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DS1002
Centralines' Pricing Methodology Disclosure 2024

Pursuant to: Electricity Distribution Information Disclosure Determination 2012

For prices applying from 1 April 2024

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DS1002 Centralines' Pricing Methodology Disclosure 2024

Document purpose

Pricing Methodology Disclosure for the 2024-25 pricing year, provided pursuant to the Electricity Distribution Information Disclosure Determination 2012.

Intended audience

This disclosure document is supplied to the Commerce Commission (Commission) and made publicly available at www.centralines.co.nz.

Document contributors

Contributors	Name and Position Title	Approval Date
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Board certification

Refer to *Appendix B – Certification for Year Beginning Disclosures.*

Key dates

Published Date 28/03/2024

Related references

Legislation

Centralines' pricing methodology and prices are guided by, and comply with, key legislation, regulations and guidelines governing the electricity industry, including:

- Commerce Act 1986
- Electricity Industry Act 2010
- Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004
- Electricity Distribution Information Disclosure Determination 2012 (consolidated 2023)
- Electricity Industry Participation Code 2010

Related references (cont)

- Electricity Authority: Distribution Pricing: Practice Note – August 2019
- Electricity Authority: Distribution Pricing: Practice Note, Second Edition v2.2, 2022
- Electricity Authority Pricing Scorecard reports

Policy

- CL-CM0002 Centralines' Pricing Policy and Schedules 2024 to 2025

Clarification

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Content

This document contains the following topics:

Definitions/Abbreviations

AMD	Anytime Maximum Demand – a measure of consumers' peak use of Centralines' network at any time in a given month. AMD is measured in kilowatts (kW). Centralines calculates AMD by multiplying by two the energy in kilowatt-hours (kWh) it delivers over the half hour period when the consumer's peak use of its network occurred in that month.
Authority	The Electricity Authority – the electricity regulator who ensures distributors apply and comply with key regulations governing the electricity industry.
Avoided transmission	The expenses incurred by Centralines as a direct result of payments to: • generators for generation, or • any other activity, which substitutes for the use by Centralines of the national grid transmission system.
Code	The Electricity Industry Participation Code 2010 – sets out the rules made by the Electricity Authority under section 36 of the Electricity Industry Act 2010.
Commission	The Commerce Commission – sets the regulation for cost recovery and price setting known as the Default Price-Quality Path.
Consumer	Any person who is a party to an agreement with a retailer for the supply of electricity by means of Centralines' distribution network.
Consumer group	A category of consumers for which Centralines develops its pricing. These categories reflect groups of consumers with a common: • site usage (e.g. place of residence versus place of business), and • capacity and metering.
Cost Allocation Model	The methodology used by Centralines to allocate costs to their consumer groups.
CPI	Consumer Price Index.
Customer	A direct customer of Centralines receiving line function services or a retailer whose customers use Centralines' (the distributor's) network.

Demand	The rate at which electricity is being used expressed in kilowatts (kW).
DG	Distributed generation – electricity generation that is connected and distributed within the Centralines' network.
DPP	Default Price-Quality Path – set by the Commerce Commission to control the level of revenue and prices that regulated distributors can set.
EDB	Electricity Distributor Business – a company that distributes electricity within New Zealand. Centralines is an EDB.
Generator	An organisation that owns or operates generating units that inject electricity into the network.
GXP	Grid Exit Point – a point of connection where Centralines' network connects to, and receives electricity from, the national transmission system run by Transpower.
ICP	Installation Control Point – a point of connection on the distributor's (Centralines) network, which: • Centralines nominates as the point at which a retailer is deemed to supply electricity to a consumer, and • the connection point has the attributes set out in the Electricity Industry Participation Code 2010.
kVA	Kilovolt Amp – a unit of measure for how much power is being provided through a business or home's electrical circuits or technology. It is the apparent power expressed in thousand volt-amps.
kW	Kilowatt – Kw (1000 x watts) – a unit of measure of power or electricity.
kWh	Kilowatt hour – The amount of electricity consumed in an hour.
LFC Regulations	Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004.
LRMC	Long Run Marginal Cost

Loss code	Distributors determine loss factors applying on their networks against which traders should submit consumption to the reconciliation manager. Each loss factor has a specified loss code that is stated on Centralines' public website under Loss Factors Methodology and Disclosure.
Network	The lines and associated equipment owned or operated by a distributor in a continuous geographic area or areas.
Non-TOU	Non-Time of Use – a consumer's site where electricity is metered over a period (e.g. month).
Power factor	The ratio of active power to apparent power (kW divided by kVA).
Price category	A category of charges identified as a price category in Centralines' Pricing Policy and Schedules (CL-CM0002). It defines the delivery charges applicable to a particular group of ICPs with a common capacity need or usage behaviour.
Price option	The price option within a price category that gives consumers a choice of how the energy they consume is collated and charged. The options available are usually determined by the configuration of metering and load control equipment used by the consumer.
Pricing period	1 April to 31 March year.
Retailer	The company that supplies electricity to consumers with installations connected to the distributor's network.
TOU	Time of Use – a consumer's site where half-hour metering is installed. These values are used for the calculation of charges.
Transmission	The movement of electricity from its place of generation through the grid injection points to grid exit points.
Transmission charge	Charge incurred by Centralines for transmission of electricity from the national grid operated by Transpower to Centralines' network. This enables Centralines to deliver power to its network users.
WACC	Weighted Average Cost of Capital – a measure of the return on shareholder capital that distributors can achieve under the Default Price-Quality Path regulations set by the Commerce Commission.

1. Introduction

1.1 Context

This document sets out Centralines' methodology for setting its price structure and prices for the 2024/25 pricing year. The disclosure document is prepared pursuant to requirement 2.4 of the Electricity Distribution Information Disclosure Determination 2012 (Disclosure Determination), consolidated in 2023.

Centralines' Pricing Methodology Disclosure provides information to assist interested parties to understand how Centralines' delivery prices are set. This includes the methods used to determine revenues, consumer groups, and allocation of costs of providing and maintaining the network.

In developing Centralines' prices, we have been mindful of the importance of transitioning in a timely way to more cost-reflective pricing approaches.

Residential pricing approaches have not been as effective in signaling network cost structures due to:

- legacy pricing approaches (especially under the constraint of the LFC Regulations), and
- limits on the measurement capabilities of residential consumers' meters (i.e. non-smart meters).

Centralines is actively engaged with its industry peers to develop new approaches and to seek residential pricing reform. With a transition process now in place to remove LFC Regulations, residential pricing can move towards a position that is more reflective of costs, whereby variable prices will be able to reduce to reflect marginal costs.

The transition is phased over a five-year period, and this will allow Centralines to plan with more certainty on the progress that can be made while minimising any rate shocks for consumers during the transition.

In developing this Pricing Methodology Disclosure, Centralines has considered the Electricity Authority's guidelines and industry scorecards. Where the Authority has identified specific areas of improvement and highlighted best practice, we have sought to incorporate this feedback into this Disclosure Statement.

1.2 Centralines

Centralines serves the Central Hawke's Bay region with the majority of consumers in the main towns of Waipukurau and Waipawa. An extensive rural region is served in the surrounding areas as shown in Figure 1.

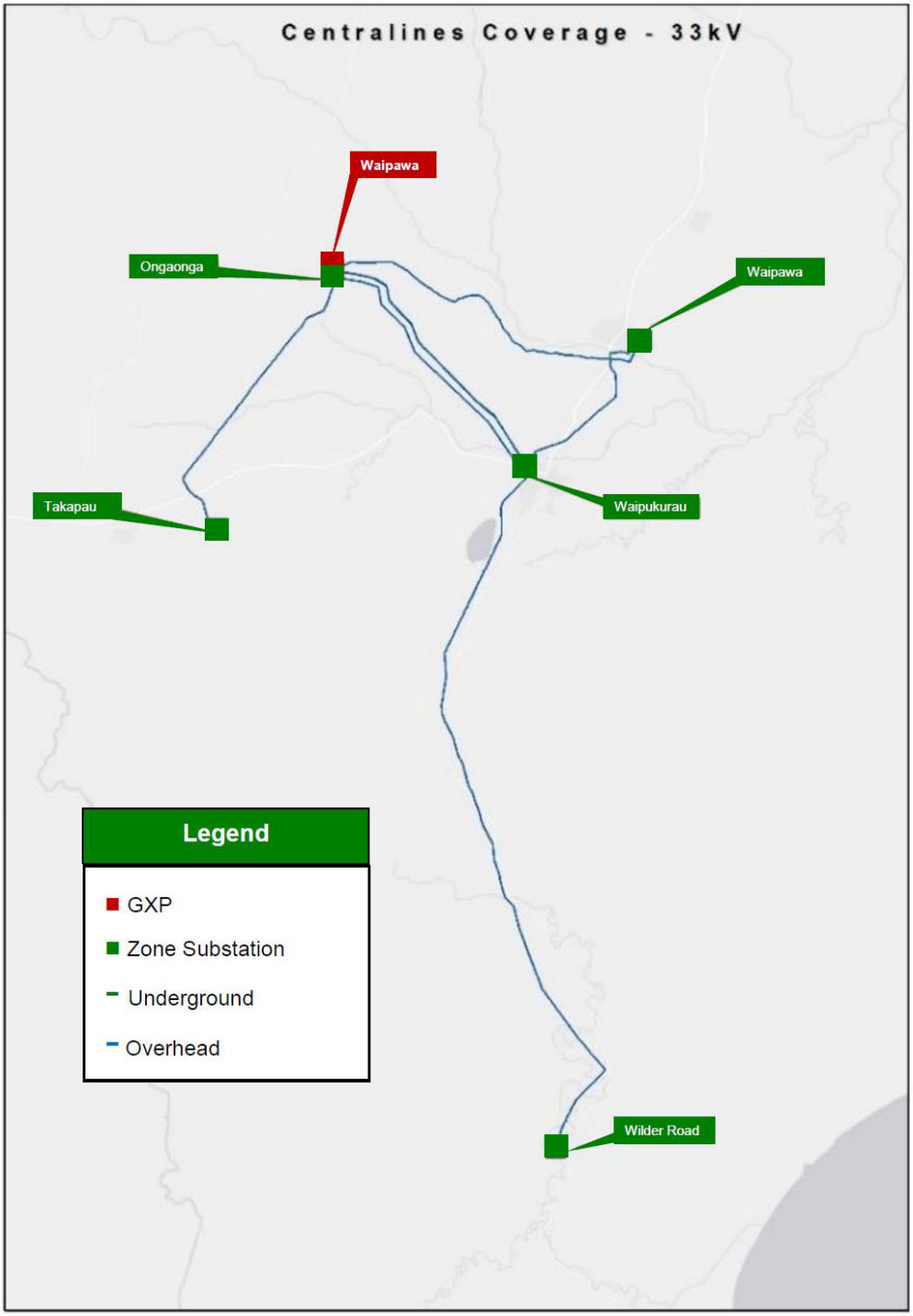

Figure 1 – Centralines' GXPs and Substations

1.2 Centralines (cont)

Centralines' network is relatively lightly loaded, with much of the load being relatively small and spread over a large geographic area. This is reflected in the low connection point density at 4.9 ICPs per km, the third least dense network in New Zealand. The major load types are:

- three large commercial consumers in excess of 435kVA connection size
- 200 Commercial connections
- 1,790 small commercial connections situated in the business districts of the small towns and throughout the rural area, and
- 6,800 residential consumers in urban and rural locations.

1.3 Future development

For a number of years the two main towns in the Centralines' region, Waipukurau and Waipawa, saw little or no growth in the number of residential connections. Over the last five years the increase has, on average, exceeded 2.5% annually. While this has not caused significant concerns around congestion or peak network demand yet, continued growth will need to be monitored to ensure localised issues do not present themselves. Both the Waipukurau zone substation and the Waipawa GXP supply transformers are approaching their N-1 limits.

Another area of growth that has occurred in recent years is related to irrigation connections. There are more than 70 connections where irrigation is the prime or sole type of use. The load relating to irrigation use is concentrated in rural areas and, while this can be quite substantial compared to the surrounding non-irrigation load that was previously located in these areas, it has been managed within the available network capacity. An advantage of this load from a total network viewpoint is that it is well diversified from residential load. This diversity of load is important and has allowed Centralines to manage the increase in overall load efficiently. There are areas now, however, where additional irrigation load will mean peak irrigation load will exceed N-1 limits on existing assets.

In a comparatively small network such as Centralines, large commercial connections can present both opportunities and risks. A major change in demand, either an increase or a decrease, can influence the immediate future network requirements. While increases in capacity from a single enterprise will be funded by them in the main, there may be upstream network enhancement that should be brought forward, which would be funded across existing network connections. Likewise, a reduction in commercial activity could have a result of spreading the required total revenue across the remaining connections.

Having price signals in place that can be strengthened or weakened as required is an important tool to provide for future uncertainty. Given the emerging constraints mentioned above, Centralines will be looking at which price signals will be best suited to manage future constraints and provide consumers with opportunities to make informed choices on additional and discretionary load placement.

1.4 Pricing review

Centralines reviews its pricing annually to meet company, industry, legislative and regulatory requirements.

1.5 Pricing Policy and Schedules

The methodology does not contain full details of eligibility for price categories, price options or capital contributions. These details can be found in Centralines' Pricing Policy and Schedules (CL-CM0002) available on Centralines' website (www.centralines.co.nz).

2. Regulatory Context

2.1 Introduction

During the 2021/22 pricing year, Centralines became an exempt EDB, which means that Centralines must now determine its own level of revenues. Centralines has elected to use a revenue model developed by PwC New Zealand to establish future revenue to be gathered through distribution line charges. PwC have a long history of involvement as a key advisor to the electricity distribution industry.

2.2 Information disclosure requirements

Centralines must comply with the Electricity Distribution Information Disclosure Determination 2012 (Disclosure Determination), which includes the requirement for the annual disclosure of its pricing methodology.

The key requirements in complying with the disclosure of pricing methodologies are outlined in clauses 2.4.1 – 2.4.5 of the Disclosure Determination.

The purpose of this regulation is to ensure that sufficient information is readily available to interested persons to assess whether the purpose of Part 4 of the Commerce Act is being met.

2.3 Distribution Pricing Principles

The Authority has a monitoring role in respect of distributors' price setting approaches. Centralines has developed its prices with reference to the Authority's 2019 Distribution Pricing Principles and the second edition of the Distribution Pricing Practice Note released in October 2022.

The Authority's recent reform of the Pricing Principles was to make changes that:

- promote cost reflectivity
- focus on the essential elements of efficient pricing, and
- continue to recognise that distributors should have regard to transaction costs, consumer impacts and uptake incentives.

2.3 Distribution Pricing Principles (cont)

While compliance with the Pricing Principles is voluntary, the Disclosure Determination requires each distributor to either:

- demonstrate consistency with the Pricing Principles, or
- provide reasons for any inconsistencies.

The Authority has also developed a scorecard approach to monitor and comment on distributors' pricing structures and pricing reform. The pricing scorecards evaluate distributors' pricing plans against the Authority's Pricing Principles.

The Authority's intention is for the scorecards to form a basis for regular, constructive engagement with distributors on their price reform aspirations, efforts and roadblocks. Centralines has considered the Authority's commentaries on distributors' previous pricing methodology disclosures. Centralines has sought to address the Authority's recommendations and observations on distributor best practices in redeveloping this disclosure.

Appendix A sets out how Centralines has adhered to the Pricing Principles.

2.4 LFC Regulations

Centralines is required to make available low user prices in line with the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004 (LFC Regulations).

The key requirements of this regulation are as follows:

- Centralines must offer a fixed daily charge to residential consumers of no more than $0.60 per day excluding GST, and

- a consumer on the low fixed charge daily rate should pay the same or less than a residential consumer on a comparable non-low fixed charge price plan at an annual consumption of 8,000kWh.

These requirements have a significant impact on Centralines' prices and price structure as outlined in *Section 3*.

The Government has passed an amendment which has the effect of phasing out the LFC Regulations over a five-year period. The 2024-25 pricing year allows distributors to set the fixed daily charge for low users at 60c per day.

At this stage it is the expectation that the fixed charges for price categories designated 'Low Fixed Charge' will increase at the rate set out in the transition amendment. As the revised daily charges are implemented, Centralines will assess the effect on residential consumers and will consider if any additional revisions to the overall residential pricing plans are needed. This includes standard price plans where fixed charges have not been constrained to artificially low levels.

2.5 Electricity Industry Act 2010

The Electricity Industry Act provides a framework for the regulation of the electricity industry, including:

- establishing the Authority, and
- incorporating provisions from the now revoked Electricity Industry Reform Act.

2.6 Distributed generation

Centralines' policies and procedures for installation and connection of distributed generation are in accordance with the requirements of Part 6 of the Electricity Industry Participation Code 2010.

3. Strategic Intent

3.1 Introduction

This section describes the:

- context in which Centralines has set its prices, and
- strategic considerations that will impact on future changes in the structures of Centralines' prices.

New technologies, changes in regulatory requirements and changing consumer opportunities and preferences will have a significant impact on Centralines' pricing over the next several years, especially at the residential level.

3.2 Network characteristics

Centralines has a single grid exit point (GXP) connection to the National Grid at Waipawa. This is connected south via Dannevirke from Woodville, and north to Fernhill.

Transpower has load scenarios in place that suggest an increase in load from the current 23MW peak demand to 34MW by 2038. There is recognition by Transpower that some upgrade work is required on the GXP including an outdoor to indoor conversion and the installation of an 'Overload Protection Scheme'. This upgrade work has current indicative costs of $500,000 and a possible implementation within the planning period prior to 2030. While this would be a pass-through cost that would increase prices, the impact is not significant.

Transpower recognised that low voltage and transformer capacity issues will affect the Waipawa GXP. Transpower acknowledge that an option exists to replace one or both supply transformers which would resolve both the capacity and low voltage issues but they have no investments planned to address this situation. Instead they are planned to be managed operationally by Centralines.

3.2 Network characteristics (cont)

Load growth will be closely monitored and pricing measures that incentivise movement of load away from network peak times.

The demand and peak demand pricing options reflect the consequences of use during peak periods and allow commercial consumers to make informed decisions on the timing of their activity.

The two major use categories in Centralines, outside of the large industrial connections, are residential and irrigation. These load types are somewhat complimentary, irrigation has a summer load profile while residential peaks on mornings and evenings during winter. Setting a very strong price signal in either load type is unlikely to solve future constraints. However, in order to manage loads into the future, Centralines have in place time of use residential pricing to signal when it is best to shift discretionary load or place new load. For irrigation consumers there are Day / Night rates available to emphasise the advantage of using load in low demand periods. The larger irrigators are also subject to demand-based pricing, which signals clearly the advantage of reducing load in peak demand periods.

Centralines have increased the level of fixed charges across price categories to incorporate transparent pass-through of Transmission charges and to reflect the mostly fixed nature of costs. Ongoing research is being conducted to quantify the level of fixed charges that should be reached taking into account the requirement to also deliver price signals that can assist in managing peak demand.

3.3 Changes to 2024/25 pricing

Centralines have made no changes to the structure of distribution pricing for the 2024/25 year aside from:

- An increase in the overall revenue to be received through distribution prices of 6.3% compared to forecast revenue for the 2023/24 period.
- The increase in the daily fixed charge for residential 'Low Fixed Charge' price plans, CH1 and CH1T from 45c per day to 60c per day.
- Specifying transmission rates incorporated into fixed daily charges in each price category.
- Increasing the fixed revenue balance compared to revenue received through variable (consumption / demand) rates.
- Reduction of off-peak rates in residential time of use categories.
- Maintaining the commercial on-peak rates while reducing the rates applying to anytime maximum demand.

The overall effect of these changes is to increase the proportion of revenue received through fixed charges, increase the differential between peak and off-peak rates thereby further incentivising off peak consumption.

3.3 Changes to 2024/25 pricing (cont)

Revenue 2024/25 ($000)	
Target Distribution Revenue	12,900
Pass-through Costs	2,306
Total Target Revenue	15,206
2024-25 Forecast Revenue	15,206
2022-23 Forecast Revenue	14,301
Change	**6.3%**

Table 1 – Revenue 2024/25

The price changes implemented for the 2024-25 year will see, on average, a 6.3% increase in revenue.

Note
The revenue forecast through pricing is the amount received after the posted consumer discount is applied. It is assumed that the full discount will be taken up by consumers, but acceptance of the discount is voluntary to consumers and may not be fully applied.

3.4 Strategic consider-ations

In the context of the capacity available on the network, Centralines' strategic intention is principally to ensure:

- that prices are set to provide signals showing consumers where discretionary and additional load is best placed without imposing structures that would cause consumers to inefficiently reduce their use of the network, and

- equity between consumers within and across price categories.

While Centralines does not need to set strong price signals currently to encourage consumers to reduce their demand during peak periods, there are signs that this could be desirable in the near to medium term. Centralines use the existing residential hot-water load control, residential peak and off-peak rates and commercial peak demand price signals to recognise periods of high demand.

3.4 Strategic consider-ations (cont)

Accordingly, Centralines intention is to investigate options for providing appropriate signals for consumers to shift discretionary loads to off-peak times where there is limited or no cost to consumers from doing so. This may involve realigning peak time periods, including an additional TOU pricing period or developing technology-specific price plans such as an EV residential plan.

Apart from providing appropriate price signals the key role of Centralines' prices is to recover the fixed costs of providing the network service in a manner that is equitable across users.

Over the longer term, increasing penetration of EVs may place pressure on parts of the network, especially if consumers choose to charge their vehicles at peak times.

Centralines expects that uptake of EVs in its region will follow the rest of New Zealand, so intends to monitor pricing approaches used by other EDBs to determine an optimal pricing approach to encourage off-peak charging. Centralines have residential TOU plans available and have set the peak/off-peak pricing to provide an incentive for consumers to consider time-shifting discretionary loads to off peak periods.

Centralines has lifted residential fixed charges in alignment with the LFC Regulations transition allowances, with commensurate reductions in variable charges to achieve better cost-reflectivity in residential plans.

This rebalancing of residential pricing is expected to continue beyond the eventual removal of the LFC Regulations in a progressive manner to ensure consumer impacts can be well-managed.

Centralines has not yet determined the optimal balance between fixed and variable prices for recovering revenue requirements and delivering appropriate price signals. Calculations involving the determination of the Long Run Marginal Cost (LRMC) applicable to the Centralines network will be undertaken before prices are completed next year. This will allow Centralines to have a measurement that can be used for guidance in future price periods.

The Commercial pricing options are relatively cost reflective in their current form so little change of note would be expected in this area. The LRMC calculation will assist though in determining the fixed price component as a proportion of total commercial revenue.

The two areas of potential significance in the commercial sector are firstly in irrigation, and secondly large industrial connections. There has been growth in numbers of irrigation-focused connections in the last 10 years and while this growth has tapered off there remains potential for continued increases.

There are two industrial connections of significance in terms of their demand compared to the total Centralines demand. Recent expansion of one of these connections has caused a re-assessment of future capacity availability. In a network such as Centralines, changes of this nature can have significant financial consequences for the future affordability of the network.

4. Centralines' Pricing Methodology

4.1 Purpose

In this section we explain the specific basis for setting Centralines' prices.

4.2 Guiding industry principles

As well as meeting the above considerations described in *Section 3*, Centralines endeavours to ensure its pricing methodology is consistent with the Authority's Pricing Principles and guidance provided by the Authority's Distribution Pricing: Practice Note 2019 for all electricity distributors. These principles are as follows:

a) *Prices are to signal the economic costs of service provision, including by:*

   (i) *being subsidy free (equal to or greater than avoidable costs, and less than or equal to standalone costs);*

   (ii) *reflecting the impacts of network use on economic costs;*

   (iii) *reflecting differences in network service provided to (or by) consumers.*

   (iv) *encouraging efficient network alternatives.*

b) *Where prices that signal economic costs would under-recover target revenues, the shortfall should be made up by prices that least distort network use.*

c) *Prices should be responsive to the requirements and circumstances of end users by allowing negotiation to:*

   (i) *reflect the economic value of services; and*

   (ii) *enable price/quality trade-offs.*

d) *Development of prices should be transparent and have regard to transaction costs, consumer impacts, and uptake incentives*

Full details of how Centralines applies these principles to its pricing methodology can be found in *Appendix A*.

4.3 Core methodology

To achieve the objectives and principles listed above, Centralines uses the following core process to drive its pricing methodology and annual review of prices.

1. Establish a target distribution revenue using the revenue model developed by PwC.

2. Determine the value of pass-through costs to be recovered through prices.

3. Establish allocators for each component of Centralines' costs/revenue requirement to allocate to consumer groups where costs cannot be directly attributed.

4. Set or adjust prices to ensure forecast revenues from each consumer group equate to the allocated costs.

The Authority has provided in the practice notes an idealised 'cost-reflective price-setting methodology' whereby marginal prices are set first to reflect marginal costs. Once these prices and likely revenues from those prices have been established, the balance of the revenue requirement should be recovered in as non-distortionary manner as possible.

While Centralines is mostly unconstrained at present, there have been recent developments that will move certain areas of the network much closer to a constrained situation. Centralines are now undertaking analysis of future system growth to calculate a value for the Long Run Marginal Cost (LRMC) that will assist in quantifying what level of price signal is appropriate.

For the 2024-25 pricing year Centralines' approach is to:

- Allocate transmission costs across price categories using a methodology as close to Transpowers as possible.

- Allocate other direct costs across price categories.

- Allocate target distribution revenue across price categories.

- Determine cost-reflective pricing elements within each customer group as far as possible, and finally

- Make adjustments to ensure the overall revenue requirement is met.

Note
In addition, information is not available to accurately deploy the method suggested by the Authority, because price-elasticity information is not available to determine efficient mark-ups.

4.3 Core methodology (cont)

A considerable portion of network costs are essentially fixed. The assets that are currently available for use are long-life assets that are used by many individual connections of varying size and with a diversified pattern of use. The value of the existing asset base is distributed using a Cost Allocation Model.

This Model allocates each asset on the network based on a nominal demand value. This is a stable measure that is not a reflection of use but of anticipated use profiles. The network is built to manage expected future loads and therefore the allocation through the Cost Allocation Model reflects this.

Residential and non-residential connections of a similar connected size are allocated a similar level of demand with consumer group separation occurring later.

A truly cost reflective price option would be a fixed charge for all these connections at the same rate to recover fixed costs. The current limitations of the LFC Regulations, even with reform in progress, prevent this from occurring. There are increases in fixed charges this year at the level allowed under the transition agreement for designated Low Fixed Charge plans. Fixed charges have also been increased in most price plans with associated reductions in variable rates to deliver as close as possible forecast revenue to idealised allocations.

The change in Transmission Pricing Methodology that was implemented from 1 April 2023 involves a reallocation of costs from winter-based demand charges to overall consumption across the year. Using historical consumption records, these charges have been represented as fixed daily charges against each price category. Centralines is allocated the value of Transmission charges in December each year and charged equally across the following financial year. These charges are fixed therefore it is most reflective for them to be passed through as fixed rates as well.

With more research in process regarding a value for a network LRMC, and the understanding that there are areas of concern around network upgrades that may need to be brought forward, certain price signals have been left in place to allow for flexibility in the near future.

With these criteria in mind, prices and options available to consumers are adjusted so that they:

- achieve the desired cost allocations/revenue requirement
- establish relativities that can assist in reflecting future costs, and
- will generate income as close as reasonably possible to Centralines' allowable revenues.

Note
Sections 6 and *7* cover the key price categories and how prices for each category are determined.

4.4 Consumer considera-tions

When applying the above process to the annual setting of prices Centralines takes account of several consumer considerations. These considerations are listed below.

- Prices are as transparent as possible to aid consumer understanding of how their prices are determined.

- Prices logically relate to each other:

  - progressions between load groups follow a consistent pattern

  - within a price category, prices consistently reflect the costs and benefits of the consumption at different times (e.g. lower rates for controlled load)

  - options are priced to reflect future benefits, i.e. night rates are at a level that would encourage additional load to be concentrated at these times, and

  - peak and off-peak prices reflect that while there is no network-wide congestion on Centralines' network, there is recognition that it is advantageous to move load into non-peak times.

- Avoiding price shocks to individual consumers or groups of consumers. Stability and consistency of prices is one of Centralines' objectives. In line with the industry norm, Centralines aims to limit price increases to a maximum of 10% per annum for individual consumers.

Note
Centralines has historically not differentiated pricing between rural and urban consumers. Centralines does not intend to, unless there is a clear understanding that Centralines' consumers would be broadly agreeable.

5. Cost/Revenue Recovery

5.1 Overview

This section sets out the amount of revenue that Centralines are expected to recover through prices (total forecast revenue) in the 2024/25 financial year and breaks this down by key cost components.

Centralines is not subject to a revenue cap but applies a methodology modelled by PwC to establish overall revenue and prices. The target distribution revenue is established using a building block of required revenue and including costs that are passed through into pricing.

Centralines' total forecast revenue for the 2024/25 year is shown in Table 2, net of posted discounts.

Components of Revenue	$000
Target Distribution Revenue	12,900
Transmission	2,153
FENZ Levy	14
Local Body Rates	72
Commerce Commission Levy	38
Electricity Authority Levy	23
Utilities Disputes Levy	5
Annual Consumer Discount	**1,535**
Total Target Revenue	**16,740**

Table 2 – Components of Target Revenue

5.2 Target distribution revenue

5.2.1 Model for Future Revenue

PwC was commissioned to develop a model on which future revenue could be evaluated. The purpose of the model was to:

- forecast Centralines' future revenues and cash flows
- conduct a valuation of Centralines' network fixed assets for impairment testing and financial reporting purposes
- assist with long-term (10 years) forecasting of financial statements
- help consider the financial implications of important issues and decisions

5.2 Target distribution revenue (cont)

- develop forecasts of revenue between customer groups, and
- update forecasts on an annual basis, by rolling forward the model dates and inputs.

5.2.2 Assumptions Used in PwC Model

The model bases the 10-year projection on certain parameters. The following are the key discretionary assumptions that were used:

- target revenue increase of 6.7% in FY25, 4% revenue increases from FY26 until FY31, and then 2% thereafter
- system growth, connection numbers and consumption, of 2% every year
- transmission costs increasing at 2% per annum
- WACC 4.57% in FY24 and FY25, 7.07% for the DPP4 period of FY26 to FY30, then 7.04% for the remaining period, and
- annual inflation at 4.52% in FY24, 2.28% in FY25, then 2% for the remaining period.

These revenue targets do not include any step changes in consumer growth or consumption/demand. The industry expectations are that there will be increases in consumption as a result of decarbonisation and load growth from electrification. Some of these changes in behaviour will drive an increase in investment and therefore an increase in required distribution revenue. As prices increasingly base revenue generation through fixed prices increases in consumption will not deliver a linear increase in revenue, a 20% increase in energy use will not deliver a 20% increase in revenue. This will be evident in residential rates as the Low Fixed Charge regulations are removed and more consumers will move to more appropriate daily fixed charges. To achieve the necessary revenue near the end of this 10-year projection, prices will need to rise more in step with the proposed revenue increases. Consumers are expected to be paying a larger portion of their total energy spend on electricity than they are currently. While this will be more efficient and the overall energy spend may reduce, consumers will still continue to have higher power bills year on year.

5.3 Pass-through costs

In addition to the core costs of operating the network, Centralines also makes allowance for pass-through costs.

These are costs paid to third parties who provide essential services in the electricity value chain. Centralines has little or no control of these costs so they are itemised and passed through into the total annual target revenue. These pass-through costs include:

- **Transmission**
  The primary pass-through cost is for the operation of the national grid that moves electricity around the country, and to and from Centralines' network.
  Centralines have specified rates of fixed charges for each price category based on the allocation of transmission charges that, when multiplied by the forecast volumes, will equate to the annual transmission charges.

- **Fire and Emergency Levies**
  These are levies charged as part of Centralines insurance cover for the network.

- **Local Body Rates**
  Centralines operates within a number of local body jurisdictions and where rates are charged on the site of network equipment required to deliver distribution services, these are recovered through prices.

- **Commerce Commission Levy/Electricity Authority Levy/Utilities Disputes Levy**
  These government agencies charge levies to each industry bodies, including distributors, to cover costs of operating.

Table 2, in *point 5.1* above, itemises the value of each of these pass-through costs.

6. Consumer Groups and Cost Allocation

6.1 Rationale for consumer grouping

Centralines groups consumers firstly by the size of their connection to the network. As connection size increases the demands placed on the network and the level of build required to support the connection increases.

Residential connections generally have different load profiles from other small connections where a residence is not the dominant form of use. Residences have similarities with each other that allow more specific price options to be applied, such as recognition of controlled hot water load, in order to deliver a more tailored solution for these consumers. Accordingly, they are separated into their own group.

Centralines' consumer groupings are illustrated in the following diagram:

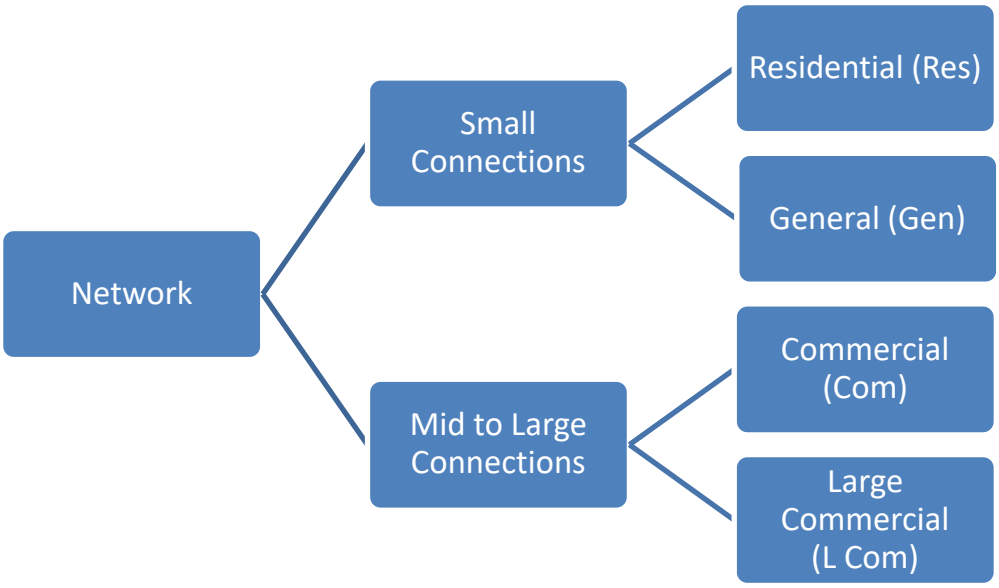

Figure 2 – Consumer Groupings

6.2 Method and criteria of allocating consumers

Consumers are assigned to a load group based on:

- fuse size at the installation control point (ICP)
- type of use, and
- meter type, e.g. half-hour metering is mandatory for consumers within the TOU load group.

6.2 Method and criteria of allocating consumers (cont)

Although Centralines has price categories for a number of different consumer groups as identified in *point 6.1*, cost allocations are made to two broad consumer groups: residential and commercial.

Because of the small scale of the network, Centralines has found that to allocate at any higher degree of disaggregation would cause discontinuities in price structures, so it is only practical to allocate to the two groups.

Cost allocators are chosen to reflect as reasonably as possible the key underlying drivers for each cost component so that the allocation can be reflective.

Table 3 shows the cost components and the allocators used along with the reason chosen for the allocator.

Cost Component	Allocator	Reason for Allocator
Operating Expenditure	Installed Asset Value	All connections are subject to these costs. The more assets that are required to deliver the required energy, the greater the allocation of costs.
Depreciation		
Return on Investment		
Fire and Emergency Levies		
Commerce Commission Levies	Installed Asset Value	These levies are assessed on network asset value.
Transpower Connection	Measured/ Assessed Capacity	Connection charges are based on the assets required to supply energy through the GXP. An increased capacity requirement at the GXP would involve an increase in Transpower charges.
Transpower Benefit-based	Annual usage (kWh)	Both charges are most closely allocated by total annual energy usage. As Benefit-based charges increase over time the Residual charge will decrease therefore providing stability between the two charges.
Transpower Residual Charges		
Local Body Rates	Number of Connections	All connections are subject to these costs, which are location based.
Electricity Authority Levy	kWh Consumption	The dominant method of basis for the levy.
Utilities Disputes Levy	Number of Connections	Levies are based on the number of connections.

Table 3 – Cost Components

6.3 Cost allocation

The value of each allocator for each consumer group is shown in Table 4.

Allocator	Residential	Commercial
Connections	6,760	2,150
Consumption (000 kWh)	46,160	67,850
Asset Value ($000)	75,500	57,600
Capacity (kVA)	29,080	38,200

Table 4 – Relative Value of Allocators for Consumer Groups

6.4 Basis for selection of allocators

Centralines approach to the allocation of costs has been to ensure allocators are:

- reasonable
- fair, and
- simple to measure and apply.

Where a cost is directly driven by a variable, costs are allocated in proportion to that variable. For example, Electricity Authority levies are primarily driven by the kWh of consumption therefore the annual consumption by price category is used to allocate this pass-through cost.

Asset driven allocators make up the biggest share of total costs allocated to each region and consumer group. Centralines uses a combination of assets utilised by ICPs and an assessed capacity to proportionately allocate a representative share of assets.

Centralines:

- traces all assets utilised in the connection of the network to each ICP
- allocates the replacement value of these assets using the assessed capacity requirement, and then
- aggregates firstly to each connection, and then to a consumer group level.

Note
This approach takes account of the distance of consumers from the GXP and therefore the length, number and value of assets needed to connect them to the network.

6.4 Basis for selection of allocators (cont)

The network is built to service the types of connection prevalent in that part of the network. In a residential area the assets employed to build the network to meet criteria, allowing for diversity, is not dependent on the consumption of individual connections.

Likewise, as commercial connections require larger capacity, they are allocated a larger portion of the existing assets than smaller-sized connections. While the demand and consumption at a particular site will vary from year-to-year, the assets employed do not, therefore, an assessed level of capacity produces a more stable asset allocation.

While pricing, particularly of smaller connections, is generally based on consumption this is not a good proxy for allocating assets. Distribution assets are installed to meet demand requirements, not volumes consumed.

6.5 Forecast revenue allocation

Total annual target revenue is allocated to consumer groups to provide a target revenue for each consumer group. Forecast volumes for each price are then used to set rates to achieve as close to target revenue as is practical.

A comparison of target revenues and forecast revenues (before discount) is set out in Table 5. These revenue figures are stated before the forecast annual consumer discount is accounted for.

Consumer Group	Target Revenues ($000)	Forecast Revenues ($000)
Residential	9,172	9,569
Commercial	7,571	7,088
Total	16,743	16,657

Table 5 – Comparison of Target Revenues and Forecast Revenues

This table indicates that both Residential and Commercial revenues are forecast to be close to the target revenue established. Residential volumes, and therefore revenues, are more predictable than Commercial volumes, especially those that deal with highly volatile loads such as irrigation. The last two seasons have seen wetter summers than is typical therefore volumes attributable to irrigation have been even more difficult to forecast.

Centralines seeks to manage price volatility, so forecast and target revenues do not match perfectly in any given year but are within reasonable levels of tolerance.

7. Price Categories

7.1 Converting cost allocations to prices

Once costs have been attributed and/or allocated to Centralines' consumer groups, Centralines forecasts whether existing prices and activity levels will generate the revenue needed for Centralines to fully collect those allocated costs.

If there is a difference, Centralines adjusts its prices to better align forecast revenue to allocated costs. This alignment of revenue and prices is not an exact match. Centralines must estimate variables like:

- environmental factors
- changes in consumer usage, and
- responses to price incentives to reduce demand on the network.

Note
Centralines reconciles the final prices to ensure that the amount of revenue Centralines forecasts to collect does not exceed target revenue.

7.2 Price categories and price options

Centralines sets prices at a category level for groups with common needs or usage. Centralines then offers consumers within each category price options so that they have some choice and control over the end cost of their electricity.

Price categories reflect groups of consumers with a:

- common site usage (e.g. place of residence versus place of business), and
- common capacity and metering. Centralines' price categories are detailed below.

Price options represent the choices consumers have on how they will be charged for the use of Centralines' network. These prices are structured in such a way as to:

- maintain equality between consumers who create similar costs for the network
- signal to consumers the benefits and costs of different patterns of consumption
- maintain relativities between options to incentivise desirable behaviour, e.g. consuming outside of peak hours, and
- minimise opportunities for arbitrage i.e. seek to gain a cost advantage by using a price option for a purpose for which it was not intended.

Note
Details of price options available to Centralines' consumers are detailed in *Section 8*.

7.3 Fixed and variable components to prices

Centralines recovers costs for most price options through a mix of a:

- fixed daily charge to the consumer, and
- variable charge that is based on their consumption over a given billing period.

The fixed component is designed to give some certainty of cost to consumers and cost recovery to Centralines. It also reduces the revenue risk to Centralines and its shareholders should there be:

- material and unforeseen changes to consumption quantities, or
- major movements of ICPs between price categories and price options.

Fixed charges also better reflect the fixed nature of the underlying costs Centralines incurs in operating a network to distribute electricity. The allocation of transmission charges is now specified as a fixed daily charge for each price category within the overall daily charge. This is the Authority's preferred method and ensures that individual connections cannot influence the amount they will pay for transmission charges that are set before the start of the pricing year.

Centralines offers consumers multiple price options and combinations for the variable component of prices. This includes options for both uncontrolled and controlled load services. In addition, for residential connections, TOU categories offer price signals with higher variable prices at times of typically higher use and lower prices for periods of reduced use.

This range of options allows individual consumers to potentially manage their total electricity costs through their patterns of consumption. It remains the case that residential and small commercial connections are subject to the plans that retailers offer in order to get the most benefit from distribution price signals. With Centralines reducing the off-peak rates in TOU plans, and also offering a stronger reduction for controlled load, there is likely to be an increased incentive for retailers to offer plans that match or close to match distribution signals.

Large Commercial customers see a more transparent pass-through of distribution charges and are more able to make informed business decisions about behaviour change that could alter their overall distribution charges.

7.4 Residential price categories

7.4.1 Overview

Centralines seeks to clearly categorise ICPs as either residential or non-residential. ICPs that are places of residence versus business show similarities in:

- their patterns of consumption, and
- the demand they place on the network.

Demand responsiveness mechanisms, such as control of hot water heating, are applied for ICPs in this category, as are prices compliant with the LFC Regulations.

Centralines offers both accumulative and TOU pricing to customers in the Residential category. Accumulative is where a meter records consumption accumulated over the whole billing period, typically a month. TOU is where consumption is measured and charged depending on when the energy was used. Time periods relating to typically high network demand will be charged at a higher rate than those that relate to low network demand.

Overall annual charges that would apply to a connection on an accumulative plan should match a connection using the same amount of overall consumption on a TOU plan.

7.4.2 Accumulative Pricing

The following price categories apply to places of residence that are charged on accumulative price options (i.e. non-TOU):

- Permanent Residence (CH1 and CH2R)

Under the LFC Regulations, Centralines is required to offer a price option with a maximum fixed daily charge of 60c, this is catered for with the CH1 price category. The low fixed charge categories, when compared to other comparable permanent residential plans (i.e. CH1 compared to CH2R) should have total charges that are the same or less based on 8,000kWh annual consumption.

7.4.3 TOU Pricing

The following price categories apply prices based on the time of the day when consumption occurs:

- Permanent Residence TOU (CH1T and CH2T)

The two TOU price categories mirror the accumulative categories with the equivalent fixed charges applied. While, on average, a consumer using 8,000kWh per annum would pay the same amount on an accumulative or a TOU price plan the TOU plan offers the clear incentive for moving some use from Peak time periods to off-peak time periods.

As the increasing penetration of EVs occurs, the use of the off-peak time periods for additional and discretionary load will increase in importance. Centralines are looking at the next step in providing meaningful incentives in this area. While there are relatively few electric vehicles currently it is important to get incentives in place before they are essential for network security and demand control.

7.5 General categories

7.5.1 Non-Residential <30kVA

This category includes connections with a wide range of use types. There are very diverse consumption patterns, some with very occasional use.

This category is priced on fixed daily rates and accumulative consumption. Centralines will look to introduce a General Time of Use price category once the roll-out of improved metering is complete. This could be as early as the 2025-26 pricing year. Once implemented, this will allow consumers to elect whether to use peak and off-peak pricing for these connections or remain on monthly accumulative pricing.

With the very diverse consumption patterns of this group of connections, there may be some that can take significant advantage using this option. This will allow customers to choose to pay less overall for electricity consumption by shifting their demand to periods of lower network demand.

7.5.2 Temporary (Builders Supply)

The General category also includes a category for Temporary (Builders Supply) connections. This caters for connections that are temporary in nature due to the initial build or renovation. Once the build is complete the connection will be priced according to the final connection requirement and the type of use.

7.5.3 Unmetered Supply

Where a connection does not have individual metering and they fit a tight guideline they can be charged under the Unmetered category. These connections have small but relatively predictable consumption where a reasonable estimation of total consumption can be made without needing to individually meter each connection. Typically lighting and communications cabinets are included.

Where streetlighting is connected and is managed via a database, generally through a local authority, the connections will be priced under the U03 category where the majority of revenue is collected via a fixture per day price. This is more reflective of the costs placed on the network as they do not directly corelate with the level of consumption.

7.6 Commercial price categories

Centralines prices commercial connections according to the size of the fused connection. As the size increases, the applicable category will be subject to a higher fixed daily charge.

The CH3 and CH4 Commercial categories (up to 138kVA capacity) have both accumulative and demand-based pricing options available, and the choice is defined on the metering available on-site.

Demand pricing is considerably more cost reflective as the units of measure relate more accurately to the costs placed on the network, compared to accumulative where consumption is the unit of measure. The larger Commercial connections are required to have full TOU metering and are therefore a cost reflective demand pricing option.

Centralines has two demand-based rates, an Anytime Monthly charge and a seasonal On-Peak Demand charge. Although the Anytime charge signals the cost of network capacity provided, it is less reflective of the costs imposed on the network by demand during periods of congestion and has therefore been reduced this year. The On-Peak charge is targeted more at the times when network demand would typically peak and is useful in signaling to large consumers that, if possible, it is desirable to reduce peak demand in those time periods.

Centralines have three large Commercial connections over 436 kVA capacity. They are priced on an individual basis relating to their specific characteristics.

7.7 Forecast revenue by price category

The following table shows the forecast revenue for 2024-25 by price category.

Centralines	Forecast Revenue ($,000)	% of Total Revenue
Low Fixed Charge – CH1	3,359	20.2%
Std Fixed Charge – CH2R	5,947	35.7%
Time of Use LFC – CH1T	142	0.9%
Time of Use Std – CH2T	120	0.7%
Residential	**9,569**	**57.4%**
Non-Residential – CH2	3,028	18.2%
Temporary – T1P	4	0.0%
Unmetered – U01, U02 and U03	156	0.9%
General	**3,188**	**19.1%**
Commercial to 69 kVA – CH3	953	6.1%
Commercial to 138 kVA – CH4	1,014	6.1%
Commercial to 276 kVA – CH5	459	2.8%
Commercial to 435 kVA – CH6	102	0.6%
Commercial	**2,529**	**15.2%**
Large Commercial	**1,371**	**8.2%**
Region	**16,657**	

Table 6 – Forecast Revenue by Price Category and Consumer Group

8. Price Options

8.1 Price Options

Within each price category, there are different price options. These options seek to signal the value of consuming outside of network peaks, while aiming to cover Centralines allowed revenues under the price path. Depending on whether consumers have TOU or non-TOU metering and their price category, the following price options are available:

Non-TOU metered consumers:

- 24UC – no ability to control load (e.g. water heating)
- AICO – controllable load, but no separate data stream (cannot identify exactly how much load is reduced)
- CTRL – separately controlled and recorded load
- NITE – controlled to be available from 11pm to 7am
- CTUD – controlled to be available from 7am to 11pm, and
- DEFT – for ICPs required to have TOU meters but have accumulative.

TOU consumers:

- ONPK – consumption occurring during the periods 7am to 11am and 5pm to 9pm each day
- OFPK – consumption occurring outside of peak periods
- SOPD – highest peak load occurring within on peak periods on a working day, during a summer month
- WOPD – highest peak load occurring within on peak periods on a working day, during a winter month
- DMND – maximum load during the month, and
- KVAR – a charge for consumption having less than .95 power factor.

Note
Refer to **CL-CM0002 Centralines' Pricing Policy and Schedules** for full details of the applicability of each price option.

8.2 Relativities between Residential price options

In order to deliver a fair pricing relativity between consumers with different meter types and various equipment at their residence the rates are set based on average historical usage.

This means that, on average, a residential connection that does not have hot water control, and their consumption is measured as wholly uncontrolled (24UC) usage, will pay the same amount as a connection that has a meter that separately measures day use and night use. If a consumer on a Day/Night plan moves more than the average energy use to the night period they will incur less distribution charges.

Having hot water control available offers savings for those consumers as the network can reduce their level of service which may result in some disadvantage to the consumer. Load control is a definite advantage for the network allowing for reduction of demand at peak network demand periods.

The reduction in overall distribution charges has been set in this pricing year at 18%, this means an average consumer using 7,000kWh annually would save in excess of $260.

Centralines are strongly in favour of households having a metering configuration that can deliver separately measured controlled and uncontrolled usage. This provides more transparent cost reflectivity and shows consumers more clearly the benefits of allowing hot water control. Some meter configurations allow control of hot water but do not separately measure the two components. These inclusive meters are not ideal as the benefit of lower rates for hot water control are not as clear, but with the number of these that are in the community we retain the inclusive pricing option so that historical configurations that are outside of the consumers control do not disadvantage them.

Centralines provides time of use plans in addition to accumulative plans and these are also priced using average consumption data to deliver an equivalent annual distribution charge as the accumulative plans.

8.3 General

The General price category, CH2, encompasses a large range of connections with a small connection size, less than 30kVA. Being of a small connection size they typically have standard accumulative metering and are charged on kWh of consumption with a daily fixed charge.

A controlled price option is available although the level of discount available is reduced as these connections have a reduced level of controlled load available to them. There is no inclusive price option available with the reduced value of controlled load in these types of connections. Day/Night options remain available to encourage consumption outside of the daytime period when network peaks are likely to occur.

8.4 Temporary

Temporary connections are used when premises are under construction before the final connection is confirmed. Because of the administrative work involved, and the relatively short time of connection, a 10% margin is charged on the standard residential (CH2R) rates.

8.5 Commercial fixed rates

The fixed daily rates are set within connection size bands. Moving up to the next band will see an increase in the daily rate. In general terms an increase in capacity will see an increase in the value of assets required to service that connection.

8.6 Commercial variable options

Accumulative options are established on the same principles as the equivalent Residential and General options. As with the General category there is no Inclusive price option available, this type of meter configuration was typically only applied to residential connections.

As the penetration of meters that record half hour consumption increases Centralines will introduce TOU pricing options for commercial connections. Our understanding is that this may still be 2 to 5 years away.

Demand-based options are available for all commercial categories. This type of pricing is mandatory for connections in the CH5 category and above.

At a commercial size the levels of network impact are such that the additional information attained from a meter, and the additionally reflective pricing, will allow the consumer to recognise the financial costs and benefits that behaviour incurs.

The demand option (AMD) is an expression of the maximum impact on the network at any time in the month whereas the On-Peak demand (OPD) options relate to the demand requirement during periods of typical network peak demand. The level of AMD has been reduced this year with the expectation that this will continue to reduce. Although AMD signals the cost of network capacity provided it is not seen as being reflective of the impact the connection places on the network during periods of peak network congestion whereas OPD relates more specifically to periods when the network is likely to be close to peak.

9. Specific Methodologies

9.1 Non-standard pricing use

Centralines does not currently have any ICPs subject to non-standard contracts.

9.2 Embedded generators

Centralines currently has one embedded generator on its network.

Embedded generators are sites/customers on the network who generate power and either deliver energy into Centralines' network, generate for their own use or both.

For those who generate for their own consumption, consumers are financially rewarded for this in the following ways:

- variable network charges based on kWh consumption reduce
- large-scale generators will have a reduced allocation of transmission charges in relation to their lower annual average usage of grid provided energy, and
- the proportion of network asset values allocated to the consumer is reduced if the AMD that they place on the network is reduced.

Note
Centralines also recognises the reduced costs associated with serving larger users who build close to the GXP, hence minimising the network investment required to service them. This is achieved via the pricing derivation which calculates the value of assets assigned to the ICP.

10. Customer Feedback

10.1 Survey of consumer price awareness

Centralines, in conjunction with Unison Networks, instigated pricing-focused research during January 2020. Consumers were contacted through an online survey or by telephone. The key focus for this research was seeking input into various pricing methods for distribution charges.

Centralines are aware there are a number of pricing options available that can be used for delivering distribution revenue with more or less cost reflective consequences.

The pricing methods described to consumers were Peak/Off Peak, Monthly Demand and Capacity pricing along with a fixed monthly price option. While these options can be technically difficult for non-industry people to understand, Centralines intentionally used a non-industry research organisation to improve the 'plain English' aspect of the communication.

When presented with these options, a flat fixed monthly fee was preferred marginally over peak/off-peak pricing, 30% to 24%. The feedback around the other options presented was that simplicity was a key factor with the lack of current understanding of demand and capacity proving a major negative.

Fairness in the allocation of charges was a prominent topic. This translated to 'user pays' being important, with any charge based on how much energy used seen as fairer than a flat rate for connection. While this was slightly at odds with the 30% preference for a flat monthly fee, it essentially illustrated that those consumers not in favour of a flat fee, were strongly in favour of an energy use model.

Overall, most consumers when asked what changes they would desire were more concerned with a reduced level of price than any change in how calculations were made or allocated.

This research has encouraged Centralines to maintain the current broad pricing model, particularly in the residential space.

As changes are made, especially with the transition away from the LFC Regulations, Centralines will be looking to maintain simplicity and transparency with communication in 'plain English' over a variety of different channels.

Appendix A – Pricing Principles

Principles guiding pricing approach

As noted earlier in this document, Centralines has prepared this disclosure considering the Authority's Distribution Pricing: Practice Note – August 2019 (Practice Note) and the second edition of the Distribution Pricing Practice Note released in October 2022.

The Practice Note sets out a number of principles that distributors are expected to formally demonstrate they adhere to. Centralines considers that many of the principles are 'common sense' and have under-pinned the development of its prices over time.

Electricity Authority pricing principles comparison

In this section, Centralines sets out how it considers it meets the Authority's pricing principles. Each principle is stated, followed by Centralines' commentary.

Signal economic costs

a) Prices are to signal the economic costs of service provision, including by:

i. being subsidy free (equal to or greater than avoidable costs, and less than or equal to standalone costs);

ii. reflecting the impacts of network use on economic costs;

iii. reflecting differences in network service provided to (or by) consumers; and

iv. encouraging efficient network alternatives.

Centralines interprets the requirements for subsidy-free prices as requiring that, for each consumer group, the revenues obtained from that consumer group must not:

- be below the cost of connecting that consumer to the network (incremental costs), or
- exceed the costs of serving that consumer group, as if they were the only consumer group (stand-alone costs).

These bounds are extremely wide as there are extensive shared assets on Centralines' network. As a result, if Centralines were to stop supplying any consumer group there would be limited reduction in costs and assets as different consumer groups are intermingled on the network.

Centralines considers that, by definition, its prices are subsidy free because it applies a Cost Allocation Model to allocate costs across the consumer base to determine the revenue requirement.

Signal economic costs (cont)

This is then used as a basis for establishing prices for each consumer group. As the Cost Allocation Model allocates the total cost of supplying all Centralines' consumers in proportion to the assets that are required to deliver a distribution service, no consumer group pays more than their stand-alone costs, given the economics of providing a shared network.

Centralines also ensures that new connections are not subsidised by calculating a capital contribution where the expected revenues from prices does not cover costs.

This ensures that total revenues from each consumer (including the capital contribution) are not expected to be less than incremental costs.

In adopting a capacity-based approach to assigning consumers to price categories, this signals to consumers the fact that increasing capacity demands on the network will increase costs over the longer-term.

As noted earlier, there is capacity headroom on most parts of Centralines' network but there are areas of potential concern in the near future.

Centralines does not consider it necessary to strengthen price signals to seek additional peak load reductions overall, however, retaining options that allows alteration of the price signals currently in place is warranted.

b) Where prices that signal economic costs would under-recover target revenues, the shortfall should be made up by prices that least distort network use.

Centralines has increased the balance of fixed prices compared to variable based prices, fixed prices are the least distortionary option for recovering revenue. There are limitations to the degree which fixed prices dominate overall distribution revenue. Price signals through variable rates reflect the current situation of the network but should also signal future issues. Distribution pricing is relatively inflexible, generally based on annual incremental changes to prices. To deliver a stable and understandable pricing strategy to consumers pricing needs to look well forward and not have radical changes in direction. A consumer looking to make an investment decision such as an EV versus a petrol vehicle, or whether to install generation and a battery should expect some consistency in strategy and the impact of price signals.

As Centralines moves towards a more clearly defined selection of rates that show either a non-distortionary structure (fixed prices) or a clear price signal (peak/off-peak rates) then consumers should be able to assess future investments related to their distribution charges.

Mainstream media have reported concerns around what level fixed prices should reach. While the reporting has not been Centralines focused, it is an area that Centralines will continue to be aware of. Centralines is a small network with strong consumer connections and there may be factors outside of economic ones that influence pricing decisions.

Prices responsive to end users

c) Prices should be responsive to the requirements and circumstances of end users by allowing negotiation to:

i. Reflect the economic value of services; and
ii. Enable price/quality trade-offs.

Listed below is how Centralines' compliance under these principles is achieved.

- Uneconomic bypass is avoided through Centralines' cost allocation approach to setting prices, whereby (by the use of a proportional cost allocation approach) pricing is set below stand-alone costs.

- Centralines also avoids uneconomic bypass/inefficient disconnection by lowering charges to consumers who, but for the level of line charges, would cease business.

  It is generally not practical to negotiate with consumers (particularly small consumers) to provide different price-quality trade-offs, given the shared nature of the network. Centralines establishes performance metrics pertaining to different zones (e.g. fault restoration times for rural versus urban consumers).

- Centralines' most recent survey was conducted in January 2020 and the 2017 survey also indicated that in general customers are satisfied with Centralines quality of service[1].

- Across all segments continuity of supply continues to be the most important deliverable (64.7% response). Followed by keeping costs down (24% response) and outages (20.7% response). Overall, four out of every five customers are not prepared to pay for an improvement in their power supply, stating an increase would be too much.

- As a result of the regulatory regime and consumer preferences, Centralines' prices will track the costs associated with preserving the status quo quality and reliability levels.

- Centralines sets specific charges for large industrial consumers to ensure that charges reflect the economic costs of service provision (thereby discouraging uneconomic bypass and allowing such consumers to negotiate their specific needs).

[1] Overall 88.7% of respondents were satisfied, with some variations across segments.

Prices responsive to end users (cont)

- Centralines allows smaller generators, 10kW or less, to connect to Centralines' network and to utilise the distribution network for delivering their generation without incurring network charges. Compliance with Centralines' Network Connection Standards is required, and administration and connection costs may be applicable (these can be viewed on Centralines' website).

- Because of Centralines' peak/control-period prices, larger consumers have a clear value against which to assess network alternatives or behaviour changes. Many consumers, particularly major consumers, can reduce demand in response to such signals. The majority of Centralines' residential consumers heat their water through controlled meters in response to Centralines controlled pricing rates.

- The introduction of optional residential TOU pricing allows consumers that wish to make choices of when they use energy to reduce costs. While the peak periods are broad, they do deliver a signal on when the network is likely to reach peak levels.

Transparent development of prices

e) Development of prices should be transparent and have regard to transaction costs, consumer impacts, and uptake incentives.

Centralines' development of prices:

1. Is transparent:

- through this disclosure statement, where Centralines provides information on the costs it allocates to different consumer groups, and

- by the publishing of a pricing policy, which details the relative prices for different price options and categories. Consumers can review charges and weigh up costs for changing capacity requirements or load profile and the resulting benefits.

  Centralines annually consults extensively with electricity retailers on pricing strategy, price category, and option development. While there is significant variability in the degree retailers engage in this consultation process, the opportunity to engage in the process is equal for all retailers operating on Centralines' network.

Transparent development of prices (cont)

2. Promotes price stability – Centralines' allocation model is only altered where a strong case exists for such alteration.

   To ensure price stability to consumers, any price changes made limit rate shocks to any particular consumer group to less than 10% in line with standard industry practice. As delivery charges make up around 50% of a typical consumer's bill, this ensures no consumer group would face more than a 5% delivered price increase due to changes in distribution charges.

3. Promotes certainty – Centralines endeavours to maintain consistency in its price structure and relativity between prices. This ensures consumers who make investments (e.g. in controllable loads) due to the savings between controlled and uncontrolled rates are able to realise the savings expected when the original investment was made.

   As noted above, with the introduction of smart meters, Centralines intends to further develop the TOU price options. As fixed rates increase so the revenue related to price signals decreases. Centralines will look at reducing the off-peak rate to zero or close to zero in time. To achieve this some changes to the TOU price plan structure may be required.

   Consumers will have time to consider behavioural changes and investment to avoid adverse bill impacts as Centralines:

- seeks to strengthen differentials between peak and off-peak charges over time, and

- considers phasing out less cost reflective consumption-based price categories and options.

Centralines recognises the need to minimise undue complexity for retailers, subject to its legitimate business needs to signal costs to consumers and ensure equity between consumers.

All retailers are subject to the same price schedules from Centralines. Therefore, Centralines considers that its prices are economically equivalent across all retailers.

Appendix B – Certification for Year Beginning Disclosure

CENTRALINES
LIMITED

CERTIFICATION FOR YEAR BEGINNING DISCLOSURES

Pursuant to Schedule 17, Clause 2.9.1

We, Fenton Wilson and Anthony Gray, being directors of Centralines Limited certify that, having made all reasonable enquiry, to the best of our knowledge:

a. the following attached information of Centralines Limited prepared for the purposes of clauses 2.4.1, 2.6.1, 2.6.3, 2.6.6 and 2.7.2 of the Electricity Distribution Information Disclosure Determination 2012 in all material respects complies with that determination.

b. The prospective financial or non-financial information included in the attached information has been measured on a basis consistent with regulatory requirements or recognised industry standards.

c. The forecasts in Schedules 11a, 11b, 12a, 12b, 12c and 12d are based on objective and reasonable assumptions which both align with Centralines Limited's corporate vision and strategy and are documented in retained records.

Fenton David Wilson

Director

Date: 28 March 2024

Anthony Trevor Gray

Director

Date: 28 March 2024

Appendix C – Summary of Document Changes

Date	Version No.	Changes to Document	Creator	Authoriser	Approver
27/03/2020	11.0	Full review and update to document. Update of key statistics.	Pricing Manager and Senior Regulatory Affairs Advisor	GM Business Assurance	GM Business Assurance
31/03/2021	12.0	Full review and update to document. Update of key statistics.	Pricing Manager and Senior Regulatory Affairs Advisor	GM Commercial	GM Commercial
31/03/2022	13.0	Full review and update to document. Update of key statistics.	Pricing Manager	GM Commercial	GM Commercial
03/05/2023	14.0	Full review and update to document. Update of key statistics.	Pricing Manager	Pricing Manager	GM Commercial
28/03/2024	15.0	Full review and update to document. Numbering adjusted and all cross-references updated. Update of key statistics.	Pricing Manager	Pricing Manager	GM Commercial and Regulatory