

Scanpower Limited

Pricing Methodology Disclosure

For Pricing Effective 1 April 2016 to 31 March 2017

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 2016 and ending 31 March 2017, 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.

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- To achieve a rate of return acceptable to owners (Scanpower Customer Trust), including the payment of an annual 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 break down 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.

Network Pricing Methodology

Calculation of Annual Revenue Requirement 2016 - 2017

4. Provided in Table One below is a summary of the calculation of Scanpower's annual network revenue requirement. This totals \$9,494,910. 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 \$2,217,121 is equal to the budgeted Operations & Maintenance expenditure (comprising Staff Costs, Operating Expenses and Vehicle Costs) for the financial year 1 April 2016 to 31 March 2017.
 - 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 \$2,240,110 is equal to the budgeted Corporate & Overhead expenditure for the financial year 1 April 2016 to 31 March 2017.
 - 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 \$1,268,340 is equal to the budgeted depreciation charges in respect of the Network business unit for the financial year 1 April 2016 to 31 March 2017.
 - 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, and the approval of, the Scanpower Customer Trust and is recorded in the annual Statement of Corporate Intent. For the financial year 1 April 2016 to 31 March 2017 this has been set at \$1,350,000.

- Transpower charges are the contracted transmission costs applied by the national grid operator for the year 2016/17. 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 2016 to 31 March 2017 net transmission costs are forecast to be \$2,389,339.
- Regulatory costs / levies include amounts charged by the Electricity Commission, Commerce Commission, Ministry of Economic Development, and the Electricity & Gas Complaints Commission Scheme. For the financial year 1 April 2016 to 31 March 2017 these costs are budgeted to be \$30,000.

Table One – Calculation of Annual Revenue Requirement 2016-2017

Description	Amount
Operations & Maintenance Costs	\$2,217,121
Administration & Corporate Costs	\$2,240,110
Depreciation Charges	\$1,268,340
Cost of Capital / Return to Owners	\$1,350,000
Transpower Charges (net of LRR)	\$2,389,339
Regulatory Costs / Levies (including EC)	\$30,000
Total Revenue Requirement	\$9,494,910

5. 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 2016 - 2017

6. In its operating budgets for the financial year 1 April 2016 to 31 March 2017, Scanpower has forecast network line charge revenue of \$9,370,806. This represents 98.7% of the annual revenue requirement and a shortfall of \$124,104. It is anticipated that this deficit will be recovered through \$21,000 in load shedding income and \$102,000 in “Other Network Revenue” earned from undertaking a small amount of chargeable work such as escorting high loads and customer service line call outs / repairs. Total budgeted network revenue is therefore \$9,493,806 which is \$1,104 less than the annual revenue requirement, and within 0.01%.
7. 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 2016 - 2017

Description	April	May	June	July	August	September	October	November	December	January	February	March	TOTAL
C6 INDUSTRIAL GROUP													
Cold Storage Business	\$13,580	\$14,552	\$17,167	\$15,881	\$17,512	\$13,659	\$13,426	\$13,285	\$17,072	\$16,572	\$15,859	\$15,953	\$184,519
Meat Works	\$20,964	\$12,698	\$25,413	\$37,930	\$35,070	\$27,571	\$27,990	\$28,603	\$27,420	\$29,174	\$27,814	\$30,408	\$331,056
C5 INDUSTRIAL GROUP													
Carpet Factory	\$9,509	\$9,665	\$13,168	\$11,707	\$11,729	\$9,781	\$10,073	\$10,498	\$7,861	\$7,242	\$9,626	\$9,737	\$120,594
Regional Transmitter	\$5,494	\$5,587	\$6,201	\$6,303	\$6,316	\$5,458	\$5,536	\$5,445	\$5,544	\$5,618	\$5,250	\$5,625	\$68,376
C4 LARGE COMMERCIAL													
Lumber Plant	\$21,890	\$24,032	\$33,464	\$34,387	\$33,919	\$23,472	\$21,169	\$23,272	\$22,211	\$16,549	\$21,387	\$22,261	\$298,014
Supermarket	\$7,192	\$7,444	\$8,609	\$8,727	\$8,737	\$7,293	\$7,623	\$7,449	\$7,597	\$7,666	\$6,976	\$7,654	\$92,968
Fast Food Restaurant	\$2,277	\$2,325	\$2,905	\$2,987	\$2,919	\$2,270	\$2,366	\$2,270	\$2,403	\$2,342	\$2,087	\$2,218	\$29,368
Milk Storage Silo	\$1,183	\$1,188	\$1,219	\$1,210	\$1,212	\$1,176	\$1,170	\$1,167	\$1,164	\$3,059	\$1,576	\$1,184	\$16,509
Large Retailer	\$3,746	\$4,033	\$4,847	\$5,011	\$4,645	\$3,507	\$3,331	\$3,517	\$3,832	\$4,152	\$3,581	\$4,084	\$48,284
Indoor Swimming Pool	\$3,421	\$4,059	\$5,860	\$5,738	\$5,235	\$3,728	\$3,962	\$4,090	\$3,812	\$3,411	\$3,287	\$3,330	\$49,935
Fast Food Restaurant	\$3,462	\$3,371	\$4,074	\$4,187	\$4,111	\$3,282	\$3,331	\$3,252	\$3,360	\$3,777	\$3,318	\$3,603	\$43,128
C3 MEDIUM COMMERCIAL													
14 ICPs	\$28,061	\$29,391	\$29,223	\$30,398	\$29,550	\$28,375	\$28,389	\$27,926	\$30,072	\$27,645	\$28,662	\$30,470	\$348,161
NHH DOMESTIC / COMMERCIAL													
NHH ICPs	\$603,140	\$647,988	\$627,085	\$689,466	\$720,102	\$703,406	\$669,956	\$630,776	\$639,137	\$622,251	\$556,729	\$607,023	\$7,717,059
Street Lights	\$1,814	\$1,814	\$1,814	\$1,814	\$1,814	\$1,814	\$1,814	\$1,814	\$1,814	\$1,814	\$1,814	\$1,814	\$21,763
Other	\$89	\$89	\$89	\$89	\$89	\$89	\$89	\$89	\$89	\$89	\$89	\$89	\$1,073
TOTAL	\$725,821	\$768,236	\$781,139	\$855,836	\$882,960	\$834,881	\$800,227	\$763,452	\$773,387	\$751,359	\$688,054	\$745,455	\$9,370,806

Consumer Grouping for Pricing Purposes

8. 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.
9. 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.
10. 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.
11. The table below summarises the consumer groupings for pricing purposes.

Table Three – Consumer Grouping for Network Pricing Purposes

Pricing Group	Quantity	Description
D1	4,756	Standard Domestic (0-15kVA)
C1	1,241	Standard Commercial (>8kVA)
C1.2	420	<2kVA Commercial (pumps, railway bells etc)
C1.5	296	2-8kVA Commercial (small sheds etc)
C3	14	Large Commercial (100,000 – 500,000 kwh pa)
C4	7	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)

12. The quantity of installations in each category is stated as at 31 January 2016 and is derived from the National Registry and cross referenced to Scanpower's billing system.
13. 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

14. Costs are allocated to customer groups on the basis of 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.
15. 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 2016-2017

Group	Capacity (MVA)	O&M Costs	Admin	Depreciation	Cost of Capital	Transpower	EC Costs	Rev. Req.
D1	31.4	\$1,023,287	\$1,033,897	\$585,388	\$623,077	\$1,102,772	\$13,846	\$4,382,266
C1	22.2	\$723,123	\$730,620	\$413,674	\$440,308	\$779,292	\$9,785	\$3,096,801
C1.2	1.3	\$42,637	\$43,079	\$24,391	\$25,962	\$45,949	\$577	\$182,594
C1.5	1.3	\$40,931	\$41,356	\$23,416	\$24,923	\$44,111	\$554	\$175,291
C3	2.5	\$81,863	\$82,712	\$46,831	\$49,846	\$88,222	\$1,108	\$350,581
C4	4.2	\$136,438	\$137,853	\$78,052	\$83,077	\$147,036	\$1,846	\$584,302
C5	1.3	\$42,637	\$43,079	\$24,391	\$25,962	\$45,949	\$577	\$182,594
C6	3.7	\$119,383	\$120,621	\$68,295	\$72,692	\$128,657	\$1,615	\$511,264
MISC	0.2	\$6,822	\$6,893	\$3,903	\$4,154	\$7,352	\$92	\$29,215
	68.0	\$2,217,121	\$2,240,110	\$1,268,340	\$1,350,000	\$2,389,339	\$30,000	\$9,494,910

16. 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 2016-2017

Group	Revenue Required	Forecast Revenue	Variance	% Variance to Rev.Req.
D1	\$4,382,266	\$4,324,376	-\$57,890	-1.32%
C1	\$3,096,801	\$3,046,411	-\$50,391	-1.63%
C1.2	\$182,594	\$174,401	-\$8,193	-4.49%
C1.5	\$175,291	\$171,870	-\$3,420	-1.95%
C3	\$350,581	\$348,095	-\$2,486	-0.71%
C4	\$584,302	\$578,166	-\$6,136	-1.05%
C5	\$182,594	\$188,960	+\$6,366	+3.49%
C6	\$511,264	\$514,833	+\$3,569	+0.70%
MISC	\$29,215	\$23,693	-\$5,522	-18.90%
TOTAL	\$9,494,910	\$9,370,806	-\$124,104	-1.31%

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17. 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)

18. 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 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 5.8% / 94.2%.

Outside of the domestic tariff category, the aggregated split between fixed and variable charges is 25.2% / 74.8%.

Consistency with Electricity Authority Pricing Principles

19. 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
<p>a) Prices are to signal the economic costs of service provision, by:</p> <ul style="list-style-type: none"> 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 	<p>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.</p> <p>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.</p> <p>In regard to 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.</p>
<p>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.</p>	<p>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).</p> <p>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.</p> <p>However, given that all of 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.</p>
<p>c) Provided that prices satisfy a) above, prices should be responsive to the requirements and circumstances of stakeholders in order to:</p> <ul style="list-style-type: none"> 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. 	<p>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 the majority of customers.</p> <p>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; that is to say they, on behalf of their customer electorate, have direct input into the price / quality trade off decisions.</p> <p>In relation to non-network solutions such as distributed generation and demand response, Scanpower is actively involved in a range of developments, including the recent deployment of a 12kW photovoltaic solar system at its head office and the development of its own solar water heating products (branded Skyreach Solar). 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 is also currently investigating stand alone DG systems for remote installations.</p>

<p>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.</p>	<p>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.</p> <p>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.</p>
<p>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.</p>	<p>Scanpower's network charges are homogenous across all retailers supplying across the network; that is to say they are the same for everyone with no discrimination in tariff structures, prices or customer discount payments.</p> <p>Relative to other network pricing methodologies, Scanpower believes its methodology is relatively simple in design and straightforward for retailers to implement (rebundled or otherwise).</p>

2016 - 2017 Changes in Pricing and Target Revenue

20. The table below shows the movement in target revenue between the 2015-2016 year and the 2016-2017 year.

Table Six – Comparison of Year on Year Revenue Requirement 2015/16 – 2016/17

Description	2016/17 Target	2015/16 Target	Movement
Operations & Maintenance Costs	\$2,217,121	\$1,971,528	+\$245,593
Administration & Corporate Costs	\$2,240,110	\$2,115,623	+\$124,487
Depreciation Charges	\$1,268,340	\$1,164,240	+\$104,100
Network Discount	\$1,350,000	\$1,500,000	-\$150,000
Transpower Charges	\$2,389,339	\$2,375,920	+\$13,419
Regulatory Costs / Levies (including Electricity Authority)	\$30,000	\$24,000	+\$6,000
Total Revenue Requirement	\$9,494,910	\$9,151,311	+\$343,599

21. As is evident the annual revenue requirement has increased year on year by \$343,599 representing a movement of 3.75%. General comments on the line items that constitute this movement are as follows:

- Operations & Maintenance Costs show a year on year increase of 12.5%. The main factors contributing to this increase include:

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- A year on year increase in budgeted Vehicle Costs of \$84,312 associated the leasing of two replacement line trucks and further roll-out of Navman GPS vehicle location systems / lone worker alarms for safety purposes.
 - The creation of a second site supervisor role within the Network team at an annual cost of \$91,936. This is primarily attributed to increasing work planning / traffic management and general health and safety administration requirements.
 - General inflationary pressures.
 - Administration & Corporate Costs have increased by \$124,487. Drivers of this increase include:
 - Ongoing increases in health and safety management costs associated with new Government legislation.
 - General upskilling / training in industry safety matters, and participation in consultation meetings in relation to upcoming amendments to the SM-EI (Safety Manual - Electricity Industry).
 - General inflationary pressures.
 - There has been an increase in budgeted Depreciation Costs of \$104,100 representing a movement of 9%. Depreciation costs are a function of the underlying value of the network asset base, which is expected to increase by approximately 10% as a result of a cyclic revaluation exercise as at 31 March 2016.
 - The owners of Scanpower, the Scanpower Customer Trust, has indicated that a level of annual network discounts of \$1,350,000 is required.
 - Transmission costs, net of loss rental incomes are expected to increase by \$13,419 in the coming year. Scanpower treats these costs on a straight pass through basis.
22. The overall year on year movement of 3.75% is considered higher than typical / inflationary with health and safety management / compliance cost factors the most notable driver of this.
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5 Year Pricing Strategy

23. As noted previously in this document, Scanpower's general approach has been to retain consistency in the structure of its network pricing regime for the purposes of minimising price shocks and providing certainty to customers (to the extent possible given retailer rebundling of tariffs).
24. However, Scanpower is also mindful of a number of factors that may cause the company to revisit the fundamental structure of its network charging practices. These include:
- The commencement of the installation of "smart meters" across the network by the dominant local electricity retailer. The functionality this creates, in terms of more time period specific data, may lead Scanpower to develop alternative line charge tariffs aimed at incentivising customers to reduce consumption during times of peak network demand (typically 7am to 9am, and 5pm to 7pm), and instead shift load into lower priced, off peak periods. We will monitor the progress of the metering roll out over the course of the year, at the same time as considering such options.
 - A potential revocation of the Low User Tariff Regulations; these currently distort how Scanpower sets its network charges, causing a significant proportion of the total revenue recovery to be captured on a variable charge basis, as opposed to a fixed basis. This results in a greater range of fluctuation in network revenues (both up and down) in response to factors such as weather conditions and underlying changes in consumption levels. Given that the majority of Scanpower's costs are fixed, recovering revenue on a more fixed basis would be a pricing objective if the current restrictions were removed.
 - Ongoing debate and consultation in the industry on the matter of standardising the structure of distribution charges across all networks. Whilst Scanpower does not see this as a valid issue (the retail electricity market has operated on a competitive basis for some 16 years now), there is the possibility that Scanpower will be compelled to adopt an industry standard, if that situation eventuates.
25. In the immediate term (1-2 years) Scanpower anticipates that the general structure of its network charges will remain consistent.

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26. Depending on how the factors above pan out, beyond this it is likely that Scanpower will move towards a more granular set of tariffs, with higher differentiation in pricing between peak and off peak rates. It would also be our preference to rebalance the recovery of charges more towards a fixed basis than the 6% / 94% ratio of fixed / variable charges in the residential sector, given that a substantial proportion (in excess of 95%) of our business costs are fixed in nature.
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Non Standard Contracts and Distributed Generation

27. 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 condition of supply or pricing.
28. 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 of time. 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.
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Customer Consultation and the Price / Quality Trade Off

29. 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.
30. 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.
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31. 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.
32. 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
33. 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 taken into account.

Capital Contributions

34. 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

35. 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 particular customer category will be charged at the C1 customer prices.

Appendix A – Breakdown of Revenue by Publicly Disclosed Pricing Component

D1 Standard Domestic Option (4,756 customers)

Code	Description	Revenue
10	Fixed daily supply charge (per day)	\$251,850
23	Variable network charge (day units per kwh)	\$3,369,091
24	Variable network charge (night units per kwh)	\$703,436

C1 Standard Commercial Option (1,241 customers)

Code	Description	Revenue
40	Fixed daily supply charge (per day)	\$571,590
28	Variable network charge (day units per kwh)	\$2,048,147
29	Variable network charge (night units per kwh)	\$426,674

C1.2 2 kVA Commercial Option (420 customers)

Code	Description	Revenue
11	Fixed daily supply charge (per day)	\$107,514
46	Variable network charge (day units per kwh)	\$55,355
47	Variable network charge (night units per kwh)	\$11,532

C1.5 5 kVA Commercial Option (296 customers)

Code	Description	Revenue
13	Fixed daily supply charge (per day)	\$104,983
51	Variable network charge (day units per kwh)	\$55,355
52	Variable network charge (night units per kwh)	\$11,532

C3 Large Commercial Option (14 customers)

Code	Description	Revenue
50	Fixed daily supply charge (\$ / kva / month)	\$91,269
57	Variable network charge (day units per kwh)	\$211,121
58	Variable network charge (night units per kwh)	\$45,706

C4 Large Commercial Option (7 customers)

Code	Description	Revenue
60	Fixed daily supply charge (\$ / kva / month)	\$127,240
73	Variable network charge (day units per kwh)	\$363,372
74	Variable network charge (night units per kwh)	\$42,319
65	Maximum demand charge (June, July, August – peak kva)	\$45,236

C5 Medium Industrial Option (2 customers)

Code	Description	Revenue
70	Fixed daily supply charge (\$ / kva / month)	\$72,478
78	Variable network charge (day units per kwh)	\$95,356
79	Variable network charge (night units per kwh)	\$10,857
75	Maximum demand charge (June, July, August – peak kva)	\$10,269

C6 Large Industrial Option (2 customers)

Code	Description	Revenue
71	Fixed daily supply charge (\$ / kva / month)	\$190,624
82	Variable network charge (day units per kwh)	\$251,741
83	Variable network charge (night units per kwh)	\$34,861
85	Maximum demand charge (June, July, August - peak kva)	\$37,606

MISC Miscellaneous Supplies - Fixed Charges

Code	Description	Revenue
12	Public Lighting Network Supply Charge (per fitting per month)	\$22,623
18	Telecom Boxes (per month per box)	\$0
19	Electric Fences (monthly charge - no 400V distribution line)	\$1,070
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

\$9,370,806