

Disclosure of Pricing Methodology

Requirement 22 and 23

1 April 2008

**Pursuant to the Electricity Information Disclosure Requirements
issued 31 March 2004**

As gazetted under Section 57T(4)(a) of the Commerce Act 1986

Electricity Information Disclosure Requirements 22 and 23

Introduction

Requirement 22 of Part 5 of the Electricity Information Disclosure Requirements requires MainPower New Zealand Limited (“MainPower”) to disclose its pricing methodology on at least an annual basis; i.e. as it applied at the beginning of the year (1 April), and following any change in methodology during the year to determine the line service charges payable or to be payable.

The purpose statement for the information disclosure regime is contained in subpart 3 Section 57T of the Commerce Act 1986 and provides that the purpose is:

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

MainPower supports the need for information relating to its line service charges to be disclosed consistent with this purpose statement in order to inform customers on its pricing determination policies and in order to assist customers to better understand MainPower’s lines business revenues and costs, and how these are applied when calculating line service charges to be paid by these customers.

The content of the pricing methodology disclosure under Requirement 22 is detailed in Requirement 23 and must:

- (a) Describe the methodology used to calculate the prices charged or to be charged; and
- (b) Include the key components of the revenue required to cover costs and profits of the disclosing entity’s line business activities, including cost of capital and transmission charges, which must include the numerical value of each of the components; and
- (c) State the customer groups used to calculate the prices charged or to be charged, including:
 - (i) The rationale for the customer grouping; and
 - (ii) The method by which the disclosing entity determines which group customers are in; and
 - (iii) For each of these customer groups, the statistics relating to that group which were used in the methodology; and
- (d) Describe the method by which the disclosing entity allocated the components of the revenue required to cover the costs of its line business activities amongst customer groups, which must include the numerical values of the different components allocated to each customer group and the rationale for allocating it in this manner; and
- (e) Describe the method by which the disclosing entity determined the proportion of its charges which are fixed and the proportion which are variable, and the rationale for determining the proportions in this manner.

The following disclosure is applicable to MainPower's lines business only and therefore excludes the operations of its two subsidiaries, MainPower Contracting Limited and VirCom Energy Management Services Limited, and the costs and revenues relating to MainPower's Generation Development activity, property portfolio, finance activity and other activity that MainPower is involved in and which does not form part of its lines business.

Pricing Objective

(a) Uniform Pricing

MainPower has adopted uniform line service charges for all customer categories within a particular customer group irrespective of customer density, the location of the nearest Transpower point of supply, the configuration of and investment in MainPower's subtransmission and distribution network, or other load characteristics.

Variable distribution and variable transmission line services are charged by way of a uniform per kilowatthour charge within each customer group.

Variations to these objectives are detailed below.

(b) Revenue Requirement

MainPower determines its revenue requirement and therefore its line service charges on the basis that lines revenue collected from its customers by way of these charges will be sufficient to cover its operating costs and capital development, and to maintain its capital and/or revenue reserves at a level considered appropriate by the Board without recourse to term debt.

(c) Rebates

Revenues, collected from customers, that are considered surplus to MainPower's revenue requirement (refer (b) above) are returned to Qualifying Customers in the form of rebates.

(d) Uniform Pricing - MainPower Region Customer Group and Kaiapoi Region Customer Group

The total line service charge, inclusive of any Transpower transmission charge and Qualifying Customer rebate applicable to customers within these two customer groups are, for each customer category charged on a uniform basis.

(e) Low User Options

MainPower's Residential Controlled, Residential Uncontrolled and Residential Nigh Special supply and their equivalent low user options are charged on the basis that the charges for each low user option will be the same given 8,000 kilowatthours are consumed for both standard and low user supply on an annual basis.

Pricing Methodology

Appendix 1 is made available in support of Requirement 23, and details the following:

- Customer groupings and categories
- Schedule of line service charges including detail of both fixed and variable distribution and transmission charges by category, for each customer group.

- Pricing history by customer group/category including introduction date.
- Customer statistics by customer group/category including number of customers taking line services under each category, installed kVA of capacity, kilowatthours delivered and chargeable peak demand.
- Forecast revenue requirement for the financial year commencing 1 April 2008 by customer group/category including detail of fixed distribution line charges, distribution and transmission variable charges and other revenues.
- Targeted revenue to cover MainPower's lines business operating costs by customer group, including transmission costs, administrative and operating overheads, operation and maintenance costs and other operational expenditure (pass-through costs; i.e. levies and rates), depreciation and taxation.
- Targeted return including forecast percentage return on assets.
- Maximum return based on MainPower's weighted average cost of capital.

Customer Groups

- MainPower Region ICPs - MP Customer Group
All customers connected to the distribution network owned by MainPower, who are not Direct Supply Customers or who do not form part of the KE Customer Group or WIG Customer Group.
- MainPower Region ICPs - Direct Supply Customers
All customers who take direct supply from a Transpower New Zealand Limited point-of-supply.
- Kaiapoi Region ICPs - KE Customer Group
All customers connected to the electricity distribution network previously owned by Kaiapoi Electricity limited and which was acquired by MainPower on 1 July 2004.
- Wigram Region ICPs - WIG Customer Group
Includes all customers connected to the electricity distribution network owned by MainPower, located in the region previously known as the Wigram Air Base and which is embedded in the Orion Limited network.

Allocation of Costs to Customer Groups

Lines business operating costs detailed in Appendix 1 are, wherever possible, allocated on an actual cost-incurred basis.

The exceptions are as follows:

- Administrative and overhead costs are allocated on a uniform cents per kilowatthour basis. Allocation to direct supply customers is on an actual basis.
- Operation and maintenance costs are allocated as a uniform percentage of weighted average net assets employed for each customer group. Allocation to direct supply customers is on an actual basis.
- Pass-through costs; i.e. rates are allocated as a percentage of weighted average ODV.

- Pass-through costs; i.e. Electricity Commission levies are allocated on a uniform cents per kilowatthour basis.
- All other costs are allocated on an actual basis.

Variations to the uniform pricing objective are as follows:

- The Residential Night Special variable distribution line service charge for each Customer Group is calculated at approximately 85% of the Residential Controlled Supply variable distribution line charge and in addition provides for no Transpower Transmission Charge recovery, and is provided as an incentive for customers to shift load to the off peak period 9.30pm to 7.30am.
- The Residential Uncontrolled Supply Low User Option total variable line service charge for each Customer Group, is calculated at approximately 150% of the Residential Controlled Supply total variable line charge and recognises that no system control capability is available. The Residential Uncontrolled Supply fixed distribution line charge has been determined at 60 cents per day.
- The fixed distribution line service charge for Non-Residential General Supply has been determined at 50 cents per day to take into account the lower weighted average load factor of this Customer Group.
- Revenue, across all Customer Groups, collected by way of fixed Distribution Line Service Charges, has been calculated on the basis that revenue from this source will not exceed 15% of the total fixed and variable distribution line service revenue. Actual percentages will vary year on year and between Customer Groups as a result of changes in load factor and other load characteristics.
- Distribution line services charges applicable to MainPower's Direct Supply Customer Group are recovered in full as a single fixed charge on a customer by customer basis; i.e. no variable distribution line charge applies. Transpower's transmission charge for Direct Supply Customers is recovered on an actual cost basis.
- No variable distribution line charge applies to the Temporary Supply Customer Category. A fixed distribution line service charge of \$2.00 per day applies and is calculated as the equivalent of approximately 30 kilowatthours consumption per day at the Standard Controlled Supply tariff.
- The fixed charge applicable to the irrigation customer category is 2 cents per day per kilowatthour of motor size connected; i.e. 50 cents per day for a motor size of 25 kilowatts.
- No fixed distribution line charge is applicable to Street Lighting customers, Right-of-Way Lighting or Under Verandah Lighting Customers.
- The variable distribution line service charge applicable to General Supply Customers within the MP Customer Group where consumption exceeds 500,000 kilowatthours per annum, is discounted on a straight line basis between 500,000 kilowatthours per annum and 1,000,000 kilowatthours from 5.343 cents per kilowatthour to 1.232 cents per kilowatthour and at 1.232 cents per kilowatthour for all kilowatthours above 1,000,000 kilowatthours.
- The variable distribution line service charge applicable to General Supply Customers within the KE Customer Group where consumption exceeds 500,000 kilowatthours per annum, is discounted on a straight line basis between 500,000 kilowatthours per annum

and 1,000,000 kilowatthours from 2.892 cents per kilowatthour to 1.251 cents per kilowatthour and at 1.251 cents per kilowatthour for all kilowatthours above 1,000,000 kilowatthours.

MainPower's Weighted Average Cost of Capital

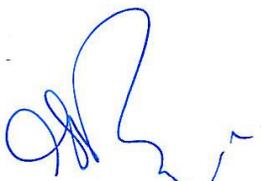
MainPower's cost of capital (post-tax) is calculated at 7.93% and is derived using the Capital Asset Pricing Model based on a risk-free rate of 6.5% (as per PricewaterhouseCoopers Cost of Capital Report 31 March 2008), an asset beta as the measure of a lines business systematic risk of 0.45, an investor tax rate of 30 cents in the dollar and a post tax market risk premium for equity of 7.5%.

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**STATUTORY DECLARATION IN RESPECT OF STATEMENTS AND INFORMATION
SUPPLIED TO THE COMMERCE COMMISSION
PURSUANT TO REQUIREMENT 57 (U) OF THE COMMERCE ACT
(ELECTRICITY INFORMATION DISCLOSURE REQUIREMENTS) NOTICE 2004**

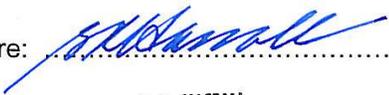
I, ALLAN BERGE, of 23 Belmont Avenue, Rangiora, being a director of MainPower New Zealand Limited, solemnly and sincerely declare that having made all reasonable enquiry, to the best of my knowledge, the information attached to this declaration is a true copy of information made available to the public by MainPower New Zealand Limited under the Commerce Commission's Electricity Information Disclosure Requirements 2004.

And I made this solemn declaration conscientiously believing the same to be true and by virtue of the Oaths and Declarations Act 1957.



Managing Director

Declared at Rangiora this 29th day of August 2008

before: 

**B. R. HASSALL
RANGIORA
JUSTICE OF THE PEACE
FOR NEW ZEALAND**