



## Related Party Procurement

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### 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 services<sup>1</sup>.

The current procurement policy as at March 2023 was reviewed in May 2022 (next review is due May 2025).

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.

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<sup>1</sup> 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  |
|----------------|-------------------------------------|---|---|
| <b>OPEX</b>    | 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 Management               | 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.                            |
| <b>CAPEX</b>   | Network projects                    | Network projects tend to be planned in advance, e.g. substation upgrades.   | WEL's Contracting division and other approved external contractors. Contractors are selected based on capacity and skill set.                                 |
|                | 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 <sup>nd</sup> response fault jobs when the jobs require asset replacements rather than just maintenance. | WEL's Contracting division and other approved external contractors. Contractors are selected based on capacity and skill set.                                 |
|                | Customer Initiated Works            | These works include subdivisions, new connections, asset relocations etc.   | WEL's Contracting division and other approved external contractors. Contractors are selected based on capacity and skill set.                                 |

## Examples of procurement by category

| Example  | Practical application of Policy  | Supplier used                                    | Reason for supplier used  | How cost is determined   | Change from Prior year? |
|--|--|--|---|--|-------------------------|
| <i>Service Interruptions &amp; Emergencies</i>   |  |  |   |  |                         |
| <b>Part Power</b><br>Customer has called as there is flickering lights at their site. Faultman found arcing at the strain point on the pole, line was isolated repaired and relivened. | 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 linecrew and did not require additional planning or design work.   | WEL's Contracting division                       | To utilise the expertise and services of a stand-by team who are available 24/7.                        | Labour rate is based on average salary costs plus overheads. Average salary costs are based on average productivity/ billability levels. | None                    |
| <i>Planned Maintenance</i>   |  |  |   |  |                         |
| <b>Earthing testing at Huntly Street substation</b><br>Performed earth resistance testing on substation equipment which is required to be completed every three years.                 | 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. | WEL's Contracting division                       | To utilise the expertise and services of teams with knowledge of WEL's network.                         | Labour rate is based on average salary costs plus overheads. Average salary costs are based on average productivity/ billability levels. | None                    |
| <i>Vegetation</i>  |  |  |   |  |                         |
| <b>Monthly line inspection</b><br>100% of the network is required to be inspected for possible vegetation issues. The vegetation costs include line inspection and cuts.               | 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.  | WEL's Contracting division and other contractors | Customers have the ability to choose contractors. WEL's Contracting division is used for critical cuts. | Labour rate is based on average salary costs plus overheads. Average salary costs are based on average productivity/ billability levels. | None                    |

|   |   |                            |   |  |      |
|---|---|----------------------------|---|--|------|
| <i>Asset replacement</i>  |   |                            |   |  |      |
| <b>Asset Replacement Rural Reliability Project</b><br>This project related to the LATCCB5/CB2 and involved reconfiguration of daisy chained transformers, installation of air break switch, fuse base, RMU, and new cables.                     | This was included in the annual Asset Management Plan. The work was designed and costed within WEL Networks and due to the financial value it was approved by the GM Asset Management. The project was then scheduled for completion.   | WEL's Contracting division | Supplier has been chosen based on expertise and availability. | Labour rate is based on average salary costs plus overheads. Average salary costs are based on average productivity/ billability levels. | None |
| <i>Network projects</i>   |   |                            |   |  |      |
| <b>LV Upgrade and Distribution Transformers</b><br>This project relates to correcting the voltage and loading issues of transformers by upgrading LV circuits for transformers, installation of a new 300kVA transformer and 11kV supply to it. | This was included in the annual Asset Management Plan. The work was designed and costed within WEL Networks and due to the financial value it was approved by the Asset Management GM. The project was then scheduled for completion.   | WEL's Contracting division | Supplier has been chosen based on expertise and availability. | Labour rate is based on average salary costs plus overheads. Average salary costs are based on average productivity/ billability levels. | None |
| <i>Customer Initiated Works</i>   |   |                            |   |  |      |
| <b>New connection</b><br>Customer request for four new connections for an infill housing section.   | A customer requested the new connections via an initial request form. This request was scoped, designed, costed and approved within WEL. A quote was sent to the customer for their contribution towards the project. Once the customer accepted the quote 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 overheads. Average salary costs are based on average productivity/ billability levels. | None |

## Market Testing

| Category                            | Type of test                     | Last tested  | Comments   |
|-------------------------------------|----------------------------------|--------------|--|
| Service Interruptions & Emergencies | Labour and plant rate comparison | 2023         | 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 | 2023         | 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 Management               | 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.   |
| Network projects                    | Labour and plant rate comparison | 2023         | Rates are compared annually between related party and external contractors.  |
| Asset replacement                   | Labour and plant rate comparison | 2023         | Rates are compared annually between related party and external contractors.  |
| Customer Initiated Works            | Labour and plant rate comparison | 2023         | Rates are compared annually between related party and external contractors.  |

\*The related party is primarily 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 intellectual property 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.