



# **Pricing Methodology Disclosure**

**As at 1 April 2008**

***Pursuant to***

**The Electricity Information Disclosure Requirements 2004  
(Regulation 22 and 23)**

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**TABLE OF CONTENTS**

<b>1</b>	<b>INTRODUCTION</b>	<b>3</b>
<b>2</b>	<b>PRICING PROCESS</b>	<b>3</b>
<b>3</b>	<b>REVENUE REQUIREMENT</b>	<b>4</b>
<b>4</b>	<b>CUSTOMER GROUPING</b>	<b>6</b>
<b>5</b>	<b>ALLOCATION OF REVENUE REQUIREMENT TO CUSTOMER GROUPS</b>	<b>7</b>
<b>5.1</b>	<b>Customer Group Allocations for 2008/09</b>	<b>8</b>
5.1.1	Indirect Costs	8
5.1.2	Load Specific Costs	9
5.1.3	Asset Specific Costs	11
5.1.4	Asset Specific Maintenance and Operating costs	13
5.1.5	Depreciation	14
5.1.6	Cash tax	16
5.1.7	Net Returns after Tax	17
5.1.8	Summary of maintenance and operating cost allocations to customer groups	19
5.1.9	Summary of Customer Group Allocations	20
<b>6</b>	<b>TARIFF METHODOLOGY</b>	<b>20</b>
<b>6.1</b>	<b>Fixed variable allocation</b>	<b>20</b>
<b>7</b>	<b>CLARIFICATION</b>	<b>21</b>
<b>8</b>	<b>COMMUNICATION</b>	<b>22</b>
<b>9</b>	<b>IMPLEMENTATION, REVIEW AND REVISIONS</b>	<b>22</b>
<b>10</b>	<b>APPROVALS</b>	<b>22</b>

## **1 INTRODUCTION**

Centralines is a locally owned and operated business, with all of its shares held by the Central Hawke's Bay Consumers Power Trust on behalf of local consumers. Centralines owns and operates the distribution network in the Central Hawke's Bay region. Centralines is a distribution company – it delivers electricity from the national grid owned by Transpower to end consumers in the Central Hawke's Bay region.

Centralines is committed to reviewing pricing to meet company, industry, legislative and regulatory requirements. The Electricity Information Disclosure Requirements 2004 came into force on 8 May 2004, pursuant to Section 57T of Part 4A of the Commerce Act 1986.

The purpose of the disclosure requirements is to promote the efficient operation of markets directly related to electricity distribution and transmission services by ensuring that large line owners and large electricity distributors make publicly available reliable and timely information about the operation and behaviour of those businesses, so that a wide range of people are informed about such factors as profits, costs, asset values, price (including terms and conditions of supply), quality, security, and reliability of supply of those businesses.

Centralines has prepared this Pricing Methodology Disclosure in accordance with sections 22 and 23 of the Electricity Information Disclosure Requirements 2004.

## **2 PRICING PROCESS**

Electricity prices consist of a number of components;

- Energy costs, relating to the cost of generating electricity
- Transmission costs (generally Transpower charges), covering the cost (or avoided cost) of delivering electricity over the National Grid to bulk supply points known as Grid Exit Points (GXPs)
- Distribution costs, covering the cost of delivering electricity across Centralines' Distribution network
- Retailer costs, which relate to retailers costs of maintaining relationships with customers, billing etc

The steps in Centralines' pricing process can be broadly defined as;

- **Pricing Principles**, as set out by the Pricing Approaches Working Group
- **Pricing Methodology**, basis of prices to be based on, and what consumption to use for billing
- **Revenue requirement**, calculated for the entire company
- **Identify customer classes**, consumers with similar needs and requirements are grouped together
- **Allocate costs to Customer classes**, costs grouped, then costs allocated to customer groups by identified cost driver.
- **Tariff methodology**, a procedure based on the pricing objectives, created for each consumer group to best meet revenue requirement for that group (what type of charge will be used to recover costs?)
- **Tariffs**, the level and structure of tariffs are calculated for each consumer group.

The methodology Centralines uses to calculate the prices to be charged is based on long run average cost pricing. Long run average cost pricing requires the total efficient costs of the business to be allocated to each customer or group of customers. Total costs include such fixed costs as capital costs and joint and common costs. Centralines uses the Retail Delivery Model for pricing. The Retail Delivery Model uses the metered or estimated quantities at ICPs to charge Retailers or Consumers.

### **3 REVENUE REQUIREMENT**

Ordinarily a company's total revenue requirement must cover the following objectives:

- Provide an adequate return on funds employed
- Cover the cost of operating the business
- Provide for sufficient free cash flows for the long term sustainability and growth of the business
- Ensure cost efficient business practices while delivering the level quality required by customers

This is equivalent to a building block approach to determine the revenue requirement for a company.

The first component of this is the appropriate return to the investor (i.e. what an investor would expect as a return on their investment for a given level of risk). The company also has to make a reasonable assessment of its operating costs and the capital expenditure requirements that will maintain the long term service potential of the assets.

## PRICING METHODOLOGY DISCLOSURE



The building block approach of revenue requirement can be summarised as follows:

$$R_i = (WACC_i \times RAB_i) + Tax_i + OC_i + T_i + D_i$$

Where

i = Year of calculation

R = Revenue Requirement

WACC = Weighted Average Cost of Capital

RAB = Regulatory Asset Base

Tax = Cash Tax

OC = Operating costs (direct and indirect including overheads)

T = Transmission costs

D = Depreciation

Applying the building block approach to setting the revenue requirement, i.e. the amount to be recovered through the application of the pricing methodology ensures that all of Centralines efficient costs are recovered. At a high level the revenue requirement delivers on the principle that:

*Prices should, so far as it is efficient to do so, relate to the level of service delivered and reflect the cost structures and risks of delivering the services, and be easily understood*

The revenue requirement is based on the network ODV. This means that the full cost of assets subject to or likely to be subject to optimization is not recovered. This acts to discourage over investment in distribution network assets and therefore supports the principle that:

*Prices should encourage efficient investment and technology innovation in the provision of distribution services*

WACC is the hurdle rate a rational investor would use to arrive at a minimum return on their investment. There are many components that are incorporated into calculating the WACC specific to each individual company that reflect the risk and return measure. The WACC must be large enough to ensure sufficient investment is put into key infrastructure assets (such as distribution) to maintain the service capability of these assets over time.

Centralines completed a revaluation as at 31st March 2004 based on the Handbook for Optimised Deprival Valuation of System Fixed Assets of Electricity Line Businesses 30 August 2004 ("the Handbook"), issued by the Commerce Commission.

Total operating costs include the following components: preventative maintenance, reactive maintenance, network management services, control room operation, indirect costs of corporate, finance and regulatory costs.

Centralines contracts for the use of the National Grid with the National Grid owner Transpower on behalf of consumers. This allows consumers to get the benefit of supply and security from the national market and remote generators. Sharing a Grid connection with other consumers also reduces the individual consumer's costs through benefits of diversity. The cost of transmission and associated administration costs are fully recovered in Centralines' revenue requirement.

In order to maintain the long life service capability of Centralines network when the distribution assets have reached the end of their useful life they must be replaced. For this reason Centralines must fully recover the cost of depreciation over the life of the asset. Centralines uses a straight line depreciation methodology to calculate the depreciation component each year based on the Handbook.

Electricity lines companies are controlled by the requirements set out by the Commerce Commission in the Commerce Act (Electricity Distribution Thresholds) Notice 2004. This means that Centralines is assessed annually against two thresholds:

- i. a price path threshold, representing the expected annual change in lines business average prices (through applying a CPI-X formula); and
- ii. a quality threshold, comprising a reliability criterion and a consumer communication criterion.

The price path threshold criteria limits Centralines on the annual change in line charges by setting a threshold that can only change by a maximum of  $CPI-X^1$  per annum.

For this reason, although pricing is designed to reflect cost of supply, an adjustment to the final pricing must be made to ensure that Centralines will comply with the regulations. A buffer has also been added to the price change (in favour of consumers) to avoid breaching the thresholds through unexpected movements in the CPI or pass-through costs.

#### **4 CUSTOMER GROUPING**

Consumers are categorised into groups with similar needs, service requirements and physical similarities so that the cost allocation to each group is appropriate.

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<sup>1</sup> Where, CPI is the Change in the consumer's price index. For more information refer to the New Zealand Gazette, Commerce Act (Electricity Distribution Thresholds) Notice 2004.

The largest grouping is for consumers with an assessed consumption up to 100,000kWh per annum which captures most residential load connected to the low voltage network. We refer to these as Mass Market customers.

The next consumer group (small commercial customers) is for customers with annual consumption greater than 100MWh to less than 500MWh. These consumers are grouped into four bands; 100MWh to less than 200MWh, 200MWh to 300MWh, 300MWh to 400MWh, and 400MWh to 500MWh.

The next consumer group (large commercial customers) is for customers with annual consumption greater than 500MWh to less than 1GWh. These consumers are grouped into three bands; 500MWh to less than 600MWh, 600MWh to 750MWh, and 750MWh to 1GWh.

Industrial customers are a special case of large commercial customers. These customers generally have annual consumption greater than 1GWh. These customers are individually priced so that unique price and service levels can be created for each consumer, and to avoid the risk of bypassing the distribution network.

For further information regarding how Centralines determines how an end-consumer is placed into a customer group please refer to Centralines' pricing policy which can be found in the pricing information section of Centralines' website [www.centralines.co.nz](http://www.centralines.co.nz). For statistics relating to the customer groups that were used in the pricing methodology refer to section 7.1.

## **5 ALLOCATION OF REVENUE REQUIREMENT TO CUSTOMER GROUPS**

Centralines has developed a Cost of Supply Model that underpins its setting of tariffs, by allocating costs between asset groups and customer groups. The Cost of Supply Model is based on cost reflective pricing principles. These costs are then converted into a tariff structure to recover the costs from consumers via Centralines relationship with the electricity retailers. The allocation of costs to customer groups requires the identification of relevant cost drivers and the identification of appropriate bases of cost allocation. This is then implemented through the Cost of Supply Model.

The costs reflected in the cost of supply model are characterised in a number of different ways to meet disclosure requirements and to facilitate sensible cost allocations. For summary disclosure purposes costs are classified as:

- Transmission charges
- Maintenance and operating costs
- Depreciation charges
- Cash Tax



- Net returns after tax

Where sensible, costs within these broad classifications are allocated on a similar basis, however in some instances it is more sensible to allocate some of the costs within these classifications (particularly maintenance and operating) using different cost drivers. The following sections explain these cost allocations.

**5.1 Customer Group Allocations for 2008/09**

Centralines allocates its costs to the following customer groups:

- Unmetered
- Mass Market
- Small Commercial
- Large Commercial
- Industrial

In summary, costs are allocated to the five customer groups using the cost drivers shown in table 1.

<b>Cost</b>	<b>Allocation Driver to Customer Groups</b>
Indirect	ICP
Load Specific	Customer group’s share of regional coincident peak demand (kW) or kWh
Asset Specific	First to Asset groups, based on ODRC, then to Customer groups by share of aggregate coincident peak demand

**Table 1: Allocation drivers for cost categories**

These allocations are described in more detail below.

**5.1.1 Indirect Costs**

Indirect costs are the portion of operation costs that have no direct relationship to assets or size of customer and are therefore allocated to customer groups based on the

## PRICING METHODOLOGY DISCLOSURE



relative number of ICPs in each customer group. Table 2 shows the ICP statistics relating to each consumer group.

ICP numbers	Centralines	
	#	%
Mass Market	7,810	99.4%
Small Commercial	42	0.5%
Large Commercial	5	0.1%
Industrial	3	0.0%
<b>Total ICP numbers</b>	<b>7,860</b>	<b>100%</b>

**Table 2: ICP statistics for allocating non-region specific costs**

The table below shows these indirect costs allocated into consumer groups.

Overhead Costs	Centralines
	\$(000)
Mass Market	763
Small Commercial	4
Large Commercial	0
Industrial	0
<b>Total</b>	<b>768</b>

**Table 3: Indirect costs allocated to consumer groups**

### 5.1.2 Load Specific Costs

Load specific costs (i.e. transmission charges and Electricity Commission levies) are allocated to customer groups based on load related drivers. Transmission charges are allocated to customer groups based on the customer groups' relative share of aggregate coincident peak demand. The coincident peak demand drives the amount of capacity Centralines requires at its Transpower grid exit point (the connection service) in the Central Hawke's Bay region and also drives the level of Transpower charges for the transmission interconnection service. Electricity Commission levies are allocated based on consumption because that is the major determinant of the charge by the Electricity Commission to Centralines. Table 4 shows the coincident peak demand statistics relating to each consumer group. Table 5 shows the transmission costs allocated to each consumer group.

**PRICING METHODOLOGY DISCLOSURE**



<b>Centralines</b>		
<b>Coincident Demand</b>	<b>kW</b>	<b>%</b>
Mass Market	11,981	65.4%
Small Commercial	1,476	8.1%
Large Commercial	433	2.4%
Industrial	4,423	24.2%
<b>Total</b>	<b>18,313</b>	<b>100%</b>

**Table 4: Coincident Maximum Demand statistics for allocating load specific costs**

<b>Transmission Costs</b>	<b>Centralines \$(000)</b>
Mass Market	1,285
Small Commercial	158
Large Commercial	46
Industrial	474
<b>Total</b>	<b>1,965</b>

**Table 5: Transmission costs allocated to consumer group by share of Coincident Maximum Demand**

As noted above, Electricity Commission levies are charged to Centralines primarily based on the company’s MWh distributed. Therefore it is appropriate to allocate these costs to consumer groups based on their share of total consumption. Table 6 shows the consumption statistics relating to each consumer group, and table 7 shows the costs allocated to each consumer group.

<b>Centralines</b>		
<b>kWh by customer group</b>	<b>kWh</b>	<b>%</b>
Mass Market	61,640,863	58.8%
Small Commercial	8,949,805	8.5%
Large Commercial	3,363,025	3.2%
Industrial	30,790,192	29.4%
<b>Total consumption</b>	<b>104,743,885</b>	<b>100%</b>

**Table 6: Consumption statistics for allocating consumption specific costs**

<b>EC levies</b>	<b>Centralines \$(000)</b>
Mass Market	8
Small Commercial	1
Large Commercial	0
Industrial	4
<b>Total</b>	<b>13</b>

**Table 7: EC Levies allocated to consumer group by share of kWh**

5.1.3 Asset Specific Costs

Asset specific costs relate to assets employed. These costs include maintenance and operations costs (not allocated elsewhere), depreciation, tax and net return costs. The asset specific costs are split up into three groups based on the broad asset classes of:

- Consumer Specific (industrial customers)
- High voltage assets after removing assets relating specifically to industrial customers (33kV and 11kV network assets)
- Low voltage (400 volt network assets)

It is necessary to allocate costs to asset groups first, and then allocated these costs to consumer groups by their coincident demand on these assets. This split is to ensure customer groups are allocated only costs for the assets they use. For example, costs associated with the low voltage (400 volt) network are charged to the mass market and small commercial customer groups because the large commercial and industrial groups generally do not utilise the low voltage network. The costs of the high voltage network (11kV and 33kV) are allocated between all customer groups because all customers rely on the service provided by these assets to connect and distribute electricity drawn from the national grid and the various grid exit points in the network.

Asset specific costs are split into the three asset categories based on relative asset Optimised Depreciated Replacement Cost (ODRC). The asset values of the three asset categories are summarised in table 8.<sup>2</sup>

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<sup>2</sup> The asset values in table 18 reflect the ODV valuation undertaken as at 31 March 2004.

## PRICING METHODOLOGY DISCLOSURE



Asset Class	Centralines	
	\$(000)	%
Customer Specific (Industrial Customers)	2,512	7.8%
High Voltage	20,382	63.1%
Low Voltage	9,389	29.1%
<b>Total Assets</b>	<b>32,283</b>	<b>100%</b>

**Table 8: Split of ODRC between asset categories**

The costs for each asset category are allocated to the customer groups based on the group's share of the coincident peak demand related to those asset classes. The tables below show how the asset classes are allocated to customer groups, based on utilisation, and how the coincident demand of each consumer group determines the relative share of the asset related costs allocated to each customer group.

Customer specific assets related to high voltage assets and are identified only for the Industrial customer group.

Coincident Demand on assets relating to Industrials	Centralines	
	kW	%
Mass Market	-	0.0%
Small Commercial	-	0.0%
Large Commercial	-	0.0%
Industrial	4,423	100.0%
<b>Total Assets</b>	<b>4,423</b>	<b>100%</b>

**Table 9.1: Coincident demand by consumer group relating to customer specific assets**

The remaining high voltage assets costs are allocated to all groups other than industrials as they all rely on the high voltage network.

Coincident Demand on assets relating to High Voltage assets	Centralines	
	kW	%
Mass Market	11,981	86.3%
Small Commercial	1,476	10.6%
Large Commercial	433	3.1%
Industrial	-	0.0%
<b>Total Assets</b>	<b>13,890</b>	<b>100%</b>

**Table 9.2: Coincident demand by consumer group relating specifically to the high voltage assets**

## PRICING METHODOLOGY DISCLOSURE



Low voltage assets are utilised by the Mass Market and Small Commercial customer groups. Large Commercial and Industrial customers generally connect to the 11kV network and do not utilise the low voltage network.

Coincident Demand on assets relating to Low Voltage assets	Centralines	
	kW	%
Mass Market	11,981	89.0%
Small Commercial	1,476	11.0%
Large Commercial	-	0.0%
Industrial	-	0.0%
<b>Total Assets</b>	<b>13,457</b>	<b>100%</b>

Table 9.3: Coincident demand by consumer group relating specifically to the low voltage assets

### 5.1.4 Asset Specific Maintenance and Operating costs

Table 10 below shows the allocation of asset specific maintenance and operating costs to asset classes, based on relative ODRC values per table 8 above.

Maintenance and Operating Costs	Centralines
	\$(000)
Consumer Specific (industrials)	83
High Voltage Assets	670
Low Voltage Assets	309
<b>Total</b>	<b>1,061</b>

Table 10: Maintenance and Operating costs allocated to asset class by share of ODRC

Each asset classes costs are then allocated to each consumer group, based on relative coincident maximum demand, per tables 9.1 to 9.3.

Maintenance and Operating Costs of Consumer Specific Assets	Centralines
	\$(000)
Mass Market	0
Small Commercial	0
Large Commercial	0
Industrial	83
<b>Total</b>	<b>83</b>

Table 11.1: Maintenance and Operating for consumer specific assets allocated by share of Coincident Maximum Demand on these assets

**PRICING METHODOLOGY DISCLOSURE**



<b>Maintenance and Operating Costs of High Voltage Assets</b>	<b>Centralines \$(000)</b>
Mass Market	578
Small Commercial	71
Large Commercial	21
Industrial	0
<b>Total</b>	<b>670</b>

**Table 11.2: Maintenance and Operating for high voltage assets allocated by share of Coincident Maximum Demand on these assets**

<b>Maintenance and Operating Costs of Low Voltage Assets</b>	<b>Centralines \$(000)</b>
Mass Market	275
Small Commercial	34
Large Commercial	0
Industrial	0
<b>Total</b>	<b>309</b>

**Table 11.3: Maintenance and Operating for low voltage assets allocated by share of Coincident Maximum Demand on these assets**

Table 12 summarises the total asset specific maintenance and operation costs for each consumer group.

<b>Summary Maintenance and Operating Costs per consumer group</b>	<b>Centralines \$(000)</b>
Mass Market	853
Small Commercial	105
Large Commercial	21
Industrial	83
<b>Total</b>	<b>1,061</b>

**Table 12: Total Asset Specific Maintenance and Operating costs allocated to consumer groups (Summary of tables 11.1 – 11.3)**

5.1.5 Depreciation

Table 13 below shows the allocation of depreciation charges to asset classes, based on relative ODRC values per table 8 above.

**PRICING METHODOLOGY DISCLOSURE**



<b>Depreciation Costs</b>	<b>Centralines \$(000)</b>
Consumer Specific (industrials)	149
High Voltage Assets	1,207
Low Voltage Assets	556
<b>Total</b>	<b>1,912</b>

**Table 13: Depreciation costs allocated to asset class by share of ODRC**

Each asset class’s costs are then allocated to each consumer groups, based on relative coincident maximum demand, per tables 9.1 to 9.3.

<b>Depreciation Costs of Consumer Specific Assets</b>	<b>Centralines \$(000)</b>
Mass Market	0
Small Commercial	0
Large Commercial	0
Industrial	149
<b>Total</b>	<b>149</b>

**Table 14.1: Depreciation for consumer specific assets allocated by share of Coincident Maximum Demand on these assets**

<b>Depreciation Costs of High Voltage Assets</b>	<b>Centralines \$(000)</b>
Mass Market	1,041
Small Commercial	128
Large Commercial	38
Industrial	0
<b>Total</b>	<b>1,207</b>

**Table 14.2: Depreciation for high voltage assets allocated by share of Coincident Maximum Demand on these assets**

<b>Depreciation Costs of Low Voltage Assets</b>	<b>Centralines \$(000)</b>
Mass Market	495
Small Commercial	61
Large Commercial	0
Industrial	0
<b>Total</b>	<b>556</b>

**Table 14.3: Depreciation for low voltage assets allocated by share of Coincident Maximum Demand on these assets**

**PRICING METHODOLOGY DISCLOSURE**



Table 15 summarises the total depreciation charges for each consumer group.

<b>Summary Depreciation Costs per consumer group</b>	<b>Centralines \$(000)</b>
Mass Market	1,536
Small Commercial	189
Large Commercial	38
Industrial	149
<b>Total</b>	<b>1,912</b>

**Table 15: Total depreciation costs allocated to consumer groups (Summary of tables 14.1 – 14.3)**

5.1.6 Cash tax

Table 16 below shows the allocation of tax and interest tax shield costs to asset classes, based on relative ODRC values per table 8 above.

<b>Cash Tax and Interest Tax Shield Costs</b>	<b>Centralines \$(000)</b>
Consumer Specific (industrials)	51
High Voltage Assets	415
Low Voltage Assets	191
<b>Total</b>	<b>657</b>

**Table 16: Cash tax and interest tax shield costs allocated to asset class by share of ODRC**

Each asset class’s costs are then allocated to each consumer groups, based on relative coincident maximum demand, per tables 9.1 to 9.3.

<b>Cash Tax and Interest Tax Shield Costs on consumer specific assets</b>	<b>Centralines \$(000)</b>
Mass Market	0
Small Commercial	0
Large Commercial	0
Industrial	51
<b>Total</b>	<b>51</b>

**Table 17.1: Cash tax for consumer specific assets allocated by share of Coincident Maximum Demand on these assets**

**PRICING METHODOLOGY DISCLOSURE**



Cash Tax and Interest Tax Shield Costs on High Voltage assets	Centralines
	\$(000)
Mass Market	358
Small Commercial	44
Large Commercial	13
Industrial	0
<b>Total</b>	<b>415</b>

**Table 17.2: Cash tax for high voltage assets allocated by share of Coincident Maximum Demand on these assets**

Cash Tax and Interest Tax Shield Costs on Low Voltage assets	Centralines
	\$(000)
Mass Market	170
Small Commercial	21
Large Commercial	0
Industrial	0
<b>Total</b>	<b>191</b>

**Table 17.3: Cash tax for low voltage assets allocated by share of Coincident Maximum Demand on these assets**

Table 18 summarises the total tax costs for each consumer group.

Summary Cash Tax and Interest Tax Shield Costs per consumer group	Centralines
	\$(000)
Mass Market	528
Small Commercial	65
Large Commercial	13
Industrial	51
<b>Total</b>	<b>657</b>

**Table 18: Total cash tax costs allocated to consumer groups (Summary of tables 17.1 – 17.3)**

5.1.7 Net Returns after Tax

Table 19 below shows the allocation of net returns after tax to asset classes, based on relative ODRC values per table 8 above.

**PRICING METHODOLOGY DISCLOSURE**



<b>Net Return after Tax</b>	<b>Centralines \$(000)</b>
Consumer Specific (industrials)	93
High Voltage Assets	756
Low Voltage Assets	348
<b>Total</b>	<b>1,197</b>

**Table 19: Net return after tax allocated to asset class by share of ODRC**

Each asset class’s costs are then allocated to each consumer groups, based on relative coincident maximum demand, per tables 9.1 to 9.3.

<b>Net Return after Tax on consumer specific assets</b>	<b>Centralines \$(000)</b>
Mass Market	0
Small Commercial	0
Large Commercial	0
Industrial	93
<b>Total</b>	<b>93</b>

**Table 20.1: Net return after tax for consumer specific assets allocated by share of Coincident Maximum Demand on these assets**

<b>Net Return after Tax on High Voltage assets</b>	<b>Centralines \$(000)</b>
Mass Market	652
Small Commercial	80
Large Commercial	24
Industrial	0
<b>Total</b>	<b>756</b>

**Table 20.2: Net return after tax for high voltage assets allocated by share of Coincident Maximum Demand on these assets**

<b>Net Return after Tax on Low Voltage assets</b>	<b>Centralines \$(000)</b>
Mass Market	310
Small Commercial	38
Large Commercial	0
Industrial	0
<b>Total</b>	<b>348</b>

**Table 20.3: Net return after tax for low voltage assets allocated by share of Coincident Maximum Demand on these assets**

**PRICING METHODOLOGY DISCLOSURE**



Table 21 summarises the total net returns after tax for each consumer group.

<b>Summary Net Return after Tax on use of assets</b>	<b>Centralines \$(000)</b>
Mass Market	962
Small Commercial	118
Large Commercial	24
Industrial	93
<b>Total</b>	<b>1,197</b>

**Table 21: Total net returns after tax allocated to consumer groups (Summary of tables 20.1 – 20.3)**

5.1.8 Summary of maintenance and operating cost allocations to customer groups

To assist with understanding table 25 below, the allocations of maintenance and operating costs are summarised in table 24.

<b>Centralines</b>	<b>Load Related (kWh)</b>	<b>Asset Related</b>	<b>Non Region Specific (ICPs)</b>	<b>Total</b>
	<b>\$(000)</b>	<b>\$(000)</b>	<b>\$(000)</b>	<b>\$(000)</b>
Mass Market	8	853	763	1,623
Small Commercial	1	105	4	110
Large Commercial	0	21	0	22
Industrial	4	83	0	87
<b>Total</b>	<b>13</b>	<b>1,061</b>	<b>768</b>	<b>1,842</b>

**Table 24: Allocations of maintenance and operations costs (Summary of tables 3, 7, 12)**

## PRICING METHODOLOGY DISCLOSURE



### 5.1.9 Summary of Customer Group Allocations

The allocation of costs to customer groups is summarised in table 25.

Centralines	Transmission \$(000)	Maintenance and Operating \$(000)	Network Depreciation \$(000)	Cash Tax & Interest Tax Shield \$(000)	Net after Tax Return \$(000)	Regulatory Asset Base \$(000)	Real Rate of Return %
Mass Market	1,285	1,623	1,536	528	962	25,939	3.71%
Small Commercial	158	110	189	65	118	3,196	3.71%
Large Commercial	46	22	38	13	24	636	3.71%
Industrial	474	87	149	51	93	2,512	3.71%
<b>Total</b>	<b>1,965</b>	<b>1,842</b>	<b>1,912</b>	<b>657</b>	<b>1,197</b>	<b>32,283</b>	<b>3.71%</b>

**Table 25: Allocation of 2008/09 costs to customer groups  
(Summary of tables 5, 15, 18, 21, 24)**

The rates of return shown in table 25 are expressed as real rates of return because they do not include the notional return that may result from the annualised increase in the value of the system fixed assets as a result of successive asset valuations using the ODV methodology.

## 6 TARIFF METHODOLOGY

### 6.1 Fixed variable allocation

The transport of electricity is a capital intensive industry. A large portion of the costs of delivering electricity to consumers is fixed as they are linked to assets used to supply consumers, that is, costs do not vary with the amount of energy produced or consumed. A minor portion of input costs into the business are variable, for example Transmission and CAPEX associated with growth.

In setting the ratio of fixed to variable revenue there are a number of considerations that must be made. The ratio of fixed to variable revenue has been calculated to meet a number of requirements. These include;

- Meet legislative requirements (i.e. the low fixed charge)
- Reflect cost to supply and the nature of these costs
- Encourage demand side management of load

## PRICING METHODOLOGY DISCLOSURE



- Optimise efficient connection behaviour i.e. should be more economical to have one small commercial ICP than to create multiple mass market ICPs
- Reduce bypass risk
- Highlight where mutual benefits lie (i.e. deferred CAPEX)
- Meet consumer requirements
- Create retail competition
- Reduce commercial risk
- Maximise growth benefits

Centralines currently has 38% of its line revenue fixed and 62% variable. A breakdown of the fixed/variable percentages for each consumer group is given in the table below.

Customer Group	Fixed	Variable
Mass market	34%	66%
Small Commercial	42%	58%
Large Commercial	60%	40%
Industrial	55%	45%
<b>Total</b>	<b>38%</b>	<b>62%</b>

**Table 26: Fixed vs Variable ratio**

## 7 CLARIFICATION

Clarification of any matter referred to in this document should be directed to:

Commercial Group  
Unison Networks Limited  
PO Box 555  
1101 Omahu Rd  
HASTINGS  
Ph (06) 873 9300 Fax (06) 873 9311

**8 COMMUNICATION**

Once the Pricing Methodology Disclosure document is approved it shall be published on the Centralines Internet.

**9 IMPLEMENTATION, REVIEW AND REVISIONS**

The Pricing Methodology Disclosure document is effective from 1 April 2008.

The Pricing Methodology Disclosure document shall be subject to review annually or as required.

Revision, Consultation and Approval Processes shall be instigated by the Commercial Group.

**10 APPROVALS**

Prepared and Reviewed by:

**Commercial Group**



Authorised by:

**Regional Manager Centralines**

Signature:

Date: 28/08/2008



Approved by:

**Chief Executive**

Signature:

Date: 28/08/2008