



Submission on the 'Information Disclosure' Discussion Paper

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To
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1 EXECUTIVE SUMMARY

- ❖ Our views are aligned with the views taken by the Electricity Network Association (ENA) and PricewaterhouseCoopers (PWC), which reflect the collective view of the industry, and ENL proposes the Commission gives these views considerable weight. Eastland Network fully endorses both submissions.
- ❖ Overall, we are concerned that the focus of information disclosure has shifted from assessing EDBs' performance to assessing their compliance with the regulatory regime. This is contradictory to the purpose statement.
- ❖ The timing of the information disclosure review coincides with the input methodology determination process. There is a possibility that after the finalization of input methodologies further changes to information disclosure requirements might be required, which would demand another resource intensive consultation process. The most likely information disclosure requirements affected by input methodologies are matters related to the cost of capital, pricing methodologies and proposals for customised price-paths proposals. We recommend that the information disclosure review is deferred until after input methodologies have been determined.
- ❖ Eastland Network does not support any changes to the information disclosure requirements that ask for more detailed information. We are particularly concerned about the request to disclose information that involves un-regulated businesses. Some of the information is commercially sensitive and might affect the competitiveness of the un-regulated business.

We consider that current disclosure, comprising of Annual Disclosures, Pricing Methodologies and Statistics and the Asset Management Plans, provide already ample information for interested persons. We also note that the compilation of information disclosure contributes considerably to regulatory compliance costs. In order to provide more detailed information as proposed by the Commission, these compliance costs will significantly increase.

2 INTRODUCTION

2.1 *Introduction to Eastland Network Ltd*

Eastland Network Limited owns and operates the lines for the upper East Coast of the North Island. Eastland Network is 100% owned by the Eastland Community Trust with the Gisborne District Council as the capital beneficiary of the Trust.

Eastland Network distributes approximately 302 GWh of electricity to approximately 26,000 consumers, of which almost two thirds are in Gisborne City and Wairoa Township. The remaining connections are spread out widely, across two isolated distribution networks covering 11,952km², resulting in an overall line density of less than seven connections per kilometre of line.

For more information on Eastland Network, please consult our website:

<http://www.eastland.co.nz>

2.2 *Structure of this Submission*

Since the beginning of the Commerce Act review, Eastland Network has followed the development with great interest and has actively participated in the consultation processes in the belief that joint efforts achieve the best possible outcome. Eastland Network appreciates the opportunities afforded by the consultation processes. We thank the Commerce Commission (the "Commission") for continuing engagement with the industry and for providing us with an opportunity to respond to the discussion paper.

Our views are aligned with the views taken by the Electricity Network Association (ENA) and PricewaterhouseCoopers (PWC), which reflect the collective view of the industry, and ENL proposes the Commission gives these views considerable weight.

This submission provides Eastland Network's opinion on some of the matters raised by the Commission in their discussion paper regarding the Commission's preliminary views on information disclosure. Our comments focus on selected issues directly related to Eastland Network's business operations.

We note that there appears to be a conflict of interest in some of the proposed information disclosure requirements. According to sec53(A) "*the purpose of information disclosure regulation is to ensure that sufficient information is readily available to interested persons to assess whether the purpose of this Part is being met*", which is

(1) [...] to promote the long-term benefit of consumers in markets referred to in section 52 by promoting outcomes that are consistent with outcomes produced in competitive markets such that suppliers of regulated goods or services—

- (a) have incentives to innovate and to invest, including in replacement, upgraded, and new assets; and*
- (b) have incentives to improve efficiency and provide services at a quality that reflects consumer demands; and*
- (c) share with consumers the benefits of efficiency gains in the supply of the regulated goods or services, including through lower prices; and*
- (d) are limited in their ability to extract excessive profits.[sec52(A)]*

The proposed changes shift the focus from assessing EDBs' performance to an assessment of their compliance. We believe that this is not the intended purpose of the information disclosure requirements.

Furthermore, we believe there is a timing overlay with the finalisation of input methodologies, which will affect some matters of the information disclosure requirements, necessitating a new consultation process. Thus, we recommend that the Commission suspends the consultation on information disclosure requirements until input methodologies have been finalised. These matters will be further addressed in section 4 of this submission.

Eastland Network does not wish to be heard in support of this submission.

3 BACKGROUND

3.1 New Regulatory Regime for Electricity Lines Services under the Commerce Act 1986

Suppliers of electricity lines services are subject to the regulatory provisions under subpart 9 of Part 4 of the Commerce Act 1986 (the "Act") from 1 April 2009. The Commerce Amendment Act 2008 (CAA), which received Royal assent on 16 September 2008, has introduced significant changes to those provisions in Parts 4, 4A, 5 and 6 of the Act that relate to the economic regulation of goods and services in New Zealand. Electricity lines services are defined in section 54C of the Act, which are supplied by Transpower and electricity distribution businesses (EDBs).

Under the current regulatory framework, EDBs are subject to:

- information disclosure regulation; and
- default/customised price-quality regulation, however suppliers that are "consumer-owned" (sec 54D) are exempt from this type of regulation.

Among other things, the amendments introduced by the CAA require the Commission to make a determination specifying how information disclosure regulation applies to EDBs and Transpower "as soon as practicable" after 1 April 2009.

Under the current requirements (the "Electricity Distribution (Information Disclosure) Requirements 2008" and the "Electricity Information Disclosure Requirements 2004"), suppliers are required to disclose certain specified information relevant to their performance (such as financial statements, prices and quality performance measures), including forward-looking information (such as forecasts and asset management plans).

On 19 December 2008, the Commission published the Regulatory Provisions of the Commerce Act 1986 Discussion Paper (Provisions Paper), which set out the Commission's preliminary views on the new regulatory provisions that were introduced through the CAA, including a brief discussion on the information disclosure provisions. Subsequently, on 29 July 2009 the Commerce Commission released a discussion document which forms the first step in a consultation process to develop new information disclosure requirements for the suppliers of regulated services.

The Commission has invited interested parties to submit their views and comments on this matter by 11 September 2009. In the following section, Eastland Network provides comments on the matters related to the regulatory framework of EDBs.

4 COMMENTS

4.1 Next Steps

Q.1) In your view, should the Commission's next steps in making information disclosure determinations for the regulated services be as outlined above? Please provide the reasons for your views.

The Commission proposes the following time table, which is subdivided into three phases "discussion paper", "draft determination", and "determination", to complete the review of the information disclosure requirements.

Phase	Key Deliverable	Airports	EDBs	Transpower	Gas
Phase I	Discussion Paper	29 July 2009			
	Submissions due on Discussion Paper	4 September 2009			
	Workshops (if required)	Q4 2009			
Phase II	Consultation on specific topics	Q4 2009	TBA	TBA	TBA
	Draft Determination	Q1 2010	TBA	TBA	TBA
	Submissions due on Draft Determination	Q1 2010	TBA	TBA	TBA
	Cross-submissions due on Draft Determination	Q1 2010	TBA	TBA	TBA
	Workshops on Draft Determination (if required)	Q2 2010	TBA	TBA	TBA
Phase III	Release final Draft Determination	Q2 2010	TBA	TBA	TBA
	Submissions due on Technical Drafting of Determination	Q2 2010	TBA	TBA	TBA
	Final Determination comes into force	1 July 2010	TBA	TBA	TBA

Overall, we support the proposed time frame and would welcome the opportunity to engage with the Commission within a workshop environment. We are, however, concerned about the timing of the review as it coincides with input methodology determination process. There is a possibility that after the finalization of input

methodologies further changes to information disclosure requirements might be required, which would demand another resource intensive consultation process. The most likely information disclosure requirements affected by input methodologies are matters related to the cost of capital, pricing methodologies and proposals for customised price-paths proposals.

4.2 Statutory Framework and Regulatory Framework Principles

Q.2) Do you agree that the term 'interested persons' is broad in its application and includes all persons that are interested in the activities of a regulated supplier? If not, please provide the reasons for your view, an alternative interpretation and why you consider this to be more appropriate.

Eastland Network agrees that the term is broad in its application and includes all persons that are interested in the activities of a regulated supplier. Among other things, information on financial performance, quality of services and pricing methodologies is publicly available on firm's websites, thus it is outside EDBs' control who accesses the information. Interested persons may be consumers, other EDBs and owners of the regulated supplier, regulatory bodies (including the Commission) and any other stakeholder of the regulated supplier.

Q.3) Do you agree that pre-prescribed performance indicators will assist interested persons in the assessment as to whether the purpose of Part 4 is being met? If not, please provide the reasons for your view, an alternative approach and why you consider this to be more appropriate.

We agree that well-designed performance indicators are potentially useful in conveying information in an aggregated form to interested persons. It is important that the design of the indicators is as such that the aggregation of information will not compromise accuracy. Information disclosure requirements must ensure that information disclosed is useful to interested persons. It must therefore be understandable, relevant, reliable and comparable across the sector.

Q.4) Do you agree that these principles are consistent with the purpose of information disclosure which is to ensure that sufficient information is readily available to interested persons to assess whether the purpose of Part 4 is being met? If not, please provide the reasons for your view, alternative principles and why you consider these are better

aligned to the purpose of information disclosure.

The implementation principles consistency, transparency, cost-effectiveness, and flexibility provide an appropriate framework for the purpose of determining information disclosure requirements.

4.3 Monitoring Performance

Q.5) What other areas of performance, if any, do you think the Commission should consider when assessing whether the purpose of Part 4 is being met? Please provide the reasons for your view.

The Commission suggests the five areas of performance

- * innovation and investment,
- * quality,
- * prices,
- * profits, and
- * efficiency.

Eastland Network supports the Commission's interpretation of sec52A(1) regarding performance areas.

Q.6) Do you agree that an indicator relating to investment is required? If not, please provide the reasons for your view.

Q.7) Do you believe that a capital expenditure ratio is an appropriate indicator? If not, please provide the reasons for your view, an alternative and explain why you consider this to be preferable.

Q.8) Do you have any views on the Commission's proposed treatment of capital expenditure ratios under information disclosure? If so, please provide the reasons for your views.

Eastland Network assess that current information given by EDBs relating to investment, capital and operating expenditure is sufficient for performance assessments and no new indicators are required. However, simple ratios can hide and distort a view or conclusion that an interested person could reasonably come to when comparing ratios across EDBs and therefore, the ratios should read in recognition with an EDB's AMP.

Q.9) Do you agree that the disclosure of an AMP is an appropriate means of

demonstrating innovation and investment? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.

Eastland Network supports the view that AMPs are the appropriate data source for interested persons to assess innovation and investment plans.

Q.10) Do you have any views on appropriate indicators for measuring innovation? If so, please provide the reasons for your views.

Q.11) Do you have any views on appropriate indicators for measuring quality? If so, please provide the reasons for your views.

Q.12) Do you have any views on appropriate indicators for measuring profits? If so, please provide the reasons for your views.

Q.13) Do you have any views on appropriate indicators for measuring pricing efficiency? If so, please provide the reasons for your views.

Q.14) Do you have any views on the appropriate cost based indicators to assess whether regulated suppliers have taken action to minimise costs? If so, please provide the reasons for your views.

Eastland Network assess that current information provided by EDBs relating to innovation, quality, profits, pricing efficiency is sufficient for performance assessments and no new indicators are required.

Q.15) Do you have any views on the Commission's proposed treatment of operational expenditure ratios under information disclosure? If so, please provide the reasons for your views.

Q.16) Do you have any views on the Commission's proposed treatment of capacity utilisation ratios under information disclosure? If so, please provide the reasons for your views.

The Commission assumes that the information required to determine capacity utilisation should be readily available to regulated suppliers that are acting efficiently, as it is required to ensure that capital expenditure is undertaken at the appropriate time.

The Commission further notes that additional cost may be incurred when capacity utilisation calculations are required in a form that is not consistent with a regulated business unit's normal internal capacity utilisation calculation (p.33). We argue that the disclosure of capacity utilisation in a form different to that of the regulated businesses' internal calculation of capacity utilisation to enhance transparency and comparability is an unnecessary exercise that will only increase compliance costs.

4.4 Return on Investment (ROI)

Q.17) Do you agree that profitability should be measured using an ROI measure? If not, please detail the measure that is appropriate and explain how that measure would better meet the purpose of information disclosure?

Using ROI as a measure of profitability is consistent regulatory practice given its advantage of being most comparable to the regulatory cost of capital (WACC). This allows interested persons to assess whether profits are broadly in line with a normal and fair economic return over time.

Q.18) Do you agree that revaluations and depreciation in the Regulatory Profit should be the same value as that which is used in rolling forward the RAB value? If not, please detail how depreciation and revaluations should be treated and how this treatment is consistent with the FCM concept.

Q.19) Do you agree that the value of capital contributions and vested assets (net of any consideration) should be recognised as income in the ROI? If not, please explain how the value of the returns earned from vested assets and capital contributions should be treated and why you consider this to be preferable.

Q.20) Do you agree that lost and found assets should not be treated as income and expense? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.

Using ROI allows interested persons to assess whether suppliers of regulated services are earning a normal and fair economic return over time. We agree that to make the ROI comparable to WACC, it should be specified accordingly. Thus, some aspects of the RAB roll-forward methodology should be incorporated into the definition of the ROI measure, so that profitability can be assessed appropriately. However, assessing and including revaluation gains is complicated and revaluation gains are not reflected in prices.

The Commission suggests that the appropriate response is to provide a high quality summary and analysis of disclosures (p.37).

Accordingly, if revaluation gains are included, depreciation must be treated similar and should be the same value as the value used in rolling forward the regulatory asset base.

Q.21) Do you agree that a ROI comparable to a vanilla WACC and a post-tax WACC should be disclosed? If not, please provide the reasons for your view.

Since this matter will be addressed in more details in the consultation on the input methodology for the regulatory cost of capital, Eastland Network has no comments on this matter at this stage of the consultation process.

Q.22) Do you agree that half the value of the net new capital investment should be reflected in the RIV value? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.

Q.23) Do you agree that assets acquired from or sold to another regulated supplier or business unit should be included in the RIV to the extent that the profit relating to those assets is recognised in the regulated supplier's regulatory profit? If not, please detail how asset acquired from or sold to another regulated supplier or business unit should be treated and why you consider this to be preferable.

Q.24) Do you agree that it is appropriate to treat assets acquired from or sold to another regulated supplier that doesn't relate to merger or acquisition activity as above? If not, please explain how these should be treated and why you consider this to be preferable.

Q.25) Do you agree that an adjustment to RIV for working capital is not necessary given its likely materiality? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.

Q.26) In your view, how should the capital costs associated with the use of regulated assets to provide regulated and unregulated services be attributed? Please provide the reasons for your view.

Eastland Network has no comments on this matter and adopts the views taken by ENA and PWC in their respective submissions.

4.5 Financial Information

Q.27) Do you agree that the Commission should consider GAAP as the starting point, but modify the disclosures where required to meet the purposes of information disclosure under the regulatory regime? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.

We recommend the Commission applies GAAP to the extent possible and keeps modification to the disclosure requirements to a minimum in order to minimise compliance costs.

Q.28) Do you agree that where the sale of the asset is made to an unregulated entity or

business unit, then the regulatory profit should be adjusted for gains or losses on sale? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.

It is appropriate to request that where the sale of the asset is made to an unregulated entity or business unit, the regulatory profit should be adjusted to reflect the difference in actual versus estimated depreciation, being the residual gain or loss on sale. We recommend, however, that the residual gain or loss on sale must be significant to justify inclusion in the disclosure statements.

Q.29) Do you agree that pass-through revenue and the associated distribution should be transparently disclosed in the regulatory profit statement? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.

The Commission proposes that pass-through revenue and the associated distribution should be transparently disclosed in the regulatory profit statement based on the argument that pass-through revenue is revenue that is received to be subsequently distributed to consumers or other third parties. We agree that the disclosure potentially reduces short term distortion of Regulatory Profit which would impact on performance indicators.

Q.30) Do you agree that pass-through costs should be separately disclosed? If not please provide a detailed explanation as to why it shouldn't be separately disclosed.

Pass-through costs are currently disclosed on the Regulatory Profit Statement and we regard the current format as appropriate.

Q.31) Do you agree that insurance expenses should be included in the calculation of Regulatory Profit only where these are paid to an insurance entity? If not please, provide a detailed explanation as to why insurance should or shouldn't be disclosed, including a reference to the materiality of the insurance costs.

Eastland Network adopts the views taken by ENA and PWC on this matter.

Q.32) Do you agree that merger and acquisition expenses should be included in Regulatory Profit? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.

We support the Commission's preliminary view that merger and acquisition expenses should be included in Regulatory Profit, as they are likely to be significant and warrant a separate disclosure.

Q.33) Do you agree that financing information should not be required due to the difficulty in meaningfully allocating the portion that relates to the regulated business? If not, please provide details on how information on financing can be meaningfully allocated to regulated business units.

Q.34) Are there any additional means for which an assessment of financial viability could be made? If so, in light of the regulatory provisions, please provide details of how the assessment can be made.

Q.35) Do you agree that regulated suppliers should use the leverage assumption and cost of financing assumptions outlined in the cost of capital input methodology in preparing the deductible interest and interest tax shield calculation? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.

We support the Commission's preliminary view that financing information for regulated business units would not be required for information disclosure purposes due to the difficulty in meaningfully allocating the portion that relates to the regulated business unit(s).

Q.36) Do you agree that disclosure of related party transactions should at least be consistent with GAAP and also include transactions between business units? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.

Q.37) Do you agree that transactions with related parties, including transfer pricing information, should be disclosed? If so, please provide details of how this information should be disclosed. If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.

We do not support the Commission's request to disclose transactions, including transfer pricing, with unregulated business units. This information may be of commercially sensitive nature for unregulated activities. And as the Commission noted correctly, the disclosure of related party transactions, including transfer pricing information, is very costly.

It is also not appropriate to request the disclosure of related party information for compliance monitoring purposes as it contradicts the purpose of performance assessment only.

Q.38) Do you agree that reconciliation between consolidated statutory reporting and regulatory reporting should be required for the purpose of monitoring compliance? If not, please provide that reasons for your view, an alternative to monitoring compliance and why you consider this to be preferable.

Q.39) In your view, what form should the consolidation and reconciliation disclosures take? Please provide the reasons for your view.

Q.40) Do you agree that financial information should be disclosed by way of a Regulatory Profit Statement, Regulatory Asset Statement, Regulatory Tax Calculation, Forecast Statement and Consolidation Statement? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.

Eastland Network is of the opinion that consolidation or reconciliation statements are not required, as they will not assist in measuring the performance against the purpose statement and will significantly add to regulatory compliance costs. It is also not appropriate to disclose information where it affects the competitiveness of the unregulated party. Compliance with disclosure requirements and associated input methodologies is ensured through the auditing process. Eastland Network believes that current requirements regarding the disclosure of related party transactions are adequately transparent and informative for the purpose of performance assessment.

Q.41) Do you agree that if the initial RAB value is established by updating a base valuation, then supporting disclosure of the methodology and assumptions will be required for transparency? If not, please provide the reasons for your view.

Q.42) Do you agree that disclosures relating to the roll forward of the RAB should be sufficiently transparent so as to show the roll-forward calculation? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.

Q.43) Do you agree that the distinction between system fixed assets and nonsystem fixed assets under an indexed or un-indexed historic cost rollforward approach is not required for the on-going purpose of information disclosure? If not, please provide the reasons for your view.

Q.44) Do you agree that if shared asset costs were to be excluded from the RAB this should be done by way of an adjustment to the final RAB value, depreciation and revaluations? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.

Eastland Network agrees that the initial RAB value should be established by updating a base valuation, which should be the readily available 2004 ODV values. However, extensive disclosure of the methodology and assumptions, that exceed the requirements of the 2004 valuation, should not be required in order to assess performance.

Q.45) Do you agree that the treatment of leases consistent with GAAP is the appropriate approach under information disclosure? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.

We support the Commission's preliminary view that the treatment of leases consistent with GAAP would be the most cost-effective approach based on the complexity of lease arrangements.

Q.46) Do you agree that the level of prescription of information disclosed for assets acquired from or sold to another regulated supplier or business unit should be consistent with the information disclosed in the initial RAB and be sufficiently detailed to provide transparency? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.

Please see the answer provided to question Q.48.

Q.47) What do you consider to be the implications of the two approaches for recognising the cost of finance during construction, being either application of an FDC allowance, or application of GAAP? Which approach do you prefer, and why?

Eastland Network has no comments on this matter and adopts the views taken by ENA and PWC in their respective submissions.

Q.48) Do you agree that RAB information should be disclosed by way of a Regulatory Valuation Roll-Forward Report, Annual Valuation Roll-Forward by Asset Class Report, Asset Transactions with Other Regulated Suppliers Report and Initial RAB Report? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.

Current information disclosure requirements include RAB information by way of Annual Regulatory Valuation Roll-Forward Report (AV1), Regulatory Valuation Roll-Forward by

Asset Class Report (AV2), System Fixed Assets Replacement Cost Roll-Forward (AV3) and Business Merger, Acquisition or Sale – RAB Disclosure (AV4). These schedules provide ample information regarding asset values and changes of asset values. Thus, Eastland Network recommends that this format is retained without extending the scope of required information any further.

4.6 Quality Disclosure and Statistics

Q.49) Do you agree that the requisite quality, quality targets and actual quality are appropriate measurements of quality for the purposes of information disclosure? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.

Eastland Network contends that quality targets and actual quality are appropriate measurements of quality and should be disclosed through quality and statistics disclosures in addition to AMPs. We note that requisite quality is defined as the quality demanded by consumers. The Commission suggests that in the first instance this is to be best determined by regulated suppliers themselves in consultation with their consumers. While we agree that having an understanding of the quality level that consumers demand, EDBs are not able to consult with every single consumer but consumer groups only. In fact, EDBs do not have a direct relationship between themselves and their consumers. That kind of relationship only exists between consumers and retailers.

Furthermore, while preferences in commercial consumer groups might be relatively homogenous, we believe that this is not necessarily the case for residential customers. We therefore argue that requisite quality should not be determined or disclosed, but if it is, then it must be treated as a statistical proxy for consumer demand and should be regarded as indicative only.

Q.50) Do you agree that requisite quality should be disclosed by suppliers of regulated services through the AMP so that they can choose the best way to establish and disclose the requisite level of quality? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.

If requisite quality is to form part of annual information disclosure requirements, and we argue that it should not, we agree with the Commission's preliminary view that an average of all consumers' quality results should be used in the disclosure of performance

indicators for actual quality. This will likely allow for better comparability and transparency.

Q.51) Do you agree that the Commission should assess the process by which suppliers engage with their consumers to assess requisite quality, how target quality has been determined based on requisite quality information and how the supplier has performed against target quality? If not, please provide a reason for your view, an alternative and why you consider this to be referable.

Q.52) Do you agree that suppliers of regulated services should be required to engage with their consumers and disclose how they engage or plan to engage with consumers, what service offers or commitments they make to consumers, how they make decisions about requisite quality standards, what types of contractual or other arrangements, if any, they enter into in relation to quality and how they plan to deliver requisite quality in terms of medium-term service delivery? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.

We recommend to seek a pragmatic solution the with regard to requisite quality, where suppliers of regulated services have the option to choose the best methodology to determine and disclose requisite quality. Provided a consistent method is applied, the Commission would then be able to assess whether each supplier is delivering services at a quality that reflects consumer demands.

Q.53) Do you agree that quality information should be audited? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.

It is our opinion, that current audit requirements regarding quality are sufficient and do not need further extension.

Q.54) Do you agree that the aspects of quality most relevant to suppliers of regulated services should include reliability, supply quality-other and customer service? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.

Aspect of Quality	Commission's Preliminary View	Proposed Measurement Basis
Reliability	Key aspect of quality for electricity lines and gas pipeline services. Different in nature for specified airport services.	Output
Safety	In most instances safety is monitored by other agencies (where there is a minimum safety quality standard), therefore the cost of disclosing for information disclosure purposes, in most cases, is likely to outweigh the benefit.	Input or Output
Supply Quality - Other	Should only be used to measure actual quality where quantifiable and appropriate. Otherwise should be considered by regulated suppliers in the assessment of requisite quality.	Input, Output or Customer Perception
Customer Service	Aspect of quality that is possibly most relevant to consumers of airport services. Helpful in determining quality of service for electricity lines and gas pipeline service that is not directly related to the network assets.	Output or Customer Perception

We agree that aspects of quality, as outlined by the Commission in the table above, include reliability, safety, supply quality-other and customer service. However, we note that generally we do not have a direct relationship with the end consumer, except in non-regulated aspects of the business. Therefore, we contend that EDBs should not have to disclose customer service aspects of quality.

Q.55) Do you agree that statistics information should include asset information, demand and capacity information? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.

The AMP already provides ample information on assets, demands and capacity, which we believe is appropriate for the purpose of information disclosure and does not need further extension.

4.7 Asset Management Plans

Q.56) Do you agree that suppliers of regulated services should apply a recognised AMP standard? If so, what is the appropriate standard that should be applied? Please provide the reasons why you consider it to be preferable?

The provision of guiding principles may be useful for the preparation of AMPs on the basis that there are voluntarily and for guiding purposes only. We do not support a compulsory standard regarding asset planning and management as it may vary substantially to an individual EDB's business practice, creating significant compliance and implementation costs.

Q.57) Do you agree that AMPs should cover at least a ten-year forecast period? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.

Generally, the required forecast period should not exceed 10 years as there would likely be a loss of accuracy in the forecast. A ten-year forecast period is an appropriate time frame for the purpose of planning asset related capex and opex. If a regulated supplier wishes to disclose for a longer planning period, for example if the supplier is planning a major asset upgrade over a longer period of time, the supplier should be allowed to do so.

We further agree that detailed forecasts should only be required for the first five years of the planning period.

Under current requirements, AMPs are disclosed prior to the beginning of each financial year. Eastland Network supports the Commission's opinion that this time frame should be kept to ensure that the AMP can be used as a key internal planning document for the forecast period.

Q.58) Do you agree that the AMPs should be certified by Directors that they are compliant with the requirements and that the AMP describes actual process and practices implemented by the business? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.

It is appropriate to require a Director's certification to validate provided information in the AMP is compliant with requirements. However, the Director's certificate should not relate to isolated information as such. The AMP is by nature a planning document and thus, differences between planned processes and the actual implemented processes are unavoidable. Given the high level of management and planning detail within the AMP, we believe it is more appropriate that the AMP is accompanied by a Management Certificate, signed by the CEO or General Manger of the regulated business.

Q.59) Do you agree that the Commission should review investment and innovation, quality and energy efficiency, demand side management and loss reductions as part of the AMP review process for Electricity Distribution Lines Businesses? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.

According to the purpose statement of Part 4 sec52(A)(a-b), the purpose is to ensure that [...] *suppliers of regulated goods or services—*

(a) have incentives to innovate and to invest, including in replacement, upgraded, and new assets; and (b) have incentives to improve efficiency and provide services at a quality that reflects consumer demands [..].

Related to that, sec54(Q) requires: *The Commission must promote incentives, and must avoid imposing disincentives, for suppliers of electricity lines services to invest in energy efficiency and demand side management, and to reduce energy losses, when applying this Part in relation to electricity lines services”.*

We believe that it is inconsistent to review EDBs' investment and innovation, quality and energy efficiency, demand side management and loss reductions as part of the AMP review process until the Commission provides specific directions on the matters of energy efficiency and investment incentives.

Q.60) Do you agree that an AMP should include details of the background and overall approach to, and objectives of, a regulated supplier's asset management and planning processes? If not, please provide reasons for your view.

Q.61) Do you agree that an AMP should include details of the assets covered by the plan? If not, please provide reasons for your view.

Q.62) Do you agree that an AMP should include details of the regulated suppliers' plans for asset growth and their methods for reaching asset - related growth decisions? If not, please provide reasons for your view.

Q.63) Do you agree that an AMP should include details of the regulated suppliers plans for maintenance and renewal of assets over the planning period? If not, please provide

reasons for your view.

Q.64) Do you agree that an AMP should include details of risk policies, assessment, analysis and mitigation methods, and details of emergency response and contingency plans? If not, please provide the reasons for your view.

Q.65) Do you agree that an AMP should include a regulated supplier's assessment of its performance against its own financial and service level targets as they relate to asset management planning? If not, please provide the reasons for your view.

Eastland Network believes that the current format of the Asset Management Plan provides ample information for interested persons. The level of detail regarding asset management, assets included in the plan, asset maintenance and asset renewal is already high and of complex nature. We do not support amendments to the current requirements that request more than already provided detailed information.

4.8 Pricing and other Disclosure Provisions

Q.66) Do you agree that all regulated suppliers should disclose and publish their pricing methodologies? Please provide the reasons for your view.

Q.67) Do you agree that regulated suppliers should disclose prices? If not, please provide the reasons for your view.

Since 2001, EDBs have been required to disclose and publish prices and pricing methodologies among other disclosure requirements. Eastland Network believes it is reasonable to continue the requirement to disclose prices and pricing methodologies for regulated suppliers as it provides information for interested persons to assess whether regulated suppliers are pricing efficiently, or at least applying efficient pricing principles to the extent practicable, based on the service quality demanded by consumers.

Q.68) Do you agree that regulated suppliers should be required to disclose the terms and conditions of supply and that the scope of disclosures should be limited to terms and conditions for the supply of regulated services? If not, please provide the reasons for your view.

Yes, we agree that disclosures should not be extended to terms and conditions of unregulated services.

Q.69) Do you agree that that disclosure of policies will assist in achieving the stated purposes? If not, why not, and what information do you suggest would provide meaningful information?

We do not support the disclosure of policies such as:

- Credit policy;
- Delegated authority policy;
- Profit distribution policy;
- Sponsorship policy; and
- Insurance policy,

as we do not see how this information is relevant when assessing the performance of an EDB against the section 52A purpose statement. Furthermore, we would consider this as too onerous and simply increase compliance costs.

4.9 Publication, Retention, Certification, Statutory Declaration and Audit

Q.70) Do you agree that publicly disclose should require a notice in the Gazette of that disclosure? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.

Q.71) Do you agree that the Annual, AMP and pricing methodology disclosures should be publicly disclosed? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.

Q.72) Do you agree that prices disclosures should also be notified to each consumer by whom the charge is payable? If not, please provide the reasons for your view.

Q.73) Do you agree that templates should be used where appropriate and that disclosures should be made available to the Commission in Excel format with relevant formulae in place? If not, please provide the reasons for your view.

Eastland Network believes that existing requirements regarding the publication and publishing of information related the Annual, AMP and pricing methodology are appropriate and meet the purpose of information disclosure. Prices are notified annual in local newspapers along with publication on the lines business's website, which we regard as efficient means to notify consumers about service prices. We do not regard individual consumer notification as necessary.

We support the Commission's preliminary view that where information is required to be disclosed in a standardised form, regulated suppliers should make disclosures consistent with standardised templates, allowing for better comparison and analysis. Using provided Excel templates is practical and the process is already in place.

Q.74) Do you agree with the proposed timing for disclosures? If not, please provide the reasons for your view.

Q.75) Do you agree with the proposed regulatory year end dates? If not, please provide the reasons for your view.

It is appropriate to request that annual disclosures are made within five months after the regulatory year end. This process is already in place and gives EDBs a reasonable amount of time to prepare the required disclosures while still ensuring that disclosures are timely. We agree that disclosure of AMPs should be made prior to the beginning of the forecast period so as to provide timely information. As for pricing methodologies in place at the beginning of the regulatory year, these should be disclosed at the beginning of the regulatory year and within 1 month of a change or the adoption of a different methodology. Disclosure of required contracts is to occur no later than 1 month after entering into the contract. The Commission's preliminary view is that prices disclosures should be made at least 20 working days before introducing a new charge.

The Commission proposes that the regulatory year should end on the 31 March for EDB. Since this is corresponding with the year ends used by regulated suppliers under current respective disclosure requirements, Eastland Network recommends the dates to be retained.

Q.76) Do you agree that regulated suppliers should continue to disclose information and retain disclosed information and information supporting the disclosed information for a period of at least seven years? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.

We agree that regulated suppliers should continue to disclose information and retain disclosed information and information supporting the disclosed information for a period of at least seven years as this process is already in place.

Q.77) Do you agree that Director certification should be required for the Annual, AMP and pricing methodology disclosures to certify that the information being disclosed complies with the relevant requirements? If not, please provide the reasons for your view

We believe that Director certification is not required for prices and contract disclosures as the proposed requirements only require the disclosure of the information and do not include specific requirements about how the information is to be prepared.

Q.78) Do you agree that audit reports should be required for Annual Disclosures? If not, please provide the reasons for your view, an alternative to obtaining independent assurance and why you consider this to be preferable.

Q.79) Do you agree that audit reports should not be required for AMP, pricing methodology, prices or contract disclosures? If not, please provide the reasons for your view.

Q.80) Do you agree that the form of audit reports should be flexible enough to allow for any changes in the New Zealand Auditing Standards without requiring an amendment to the requirements? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.

Q.81) Do you agree that audit reports should include a statement as to whether the disclosures comply with the requirements and include explanations of any material non-compliance? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.

Q.82) Do you consider it appropriate for there to be different assurance requirements for different types of information and what do you think they should be? Please provide the reasons for your view.

Q.83) Do you agree that audit reports should be addressed to interested persons and contain a statement that acknowledges the auditor's duty of care to the Commission? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.

Q.84) What do you consider to be an appropriate level of independence for auditors? Please provide the reasons for your view.

The purpose of audit reports is to provide independent assurance that information being disclosed complies with the relevant requirements. Thus we support the Commission's preliminary view that audit reports should be required for Annual Disclosures but not AMP, pricing methodology, prices or contract disclosures.

However, we argue that this additional Audit of regulatory material is not required of non-regulated businesses and therefore, the cost of Audit is unavoidable and should be treated as a pass-through cost.

The Commission notes that the AM1 schedule of the Annual Disclosure includes a summary capital expenditure and operating expenditure forecasts, extracted from the AMP disclosures. We question whether it is appropriate that forecast information is audited as this information is generally engineering based and most traditional Audit firms do not have the requisite technical skills to assess or test its compilation from an AMP.

Eastland Network supports the Commission in their preliminary view is that the audit of prices and charges disclosure should not be required and that the form of audit reports should be flexible enough to allow for any changes in the New Zealand Auditing Standards (issued by the New Zealand Institute of Chartered Accountants) without requiring an amendment to the requirements.

Based on that, it would be appropriate for the Commission to prescribe a number of provisions for the auditor's report, setting out the Commission's expectations in respect of the scope and content of the report, and the standard of assurance for the audit report, rather than providing a prescriptive template.

Given that the audit reports need to address compliance with the requirements it is appropriate that the reports include a statement as to whether the disclosures comply with the requirements and include explanations of any material non-compliance. This will add to the authenticity of the information provided.

Q.85) Do you agree a statutory declaration should be attached to all information made available to the Commission under any disclosure requirement? If not, please provide the reasons for your view.

The purpose of a statutory declaration is to verify that the information provided to the Commission is a true copy of the information made available to the public. We support the Commission's preliminary view that statutory declarations should be attached to all information made available to the Commission under any disclosure requirement. This will add authenticity to all information provided.

4.10 Electricity Distribution Lines Services

Q.86) Are there any additional characteristics of EDBs that would affect how the information disclosure regime for EDBs should be applied? If so, please give examples of how components of the information disclosure regime should be customised in light of the characteristics identified.

The Commission establishes that EDBs differ in ownership structure, network areas and operating environment, and pricing methodologies. The list covers the most important characteristics of EDBs and ENL has no further comments on this matter.

Q.87) Do you agree that the performance indicators outlined in Table 16 are sufficient for the purpose of information disclosure under Part 4 for electricity distribution lines

services? If not, please provide detailed examples of what performance indicators would better serve the purpose of information disclosure for electricity distribution lines services.

Q.88) What do you consider to be the appropriate method for calculating the customer perception performance indicator? Please provide the reasons for your view.

Eastland Network notes that it will be difficult to accurately measure customer perception of the network performance and aggregate that information into a performance indicator.

Q.89) Do you agree that, for the purposes of determining regulatory income, the discretionary rebates, discounts and line holidays should be treated as being equivalent to dividends? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.

Eastland Network has no comments on this matter and adopts the views taken by the ENA and PWC in their respective submissions.

Q.90) Do you agree that separate disclosure of quality and statistics for each of the non-contiguous networks controlled by an EDB should be required? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.

To separately disclose quality and statistics for each of the non-contiguous networks that are geographically separate is a reasonable request. Due to the types and locations of these networks, performance in one might substantially differ from the other. Thus, separate disclosure will likely assist in informing interested persons about the respective network with as little statistical distortion as possible.

However, the geographic separation should be significant and should not apply to neighbouring networks controlled a single EDB that are electrically contiguous.

Q.91) Do you agree that transmission revenue received from another EDB and AC Loss Rental rebates received and passed on should be separately disclosed? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.

Since it is not a common occurrence for EDBs to receive transmission revenue from another EDB, it seems reasonable to disclose it separately. On the current FS1-

Regulatory Profit Statement, AC loss rental rebates received and passed on are already disclosed and it appropriate to continue the separate disclosure.

Q.92) Are there any additional operating expenditure categories that would assist in meeting the purpose of information disclosure for electricity distribution lines services? If so, please provide details of how the proposed operating expenditure categories would assist the purpose of information disclosure.

The Commission suggests that operating expenditure for EDBs should be broken down into the following seven categories:

- General management administration and overheads;
- System management and operations;
- Routine and preventive maintenance;
- Refurbishment and renewal maintenance;
- Fault and emergency maintenance;
- Pass-through costs; and
- Other.

This list is consistent with current requirements for the FS1-Regulatory Profit Statement and Eastland Network believes that it assists without further changes in meeting the purpose of information disclosure.

Q.93) Are there any additional capital expenditure categories that would assist in meeting the purpose of information disclosure for electricity distribution lines services? If so, please provide details of how the proposed capital expenditure categories would assist the purpose of information disclosure.

For capital expenditure on EDB systems, the Commission suggests that fixed assets be disclosed in six categories, consistent with the current disclosure requirements, which are as follows:

- Customer connection;
- System growth;
- Reliability;
- Safety and environment;
- Asset replacement and renewal; and
- Asset relocations.

We support the disaggregation into the six categories to be retained.

Q.94) Are there any additional asset categories that would assist in meeting the purpose

of information disclosure for electricity distribution lines businesses? If so, please provide details of how the proposed asset categories would assist the purpose of information disclosure.

Eastland Network approves of the Commission's preliminary view that asset categories for EDBs for system fixed assets should remain the same as existing disclosures in report AV2- 'Regulatory Valuation Disclosure by Asset Class'. The current disclosures provide sufficient information for interested persons to understand what investment has occurred. The existing categories of assets are as follows:

- Subtransmission;
- Zone substations;
- Distribution and LV Lines;
- Distribution and LV Cables;
- Distribution substations and transformers;
- Distribution switchgear; and
- Other system fixed assets.

Q.95) Do you agree that relevant statistical information for electricity distribution lines services should include asset information, demand, and pricing statistics? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.

Q.96) Do you agree that pricing statistics, as currently required, should continue to be disclosed? If not please provide the reasons for your view, an alternative means for making comparisons between regulated suppliers on price and why you consider this to be preferable.

Eastland Network has no comments on this matter and adopts the views taken by the ENA and PWC in their respective submissions.

Q.97) Do you agree that the key aspects of service quality for electricity distribution lines services should include reliability, supply quality and customer service? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.

Q.98) Do you agree that reliability for electricity distribution lines services should include the disclosure of planned and unplanned interruptions, the causes of interruptions and SAIDI, SAIFI and CAIDI measures? If not, please provide the reasons for your view, alternatives and why you consider these to be better aligned to the purpose of information disclosure.

Q.99) In your view, what measures of supply quality – other (technical quality), if any, should be measured for electricity distribution lines businesses? Please provide the reasons for your view and why you consider these to be important.

Q.100) In your view how should customer service quality be measured for electricity distribution lines services? Please provide the reasons for your view.

Current quality information disclosures comprise interruption statistics including industry measures of outage duration (SAIDI), outage frequency (SAIFI) and average interruption duration (CAIDI). Eastland Network believes that these disclosures provide more meaningful information for interested persons.

The Commission notes that technical quality is largely out of direct EDB control, and thus, is not currently disclosed, but might require monitoring in the future. We do not support this view. Being outside EDBs control, monitoring technical quality does not assist in meeting the purpose of assessing EDBs' performance.

Q.101) Do you agree that the Commission's AMP review should include a review of the initiatives for energy efficiency, demand-side management and loss reduction that the supplier has included in their disclosed AMP? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.

We do not support the Commission's preliminary view that each supplier should disclose in their AMPs information on the initiatives it is taking regarding energy efficiency, demand side management and loss reduction in the supply and demand of regulated services. The disclosure of that type of information should be made on a voluntary basis only.

Consequently, we do not support that the Commission's AMP review should include a review of the initiatives for energy efficiency, demand-side management and loss reduction that the supplier has included in their disclosed AMP.

Q.102) Do you agree that EDBs exempt from default/customised price-quality regulation provide to the Commission on an annual basis a statutory declaration demonstrating that the consumer-owned criteria in section 54D of the Act has been met? If not, please provide details of how exempt EDBs should prove to the Commission that they are exempt and therefore not subject to default/customised price-quality regulation.

Eastland Network believes it meets the purpose of Part 4 to request statutory declarations from exempt EDBs to ensure that each EDB is subject to the appropriate regulatory instrument. It is suitable that statutory declarations, and any supporting

information, be disclosed at the same time as price-quality path compliance information, which is within 35 working days of 31 March each year.

Yours sincerely,



Ben Gibson

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For further enquiries on this submission, please do not hesitate to contact Henrike Seifert (ph 06 8691 603, email: henrike.seifert@eastland.co.nz) or Ben Gibson (ph 06 8690 725, email: ben.gibson@eastland.co.nz).