Scanpower Limited

Pricing Methodology Disclosure

For Pricing Effective 1 April 2019 to 31 March 2020

Introduction

1. The purpose of this document is to describe the methodology used by Scanpower Limited in setting its distribution charges for the financial year commencing 1 April 2019 and ending 31 March 2020, as required by Section 2.4.1 of the Electricity Distribution Information Disclosure Determination 2012. This was issued by the Commerce Commission on 1 October 2012.

   In setting annual pricing, Scanpower seeks to ensure that the company obtains sufficient revenue to:

   - Meet its obligations to Transpower for connection to the national transmission grid.
   - Meet its contractual obligations for the delivery of electricity over the company's distribution network, as per the terms of its standard Use of System Agreement.
   - Comply with statutory, regulatory and operational requirements in relation to public safety, quality of supply, fault and emergency response, vegetation management and reporting.
   - Provide sufficient cash flows to cover necessary asset replacement costs and new investments in network assets.
   - Produce a rate of return that is acceptable to the owners, the Scanpower Customer Trust.

   There have been no material changes to Scanpower's pricing methodology or fundamental tariff structure in the past year.

2. The objectives of Scanpower Limited's approach to network pricing are:

   - To establish a fair range of charges.
   - To allocate costs fairly between user groups.
   - To appropriately recover pass through costs such as transmission charges.
   - To pay an agreed level of network discount to customers.

- To provide appropriate demand based pricing signals where possible.
- To avoid price shocks where possible by maintaining consistency with historic pricing structures.
- To offer pricing that, when annual discounts are taken into account, is competitive relative to other distribution companies.
- To be consistent with the Pricing Principles issued by the Electricity Authority.

3. In setting annual network pricing, it should be noted that Scanpower is subject to certain limitations including:

- The need to comply with regulatory requirements relating to fixed daily charges and low user rates.
- A requirement (specified by the owners, the Scanpower Customer Trust) to offer uniform (i.e. non-differentiated pricing) to urban, rural and remote consumers within the supply area.
- A lack of ability to control how network charges are passed on to consumers by their respective electricity retailers. Implications of this include dilution or removal of network pricing signals in final retail pricing, or retailers in acquisition mode skewing pricing to attract / cherry pick higher usage / higher value customers (for example by setting retail pricing that has a higher fixed component and a lower variable component).

4. The components of this disclosure, which in total describe the Scanpower pricing methodology and aim to meet the requirements of the Electricity Distribution Information Disclosure Determination 2012, include:

- A description of the methodology used to calculate the network prices payable, including:
  - The total target revenue expected to be collected for the disclosure year.
  - A breakdown of the target revenue into its components.
  - A description of how Scanpower has established consumer pricing groups.
  - How Scanpower allocates individual consumers to one of these groups.
  - How costs and revenues are allocated to each consumer group.

  - The proportion of target revenue derived from each pricing component.
  - A discussion of consistency (or otherwise) with the Pricing Principles.

- An explanation of the longer-term pricing strategy (5 years) and any expected, significant changes.

- A description of Scanpower's approach to non-standard contracts and pricing relating to distributed generation.

- A disclosure of Scanpower's capital contribution policy.

Calculation of Annual Revenue Requirement 2019 - 2020

5. Provided in Table One below is a summary of the calculation of Scanpower's annual network revenue requirement. This totals **$10,174,280**. The summary provides the breakdown of known / budgeted costs for the coming year. The costs are described as follows:

- Operations & Maintenance is a direct cost and relates to network asset maintenance, outage response, asset management, vegetation management, engineering design, planning, fault response, control room operation and customer / public liaison. The value of **$2,394,256** is equal to the budgeted Operations & Maintenance expenditure (comprising Staff Costs, Operating Expenses and Vehicle Costs) for the financial year 1 April 2019 to 31 March 2020.

- Administration & Corporate is an indirect cost and relates to overheads such as Board and Executive costs, audit fees, insurances, office facilities, community sponsorship activities, call centre operation, and workplace safety management. The value of **$2,310,020** is equal to the budgeted Corporate & Overhead expenditure for the financial year 1 April 2019 to 31 March 2020.

- Depreciation Charges reflect the annual charge to the accounts for depreciation on network system assets and related fixed assets such as communications equipment and network related software. The value of **$1,601,056** is equal to the budgeted depreciation charges in respect of the Network business unit for the financial year 1 April 2019 to 31 March 2020.

- Network discounts are set in advance of the financial year and represent discount credits applied to customer (end user) power accounts. Their purpose is to lower the delivered cost of electricity to consumers (thereby reducing competitive exposure to substitute products such as gas). The value of **$1,442,270** is equal to the budgeted discount for the financial year 1 April 2019 to 31 March 2020.

- A dividend of **$125,000** is planned to be payable to the company's owners (the Scanpower Customer Trust) during the financial year 1 April 2019 to 31 March 2020.

- Transpower charges are the contracted transmission costs applied by the national grid operator for the year 2019/20. They are stated here net of loss rental rebates which are offset as a credit against total budgeted transmission costs for the purposes of calculating the annual revenue requirement. For the financial year 1 April 2019 to 31 March 2020 net transmission costs are forecast to be **$2,267,478**.

- Regulatory costs / levies include amounts charged by the Electricity Commission, Commerce Commission, Ministry of Economic Development, and the Utilities Disputes scheme. For the financial year 1 April 2019 to 31 March 2020 these costs are budgeted to be **$34,200**.

Table One – Calculation of Annual Revenue Requirement 2019-2020

Description	Amount
Operations & Maintenance Costs	$2,394,256
Administration & Corporate Costs	$2,310,020
Depreciation Charges	$1,601,056
Network Discounts	$1,442,270
Dividend Payable to Owners (Scanpower Customer Trust)	$125,000
Transpower Charges (net of LRR)	$2,267,478
Regulatory Costs / Levies (including EC)	$34,200
Total Revenue Requirement	**$10,174,280**

6. Scanpower has used this annual revenue requirement to form the basis of its pricing methodology, and broadly this forms the revenue target for the year.

Target Revenue 2019 - 2020

7. In its operating budgets for the financial year 1 April 2019 to 31 March 2020, Scanpower has forecast network line charge revenue of **$9,915,985**. This represents **97.5%** of the annual revenue requirement and a shortfall of **$258,295**. This is acceptable to Scanpower given the inherent volatility of variable lines charges, and a preference to not over recover revenue.

8. The breakdown (including numerical values) of the target revenue, by major customer or customer grouping is provided in Table Two below. A further breakdown of revenue by publicly disclosed pricing component is provided in Appendix A to this document.

Table Two – Target Revenue Summary by Major Customer / Customer Group 2019 - 2020

Description	April	May	June	July	August	September	October	November	December	January	February	March	TOTAL
C6 INDUSTRIAL GROUP													
Cold Storage Business	$14,370	$15,399	$18,166	$16,805	$18,530	$14,453	$14,208	$14,058	$18,065	$17,536	$16,781	$16,881	$195,252
Meat Works	$22,184	$13,437	$26,891	$40,137	$37,110	$29,175	$29,619	$30,268	$29,015	$30,871	$29,432	$32,177	$350,316
C5 INDUSTRIAL GROUP													
Carpet Factory	$10,062	$10,228	$13,934	$12,388	$12,412	$10,350	$10,660	$11,109	$8,318	$7,663	$10,186	$10,303	$127,613
Regional Transmitter	$5,814	$5,912	$6,562	$6,669	$6,684	$5,776	$5,858	$5,762	$5,867	$5,945	$5,556	$5,952	$72,356
C4 LARGE COMMERCIAL													
Lumber Plant	$23,163	$25,430	$35,411	$36,387	$35,892	$24,837	$22,401	$24,626	$23,503	$17,512	$22,631	$23,556	$315,350
Supermarket	$7,611	$7,877	$9,110	$9,235	$9,245	$7,717	$8,066	$7,882	$8,039	$8,112	$7,382	$8,099	$98,376
Fast Food Restaurant	$2,409	$2,460	$3,074	$3,161	$3,089	$2,402	$2,503	$2,402	$2,543	$2,479	$2,208	$2,347	$31,077
Milk Storage Silo	$1,252	$1,257	$1,289	$1,280	$1,282	$1,244	$1,238	$1,235	$1,232	$3,237	$1,668	$1,253	$17,468
Large Retailer	$3,964	$4,267	$5,129	$5,302	$4,915	$3,711	$3,525	$3,722	$4,055	$4,393	$3,790	$4,322	$51,094
Indoor Swimming Pool	$3,620	$4,295	$6,201	$6,072	$5,540	$3,945	$4,193	$4,328	$4,034	$3,609	$3,478	$3,524	$52,838
Fast Food Restaurant	$3,664	$3,568	$4,312	$4,430	$4,350	$3,473	$3,525	$3,442	$3,555	$3,996	$3,511	$3,813	$45,639
C3 MEDIUM COMMERCIAL													
14 ICPs	$29,693	$31,101	$30,924	$32,167	$31,269	$30,026	$30,040	$29,551	$31,822	$29,253	$30,330	$32,243	$368,419
NHH DOMESTIC / COMMERCIAL													
NHH ICPs	$638,230	$685,687	$663,568	$729,578	$761,996	$744,329	$708,933	$667,474	$676,321	$658,453	$589,119	$642,334	$8,166,020
Street Lights	$1,920	$1,920	$1,920	$1,920	$1,920	$1,920	$1,920	$1,920	$1,920	$1,920	$1,920	$1,920	$23,038
Other	$94	$94	$94	$94	$94	$94	$94	$94	$94	$94	$94	$94	$1,130
TOTAL	**$768,049**	**$812,931**	**$826,585**	**$905,626**	**$934,329**	**$883,453**	**$846,781**	**$807,871**	**$818,383**	**$795,074**	**$728,087**	**$788,816**	**$9,915,985**

Consumer Grouping for Pricing Purposes

9. For pricing purposes, consumer groups have been split into domestic and commercial categories. Domestic consumers are deemed to be permanent places of residence as opposed to non-residential premises. This enables identification of residential supplies for the purposes of complying with Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004.

10. 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.

11. For commercial customers, consumer categories have been established based on installed capacity and annual consumption. Both these measures correlate with the amount of asset used for each consumer group.

12. The table below summarises the consumer groupings for pricing purposes.

Table Three – Consumer Grouping for Network Pricing Purposes

Pricing Group	Quantity	Description
D1	4,778	Standard Domestic (0-15kVA)
C1	1,188	Standard Commercial (>8kVA)
C1.2	388	<2kVA Commercial (pumps, railway bells etc)
C1.5	286	2-8kVA Commercial (small sheds etc)
C3	15	Large Commercial (100,000 – 500,000 kwh pa)
C4	6	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 (3,5000,000 + kwh pa)

13. The quantity of installations in each category is stated as at 14 December 2018 and is derived from the National Registry and cross referenced to Scanpower's billing system.

14. Therefore, the load / consumption characteristics shown in the table above prescribe the method / criteria for determining which pricing category a consumer is in.

Allocation of Costs to Customer Groups

15. Costs are allocated to customer groups based on installed distribution transformer capacity. Given the relative simplicity of the Scanpower network design (no zone substations), this is used as a correspondingly straightforward, yet appropriate and fair, allocation basis.

16. 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 Four – Allocation of Costs / Revenue Requirements to Consumer Pricing Groups 2019-2020

Group	Capacity (MVA)	O&M Costs	Admin	Depreciation	Customer Discount	Dividend	Transpower	EC Costs	Rev. Req.
D1	32.05	$1,134,519	$1,094,604	$758,661	$683,420	$59,231	$1,074,445	$16,206	$4,821,085
C1	21.62	$765,216	$738,294	$511,705	$460,957	$39,951	$724,697	$10,930	$3,251,750
C1.2	1.23	$43,442	$41,913	$29,050	$26,169	$2,268	$41,142	$621	$184,604
C1.5	1.26	$44,765	$43,190	$29,935	$26,966	$2,337	$42,394	$639	$190,226
C3	2.68	$94,815	$91,479	$63,404	$57,115	$4,950	$89,795	$1,354	$402,913
C4	3.60	$127,432	$122,948	$85,214	$76,763	$6,653	$120,684	$1,820	$541,515
C5	1.30	$46,017	$44,398	$30,772	$27,720	$2,402	$43,580	$657	$195,547
C6	3.70	$130,971	$126,363	$87,581	$78,896	$6,838	$124,036	$1,871	$556,557
MISC	0.2	$7,080	$6,830	$4,734	$4,265	$370	$6,705	$101	$30,084
	67.64	**$2,394,256**	**$2,310,020**	**$1,601,056**	**$1,442,270**	**$125,000**	**$2,267,478**	**$34,200**	**$10,174,280**

17. Table 5 below compares the revenue requirement by customer group to forecast / budgeted revenue.

Table Five – Comparison of Revenue Required to Forecast Revenue by Customer Group 2019-2020

Group	Revenue Required	Forecast Revenue	Variance	% Variance to Rev.Req.
D1	$4,821,085	$4,522,213	-$298,872	-6.2%
C1	$3,251,750	$3,237,595	-$14,155	-0.4%
C1.2	$184,604	$185,662	$1,058	0.6%
C1.5	$190,226	$182,966	-$7,260	-3.8%
C3	$402,913	$370,729	-$32,183	-8.0%
C4	$541,515	$618,885	$77,371	14.3%
C5	$195,547	$201,956	$6,409	3.3%
C6	$556,557	$570,746	$14,189	2.5%
MISC	$30,084	$25,233	-$4,851	-16.1%
TOTAL	**$10,174,280**	**$9,915,985**	**-$258,295**	**-2.5%**

18. As is evident from the comparison above of required revenue to budgeted revenue, there are variances, both positive and negative. This is primarily attributed to differences in actual and budgeted electricity consumption impacting on variable charge recoveries.

    With this in mind, given the relatively minor discrepancies between required revenue and budgeted revenue (both in dollar and / or percentage terms), Scanpower believes that the allocation of costs is materially correct.

Tariff Structure (Fixed vs Variable Pricing)

19. 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, to comply with the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004. With successive increases in variable tariff pricing since this policy was adopted, the fixed / variable split revenue split for domestic consumers is now **5.57%** / **94.43%**.

    Across all tariff categories, the aggregated split between fixed and variable charges is **16.39%** / **83.61%**.

Consistency with Electricity Authority Pricing Principles

20. Provided below is a description of the Pricing Principles established by the Electricity Authority, and (as per requirement 2.4.3 (2)) supporting comments from Scanpower in relation to each point. Scanpower believes that its pricing methodology is materially consistent with these principles, given that no points of significant inconsistency have been observed.

Electricity Authority Pricing Principle	Scanpower Comments
a) Prices are to signal the economic costs of service provision, by: i. being subsidy free (equal to or greater than incremental costs, and less than or equal to stand alone costs), except where subsidies arise from compliance with legislation and/or other regulation; ii. having regard, to the extent practicable, to the level of available service capacity; and iii. signaling, to the extent practicable, the impact of additional usage on future investment costs	All customers supplied by the Scanpower network are connected on the basis of a standard terms and conditions of supply. That is to say, there are no non-standard contracts currently in place with any customers connected to the network. As is evident from the pricing methodology described in this document, Scanpower uses installed transformer capacity as the basis for allocating customers to particular pricing groups. The rationale for dividing customers into groups according to installed capacity is that it is reflective of the underlying cost drivers associated with incrementally supplying each load group. Regarding being subsidy free, Scanpower interprets this to mean that the revenue requirement of any particular customer group is materially the same as the revenue actually recovered from that customer group (i.e. no particular customer group is subject to over or under recovery at the expense / benefit of another customer group). As per Table 5 in the document, Scanpower believes that required vs budgeted revenues for each customer group are materially consistent, and that there is no indication of any subsidy from any one group to another.
b) Where prices based on "efficient" incremental costs would under recover allowed revenues, the shortfall should be made up by setting prices in a manner that has regard to consumers' demand responsiveness, to the extent practicable.	Scanpower understands that this relates to the economic principle of "Ramsey Pricing" that asserts that it is economically efficient to charge more to those consumers that have a higher willingness to pay and less to those with a lower willingness to pay (i.e. if differential prices are appropriate, then higher prices should be borne by those consumers with the most inelastic demand for the product / service). In practice, in the case of Scanpower's network business, it is not possible to accurately determine the price elasticity of demand of different consumers, or to differentiate between consumer groups. Furthermore, as Scanpower uses an interposed arrangement for contracting with retailers, network price signals are often diluted or destroyed by tariff rebundling. However, given that all Scanpower's customers are on standard terms and conditions of supply, and given the significant bias towards variable charges (particularly in the domestic customer group), it is to some extent discriminating between differences in consumers' willingness to pay.
c) Provided that prices satisfy a) above, prices should be responsive to the requirements and circumstances of stakeholders in order to: i) discourage uneconomic bypass; ii) allow for negotiation to better reflect the economic value of services and enable stakeholders to make price/quality trade offs or non-standard arrangements for services; and iii) where network economics warrant, and to the extent practicable, encourage investment in transmission and distribution alternatives (e.g. distributed generation or demand response) and technology innovation.	Scanpower believes that its pricing methodology, being consistent with the requirements of a) above, is consistent with this principle (as it relates to discouraging uneconomic bypass) for most customers. Scanpower is 100% owned by the Scanpower Customer Trust. The Trustees of this trust act as consumer advocates and representatives of all connected customers. On a structured basis (via the annual Statement of Corporate Intent process) the Trustees have ultimate approval as to the company's pricing and quality targets; they, on behalf of their customer electorate, have direct input into the price / quality trade off decisions. In relation to non-network solutions such as distributed generation and demand response, Scanpower is actively involved in a range of developments, including the deployment of a 12kW photovoltaic solar system at its head office. Scanpower does not currently levy any annual charges for the connection of small scale distributed generation, providing no disincentive for customers to adopt such technologies. Scanpower has also recently deployed two off-grid remote area power supplies (as distribution alternatives).

Electricity Authority Pricing Principle	Scanpower Comments
d) Development of prices should be transparent, promote price stability and certainty for stakeholders, and changes to prices should have regard to the impact of stakeholders.	This principle requires networks to consider the potential for price shocks and / or customer uncertainty caused by sudden or frequent changes in network pricing (to the extent that they are pass on by retailers). Scanpower's fundamental pricing structure has remained materially the same since 1998, resulting in a stable pricing framework over that time. In relation to transparency, Scanpower believes this document (which is published in the public domain and available via the Internet or in person at Scanpower's two customer service locations) provides a relatively detailed source of information for stakeholders. In addition to this, the management of Scanpower meets with the Trustees of the Customer Trust on a monthly basis to ensure that they are fully aware of pricing developments and the potential impact they will have on customers.
e) Development of prices should have regard to the impact of transaction costs on retailers, consumers, and other stakeholders and should be economically equivalent across retailers.	Scanpower's network charges are homogenous across all retailers supplying across the network; they are the same for everyone with no discrimination in tariff structures, prices or customer discount payments. Relative to other network pricing methodologies, Scanpower believes its methodology is relatively simple in design and straightforward for retailers to implement (rebundled or otherwise).

2019 - 2020 Changes in Pricing and Target Revenue

21. The table below shows the movement in target revenue between the 2018-2019 year and the 2019-2020 year.

Table Six – Comparison of Year on Year Revenue Requirement 2018/19 – 2019/20

Description	2019/20 Target	2018/19 Target	Movement
Operations & Maintenance Costs	$2,394,256	$2,429,377	-$35,121
Administration & Corporate Costs	$2,310,020	$2,215,951	+$94,069
Depreciation Charges	$1,601,056	$1,450,545	+$150,511
Network Discount	$1,442,270	$1,488,839	-$46,569
Dividends	$125,000	$125,000	$0
Transpower Charges	$2,267,478	$2,236,586	+$30,892
Regulatory Costs / Levies (including Electricity Authority)	$34,200	$33,000	+$1,200
Total Revenue Requirement	**$10,174,280**	**$9,979,298**	**$194,982**

22. As is evident the annual revenue requirement has increased year on year by **$194,982** representing a movement of **1.95%**. General comments on the line items that constitute this movement are as follows:

- Operations & Maintenance Costs show a year on year decrease of **$35,121** or **1.4%**. The main factors contributing to this decrease include:

- A reduction in vehicle leasing costs as the company now intends to purchase / own vehicles directly.

- A further reduction in health and safety related costs, following three relatively cost intensive years.

- Administration & Corporate Costs have increased by **$94,069** or **4.2%**. The primary driver of this movement is an increase in forecast consultancy costs associated with the Electricity Pricing Review process and a project to transition network pricing to a more cost-reflective basis.

- There has been an increase in budgeted Deprecation Costs of **$150,411** representing a movement of **10.4%**. This follows a period of relatively high network asset capital expenditure in the prior financial year, in addition to increased depreciation on vehicle assets (previously leased).

- The annual network discount is anticipated to remain the same on a 'per customer basis' year on year. The small difference in total cost between 2018/2019 and 2019/2020 arises due to anticipated fluctuations in the number of energised connections at the time the discount is paid.

- The annual dividend payable to the company's owners (the Scanpower Customer Trust) has remained at **$125,000** as per the Statement of Corporate Intent, approved by the Trustees.

- Transmission costs of **$2,267,478** reflect the actual annual pricing notification received from Transpower in December 2018 (in respect of the 2019-2020 financial year), adjusted for loss rental rebate incomes (which are showing a creeping general decline in value).

23. Scanpower considers the **1.95%** annual movement to be relatively favourable given the impact of increased depreciation and compliance related costs, and notes that it correlates closely with the CPI movement over the year.

5 Year Pricing Strategy

24. In 2017, as part of an industry wide initiative lead by the Electricity Authority (EA), Scanpower initiated a review of its network charges with a view to adopting a more cost-reflective and efficient distribution pricing structure.

25. One of the key issues with Scanpower's existing pricing structure is that it is predominantly volume (kWh) based with 84% of revenue coming from variable charges. This has been driven by the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004.

26. However, Scanpower's operating costs are predominantly fixed (> 95%) in nature and this creates several issues:

- Variable charges / revenues are necessarily volatile and subject to fluctuation creating the potential for over and under recoveries.

- Steadily increasing 'per kWh' variable charges create 'false' and inefficient incentives for consumers to invest in alternative energy technologies (such as solar photovoltaic systems). This in turn serves to further increase the 'per kWh' charges for other customers, thereby perpetuating further cycles of inefficiency.

27. Progress to date has been solely research and analysis based (i.e. no market trials or consultation processes have been initiated). It has been to some extent impeded by various regulatory factors, including:

- The continuation of LFC Regulations (but a general industry-wide consensus they will be withdrawn soon).

- The Government initiated Electricity Pricing Review, which in its early documentation has alluded to requiring distributors to 'rebalance' revenue recovery towards commercial / industrial customers (in favour of domestic customers), in addition to various other pricing related matters.

- An ongoing push by the Electricity Authority to expedite distribution pricing reform, including its recent release of '*More Efficient Distribution Prices – What Do they Look Like?*' in December 2018, and the proposal that a distributor pricing efficiency rating scheme be introduced for individual companies.

- A continued lack of obligation for retailers to pass through distribution charges in a transparent and actionable manner.

28. However, Scanpower remains committed to introducing more efficient pricing in the near term (target 1 April 2021) and anticipates that some of the regulatory issues described above will become clearer / resolved within that period.

29. In contemplating future pricing structures, key issues for Scanpower include:

- The network is not currently constrained in terms of reasonably foreseeable demand growth.

- Congestion / peak demand periods are not an issue for the network, nor do they impact materially on our transmission pricing (as the Scanpower contribution to regional coincident peak demands is so small).

- Electricity consumption levels have shown a chronic and creeping erosion over the past decade, with total volumes falling 15% over that period.

- Scanpower currently bills on a GXP basis, primarily as this is a low cost option administratively and does not require ICP-level billing software. The company would prefer to continue on a similarly low-cost basis.

- Indications from the EA are that they believe retailers should not be obligated to pass through distribution costs in a transparent and actionable manner. This is somewhat perplexing to Scanpower as it will be difficult to describe new pricing options to customers when there is no guarantee they will ever see them.

- There is limited penetration of smart meters at installations on the Scanpower network. Strategically and operationally, Scanpower would prefer not to be reliant on data provided by retailers for billing purposes.

- Scanpower would seek a pricing option that does not create the requirement for additional metering / capacity control hardware at an individual installation level (for cost purposes).

30. Taking these factors into account, Scanpower currently / initially favours an ‘installed capacity’ approach to distribution pricing whereby charges are based on a nominated capacity choice at an installation level.

31. Scanpower has considered 'time of use' pricing, using differentiated peak, off-peak and shoulder period per kWh. However, firstly this does not align with the cost structure / performance of the network, and secondly, Scanpower believes that only a small proportion of household load is genuinely discretionary (i.e. can be shifted into lower cost time periods).

32. Scanpower will continue to progress its transition to more efficient / cost reflective pricing over the coming year, and anticipates that formal consultation with retailers and customers will likely occur in early 2020.

Non-Standard Contracts and Distributed Generation

33. Scanpower currently has no customers / ICPs supplied under non-standard contract terms and conditions. This is largely a function of the nature of the ICPs supplied by Scanpower (i.e. relatively small number, no very large single ICPs in terms of consumption, or ICPs with uniquely defined asset usage arrangements). It is also relevant to note that Scanpower has never received an approach from a customer wishing to discuss non-standard terms and conditions of supply or pricing.

34. In relation to distributed generation, Scanpower does not currently levy any charges for the connection of DG to the network. To date, the company has only received one application for connection of DG, on a feed in basis, and that was only operated on a trial basis for a limited period. At this stage, the company has no plans to introduce charges for the connection of DG. Scanpower publishes its policies relating to the connection of DG on its website.

Customer Consultation and the Price / Quality Trade Off

35. Scanpower consults formally on an annual basis on matters of price and quality with the Trustees of the Scanpower Customer Trust, via the annual Statement of Corporate Intent process. This involves the Trust approving specific pricing and reliability performance targets that the company is expected to achieve.

36. Scanpower considers the Scanpower Customer Trust to be an effective advocacy body for representing the expectations and preferences of customers in relation to matters of pricing and reliability / quality.

37. The Trustees are elected on a triennial basis with all connected customers entitled to vote in those elections. The Trustees are highly accessible to customers within the network supply area.

38. In addition to this, Scanpower has periodically engaged Utility Consultants Limited to undertake targeted research surveys of customer preferences as they relate to price and quality, including engaging with local interest groups / stakeholders such as:

- Federated Farmers
- Tararua District Council
- Greypower
- Electricity retailers

39. Both through ongoing engagement with the Trust and these periodic surveys, the feedback Scanpower has received is that customers are satisfied with the status quo in terms of network pricing and reliability. Formal benchmarking studies undertaken as part of 5 yearly ownership reviews indicate that Scanpower is consistently in the top quartile of SAIDI reliability performance, whilst network pricing is low relative to peer group companies when the annual network discount is considered.

Capital Contributions

40. Scanpower does not levy capital contributions, and there are currently no specified circumstances under which the company would require a capital contribution. Whilst consumers are required to fund their own service lines, the ownership of these service lines remains with the customer. Customers may utilise the services of any suitably qualified contractors to build such service lines, and provided they meet Scanpower's prescribed standards will be permitted connection to the network.

Other Explanatory Comments for Electricity Retailers

41. Scanpower calculates variable kWh charges based 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. 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. To clarify:

- All variable kWH charges are based on grid exit point volumes.
- Metered loads should be adjusted by the appropriate loss factor to arrive at the chargeable grid exit point volume.
- Monthly kWH volumes will be washed up monthly in line with reconciled grid exit point data issued by the market (i.e. total billed kWH volume will equal reconciled grid exit point volume).
- Variable charges not directly attributable to a customer category will be charged at the C1 customer prices.

Appendix A – Breakdown of Revenue by Publicly Disclosed Pricing Component

D1 Standard Domestic Option (4,778 customers)

Code	Description	Revenue
10	Fixed daily supply charge (per day)	$251,850
23	Variable network charge (day units per kwh)	$3,523,822
24	Variable network charge (night units per kwh)	$746,542
		$4,522,213

C1 Standard Commercial Option (1,188 customers)

Code	Description	Revenue
40	Fixed daily supply charge (per day)	$608,756
28	Variable network charge (day units per kwh)	$2,176,018
29	Variable network charge (night units per kwh)	$452,820
		$3,237,595

C1.2 2 kVA Commercial Option (388 customers)

Code	Description	Revenue
11	Fixed daily supply charge (per day)	$114,505
46	Variable network charge (day units per kwh)	$58,918
47	Variable network charge (night units per kwh)	$12,238
		$185,662

C1.5 5 kVA Commercial Option (286 customers)

Code	Description	Revenue
13	Fixed daily supply charge (per day)	$111,809
51	Variable network charge (day units per kwh)	$58,918
52	Variable network charge (night units per kwh)	$12,238
		$182,966

C3 Large Commercial Option (15 customers)

Code	Description	Revenue
50	Fixed daily supply charge ($ / kva / month)	$97,204
57	Variable network charge (day units per kwh)	$224,848
58	Variable network charge (night units per kwh)	$48,678
		$370,729

C4 Large Commercial Option (6 customers)

Code	Description	Revenue
60	Fixed daily supply charge ($ / kva / month)	$135,513
73	Variable network charge (day units per kwh)	$386,999
74	Variable network charge (night units per kwh)	$45,071
65	Maximum demand charge (June, July, August – peak kva)	$51,302
		$618,885

C5 Medium Industrial Option (2 customers)

Code	Description	Revenue
70	Fixed daily supply charge ($ / kva / month)	$77,191
78	Variable network charge (day units per kwh)	$101,557
79	Variable network charge (night units per kwh)	$11,563
75	Maximum demand charge (June, July, August – peak kva)	$11,646
		$201,956

C6 **Large Industrial Option (2 customers)**

Code	Description	Revenue
71	Fixed daily supply charge ($ / kva / month)	$203,060
82	Variable network charge (day units per kwh)	$285,500
83	Variable network charge (night units per kwh)	$39,536
85	Maximum demand charge (June, July, August - peak kva)	$42,649
		$570,746

MISC **Miscellaneous Charges**

Code	Description	Revenue
12	Public Lighting Network Supply Charge (per fitting per month)	$24,094
18	Telecom Boxes (per month per box)	$0
19	Electric Fences (monthly charge - no 400V distribution line)	$1,140
98	Electric Fences (monthly charge - feed from distribution line)	$0
BS1	Building Services Temporary Supplies (3 months)	$0
BS2	Building Services Temporary Supplies (per month > 3 months)	$0
		$25,233

Total Revenue
$9,915,985