Jemena Gas Networks (NSW) Ltd

Response to the 2025-30 Access Arrangement Regulatory Information Notice

RIN Attachment 4.21

Related party agreements

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1. Overview

Jemena Gas Networks (NSW) Ltd (**JGN**) implements a combination of in-house expertise and outsourcing strategies to deliver its pipeline services effectively.

Over the past decade, JGN has continuously refined its outsourcing strategy to enhance value for both the company and its customers. While JGN handles management activities, strategic investment decisions, and a limited amount of network-related work in-house, the company's service delivery approach is designed to maximise efficiency, regardless of whether the services are provided internally or outsourced.

JGN's long-term strategy, which includes the period of the 2025 Plan period, focuses on partnerships with Jemena Asset Management Pty Ltd (**JAM**) and its relationship with specialist companies like Zinfra Pty Ltd (**Zinfra**) for operational, maintenance and construction services. Zinfra is further able to adjust the balance between in-house work and outsourcing based on labour and cost trends for construction, maintenance, and operational services. This delivers material benefits to JGN and its customers.

This document specifically focuses on the **outsourced services** currently provided by related parties and over the 2025-30 period, namely JAM and Zinfra. It also explains JGN's key outsourcing arrangements and demonstrates why they represent an efficient approach to providing services to customers.

Attachment A addresses requirements of clauses 4.21.4, 4.21.5 and 4.21.6 in the Access Arrangement (**AA**) Regulatory Information Notice (RIN).

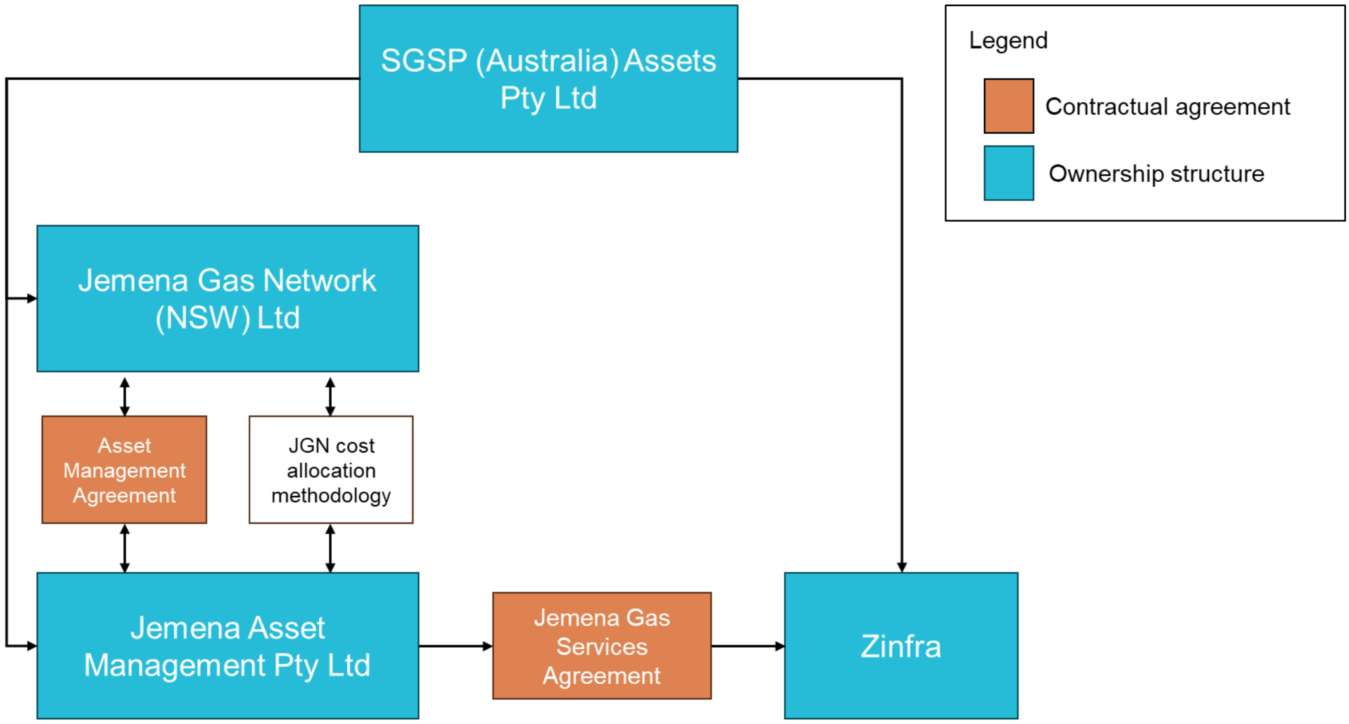
JAM provides a range of asset management services and network maintenance activities. It outsources a number of these activities. Table 1–1 describes the existing services that Zinfra is contracted to carry out for JAM.

Table 1–1: Services that Zinfra performs for JAM

Activity type	Services
Operational and maintenance services	Zinfra provides emergency response, repairs, corrective maintenance, and a number of customer support activities.
Construction services	Zinfra provides construction services including the building and connecting of gas mains and services in materials such as plastic, copper, and steel, ensuring adherence to JGN’s standards, securing approvals, and managing customer communications for new connections.
Management services	Zinfra provides operational and administrative functions, including asset and limited customer service management, workflow oversight, field delivery across various domains, supply chain and subcontractor management, along with health, safety, environmental oversight, engineering support, and technical investigations.

Figure 1.1 summarises the relationship between JGN, JAM and Zinfra, as well as the key agreements that govern the relationships between these entities.

Figure 1.1: Relayionships between JGN, JAM and Zinfra



JAM works closely with JGN to ensure the efficient and effective delivery of pipeline services. The strategy behind the AMA, endorsed by the JGN Board in August 2009, defines the relationship between JGN and JAM. It establishes a clear division between Jemena's asset ownership and management, delegating management tasks to JAM for various Jemena assets and sharing efficiency gains. Services and activities that fall outside of the AMA are allocated to JGN based on the *JGN cost allocation methodology*.[1] Section 3 provides further details on the AMA.

JAM engages Zinfra to peform services in relation to the JGN gas distribution network. Zinfra specialises in network services and balances insourcing and outsourcing of work to achieve value for JAM. The relationship between JAM and Zinfra is described in the Jemena Gas Services Agreemen (**JGSA**), which is further detailed in Section 4.

[1] Please refer to *JGN - Att 6.5 - Cost Allocation Methodology – 20240628* and *JGN - RIN – 4.10 - Jemena - Cost Allocation Methodology.*

2. Outsourcing model for the 2025-30 period

JGN aims to continue the outsourcing model for the 2025-30 period, based on the principles of collaborative planning, efficient cost management, ongoing performance monitoring, and fostering long-term partnerships. This model involves JAM contracting with Zinfra for various services. The JGSA enables Zinfra to deliver a range of services to JAM while adhering to the principles of long-term efficient cost management and collaboration:

- **Long-term collaborative planning and cost management adjustment.** The annual planning process allows Zinfra and JAM to collaboratively assess the upcoming work, adjust for changes in volume, costs, and major events, and agree on a Target Cost Estimate (**TCE**). This approach promotes transparency, alignment, and adaptability in the partnership. By annually reviewing and updating the TCE, JAM and Zinfra can respond to market dynamics and ensure the contract value remains fair and reflective of the actual work.

- **Ongoing performance monitoring.** To ensure ongoing performance monitoring, a performance review committee, consisting of senior managers from JAM and Zinfra, tracks the costs incurred by Zinfra and monitors their performance against the delivery plan. JAM holds monthly performance meetings with Zinfra to discuss cost or performance issues, with the committee serving as a platform for resolving any concerns that arise. Issues requiring further analysis are escalated to the Executive General Managers. This joint governance structure supports continuous improvement.

- **Fostering a long-term partnership.** The multi-year contract between JAM and Zinfra fosters a long-term partnership that encourages investment in innovation, process improvement, and skill development. This stability and alignment of interests may not be achievable through short-term, transactional relationships resulting from recurrent procurement. By committing to a long-term partnership, JAM and Zinfra can work together to optimise service delivery, drive efficiencies, and deliver value to customers over the long run.

This long-term model of service delivery provides benefits to consumers in the following ways:

- **Reduced transaction costs.** Frequent competitive procurement processes can be time-consuming and costly for both Jemena and potential service providers. The direct, long-term arrangement eliminates these recurring transaction costs, allowing resources to be focused on service delivery.

- **Knowledge retention and continuity.** A long-term partnership allows Zinfra to develop deep knowledge of JGN's assets, processes, and requirements. This institutional knowledge can lead to more efficient operations, quicker issue resolution, and smoother transitions between projects. Repetitive procurement may result in frequent supplier changes, leading to loss of knowledge and disruption.

- **Continued benefits from Zinfra's use of outsourcing and subcontracting.** Consumers continue to benefit from Zinfra's use of outsourcing and subcontracting. Zinfra adjusts the balance between in-house work and outsourcing based on labour and cost trends for construction, maintenance, and operational services. As the market for gas network services changes, becoming more specialised with a focus on environmental issues, sustainability, and achieving net-zero emissions, the ideal mix of insourcing versus outsourcing may evolve.

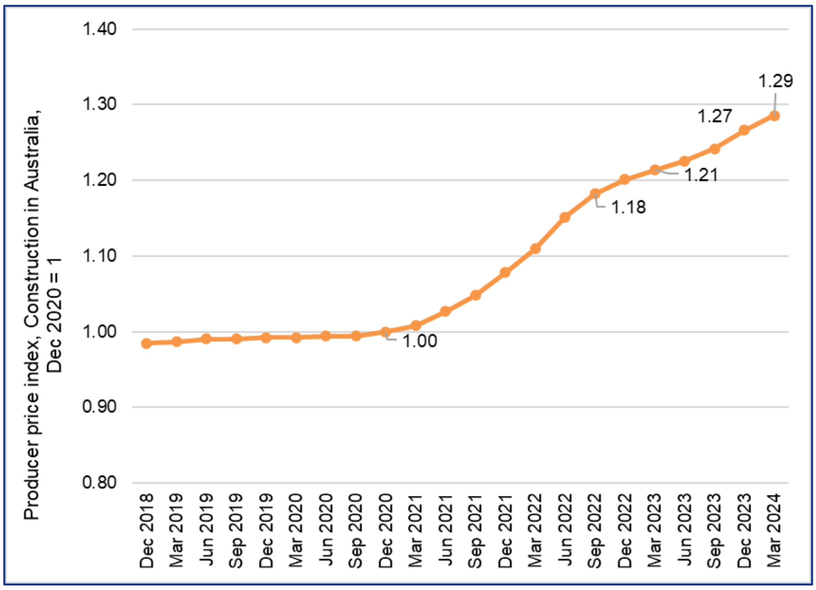
Other services delivered by JAM relate to IT support, finance, human resources, health and safety, corporate affairs, legal, property and procurement.

2.1 Avoiding cost pressures through balancing insourcing and outsourcing

The commercial arrangements between JAM and Zinfra offer a balanced approach to risk-sharing, performance management, and continuous improvement. The direct, long-term partnership can deliver cost efficiencies, service quality, and responsiveness that directly benefit customers, while avoiding some of the drawbacks associated with frequent procurement.

This approach is particularly relevant in light of the rising costs within the construction industry, as evidenced by the Australian Bureau of Statistics' (**ABS**) update for the final quarter of 2023 on Producer Price Indexes.[2] As shown in the chart below, the Producer Price Index for the construction industry, in Australia as a whole, has increased by 27% from December 2020 to December 2023.[3]

Figure 2.1: Producer Price Index for Construction in Australia



Source: Australian Bureau of Statistics, Producer Price Indexes, Series ID A2333649T, Output of the construction industry, Australia, February 2024. The series has been normalised to Dec 2020=1. Note that March 2024 data is from the latest version, Australian Bureau of Statistics, Producer Price Indexes, Australia, March 2024.

As noted by the ABS, the increase in construction costs is fuelled by sustained growth in construction outputs and exacerbated by high input prices, such as those for crude oil and energy, which subsequently influence prices across these sectors. Additionally, the construction industry faces ongoing challenges due to skilled labour shortages and rising operating costs for machinery.

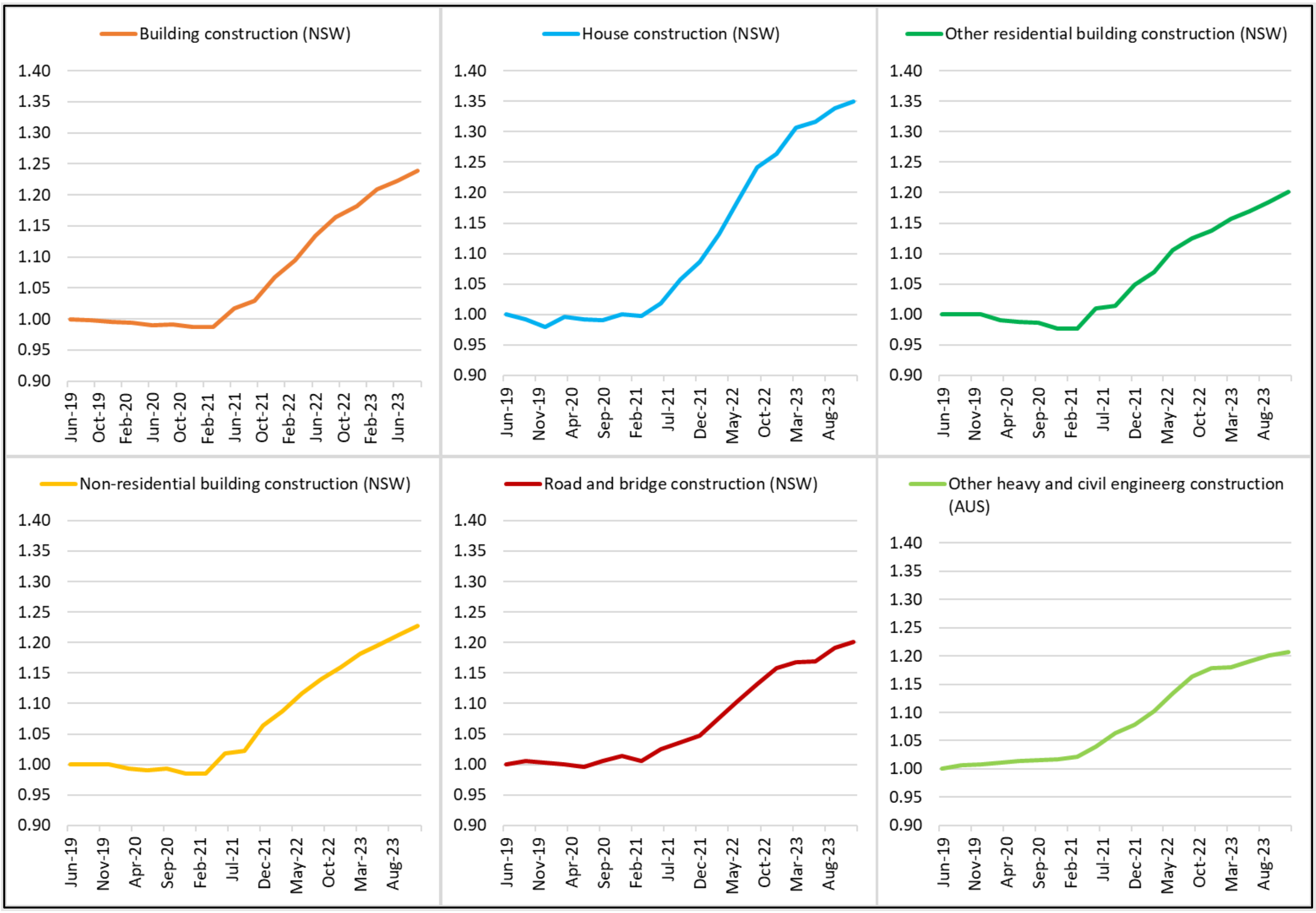
Moreover, growth in building construction has been driven by persistent shortages of skilled tradespeople, placing upward pressure on output costs. Further increases in non-residential construction sectors are due to contractors raising their margins to offset the risks associated with longer-term projects. While the prices of materials have remained stable, prices for concrete-based structural components rose further in the December 2023 quarter, driven by high demand and the effects of earlier increases in energy prices.

The Producer Price Index for Construction, when segmented by New South Wales (NSW) and specific subdivisions, shows consistent price increases across the board. Figure 2.2 highlights that in NSW, both the building construction and non-residential building construction sectors have experienced similar trends in rising prices. Additionally, for Australia as a whole, the heavy and civil engineering construction sectors have also faced significant cost pressures, although data specific to NSW was not available.

[2] See Australian Bureau of Statistics (2 Feb 2024), Producer Price Indexes, Australia, Reference period December 2023, accessed at https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/latest-release

[3] This information can be found in https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/dec-2023#key-statistics. See Table 17 of the Output of the Construction industries price indexes, which records price changes in selected construction sectors per ANZSIC 2006: Subdivision 30 includes Classes 3011 (House construction), 3019 (Other residential building), and 3020 (Non-residential building); Subdivision 31 covers Classes 3101 (Road and bridge construction) and 3109 (Other heavy and civil engineering construction).

Figure 2.2: Producer Price Indexes for Construction (NSW and Australia), various subdivisions



Source: Australian Bureau of Statistics April 2024, 6427.0 Producer Price Indexes, Australia. Table 17. Output of the Construction industries, subdivision and class index numbers. Accessible at https://www.abs.gov.au/statistics

Further, the Australian Energy Market Operator (**AEMO**), in its 2023 Transmission Expansion Options Report, noted that costs have been driven by supply chain constraints and global competition for electricity infrastructure assets. Although JGN is not a transmission asset, the cost challenges faced by transmission demonstrate that the energy sector as a whole is facing cost pressures as the sector transitions to net zero. The box below provides further detail on the forecast cost increase from 2022 to 2023 outlined in AEMO's Integrated System Plan.

Cost pressures in the Australian energy sector

The Australian energy sector is facing ongoing challenges in the delivery of materials and equipment, as well as shortages in workforce and skills, due to supply chain issues.

In 2023, AEMO released an updated Transmission Cost Database, which shows a real cost increase of up to 30% compared to the 2022 estimates, after adjusting for inflation.

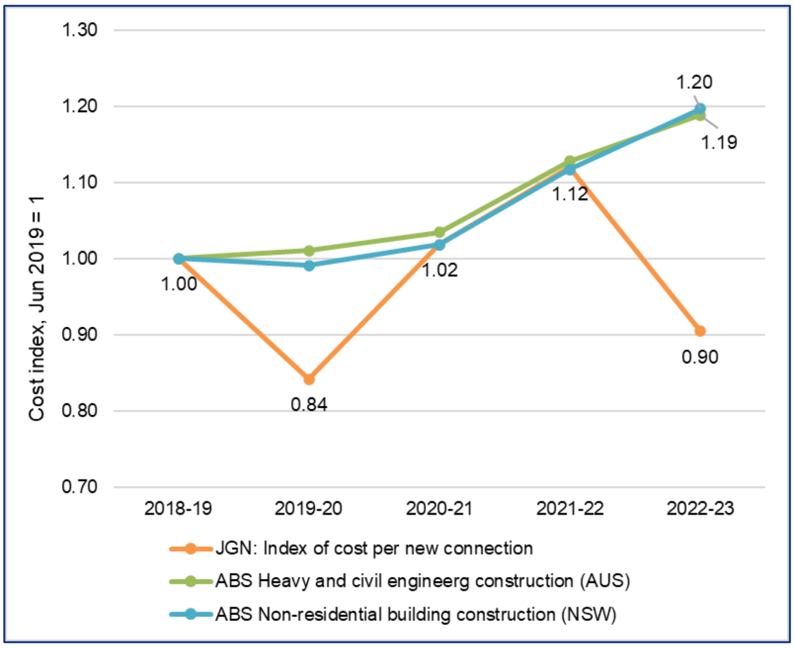
To address these unprecedented cost increases, AEMO has developed a new approach for the 2024 Integrated System Plan that applies additional escalation factors for individual cost components, such as commodity prices (e.g. oil, aluminium, copper, and steel) and land costs, based on expert advice and stakeholder input.

AEMO expects transmission project costs to continue rising above the inflation rate as the sector responds to market pressures driven by the global push for net-zero emissions.

Source: AEMO. 2023 Transmission Expansion Options Report, September 2023: For the Integrated System Plan (ISP). See pages 3 and 4.

JGN has managed to keep its costs below broader construction and energy sector cost increases. This is demonstrated in Figure 2.3, which illustrates growth rates of various cost indices from RY19 to RY23, i.e. from June 2019 to June 2023 (note that the cost indices commence at the end of the regulatory year, e.g. June 2019 for RY19). As seen in Figure 2.3, the Producer Price Index for Non-residential building construction (NSW) increased by 20%. The Producer Price Index for Heavy and civil engineering construction (AUS) grew by 19% within the same period.

Figure 2.3: Producer price indices



Source: Australian Bureau of Statistics, Producer Price Indexes, Australia February 2024 and JGN RIN data. Note that the unit cost per connection excludes capital contributions, and refer to both electricity-to-gas connections and new home connections.

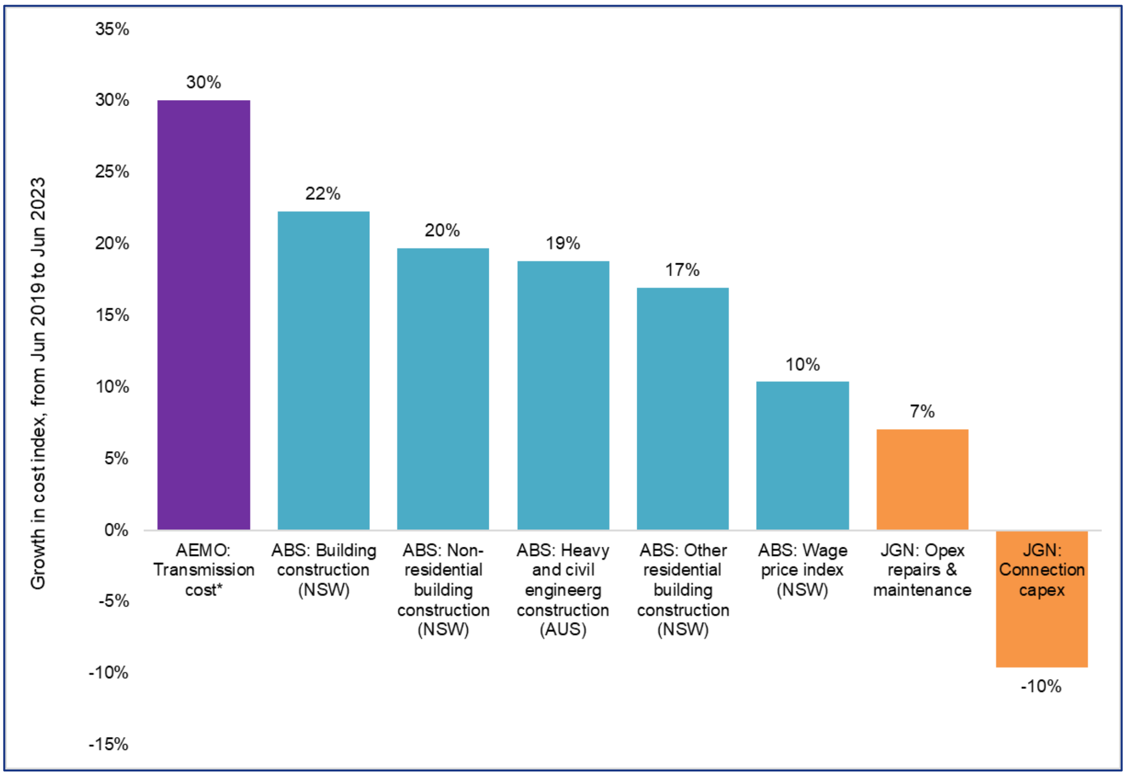
Conversely, JGN's capex per new connection (excluding capital contributions) grew by 12% from RY19 to RY22, but from RY19 to RY23, reduced by 10%. To ensure that costs continue to escalate at a rate lower than the broader market, Zinfra must persistently optimise its mix of insourced and outsourced work, leveraging the strengths of each approach to maintain cost-effectiveness and operational efficiency.

Figure 2.4 compares the percentage growth of JGN's connection cost index against various other cost indices for the period from June 2019 to June 2023. The chart illustrates that the growth in JGN's connection capital expenditure (capex) per connection[4] and repairs and maintenance operating expenditure (opex) per customer[5] is substantially lower than the cost increases observed in the market, as evidenced by the higher growth rates of the other cost indices included in the comparison.

[4] Capex per connection cover electricity-to-gas connections and new home connections, and exclude capital contributions.

[5] Operating expenditure cover repair and maintenance costs, as well as other opex.

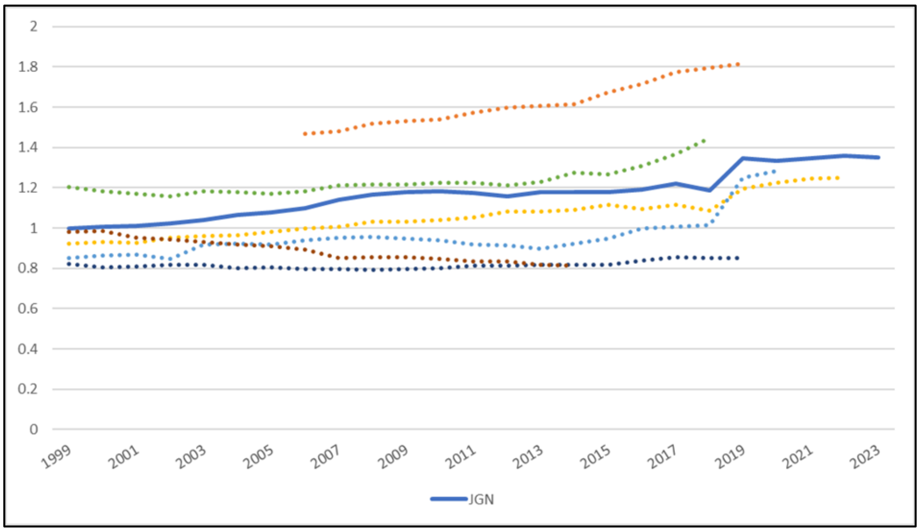
Figure 2.4: Comparison of growth in cost indexes: AEMO, ABS and JGN



Source: Australian Bureau of Statistics, Producer Price Indexes, Australia February 2024, AEMO 2023 Transmission Expansion Options Report, ABS Wage Price Index, and JGN RIN data. AEMO (2023) is based on cost increase from 2022 to 2023. JGN's opex and capex indices are based on opex (repairs, maintenance and other opex) per customer and capex (excluding capital contributions) per new connection for electricity-to-gas and new home connections.

The efficiency of JGN's costs is further supported by a CEG study (see *JGN - CEG - Att 6.4 - Relative efficiency and forecast productivity growth of JGN),* which observed that JGN's costs are efficient when compared to other gas distribution networks. Specifically, the study concluded that JGN's capital productivity consistently ranks among the top three Australian gas distribution networks over time. This is shown in the figure below.

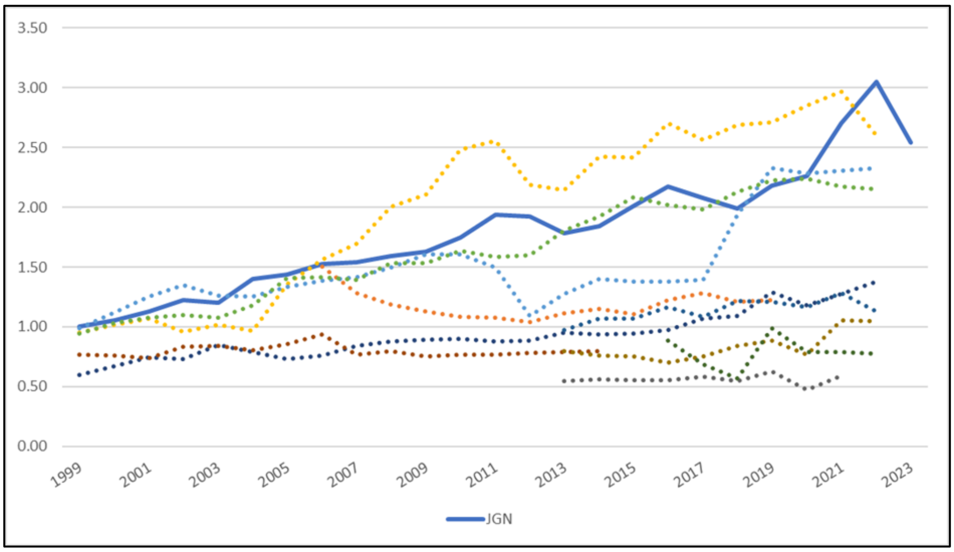
Figure 2.5: Multilateral capital partial factor productivity index



Note: JGN data from 1999 to 2023. Comparison made against Australian GDBs where data is available. New Zealand GDBs not included due to lack of data.

Similarly, the multilateral opex partial factor productivity index demonstrates that JGN's opex has been efficient relative to other networks and across time, as demonstrated in the figure below.

Figure 2.6: Multilateral opex partial factor productivity index



Note: JGN data from 1999 to 2023. Comparison made against Australian and New Zealand GDBs.

The CEG study concluded that JGN has been efficient in terms of both capital and operating expenditure. Consequently, on an overall cost basis, JGN has demonstrated efficiency across time and when compared to other gas networks in Australia and New Zealand.

3. Jemena Asset Management

3.1 Background

JGN and JAM's relationship is governed by the AMA, as well as other support services covered under the *JGN cost allocation methodology.*[6] Under the AMA, JAM provides network operations and maintenance services to JGN, with the costs being passed through to JGN. This cost pass-through aspect of the AMA allows JGN to directly benefit from any cost reductions that JAM achieves through its subcontracting strategies, including its arrangement with Zinfra, which is outlined in the JGSA.

3.2 Procurement

3.2.1 History of the AMA

The AMA was established in August 2009 following an request for proposal (**RFP**) process and extensive negotiations in 2008 and 2009, which were supervised by a probity auditor. During the AMA negotiations, JGN applied internal controls similar to those used in external competitive tenders. This included issuing a formal RFP to JAM, receiving a structured response with a clear quality and assurance process, conducting methodical commercial negotiations with probity oversight and documented trails, and creating an asset owner committee to guide strategy and approve service scopes, pricing, incentives, and terms for the AMA.

JGN assigned senior representatives to the negotiations to ensure effective service provision by JAM. Pitcher Partners, an external probity advisor, reviewed the AMA negotiation and managed conflicts of interest. The JGN Board approved the AMA, with supporting documentation submitted in August 2009 for the 2010-2015 regulatory period.

The AMA underwent amendments during 2010-2015, and following a number of extensions is scheduled to expire 30 June 2024. JGN and JAM are presently reviewing the existing AMA with a view to executing an updated AMA to commence from 1 July 2024.

While the AMA is currently under review to assess the continuity of the relationship, the fundamental cost basis remains unchanged. The pass-through of costs will continue to apply, without any additional mark-up. It is anticipated that the updated AMA will include improvements to the Capital and Operating Work Plan (**COWP**) process.

3.2.2 Procurement process – COWP and Services Budget

Under the AMA, each year JAM must prepare a draft COWP and Services Budget[7] for the following year, adhering to the Asset Management System.[8] This draft must be in a format specified by JGN and reflect the efficient costs of service provision. In the AMA, 'Efficient Costs' is defined as "*those costs necessary to be incurred by the Manager [of JAM] acting prudently and efficiently in accordance with Good Industry Practice*[9] *to carry out the Services in accordance with the requirements of this agreement and to allow the Owner [JGN] to achieve the lowest sustainable cost of delivering services to its Customers*".

JGN reviews the drafts, providing feedback on approval status. If not fully approved, JAM revises the drafts considering JGN's feedback. If no agreement is reached before the new year, JGN can set temporary terms.

6 Please refer to *JGN - Att 6.5 - Cost Allocation Methodology* and *JGN - RIN – 4.10 - Jemena - Cost Allocation Methodology*.

7 Services Budget means the Operating Expenditure Forecast and Capital Expenditure Forecast developed and published in the Capital and Operating Work Plan and/or Asset Investment Plan.

8 Asset Management System means the system of process and supporting documentation adopted by Jemena Group to manage the life cycle of its assets as notified to the Manager [JAM] from time to time, and all amendments or supplements to that system approved by Jemena Group.

9 The AMA defines Good Industry Practice as "*the practices, methods and acts that would reasonably be expected from experienced and competent persons engaged in the business of providing these services in Australia, acting with all due skill, diligence, prudence and foresight and in compliance with all applicable legislation, authorisations and industry codes of practice*".

Quarterly meetings review performance and allow adjustments to plans and budgets, subject to approval for any budget increase.

Throughout the year, JAM must create a business case for each non-routine capital project as set out in the COWP. JAM can approve expenditures up to a certain limit, beyond which JGN must approve. JGN can either approve the business case, request changes, or reject it. No work on these projects can begin until the business case is approved. JAM must follow Jemena Group's procurement policies when providing services and handling major contracts.

3.3 Services

Under the AMA, JGN contracts the performance of asset management services to JAM. JAM subcontracts the performance of various services to Zinfra. For a detailed overview of the specific services that Zinfra is contracted to perform by JAM, please refer to Section 4.3. In general, the services that JAM subcontracts to Zinfra include the following:

- Service integration
- Capital works
- Network operations and maintenance
- Other technical services

Other services relating to IT support, finance, human resources, health and safety, corporate affairs, legal, property and procurement are charged by JAM based on the *JGN cost allocation methodology.*

3.4 Costs under Jemena Asset Management

JAM directly transfers the costs incurred in performing asset management services to JGN without adding any margin. JAM has been an integral part of Jemena's asset business, serving as the contracting entity for Jemena's asset-owning divisions. The table below demonstrates that the costs incurred by JAM match the costs transferred to JGN.

Table 3–1 Breakdown of costs between JAM and JGN, $ millions

	RY21	RY22	RY23
Labour	19	25	29
Contractor Costs	185	195	215
Materials	1	0	6
Other Direct Expenditure	67	55	100
Overheads	46	33	48
Margin	0	0	0
Total	**317**	**307**	**398**

Source: JGN Finance and RIN data, unadjusted for inflation. Note: Other Direct Expenditure includes UAG costs.

3.5 How the arrangements between JAM and JGN delivers value for JGN and its customers

Under the AMA's centralised governance framework, JGN aims to strike a balance between in-house operations and outsourced functions. JGN outsources a range of activities to JAM, which engages specialised companies (e.g., Zinfra) who have acquired deep expertise in these other areas and can perform these tasks more proficiently, efficiently and cost-effectively than JGN could self-perform these activities. This enables JGN and its management to dedicate focus on the delivery of pipeline services and customer experience.

A range of support functions are transacted between JAM and JGN, and these are covered under the *JGN cost allocation methodology.*

Please refer to Section 2 for an overview of the value delivered under the arrangements between JAM and JGN.

4. Zinfra

4.1 Background

JAM has a contractual relationship with Zinfra that is governed by the JGSA. JGN is not a party to the JGSA; the agreement is solely between JAM and Zinfra. The involvement of JAM, and the approach adopted to reflect genuine negotiation between the various parties, creates separation between JGN and Zinfra, with a view to better replicating the independence that would be evident with an arms-length relationship between Zinfra and JGN.

Under the terms of the JGSA, Zinfra provides a range of services to JAM, including operational and maintenance, construction, and management services. These services are provided on a cost pass-through basis with a margin, which stood at [redacted] in RY21, [redacted] in RY23, and averaged [redacted] per annum from RY21 to RY23 (see Table 4–1). The cost pass-through element of the agreement ensures that JGN directly benefits from any cost savings that JAM achieves through Zinfra's competitive outsourcing and subcontracting arrangements.

Zinfra strikes a balance between its in-house operations and outsourcing work based on the complexity of the work, resource requirements, and cost-effectiveness. The box below describes considerations undertaken by Zinfra in balancing in-housing vs. outsourcing work.

Considerations for balancing in-house and outsourcing work by Zinfra
The balance between in-house and outsourced work depends on various factors. The primary objective of balancing in-house and outsourced work is maintaining a stable internal workforce for efficient execution, while leveraging external resources to handle fluctuations in demand and specialised tasks.

Key considerations in achieving this balance include:

- the nature of the work (e.g., repairs and maintenance vs. complex construction projects);
- the expected duration and volume of work;
- the potential for cost savings.

Insourcing stable, ongoing work, such as repairs and maintenance, can provide greater control and potentially reduce costs. Conversely, outsourcing work that is expected to diminish over time can help avoid underutilisation and redundancy payouts.

Complex, long-term construction projects may benefit from insourcing to build internal capabilities and reduce spending, even if initial labour costs are higher. However, maintaining some level of outsourcing is essential to effectively handle peaks and troughs in demand.

To deliver future efficiencies, Zinfra will continue to optimise its insource/outsource model, aiming to reduce contractor expenditure while simultaneously improving long-term program planning. By enhancing performance measurement, reporting, and job scheduling, Zinfra can further optimise its operations. Furthermore, by reducing wasted site visits through improved access to customer details and contact information, and aligning job scheduling, planning, and dispatch to best practices, Zinfra can increase crew utilisation, leading to improved efficiency and productivity.

These opportunities will ensure that Zinfra's margins remain sustainable at approximately [redacted] n the long term. Taking into account these improvements, along with the inflationary pressures and demands in the construction market, we believe that the JGSA is a prudent and efficient approach to mitigate risks and deliver value in terms of service delivery.

The JGSA, which began in September 2019, is scheduled to end on December 31, 2025. However, JGN plans to exercise its option to extend the agreement, with the next term running from January 1, 2026, to December 31, 2030.

4.2 Procurement

The procurement process between JAM and Zinfra is similar in process to the one outline in the AMA (see section 3.2).

Each year, by around March, JAM sends a draft COWP to Zinfra, who then creates a draft delivery plan based on it. Zinfra's task is to review the draft COWP and propose a delivery plan to JAM. This process involves assessing risks and capacity to provide services, identifying required resources, noting important deadlines and information needed from JAM, and suggesting changes to the TCE based on the COWP. JAM reviews Zinfra's amendments to the TCE.

JAM and Zinfra then negotiate on the TCE and management fee, taking into account the following factors:

- expected changes in the volume of services
- variations in supply costs
- the impact of significant events from the current year
- any other reasonable costs needed for service delivery, excluding irregular one-time costs.

The agreed TCE then sets the budget for the coming year. JAM and Zinfra must finalise the Delivery Plan by the end of the calendar year.

This annual process allows Jemena and Zinfra to update the contract's estimated value (i.e. TCE) each year, reflecting changes in service volumes, costs, and other relevant factors while excluding non-recurring costs to maintain a fair ongoing contract value.

JAM pays Zinfra for services delivered by Zinfra in the following ways:

- Operational and Maintenance Services: As a cost pass-through and invoiced monthly.
- Construction services: As a cost pass-through and invoiced monthly.
- Management Services: As an agreed fee and invoiced in 12 monthly equal instalments.

4.2.1 Performance review

A performance review committee, consisting of senior managers from JAM and Zinfra, tracks the costs incurred by Zinfra and monitors its performance against the delivery plan. JAM holds monthly performance meetings with Zinfra to discuss cost or performance issues, with the committee serving as a platform for resolving any concerns that arise. Issues requiring further analysis are escalated to the Executive General Managers.

4.3 Services

Under the JGSA, Zinfra provides a range of services to JAM, who ensures that Zinfra undertakes any works required by JGN. The main categories of services that Zinfra provides to JAM, under the JGSA, include operational and maintenance services, construction services, and management services. These are further described below.

4.3.1 Operational and maintenance services

Zinfra offers a variety of Operational and Maintenance services, such as faults and emergency response, planned repairs, corrective maintenance, and various operational and customer-oriented support functions. These are further elaborated in the table below.

Type of service	Description

Faults and Emergency Services	This service involves responding to unplanned events on JGN. Zinfra is required to provide Faults and Emergency Response Services during both normal hours and outside of normal hours. This encompasses both first and second response by deploying crews and subcontractors who are already engaged in planned repair and maintenance services.
Planned Repair and Corrective Maintenance Services	Zinfra provides services for both planned repairs and corrective maintenance, which involve assessing and monitoring site conditions, investigating and scoping planned works before commencement, and handling various tasks related to maintenance, meter testing, easement maintenance, erosion maintenance, cathodic protection, leakage surveying, and easement surveillance.
Operational and customer services	Zinfra offers a range of operational support services, including: • Permit Issuer Services to ensure compliance with Jemena's work procedures at potentially hazardous sites • Welding Inspector Services to meet Jemena's standards for on-site welding operations • Surveying Services to manage Distribution Network easements and facilities • Standby Services to maintain the integrity of the Distribution Network during critical operations • Traffic Management Services to coordinate routine and emergency traffic conditions around work sites • Disconnection and Reconnection Services at metering points and boundaries upon request

4.3.2 Construction services

Zinfra's construction services involve building and connecting plastic, copper, and steel gas mains and services. This includes adhering to JGN's standards for all preparatory and finishing works, supervising and auditing construction for compliance, providing estimates and progress reports, securing necessary approvals, and managing customer communication and liaison while ensuring compliance with legislative and JGN requirements.

Type of service	Description
Routine construction services	• Plastic mains extensions • Steel service connections • Installation of cathodic protection • Installation of meter sets • Meter delivery and inspection services • Water meter replacement services
Routine project services	Zinfra provides Routine Project Services, which include mains insertions, disconnections, asset bypassing, connections to existing assets, obstruction removal, and service upgrades in the mains insertion area. Routine project services also includes the installation and testing of steel gas mains.
Non routine project work	Non-Routine Project Work is also offered to support Jemena's broader operational and capital works plans.

4.3.3 Management services

Zinfra provides Management and Support Services that cover a wide range of operational and administrative functions. They manage interfaces for assets, customer service, and network operations while overseeing the entire workflow through Program of Works Management. Zinfra also handles Field Delivery Management across construction, maintenance, metering, and emergency responses.

Furthermore, Zinfra is responsible for supply chain and sub-contractor management, as well as implementing quality and risk management strategies. They ensure health, safety, and environmental compliance, manage network data, and provide engineering support for meters and ancillaries. Zinfra also takes care of reporting, business processes, budget control for preventive and corrective programs, facilitates meter access, and conducts technical investigations.

4.4 Costs under this agreement

The table below summarises the costs under the JGSA. The fees paid to Zinfra includes a management fee and other related expenses. For the period spanning from RY21 to RY23, the total costs under this agreement amount to $525 million. Zinfra's overall margin for this period is [redacted]

Table 4–1 Breakdown of costs between JAM and Zinfra, $ millions

	RY21	RY22	RY23
[redacted]			
Total	**165**	**169**	**191**

Source: JGN Finance and RIN data, unadjusted for inflation.

4.5 How this contract delivers value for JGN and its customers

Under the JGSA, Zinfra's cost and performance is monitored on an ongoing basis, and compared against external market trends in construction and the energy sector. Zinfra strikes a balance between in-house operations and outsourced functions, depending on market conditions and inflationary pressures. This model is flexible and enables Zinfra to in-source when it is cost-effective to do so, and out-source when the market is experiencing less demand pressure. Based on a comparison of various cost measures (see Section 2.1), Zinfra's costs have remained below market cost indices. On this basis JAM is likely to initiate the option to seek extension of the term of the JGSA for the forthcoming 2025 AA period.

Appendix A
Details of the procurement arrangements for JGN's outsourced services

Jemena
bringing energy to life

A1. Details of the procurement arrangements for JGN's outsourced services

The following table provides a summary of the procurement of the services provided through outsourcing arrangements, and addresses the requirements set out in clauses 4.21.4, 4.21.5 and 4.21.6 in the Access Arrangement (AA) RIN.

	Procurement process (4.21.4(a)(i))	Supporting documentation (4.21.4(a)(ii))	Why outsourced? (4.21.5(a))	Standalone agreement (4.21.5(b))	Competitive tender (4.21.5(c))	Further outsourcing (4.21.5(d))
Asset Management Agreement (**AMA**)	Refer to section 3.2.2	See attached AMA	Refer to section 2 and section 3.5	These services are provided under a standalone agreement.	The procurement of these services was not openly tendered, but JGN followed a robust process in setting up the original AMA.	JAM further outsources components of its services to Zinfra, which further outsources components its services through competitive processes to other construction and services companies.
Jemena Gas Services Agreement (**JGSA**)	Refer to section 4.2	JGN is not a party to the JGSA.	Refer to section 2 and section 4.5	These services are provided under a standalone agreement.	Refer to section 2. The procurement process is not competitively tendered; instead, it is based on a long-term arrangement focused on cost management and adjustment.	Zinfra further outsources components of the services it provides through competitive processes to other construction and services companies.

A2. Contract details JGN's outsourced services

The following table provides a summary of the procurement of the services provided through outsourcing arrangements, and addresses the requirements set out in clauses 4.21.6 in the Access Arrangement (AA) RIN.

	Copy of the agreement (4.21.6(a))	Breakdown of all the services provided (4.21.6(b))	Breakdown of the costs (4.21.6(c))	Costs in the contract price (4.21.6(d))	Methodology to determine costs in contract price (4.21.6(e))
Asset Management Agreement (**AMA**)	See attached supporting documents.	Refer to section 3.3	Refer to section 3.4	An explanation of the costs in the contract price is included in section 3.4.	There is an annual process that sets the contracted budget and volume of work that JAM will deliver to JGN. See section 3.2.2
Jemena Gas Services Agreement (**JGSA**)	See attached supporting documents.	Refer to section 4.3	Refer to section 4.4	An explanation of the costs in the contract price is included in section 4.4.	Refer to section 4.2.