



Submission on the 'Reset of 2010-15 Default Price-Quality Path for Electricity
Distribution Businesses: Consultation Paper on Electricity Volume Projections'

21 September 2011

To:

Mark Berry
Commerce Commission
PO Box 2351
WELLINGTON

regulation.branch@comcom.govt.nz

1 Table of Contents

2 Executive Summary.....	4
3 Introduction	5
4 Commission’s Revised Approach to Forecasting Volume	6
4.1 Commission’s Methodology	6
4.2 Application of Regional Forecasts to Eastland Network.....	6
4.3 Transpower Forecasts and Historical Results	9
5 Recommendations to Forecasting Volume.....	11

2 Executive Summary

Eastland Network Limited (Eastland) welcomes the opportunity to respond to the Commerce Commission's Consultation Paper on Electricity Volume Projections.

From the Consultation Paper, it is unclear how the Commission will apply Transpower's Regional Volume forecasts to Eastland. In the Commission's Starting Price Adjustment Model, which used the Electricity Authorities' projections, and used Hawke's Bay growth rates as a proxy for Eastland's growth rates, we can only assume the Commission is considering adopting the same approach. As we submitted in our previous submission, this gives us cause for concern.

On 24 August 2011, Eastland made a submission to the Commerce Commission on the Draft Decisions Paper for resetting the Default Price-Quality Path, and we discussed and evidenced the significant differences between the Hawkes Bay and Gisborne regions. Eastland argued that only data specific to our Grid Exit Points and economic projections for the Gisborne and Wairoa regions should be used to calculate our throughput forecasts; not data relating to the Hawke's Bay region as a whole.

This has not been rectified in the Commerce Commission's recent consultation paper and it appears that the intention of applying Transpower data for Hawke's Bay's as a proxy for the Gisborne region, in the Starting Price Adjustments model, remains.

Eastland services the Gisborne and Wairoa regions, which are characterised by low historical population, GDP and throughput growth. Actual throughput growth since 2004 has been 0.2% per annum; which is 78% lower than the Electricity Distribution Business that services the Hawke's Bay area. This submission reiterates the anomalies between Gisborne and Hawke's Bay's population, GDP, socio-economics, and energy throughput growth as noted in our previous submission.

Transpower's regional electricity volume forecasts proposed in the consultation paper must be reasonable in its calculation and application to Eastland. We submit that it is inappropriate for the Commerce Commission to continue to assume that Gisborne shares the same operational and economic characteristics as Hawke's Bay, and therefore it is unreasonable to assign Transpower regional forecasts for Hawke's Bay to Eastland.

To resolve our issues, Eastland submits that the Commerce Commission use Grid Exit Point forecasts relevant to Eastland for throughput forecasts; in combination with the underlying assumptions (such as GDP projections) relevant to the Gisborne and Wairoa regions only, regardless of the source of the projections. We also believe that these forecasts should be used in conjunction with historical actual volumes to develop final throughput projections, as Eastland has always found that Transpower forecasts have been overstated for our network, with historical results consistently trending in line with low load forecasts.

3 Introduction

On 15 September 2011, the Commerce Commission (Commission) released a Consultation Paper on Electricity Volume Projections, which proposed using Transpower's regional electricity forecasts in the Commission's Starting Price Adjustments model.

Overall, Eastland recognises the Commission's attempt to improve the inaccuracies in regional throughput forecasts previously proposed in the Draft Decisions Paper released on 19 July 2011. However, we believe the Commission has not addressed the issue of applying inappropriate regional data to regions whose characteristics differ significantly to the region proposed by the Commission.

We would like to acknowledge that we support the submission made by PwC on 21 September 2011 on the suitability of Transpower's forecasts, which details in depth the concerns of using the Transpower data; and is made on behalf of 19 Electricity Distribution Businesses, including Eastland.

In addition to the issues raised in the submission made by PwC, we reinforce that regional electricity volume forecasts proposed in the consultation paper must be reasonable in both their calculation and application to Eastland.

Our submission reiterates our concerns of using Hawke's Bay as a proxy for throughput projections for the Gisborne region, on the basis that the Commission intends to allocate the proposed Transpower's regional volume forecasts for Hawke's Bay to Eastland.

Our concerns regarding the allocation of Hawkes Bay regional data to Eastland were discussed and evidenced in our previous submission on the Draft Decisions Paper on 24 August 2011, but these appear to have been dismissed in the Commission's latest proposal.

We also discuss our reservations of solely relying on Transpower's forecasts as the primary forecast of volume growth. We believe that historical results should also be assessed when considering Transpower's forecasts; especially when Eastland's historical actuals have always indicated over statement of Transpower forecasts for our network.

4 Commission's Revised Approach to Forecasting Volume

4.1 Commission's Methodology

The Commission has proposed that final regional electricity volume forecasts prepared by Transpower (TP) will be used to develop electricity volume projections for individual electricity distribution businesses (EDBs). This replaces the previous use of forecasts supplied by the Electricity Authority (EA).

We reinforce however, that the TP forecasts the Commission wishes to adopt in calculating its throughput projections, must be reasonable in both its calculations and application to Eastland. This includes ensuring that volume projections, and underlying assumptions of throughput such as GDP and population statistics attributed to Eastland, must align with the true performance of those economic characteristics and indicators in the Gisborne and Wairoa regions.

4.2 Application of Regional Forecasts to Eastland Network

Under the revised throughput forecasts, the Commission continues to assign Hawke's Bay regional growth rates (both energy forecasts and economic growth) to Eastland, by assigning TP's Hawke's Bay regional forecasts and assumptions to the Gisborne region.

Consistent with the previously proposed EA forecasts, TP's forecasts for Hawke's Bay includes supply to both Eastland's Grid Exit Points (GXPs) and those connected to Unison Network, who supplies the Napier and Hastings cities and rural districts surrounding those cities.

Eastland maintains that only GXP data relevant to Eastland Network should be used for the throughput forecasts for Gisborne. These GXPs are located at:

- Tuai (TUI0111)
- Wairoa (WAI0111)
- Gisborne (GIS0501)

By persisting to use Hawke's Bay as a proxy for Eastland's throughput growth, the Commission continues to assume that Eastland has much higher throughput growth than justified.

It is not reasonable for the Commission to continue to assume that the Eastland region has the same characteristics and economic profile as Hawke's Bay. This is because the Gisborne and Wairoa regions are characterised by low historical population, GDP, and throughput growth; compared to higher growth in these areas in the Hawke's Bay region in its entirety. This was clearly evidenced in our previous submission on 24 August 2011.

The charts below have been derived from our previous submission to the Commission, and again demonstrate why it is inappropriate and unreasonable to assume that Eastland and Hawke's Bay share similar population, economic, and socio-economic characteristics, and energy throughput growth. Detail supporting the movements can be read in our submission to the Commission on 24 August 2011.

The following chart illustrates the divergence between the historical population growth rates in the Hawke’s Bay – Gisborne Territorial Local Authority (TLA) areas relevant to Eastland (Wairoa and Gisborne) and Unison (Central Hawke’s Bay, Hastings and Napier).

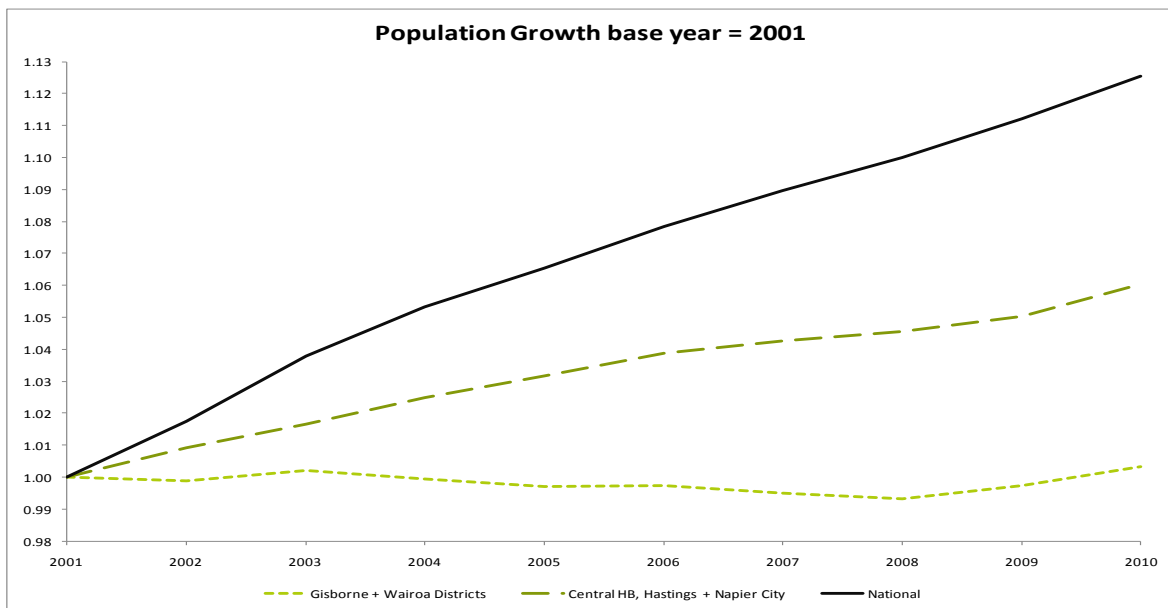


Figure 1 - Eastland and Unison TLA Population Growth (Source: Statistics NZ)

Eastland’s region has recorded an average population growth rate of 0.0% per annum, compared to Unison Network’s (Hawke’s Bay) regional population growth rates of 0.7%.

The chart below shows the substantial difference between GDP growth in the Eastland and Unison Network TLA’s. The Gisborne and Wairoa regions have a combined average GDP growth rate of 0.9% per annum, compared to an average of 2.6% per annum for Hawkes Bay over the 2001 – 2010 period.

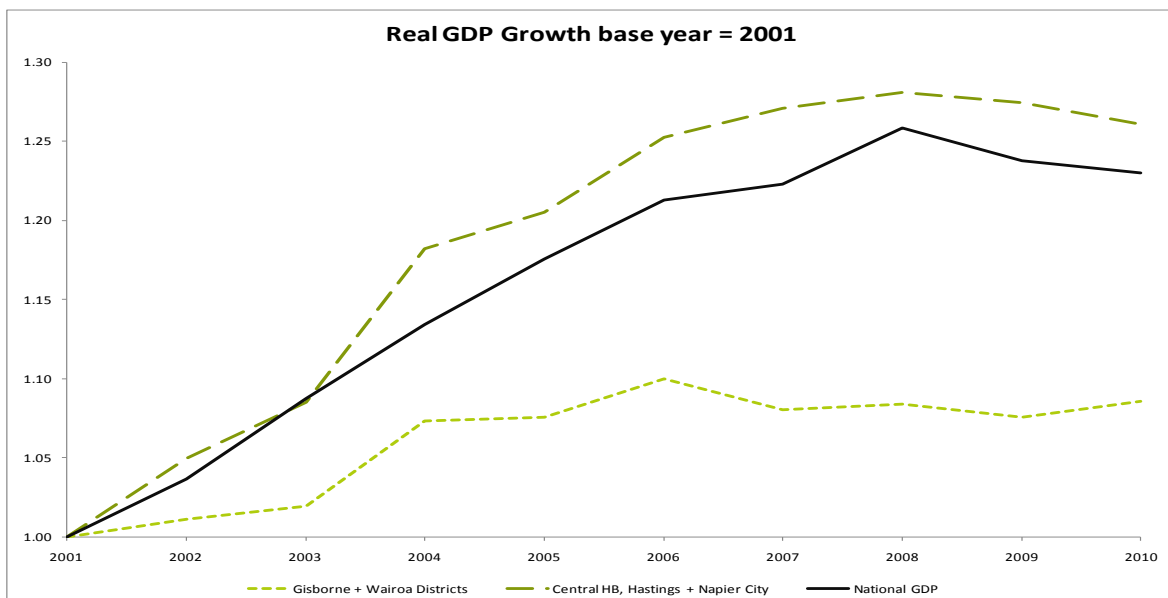


Figure 2 - Eastland and Unison TLA GDP Growth Rates (Source: PwC Regional Industry Database)

Associated with poor regional GDP performance is the socio-economic profile of a region. In our previous submission, we drew attention to Gisborne’s socio-economic profile, as illustrated in the 2006 Ministry of Health’s Social Deprivation Index. The 2006 census data ranked 70% of Eastland’s population in the lowest five deprivation levels, and 30% of the region’s population fell into category 10 – the most deprived.

In contrast to Gisborne, an estimated 51% of the Napier/Hastings population is ranked in the lowest five deprivation levels, and only 9% of the region’s population fell into category 10.

The significant variances identified above between GDP growth, population growth, and socio-economics in the Eastland and Unison Network regions continues to emphasise our view that it is not appropriate for the Commission to continue to apply Hawke’s Bay regional growth to the Gisborne and Wairoa regions; as proposed in the TP energy throughput forecasts.

The trend in energy throughput and ICP growth for Eastland and Unison Network also supports the argument that there are strong inequalities between the Gisborne and Hawkes Bay areas, as illustrated below.

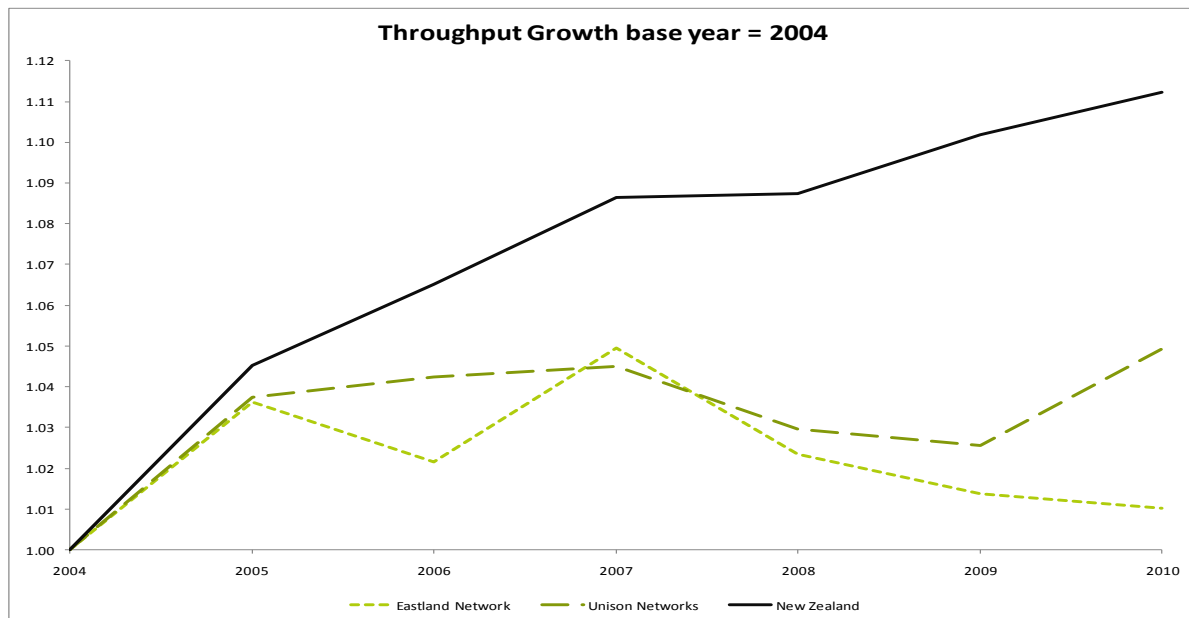


Figure 3 - Eastland and Unison Energy Throughput Growth Rates (Source: Regulatory Information Disclosures)

Energy throughput growth since 2004 for Eastland is 0.2% per annum; compared to Unison Networks growth rate of 0.9%. Since 2007, Eastland Network’s energy throughput growth has been declining at a rate of 0.8% per annum.

ICP growth for both Networks' is similar to their energy throughput growth rates. Eastland Network's connection growth rate is 0.4% per annum since 2004, compared to Unison Network's of 0.9% per annum over the same period. Once again, Eastland Network does not compare equally to Unison Network.

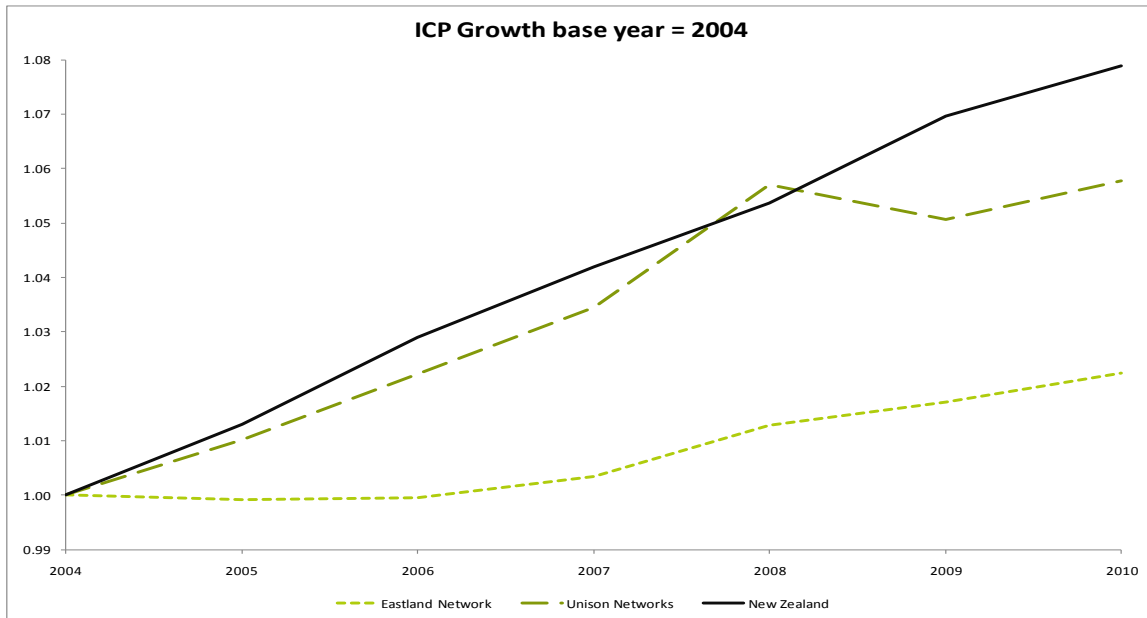


Figure 4 - Eastland and Unison ICP Growth (Source: Regulatory Information Disclosures)

4.3 Transpower Forecasts and Historical Results

Eastland Network queries the completeness of using TP forecasts as the primary forecast of growth. We believe that any forecasting, should adequately consider all indicators as well as historical actuals.

Historically, Eastland Network has always found that TP forecasts when compared to actuals have always been overstated for our network, as illustrated in the charts below.

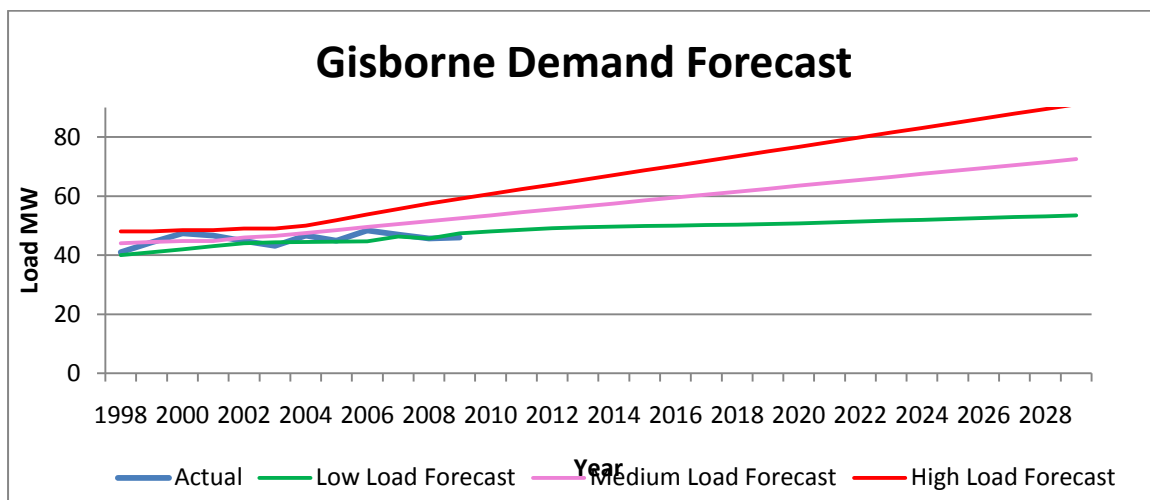


Figure 5 - Forecast and Actual Demand for Gisborne GXP GIS0501

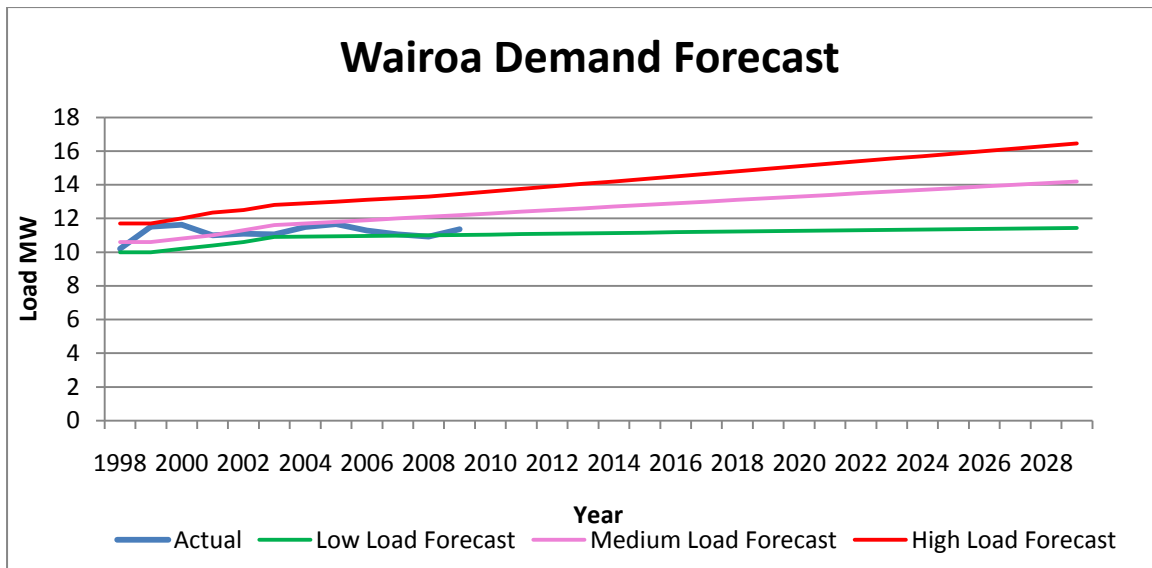


Figure 6 - Forecast and Actual Demand for Wairoa GXP's WAI0111 and TUI0111

The above charts have been prepared on an individual GXP basis and low, medium, and high load forecasts have been derived from TP's demand forecasts for Eastland as supplied by TP in 2010.

Traditionally, Eastland tracks consistently with TP's low load forecasts, and suggests that the TP forecasts that the Commission intends on using for Eastland Network will be overstated as medium/expected load has historically not been achieved consistently.

In addition to this, if the Commission intends to assign Hawke's Bay TP regional data to Eastland Network, it is likely that due to the economic dissimilarities between Hawkes Bay and Gisborne and the proven higher energy growth rates in Hawkes Bay, that Eastland Network's projections will be significantly overstated.

5 Recommendations to Forecasting Volume

Based on the information and evidence previously submitted by Eastland, and readdressed in this submission, it is highly unreasonable for the Commission to propose applying regional energy volume forecasts for Hawke's Bay to our network. Continuing to apply Hawke's Bay as a proxy for Eastland's throughput growth, the Commission is incorrectly applying higher growth rates projected for our Hawke's Bay neighbours to our network.

Eastland strongly emphasises that the Commission must use regional forecasts at an individual GXP level to ensure the characteristics of each region are better reflected in the Commission's real revenue growth projections. We submit that only GXP data relevant to Eastland Network should be used for the throughput forecasts for our region.

The underlying assumptions for Eastland Network's throughput forecasts (GDP projections etc) must be updated to reflect the economic projections of the Gisborne and Wairoa regions only; not the Hawke's Bay region in its entirety.

In addition to the separation between Hawke's Bay and Gisborne, Eastland proposes that if the Commission accepts TP's final regional forecasts, that it recognises historical trends in their forecasts versus actuals to formulate more accurate final volume projections. This is to address the issue that TP forecasts have traditionally been overstated, as illustrated in Eastland's case.