



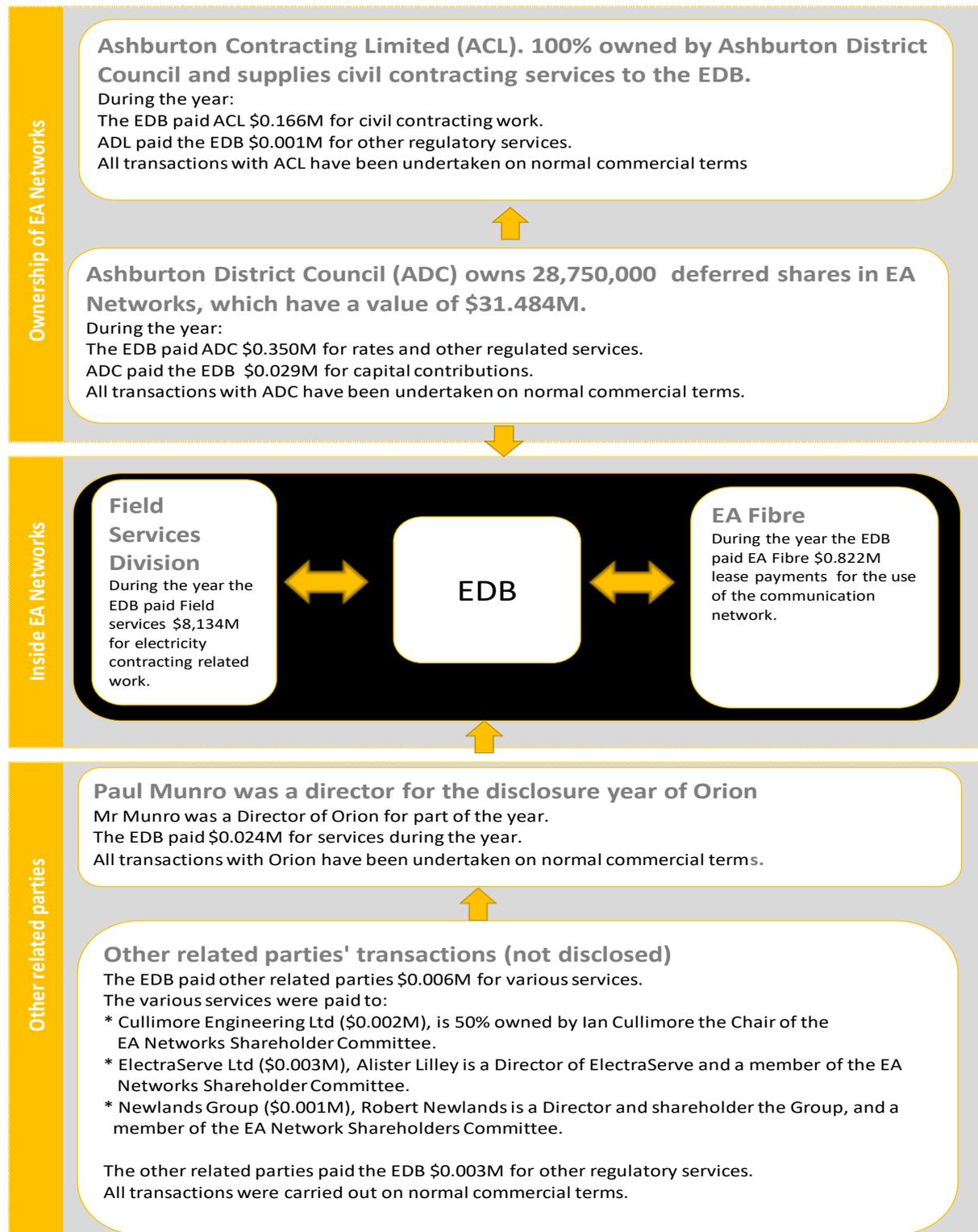
EA Networks
Related Party requirements of the Electricity Distribution
Information Disclosure Determination 2012 – consolidated 9
December 2021

For the year ended 31 March 2022.

Dated 19 August 2022

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

This diagram identifies the key related parties Ashburton Contracting Limited, Ashburton District Council, EA Field Services, and EA Fibre.



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 do 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.
- 28,750,000 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.

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.

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 2022. The payment:

1. was authorised for payment in accordance with the requirements of the delegated authority policy.
2. Paid on the due date (22 February 2022).

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 is 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 Ashburton Electricity Limited trading as EA Networks. Mr Barlass ability to control Ashburton Contracting Limited is limited to that which a Director would normally discharge their responsibilities.

Financial return to ACL from the EDB

For the disclosure year, ACL has no 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 and the EDB. 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 8 October 2021, A mixture of Q-basecourse AP20 and Soil-Screened was purchased for Job 663118 (11 kV OH rebuild Grahams Road, an asset replacement and renewal project). ACL invoiced the material purchased on invoice 403091. This invoice was authorised for payment in accordance with the delegated authority policy and coded to the project. The invoice was paid on 20 October 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.

EA Networks purchased the Q-basecourse AP20 and Soil-screen at the unit charge payable at the weighbridge. EA Networks has no contract in place, with ACL, for the purchase of quarry related products, as a result the EDB pays the same price as anyone purchases the same products from ACL.

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.

EA Networks has proactively applied the procurement policy at a macro level for civil contractors in response to the Covid-19 pandemic circumstances including responding to workforce planning uncertainties and the compressed time frames to complete the capital works programme. Rather than tendering each individual project we tendered the non-minor works project collectively as an annual package. Approved civil contractors were invited to submit unit rates for non-minor works contracts (projects with a value greater than \$50K). This process resulted in ACL being award one non-minor works project (Anne Street) during the year with the majority of work being awarded to another provider.

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.

The EDB has a long-term financial lease with the fibre business. The present value of the financial lease was recorded in the RAB when the EDB adopted NZ IFRS 16, Leases. The EDB is required to pay an annual fee of \$822k to EA Fibre.

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 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.

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 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 a consumer 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.

Consumers required to undertake tree work to protect the network, are free to choose from an approved contractor list.

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 12805 “Underground conversion – Anne Street, Ashburton”

1. This project was designed scoped by the EDB.
2. The Underground Manager created a number of 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	▲
<input type="checkbox"/>	663036	Anne St TIN SU...	Approved	Anne St Stage 3 TINWALD;;SUBSTATIONS;;UG Conver...	G
<input type="checkbox"/>	663040	Anne St TIN OH ...	Approved	Anne St TIN OH Recovery;;Scheduled CAP;;N 663027, ...	F
<input type="checkbox"/>	663027	Anne St TIN NET...	Approved	Anne St TINWALD;;UG Conversion of Anne St including ...	G
<input type="checkbox"/>	663030	Anne St TIN HO...	Approved	Anne St TINWALD;;UG Conversion of Anne St including ...	G

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.
6. 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.
7. At the end of each milestone the successful tender send EA Networks claims for work completed. For example: Invoice 414160, which was sent on EA Field Services on 28 February 2022 and paid in March 2022 under the terms of the contract.
8. At the completion of the project the transactions associated with the project were sent to the Underground Manager who reviewed them and approved 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 2022 we tested the charge out rates of Field Services against other contractors which we had engaged. The results found that Field Services charge out rates were lower than the independent contractor.

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.

Related Party: Orion

Who is Orion and how is it a related party?

The purpose of Orion

Orion is an EDB. Information concerning Orion can be found on their webpage:
<https://www.oriongroup.co.nz>

Ability to control

Orion has no ability to control EA Networks.

Mr Paul Munro was appointed a Director of Orion New Zealand Limited on 24 February 2022 and has been a director of Electricity Ashburton Limited trading as EA Networks for the full year. Mr Munro's ability to control Orion New Zealand Limited is limited to that which a director would normally discharge their responsibilities.

Financial return to ACL from the EDB

For the disclosure year, Orion received no financial benefits due to being a related party.

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.

Orion supplies load management services for all EDB's in the upper South Island. The cost associated with running the load management services is shared among the EDB's that use the service.

Both the EDB and Orion receives no benefits when transacting with each other, due to the related party relationship.

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 Orion. 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 Orion.

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.

EA Networks received in early February 2022 an invoice, NO17320, for delivery charges relating to January and associated wash-up months. This invoice was authorised for payment in accordance with the delegated authority policy and coded to operating costs. The invoice was paid on 21 February 2022.

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 service supplied by Orion is not offered by any-other service provider. As a result, we are unable to carry out market testing. EA Networks has a contract in place with Orion, governing the calculation of charges, this contract was put in place before Orion became a related party.

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.

The Services provided by Orion are outside of the scope of the procurement policy.