



**Background information to  
Statement of Corporate Intent  
2020-21**

**The background information to the SCI is supplied for information purposes only. Its intent is to give a background to interested readers about who EA Networks is and how it operates.**

1. Who are EA Networks?	2
2. EA Networks structure	2
3. Commitment to our customers	2
4. Commitment to sustainability	3
5. Commitment to Safety	3
6. The long-term objectives of EA Networks	4
7. Our risk framework and how we manage risk	5
8. How we manage our electricity network	6
9. The environment in which EA Networks operates	6
• Our electricity network business	6
• Our fibre business	8
• Our Field Service business	9
10. Consumer discount.	9

## 1 Overview

### *Who are EA Networks?*

EA Networks, the trading name for Electricity Ashburton Ltd, is a locally owned co-operative electricity distribution, fibre network and an infrastructure contracting company based in Mid Canterbury, New Zealand.

A detailed description of who EA Networks can be found at our website [www.eanetworks.co.nz](http://www.eanetworks.co.nz)

## 2 EA Networks structure.

<b>Shareholders</b>	Any one who pays an electricity account which includes an EA Networks line charge is entitled to be a shareholder of EA Networks.
<b>Shareholders committee</b>	The shareholders elect four members to the Shareholders Committee, whose function is to represent the shareholders. The Ashburton District Council as the deferred shareholder appoints the remaining three members to the Shareholders Committee. The functions and responsibilities of the shareholders committee are defined in the company's constitution.
<b>Board of Directors</b>	The Shareholders Committee appoints the Directors whose key role is to ensure EA's prosperity by directing the company affairs, whilst meeting the interests of its consumers/shareholders and stakeholders. Additional detail concerning how the Board operates can be found in our annual report, downloadable from <a href="http://www.eanetworks.co.nz">www.eanetworks.co.nz</a>
<b>Chief Executive Officer</b>	The Board appoints the Chief Executive Officer to carry out the day to day operations of the company.

## 3 Commitment to our customers

Our focus is our customers, our measures of success are defined by our current and future customers. We have held and will continue to hold focus groups with our customers concerning issues so we may uncover issues, identify problems and find solutions that affect our customers. In addition to focus groups we survey our customer to assess our performance.

#### **4 Commitment to Sustainability**

We aim to develop our Sustainability Plan over the next twelve months. Our intention is that the plan goes beyond environmental targets and deals with how we operate in a broader sense.

While in many ways our operations are consistent with operating in a sustainable way, the plan will require us to 'lift our game' in many areas. It will require us to engage in a more meaningful way with our wider community, as well as connecting with a range of community leaders.

#### **5 Commitment to Safety**

EA Networks will operate a safe and secure network. Safety is central to, and embedded into, all aspects of our operation. All employees and contractors who interact with the company, in any manner, are expected to give due regard to the H&S culture that is imbued throughout the organization. Board, management, and staff are expected to pro-actively and without prejudice contribute to this culture.

##### ***Board involvement***

All Board meetings devote time to actively enquiring into Health and Safety matters. A subcommittee of the Board regularly meets and examines Health and Safety matters in a more detailed manner.

##### ***Management team involvement***

The Management Team examines Health and Safety issues as an on-going part of their responsibilities.

##### ***Staff involvement***

Field staff undertake tail gate safety meetings before they undertake their tasks to identify any Health and Safety concerns. We annually hold a safety week and have regular staff meetings to address health and safety issues. The CEO and from time to time a Director attends the staff health and safety committee meeting.

Staff are in empowered to stop work if they feel unsafe.

##### ***Working safely***

EA ensures all workers and contractors are equipped with the skills, knowledge and supervision required to carry out their assigned tasks. When a safety incident occurs it is investigated, reported on and reviewed by the health and safety committee, management team and directors of the company. The investigation process centres on how to minimise the likelihood of a repeat incident.

Safety observations are carried out by trained personnel to ensure that safe operating processes are being followed. EA Networks holds the view that safety is an attitude rather than a fiscal measure. The downside of this approach is that it is hard to measure workers attitude to safety. For very serious breaches of processes and procedures disciplinary action will be taken.

**Public safety**

EA Networks Public Safety Management System (PSMS) complies with the provisions of 'NZS 7901 Electricity and Gas Industries - Safety Management Systems for Public Safety'. Public safety focuses on ensuring that the company's assets and operations do not present a risk of serious harm to any member of the public or significant damage to property.

While EA Networks takes all reasonably practical steps to supply a safe and secure network and that risks are minimised as low as reasonably practicable, the reality is that there could be incidents outside our control that occur involving the public; for examples motor vehicle accidents such as car vs. pole, or excavators damaging underground cables.

## 6 Long term objectives of EA Networks

*Company overall objective*

*Sustainably provide infrastructure products and related services to our local community at the same time as adding value beyond the simple connection through innovation and customer focus*

*Objective of our electricity distribution network*

*To sustainably build, operate, and maintain a resilient electricity network that is fit for purpose. The reliability of the network meets the needs of consumers/shareholders and is delivered in the most economically efficient manner balancing cost and quality of supply*

**How will we achieve our long-term objectives?***Provide infrastructure products and related services*

EA will continue to provide an electricity distribution network, supported by its fibre network within the Ashburton district. In building and maintaining both networks EA will carry out in-house contracting when economically sensible to do so. Otherwise, EA will use external providers.

Directors have developed investment criteria to be used as a lens to evaluate opportunities.

New Investment proposals will need to, in no preferential order:

- 1) Demonstrate a link with core business or competences of EA Networks.
- 2) Have a risk/return profile such that overtime the net investment will not require any cross subsidy from core business.
- 3) Pass public scrutiny.
- 4) Enhance core business activities.

An example of an investment which did meet the investment proposal test was the Barrhill Chertsey Irrigation Limited joint venture that has held water rights in the district and achieved a solid return to all shareholders.

### *Adding value beyond the simple connection through innovation*

Value beyond the simple connection means we expand our focus beyond the infrastructure to the people who use it.

The electricity division's meaning of value is the selection, location and operation of EA's assets which leads to a safer, financially efficient, and reliable electricity distribution network. Value extends to all classes of consumers in the Ashburton District while, subscribing always to the wider social, environmental, economic and cultural values of the Ashburton District community. This same consideration applies to other investments on a case by case basis.

### *Customer focus*

*EA Networks places the customer at the centre of its operation.*

As a co-operative our strategies will always centre on what is best for our customers. To this end our measure of success includes the best outcome for our consumers.

Customers touch all parts of the EA Networks operation. We are seeking to improve our interactions with customers in every aspect of our operations. To this end we have and are investing in technology that enhance the customer experience and enable us to monitor all touchpoints of the customer journey from first call through to project completion to ensure we meet best practice. We see ourselves as having a key role in the evolution of technology that will enable our consumers to better manage their electricity needs and welcome feedback from our community on how we can do better. Such feedback and insights will be gained from focus groups and customer interactions.

### *To Build, operate, and maintain an electricity network that is fit for purpose*

Our network needs to be able to meet the needs of those who use it. These needs go beyond the ability to supply electricity, and includes being safe and reliable, at a sustainable cost.

Fit for purpose means the long-term satisfaction of our consumers' service level expectations and of our shareholders' expectations.

## **7 Our risk framework and how we manage risk**

### **Risk Framework**

*Risk is the effect of uncertainty on business objectives and can lead to both positive and negative outcomes. The Board and Management are developing their understanding of the risk profile of the company with regard to capital expenditure and the levels of service delivery.*

EA Networks risk management is governed by the Corporate Risk Management Policy, which is owned by the risk committee of the Board. This policy is reviewed annually and takes a holistic view of risk that incorporates operational, financial, interest rate, human resource, senior

Background Information Statement of Corporate Intent (SCI) 2020-21 management succession, changing technologies, changing regulatory requirements and cyber risk. Our policy aims to remove, where possible, unreasonable key risks. When this is not possible, steps are put in place which limit exposure to the associated risk.

## How we manage risk

*Risk management involves matters that can potentially stop us from achieving our strategic goals and include but are not limited to operational and financial risks.*

Risk Management relates to the culture, processes and structures directed towards the effective management of potential opportunities and adverse effects within EA Networks. We take a systematic and strategic approach to identifying and managing risk and meeting business objectives.

EA recognises that the business must take some risks in undertaking its core functions and pursuing opportunities. EA's risk framework aims to remove, eliminate or mitigate significant detrimental risks

## 8 How we manage our electricity network

EA Networks annually produces an Asset Management Plan or updates the latest version. This plan details:

- Supply standards and how we set and measure against them.
- The asset management process that we use.
- How we plan and manage the network
- What investment we intend to make

The Asset Management Plan can be downloaded from our website

## 9 The environment in which EA Networks operates

### ***Our electricity network business.***

Traditionally, EA Networks has operated in a stable environment, with little change. Going forward, this is not the case, EA Networks environment is significantly changing in many areas:

### ***Emerging technologies***

The electricity industry is currently going through a significant amount of technological change and this has implications for EA Networks.

Significant emerging technologies include network embedded micro generation, renewable energy, the electrification of transport and industrial energy traditionally sourced from fossil fuels, and smart end user capability.

These are likely to have significant implications for our business and there is uncertainty as to how these technologies will affect us. As the uptake of these, and other technologies, increases, there are likely to be technology and regulatory opportunities and constraints to our business.

EA Networks is keeping an active watch on developments and looking to account for expected future change in order to enable our customers to take advantage of opportunities as they arise. For example, all network development and replacement work accounts for an anticipated load from future electric vehicle demand.

### ***Irrigation***

Over the last 20 years we have had 6% compounding growth in connected capacity from irrigators. Irrigation load growth on our network has now almost stopped. Due to local government regulations regarding nutrient limits, and due to the widespread uptake of irrigation across formerly dryland farms, we do not expect any significant new irrigation load in the foreseeable future.

### ***Pricing***

Our electricity pricing is made up of two keys: Distribution pricing and transmission cost

#### *Distribution pricing*

Distribution pricing reform is occurring across the industry. This is being led by EDBs with a strong push from the Electricity Authority. The main purpose of pricing reform is to change pricing structures to be more cost reflective. This will involve a move away from variable pricing options to more fixed types. It is important that prices reflect underlying costs and remain durable over a long period.

EA Networks current pricing structure is recognized in the industry as being strongly cost reflective. Further pricing reform is will commence during the FY21 financial year.

#### *Transmission pricing*

The current transmission pricing methodology results in a variable cost for a significant component of Transpower's charges to EA Networks. The Transpower Interconnection cost has been volatile over the past five years, varying between \$4.0 million and \$14.5 million. This volatility is the outcome of a methodology that is highly affected by variability in summer and winter loads, caused by the prevailing weather. It is retrospectively applied with a significant impact upon irrigators' cost structures.

The Electricity Authority is in the process of finalising its latest iteration of a new transmission pricing methodology. The outcome of this is anticipated to (largely) fix the interconnection cost incurred by all EDBs including EA Networks. The Electricity Authority's guidance indicates this could be approximately \$11.5 million per annum for EA Networks. However this is likely to change once Transpower finalises any approved reform. The key outcome is that transmission pricing volatility will be reduced. If the new transmission pricing methodology is approved, it will start from 1 April 2023.

### ***Regulations***

EA Networks' operates in a macro environment where there are two key regulators.

#### *Commerce Commission*

The Commerce Commission has responsibility for operating price-quality regulation under Part 4 of the Commerce Act 1986 that aims to ensure EDB's:



- Have incentives to invest;
- Have incentives to innovate, to improve efficiency and to provide services at a quality that reflects consumer demands;
- Share the benefits of efficiency gains with consumers, including through lower prices; and
- Are limited in our ability to extract excessive profits.

The Commerce Commission sets the revenue and profit which we are allowed from the electricity distribution side of the business. We demonstrate compliance with the Commerce Commission by the publication of three mandated key documents:

- The *Asset Management Plan* that set out our operating plan for the next 10 years
- The *Annual Price Setting Compliance Statement* details how our allowable revenue is constructed and will show compliance or otherwise with our allowable revenue from the 2021 year onwards.
- *Annual Information Disclosure Statement* that shows compliance with the maximum profit we are allowed to earn.

These three documents will be made available for all interested parties on our website, [www.eanetworks.co.nz](http://www.eanetworks.co.nz) throughout the year.

The regulator has a one size fits all approach to regulating price and quality standards that assumes the shareholder and consumer are not the same individual. EA Networks is required to follow these regulations even though our shareholders and consumers are the same individuals. An opportunity has been created by the Electricity Pricing Review to potentially move EA Networks outside of pricing and quality regulations. The Board and management are currently pursuing this opportunity. This movement, if achieved, will enable EA Networks to better serve the needs of its consumers.

### Electricity Authority

The Electricity Authority has responsibility under the Electricity Industry Act 2010 to promote competition within the sector, reliability of supply, and efficient operation of the electricity industry for the long-term benefit of consumers.

This includes:

- Setting the rules around distribution pricing methodology and how we recover distribution and transmission revenues from our consumers/shareholders. We will demonstrate compliance with the price rules by publishing EA's Pricing Methodology on our website.
- Completing and filing a number of other mandated returns to the Electricity Authority regarding activities on our network.

The level of uncertainty created by the regulatory environment continues to grow for both EA Networks and consumers. Regulation is impacting EA Networks' ability to offer price certainty for irrigators, the extent to which EA can participate in emerging technology markets, and the rate of return which the company can earn.

### **Our Fibre business**

The core purpose of our Fibre business is to provide a communication channel, enabling the operational optimization of our electricity protection equipment.

When possible and economically sensible we will allow private connections to our fibre network.

### ***Our Field Service business***

Our contracting Field Services business, formerly called Contracting Services, is renowned for having high quality equipment and the ability to meet electricity department demands especially in times of major outages. The main function of field services is to supply electricity distribution and fibre contracting services to EA Networks.

### **10 Consumer Discount**

Our consumer discount methodology downloadable from our web site defines what our annual consumer discount is and how it is allocated to consumers.

As a co-operative we aim to keep our prices at the lowest possible level that enables us to provide a sustainable business model into the future. To this end we have developed a discount policy that requires directors to identify the consumer discount before the start of the year. When setting the level of the consumer discount, factors the directors are required to consider include but are not necessarily limited to:

- Current and ongoing capital investment requirements
- The operational requirements of the company
- Borrowing/debt repayments considering intergenerational fairness.

Our intention is from the 2021-2022 year to set the consumer discount at least \$3M each year.