



Jemena Electricity Networks (Vic) Ltd

Response to the Price Reset Regulatory Information Notice

Written Response

Information for the 2021-2026 Regulatory RIN



28. Related party transactions

28.1 Identify and describe all entities which:

- (a) are a *related party* to *Jemena* and contribute to the provision of *distribution services*; or
- (b) have the capacity to determine the outcome of decisions about *Jemena's* financial and operating policies.

The related parties that contribute to JEN providing distribution services or have the capacity to determine JEN's financial and operating policies include:

- Jemena Asset Management Pty Ltd (**JAM**)
- Zinfra Pty Ltd
- Jemena Ltd
- SGSP (Australia) Asset Pty Ltd (**SGSPAA**)

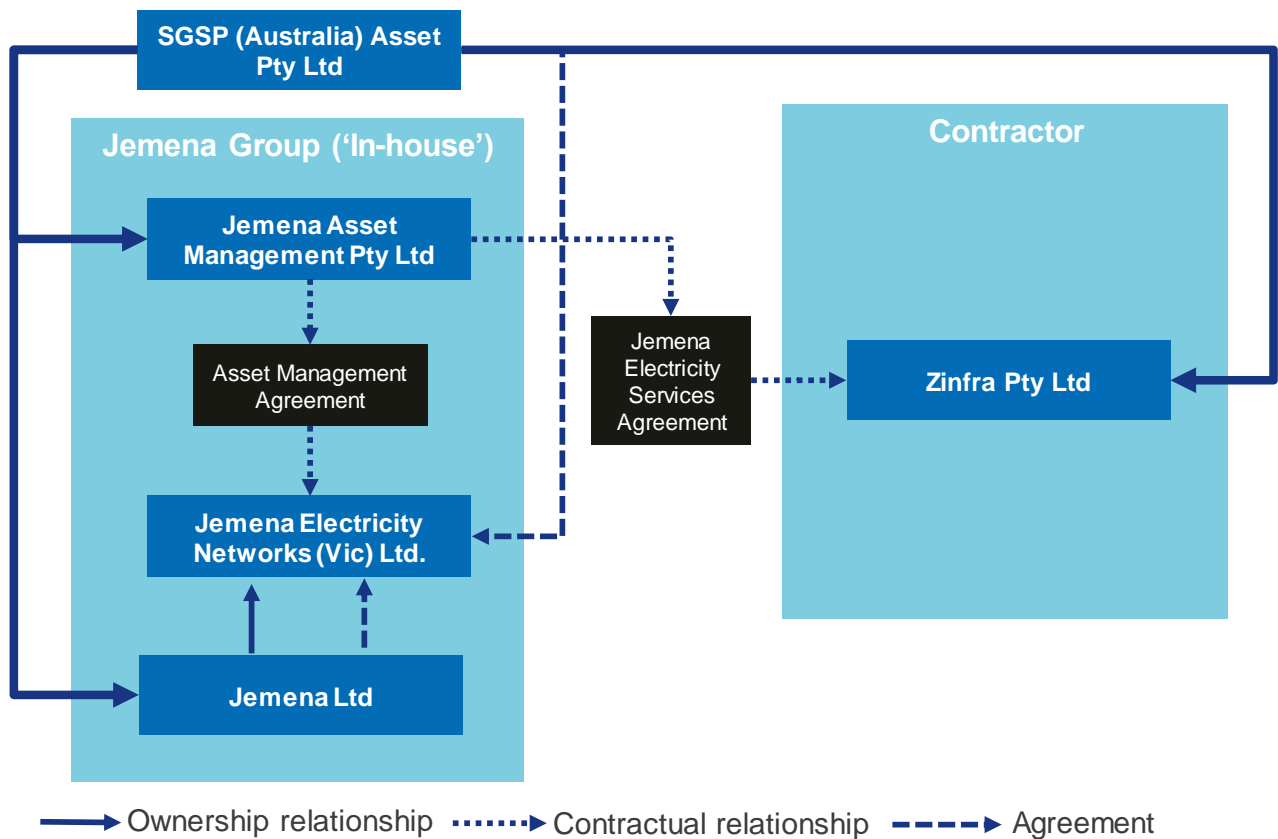
Entities that have the capacity to determine the outcome of decisions about JEN's financial and operating policies include:

- Australian-incorporated entities:
 - SGSP (Australia) Assets Pty Limited (ultimate Australian holding company of the SGSPAA Group, including JEN)
 - Jemena Limited (immediate parent entity of JEN)
- Singaporean-incorporated entities:
 - Singapore Power International Pte Limited (holder of 40% shareholding in SGSPAA Group)
 - Singapore Power Limited (sole shareholder of Singapore Power International Pte Limited)
 - Temasek Holdings (Private) Limited (sole shareholder of Singapore Power Limited)
- Hong Kong-incorporated entity:
 - State Grid International Development Australia Investment Company Limited (holder of 60% shareholding in SGSPAA Group)
- Chinese-incorporated entity:
 - State Grid International Development Limited (sole shareholder in State Grid International Development Australia Investment Company Limited)
 - State Grid International Development Limited Co Limited (58.871% shareholder in State Grid International Development Limited)
 - State Grid Corporation of China (sole shareholder of State Grid International Development Limited Co Limited)

28.2 Provide a diagram of the organisational structure depicting the relationships between all the entities identified in the response to paragraph 28.1.

Figure 28–1 outlines the ownership and contractual arrangements between Jemena Electricity Networks (Vic) Ltd (**JEN**, **Jemena**) and its related parties.

Figure 28–1: Organisational structure and the relationships with JEN



28.3 Identify:

- (a) all arrangements or *contracts* between *Jemena* and any of the other entities identified in the response to paragraph 28.1 currently in place or expected to be in place during the *forthcoming regulatory control period* which relates directly or indirectly to the provision of distribution services; and

The contracts in place and expected to be in place during the forthcoming regulatory period include:

- **Jemena Electricity Services Agreement (JESA)** – Asset management services are procured by JAM—which is wholly owned by JEN's parent entity and part of the Jemena group of companies—in favour of JEN through the JESA.
- **Asset Management Agreement (AMA)** – JAM provides services to JEN, including the provisions of corporate services as well as the transaction costs of the JESA. No margins are charged for services provided under this agreement.

The arrangements in place and expect to be in place during the forthcoming regulatory period include:

- **Enterprise support functions (ESF)** – Under this arrangement, Jemena Ltd provides enterprise support activities to JEN.
- **Financing arrangements** – SGSP (Australia) Asset Pty Ltd and Jemena Ltd procure third party funding which is made available (via the group budget) for the members of the SGSPAA Group, including JEN.

- (b) the service or services that are the subject of each arrangement or *contract*.

Table 28–1 below outlines the services provided under contract or arrangements.

Table 28–1: Contracts and arrangements between JEN and related parties

Contract or arrangements	Services(s)
JESA	<ul style="list-style-type: none"> – Customer initiated connections and metering services – Compliance services – No-go zone management – Service and pole replacements – Conducting design and cost estimation – Managing construction – Routine and non-routine capital works – Incident investigation and management – Network performance monitoring – Network operations and maintenance – Technical services – Emergency response – Providing network operating and control services
AMA	<ul style="list-style-type: none"> – Services provided under the JESA – Service integration and contract management – Stakeholder relations – Billing – Managing customer services
ESF arrangements	<ul style="list-style-type: none"> – IT support – Finance, human resources – Health and safety – Corporate affairs – Legal services – Land and property – Procurement functions
Financing arrangements	<ul style="list-style-type: none"> – Sourcing third party funding

28.4 For each service identified in the response to paragraph 28.3(b):

(a) provide:

(i) a description of the process used to procure the service; and

JESA

As part of our continued focussed on efficiency and the structure review of the SGSPAA group in 2018, it was identified that greater efficiencies could be achieved by introducing a broad based contractual arrangement between JEN (via JAM) and Zinfra. A project team was established to identify those opportunities and put them in place through structured arm's length agreements.

The key features of the procurement model implemented included:

- Awarding several exclusive and non-exclusive services to Zinfra
- Developing a price benchmarking process to compare Zinfra's pricing with the historical cost of providing services on JEN's electricity network
- Conducting arms-length negotiations between JAM and Zinfra concerning contract terms and conditions
- Ensuring customers' rights to contestable connection works¹ are preserved
- Incorporating a right in the contract to benchmark routine services and to undertake independent engineering assessments for large project works.

The JESA has to comply with the obligations set out in the AMA in relation to JAM outsourcing. The AMA places various restrictions on JAM's appointment of subcontractors to perform services under that agreement, including that the relevant subcontractor is:

- Properly and fully qualified and authorised to carry out its engagement
- Reputable in its relevant industry
- Sufficiently creditworthy, and carries sufficient insurance coverage to meet its obligations and liabilities in respect of the services it is required to perform
- Selected through a process subject to appropriate probity controls consistent with good industry practice, relevant laws and any authorisations from a government agency (such as the Australian Energy Regulator)
- Not subject to a conflict of interest or potential conflict of interest in relation to JEN, the JEN business or the Network.

AMA

JEN originally developed the AMA through bilateral commercial negotiations with JAM. JEN employed the same internal controls to the AMA negotiations that Jemena would apply to external competitive tenders. These included:

- a formal request for proposal (**RFP**) issued by JEN to JAM
- a formal response from JAM following a documented question-and-answer process
- structured commercial negotiations, with probity controls and documented audit trails
- an asset owner steering committee to govern negotiation strategy and to internally endorse and recommend the scope of AMA services, pricing, incentive arrangements and terms and conditions.

To achieve efficient service provision by JAM, senior JEN representatives were dedicated to the contract negotiations, and those staff had appropriate skill-sets to optimise the negotiated outcome. An external probity advisor Pitcher Partners monitored negotiation of the AMA and managed potential conflicts of interest. The JEN board provided final approval to the AMA. JEN submitted supporting documentation for the process used to establish the original AMA with JEN's regulatory proposal in the previous EDPR proposal.²

In November 2010, as a part of a wider restructure of the SGSPAA Group, Jemena created Jemena Assets and Investments (**JAI**) as a business unit responsible for the group company assets (the Asset Owners, including JEN) and Jemena Infrastructure Services (**JIS**) as a separate business unit to provide field services contracting principally through JAM. This separation came into effect on 1 April 2011 and moved Jemena's asset management functions into JAI. This consolidated the Asset Owners' focus on managing network performance and facilitated JIS to focus on providing network and construction services to Jemena Asset Owners and third party infrastructure owners. As part of this separation, JEN and JAM amended the AMA to

¹ Under Chapter 5A under the National Electricity Rules.

² Refer Appendix 17.1 of JEN EDPR Proposal 30 November 2009.

reflect the new functional arrangements which took effect from 1 April 2011. The activities de-scoped at that point were (1) technical asset management (2) IT and (3) market, billing and metering services.

In August 2011 the SPI (Australia) Assets Pty Ltd Board (as it then was) approved a restructure of the Jemena Group's assets business to in-source specialist services within its assets and establish a separate services business to provide field service activities that can be market-tested. This change resulted in an Assets business (Jemena) focusing on the ownership and management of the Jemena assets and a Services business (Zinfra) operating independently in the construction, operation and maintenance services market, including providing services to the Jemena assets business and also competing for business from third party customers.

Under the new structure, JEN and JAM are both part of the Jemena Assets business. JAM holds key supply and services contracts (including, from 1 April 2012, with Zinfra), which it relies on to deliver some of the AMA services to JEN.

In light of JAM being brought in house, the parties to the AMA agreed that, although the AMA would remain in place, effective from 1 April 2012:

- JAM ceased to recover a margin on the cost of delivering the services to JEN under the AMA and is only entitled to recover its actual costs
- JEN no longer enforces the risk benefit-sharing mechanism under the AMA.

JAM then procured some field services for JEN from Zinfra under a Field Services Agreement (which is no longer in place and is replaced with the JESA).

On 19 December 2019, the term of the AMA was extended so that it now expires on 31 March 2024.

ESF arrangement

No explicit procurement process took place, as this arrangement arises directly as a result of the Jemena Group structure—JEN itself has no employees, with the costs of ESF for the Jemena Group being collected in the Jemena Ltd entity, and then allocated to JEN and other business entities in the group on a causal basis.

Financing arrangement

No explicit procurement process took place, as this arrangement arises directly as a result of the SGSPAA Group structure—JEN itself has no credit rating and does not obtain its financing. Instead, financing is procured by the SGSPAA Group at the group level to fund investment in the group assets, including JEN. One of the services provided through the ESF arrangement between Jemena Ltd and JEN is the procurement and management of financing.

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| (ii) | supporting documentation including, but not limited to, requests for tender, tender submissions, internal committee papers evaluating the tenders, <i>contracts</i> between <i>Jemena</i> and the relevant provider. |
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AMA

JEN submitted supporting documentation for the process used to establish the original AMA with JEN's regulatory proposal in the 2011-15 Electricity Distribution Price Review process. JEN has attached an internal change notice implementing the de-scoping of the AMA (see supporting document *JEN - RIN - Support - Asset management agreement 2012 - 20200131 - Confidential*) and the amendments which removed the margin and the risk benefit-sharing mechanism are included (see supporting document *JEN - RIN - Support - Asset management agreement 2013 - 20200131 - Confidential*).

The contract extension agreed in March 2019 is provided at supporting document *JEN - RIN - Support - Asset management agreement addendum letter - 20200131 - Confidential*

JESA

JEN proves a confidential version of the JESA as supporting document *JEN - RIN - Support - JESA contract - 20200131 - Confidential*.

ESF arrangement

No written arrangement is in place between Jemena Limited and JEN. However, costs are allocated across the Jemena group, including to JEN.

Financing arrangement

No written arrangement is in place between Jemena Limited and JEN. However, the allocation of ESF costs across the Jemena group is set out in the Jemena CAM.

(b) explain:

- (i) why that service is the subject of an arrangement or *contract* (i.e. why it is outsourced) instead of being undertaken by *Jemena* itself;

JESA

The services provided to JEN are procured from an entity that provides similar services to a broader market, and therefore, JEN has an ability to leverage scale benefits; something that Jemena is disadvantaged from achieving due to its relative size in the National Electricity Market.

Outsourcing these services allows JAM to manage the variability of the fieldwork. JAM's subcontractors can better manage this variability and reduce costs by providing field services for multiple clients in multiple industries and therefore JEN is able to procure services at a lower cost. The objectives of setting up the JESA included:

- Establishing long term, market-competitive contracts which have a clearly understood and managed risk profile between, and for, the Zinfra and Jemena businesses; and
- Ensuring that JAM has access to robust and technically competent contractors, who are engaged using rigorous market-based processes and/or are subject to periodic benchmarking of costs.

AMA

JEN is able to leverage the benefits of a larger scale business by procuring products and services through its parent entity. Also, as noted in response to (a)(i) above, the services provided by JAM to JEN are effectively insourced, given that they are provided at actual cost.

ESF arrangement

Services provided under the ESF arrangement are provided as an inherent part of how Jemena Group is structured and managed. For example, it is more efficient for the Jemena Group to have one finance, legal or regulatory team, to service multiple assets (including Jemena Gas Networks) than to set up stand-alone finance or regulatory teams for each asset.

Finance arrangement

Financing services are provided as an inherent part of how the SGSPAA Group is structured and managed. It is more efficient for the group to maintain a group-level credit rating and to procure financing at the group level than to seek stand-alone financing for multiple assets.

- (ii) whether the services procured were provided under a standalone *contract* or provided as part of a broader operational agreement (or similar);

JESA

The services are provided under an agreement between JEN, JAM and Zinfra only; the services are not a part of a broader operational agreement. However, Zinfra has contracts with other related parties within the SGSPAA group which are administered and negotiated independently of the JESA.

AMA

The services are provided under an agreement between JEN and JAM only; the services are not a part of a broader operational agreement. However, JAM has contracts with other related parties within the SGSPAA group which are administered and negotiated independently of the AMA.

ESF arrangement

There is no explicit contract for ESF services. They are provided by JEN's parent entity, which then allocates costs to JEN under the Jemena Group's cost allocation policies. This arrangement is part of how the Jemena Group is structured and managed.

Financing arrangement

There is no explicit contract for financing services, they are provided by JEN's parent entity. Although JEN benefits from the financing services provided by its parent entity, only some of the costs of providing these services are allocated to JEN. Debt and equity raising costs are not allocated to JEN, but the costs of maintaining the team that manages the SGSPAA Group's funding are (via Jemena Ltd as part of the separate ESF arrangement described above). This arrangement is part of how SGSPAA Group is structured and managed.

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| (iii) | whether the services were procured on a genuinely competitive basis and if not, why not; and |
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JESA

The services provided under this contract were not procured on a competitive basis, however, provisions within the contracts allows for the annual independent benchmarking of prices or allow for engineering assessments of large projects to ensure costs are efficient. During 2019 there were several instances where market testing occurred, for example, for service line replacements and a number of large construction projects. Given the efficiencies built into the contract itself, putting the contract to market would not yield any benefits, and therefore, to avoid unnecessary costs, the contract was not procured through market testing at the time of execution.

AMA

The services were not procured on a competitive basis, however, JEN followed a probity process when setting up the original AMA and the allocation of costs is considered efficient because, (i) Jemena is subject to incentive regulation and this means there is assurance that efficiency in costs—even to a related party—is present, that is, it does not make sense to allow one entity to profit at the loss of another entity in a group, and (ii) the contract does not have margins.

ESF arrangements

The services provided under this arrangement were not procured on a competitive basis as, by their nature, the services are an integral part of the operations of the Jemena Group.

Financing arrangement

The services provided under this arrangement were not procured on a competitive basis as, by their nature, the services are an integral part of the operations of the Jemena Group.

- (iv) whether the service (or any component thereof) was further outsourced to another provider by the *related party*.

JESA

Zinfra can and does further outsource some components of the services it provides, subject to the provisions of the contract.

AMA

JAM can and does further outsource some components of the services it provides. A range of services is further outsourced to Zinfra under the JESA.

ESF Services

No further outsourcing of these services takes place.

Financing arrangement

No further large-scale outsourcing of these services takes place. However, SGSPAA and Jemena Ltd do, from time to time, procure external expert legal and financial advice.