



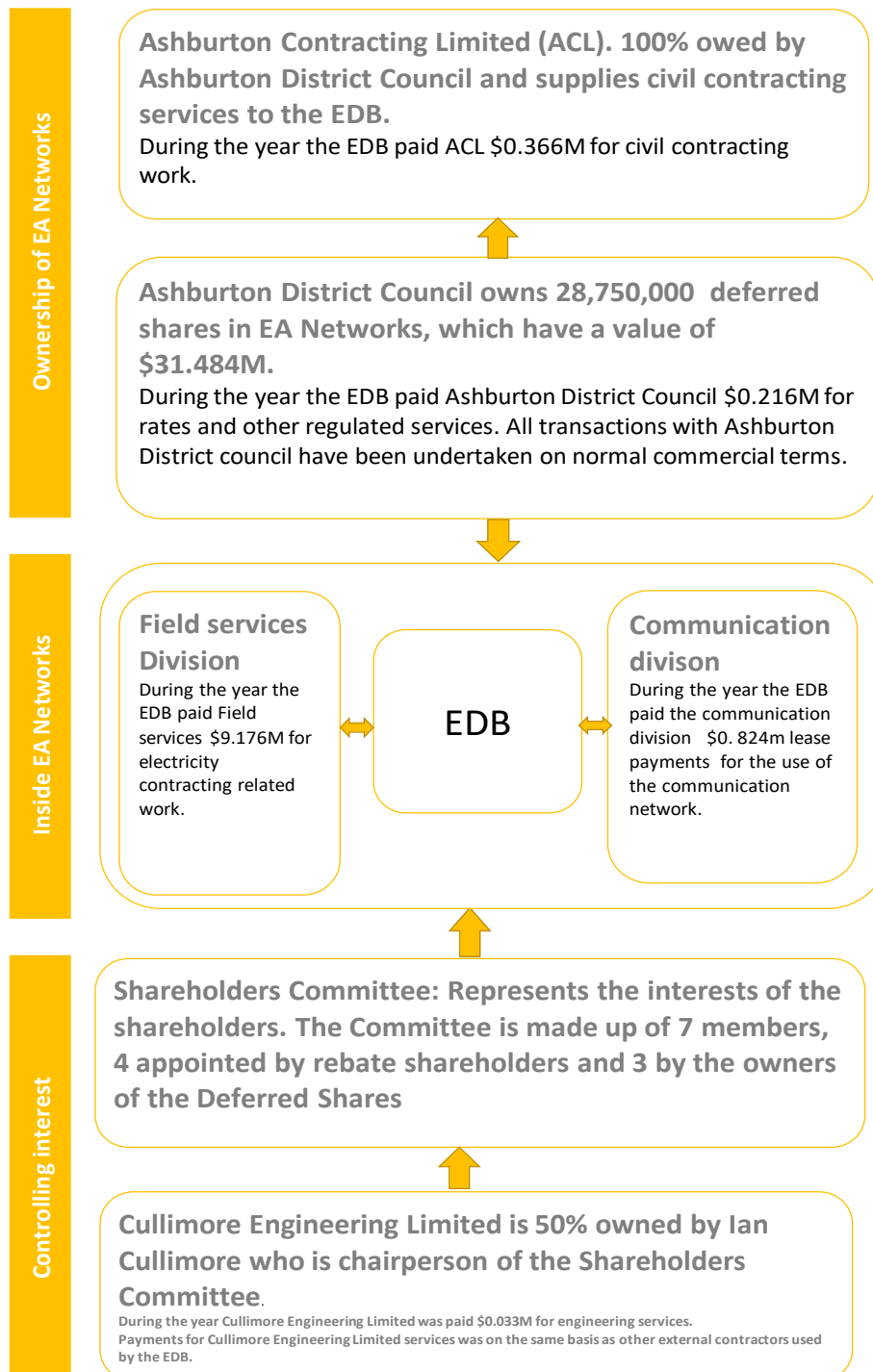
EA Networks
Related Party requirements of the Electricity Distribution
Information Disclosure Determination 2012 – consolidated April
2018.

For the year ended 31 March 2021.

Dated 25 August 2021

Requirement 2.3.8 (1) The relationships between the EDB and the related party

This diagram identifies Ashburton Contracting Limited, Ashburton District Council, Cullimore Engineering, and EA Field Services as related parties.



Related party: Ashburton District Council

What is the relationship between EA Networks and Ashburton District Council?

Ashburton District Council (ADC) is a significant shareholder that holds 28,750,000 deferred shares and can appoint 3 out of 7 members onto EA Networks Shareholders Committee.

The role of the Shareholders Committee and Shareholders Committee ability to control EA Networks

Section 16.22 of Electricity Ashburton Limited, trading as EA Networks, Constitution stops the Shareholders Committee from directing or instructing the Board, or Management, to undertake any actions. The function of the Shareholders Committee shall be:

- To receive reports from the Board of EA Networks so that the Shareholders Committee can report to the shareholders as to whether or not the Board is meeting the reasonable expectations of the shareholders Committee in governing and controlling the Company.
- To appoint the Directors of the Company in accordance with the criteria established by the Shareholders Committee as reviewed and revised from time to time. The criteria established by the Shareholders Committee shall ensure that a balanced Board of Directors comprising people of high business acumen will be appointed as Directors of the Company. The criteria established by the Shareholder Committee will be available to all shareholders of the Company.

Section 19.9 of the Constitution allows each member of the shareholders Committee to have one vote each. In the case of an equality of votes the chairperson shall have a second or casting vote.

ADC Share ownership in EA Networks

ADC owns:

- 100 \$1 Rebate shares on the same terms and conditions as all consumers/shareholders who own rebate shares.
- 28,750,00 deferred shares. The deferred shares:
 - hold no voting rights unless EA Networks is subject to sale.
 - have no rights to any distribution unless the company is sold.

What is Ashburton District Councils purpose?

The principal activities of the Ashburton District Council (ADC) are defined in section 10 of the Local Government Act 2002 as

The purpose of local government is –

- a. To enable democratic local decision-making and action by, and on behalf of, communities; and
- b. To promote social, economic, environmental, and cultural well-being of communities in the present and for the future.

Financial benefits ADC received as an owner of EA Networks

For the disclosure year ADC received no financial benefits due to its ownership interest in EA Networks.

As a consumer ADC received its share of the annual consumer discount, paid via ADC electricity retailer. The allocation of ADC share of the consumer discount was based on the same calculation that is used for every consumer connected to the electricity network.

Requirement 2.3.10: A summary of EA Networks current policy in respect of the procurement of assets or goods or services from any related party.

EA Networks Procurement Policies requires all related parties, excluding EA Fibre and EA Field Services, to tender for work as an independent contractor unrelated to the EDB.

In practice, most services supplied by ADC to EA Networks fall under the Local Government Act 2002. This Act requires the ADC to set uniform annual charges regardless of ownership.

Requirement 2.3.12 (1): A description of how the EDB applies its current policy for the procurement of assets or goods or services from a related party in practice.

The EDB undertakes commercial transactions with ADC using standard terms and conditions.

Requirement 2.3.12 (2): A description of any policies or procedures of the EDB that require or have the effect of requiring a consumer to purchase assets or goods or services from a related party that are related to the supply of the electricity distribution services.

The EDB has no policies or procedures requiring consumers to undertake any purchasing from ADC.

Requirement 2.3.12 (3): Subject to subclause (5), at least one representative example transaction from the disclosure year of how the current policy for the procurement of assets or goods or services from a related party is applied in practice.

The EDB received a rate demand for instalment 3 of 4 in early February 2021. The payment:

1. was authorised for payment by the CFO (the staff member authorised under the Delegated Authority policy to approve rate invoices).
2. Paid on the due date (22 February 2021)

The process used:

- to authorise the rate demand for payment
- to select the actual payment date of the rate demand

is consistent with all payments made by the EDB.

Requirement 2.3.12 (4): For each representative example transaction specified in accordance with subclause (3), how and when the EDB last tested the arm's-length terms of those transactions.

The Local Body Act 2002 allows councils to strike rates. The Act sets out how rates must be struck and applied to owners of the property in the area serviced by the Local Body. ADC has complied with the requirements of the Local Body Act. This compliance demonstrates compliance with the arm's-length requirement.

Requirement 2.3.12 (5): Separate representative example transactions where the EDB has applied the current policy for the procurement of assets or goods or services from a related party significantly differently between expenditure categories.

Materially, the Procurement Policy has been applied consistently between expenditure categories.

Related Party: Ashburton Contracting Limited

Who is Ashburton Contracting and how is it a related party?

The purpose of ACL

ACL's website states its principal activities include civil services, rural contracting, residential contracting, and vehicle workshop services. Additional information on ACL's activities are on their website: <https://ashcon.co.nz>.

Ability to control

ACL has no ability to appoint members onto the Shareholders Committees or Direct Management, Board Members, or the Shareholder Committee to undertake any activity solely due to ACL being a subsidiary of ADC.

Mr Andrew Barlass is a Director of Ashburton Contracting Limited and Electricity Ashburton Limited. His ability to control Ashburton Contracting Limited is limited to that which a Director would normally have in the capacity of a Director.

Financial return to ACL from the EDB

For the disclosure year, ACL received no financial benefits due to its ownership interest in EA Networks.

Like all consumers connected to the EDB's network at the qualifying date, ACL received a consumer discount, paid via their electricity retailer. The value of consumer discount was calculated in accordance with EA Networks consumer discount methodology. The consumer discount methodology is downloadable from EA Networks website, www.eanetworks.co.nz.

Requirement 2.3.10: A summary of EA Networks current policy in respect of the procurement of assets or goods or services from any related party.

ACL supplies fill for trenching and civil contracting services to Field Services. The non-minor section of the procurement policy applies to Civil work awarded to ACL. The non-minor section of the procurement requires:

For electricity contracting and maintenance work, over \$50k, work will be tendered out. Evaluation of tenders will be based on the attributes set out in the tender documents and taking into consideration the Health and Safety track record of tenders and the ability of the contractor to perform the required work within the stipulated timeframe.

The EDB and ACL receive no benefits due to EA Networks ownership structure when transacting with each other.

Requirement 2.3.12 (1): A description of how the EDB applies its current policy for the procurement of assets or goods or services from a related party in practice.

The EDB uses normal commercial terms when transacting with ACL. No benefits are given to either party due to the ownership structure.

Requirement 2.3.12 (2): A description of any policies or procedures of the EDB that require or have the effect of requiring a consumer to purchase assets or goods or services from a related party that are related to the supply of the electricity distribution services.

The EDB has no policies or procedures requiring a consumer to purchase assets, goods, and/or services from ACL.

Requirement 2.3.12 (3): Subject to subclause (5), at least one representative example transaction from the disclosure year of how the current policy for the procurement of assets or goods or services from a related party is applied in practice.

On the 10 December 2020, 1.94 tonnes of Soil-Screened was purchase for Job 664858 (Subdivision ADC Business Estate Area B, a consumer connection). ACL invoiced the material purchased on invoice 379527. This invoice was approved for payment by the underground services and coded to the underground job. The invoice was paid on 21 December 2021.

Requirement 2.3.12 (4): For each representative example transaction specified in accordance with subclause (3), how and when the EDB last tested the arm's-length terms of those transactions.

- The arm's length terms specified in subclause (3) (tending process for project #12609 or #12822) were tested due to the EA Networks procurement policy that all work given out to external with a value greater than \$50K is to be tendered. As the value of the projects were greater than \$50K the arm's length value of these transactions was tested.
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Requirement 2.3.12 (5): Separate representative example transactions where the EDB has applied the current policy for the procurement of assets or goods or services from a related party significantly differently between expenditure categories.

There were two projects where the procurement policy was applied differently to the example above due to the value be greater than \$50k.

EA Networks procurement policy

A construction project that required tendering out

Project 12609 “2019-20 UG Conv – Robinson Street”

1. This project was design scoped by the EDB.
2. The Underground Manager created several work orders instructing Field Services to undertake the required scope of work, as shown below.
3. Field Services received the project from the EDB. Field Services General Manager and the Field Services Underground Manager identified that the project required a level of trenching which was outside their abilities.
4. Management of Field Services estimated that the required trenching was above the maximum value allowed under minor contracts and tendered the work using NZ/A33910 as the basis.
5. After the tendering period was closed, the tenders were opened by the Tender Committee and evaluated based on the criteria set out in the tendering document and awarded to the successful contractor “Ashburton Contracting Limited”.
7. At the end of each milestone the successful tenderer sent EA Networks claims for work completed. For example: Invoice 361996, which was sent on 29 May 2020 and paid on 22 June 2020 under the terms of the contract.

Related Party: Cullimore Engineering

Relationship with EA Networks

Cullimore Engineering Limited is 50% owned by Ian Cullimore who is the chairperson of the EA Networks Shareholders Committee.

Principal activity

Cullimore Engineering Limited's website details the Companies principal activities as offering a comprehensive range of engineering services. From product development through to CNC machining and custom dairy solutions. Additional information on Cullimore Engineering Limited is found on the Company website, <https://www.cullimore.co.nz>.

Ability to control

The ability for Ian Cullimore to control or benefit as chair of the Shareholders Committee is explained under the ACL section of this report.

Financial returns

As a consumer Cullimore Engineering received its share of the annual consumer discount, paid via their electricity retailer. The allocation of Cullimore Engineering's share of the consumer discount was based on the same calculation that is used for every consumer connected to the electricity network.

Requirement 2.3.10: A summary of EA Networks current policy in respect of the procurement of assets or goods or services from any related party.

The full and fair opportunity section of the procurement policy applies to purchases from Cullimore Engineering, as set out below:

EA Networks promotes open and effective competition in the marketplace and provide a full and fair opportunity to New Zealand suppliers. To this end:

Potential suppliers must not be unreasonably denied the opportunity to bid for EA Networks business. All bids received must be evaluated and selected in a fair and unbiased manner.

Due to EA Networks co-operative status and local ownership, preference will always go to the local business if they are competitive in price, quality, service and other attributes that any tender is being evaluated on.

EA Networks procurement policy requires no benefit is given to Cullimore Engineering due to the Company being a related party.

Requirement 2.3.12 (1): A description of how the EDB applies its current policy for the procurement of assets or goods or services from a related party in practice.

An authorised staff member identifies that Cullimore Engineering is the best supplier to undertake the required task. A purchase order is created; Cullimore Engineering manufactures the required product; an invoice will be sent to EA Networks which will be checked and authorised for payment. Payment will be made on the 20th. This process is consistent with other suppliers.

Requirement 2.3.12 (2): A description of any policies or procedures of the EDB that require or have the effect of requiring a consumer to purchase assets or goods or services from a related party that are related to the supply of the electricity distribution services.

The EDB has no policies or procedures requiring a consumer to purchase assets or goods or services from Cullimore Engineering.

Requirement 2.3.12 (3): Subject to subclause (5), at least one representative example transaction from the disclosure year of how the current policy for the procurement of assets or goods or services from a related party is applied in practice.

Technical Services identified that Cullimore Engineering is the best supplier of the required item. Purchase order 054930 was created to purchase from Cullimore Engineering substation steel work. After completing the steel work, Cullimore Engineering send EA Networks invoice 25132 (\$32,696) on 30 September 2020. This invoice was approved for payment by Technical Services and paid on 20 October 2020.

Requirement 2.3.12 (4): For each representative example transaction specified in accordance with subclause (3), how and when the EDB last tested the arm's-length terms of those transactions.

We have not tested the arm's length transaction requirement due to:

The low value items purchased from Cullimore Engineering is seen as immaterial.

- Section 16.22 of EA Networks constitution stops Ian Cullimore directing Directors and Management of EA Networks to transact with him.
- Any financial benefit that Cullimore Engineering receives from EA Networks is limited in which any external contractor interacting with EA Networks would receive or any holder of rebate shares.

- EA Networks receives no better benefits transacting with Cullimore Engineering than it receives transacting with any contractor.
- EA Networks have no access to the financial records of Cullimore Engineering to test for the arm's-length requirements.

Requirement 2.3.12 (5): Separate representative example transactions where the EDB has applied the current policy for the procurement of assets or goods or services from a related party significantly differently between expenditure categories.

There were no significant differences between expenditure categories.

Related party: EA Fibre

Due to its coverage EA Fibre is the preferred supplier of high-speed communications to the EDB. As EA Fibre is required to stand on its own feet, the EDB is charged for its services at a commercial rate. Currently there are no other high-speed communication networks which can supply the same level of services as EA Fibre supplies the EDB.

Requirement 2.3.10: A summary of EA Networks current policy in respect of the procurement of assets or goods or services from any related party.

EA Networks procurement policy allows high speed communication services to be purchased from anyone able to supply the required service. Currently there is only one supplier of rural fibre services within the EDB network area. The supplier is EA Fibre.

Requirement 2.3.12 (1): A description of how the EDB applies its current policy for the procurement of assets or goods or services from a related party in practice.

At the time of installing the fibre network, and is still the case, EA Fibre is only the supplier able to supply the required service. This means that EA Fibre is the agreed supplier for the high-speed communication network. Consistent with 'large users' of the fibre network the EDB has been charged a daily fee. The fee charged has been calculated using the same principles as another large user on the network.

Requirement 2.3.12 (2): A description of any policies or procedures of the EDB that require or have the effect of requiring a consumer to purchase assets or goods or services from a related party that are related to the supply of the electricity distribution services.

The EDB has no policies or procedures requiring a consumer to purchase assets or goods or services from EA Fibre.

Requirement 2.3.12 (3): Subject to subclause (5), at least one representative example transaction from the disclosure year of how the current policy for the procurement of assets or goods or services from a related party is applied in practice.

As part of the annual budget setting process, the fee which the Fibre Business charges the EDB is set, using pricing principles consistent with another large user. When the Board approves the budget the EDB Fibre fee is approved. Each month the EDB was charged 1/12 of the annual fibre fee. The fibre fee is recorded as a lease in the EDB.

Requirement 2.3.12 (4): For each representative example transaction specified in accordance with subclause (3), how and when the EDB last tested the arm's-length terms of those transactions.

There is no other rural supplier of a high-speed fibre networks servicing the Ashburton District to test EDB fibre charges against. As a proxy for realistic commercial return we examined, in 2019, how another large consumer on the fibre Network's charge was determined and applied the same pricing principles against the EDB charge. The calculation of the EDB and other large users' charges are consistent.

Requirement 2.3.12 (5): Separate representative example transactions where the EDB has applied the current policy for the procurement of assets or goods or services from a related party significantly differently between expenditure categories.

There were no significant differences between expenditure categories.

Related party: Field Services

In formulating our procurement policy, we have considered our geographical location, supply standard required by our consumers and access to critical services during a network emergency. Having considered these key elements we have formed the view that an inhouse contracting service (Field Services) best meet the needs of our consumers/shareholders. Field Services has been sized to meet the daily and emergency requirements of the network, in a cost-effective manner. To this end work undertaken by Field Services is at cost.

Field Services supplies underground, overhead and technical services to the EDB

- The underground department install and maintain electricity distribution network assets located underground.
- The overhead department install and maintain electricity distribution network assets located above ground.
- Technical services undertake work associated with zone substations, protection and transformers.

Requirement 2.3.10: A summary of EA Networks current policy in respect of the procurement of assets or goods or services from any related party.

Our procurement policy requires that overhead, underground and substation work is undertaken by Field Services. If Field Services are unable to complete the work in question it is tendered out.

Work tendered out falls into one of two categories:

Minor works contract

For construction and maintenance work under \$50k, associated with electricity and fibre distribution assets a minor tender rate card will be used. One or more contractors may appear on the minor tender rate card, which will be re-tendered every 18 months. Awarding of the minor works to a contractor will be determined on price, ability to meet forecast requirements, and work history of the contractor.

Non-minor works contract

For electricity contracting and maintenance work over \$50k, the work will be tendered out. Evaluation of tenders will be based on the attributes set out in the tender documents and taking into consideration the Health and Safety track record of tenders and ability of the contractor to perform the required work within the stipulated timeframe

During the months affected by COVID -19 contracts were awarded on financial need to EA Networks to two key civil contractors; GDC and Ashburton Contracting Limited, without going through the tendering process. The objective behind awarding the contracts was to ensure economic viability for the two contractors through the economic downturn caused by COVID-19. The awarding of contracts was to ensure future competition remained in the marketplace. Additional information is supplied under requirement 2.3.12(3) of this section.

Projects were awarded to GDC & Ashburton Contracting Limited without going through the tendering process.

Requirement 2.3.12 (1): A description of how the EDB applies its current policy for the procurement of assets or goods or services from a related party in practice.

All contracting work that Field Services can perform is discussed between Field Services and the EDB to identify the resources required to undertake the work. Where Field Services lack the required resources, the work is awarded under the minor works contract or tendered out.

Requirement 5.28.4: Changes since the preceding disclosure year in how the supplier applies the procurement policy (guidance note)

During the months affected by COVID-19 a contract was awarded to a third party, GDC, without a tendering process with the price instead being based off the latest minor rate card. This process was different from the prior year and undertaken solely as an economic response to COVID-19.

Requirement 2.3.12 (2): A description of any policies or procedures of the EDB that require or have the effect of requiring a consumer to purchase assets or goods or services from a related party that are related to the supply of the electricity distribution services.

EA Networks has no policies requiring consumers to purchase services from a related party.

Our capital contribution policy requires consumers to contribute to assets which EA Networks own. The customer is free to choose who undertakes any work on their property, provided that the person/entity undertaking the work is qualified to do so.

Our notices to consumers notifying them of work required on their privately-owned networks, state that they are free to choose who undertakes the work.

Requirement 2.3.12 (3): Subject to subclause (5), at least one representative example transaction from the disclosure year of how the current policy for the procurement of assets or goods or services from a related party is applied in practice.

A construction project that requires tendering out

Field Services – Project requiring a sub-contactor

Project 12800 “UG Conversion - Hinds Hwy. Cracroft St to Coldstream Rd Underground, Voltage 22 kV”

1. This project was design scoped by the EDB.

- The Underground Manager created several work orders instructing Field Services to undertake the required scope of work, as shown below.

<input type="checkbox"/>	Work Order	Work Order Description	Work Order Stage	Work Order Narration	Activity Code	Activity Description
<input type="checkbox"/>	660730	Rangitata Hwy/Gi...	Financially Compl...	NETWORK;;;Underground conversion - Rangitata Hwy;...	R S E	Elect Capital-RSE, (Rel Safety Enviro)
<input type="checkbox"/>	660731	Rangitata Hwy/Gi...	Financially Compl...	ON PROPERTY;;;Underground conversion - Rangitata ...	R S E	Elect Capital-RSE, (Rel Safety Enviro)
<input type="checkbox"/>	660733	Rangitata Hwy/Gi...	Cancelled	REMOVE OH LINES - CANCELLED - See 664846;;;Un...	R S E	Elect Capital-RSE, (Rel Safety Enviro)
<input type="checkbox"/>	664846	Rangitata Hwy/Gi...	Financially Compl...	REMOVE OH LINES;;;Underground conversion - Rangit...	R S E	Elect Capital-RSE, (Rel Safety Enviro)
<input type="checkbox"/>	665509	Rangitata Hwy/Gi...	Approved	NETWORK TIDY UP;;;Created so job 660730 can be clo...	R S E	Elect Capital-RSE, (Rel Safety Enviro)

- Field Services received the project from the EDB. Field Services General Manager and the Field Services Underground Manager identified that the project required a level of trenching which was outside their abilities.
- Management of Field Services estimated that the required trenching was above the maximum value allowed under minor contracts and tendered the work using NZ/A33910 as the basis.
- After the tendering period was closed, the tenders were opened by the Tender Committee and evaluated based on the criteria set out in the tendering document and awarded to the successful contractor.
- Field services undertook the balance of the required work, which was to install and commission the cable. Labour and plant costs associated with the project was booked to each task as they were incurred. Stock used by Field Services was booked out of the network store and onto the job as required.
- At the end of each milestone the successful tenderer sends EA Networks claims for work completed. For example: Invoice INV-51603, which was sent to EA Field Services on 20 October 2020 and paid in November 2020 under the terms of the contract.
- At the completion of the project the transactions associated with the project will be sent to the Underground Manager who reviews them and approves the cost of the project.

Requirement 2.3.12 (4): For each representative example transaction specified in accordance with subclause (3), how and when the EDB last tested the arm's-length terms of those transactions.

Work undertaken by Field Services for the EDB is carried out at cost, with no internal profit being created.

How and when we have tested the arm's length terms:

Our budgeting process sets a rate card for field services work, which recovers their operating costs only. At the end of the year we reviewed internal work carried out by Field Services and determined that no profit was created from work undertaken for the EDB. During the year-end financial audit our auditors reviewed our internal profit calculation and confirmed that no material internal profit was created from internal transactions associated with Field Services.

The rate charged by Field Services for external work is calculated as the internal charge out rate + required markup rate for the job in question. This demonstrates that work charged to external parties incurs the same costs as work carried out for the EDB by Field Services.

In 2021 we tested the charge out rates of Field Services against other independent contractors. The results found Field Services charges to be in line with the comparison performed by EA Networks in 2021.

As our testing of Field Services charge out rates with another contractor demonstrates, the price which Field Services charges the EDB is fair and reasonable.

Requirement 2.3.12 (5): Separate representative example transactions where the EDB has applied the current policy for the procurement of assets or goods or services from a related party significantly differently between expenditure categories.

There were no significant differences between expenditure categories.

A construction project that requires tendering out

Field Services – Project requiring a sub-contractor

Project 12669 “McMurdo Street Stage 3 Tinwald”

1. This project was design scoped by the EDB.
2. The Underground Manager created several work orders instructing Field Services to undertake the required scope of work, as shown below.
3. Field Services received the project from the EDB. Field Services General Manager and the Field Services Underground Manager identified that the project required a level of trenching which was outside their abilities.
4. The project was awarded to GDC without a tendering process occurring.

The awarding of the contact was in response to COVID-19 concerns around ensuring that the two civil contractors remained economically viable during the economic downturn associated with COVID-19 so that in the future, consumers benefit from the associated competition.

EA Networks has considered the Commerce Commission “Business collaboration under COVID-19, May 2020”, guidelines and formed the view that the approach employed in awarding the contract to GDC complies with the guidelines. The reason behind our view is:

The awarding of the contract was:

- Undertaken in good faith.
 - To facilitate the future supply of essential services.
 - A one-off event, which address economic concerns associated the COVID-19 pandemic.
 - A contract was also awarded to the other civil contractor that EA Networks uses, so that one contractor was not advantaged over the other.
5. Field services undertook the balance of the required work, which was to install and commission the cable. Labour and plant costs associated with the project was booked to each task as they were incurred. Stock used by Field Services was booked out of the network store and onto the job as required.

6. At the end of each milestone the successful tenderer sends EA Networks claims for work completed. For example: Invoice INV-52332, which was sent to EA Field Services on 30 March 2021 and paid in April 2021 under the terms of the contract.
7. At the completion of the project the transactions associated with the project will be sent to the Underground Manager who reviews them and approves the cost of the project.