



Related parties

UE ATT101 - Related parties - Jan2020 -
Public

Regulatory proposal 2021–2026

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1 Other entities

This attachment provides information as at December 2019 regarding our corporate and organisational structure currently in place or expected to be in place during the period 2021–2026 regulatory period.

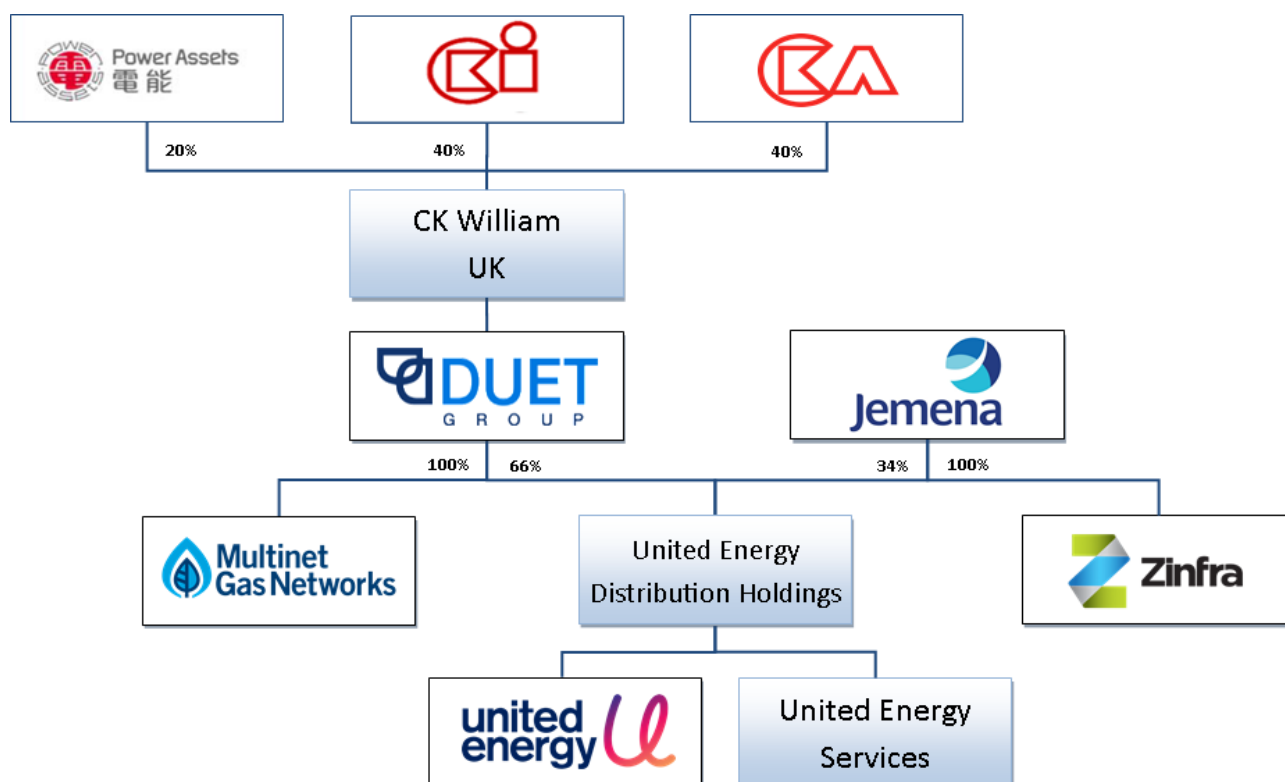
1.1 Corporate structure

Our ownership is divided between CK Infrastructure, Power Assets Holdings, CK Asset Holdings and Jemena:

- CK Infrastructure, Power Assets Holdings and CK Asset Holdings, which are members of the CKI Group of companies based in Hong Kong, hold a 66 per cent stake in our business.
- Jemena, one of the five regulated energy distributors in Victoria, owns the remaining 34 per cent.

This ownership structure is shown in figure 1.

Figure 1 Group structure



Source: United Energy

Our corporate structure includes related parties that contribute to the provision of distribution services. These other related parties are discussed below.

1.1.1 United Energy Services Pty Ltd

Previously UE & Multinet Pty Ltd (**UEM**) was established as a common employment and services company to provide services to the United Energy business and Multinet Gas business. In 2017 the DUET Group was acquired by our majority shareholders noted above. The CKI Group of companies also hold a majority stake in other Victorian distribution businesses, CitiPower and Powercor, and the three of us have moved towards a shared corporate services function generating significant scale efficiencies.

Accordingly, since the DUET acquisition the United Energy and Multinet Gas businesses have progressively undergone operational management separation.

In December 2018 United Energy Services Pty Ltd (**UES**) was created as a separate legal entity to further advance this approach and to provide us with specialist engineering, network and corporate services. Therefore, during 2019 UEM's role as one of our service providers has been replaced in all material respects by UES.

These services are provided by UES to us pursuant to an engineering and network services agreement and a corporate services agreement.

These services agreements are discussed in section 1.2.

1.1.2 Zinfra Pty Ltd

Zinfra Pty Ltd (**Zinfra**) is a related party which provides specialist network services such as construction and maintenance services. The services are provided to us under a network services agreement.

This service agreement is discussed in section 1.2.

1.2 Service agreements

As set out in section 1.1, we have entered into a number of service agreements with related parties. These service agreements are set out in table 1, and confidential supporting documents are attached with our regulatory proposal.¹

Table 1 Service agreements between related parties

Service agreement	Provider	Recipient
Network services agreement	Zinfra	United Energy
Corporate services agreement	UES	United Energy
Engineering and network services agreement	UES	United Energy

Source: United Energy

1.2.1 Zinfra Network Services Agreement

Under the network services agreement with Zinfra, it provides us with services including customer and connection services; asset replacement maintenance services; asset performance (fault) services; and network development. This agreement was conducted on a competitive tender basis.

The pricing of services under the network services agreement is based on a mix of fixed price quotes, unit rates and labour rates.

The network services agreement requires Zinfra to benchmark the unit costs of the same or similar services against prices offered in the Australian marketplace and industry. This ensures Zinfra prices services efficiently and competitively.

¹ UE ATT108 - Board paper Separation from MG - Dec2018 - Confidential.

The agreement requires Zinfra to assist with managing third party contracts which includes managing third party contracts and subcontractors with the proviso of written consent from the us and negotiating contracts. Moreover, the agreement lists the approved subcontractors and details information regarding the use of third party intellectual property and real time systems.

The terms of the current service agreement expires at the end of January 2021. We have the option, but not an obligation, to extend this agreement for a further year to the end of January 2022 and then again until the end of January 2023.

1.2.2 UES Services Agreements

Under the engineering and network services agreement, UES provides us with network services (including planning and strategy, asset management, vegetation management, information management, risk and assurance management and capital investment services) and service delivery services (including network control and operations, contract management, design, major projects and customer project/delivery services).

Under the corporate services agreement, UES provides us with corporate services including the chief executive officer, finance, company secretary, legal, audit, regulation, human resources, strategy, corporate affairs, customer services, information technology and office administration services.

For each agreement, the pricing is based on a mix of fixed price services, unit rates, labour rates and disbursements, noting that the services may comprise standard services and project services. The pricing is subject to scheduled review and indexation for inflation. For the purposes of each agreement, UES subcontracts services as needed.

Each agreement is negotiated directly with UES. That is, these agreements are not subject to a competitive tender process. These services are provided on a stand-alone basis rather than as part of a broader operational agreement.

The service agreement negotiations are undertaken using strict and established governance principles and methodologies for the engagement of related parties. The principles ensure commercial contract terms, including:

- the service provider is required to pass through scale efficiencies where it provides the same or similar services to other entities. This provides efficiencies that would not otherwise be available to us operating on a stand-alone basis.
- the service provider may be penalised (through lower payments) should it repeatedly underperform relative to key metrics. We do not have an obligation to accept offers from UES for project services and the services are not provided on an exclusive basis.
- we are only required to pay for the services we actually receive from related parties. This mirrors the competitive market supply of services.
- we can terminate the agreements with notice or if the other party is in breach of an essential term and does not remedy the breach.

These service agreements have enabled scale and scope efficiencies that would not otherwise be available if we did not outsource these services. These efficiencies are supported by the following:

- the AER's benchmarking analysis shows that we are the third most efficient distribution network in Australia. A key driver of our overall efficiency is the structure and rigour of our related party transactions.
- the AER has previously stated that given the incentives to minimise costs in the regulatory regime—such as the efficiency benefit sharing scheme (EBSS)—the revealed operating costs of a distributor are likely to be a reasonable approximation of efficient costs in the circumstances of that distributor for the scope of work

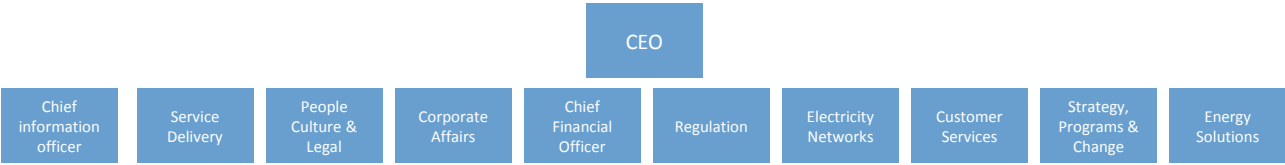
undertaken. Our total operating expenditure has been subject to an EBSS throughout the 2016–2020 regulatory control period. Consistent with the incentive framework, therefore, our actual operating expenditure in our base year should be considered efficient.

- as a privately owned business we have an obligation to maximise returns to shareholders. This contrasts with publically owned utilities that may face competing, non-commercial incentives that limit their responsiveness to profit based incentives.
- as a privately owned business, we also face scrutiny on our financial performance, beyond that of the regulator. For example, we raise financing from multiple parties. These multiple parties each continually monitor our performance, and the consequences of poor management may impact the capacity of the business to raise further capital. This provides further discipline on us to maintain an efficient expenditure profile.
- all investment cases prepared must provide adequate information about how the investment contributes towards our longer term strategic behaviour. Secondly, business cases require approvals from sub-committees of the Board, including the United Energy Investment Committee (**UE-IC**). This ensures our network planning and management objectives align with our regulatory and corporate strategic objectives.
- all of our proposed capital investments are appraised and approved through a governance process. This ensures a consistent investment appraisal criterion is applied to all investment decisions. The approval process delegates approval responsibility appropriately to the business unit senior managers (<\$600,000 direct costs), General Manager - Electricity Networks or General Manager - Service Delivery (\$600,000 to <\$1.2 million), and UE-IC (\$1.2million or greater). Further, this process is subject to periodic review and audit.

1.3 Organisational Structure

Our organisational structure is set out below, in figure 2.

Figure 2 Organisational structure



Source: United Energy