evoenergy

RIN Attachment 16: Outsourcing Arrangements

ACT and Queanbeyan-Palerang gas network access arrangement 2026–31

Submission to the Australian Energy Regulator

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Overview

Evoenergy provides gas pipeline services to consumers using an outsourced delivery model which has evolved over the past 20 years to ensure that it continues to deliver value to Evoenergy and its customers. This document explains the services provided by Evoenergy's related party contractor, the outsourcing arrangements, and why they represent an efficient way to provide services to consumers. It also addresses requests for information set out in the AER's Regulatory Information Notice (**RIN**), in sections 4.21.4 and 4.21.5 of RIN Attachment 1.

- **Section 1** of this document provides an overview of the ActewAGL Distribution partnership, which owns and operates the ACT electricity and gas networks and owns the ACT, Queanbeyan–Palerang Regional Council area, and Nowra.
- **Section 4** of this document provides an overview of the Distribution Asset Management Services (**DAMS**) Agreement, including procurement of the contract, the services covered, and the costs of the services.

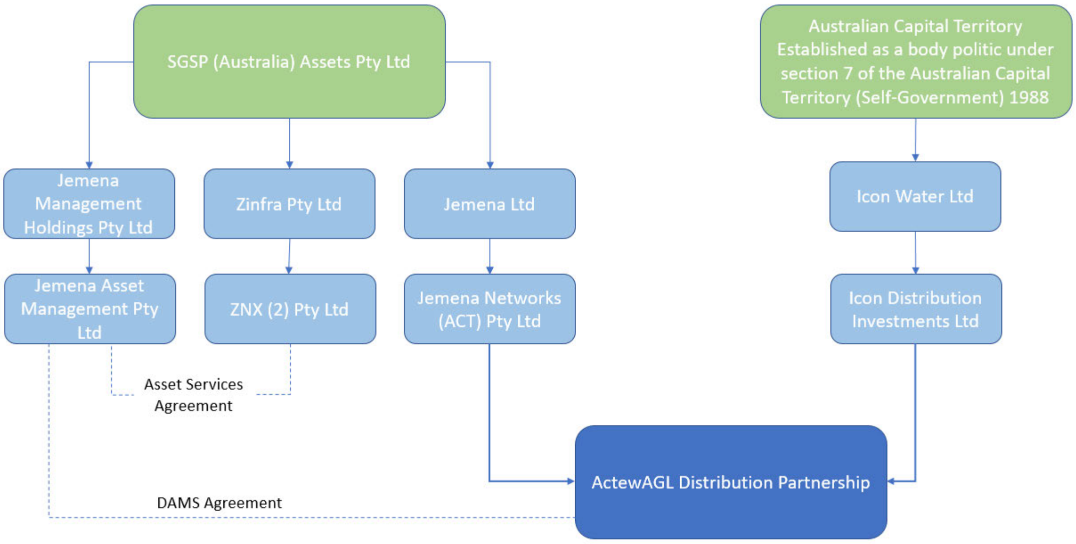
1. The ActewAGL Distribution partnership

The ActewAGL Distribution Partnership owns and operates the ACT electricity network and owns the gas networks in the ACT, Queanbeyan and Palerang shires, and Nowra. Evoenergy is the trading name of ActewAGL Distribution, and this document refers to Evoenergy herein.

The ActewAGL Distribution Partnership is owned equally by Icon Water Ltd and Jemena Ltd via subsidiary companies. The partnership was formed in 2000, with its founding principle focussed on identifying and realising synergies between the partnerships' respective businesses.

Under the ActewAGL Distribution Partnership agreement, the electricity network is operated and managed by ActewAGL Distribution while the gas network is operated and managed by Jemena Asset Management Pty Ltd (**JAM**). The allocation of responsibilities for the gas network between the partners is enacted through the DAMS Agreement (see section 2 for more details).

Figure 1 ActewAGL Distribution Partnership ownership



2. The Distribution Asset Management Services Agreement

2.1. Background

Gas distribution asset management services are provided to Evoenergy by **JAM**. These services are provided to Evoenergy under the **DAMS** Agreement. Under this agreement, Evoenergy's customers are able to benefit from JAM's expertise in providing similar services to Jemena Gas Networks (NSW) Pty Ltd (**JGN**) and economies of scale in the provision of services below the cost of those that could be provided by Evoenergy as a standalone network operator.

The DAMS Agreement sets out the services provided, the roles and responsibilities of various parties and the fees payable by Evoenergy. Importantly, the agreement ensures the prudent and efficient management of the gas network to the benefit of Evoenergy's customers.

2.2. Procurement

The DAMS Agreement was first established in October 2000. In 2002, a Supplementary Agreement was incorporated into the DAMS. Details of the procurement of the original, now superseded, DAMS Agreement were provided to the AER as part of Evoenergy's 2016-21 Access Arrangement proposal.

In 2010, Evoenergy, JAM and Icon Water agreed to refresh the DAMS Agreement. This process commenced in 2010 and negotiations continued until 2013. The rationale for refreshing the agreement was to retain the synergies of the arrangement while:

- achieving operational efficiencies from consolidating the DAMS Agreement and the Supplementary Agreement;
- improving transparency;
- applying new service standards and KPI for management services on JAM, which had clearer corrective and material breach levels; and
- realigning capex routine unit rates to the underlying cost of service provision (some unit rates were below and some above the cost of provision).

The renegotiation was undertaken between JAM and Evoenergy and the Distribution Partnership parties, Icon Water and Jemena. As the ActewAGL Distribution Partnership is a joint venture between ACT Government owned Icon Water and the Jemena group, the contract negotiations for both the original DAMS Agreement and the current DAMS Agreement were on an arms' length basis. Both parties had equivalent countervailing capability in assessing the commerciality (and therefore the efficiency) of the DAMS Agreement, and neither party had more negotiating power than the other.

A key principle of the ActewAGL Distribution Partnership is for the parties to work together to identify and realise synergies between the Partnerships' gas and electricity operations and maintenance businesses. Synergies are achieved by the economies of scale and intellectual property associated with JAM's continued operation of the gas network, which leverages off it providing similar services to JGN (a network approximately ten times the size). In addition, the costs agreed to in the DAMS are determined on a transparent basis, with governance processes in place to ensure the appropriate scrutiny of costs and capital and operating programs.

The revised DAMS Agreement took effect from 1 July 2013, and no changes to the DAMS Agreement have occurred since this time. A copy of the DAMS Agreement is included as RIN Attachment 15.

The DAMS Agreement established between Evoenergy and JAM is supported by an agreement between JAM and ZNX(2) Pty Ltd (**herein referred to as Zinfra**) known as the Asset Services Agreement (**ASA**). Under the ASA, JAM subcontracts exclusively to Zinfra for operating and maintenance services (asset services) and all of the capital services except non-routine capital works with a value greater than $500,000.

2.3. Services

Services provided under the DAMS Agreement are listed in Schedule 1 of the Agreement and include Management Services, Asset Services and Capital Works.

2.3.1. Management Services

Management Services relate to management and planning of the operations and maintenance of Evoenergy's gas network. Management Services are opex in nature and fall into the following key activities:

- asset management;
- commercial operations;
- customer management;
- marketing and network development;
- network operations;
- (management and planning of) asset creation; and
- general management.

2.3.2. Asset Services

Asset Services relate to the *delivery* of operations and maintenance services of Evoenergy's gas network. These services are provided to Evoenergy by JAM which in turn has outsourced the delivery of these services to Zinfra under the ASA. Activities are in the same categories as Management Services (identified in the bullet points above) but relate to *delivery* rather than management and planning of these activities. For example, activities include responding to emergencies, delivering routine and non-routine maintenance, performing disconnections and reconnections, and all other opex related field activities etc.

2.3.3. Capital Works

Capital Works cover the management and delivery of all aspects of the capital program. Capital works fall into the following key activities:

- manage capital works delivery;

- capital works delivery of routine works;
- capital works delivery of minor and medium non-routine works (<$500k); and
- capital works delivery of major non-routine works (≥$500k).

With the exception of non-routine works (≥$500k), JAM has outsourced the delivery of capital works exclusively to Zinfra under the ASA.

The service provider(s) for non-routine works ≥$500k is determined through a procurement process endorsed by JAM and then approved by Evoenergy. The procurement process depends on the nature, complexity and technical expertise required. Based on the approved procurement process the works may be issued to Zinfra to perform without open tender, or Zinfra may be able participate in the open tender. The business case is prepared by JAM and endorsed by Evoenergy.

Under the transparency principle (section 10.1 of the DAMS), Evoenergy is able to request access to JAM's information to undertake an open-book assessment of costs, including information from significant sub-contractors. This allows Evoenergy to seek external review, such as by an independent party to perform a cost build-up and technical review to ensure scope and costs are efficient and market comparable.

2.4. Costs under this agreement

Fees payable under the DAMS Agreement are set out in Clause 9 and Schedule 3 of the contract, and include:

- Management Services Fee (opex);
- Asset Services Fee (opex); and
- Capital Works Fee (capex).

An estimate of the fees payable under the DAMS Agreement each contract year is set out in a Services Plan, which is developed by JAM on an annual basis, and must be agreed by Evoenergy prior to commencement of the contract year. The Services Plan sets out the operating plan and budget for the year, the capital plan and budget, an estimate of the fees, a resource plan and service standards and any associated financial consequences of not meeting agreed service standards (Key Performance Indicators).

JAM passes costs incurred onto Evoenergy, with no additional margins, overheads, management fees or incentive payments or penalties. JAM made no profit on the services provided to Evoenergy in the current period.

The costs incurred under this agreement in the 2021-26 access arrangement period are shown in Table 1.

Table 1 Breakdown of costs under the DAMS Agreement

($, nominal)	2021/22	2022/23	2023/24
Management Services (excluding IT AUF)			
Labour, contractor costs, materials	[redacted]	[redacted]	[redacted]
Overheads	[redacted]	[redacted]	[redacted]
Margin	[redacted]	[redacted]	[redacted]
Total Management Services Costs	[redacted]	[redacted]	[redacted]
Asset Services			
Labour, contractor costs, materials	[redacted]	[redacted]	[redacted]
Overheads	[redacted]	[redacted]	[redacted]
Margin	[redacted]	[redacted]	[redacted]
Total Asset Services costs	[redacted]	[redacted]	[redacted]
Capital Works			
Labour, contractor costs, materials	[redacted]	[redacted]	[redacted]
Overheads	[redacted]	[redacted]	[redacted]
Margin	[redacted]	[redacted]	[redacted]
Total Capital Works costs	[redacted]	[redacted]	[redacted]
Total DAMS costs	[redacted]	[redacted]	[redacted]

Figure 2 outlines the relationships between the costs and fees under the DAMS Agreement and how they relate to Evoenergy, JAM, and other parties.

Figure 2 Costs under the DAMS Agreement

Category	Sub-category		Delivered by	Costs to Evoenergy	Efficiency Test
OPEX	Management Services		JAM	JAM costs passed through. No margin	Services Plan approved annually by Evoenergy. True up between actual and forecast csots. Proposed step changes reviewed for prudency and efficiency.
	Asset Services		JAM (Subcontracted to Zinfra via ASA)	Zinfra costs and margin passed through	Zinfra keeps efficiency gains for one year. Costs reset to cost plus margin the following year
CAPEX	Construction Management Services			Construction Management Fee and marginal cost of units of work through unit rates	Benchmarking of unit rates. Services Plan approved annually by Evoenergy before the start of each year.
	Routine Capital Projects				
	Non-routine Capital Projects	<$500k		Zinfra cost with margin	JAM endorsement and Evoenergy approval of projects above $100,000
		>$500k	JAM subcontracted to Zinfra. Construction by tender	Zinfra costs plus costs per procurement method plus margin	Evoenergy approved procurement methodology. Evoenergy approve project. External cost estimator sought where appropriate.

2.4.1. Management Services Fee

The Management Services Fee **(MSF)** is calculated on an annual basis by taking the annual budgeted costs of management services for the year ahead—which is based on six months of actual costs incurred plus the forecast of costs to deliver services for six months, and adjusted for changes in CPI, together with any scope changes to the services contract approved by Evoenergy for that year.[1]

The Management Services Fee is opex in nature and reflects:

- Direct costs – JAM labour costs, based on time writing and time writing surveys to Evoenergy reflecting labour incurred in providing management services.
- A portion of JAM's corporate overheads (costs that are allocated to Jemena's asset entities and clients e.g. Evoenergy) in accordance with the Jemena Cost Allocation Methodology.

The MSF is trued up via an annual reconciliation. The true-up ensures that Evoenergy only pays for the costs actually incurred by JAM in delivering management services, and that no margin is earned by JAM.

As noted in section 1, the DAMS agreement requires that JAM and Evoenergy work together in good faith and user reasonable endeavours to identify ways to reduce costs by realising synergies between Evoenergy and other businesses conducted by the Distribution Partnership (cl 6.2(a) of the DAMS Agreement). This process, together with the review of the annual Services Plan, ensures that Evoenergy's customers benefit from the lower costs in the delivery of management services, which ultimately translates into lower bills.

2.4.2. Asset Services Fee

The Asset Services Fee **(ASF)** is calculated on an annual basis by taking JAM's annual budgeted costs of delivering asset services for the year ahead—which is based on the most recent six months of actual costs incurred plus the forecast of costs for the subsequent six months, and adjusted for changes in CPI, together with any scope or changes to the services or adjustment for volumes of asset services activity approved by Evoenergy for that year.

As noted above, JAM outsources the delivery of asset services to Zinfra. The ASF is therefore based on Zinfra's target cost for providing asset services under the ASA and excludes any fees relating to capital works. JAM passes on Zinfra's costs for performing asset services to Evoenergy without applying any additional margin or management fee.

An annual 'true-up' mechanism exists to realign JAM's asset services target cost estimate with actual costs. However, should Zinfra realise efficiencies in the provision of asset services, it is able to keep these savings for that one contract year, with costs rebased to the lower actual costs in the following contract year.

[1] Adjustments are made for any one-off or abnormal costs that are unlikely to be repeated in the year, to account for any changes in volumes of Management Services activity, or for known step changes in costs. For example, where activities are not undertaken on an annual basis the management services fee will be adjusted to include these one-off costs once Evoenergy has agreed to the scope change (e.g. costs to undertake pipeline safety management studies in accordance with AS2885 are only required on a five yearly basis).

2.4.3. Capital Works Fee

As noted in section 2.3.3, Capital Works fall into the following four categories:

- planning and managing capital works delivery;
- capital works delivery of routine works;
- capital works delivery of minor and medium non-routine works (<$500k); and
- capital works deliver major non-routine works (≥$500k).

The Capital Works Fee includes all costs incurred to carry out, or the procurement of the carrying out, capital works and the management of the capital works. Under the DAMS Agreement, JAM is not allowed to include any profit on top of the capital works costs it incurs from third parties. That is, the capital works fee is a cost pass through from JAM's sub-contractors fees to Evoenergy.

Under the DAMS Agreement, JAM must use reasonable endeavours to obtain cost savings in the carrying out of the capital works through economy of scale discounts in connection with JAM's wider business and passes on material savings on to Evoenergy.

The Capital Works Fee is made up of the components set out in Table 2.

Table 2 Capital works fee

Capital works	Fee
Planning and managing capital works delivery	Construction Management Fee
Capital works delivery of routine works	Routine Works Fee
Capital works delivery of minor and medium non-routine works (<$500k)	Non-Routine Works Fee
Capital works deliver major non-routine works (≥$500k)	

2.4.3.1. Construction Management Fee

The Construction Management Fee includes all costs related to planning and managing capital works delivery. This includes managing the resources required to deliver the capital plan, project management of routine capital works and minor and medium non-routine capital works, construction field supervision, quality assurance of capital works and the capture and retention of asset data records.

The Construction Management Fee is charged as a single annual amount that relates to Zinfra's provision of routine works and non-routine works <$500,000.

2.4.3.2. Routine Works Fee

The Routine Works Fee includes all costs incurred by JAM to deliver routine works. It includes the amounts payable by JAM to subcontractors, except to the extent that any of the costs are recovered in the Construction Management Fee.

As JAM subcontracts all routine capital works and projects below $500,000 to Zinfra under the ASA, the Routine Works Fee is effectively a pass through of Zinfra's fees in delivering routine works. These are based on a series of benchmarked ASA unit rates.

Under the DAMS agreement, JAM is required to undertake market analysis, benchmarking or other similar processes to ensure that it is providing services under the agreement in an efficient manner, consistent with market prices.

2.4.3.3. Non-Routine Works Fee

Non-routine works are those not substantially covered by the unit rates, for example, 'one-off' or unique works.

Non-routine works with a value of less than $500,000 are exclusively sub-contracted by JAM to Zinfra. In these cases, Zinfra provides a cost estimate which JAM reviews in accordance with its governance processes. If JAM endorses the project, the business case is then taken to Evoenergy to review and approve. The Non-Routine Works Fee for these projects includes the amounts payable by JAM to Zinfra, which could be either an agreed fixed price or Zinfra's costs plus [redacted] margin.

The Non-Routine Works Fee for non-routine works ≥$500k includes the amounts payable by JAM to the service provider. As noted in section 2.3.3, for large or complex projects Evoenergy may seek an external review, such as an independent party to perform a cost build-up and technical review, to ensure that the costs are efficient.

2.5. How this contract delivers value for Evoenergy's customers

The DAMS Agreement delivers value for Evoenergy's customers by enabling them to benefit from economies of scale realised by JAM in providing services at a lower cost than could be provided by a standalone network operator. This is possible because the activities and services performed by JAM for Evoenergy are delivered by the same JAM staff that deliver equivalent activities to JGN. For example, JAM operates a single control centre for both the JGN network and the Evoenergy gas network, thereby avoiding the need to build, own and operate a dedicated control centre from the Evoenergy gas network. JAM also has a greater purchasing power than Evoenergy, which results in lower materials prices which benefits Evoenergy and its customers.

In addition, both parties to the DAMS Agreement are required to work together in good faith to reduce costs through the realisation in synergies. The DAMS Agreement also includes a transparency principle (clause 10.1) such that all of the costs (and cost components) and fees under the agreement are transparent to ensure verification that the fees payable are actual, ascertainable, reasonably justifiable, verifiable costs incurred in accordance with this agreement. Costs and activities are reviewed annually as part of the annual Services Plan and must be approved by Evoenergy prior to the commencement of the contract year.

Efficiencies are demonstrated in benchmarking undertaken by Competition Economist Group, who performed an analysis of trends in absolute and relative productivity of Evoenergy's opex. CEG's report is provided as Appendix 4.2 of Evoenergy's access arrangement proposal. CEG finds that Evoenergy consistently ranks in the middle amongst all the gas distribution businesses.[2] Consistent with this, CEG finds that Evoenergy's opex per customer is below the average predicted level when a simple comparison of opex to customer or energy density is made with other gas distribution businesses. This holds true whether the comparison is made over the period 2010 to 2018 or over the more recent period.[3]

Table 3 summarises how the DAMS Agreement ensures that synergies and efficiencies are identified and realised to ensure that the contract continues to deliver value for Evoenergy and its customers.

Table 3 Efficiency mechanisms in the DAMS Agreement

Cost category	How efficiency is provided to Evoenergy's customers
All	Transparency principle
	Commitment for both parties to identify synergies and cost savings
	JAM and Evoenergy both able to propose fee variations (to better reflect costs)
Management services	Annual review of JAM's actual costs, and the review and approval of the annual Services Plan by Evoenergy prior to the commencement of each contract year
Asset services	Annual review and confirmation of costs and approval of the annual Services Plan by Evoenergy prior to the commencement of each contract year
	Zinfra retains any underspend relative to annual asset services fee forecast with cost set at the lower actual cost (plus agreed margin) the following year. This incentives Zinfra to manage its costs and achieve efficiencies in the delivery of services which benefits Evoenergy.
	Penalty payments for failing to meet KPIs
Construction management services	Reviewed annually as part of the Capital Plan review by Evoenergy, and review and approval of the annual Services Plan
	Penalty payments for failing to meet KPIs
Routine capital works	Part of the Capital Plan Annual Review by Evoenergy and review and approval of Services Plan
	Market benchmarked rates reset five yearly
	Additional Services Requests required for routine capital works that include a non-routine component (i.e. not unit rate)
Non-routine capital works (<$500k)	Part of the Capital Plan annual review by Evoenergy, and review and approval of the annual Services Plan
	JAM review and confirmation on project costs submitted by Zinfra

[2] CEG, Benchmarking Evo productivity, a report for Evoenergy, February 2025, p. 5.
[3] CEG, Benchmarking Evo productivity, a report for Evoenergy, p. 7.

Cost category	How efficiency is provided to Evoenergy's customers
	Review and approval of project costs by Evoenergy
	Additional Services Requests for unexpected works
Non-routine capital works (>$500k)	Part of the Capital Plan annual review by Evoenergy, and review and approval of the annual Services Plan
	Quantity surveyor cost and time reviews on large projects (where required)
	Competitive tender of (non-standard) engineering design and construction works or using Evoenergy agreed procurement method
	Evoenergy control of budget and release of funds for material known project contingencies or use of any contingency that will exceed allowed project budget

Shortened forms

ASA	Asset Services Agreement
DAMS	Distribution Asset Management Services
ITUAF	IT Asset Utilisation Fee
JAM	Jemena Asset Management Pty Ltd
JGN	Jemena Gas Networks (NSW) Ltd
RIN	Regulatory Information Notice
Zinfra	ZNX(2) Pty Ltd