



Related Party Procurement

Procurement Policy Summary

WEL Networks Ltd (WEL) procures a range of goods and services that enable the construction, operation and maintenance of our electricity network. While there is a need to ensure procurement delivers value for money, procurement should also ensure quality, safety, efficient and sustainable sourcing.

WEL Networks may engage related parties to deliver services on their behalf across the distribution network. Related parties may be chosen to achieve efficiency through obtaining desired quality/price, ensure high safety standards and retention of the appropriate skills within WEL.

A **related party** means a person that is related to the EDB, where the EDB would be considered as the 'reporting entity' under NZ IAS 24 or any part of the EDB that does not supply electricity distribution services¹.

The current procurement policy was approved in March 2019.

All work is either designed within WEL Networks or through external contractors with the correct expertise. If designed externally it is reviewed by the WEL Networks design team and/or Contract Managers.

WEL is legally responsible for the design and construction of the network and therefore any work carried out on the network must be completed by authorised contractors who are approved by WEL. These contractors are requested to undertake Health and Safety assessments as part of WEL's PCBU requirements and Public Safety Management systems. The list of approved contractors other than WEL's Contracting department can be found by contacting Customer Services on 0800 800 935.

There are a number of key considerations, constraints and drivers for the work allocation including overall network planning principles, network design, supplier expertise in delivery, supplier availability, price and quality.

All materials used on the network are sourced and issued through WEL Networks' Distribution Centre irrespective of who undertakes the work, to ensure consistency in products used as well as quality and pricing.

¹ Commerce Commission, *Electricity Distribution Service Input Methodologies Determination 2012*

Classification of related party procurement

WEL Networks splits its operational and capital expenditure into a number of categories. These categories serve as the basis for who may be engaged to undertake the work.

Classification	Category	Description	Supplier
Opex	Service Interruptions & Emergencies	These are usually first response costs that either fix or make safe lines/equipment that have been damaged due to weather events, human interaction e.g. car v poles and general faults.	WEL's Contracting division undertakes this work.
	Planned Maintenance	These are small, planned jobs to ensure the network and buildings are working efficiently and effectively.	WEL's Contracting division completes the majority of this work unless there is insufficient capacity or a higher skill set is held by an approved contractor.
	Vegetation	Tree maintenance plays a vital role in delivering a safe and reliable power supply to our communities.	WEL's Contracting division will undertake the work where critical unless the vegetation owner chooses another approved contractor.
	System operations & network support	WEL's Contracting division charges monthly fees for design, project management, As-Built and Data services.	WEL's Contracting division undertakes this work
	CAPEX	Network projects	Network projects tend to be planned in advance, e.g. substation upgrades.
	Asset replacement	Work under this category is largely improvement projects and planned in advance e.g. pole/crossarm replacements or cable conducting. They also include 2 nd response fault jobs when the jobs require asset replacements rather than just maintenance.	WEL's Contracting division and other approved contractors
	Customer Initiated Works	These works include subdivisions, new connections, asset relocations etc.	WEL's Contracting division and other approved contractors.

Examples of procurement by category

Example	Practical application of Policy	Supplier used	Reason for supplier use	How cost determined	Change from Prior year?
<i>Service Interruptions & Emergencies</i>					
<p>LV Fuse Trip Customer has called with a fault of no power. Job was due to 11kv line down on a pole. The faultman repaired and relivened.</p>	<p>A work order is automatically created at the time a fault call is made and a faultman is dispatched. Due to the unknown nature of fault work, the work required is assessed on the job. This example was completed by the 1st response faultman and did not need any additional planning or design work.</p>	<p>WEL's Contracting division</p>	<p>To utilise the expertise and services of a stand by team who are available 24/7</p>	<p>Labour rate is based on average salary costs plus direct overheads. Salary costs are based on productivity/billability</p>	<p>None</p>
<i>Planned Maintenance</i>					
<p>Battery discharge testing at substation Perform discharge testing on all Protection and Comms batteries in substation</p>	<p>Maintenance jobs are divided equally over maintenance cycles. A maintenance plan is produced that includes routine maintenance and automatically creates a work order once the task is due for maintenance. Work included in maintenance plan such as the example given, is pre-approved by the Maintenance manager and is reviewed by the planning team once work order is created before being given to the scheduling team and dispatched for completion.</p>	<p>WEL's Contracting division</p>	<p>To utilise the expertise and services of teams with knowledge of WEL's network</p>	<p>Labour rate is based on average salary costs plus direct overheads. Salary costs are based on productivity/billability</p>	<p>None</p>

<i>Vegetation</i>					
<p>Monthly line inspection 100% of the network is required to be inspected for possible vegetation issues. The monthly Vegetation costs include line inspection and cuts.</p>	<p>When vegetation poses a danger to the network WEL is obligated to undertake the work to remove the danger. If trees are on private land and within the Growth Limit Zone a notification letter is given to the land owner and at this point the owner has a choice of who they use to trim the trees.</p>	<p>WEL's Contracting division and other contractors</p>	<p>Customers have the ability to choose contractors. WEL's Contracting division is used for critical cuts.</p>	<p>Cost is an annual service fee which is based on the average cost of salaries, offset by forecast revenues earned by private work</p>	<p>None</p>
<i>System operations & network support</i>					
<p>Distribution design, planning and scheduling services This is a monthly fee to cover the costs of the Contracting design and planning services.</p>	<p>Work is initially designed within WEL Networks. All internally contracted work goes to a team within WEL's Contracting division to design, plan and schedule the work, both capex and opex.</p>	<p>WEL's Contracting division</p>	<p>To utilise the expertise and services of teams with knowledge of WEL's network</p>	<p>Cost is an annual service fee which is based on the average cost of salaries plus direct overheads.</p>	<p>None</p>
<i>Network projects</i>					
<p>Rural reliability project This project is included replacement of poles, crossarms and reconfiguring 33kv feeders</p>	<p>This was included in the annual Asset Management Plan. The work was designed and costed within WEL Networks and due to the financial value was approved by the General Manager. The project was then scheduled for completion.</p>	<p>WEL's Contracting division</p>	<p>Supplier has been chosen based on expertise and availability</p>	<p>Labour rate is based on average salary costs plus direct overheads. Salary costs are based on productivity/billability</p>	<p>None</p>
<i>Asset replacement</i>					
<p>Replacement of 11kV lines This example was part of a large project to replace crossarms, poles and 11kv overhead lines to a section of line.</p>	<p>This was included in the annual Asset Management Plan. The work was designed and costed within WEL Networks and due to the high value it was approved by the CEO. The project</p>	<p>WEL's Contracting division</p>	<p>Supplier has been chosen based on expertise and availability</p>	<p>Labour rate is based on average salary costs plus direct overheads. Salary costs are based on productivity/billability</p>	<p>None</p>

	was then scheduled for completion.				
<i>Customer Initiated Works</i>					
New Customer Connection Customer request for additional connections. Request included installing a ring main unit, pole, transformer and underground cables.	A customer requested additional connections for their property. This request was scoped, designed, costed and approved within WEL. Due to the size of the job, final approval lay with the General Manager. A quote was sent to the customer. Once the customer confirmed and a deposit was made the work was allocated for completion.	WEL's Contracting division	Supplier has been chosen based on expertise and availability	Labour rate is based on average salary costs plus direct overheads. Salary costs are based on productivity/billability	None

Market Testing

Category	Type of test	Last tested	Comments
Service Interruptions & Emergencies	Labour and plant rate comparison	2019	Labour rates are calculated as actual cost plus an allocation of overheads. These labour rates are compared against contractors for reasonableness however the related party is solely used and the department is run on a break even basis*
Planned Maintenance	Labour and plant rate comparison	2019	Labour rates are calculated as actual cost plus an allocation of overheads. These labour rates are compared against contractors for reasonableness however the related party is used in the first instance**
Vegetation	None	Never tested	Customer can choose the supplier therefore WEL's Contracting division has to be competitive in its pricing to ensure they retain the work
System operations and network support	None	Never tested	Labour rates are calculated as actual cost plus an allocation of overheads. No particular market testing is done but positions are graded and benchmarked when a person is appointed.
Network projects	Labour and plant rate comparison	2019	Rates are compared annually between related party and external contractors
Asset replacement	Labour and plant rate comparison	2019	Rates are compared annually between related party and external contractors. A benchmarking exercise is also undertaken for cabling work
Customer Initiated Works	Labour and plant rate comparison	2019	Rates are compared annually between related party and external contractors

*The related party is solely utilised for this category due to the unknown nature of the work. This work relies on teams being available 24/7 and therefore WEL, through its related party, has a first response team that are on standby to be able

to attend faults at short notice. This reduces response time and utilises the knowledge, expertise and IP of the staff in-house.

**The related party is used primarily for this category as it has a team of skilled and qualified personnel to complete the work. It involves having knowledge of the network which is less likely to apply to external contractors.