



Supporting
document 18.11

Related Party Transactions Overview

2020-2025
Regulatory Proposal
January 2019



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SA Power Networks Regulatory Reset RIN for 2020-25 Determination

28. RELATED PARTY TRANSACTIONS OVERVIEW

28.1 *Identify and describe all entities which:*

- (a) are a related party to SA Power Networks and contribute to the provision of distribution services by SA Power Networks; or*
 - (b) have the capacity to determine the outcome of decisions about SA Power Networks' financial and operating policies.*
- (a) Some select inputs to the provision of distribution services by SA Power Networks are and may continue to be procured from the following related parties:
- CKI/HEI Electricity Distribution Services Pty Ltd (CHED Services) – CHED Services is a wholly owned subsidiary of CKI/HEI Electricity Distribution Holdings (Australia) Pty Ltd. CHED Services provides corporate functions to other subsidiaries of Victoria Power Networks, including distribution network service providers (DNSPs) Powercor and CitiPower. Victoria Power Networks shares the same ownership as SA Power Networks, refer to diagrams in Appendix A. CHED Services provides a range of shared corporate, Information Technology (IT) support and contact centre services to SA Power Networks.
 - Enerven Energy Infrastructure Pty Ltd and Enerven Energy Solutions Pty Ltd (collectively Enerven) – Enerven is a wholly owned subsidiary of the SA Power Networks Partnership. Enerven was incorporated from 1 January 2018 to meet the legal separation requirements of the AER's Ringfencing Guideline (Guideline). Enerven predominantly provides non-distribution services to various customers including ElectraNet, NBN and government agencies via contracts won through competitive tenders. These services were previously provided by SA Power Networks' internal Construction and Maintenance Services (CaMS) group, prior to legal separation to meet Guideline requirements. Enerven also occasionally provide some discrete work as inputs to the provision of regulated distribution services by SA Power Networks.
- (b) Neither of the above entities have the capacity to determine the outcome of decisions about SA Power Networks' financial and operating policies. SA Power Networks operates totally independently from Victoria Power Networks. Further, SA Power Networks' group policies and directives apply equally to the distribution (ie SA Power Networks regulated) and non-distribution (ie Enerven) businesses. In accordance with SA Power Networks' corporate governance, group policies are approved by the SA Power Networks Partnership Board and directives by the Chief Executive Officer.

28.2 *Provide a diagram of the organisational structure depicting the relationships between all.*

A copy of SA Power Networks' corporate structure is contained in Appendix A, depicting the relationship with related parties who provide inputs to the delivery of distribution services by SA Power Networks. Also included is the corporate structure for Victoria Power Networks to demonstrate the relationship with CHED Services.

28.3 Identify:

- (a) *all arrangements or contracts between SA Power Networks 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 period 2018-19 to 2024-25 which relate directly or indirectly to the provision of distribution services; and*
- (b) *the service or services that are the subject of each arrangement or contract.*

CHED Services

Activities / services provided by CHED Services to SA Power Networks are covered by arms-length contracts that have been in place since 2005 and which therefore have been incorporated into the AER's last two distribution determinations. These contracts have been regularly renewed, with the latest renewal to apply from January 2019. The contracts include:

- FRC Shared Services Agreement – for processing connection requests, data management, revenue management and reporting;
- FRC IT Support Systems Services Agreement – for supporting customer related applications and other IT requirements; and
- Contact Centre Services Agreement.

CHED Services have provided the above services since 2005. A copy of each contract is contained in Supporting Documents 18.14 to 18.16.

Enerven

Enerven, previously CaMS, have traditionally provided some inputs to the provision of distribution services by SA Power Networks, for specific specialist components to network field-work within standard control services (SCS), and maintenance and construction work in relation to alternative control services (ACS) metering and public lighting. Enerven related party costs represent approximately 0.5% of total SCS opex and 1.9% of total SCS gross capex since its incorporation¹.

The following contracts apply for the delivery of distribution services by Enerven:

- Powerline Construction and Maintenance Works QT2492 – to provide services via an external work request or works package for such powerline services such as line-arm replacement, transformer fuse upgrade of replacement, LV and HV pole replacements; and
- Enerven/SA Power Networks Service Agreement – to provide general services, including construction and maintenance of electricity infrastructure and LEDs, field meter maintenance, network communications, calibration and testing, emergency restoration works.

Further, the following contract applies for the provision of corporate services by SA Power Networks to Enerven:

- SA Power Networks/Enerven Corporate Service Agreement – for SA Power Networks to provide corporate and other services to Enerven.

The above contracts were established with the incorporation of the Enerven companies from 1 January 2018. A copy of each contract is contained in Supporting Documents 18.17, 18.18 and 18.23 (see Supporting Document 18.17 - SAPN Powerline Services Agreement, 18.18 - Enerven and SAPN Services Agreement, and 18.23 - SAPN and Enerven Corporate Services Agreement)

¹ to 30 June 2018.

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

(ii) supporting documentation including, but not limited to, requests for tender, tender submissions, internal committee papers evaluating the tenders, contracts between SA Power Networks and the relevant provider.

(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 SA Power Networks itself;

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

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

(iv) whether the service (or any component thereof) was further outsourced to another provider.

CHED Services

CHED Services have provided the above listed services to SA Power Networks since 2005. SA Power Networks did not originally seek to tender in the open market due to the specialised nature of these services which were / are not readily provided by service providers in competitive markets. We instead looked to leverage CHED Services' systems and other market system customisations that were already developed and functioning for the specialised FRC business processes.

Each of the three contracts has a defined scope detailing the type of activities to be performed by CHED Services and established key performance indicators (**KPI**) are reported regularly to SA Power Networks. The contracts have been renewed at regular intervals, the current contracts are the fifth iteration of the original agreements and commence from 1 January 2019.

The contracts have been renewed due to their specialist nature. In the latest renewal, we reduced the scope and the related fees for the FRC Shared Service Agreement. These changes result from the industry impact of metering contestability and the opportunity for SA Power Networks to streamline internal processes. Some of the activities provided by CHED Services will now be performed internally and the related service fees expenditure will be re-allocated to SA Power Networks internal operating expenditure.

Shorter renewal periods were applied to the new contracts recently signed to increase this flexibility to consider any efficient contracted service amendments in response to changes regulatory obligations and / or operating model. This is particularly pertinent with SA Power Networks currently implementing new customer systems.

An independent report has been obtained from KPMG to confirm that the agreements with CHED Services are negotiated and contracted on commercial and arm's length terms and to verify that the cost of services provided to SA Power Networks under these agreements are prudent and efficient. KPMG's report is contained in Supporting Document 6.7 (see Supporting Document 6.7 - KPMG - Independent Analysis of CHED Services Arrangements).

Amongst the summary observations on the efficiency of the CHED Services' contracts, KPMG found that²:

² KPMG, SA Power Networks, Independent Analysis of Service Arrangements, December 2018, page 4, refer Supporting Document 6.7.

- while SA Power Networks and CHED Services are related parties through their parent companies, the three services agreements are administered and managed as arms-length agreements;
- the three services provided by CHED Services are of specialist industry services and not readily provided by general services providers in open markets;
- the KPIs and contract management practices are broadly consistent with good industry practice for outsourcing arrangements; and
- on the basis of favourable benchmarking results for Contact Centre, Customer Services, IT and network operating expenditure, there is no evidence to indicate that the total fees of the three contracts are not efficient and therefore by inference, that the CHED Services fees would materially impact the efficiency of the determination of prudent expenditure costs.

SA Power Networks is not aware that CHED Services further outsource any component of the existing contracts to another provider.

Supporting documentation

The following supporting documentation in regard the three CHED Services agreements is provided: SA Power Networks Board approval to renew new contracts (see Supporting Documents 18.12 - Board Paper - Extension of CHED Service Agreements and 18.13 - Board Approval Extension of CHED Services Agreement); and contracts between SA Power Networks and CHED Services from 1 January 2019, recently renewed (see Supporting Documents 18.14 - CHED Services FRC Shared Services Agreement, 18.15 - CHED Services IT Support Services Agreement and 18.16 - CHED Services Contact Centre Services Agreement).

Additionally, KPMG's 'Independent Analysis of Service Arrangements' report is contained as Supporting Document 6.7 (see Supporting Document 6.7 - KPMG - Independent Analysis of CHED Services Arrangements).

Enerven

Enerven's predecessor, CaMS has traditionally provided some inputs to the delivery of regulated distribution services by SA Power Networks, primarily in the areas of network communications, construction and maintenance and emergency response. Since its establishment at 1 January 2018, the Enerven delivered portion of SA Power Networks' SCS expenditure is around 0.5% of total opex and 1.9% of total capex.

Enerven predominantly provide non-distribution services including electricity and telecommunications related services to clients in the public and private sectors, including ElectraNet, BHP Billiton, Oz Minerals, Power and Water Corporation, the Department of Defence, Local Government Councils and a significant national telecommunications project. These contracts are won through competitive tender. The specialist skills gained via and used to provide these services are readily transferable / applicable to undertaking aspects of electricity distribution services.

Enerven has not tendered to provide the opex SCS services previously provided by its predecessor, CAMS. There is no fixed agreement to provide these services, SA Power Networks may utilise Enerven services when a need arises or where it is prudent to do so. For example, Enerven have specialist skills in substation management obtained through their competitive work in maintaining transmission substation sites for its maintenance contract with ElectraNet. At times Enerven may also undertake maintenance on distribution assets in shared substations to achieve efficiencies for both distribution and transmission customers.

SA Power Networks may also utilise Enerven resources to provide specialist network telephony skills or to calibrate electrical equipment. Enerven offer these services in the open market and it is prudent and efficient to utilise Enerven services where required. Enerven may also be sought to provide assistance in emergency response conditions as it has the skills and resources to do so, and this would likely be in the best interests of the electricity customer.

SA Power Networks has utilised Enerven to assist with inputs to the delivery of our SCS, including in particular, to meet short-term resource ramp-up needs in relation to increased volume of network asset replacements. At times, procuring outsourced resources has / will be more prudent and efficient than increasing internal resources for work which may require significant resource ramp-up and be of uncertain longevity. This increased flexibility improves the 'option value' in our operations.

Inputs to our asset replacement and other network management work is also procured from unrelated service providers through procurement contracts. All related and unrelated procurement is subject to testing against a 'rate card' of competitively sourced rates for specific work (e.g. replacement of a cross-arm).

Benefits to electricity customers by utilising Enerven and other service providers to manage short-term peak loads includes:

- matching against competitively sourced rates ensures our costs are minimised; and
- drawing on external resources to manage work required on short notice, requiring resource ramp-up and work of uncertain longevity increases flexibility and improves the option value of our operations. This also minimises costs in our service delivery.

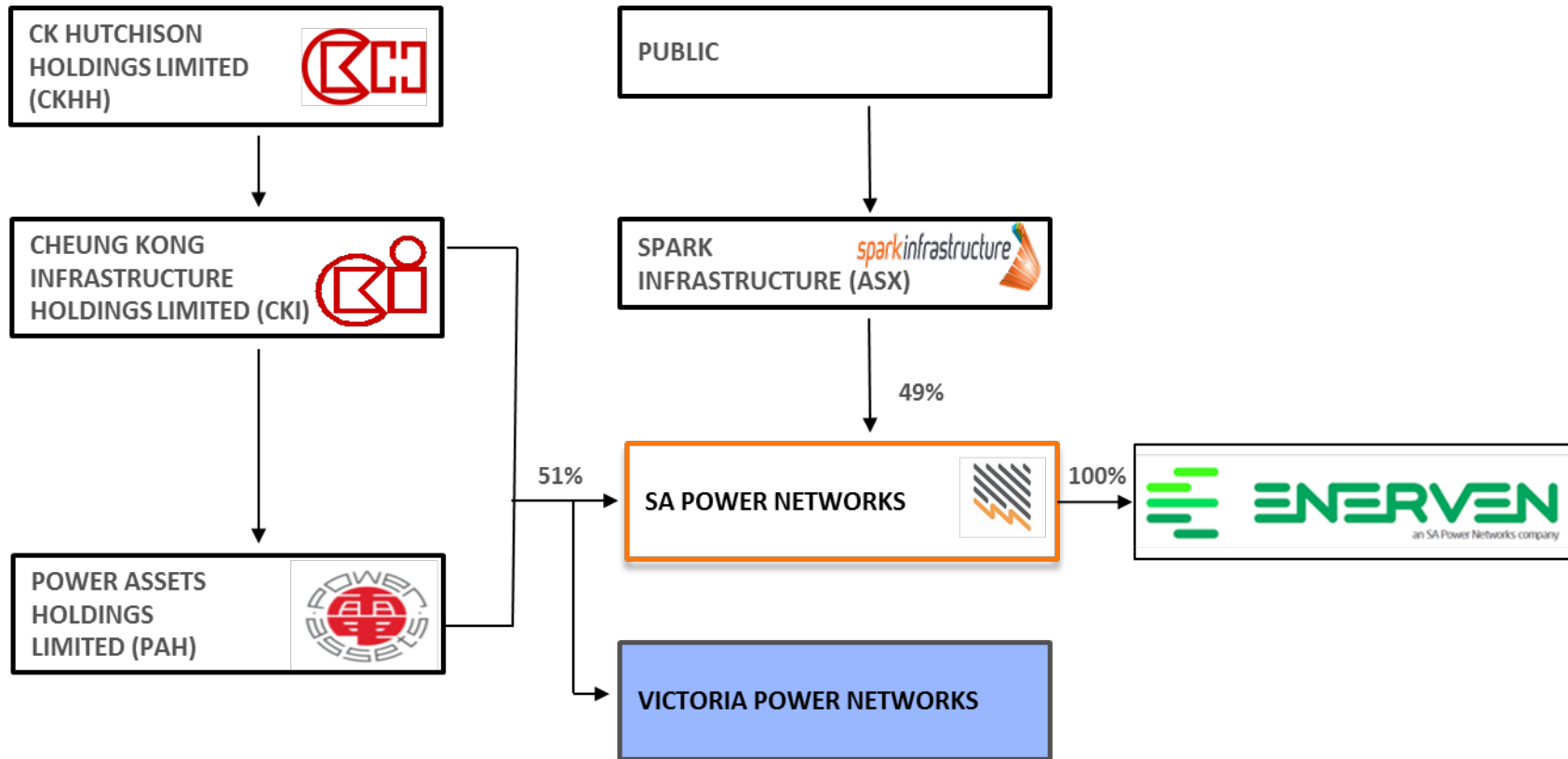
Supporting documentation

The following supporting documentation in regard the delivery of regulated distribution services by Enerven is provided:

- agreement for the supply of Powerline construction and maintenance services by Enerven to SA Power Networks (see Supporting Document 18.17 -SAPN Powerline Services Agreement);
- service agreement for the delivery of general services by Enerven to SA Power Networks (see Supporting Document 18.18 -Enerven and SAPN Services Agreement);
- approval for the delivery of contracted Powerline construction and maintenance services (see Supporting Document 18.19- Powerline Construction and Maintenance Services Procurement Recommendation)
- addendum for Enerven to deliver contracted Powerline construction and maintenance services (see Supporting Document 18.20 -Powerline Construction and Maintenance Services Contract Addendum); and
- service agreement for the provision of corporate services by SA Power networks to Enerven (refer Supporting Document 18.23 -SAPN and Enerven Corporate Services Agreement).

Appendix A

SA Power Networks Corporate Structure



Victoria Power Networks Structure

