSW and ACT, will be bringing with it a record, and a culture, of compliance with all relevant health, safety, environment and social legislation, built on stringent internal procedures and staff training.

(e) The benefit 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 increases competition in the market. Transgrid believes its participation in the Victorian segment of the market, which will be facilitated upon grant of the licence and completion of the Deer Park Terminal Station, will help generate substation cost savings for customers.

(f) **The benefit and costs of regulation (excluding externalities and the gains from competition and efficiency) and regulated entities**

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

3. Information on Financial Viability

3.1 Financial viability of the entity

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

Transgrid operates and manages high-voltage electricity transmission network, connecting generators, distributors and major end-users in New South Wales and the Australian Capital Territory.

Transgrid's core operational business segments can be separated into two components; prescribed and non-prescribed services. The prescribed services represent the majority of Transgrid's business and asset base stream that are governed by the National Electricity Rules and subject to periodic prescribed revenue determinations by the Australian Energy Regulator.

The non-prescribed business segment predominantly consists of two broad lines of business – infrastructure services and telecommunications. The infrastructure non-prescribed business segment is focused on targeting opportunities which build upon the business core strength. Transgrid non-prescribed revenue is recurring and underpinned by medium to long-term contracts with its customers, which enhances revenue predictability. The telecommunications non-prescribed business segment is built on the provision of facilities and backhaul services to the wholesale, government and enterprise markets.

Details of Transgrid's financial performance for the period ended 30 June 2016 are outlined in the audited Transgrid Special Purpose Financial Report attached as confidential **Annexure 7**. The report was audited by PWC.

The report includes information on the consolidated financial position performance of Transgrid, its subsidiary and Transgrid immediate parent entity (NSW Electricity Networks Operations Holdings Trust) in the corporate structure. The report notes that the parent entity has not undertaken any independent commercial activities for the relevant reporting period (see note 27 of the report).

One of the key contributors to Transgrid's credit stability is the fact that approximately 95% of Transgrid's revenue is regulated by the Australian Energy Regulator, and is set by the regulator on a building block methodology on the basis of a five year regulatory period.

3.2 Financial viability of the activity

This section provides evidence and support for Transgrid's case that it has sufficient financial resources or access to such resources to sustain a viable business in the electricity industry.

As demonstrated by the Transgrid Special Purpose Financial Report for the period ended 30 June 2016, Transgrid has sufficient net assets and generates sufficient revenue to finance its current and anticipated commitments, including contracted commitments for construction and operation of the Deer Park Terminal Station.

The anticipated revenue and operating costs specifically in relation to the Deer Park Terminal Station project are set out in the confidential **Annexure 8**.

The financing arrangements by Transgrid for the Deer Park Terminal Station are consistent with the arrangements outlined in note 1(j) to the Transgrid Special Purpose Financial Report for the period ended 30 June 2016.

Transgrid has adequate insurance in place. The appointed insurance broker AON has provided a letter of assurance that the insurance coverage is adequate, see confidential **Annexure 9**.

3.3 Business plans and statements

A Transgrid business plan covering the period to 2021 is attached as confidential **Annexure 10**.

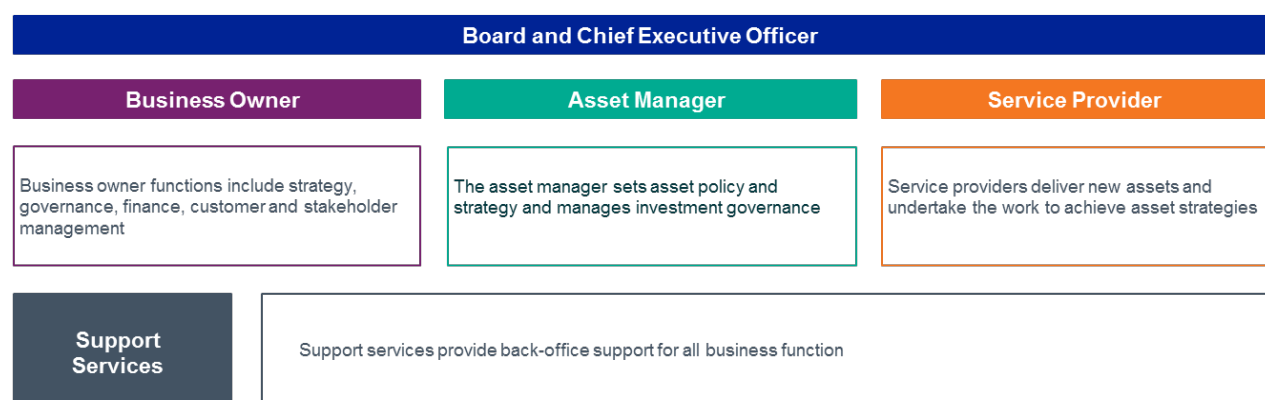
A statutory declaration in support of this application has been provided by David Fayyad, Transgrid General Counsel, confirming that the information contained in this application is true and correct.

4. Technical Capacity

Transgrid has the expertise, knowledge and skill base to operate a viable electricity business, including its existing business and the Deer Park Terminal Station.

4.1 Service model

Transgrid's service model follows an Asset Manager – Service Provider model as outlined in the figure below. The service model begins with a central asset manager and rigorous portfolio management governance framework.



4.2 Group expertise

Transgrid's senior management team has significant experience working across the industry and are optimally placed to manage Transgrid. Transgrid's Securityholders (Hastings, Spark Infrastructure, ADIA, Wren House and CDPQ) are leading global financial and strategic investors in the infrastructure sector. Refer to sections 1.2 and 1.4 for more detailed information on Transgrid's management team and the Securityholders.

Transgrid has over 1,000 qualified and highly skilled employees, who implement Transgrid's day-to-day operation and maintenance requirements, as well as being able to provide emergency response services. The head office is located at the substation servicing Sydney's Central Business District with co-ordination of field staff and selected other business functions undertaken from major depots currently located in Western Sydney, Newcastle, Tamworth, Orange, Wagga Wagga and Yass.

4.3 Contracts

As one would expect for a business of its size, Transgrid is a party to a number of contracts with external service providers, including customer and supply contracts and outsourcing arrangements. Section 1.4 contains details of those contracts which relate to the Deer Park Terminal Station.

4.4 Governance, risk and compliance management

Transgrid has established a robust governance structure with defined roles and responsibilities for the oversight and challenge, based on the Three Lines of Defence operating model.

Board		
Board Audit and Risk Committee		
1st Line of Defence	2nd Line of Defence	3rd Line of Defence
Executives, Business Units, Managers, Project Managers, all staff and contractors (Compliance risk owners)	Risk and Compliance (Independent review and challenge)	Internal and External Audit (Independent assurance)
Responsible for adhering to and implementing the requirements as set out in the Corporate Compliance Management Framework, including: <ul style="list-style-type: none">• Identification and effective management/mitigation of compliance risks; and• Issues identification, recording, escalation and management.	Responsible for independent oversight of the compliance risk profile and compliance management framework, including: <ul style="list-style-type: none">• Effective challenge to activities and decisions that materially affect the compliance risk profile;• Assistance in developing and maintaining the compliance management framework; and• Independent reporting lines to appropriately escalate issues.	Responsible for independent assurance on the appropriateness, effectiveness and adequacy of the compliance management framework, including that: <ul style="list-style-type: none">• The framework is used to support decision-making;• 1st and 2nd lines of defence operate effectively; and• Improvements to the 1st and 2nd lines of defence activities are identified and recommended.
Legal Provides input and advice across all Three Lines of Defence		

Governance

In Transgrid the key elements of corporate governance include:

- the Board and Board Sub Committees;
- Chief Executive Officer;
- Executive Committees;
- Enterprise risk management framework;
- compliance framework;

- internal control and assurance;
- audit;
- financial and process authorities;
- position descriptions;
- business plan and reports; and
- codes.

The Board is responsible for:

- reviewing and approving the overall corporate strategy;
- overseeing the implementation of an effective system of corporate governance;
- appointment of the Chief Executive Officer;
- reviewing the performance of senior executives including the Chief Executive Officer;
- reviewing and endorsing risk management and internal control systems;
- approving and monitoring financial and other reporting;
- approving and reviewing the progress of major capital expenditure, capital management, and major acquisitions and divestitures

Risk and compliance

Transgrid has developed a risk management framework in line with the international standard ISO 31000:2009 “Risk Management – Principles and Guidelines”. Risk management processes are developed in accordance with this standard to improve decision making by understanding the effect of uncertainty on the achievement of business objectives.

Transgrid also implements its compliance management framework to demonstrate its commitment to complying with its key legislative, regulatory and contractual obligations. Transgrid proactively manages obligations by establishing and implementing processes that support compliance. This framework was developed in accordance with the international standard ISO 19600 “Compliance Management Systems Guidelines”.

Internal Controls

Established controls exist and describe the approach taken by the business on key activities in order to meet business objectives, manage risks and comply with legislative and regulatory obligations.

These are further categorised into:

- grid standards;
- technical standards;
- operating manuals;
- design standards;
- work instructions;
- guidelines;
- system guides and user manuals;
- technical manuals; and
- policies and procedures.

Complaints

Transgrid recognises the major role it plays within local communities across the states and territories where it operates, and the impact Transgrid's activities can have on communities, residents and families.

Transgrid values feedback from its stakeholders and to ensure we can respond appropriately, all complaints and enquiries must be recorded and assessed as part of Transgrid's Complaints and Enquiries Management Policy.

Transgrid uses Consultation Manager software as a business-wide Complaints and Enquiries Management System. This system is used to:

- provide a single repository for all complaints and enquiry correspondence;
- allow for complaints and enquiries to be managed and reported on;
- maintain records of historical agreements with stakeholders;
- allow for an audit trail to be created when a complaint or an enquiry is recorded, updated and resolved;
- provide a workflow allowing a complaint or enquiry to progress to the relevant staff for action and sign off;
- strengthen external stakeholder relationships by having a transparent approach to managing complaints and enquiries.

Transgrid recognises every stakeholder has the right to lodge a complaint if they are not satisfied with Transgrid's services or actions, and Transgrid has made a commitment not to discriminate against anyone as a result of that.

Transgrid is committed to effectively engaging with stakeholders, who seek Transgrid's advice and assistance, and we endeavour to ensure all stakeholders feel comfortable discussing matters further, seeking more information or raising a complaint with Transgrid.

Transgrid has also established a number of processes for reporting and managing incidents, including:

- health and safety incidents;
- environmental incident; and
- compliance breaches.

Privacy statement

Transgrid is required to comply with the *Privacy Act 1988* (Cth). It employs systems and processes that safeguard the handling and disclosure of personal information it collects from customers and other external parties and stakeholders.

A copy of the Privacy Statement can be found in Transgrid's website: <https://www.transgrid.com.au/privacy>.

Document retention policy

Transgrid manages and controls corporate documents and records to meet its business objectives and to comply with its legislative and regulatory obligations. Additional controls are applied to secure records identified as sensitive and commercial in confidence.

Transgrid's quality management system undergoes ISO 9001 certification every three years, including annual surveillance audits.

5. Other

Annexures 1 to 10 of this application contain confidential information. Transgrid requests that they are not published on the ESCV website or otherwise disclosed by ESCV to third parties without Transgrid's prior written consent.

Signed on behalf of the Applicant by:

Signature:.....

Name: David Fayyad

Title: General Counsel, Transgrid

Date: 20 March 2017

List of Annexures

- 1 **Annexure 1** – copy of company constitution of NSW Electricity Networks Operations Pty Limited ACN 609 169 959.
- 2 **Annexure 2** – copies of the trust deed of the NSW Electricity Networks Operations, dated 16 November 2015, together with deed of amendment dated 18 November 2015.
- 3 **Annexure 3** – details of Securityholders.
- 4 **Annexure 4** – copies of:
 - (a) Project Construction and Co-ordination Deed between Transgrid and AEMO, Powercor Australia Limited and AusNet Transmission Group Pty Ltd, dated 3 March 2015;
 - (b) Network Services Agreement between Transgrid and AEMO, dated 3 March 2015;
 - (c) Exit Services Agreement between Transgrid and Powercor Australia Limited, dated 3 March 2015; and
 - (d) Novation Deed between Transgrid, AEMO, Powercor Australia Limited and AusNet Transmission Group Pty Ltd, dated 16 December 2015.
- 5 **Annexure 5** – copies of:
 - (a) Transgrid NSW transmission operator's licence under section 93A of the *Electricity Supply Act 1995* (NSW); and
 - (b) Transgrid ACT utility services (electricity transmission) licence under the Utilities Act 2000 (ACT).
- 6 **Annexure 6** – copies of Ministerial Order dated 11 December 2015 made under *National Electricity (Victoria) Act 2005* (Vic), Victorian Government Gazette S397, and AER exemption AER-N0219/14.
- 7 **Annexure 7** – copy of the audited Transgrid Special Purpose Financial Report for the period ended 30 June 2016.
- 8 **Annexure 8** - anticipated revenue and costs in relation to the Deer Park Terminal Station
- 9 **Annexure 9** – letter of assurance from insurance broker AON confirming that the insurance coverage is adequate.
- 10 **Annexure 10** - Transgrid business plan covering the period to 2021.