Scanpower Limited

Pricing Methodology Disclosure

For Pricing Effective 1 April 2021 to 31 March 2022

Introduction

1. The purpose of this document is to describe the methodology used by Scanpower Limited in setting its distribution charges for the financial year commencing 1 April 2021 and ending 31 March 2022, as required by Section 2.4.1 of the Electricity Distribution Information Disclosure Determination 2012. This was issued by the Commerce Commission on 1 October 2012 and amended in March 2015 and December 2017.

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

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

   There have been no material changes to Scanpower's pricing methodology or fundamental tariff structure in the past year. Published prices for the coming year (1 April 2021 to 31 March 2022) have remained the same as the prior year.

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

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

- To provide appropriate demand-based pricing signals where possible.
- To avoid price shocks where possible by maintaining consistency with historic pricing structures.
- To offer pricing that, when annual discounts are taken into account, is competitive relative to other distribution companies.
- To be consistent with the Pricing Principles issued by the Electricity Authority, as updated in June 2019.

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

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

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

- A description of the methodology used to calculate the network prices payable, including:
  - The total target revenue expected to be collected for the disclosure year.
  - A breakdown of the target revenue into its components.
  - A description of how Scanpower has established consumer pricing groups.

  - How Scanpower allocates individual consumers to one of these groups.
  - How costs and revenues are allocated to each consumer group.
  - The proportion of target revenue derived from each pricing component.
  - A discussion of consistency (or otherwise) with the Pricing Principles.

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

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

- A disclosure of Scanpower's capital contribution policy.

Calculation of Annual Revenue Requirement 2021 - 2022

5. Provided in Table One below is a summary of the calculation of Scanpower's annual network revenue requirement. This totals **$9,669,840**. The summary provides a breakdown of known / budgeted costs for the coming year.

Table One – Calculation of Annual Revenue Requirement 2021-2022

Description	Amount
Operations & Maintenance Costs	$1,555,000
Administration & Corporate Costs	$2,336,000
Depreciation Charges	$1,699,596
Network Discounts	$1,750,000
Dividend Payable to Owners (Scanpower Customer Trust)	$135,000
Transpower Charges	$2,164,244
Regulatory Costs / Levies	$30,000
Total Revenue Requirement	**$9,669,840**

The costs are described as follows:

Forecast Operations and Maintenance costs for the financial year 1 April 2021 to 31 March 2022 are **$1,555,000**. This is the amount disclosed by Scanpower in respect of 'Network Opex' in Schedule 11b of the EDB Information Disclosure Requirements, as at the disclosure date 31 March 2021. It comprises the following:

Table Two – Forecast Operations & Maintenance Costs 2021-2022

Description	Forecast
Service Interruptions and Emergencies	$342,000
Vegetation Management	$612,000
Routine and Corrective Maintenance	$214,000
Asset Replacement and Renewal	$387,000
	$1,555,000

Forecast Administration & Corporate Costs for the financial year 1 April 2021 to 31 March 2022 at **$2,336,000**. This is the amount disclosed by Scanpower in respect of 'Non-network Opex' in Schedule 11b of the EDB Information Disclosure Requirements, as at the disclosure date 31 March 2021. It comprises the following:

Table Three – Forecast Administration & Corporate Costs 2021-2022

Description	Forecast
System Operations and Network Support	$781,000
Business Support	$1,555,000
	$2,336,000

Depreciation Charges reflect the annual charge to the accounts for depreciation on network system assets and related fixed assets such as communications equipment and network related software. The value of **$1,669,596** is equal to the budgeted depreciation charges in respect of the Network business unit for the financial year 1 April 2021 to 31 March 2022, as per the company's management accounts. The subcomponents of depreciation are summarised in the table below:

Table Four – Forecast Depreciation Costs 2021-2022

Description	Forecast
Building Depreciation	$1,200
Vehicle Depreciation	$120,000
Plant & Equipment Depreciation	$120,000
Furniture & Office Equipment Depreciation	$1,200
Computer Depreciation	$7,200
Electricity Network Assets Depreciation	$1,449,996
	$1,669,596

Network discounts are set in advance of the financial year and represent discount credits applied to customer (end user) power accounts. Their purpose is to lower the delivered cost of electricity to consumers (thereby reducing competitive exposure to substitute products such as gas). The value of **$1,750,000** is based on a confirmed discount of **$340** per standard residential and commercial customer connection, payable in October 2021.

A dividend of **$135,000** is forecast to be paid to the company's owners (the Scanpower Customer Trust) during the financial year 1 April 2021 to 31 March 2022. This is reflected in the company's Statement of Corporate Intent for the same period.

Transpower charges are the contracted transmission costs applied by the national grid operator for the year 2021/22. For the financial year 1 April 2021 to 31 March 2022 transmission costs are forecast to be **$2,164,244**.

Regulatory costs / levies include amounts charged by the Electricity Commission, Commerce Commission, Ministry of Economic Development, and the Utilities Disputes scheme. For the financial year 1 April 2021 to 31 March 2022 these costs are budgeted to be **$30,000**.

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

Target Revenue 2021 - 2022

7. In its operating budgets for the financial year 1 April 2021 to 31 March 2022, Scanpower has forecast network line charge revenue of **$9,894,909**. This represents **102.3%** of the annual revenue requirement and an over recovery of **$225,069**. This is acceptable to Scanpower given the inherent volatility of variable lines charges which make up the majority of the company's network revenue and given that network charges have been held static for three years (from 2019/2020 to 2021/2022).

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

Table Five – Target Revenue Summary by Major Customer / Customer Group 2021 - 2022

Description	April	May	June	July	August	September	October	November	December	January	February	March	TOTAL
C6 INDUSTRIAL GROUP													
Cold Storage Business	$14,340	$15,366	$18,127	$16,769	$18,491	$14,422	$14,177	$14,028	$18,026	$17,498	$16,746	$16,845	$194,837
Meat Works	$22,137	$13,408	$26,834	$40,052	$37,031	$29,113	$29,556	$30,203	$28,953	$30,806	$29,370	$32,109	$349,571
C5 INDUSTRIAL GROUP													
Carpet Factory	$10,040	$10,206	$13,905	$12,362	$12,385	$10,328	$10,637	$11,085	$8,300	$7,647	$10,164	$10,282	$127,341
Lumber Plant	$5,801	$5,900	$6,548	$6,655	$6,669	$5,764	$5,845	$5,749	$5,855	$5,932	$5,544	$5,939	$72,202
C4 LARGE COMMERCIAL													
Regional Transmitter	$23,114	$25,376	$35,336	$36,310	$35,816	$24,785	$22,353	$24,573	$23,453	$17,475	$22,583	$23,506	$314,680
Supermarket	$7,595	$7,860	$9,091	$9,215	$9,226	$7,701	$8,049	$7,865	$8,022	$8,095	$7,366	$8,082	$98,166
Fast Food Restaurant	$2,404	$2,455	$3,068	$3,155	$3,082	$2,397	$2,498	$2,397	$2,538	$2,473	$2,204	$2,342	$31,011
Milk Storage Silo	$1,249	$1,254	$1,287	$1,278	$1,280	$1,242	$1,236	$1,233	$1,230	$3,230	$1,665	$1,250	$17,431
Large Retailer	$3,955	$4,258	$5,118	$5,291	$4,905	$3,703	$3,517	$3,714	$4,046	$4,384	$3,782	$4,313	$50,986
Indoor Swimming Pool	$3,612	$4,286	$6,187	$6,059	$5,528	$3,937	$4,184	$4,319	$4,026	$3,602	$3,471	$3,516	$52,726
Fast Food Restaurant	$3,656	$3,560	$4,302	$4,421	$4,341	$3,466	$3,517	$3,434	$3,548	$3,988	$3,504	$3,805	$45,542
C3 MEDIUM COMMERCIAL													
14 ICPs	$29,630	$31,034	$30,858	$32,099	$31,203	$29,962	$29,976	$29,488	$31,754	$29,191	$30,265	$32,174	$367,636
NHH DOMESTIC / COMMERCIAL													
NHH ICPs	$636,873	$684,230	$662,157	$728,027	$760,377	$742,747	$707,426	$666,055	$674,883	$657,053	$587,866	$640,968	$8,148,663
Streetlights	$1,916	$1,916	$1,916	$1,916	$1,916	$1,916	$1,916	$1,916	$1,916	$1,916	$1,916	$1,916	$22,989
Other	$94	$94	$94	$94	$94	$94	$94	$94	$94	$94	$94	$94	$1,127
TOTAL	**$766,416**	**$811,203**	**$824,828**	**$903,701**	**$932,343**	**$881,576**	**$844,982**	**$806,154**	**$816,643**	**$793,384**	**$726,539**	**$787,140**	**$9,894,909**

Consumer Grouping for Pricing Purposes

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

10. In regard to residential low user tariffs, the decision was made to apply a low fixed daily charge component to all domestic supplies; i.e. not greater than 15 cents per day. Ease of understanding and reduced billing complexity were the underlying drivers behind this.

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

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

Table Six – Consumer Grouping for Network Pricing Purposes

Pricing Group	Quantity	Description
D1	4,840	Standard Domestic (0-15kVA)
C1	1,169	Standard Commercial (>8kVA)
C1.2	375	<2kVA Commercial (pumps, railway bells etc)
C1.5	282	2-8kVA Commercial (small sheds etc)
C3	15	Large Commercial (100,000 – 500,000 kwh pa)
C4	6	Large Commercial (500,000 – 2,000,000 kwh pa)
C5	2	Large Commercial (2,000,000 – 3,500,000 kwh pa)
C6	2	Large Commercial (3,5000,000 + kwh pa)

13. The quantity of installations in each category is stated as at January 2021 and is derived from the National Registry and cross referenced to Scanpower's billing system.

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

Allocation of Costs to Customer Groups

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

16. The table below summarises the allocation of costs, by type, to the consumer groupings identified in the pricing structure. Included are the installed capacity ratings for each group based on actual installed transformer size.

Table Seven – Allocation of Costs / Revenue Requirements to Consumer Pricing Groups 2021-2022

Group	Capacity (MVA)	O&M Costs	Admin	Depreciation	Customer Discount	Dividend	Transpower	EC Costs	Rev. Req.
D1	32.47	$746,273	$1,121,089	$815,667	$839,857	$64,789	$1,038,661	$14,398	$4,640,735
C1	21.27	$488,955	$734,533	$534,422	$550,271	$42,449	$680,526	$9,433	$3,040,591
C1.2	1.19	$27,264	$40,958	$29,800	$30,683	$2,367	$37,946	$526	$169,544
C1.5	1.25	$28,662	$43,058	$31,327	$32,256	$2,488	$39,892	$553	$178,236
C3	2.68	$61,569	$92,493	$67,295	$69,290	$5,345	$85,692	$1,188	$382,872
C4	3.60	$82,749	$124,310	$90,444	$93,126	$7,184	$115,170	$1,596	$514,580
C5	1.30	$29,882	$44,890	$32,660	$33,629	$2,594	$41,589	$576	$185,821
C6	3.70	$85,048	$127,763	$92,956	$95,713	$7,384	$118,369	$1,641	$528,874
MISC	0.2	$4,597	$6,906	$5,025	$5,174	$399	$6,398	$89	$28,588
	67.65	**$1,555,000**	**$2,336,000**	**$1,699,596**	**$1,750,000**	**$135,000**	**$2,164,244**	**$30,000**	**$9,669,840**

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

Table Eight – Comparison of Revenue Required to Forecast Revenue by Customer Group 2021-2022

Group	Revenue Required	Forecast Revenue	Variance	% Variance to Rev.Req.
D1	$4,640,735	$4,612,602	-$28,133	-0.6%
C1	$3,040,591	$3,130,714	$90,122	+3.0%
C1.2	$169,544	$185,267	$15,723	+9.3%
C1.5	$178,236	$182,577	$4,341	2.4%
C3	$382,872	$369,941	-$12,931	-3.4%
C4	$514,580	$617,570	$102,990	+20.0%
C5	$185,821	$201,527	$15,706	+8.5%
C6	$528,874	$569,533	$40,659	+7.7%
MISC	$28,588	$25,180	-$3,408	-11.9%
TOTAL	**$9,669,840**	**$9,894,909**	**$225,069**	**+2.3%**

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

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

Tariff Structure (Fixed vs Variable Pricing)

19. In terms of the structure of fixed and variable pricing, as previously noted domestic (D1) pricing has been set such that all customers have a fixed daily charge of 15 cents, to comply with the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004. With successive increases in variable tariff pricing since this policy was adopted, the fixed / variable split revenue split for domestic consumers is now **5.4%** / **95.6%**.

    Across all tariff categories, the aggregated split between fixed and variable charges is **14.3%** / **85.7%**.

Consistency with Electricity Authority Pricing Principles

20. Provided in Table Nine below is a description of the Pricing Principles established by the Electricity Authority (as updated in June 2019), and (as per requirement 2.4.3 (2)) supporting comments from Scanpower in relation to each point. Scanpower believes that its pricing methodology is materially consistent with these principles, given that no points of significant inconsistency have been observed.

Table Nine – Commentary on the Extent to Which the Pricing Methodology is Consistent with Electricity Authority Pricing Principles

Electricity Authority Pricing Principle	Scanpower Comments
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 services provided to (or by) consumers; and iv) encouraging efficient network alternatives.	As is evident from the pricing methodology described in this document, Scanpower uses installed transformer capacity as the basis for allocating customers to particular pricing groups. The rationale for dividing customers into groups according to installed capacity is that it is reflective of the underlying cost drivers associated with incrementally supplying each load group (and reflects the differences in network services provided to those groups). Regarding being subsidy free, Scanpower interprets this to mean that the revenue requirement of any particular customer group is materially the same as the revenue actually recovered from that customer group (i.e. no particular customer group is subject to over or under recovery at the expense / benefit of another customer group). As per Table 8 in the document, Scanpower believes that required vs budgeted revenues for each customer group are materially consistent, and that there is no indication of a significant subsidy from any one group to another (when revenue variability is taken into account). On the matter of encouraging efficient network alternatives, our current pricing to the residential sector is impeded by the LFC regulations (due to an artificially low fixed to variable charge ratio). This may create false incentives to install (say) solar PV systems or other technologies, subject to how retailers pass on / rebundle our charges.
b) Where prices that signal economic costs would under recover target revenues, the shortfall would be made up by prices that least distort network use.	Scanpower is of the view that our current pricing reduces potential distortions to the best extent possible given the operational and legislative constraints we are experiencing (notably, how retailers pass on our charges and the LFC regulations).
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.	All customers supplied by the Scanpower network are currently connected on the basis of a standard terms and conditions of supply. That is to say, there are no non-standard contracts currently in place with any customers connected to the network. However, Scanpower remains open to negotiation in situations where an alternative may be more appropriate to customers' individual needs and specific price/quality trade-offs. This has not occurred to date, but most foreseeably could apply to larger / industrial type customers. As the majority of connections on Scanpower's network have 'n' level security there are engineering limits to increasing 'quality', however customers may make their own investments to achieve higher reliability. A common example of this within the network is the use of local back-up generators by dairy farmers to protect milk storage loads.
d) Development of prices should be transparent and have regard to transaction costs, consumer impacts and uptake incentives.	Scanpower maintains a formal, documented and transparent approach to developing network pricing, the details of which are publicly available to consumers and interested parties. Scanpower's network charges are homogenous across all retailers supplying across the network; they are the same for everyone with no discrimination in tariff structures, prices or customer discount payments. Relative to other network pricing methodologies, Scanpower believes its methodology is relatively simple in design and straightforward for retailers to implement (rebundled or otherwise).

2021 - 2022 Changes in Pricing and Target Revenue

21. Table 10 below shows the movement in target revenue between the 2020-2021 year and the 2021-2022 year.

Table Ten – Comparison of Year on Year Revenue Requirement 2020/21 – 2021/22

Description	2021/22 Target	2020/21 Target	Movement
Operations & Maintenance Costs	$1,555,000	$1,688,000	-$133,000
Administration & Corporate Costs	$2,336,000	$2,524,000	-$188,000
Depreciation Charges	$1,699,596	$1,650,700	+$48,896
Network Discount	$1,750,000	$1,650,000	+$100,000
Dividends	$135,000	$135,000	+$0
Transpower Charges	$2,164,244	$2,003,630	+$160,614
Regulatory Costs / Levies (including Electricity Authority)	$30,000	$36,000	-$6,000
Total Revenue Requirement	**$9,669,840**	**$9,687,330**	**-$17,490**

22. As is evident the annual revenue requirement has decreased year on year by **$17,490** representing a downward movement of **0.18%**.

23. The underlying movement in Operations & Maintenance Costs is detailed as follows:

Table Eleven – Comparison of Year on Year Operations & Maintenance Costs 2020/21 – 2021/22

Description	2021/22 Target	2020/21 Target	Movement
Service Interruptions and Emergencies	$342,000	$395,000	-$53,000
Vegetation Management	$612,000	$600,000	+$12,000
Routine and Corrective Maintenance	$214,000	$247,000	-$33,000
Asset Replacement and Renewal	$387,000	$446,000	-$59,000
Total Revenue Requirement	**$1,555,000**	**$1,688,000**	**-$133,000**

24. The individual movements are relatively minor in nature. The past year has seen good gains in terms of network reliability and a reduction in unplanned outages / nuisance faults. Correspondingly the cost forecasts for Service Interruptions and Emergencies, Corrective Maintenance and spot Asset Replacement and Renewal have been reduced, based on recent actual trends. In regard to Vegetation Management, Scanpower remains committed to a long term trimming / management plan and the above forecast reflects a **2%** inflationary increase in these costs.

25. The reduction in Administration & Corporate Costs is a result of improved organisational efficiencies and growth in other areas of Scanpower's business that contribute to shared overhead costs.

26. The increase in Depreciation Charges of **$48,896** is a reflection of the increasing value of Scanpower's electricity network assets.

27. The increase in annual Network Discount costs of **$100,000** has been driven by the requirements of the Scanpower Customer Trust and communicated to the company via the annual Statement of Corporate Intent.

28. Transmission costs are as contractually advised by Transpower for the year 1 April 2021 to 31 March 2022.

5 Year Pricing Strategy

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

30. One of the key issues with Scanpower's existing pricing structure is that it is predominantly volume (kWh) based with **85.7%** of revenue coming from variable charges. This has been driven by the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004.

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

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

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

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

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

- The Government initiated Electricity Pricing Review in 2019, which in its early documentation alluded to requiring distributors to 'rebalance' revenue recovery towards commercial / industrial customers (in favour of domestic customers), in addition to various other pricing related matters.

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

33. However, Scanpower remains committed to introducing more efficient pricing in the near term and anticipates that some of the regulatory issues described above will become clearer / resolved within that period.

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

- The network is not currently constrained in terms of reasonably foreseeable demand growth.
- Congestion / peak demand periods are not an issue for the network, nor do they impact materially on our transmission pricing (as the Scanpower contribution to regional coincident peak demands is so small).
- Electricity consumption levels have shown a chronic and creeping erosion over the past decade, with total volumes falling 15% over that period.
- Scanpower currently bills on a GXP basis, primarily as this is a low cost option administratively and does not require ICP-level billing software. The company would prefer to continue on a similarly low-cost basis.
- Indications from the EA are that they believe retailers should not be obligated to pass through distribution costs in a transparent and actionable manner. This is somewhat perplexing to Scanpower as it will be difficult to describe new pricing options to customers when there is no guarantee they will ever see them.
- There is limited penetration of smart meters at installations on the Scanpower network. Strategically and operationally, Scanpower would prefer not to be reliant on data provided by retailers for billing purposes.
- Scanpower would seek a pricing option that does not create the requirement for additional metering / capacity control hardware at an individual installation level (for cost purposes).

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

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

37. Scanpower will continue to progress its transition to more efficient / cost reflective pricing over the coming year and anticipates that formal consultation with retailers and customers will likely occur in the calendar year 2021. We will publish an updated report on our transition to more cost-reflective pricing by 30 September 2021.

Non-Standard Contracts and Distributed Generation

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

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

Customer Consultation and the Price / Quality Trade Off

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

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

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

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

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

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

Capital Contributions

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

Other Explanatory Comments for Electricity Retailers

46. Scanpower calculates variable kWh charges based on grid exit point volumes. Therefore, end use consumption data should be adjusted by the appropriate loss factor (disclosed in the schedule of prices) to arrive at billable volumes. This is to reduce complexity in monthly billing as individual ICP level data and consumption calculations are not necessary. Furthermore, GXP volumes are reconciled independently and therefore appropriate for billing purposes. To clarify:

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

Appendix A – Breakdown of Revenue by Publicly Disclosed Pricing Component

D1 Standard Domestic Option (4,840 customers)

Code	Description	Revenue
10	Fixed daily supply charge (per day)	$250,781
23	Variable network charge (day units per kwh)	$3,618,450
24	Variable network charge (night units per kwh)	$743,371
		$4,612,602

C1 Standard Commercial Option (1,169 customers)

Code	Description	Revenue
40	Fixed daily supply charge (per day)	$607,463
28	Variable network charge (day units per kwh)	$2,071,393
29	Variable network charge (night units per kwh)	$451,858
		$3,130,714

C1.2 2 kVA Commercial Option (375 customers)

Code	Description	Revenue
11	Fixed daily supply charge (per day)	$114,262
46	Variable network charge (day units per kwh)	$58,793
47	Variable network charge (night units per kwh)	$12,212
		$185,267

C1.5 5 kVA Commercial Option (282 customers)

Code	Description	Revenue
13	Fixed daily supply charge (per day)	$111,572
51	Variable network charge (day units per kwh)	$58,793
52	Variable network charge (night units per kwh)	$12,212
		$182,577

C3 Large Commercial Option (15 customers)

Code	Description	Revenue
50	Fixed daily supply charge ($ / kva / month)	$96,997
57	Variable network charge (day units per kwh)	$224,370
58	Variable network charge (night units per kwh)	$48,574
		$369,941

C4 Large Commercial Option (6 customers)

Code	Description	Revenue
60	Fixed daily supply charge ($ / kva / month)	$135,225
73	Variable network charge (day units per kwh)	$386,177
74	Variable network charge (night units per kwh)	$44,975
65	Maximum demand charge (June, July, August – peak kva)	$51,193
		$617,570

C5 Medium Industrial Option (2 customers)

Code	Description	Revenue
70	Fixed daily supply charge ($ / kva / month)	$77,027
78	Variable network charge (day units per kwh)	$101,341
79	Variable network charge (night units per kwh)	$11,538
75	Maximum demand charge (June, July, August – peak kva)	$11,621
		$201,527

C6 Large Industrial Option (2 customers)

Code	Description	Revenue
71	Fixed daily supply charge ($ / kva / month)	$202,629
82	Variable network charge (day units per kwh)	$284,893
83	Variable network charge (night units per kwh)	$39,452
85	Maximum demand charge (June, July, August - peak kva)	$42,559
		$569,533

MISC Miscellaneous Charges

Code	Description	Revenue
12	Public Lighting Network Supply Charge (per fitting per month)	$24,042
18	Telecom Boxes (per month per box)	$0
19	Electric Fences (monthly charge - no 400V distribution line)	$1,137
98	Electric Fences (monthly charge - feed from distribution line)	$0
BS1	Building Services Temporary Supplies (3 months)	$0
BS2	Building Services Temporary Supplies (per month > 3 months)	$0
		$25,180

Total Revenue
$9,894,909

Appendix B – Director Certification

To Be Inserted After Signing