



# INFORMATION DISCLOSURES 2020

*Supporting Information for Related Party Transactions  
October 2020*

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## INTRODUCTION

### Purpose

This disclosure has been prepared for the purpose of meeting the 2020 Related Party Transaction disclosure requirements, in accordance with section 2.3.6, of the Electricity Distribution Information Disclosure Determination 2012(consolidated April 2018) (“ID”).

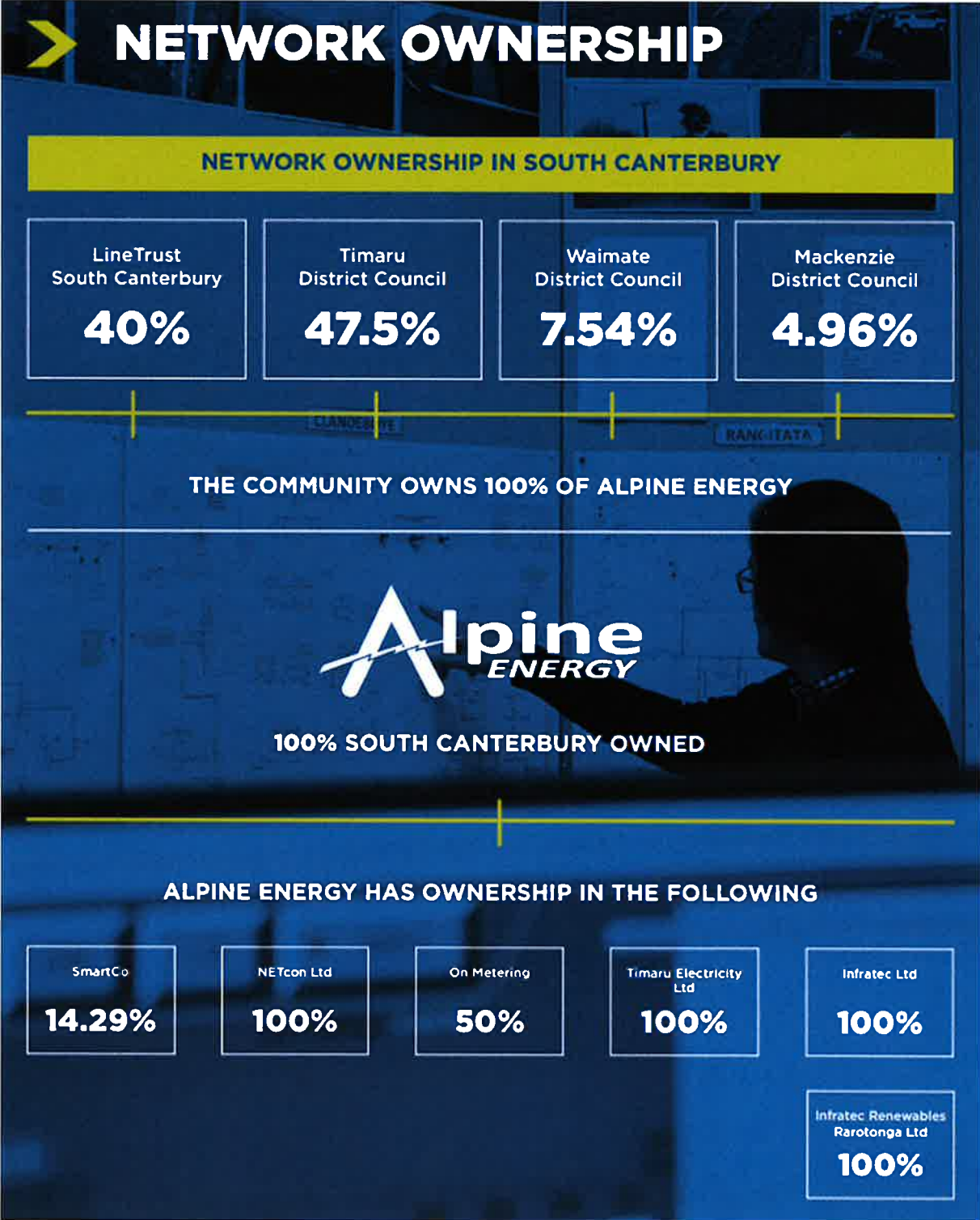
The information is provided in reference to and in support of Schedule 5b – Related Party Transactions as disclosed in the Information Disclosure 2020.

The ID requires Alpine to disclose the following information:

Description	ID reference
Diagram or description of related party transactions	2.3.8
Report on related party transactions	Schedule 5b
Summary of procurement policy for procurement from related parties	2.3.10
How the policy is applied practice	2.3.12(1)
Representative transactions	2.3.12(3) & (5)
Testing of arms-length transactions	2.3.12(4)
Policies or procedures that require or have the effect of requiring purchase	2.3.12(2)
Map of anticipated network constraints	2.3.13 – 2.3.16
Future operational expenditure during planning period	2.3.15

DIAGRAM OF RELATED PARTY TRANSACTIONS

The company structure is depicted in the diagram below:



The above diagram is available at <https://www.alpineenergy.co.nz/corporate/about-us/ownership>

AEL did not have any regulated related party transactions (as defined Electricity Distribution Services Input Methodologies Determination 2012 (Consolidated 20 May 2020) (“IM”)) with the following related parties in the current regulatory year and these have not been considered further in this disclosure:

- SmartCo
- On Metering
- Timaru Electricity Ltd
- Infratec Ltd
- Infratec Renewables Rarotonga Limited

The principal activities of the related party

	<p>LineTrust South Canterbury was established in 1992, with the resettling of the South Canterbury Power Trust. It holds 40% of the shares in AEL, who owns the electricity lines in the South Canterbury region.</p>
	<p>Timaru District Council is a 47.5% shareholder in AEL. The council provides infrastructure services for ratepayers of the wider Timaru district.</p>
	<p>Waimate District Council is a 7.54% shareholding in AEL. The council provides infrastructure services for the ratepayers of the Waimate district.</p>
	<p>Mackenzie District Council is a 4.96% shareholder in AEL. The council provides infrastructure services for the ratepayers of the Mackenzie District.</p>
	<p>NCL is a wholly-owned subsidiary of AEL. NCL constructs and maintains substations, overhead and underground lines, and associated equipment for AEL. It boasts a modern fleet, fit for purposes facilities and experienced and committed employees.</p>



 <b>INFRATEC</b>	<p>Infratec and Infratec Renewables Rarotonga are wholly-owned subsidiaries of AEL. Infratec specialises in the design, construction and maintenance of “disruptive technologies” in the electrical supply industry, such as, photovoltaic generation and battery storage solutions. The majority of Infratec’s work to date has been offshore.</p>
<p>On Metering Limited</p>	<p>On Metering is an advance metering equipment provider based in North Canterbury. No regulated related party transactions were incurred during the disclosure period.</p>
	<p>SmartCo is a joint venture company which serves more than 250,000 urban and rural consumers across New Zealand. It is owned by six EDB’s. SmartCo is the smart metering provider of services to consumers via electricity retailers. No regulated related party transactions were incurred during the disclosure period.</p>

#### Report on related party transactions

Details of the annual expenditure are outlined in Schedule 5b of the Information Disclosures 2020.

The annual expenditure with the related parties is detailed below:

Related party	Total annual expenditure (\$000)	Nature of the expenditure
Lines Trust	-	No expenditure incurred in the disclosure year
Timaru District Council	32	Rates
Waimate District Council	18	Rates
Mackenzie District Council	20	Rates
NETcon Limited	16,906	Network CAPEX & OPEX
<b>TOTAL</b>	<b>16,976</b>	<b>As disclosed in schedule 5b</b>

## SUMMARY OF CURRENT PROCUREMENT POLICY OR ALTERNATIVE DOCUMENTATION WHICH IS EQUIVALENT TO A PROCUREMENT POLICY

In the 2019 – 2020 regulatory year AEL did not have a formal procurement policy in place for the full year. A Procurement Policy document was published in November 2019 to establish a framework for AEL’s procurement. Prior to November 2019 we had a procedure document that outlined a process within dollar value ranges for procurement. The current Procurement Policy summarises the principles to be applied in procurement of goods and services. These principles are summarised in the diagram below:



**Advancement of Alpine Strategic Objectives:** Putting our network and consumers first when securing value for money. Through procurement, we contribute to the achievement of Alpine’s strategic objectives with the vision of empowering our community.

**Integrity, probity and accountability:** We undertake our procurement with integrity, ensuring probity and accountability for our outcomes. We respect the trust placed in us by the community.

**Working together to achieve outcomes:** We take a collaborative approach to planning and managing categories of expenditure. We work together across our business units to improve procurement outcomes.

**Value for money:** We drive value for money in our procurement. We do this through sustainable procurement behavior focusing on our environment and community. We use our procurement to

advance our region’s economic, environmental and social objectives, supporting the long-term wellbeing of our community.

**Where AEL procures from NETcon (“NCL”), it is based on the terms in the Master Service Agreement (‘MSA’) dated 29 March 2019 (effective 31 March 2020).**

**In broad terms, the MSAs include provisions that specify the parties' obligations in relation to:**

Nothing in the agreement prevents AEL from purchasing from any third party, or from using its own resources to provide services of any kind, including any services which are the same or similar to the services. Neither, does the agreement restrict NCL from supplying or offering to supply any services of any kind, including services which are the same as or similar as the services, to any other person.

The objective of entering into an agreement are to ensure that the services are provided in a way that:

- Is safe, for all AEL personnel, all NCL personnel, all users of the Network and all members of the public;
- Supports the efficient delivery of reliable services by AEL to users of the Network;
- Provides a fair and competitive price to AEL, for the services provided, and a fair return to NCL on its investment in providing the services; and
- Complies with all relevant regulatory requirements.

**HOW THE POLICY IS APPLIED IN PRACTICE**

In practice, the procurement policy was applied differently between expenditure categories, as outlined in the table below:

Expenditure category	Practical application of procurement policy
<b>Capital Expenditure (CAPEX)</b>	
Consumer Connection	<ul style="list-style-type: none"> <li>• Two quotes are obtained from contractors.</li> <li>• A project manager evaluates the quotes.</li> <li>• The quotes are disclosed to the customer to select their contractor of choice.</li> <li>• A purchase order (PO) is created for the work based on the acceptance of the quote by the customer.</li> </ul>
System Growth & Asset Relocation	<ul style="list-style-type: none"> <li>• Two quotes are obtained from contractors.</li> <li>• A project manager evaluates the quotes.</li> <li>• A purchase order is created for the work based on the selected quote.</li> </ul>
Asset replacement and renewal	<p>Considering the principles of procurement, contracts will be awarded to NCL and be subject to the provisions in the MSA:</p> <ul style="list-style-type: none"> <li>• A quote is requested.</li> <li>• AEL will review the quotes for reasonability.</li> <li>• Once NCL and AEL agree, a purchase order (PO) is created for the work based on the acceptance of the quote.</li> </ul>





Quality of supply	Note that there were no transactions with related parties in this category of expenditure.
Other reliability, safety and environment	<p>Considering the principles of procurement, contracts will be awarded to NCL and be subject to the provisions in the MSA:</p> <ul style="list-style-type: none"> <li>• A quote is requested.</li> <li>• AEL will review the quotes for reasonability.</li> <li>• Once NCL and AEL agree, a purchase order (PO) is created for the work based on the acceptance of the quote.</li> </ul>
<b>Operational Expenditure (OPEX)</b>	
Asset replacement and renewal	<p>This is awarded to NCL , considering the principles of procurement, and is subject to the provisions in the MSA:</p> <ul style="list-style-type: none"> <li>• AEL will review the invoices for reasonability.</li> <li>• Once NCL and AEL agree, a purchase order (PO) is created for the work based on the acceptance of the invoice.</li> </ul>
Routine and corrective maintenance and inspection	<p>This is awarded to NCL , considering the principles of procurement, and is subject to the provisions in the MSA:</p> <ul style="list-style-type: none"> <li>• AEL will review the invoices for reasonability.</li> <li>• A unit rate is used, which is predominately driven by labour hours and time (for travel and visual inspections).</li> <li>• Once NCL and AEL agree, a purchase order (PO) is created for the work based on the acceptance of the invoice.</li> </ul>
Vegetation management	<p>Our current vegetation management policy states that any approved arborist can carry out vegetation management on our network.</p> <p>The cost of the “first cut” or trim work is borne by Alpine Energy, while the cost of second and subsequent vegetation management is borne by the consumer.</p> <p>Consumers required to undertake tree trimming work to protect the network, are free to choose from a preferred contractor list.</p> <p><b><u>First Cut</u></b></p> <p>AEL has geographically divided the network between North and South regions.</p> <p>The South Region is awarded to NCL , considering the principles of procurement, and is subject to the provisions in the MSA:</p> <ul style="list-style-type: none"> <li>• Send a “first cut” trim notice.</li> <li>• Receive approval from landowner.</li> </ul>

	<ul style="list-style-type: none"> <li>• Request a quote.</li> <li>• Assess the quote for reasonability.</li> <li>• A purchase order (PO) is created for the work based on the acceptance of the quote.</li> </ul> <p>North region, all work is awarded to our second contractor and the below is the process we follow:</p> <ul style="list-style-type: none"> <li>• Send a “first cut” trim notice.</li> <li>• Receive approval from landowner.</li> <li>• Request a quote.</li> <li>• Assess the quote for reasonability.</li> <li>• A purchase order (PO) is created for the work based on the acceptance of the quote.</li> </ul> <p><b><u>Subsequent Trim Notices</u></b></p> <p>Subsequent trim notices are in general sent out after vegetation has had a first trim. A Trim Notice is sent to the landowner, to which the customer will return the notice with their selected network approved contractor, and provide a date that the work may be completed by. The customer liaises with the contractor directly and is billed accordingly.</p>
Service interruptions and emergencies	<p>This is awarded to NCL , considering the principles of procurement, and is subject to the provisions in the MSA:</p> <ul style="list-style-type: none"> <li>• NCL will issue AEL with an invoice on a monthly basis on a time and materials basis.</li> <li>• AEL will review the invoice for reasonability.</li> <li>• PO is created for the invoice amount.</li> </ul>
System Operations and network support	<p>This is awarded to NCL , considering the principles of procurement, and is subject to the provisions in the MSA:</p> <p>This forms part of the customer contract within the consumer connections process, and the value is included in the PO raised for Consumer Connections.</p>



As shown in the section above, the procurement policy is applied differently to expenditure categories. Separate representative examples have been provided to demonstrate the differences.

The table in the next section sets out the details of the application of the procurement policy and the most recent example of market testing for the representative examples selected for each expenditure category.

### MARKET TESTING OF RELATED PARTY TRANSACTIONS

In the current regulatory year AEL engaged an independent industry expert (Robert Taylor) to perform benchmarking on a sample of CAPEX projects awarded to NCL in the disclosure year to support that the valuation of these were in accordance with the IM's (i.e. at an arm's length). He also performed a review of the NCL labour costing rates to support the valuation of certain OPEX expenditure.

The results from this independent benchmarking exercise is documented in the table below for the applicable expenditure categories.

Expenditure category	Details of representative sample		Most recent example of market testing
<b>Capital Expenditure (CAPEX)</b> <b>Consumer Connection</b>	Project code	A00004193	The procurement policy requires 2 quotes to be received and reviewed for each project in this category, which AEL uses for benchmarking of each project.
	Description of work	Guyton's Pond, Morris Road, Morven	
	Project expenditure	\$56,046.43	
	Practical application of procurement policy	<ul style="list-style-type: none"> <li>Quotes were received from 2 contractors: NCL: \$54,046.43 Contractor A: \$60,250.00</li> <li>The quotes were reviewed by the project manager and submitted to the customer on 18 April 2019</li> </ul>	

	<ul style="list-style-type: none"> <li>The customer accepted the quote from NCL for \$54,046.42</li> <li>PO 1009028 was raised for \$56,046.43 for the execution of the project</li> </ul>				
System Growth & Asset relocations	<p>Project code A00004334</p> <p>Description of work OMR civil Works</p> <p>Project expenditure \$ 117,970.72</p> <p>Practical application of procurement policy</p> <ul style="list-style-type: none"> <li>Quote received from NCL for \$117,970.72</li> <li>Quote was reviewed by the project manager</li> <li>Quote agreed between AEL and NCL</li> <li>PO1007969 was raised for \$117,970.72</li> </ul>				
Asset replacement and renewal	<p>Project code A00002790</p> <p>Description of work Unwin Hut Upgrade</p> <p>Project expenditure \$ 355,748</p> <p>Practical application of procurement policy</p> <ul style="list-style-type: none"> <li>Quote received from NCL for \$355,748</li> <li>Quotes were reviewed by the project manager.</li> <li>Quotes agreed with NCL</li> <li>A number of PO were raised</li> </ul>				
Other reliability, safety and environment	<p>Project code A00003638</p> <p>Description of work Recloser as F106 Site</p> <p>Project expenditure \$34,161.27</p> <p>Practical application of</p> <ul style="list-style-type: none"> <li>Quote received from NCL.</li> </ul>				

	procurement policy	<ul style="list-style-type: none"> <li>NCL quote \$34,161.27 was reviewed by the project manager.</li> <li>Quote agreed between AEL and NCL</li> <li>PO 1007586 was raised for \$34,161.27.</li> </ul>	We believe the value of the project is at an arm's length basis.
Asset replacement and renewal	<b>Operational Expenditure (OPEX)</b>		
	Project code	A00006162	We engaged an independent industry expert to review the labour costing rates, which makes up the majority of the NCL quote. Based on the review, the industry expert concluded that there were valid reasons for variances between the benchmark labour rates and the NCL labour.
	Description of work	Windstorm repairs - various jobs to repair minor damage to our infrastructure after a windstorm. \$ 15,984.97	We did not perform any other market testing on this expenditure category.
	Project expenditure		We believe the value of the project is at an arm's length basis.
	Practical application of procurement policy	<ul style="list-style-type: none"> <li>Work was issued to NCL on a time and material basis</li> <li>Invoice received and assessed for reasonability by the project manager</li> <li>PO 1011717 was raised \$15,984.97</li> </ul>	
Vegetation Management	Project Code	A00004764	Management assessment of pricing between NCL and our second contractor is monitored on a continuous basis and used to benchmark prices charged by NCL.
	Description of Work	Vegetation management and surveys	
	Project Expenditure	\$ 31,268.39	As we use 2 contractors we are naturally benchmarking but we have also looked at the hourly rate we are charged by our second contractor vs the hourly rate we are charged by NC, which AEL uses for benchmarking of each project.
	Practical application of procurement policy	<ul style="list-style-type: none"> <li>1<sup>st</sup> Trim notice issued in June 2019.</li> <li>Signed by owner 19 September 2019</li> <li>PO P010567 was raised for \$31,268.39</li> </ul>	Overall NCL quoted a fair price and we believe this to be done on an arm's length basis.

Routine and corrective maintenance and inspection	Project Code Description of Work Project Expenditure Practical application of procurement policy	A100484 <ul style="list-style-type: none"><li>• Zone substation management</li><li>• \$128,982</li><li>• Work was issued to NCL</li><li>• Invoices were received and assessed for reasonability by the project manager against the unit price.</li><li>• Monthly PO was raised.</li></ul>	We engaged an independent industry expert to review the labour costing rates, which makes up the majority of the NCL quote. Based on the review, the industry expert concluded that there were valid reasons for variances between the benchmark labour rates and the NCL labour.  We did not perform any other market testing on this expenditure category.  We believe the value of the project is at an arm's length basis.
Service Interruptions and Emergency	Project Code Description of Work Project Expenditure Practical application of procurement policy	<ul style="list-style-type: none"><li>• A00005260</li><li>• Emergency fault Tagney vs LV Pole</li><li>• \$3049.71</li><li>• Work was issued to NCL on a time and material basis</li><li>• Invoice received and assessed for reasonability by the project manager against a unit price.</li><li>• Monthly PO was raised.</li></ul>	We engaged an independent industry expert to review the labour costing rates, which makes up the majority of the NCL quote. Based on the review, the industry expert concluded that there were valid reasons for variances between the benchmark labour rates and the NCL labour.  We did not perform any other market testing on this expenditure category.  We believe the value of the project is at an arm's length basis.

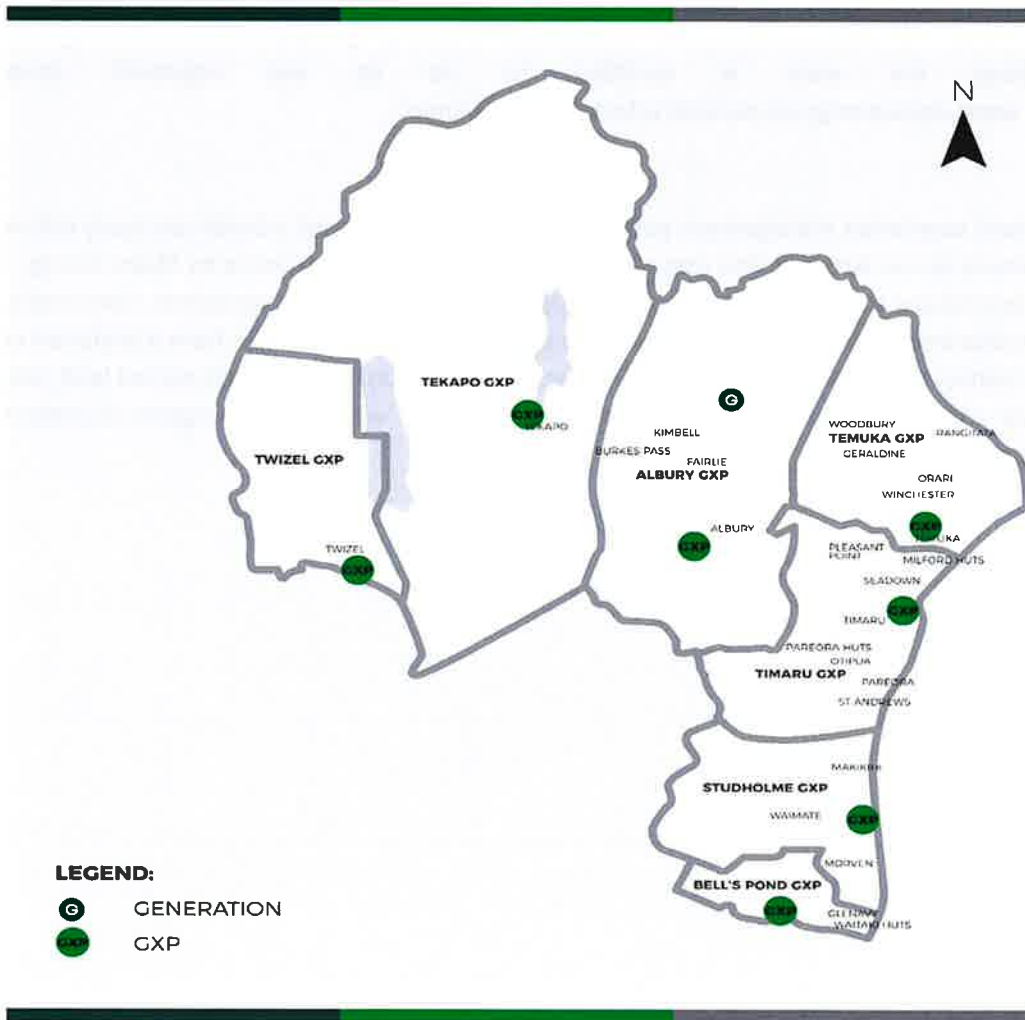
## POLICIES OR PROCEDURES THAT REQUIRE OR HAVE THE EFFECT OF REQUIRING PURCHASE

Alpine Energy has no policies requiring consumers to purchase services from a related party.

Our capital contribution policy requires consumers to contribute to assets which Alpine Energy own. The customer is free to choose who undertakes any work on their property, provided that the person / entity undertaking the work is qualified to do so and approvals have been sought. [www.alpineenergy.co.nz/contractors-and-developers](http://www.alpineenergy.co.nz/contractors-and-developers).

Our current vegetation management policy states that any approved arborist can carry out vegetation management on our network. The cost of the “first cut” or trim work is borne by Alpine Energy, while the cost of second and subsequent vegetation management is borne by the consumer. Consumers required to undertake tree trimming work to protect the network, are free to choose from a preferred contractor list. Our notices to consumers notifying them of work required on their privately owned land, notices state that they are free to choose who undertakes the work. [www.alpineenergy.co.nz/customers/tree-management](http://www.alpineenergy.co.nz/customers/tree-management)

# MAP OF NETWORK





## NETWORK OR EQUIPMENT CONSTRAINT PROJECTS

ID	Name	Description	Location
1	Tekapo substation transformer upgrade	Replace and upgrade existing transformer	Tekapo
2	Pleasant Point substation transformer upgrade	Replace and upgrade existing transformer	Pleasant Point
3	Geraldine substation transformer replacement	Replace and upgrade existing end of life transformer and upgrade capacity	Geraldine
4	Waimate feeder upgrade	This feeder out of the Studholme zone substation will require an upgrade due to load growth as currently forecast by 2023	Waimate
5	Studholme feeder upgrade	This feeder out of the Studholme zone substation will require an upgrade due to load growth as currently forecast by 2023	Waimate
6	Monven feeder upgrade	This feeder out of the Studholme zone substation will require an upgrade due to load growth as currently forecast 2024	Waimate
7	Otaio feeder upgrade	This feeder out of the Studholme zone substation will require an upgrade due to load growth as currently forecast 2027	Waimate

The constraints detailed above are either explicitly identified in the asset management plan or alluded to in the network development project/program justifications. Projects 1 through 3 above are also listed under the ten largest capex projects planned. Projects 4 and following are projects to alleviate network constraints but do not fall into the category of ten largest capex project.

Future Operational expenditure over the planning period

#### *Vegetation management*

This is a program consisting of numerous individual jobs or projects to remove and maintain vegetation away from our overhead lines. These projects span the whole of the network footprint and is valued at \$800k per annum. Most of these projects are awarded to a related party who makes use of several sub-contractors to complete the work.

#### *RMU maintenance program*

This program addresses the maintenance of all our ring main units across our network. We endeavour to maintain around 76 RMU's every year, with a high concentration at Fonterra's Clondeboye plant over the dairy offseason. The value of this program is approximately \$600k per annum. The work was awarded to a related party for the year under review.

#### *RMU and transformer inspections*

This program details the inspection of all our ground-mounted distribution transformers and RMU (i.e. distribution substations) at a cost of approximately \$300k per annum. The work for the year under review was awarded to a related party.

#### *Zone substation maintenance*

This program is the four-yearly maintenance program of our zone substations and the individual projects for 2019-2024 is detailed in the tables below. Zone substation locations can be found on the above map.

## 10 LARGEST FORECAST OPERATIONAL EXPENDITURE PROJECTS

	Name	Description	Timing	Average Value (\$)	Location
1	Pole condition assessments	Pole condition assessment of 2000 O/H line pole structures	Annual	800 k	Network wide
2	Vegetation management	Clearing vegetation from O/H lines and other infrastructure	Annual	800 k	Network wide
3	RMU maintenance	Five and eight yearly ring main unit maintenance	Annual	±250 k	Timaru, Temuka,
4	Zone substation maintenance	Four yearly zone substation comprehensive maintenance	Annual	±250 k	Network wide
5	Voltage Regulator maintenance	Five yearly voltage regulator maintenance program	Annual	±32 k	Network wide
6	Recloser maintenance	Four yearly recloser maintenance program	Annual	±25 k	Network wide
7	Zone substation inspections	Monthly inspection program	Annual	±140 k	Network wide
8	Distribution transformer inspections	Monthly inspection program	Annual	±40 k	Network wide

## 10 LARGEST (BY VALUE) CAPITAL PROJECTS

Name	Description	Timing	Average Value (\$)	Location
Geraldine substation transformer replacement	Replace and upgrade existing end of life transformer and upgrade capacity	2020	1.25 M	Geraldine
Tekapo substation transformer upgrade	Replace and upgrade existing transformer and potential security upgrade	2021/22	2 M	Tekapo
Twizel substation rebuild	Replace existing end of life transformer and install new switchgear and protection	2022/23	2 M	Twizel
Timaru 33 kV upgrade	Install new switchgear and protection in the Timaru zone substation plus fire protection for transformers	2023/24	3.5 M	Timaru
Hunt Street substation switchboard replacement	Replace the 11 kV switchboard	2023/24	1.5 M	Timaru
Underground distribution substation replacement/upgrade program	Replace existing underground substations with above ground solutions. Two per annum.	2020	0.5 M	Timaru
Pleasant Point substation transformer upgrade	Replace and upgrade existing transformer	2030	2.2 M	Pleasant Point
Lyalldale Middle Rd O/H line refurbishment	Replace and renew 11 kV overhead line	2020	0.46 M	Pareora
Twizel township O/H line refurbishment	Replace and renew 11 kV overhead lines	2020	0.458 M	Twizel
Monavale Rd O/H line refurbishment	Replace 6 km of copper overhead line with new aluminum conductor construction	2021/22	0.53 M	Albury