



9 October 2019

Dane Gunnell
Manager, Price Quality Regulation
Commerce Commission

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Dear Dane

EDB DPP3 Reset – Submission on Updated Draft Models

Eastland Network Limited (Eastland) appreciates the opportunity to provide this submission in response to the Default price-quality paths for electricity distribution businesses from 1 April 2020 – Updated draft models and the Companion Paper dated 25 September 2019. We also appreciate being able to review the models. This has greatly assisted our understanding of the derivation of allowable revenues.

If you have any questions regarding this submission please contact

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Background

Eastland owns and operates the electricity distribution network located in the East Coast of the North Island. Eastland is 100% owned by the Eastland Community Trust with the Gisborne District Council as the capital beneficiary of the trust.

Eastland distributes approximately 300 GWh of electricity to approximately 25,500 consumers of which almost two thirds are located in Gisborne City and Wairoa township. The remaining consumers are widely dispersed across two isolated networks covering approximately 12,000km². This results in an overall consumer density of 7 connections per circuit km, less than the industry average of 13 connections per circuit km and the industry median of 9 connections per circuit km. Eastland has considerable diversity across the network, with rural connection density less than 3 connections per km, and urban connection density approximately 25 connections per km.

We have experienced little growth for the past decade, as most of our consumers are domestic users, and many of them with relatively small consumption. A significant proportion of our revenue is recovered via variable tariffs. In addition, our network supply area is one of the lowest socio-economic regions in New Zealand, and this is reflected in low energy consumption growth due to resistance to retail electricity prices.

On 31 March 2015, Eastland Network acquired the Transpower spur assets between Tuai – Gisborne, Tuai – Wairoa and Gisborne – Tokomaru Bay.

Opex allowance

Eastland Network is concerned at the low level of opex allowance calculated by these models and the reliance on circuit length growth and forecast population change as determining factors.

Network scale is not the key driver of opex for us. There are multiple factors that drive opex and Network scale is only one of those factors. Most of our opex falls in the non-network categories and these are increasing because of the additional business requirements on us, not the demands of new connections or additional lines or cables.

The approach to determining our opex forecasts for RCP3 only generates very small increases in real opex. This will not be sufficient to meet our requirements. We will therefore expect to overspend our opex allowance, earn returns which are less than the target return for the period and generate additional penalties for RCP4.

In our previous submission we illustrated the low cost base at which we operate. We impress upon you that there is no ability to reallocate resources or provide for additional resources to meet the increasing obligations and requirements being placed upon our business.

Further the proposed opex allowances provide no opportunity for us to begin adapting our business to the changing electricity needs of our consumers.

Capex allowance

Eastland are concerned with the assumptions used in the Gating tests. Given the number of EDBs that fail the Capex Gate 2 test it seems that perhaps there is more of a story behind the numbers than the statistics would indicate. Eastland submit that the Commission should allow further evidence to be provided by EDBs to provide greater understanding of the numbers provided.

For example, during 2014 and 2015, Eastland went through a process of reviewing ICPs and communicating with those that were benefitting from pricing anomalies. The result was that many consumers opted to amalgamate their ICPs rather than face an increase in costs. This did not result in a decrease in demand but the modelling based on connections, translates as negative growth during that period. In reality this is not the case and this data is not a true reflection of population growth.

There is also an error in the data provided in our information disclosures for 2018 and used in the Capex projections feeder gating model EDB DPP3 updated draft 25 September 2019.xls. The correct figure for Cell I123 on the Inputs sheet should be 25,513 not 25,455. This does not change the fail result for the 2nd gating test.

Yours sincerely



Brent Stewart

General Manager - Networks

