



## Pricing Methodology

### Introduction

The purpose of this document is to outline Electra's line pricing structure, which applies from 1 April 2010.

It follows the intent of sections 22 and 23 of Part 5 of the Electricity Information Disclosure Requirements 2004 (including amendments to 31 October 2008).

Prices are the same across Electra's entire network area.

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### Pricing Policy

The load on Electra's network is heavily weighted towards domestic and small commercial consumers. It has the lowest average use per consumer of all New Zealand Line companies. \*

Analysis has shown that there is little advantage in anything other than a relatively simple approach to charging. Electra recovers its revenue requirements by applying the same fixed supply charge to all consumers and variable unit charges that allow choices between anytime, peak, off peak and night, thus signalling network impacts.

The following principles form the basis of Electra's pricing methodology:

- Clarity and simplicity for both consumers and retailers
- Fairness to all consumers and retailers
- No differentiation for consumers on the basis of end-use for electricity (i.e. commercial versus domestic), or directly by load grouping
- Encouragement for consumers to both shift load away from peak and to use electricity efficiently
- Producing a commercially acceptable rate of return
- Reliance upon Retailers to fairly reflect Electra's charges in their own prices to customers
- Reliance upon retailers to supply accurate electricity consumption data required to maintain revenue requirements.
- Full compliance with regulatory requirements.

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\* PricewaterhouseCoopers' Electricity Line Business 2007 Information Disclosure Compendium March 2008



**Revenue Requirements**

Annual Revenue Requirements for the 2011 financial year are:

Transmission Charges	\$6.57M
Operational & Maintenance	\$5.29M
Administration / Overheads	\$3.52M
Depreciation	\$5.44M
Cost of Capital (before tax)	<u>\$7.11M</u>
	<u>\$27.93M</u>

The return on Capital is based on the total value of assets being \$146.7 million. This comprises network assets with a net depreciated value of \$145.4M and non-network assets with a net depreciated value of \$1.3M.

**Consumer Grouping**

As already noted, given its consumer base Electra has determined that there would be little benefit to using anything other than volume and time based charging choices for all consumers. Therefore, Electra does not differentiate its pricing methodology across different load (usage) groups.

Consumer Numbers	Maximum Demand (MWh)	Energy Conveyed (GWh)
42,831	91	417

**Transmission Services**

All transmission services are provided by Transpower through the two GXPs at Mangahao and Paraparaumu.

Electra is obliged by legislation to pay Transpower even if not paid by the Retailers.

**Charging for Transmission Services**

Electra on-charges Transpower transmission charges to Retailers on a cost-recovery basis plus a small administration charge.

Although Transpower charges are mainly fixed, Electra absorbs some risk by dividing these charges into a ratio of approximately 26% fixed and the remainder comprising a variable charge.



**Components  
of  
transmission  
charges**

Transpower charges for transmission services compose three components and are charged on a monthly basis.

- Interconnection
  - Connection
  - New Investment Agreement Charges.
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**Rental  
Rebates**

Electra estimates the likely Transpower rental rebates on an annual basis and includes this credit in the revenue required to cover Transpower transmission charges.

Any rental rebates received above the annual estimate are returned to consumers through sales discounts. Electra carries the risk of any deficit.

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**Network Cost  
Allocation**

Network costs can be generally classified as direct and indirect.

**Direct Costs:**

- Maintenance & Operating Costs

Direct costs are driven by the detailed AMP, which is a ten-year forecast and is updated annually.

**Indirect Costs:**

- Administration & Overheads
  - Regulatory Compliance Costs
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**Equipment  
Charges**

Electra's pricing does not include separate equipment charges.

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**Low Fixed  
Charge**

Electra complies with the low fixed charge regulations by charging 15 cents (plus GST) per day to all consumers no matter what price option they choose.

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**Appendix**

Electra's charges are on the Electra website prices page at [www.electra.co.nz](http://www.electra.co.nz).

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