



**Background information to
Statement of Corporate Intent
2021-22**

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.

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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

2 EA Networks structure.

Shareholders	Anyone who pays an electricity account which includes an EA Networks line charge is entitled to be a Shareholder of EA Networks.
Shareholders committee	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.
Board of Directors	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 www.eanetworks.co.nz
Chief Executive Officer	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 current and future customers define our measurements of success. We have held and will continue to have focus groups with our customers concerning issues to 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. We intend that the plan goes beyond environmental targets and deals with how we operate in a broader sense.

While currently, in many ways, our operations are consistent with operating sustainably, the plan will require us to 'lift our game' in many areas. We believe the sustainable plan will require ongoing engagement with the community in a meaningful way and connecting with 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 team members and contractors interacting with the company must follow our H&S culture. Board, Management, and Team Members/Contractors are expected to contribute to this culture pro-actively and without prejudice.

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.

The CEO attends the staff Health and Safety Committee meeting, and Directors have a standing invite.

Team member involvement

Field staff undertake tailgate safety meetings before they undertake their tasks to identify any Health and Safety concerns. We annually hold a safety week and have regular Team Members ~~staff~~ meetings to address health and safety issues.

Team members/Contractors are empowered to stop work if they feel unsafe.

Working safely

EA ensures all Team Members/Contractors have the skills, knowledge and/or supervision required to carry out their assigned tasks. Safety incidents are 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 possibility of a repeat incident.

Safety observations will be completed by trained personnel. The objective of the observations is to ensure that safe operating processes are 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 Team Members/Contractors' attitude to safety.

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 activities 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 practicable 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 example: 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 centre on what is best for our customers Shareholders. This is unique since for most large companies the Shareholder is separate from the customer. Our customers are also our Shareholders – this means that the typical tension between these groups is non-existent. This enables us to focus on what matters and deliver strong customer outcomes that help drive economic growth in our region. We are successful if our customers are successful and have access to energy where and when they need it.

Customers impact all parts of the EA Networks operation. We seek to continuously improve our interactions and service to customers. To this end we have been investing in technology and processes that enhance the customer experience and enable us to monitor all touchpoints of the customer journey from first call through to project completion. We are also focused on improving how we communicate during major outages.

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, surveys and through our direct 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.

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.

The Board and Management are continually appraising their understanding of the risk profile of the company.

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 Management Team 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

Proactive risk management assists the company with achieving our strategic goals.

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

EA Networks risk management is governed by the Corporate Risk Management Policy, which is owned by the Board. This policy is reviewed regularly and takes a holistic view of risk. We aim to eliminate, where possible, unreasonable risks. When this is not possible, steps are put in place which limit exposure to the associated risk.

Our Risk Management standard incorporates health & safety, operational, financial, service delivery, Team Member capability and succession, changing technologies, changing regulatory requirements, and cyber risk.

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, as 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. Because of central and 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. In fact, with concern over freshwater and groundwater nitrate levels it is possible that there may be a decrease in irrigation load in coming years. To compound this there is a possible shift from dairy to other land use options, including growing horticultural. A change in land use may impact both the quantum of irrigation load and the demand profile.

Pricing

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

Distribution

Distribution' reflects the costs associated with the local electricity network. This captures the assets required to deliver energy across the Mid Canterbury region as well as the operational costs associated with that. EA Networks employs approximately 130 Team Members whose primary objective is to 'keep the lights on and the web connected'.

Transmission

Transpower is currently developing a new Transmission Pricing Methodology that we anticipate will replace the current approach from 1 April 2024. The Electricity Authority previously issued guidance that indicated Transpower's interconnection cost charged to EA Networks could be fixed at approximately \$11.5 million

per annum. However, this is indicative and is only likely to change once Transpower finalises any approved reform. The key outcome is that transmission pricing volatility will be reduced under a new methodology.

Pricing

EA Networks bundles distribution and transmission cost recovery in order to develop 'network prices'. These prices are charged to electricity retailers for each customer that uses the distribution (and therefore transmission) network. How we allocate the costs and price for different customer types has remained largely unchanged for a number of years. However, with the increased adoption of solar and electric vehicles, we now need to consider alternative approaches to ensure that our pricing is fair and equitable. Pricing reform will begin in 2021 with changes likely to see more of our prices fixed, moving away from variable type methods.

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.
- 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 forecasted revenue is constructed.
- The Default Price-Quality Path Annual Compliance Statement details our actual performance against Price-Quality Commerce Commission defined targets.
- *Annual Information Disclosure Statement* that shows compliance with the maximum profit we are allowed to earn.

These four documents will be made available for all interested parties on our website, 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.

We have set the consumer discount for the financial year ended 31 March 2021 at \$2.9M.