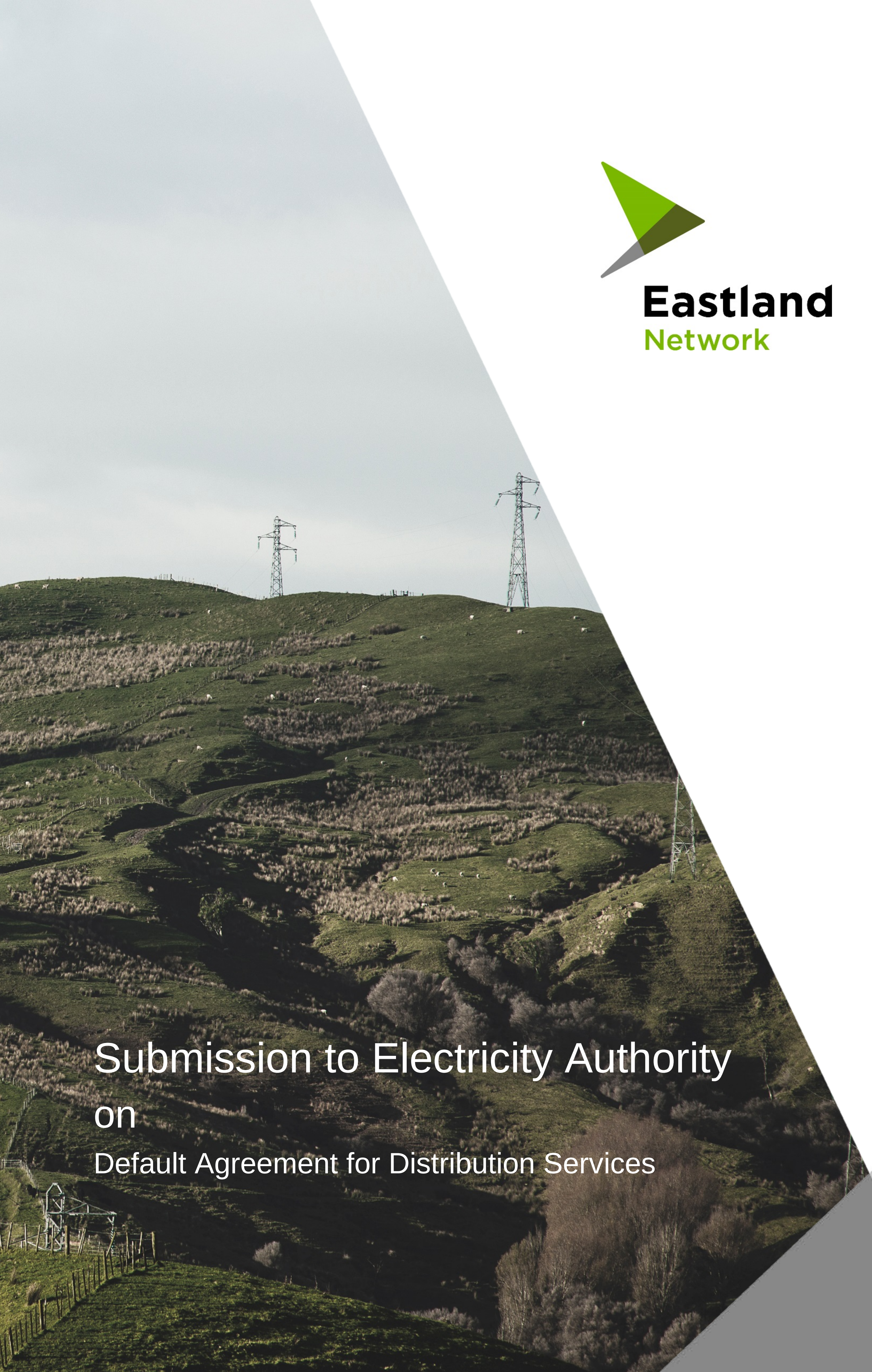
Eastland
Network



Submission to Electricity Authority on

Default Agreement for Distribution Services

Contents

1 Summary

Eastland Network Limited ("Eastland") appreciates the opportunity to respond to the Electricity Authority's ("Authority") Consultation Paper "Default Agreement for distribution services".

Eastland supports the submissions of the Electricity Networks Association and PWC on behalf of 18 Electricity Distribution Businesses.

In addition, Eastland submits the following;

- Eastland is opposed to the introduction of a Default Distributor Agreement (DDA). The Authority has not provided solid reasoning or evidence for the proposed requirement for a DDA.
- Eastland have, over 18 months, invested significant hours, developing, negotiating and agreeing a Use of System Agreement, based upon the Authority's Model Use of System Agreement, with all 13 Traders operating on our network. We object to having to revisit this work only a few months after completion.
- The timeframe to have the recently signed contracts re-agreed or renegotiated is not realistic. Eastland does not have the resources to complete this task in that timeframe.
- Re-confirming and/or renegotiating the recently agreed Use of System Agreement will incur further costs that will ultimately be borne by the consumers on our network, many of whom can ill afford it.

Notwithstanding the views above we also have concerns regarding the Draft Default Distributor Agreement as follows:

- Clause 10.10(a) Eastland expresses their concerns at the penalty interest rates relating to the holding of additional securities. Eastland consider the use of money interest rate used by Inland Revenue to be more appropriate.
- The Service Guarantee Payments in Schedule 1, Table 1 Sections 3 and 5 should be removed as this is unworkable for Eastland.
- Schedule 2.4(b) Billing Information. A penalty should apply to Traders who do not provide their billing data by the due date as this has the potential to delay invoicing by distributors and therefore receipt of revenue.

2 Introduction

Eastland have prepared this submission in response to the Consultation Paper "Default agreement for distribution services" dated 26 January 2016. If you have any questions regarding this submission please contact

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Eastland owns and operates the electricity distribution network located in the upper 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.

Eastland have, since the Model Use of System Agreement (MUoSA) was promulgated by the Authority in 2014, worked diligently to completely review their own Use of System Agreement to reflect the MUoSA. This work has taken many hours of resource, working through the agreements, amending the existing agreement, negotiating and discussing with all Traders on the network. As a consequence of this all Traders trading on Eastland's network have signed the new agreement.

3 Default Distribution Agreement Proposal

Eastland are opposed to the introduction of a Default Distributor Agreement as proposed by the Authority in their Consultation paper. There is no evidence provided in the Consultation Paper that proves that entrant traders can't efficiently enter into a distribution agreement with local distributors under the current process, nor that the introduction of the DDA would improve such efficiency. The Authority merely surmises that efficiency will improve.

Eastland have spent more than 18 months redrafting, negotiating and agreeing the new Model-based Use of System Agreement. Eastland objects to having to repeat this process within months of having completed the last exercise. This is a poor and inefficient use of Eastland's limited resources, particularly as no party has expressed concern to us over the contents over the current agreements. The proposal as it is outlined in the Consultation document effectively penalises those distributors who have worked diligently since 2013 to update their contracts and consequently incur further costs to be passed on to customers in their regions. These are costs that many customers in the Eastland region simply cannot afford.

The Authority states that the transaction costs under the proposal described in this paper are lower than the status quo[1]. However, for Eastland and other participants who have already negotiated and agreed all or many of the contracts, this proposal increases costs substantially. The Authority seems to overly simplify the process and costs involved with re-negotiating and agreeing (or not agreeing) the new DDA. These costs will be substantial particularly for a distributor the size of Eastland Network with limited resources.

The timeframe to implement the new DDA is unreasonable. Eastland took 18 months to fully implement the new Use of System Agreement, it will take a further 6-12 months to revisit all agreements with Traders. This exercise is likely to be delayed further if the Agreements of Unison, Vector, Powerco and Orion are to be completed first and considered as the standard for Eastland. Given that Eastland have already signed all 13 Traders on its network to the new model-based agreement, we propose that Eastland's agreement should be considered as the standard for others.

4 Default Distribution Agreement

Notwithstanding that Eastland does not agree with the introduction of a DDA, there are concerns that the Authority may implement their proposed DDA regardless. Consequently, Eastland submits the following regarding the Draft DDA.

[1] Para 4.4.16, Consultation Paper Default agreement for distribution services

4.1 Prudential interest rates

We refer to clause 10.10(a) regarding the interest rates for additional securities held by distributors. Eastland submits that 15% above the bank bill yield rate is unreasonable and struggles to understand how this figure has been derived. Eastland considers a rate akin to the rate used by the Inland Revenue Department to calculate Use of Money interest payments would be a more suitable and justifiable rate to use.

4.2 Schedule 1 Table 1 Sections 3 & 5 - Removal of Service Guarantee Payments

Eastland objects to the inclusion of the Service Guarantee payments in Schedules 1. Eastland's network spans some 12,000 km^2 much of which is in rural or remote locations. As such, in many cases we could not realistically meet the Service Guarantees included in the DDA. These penalties impose unreasonable costs on a network such as Eastland who would rather spend its limited funds on restoring customer connections as quickly as possible.

There are already financial incentives and costs imposed by the Commerce Commission Default price-Quality path regulations (DPP). The DPP poses considerable incentives and penalties especially through the Incremental Rolling Incentive Scheme to encourage service quality. Eastland consider that these penalties and incentives are sufficient and any further penalties are unnecessary.

This Service Guarantee Payment process is administratively costly. There is significant time involved in calculating the payments which is costly for Eastland yet the values are relatively small in comparison to the cost of administration.

Eastland, in their newly negotiated use of systems agreements signed with all 13 Traders removed the Service Guarantee Payments. Not one Trader raised any objection to their removal.

4.3 Schedule 2.4(b) Penalties for Traders who do not provide data within agreed timeframes

Schedule 2, Clause 2.4(b) states that

> "the Trader must provide the information by 5:00pm on the 5th Working Day after the last day of each month;"

Clause 9.3(a) states

> "the Distributor must invoice the Trader within 10 Working Days after the last day of the month to which the Tax Invoice relates"

Failure by the Distributor to send a Tax invoice within 10 working days results in the due date for payment being extended by a day for each day the Tax invoice is late. Eastland notes that there are no penalties imposed where a Trader fails to provide the required information by the due date. Therefore the penalties are asymmetrically imposed on Distributors but not on Traders. In fact where cash-flows are an issue, this could even be an incentive for Traders to provide the information late.

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