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Scanpower Limited

Pricing Methodology Disclosure

For Pricing Effective 1 April 2009 to 31 March 2010

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## Introduction

1. The purpose of this document is to describe the methodology used by Scanpower Limited in setting its distribution and transmission charges, as required by the Electricity Information Disclosure Requirements 2004 (s.23).
2. The primary objectives of Scanpower Limited's approach to network pricing are:
  - To allocate costs fairly between user groups
  - To establish a fair range of charges
  - To provide appropriate demand based pricing signals where possible
  - To achieve a rate of return acceptable to owners (Scanpower Customer Trust)
  - To appropriately recover pass through costs such as transmission charges
  - To meet regulatory requirements relating to fixed daily charges / low-user rates
3. The components of this disclosure, which in total describe the Scanpower pricing methodology, include:
  - Disclosure of revenue requirements
  - Determination of customer charging groups
  - Identification of costs and associated drivers
  - Allocation of costs to customer groups
  - Derivation of charges
  - Rationale for structure of fixed and variable charges

## Important Scanpower Network Pricing Information

4. For the period 1 April 2005 to 31 March 2008 Scanpower voluntarily adopted a policy of freezing network prices as a result of the requirements of the Commerce Act (Electricity Distribution Thresholds) Notice 2004 and Amendment Notice 2006. Details can be found in Scanpower's disclosed Threshold Compliance Statements, which are available from the company website.

5. For the periods 1 April 2008 to 31 March 2009, and 1 April 2009 to 31 March 2010, Scanpower has increased network charges, however the increase falls within the requirements of the threshold regime and future forecasts as to pass through costs.
6. Given that network pricing is, and has been, driven by the Commerce Act (Electricity Distribution Thresholds) Notice 2004 and Amendment Notice 2006, many of the pro forma calculations required in this disclosure are not relevant (i.e. base pricing assumptions do not flow through to final pricing). However, for the purpose of completeness and disclosure compliance, Scanpower has endeavoured to provide the requisite pricing information in a format consistent with previous years.

### Calculation of Annual Revenue Requirement

7. The following table summarises the components included in the annual revenue requirement calculation:

*Table One – Calculation of Annual Revenue Requirement*

Description	Amount
Operations & Maintenance Costs	\$691,323
Administration & Corporate Costs	\$981,900
Depreciation Charges	\$888,720
Cost of Capital / Return to Owners	\$2,000,000
Transpower Charges	\$1,774,234
Electricity Commission Costs	\$12,000
<b>Total Revenue Requirement</b>	<b>\$6,348,177</b>

8. Line item balances are derived from the operating budgets for the 2009 to 2010 financial year. In the case of cost of capital / return to owners, the amount is equal to that agreed with the Scanpower Customer Trust in the Statement of Corporate Intent for the year ending 31 March 2010.

### Identification / Explanation of Costs

9. Operations & Maintenance is a direct cost and relates to network asset maintenance, management, design and planning, and customer / public liaison.

10. Administration & Corporate is an indirect cost and relates to overheads such as Board and Executive costs, audit fees, insurances, and similar items.
11. Depreciation Charges reflect the annual charge to the accounts for network and related fixed assets.
12. Cost of capital / return to customer owners represents the anticipated annual distribution of returns to customers by way of the annual network discount mechanism. The amount is established through consultation with the Scanpower Customer Trust and is recorded in the annual Statement of Corporate Intent.
13. Transpower charges are transmission costs applied by the national grid operator.
14. Electricity Commission charges are invoiced to Scanpower on a monthly basis. In line with pricing regulations, Scanpower is permitted to treat these as a pass through cost to customers.

### **Consumer Grouping for Pricing Purposes**

15. For pricing purposes, consumer groups have been split into domestic and commercial categories. This enables identification of residential supplies for the purposes of complying with low user tariff requirements.
16. In regard to residential low user tariffs, the decision was made to apply a low fixed daily charge component to all domestic supplies; i.e. not greater than 15 cents per day. Ease of understanding and reduced billing complexity were the underlying drivers behind this.
17. For commercial customers, consumer categories have been established on the basis of installed capacity and annual consumption. Both these measures correlate with the amount of asset used for each consumer group.
18. The table below summarises the consumer groupings for pricing purposes.

*Table Two – Consumer Grouping for Network Pricing Purposes*

Pricing Group	Quantity	Description
D1	4,707	Standard Domestic (0-15kVA)
C1	1,285	Standard Commercial (>8kVA)
C1.2	436	<2kVA Commercial (pumps, railway bells etc)
C1.5	400	2-8kVA Commercial (small sheds etc)
C3	13	Large Commercial (100,000 – 500,000 kwh pa)
C4	8	Large Commercial (500,000 – 2,000,000 kwh pa)
C5	2	Large Commercial (2,000,000 – 3,500,000 kwh pa)
C6	2	Large Commercial (3,500,000 + kwh pa)

19. The quantity of installations in each category is stated as at 1 April 2009 and is derived from the National Registry and cross referenced to Scanpower's billing system.
20. Therefore, the load / consumption characteristics shown in the table above prescribe the method / criteria for determining which pricing category a consumer is in. In regard to the Domestic / Commercial split, domestic consumers are deemed to be permanent places of residence as opposed to business premises.

**Allocation of Costs to Customer Groups**

21. Costs are allocated to customer groups on the basis of installed capacity. Given the relative simplicity of the Scanpower network design (no zone substations), this is used as a correspondingly straightforward, yet appropriate, allocation basis.
22. The table below summarises the allocation of costs, by type, to the consumer groupings identified in the pricing structure. Included are the installed capacity ratings for each group based on actual installed transformer size.

*Table Three – Allocation of Costs / Revenue Requirements to Consumer Pricing Groups*

Group	Capacity	OM Costs	Admin	Deprec.	Cost of Cap.	Transpower	EC Costs	Rev. Req.
D1	31,050	\$329,045	\$467,349	\$422,999	\$951,928	\$844,472	\$5,712	\$3,021,505
C1	17,567	\$186,162	\$264,410	\$239,318	\$538,568	\$477,773	\$3,231	\$1,709,461
C1.2	1,440	\$15,260	\$21,674	\$19,617	\$44,147	\$39,164	\$265	\$140,128
C1.5	2,584	\$27,383	\$38,893	\$35,202	\$79,220	\$70,277	\$475	\$251,451
C3	1,500	\$15,896	\$22,577	\$20,435	\$45,987	\$40,796	\$276	\$145,966
C4	2,970	\$31,474	\$44,703	\$40,461	\$91,054	\$80,776	\$546	\$289,014
C5	1,350	\$14,306	\$20,320	\$18,391	\$41,388	\$36,716	\$248	\$131,370
C6	6,775	\$71,796	\$101,974	\$92,297	\$207,707	\$184,261	\$1,246	\$659,282
	<b>65,236</b>	<b>\$691,323</b>	<b>\$981,900</b>	<b>\$888,720</b>	<b>\$2,000,000</b>	<b>\$1,774,234</b>	<b>\$12,000</b>	<b>\$6,348,177</b>

**Fixed / Variable Cost Structure**

23. In terms of the structure of fixed and variable pricing, as previously noted domestic (D1) pricing has been set such that all customers have a fixed daily charge of 15 cents, so as to comply with regulatory low user tariff requirements. With general increases in consumption since this policy was adopted, as shown in the table below the fixed / variable split for domestic consumers is 9.35% / 90.65%.
24. In the case of commercial customers, the fixed / variable split has been to some extent based on historical precedent, which has been a 30 / 70 cost ratio. Over time, with movements between consumer groups and changes to consumption patterns, this ratio has changed.

*Table Four – Split of Fixed and Variable Costs by Consumer Pricing Group*

Class	Fixed Revenue	Fixed Percentage	Variable Revenue	Var. Percentage	Total
D1	\$277,595	9.35%	\$2,691,034	90.65%	\$2,968,664
C1	\$457,884	27.26%	\$1,221,670	72.74%	\$1,679,541
C1.2	\$69,060	50.37%	\$68,037	49.63%	\$137,092
C1.5	\$86,142	34.91%	\$160,594	65.09%	\$246,733
C3	\$35,147	22.40%	\$121,745	77.60%	\$156,892
C4	\$84,001	27.06%	\$226,400	72.94%	\$310,399
C5	\$20,490	14.49%	\$120,904	85.51%	\$141,395
C6	\$226,621	32.03%	\$480,850	67.97%	\$707,461
<b>TOTAL</b>	<b>\$1,256,939</b>	<b>19.80%</b>	<b>\$5,091,238</b>	<b>80.20%</b>	<b>\$6,348,177</b>

25. The rationale for a fixed charging component is to reduce the impact of seasonal fluctuations in electricity consumption, which can either favourably or adversely impact actual revenues. Given a relatively static annual revenue requirement this is considered to be a prudent pricing policy.
26. Scanpower’s budgeted network revenue for the coming year is \$6,031,063. This is less than the revenue requirement established above due to the effect of the electricity thresholds pricing regime.

**Other Information**

27. Scanpower calculates variable kWh on grid exit point volumes. Therefore, end use consumption data should be adjusted by the appropriate loss factor (disclosed in the schedule of prices) to arrive at billable volumes.

28. The rationale for this is to reduce complexity in monthly billing as individual ICP level data and consumption calculations are not necessary. Furthermore, GXP volumes are reconciled independently and therefore appropriate for billing purposes.

**Compliance Matrix**

EIDR 2004 Section	Description	Document Reference
23(a)	Describe the methodology used to calculate prices charged.	Entire document, paragraphs 1 to 25.
23(b)	Disclose the calculation of annual revenue requirement including numerical values.	Paragraphs 7 - 8 and Table 1
23(c)	State consumer groups used for pricing purposes.	Paragraph 18, Table 2
23(c)(i)	Rationale for customer grouping.	Paragraphs 15 – 20
23(c)(ii)	Method for determining customer price group	Paragraph 20
23(c)(iii)	Statistics relating to each group in methodology.	Table 2 (kva / kwh criteria / ICPs per group) Table 3 (installed capacity by group)
23(d)	Allocation and basis for allocation of costs / revenue requirement to groups including numerical values.	Paragraphs 21 – 22, Table 3
23(e)	Proportion of fixed to variable charges and associated rationale.	Paragraphs 23 – 24, Table 4