

BULLER ELECTRICITY LIMITED

**Disclosure of Revised Pricing Methodology
For Pricing as at
1st April 2005**

**Pursuant to a Request from the Commerce
Commission for more Information on
Requirement 22 and 23 of the
Electricity Information
Disclosure Requirements 2004**

10 November 2005

INTRODUCTION

This Pricing methodology has been revised at the request of the Commerce Commission on the 18th October 2005, to comply with the Electricity Information Disclosure Requirements 2004.

This publication sets out the revised methodology used to determine line charges to convey electricity from the generating stations to the Consumers installations. Line charges recover costs associated with the use of Transpower New Zealand Limited National Grid and the costs of operating and maintaining Buller Electricity Limited Network together with a provision to provide a rate of return on the investment in the distribution system.

Under requirement 22 and 23 of the Electricity Information Disclosure Requirements 2004, Buller Electricity Limited is required to show how their line charges are derived for the line business. They also cover ripple control equipment costs.

This revised methodology also excludes a major industrial customer previously included. This customer is excluded as they are not connected to the Buller Network and this exclusion is made to be consistent with the data provided in the price threshold regime. Buller Electricity Limited manages a transmission contract for this customer on a contestable basis, hence all costs and income associated with this customer are transferred to the contestable business unit of the company.

The information herein describes the line owners:

- (a) Line Pricing Methodology used to determine prices charged as at 1 April 2005 for the supply of line function services.
- (b) The methodology used for allocation of costs, revenues and assets from 1 April 2005.
- (c) Costs and revenues attributable to load groups and the methodology used to allocate those costs and revenue between load groups from 1 April 2005 financial year.

The information in this publication was prepared by Buller Electricity Limited after making all reasonable enquiries and to the best of the knowledge of the company complies with the above sections of the Electricity Information Disclosure Requirements 2004.

All charges shown in the Electricity Price Schedule are exclusive of goods and services tax.

M J McSHERRY
Chief Executive
10th November 2005

BULLER ELECTRICITY LIMITED

ELECTRICITY INFORMATION DISCLOSURE REQUIREMENTS 2004

1. PREFACE

The methodology used by Buller Electricity Limited to determine line function services applying as at 1 April 2005 has been based on Requirement 23 of the Electricity Information Disclosure Guidelines and Handbooks on business procedures issued by the Commerce Commission.

The line tariff is based on charges applied to the metering information as supplied by energy retailers for Installation Control Points (ICP).

The transmission cost recovery is spread equally over all consumers as no single consumer can be identified as having a marked effect on the maximum demand that drives the transmission charges. The Buller network maintains an evening peak which suggests no large industrial loads affect the maximum demand.

Appropriate details and any departure from the methodology set out in the guidelines are set out below.

2. REVENUE REQUIREMENT

In accordance with Requirement 23 the revenue requirement of the company's line business is based on the recovery of the following costs and an appropriate return on investment.

- Operations and Maintenance
- Administration and Overheads
- Interest Payments
- Depreciation of System Assets
- Transmission Costs
- Taxation
- A return on Lines Business assets

3. COST IDENTIFICATION

The major cost elements are:

Line Business Administration	\$1.74M
Transmission Costs	\$0.60M
Operations and Maintenance	\$0.75M
Cost of Capital	\$0.75M
Total Revenue Requirement	\$3.84M

A transfer pricing system allocates costs to the appropriate business units from corporate support services in accordance with the guidelines. This ensures that costs are correctly apportioned between the cost centres of each business unit within the company.

Lines business administration expenditure includes the management of designing and running the line business and the management of the computerised load control system and geographical information system. Operations and maintenance are the direct costs associated with the system assets and the cost of capital is the capital expenditure funded from profit and depreciation, the latter excluded from administration costs.

In calculating line charges, budgets incorporating the transfer pricing are used.

3.1 COST ALLOCATION METHODOLOGIES

Allocation of direct and indirect costs, revenues and assets that are identifiable to the lines business have been allocated which is consistent with the disclosure guidelines.

4. NETWORK COMPONENTS

Network related expenditure comprises that applicable to the meshed and dedicated networks as follows:

- Operations and Maintenance
- Depreciation
- Tax
- Return on Assets

The Network components are grouped into the following components

- 400V Lines General
- 400V Lines Dedicated
- Distribution Transformers
- 11kV Lines General
- 11kV Lines Dedicated
- Zone Substations
- Subtransmission Lines
- Dedicated Network

5. LINE LOSSES

The cost of distribution line losses between the Grid Exit Point and the Consumers premises are treated as an electricity supply business cost and are included in the variable energy charge of the energy trader.

Loss adjustment factors reflect the total losses incurred via the various components of the distribution network when electricity is conveyed across the network.

6. REVENUE REQUIREMENTS

All costs identified in paragraphs 3 and 4 above aggregate to the distribution business total costs equating to the company's total revenue requirements.

7. DISAGGREGATION OF LINE CHARGES

The total line charge is allocated into five load groups and line charges are derived based on their use of the various network components and their capacity requirements.

Buller Electricity Limited also manages a contract for Transmission Services for a major industrial company but this is a contestable service and the associated costs and revenues are not included in these disclosures.

Buller Electricity Limited does not differentiate in pricing by geographic location for load groups even though the cost of supply for remote rural feeders is higher than urban areas. This means that rural consumers benefit due to a high level of cross subsidy.

8. PRICE AND MANNER OF CALCULATIONS

The revenue requirement is divided amongst the total number of separately metered installations to be recovered by using a fixed and variable line charge. The variable charge is dependent on the amount of energy consumed.

9. FIXED CHARGES

The fixed line charge applies to all separately metered installations. For low user domestic consumers the amount is controlled by regulation. Buller Electricity Limited applies different amounts to standard domestic and low user fixed charges to encourage consumers eligible for low fixed charges to apply to the energy retailer for the low fixed charge tariff. Commercial consumers traditionally attract maximum demand charges to reflect the costs imposed on the distribution network by those demands. Keeping track of measurement of those demands became difficult with the split in line and energy companies so Buller Electricity Limited has applied a fixed daily charge to commercial consumers based on, and equivalent to, the old demand charges. At the time of transfer between the two charges the effect on revenue was neutral.

A small number of commercial customers continue to pay an asset specific charge relating to transformer installations. The revenue from these is included in the line charge revenue.

10. METERING AND LOAD CONTROL EQUIPMENT

Buller Electricity Limited sold its metering and ripple control relays to TrustPower, the incumbent energy retailer. Buller Electricity Limited, however retained the operational services for load control and charges the network users for this service. The revenue from these services is included in the line charge revenue.

11. LOAD GROUPS

Installations have been grouped into five load groups for pricing according to their assessed kVA capacity or maximum power loadings. The groups reflect the significant cost differences between low and high voltage supply. Separate pricing options are set out in a pricing schedule which changes from time to time.

400V and 11kV refer to the voltage level at which the Consumer receives supply indicating which component in the Network the Consumer uses.

Revenue requirements are split between fixed and variable line charges. The Table below indicates the usage of each load group and the number of consumers connected to the network in each group. Buller Electricity Limited does not derive prices by allocating costs to load groups. Prices are based on historical allocations that deliver fair value to consumers. Therefore, to comply with disclosure requirements calculations must be made to reverse-engineer cost allocations required by the disclosure requirements. This reverse-engineering highlights the level of cross subsidy of costs forced on lines companies by regulation (low user fixed charges and consistent charges across urban and rural areas).

The following statistics are formulated to allocate costs:

	Load Group 1	Low User Group	Load Group 2	Load Group 3	Load Group 4	Load Group 5	Total
MWhrs	9.0	10.2	10.2	2.5	2.0	6.4	40.3
No. of Connections	1,432	2,153	595	41	9	3	4,233
Share of Assets	29%	30%	23%	5%	4%	10%	100%

Share of the assets is derived from the revenue gathered from each load group.

Costs are then allocated to the load groups as below, using the share of assets allocation.

\$M	Load Group 1	Low User Group	Load Group 2	Load Group 3	Load Group 4	Load Group 5	Total \$M
Line Business Administration	0.51	0.52	0.39	0.09	0.07	0.17	1.74
Transmission Costs	0.18	0.18	0.14	0.03	0.02	0.06	0.60
Operations and Maintenance	0.22	0.22	0.17	0.04	0.03	0.07	0.75
Cost of Capital	0.22	0.22	0.17	0.04	0.03	0.07	0.75
Total Cost Recovery	1.12	1.14	0.87	0.19	0.16	0.37	3.84
ODV Valuations	5.86	5.96	4.55	1.02	0.82	1.92	20.13

Each load group has a revenue requirement derived from this table that is detailed in the data below.

11.1 LOAD GROUP ONE

Up to 15 kVA capacity loads supplied at 400V sharing the use of the low voltage urban and rural meshed network and all other assets. This load group comprises all domestic and low consumption business consumers.

		Revenue \$000	No Consumers
(a)	Fixed Charge in cents per day per Metered Installation	523	1,432
(b)	Variable Based Line Charge measured in kWh	550	
(c)	Remote Load Control Services	46	

11.2 LOAD GROUP LOW USER

Domestic consumers living permanently at the premises and using less than 8000 kWh of energy in one year may be eligible (at the retailers discretion) for low user rates.

		Revenue \$000	No Consumers
(a)	Fixed Charge in cents per day per Metered Installation	118	2,153
(b)	Variable Based Line Charge measured in kWh	1,020	

11.3 LOAD GROUP TWO

Over 15 kVA supplied from the general 400V system sharing the use of the low voltage circuits and network assets. The group comprises farm and business (including streetlighting) consumers with maximum power demands between 15kVA and 99kVA.

		Revenue \$000	No Consumers
(a)	Fixed Charge in cents per day per Metered Installation	217	595
(b)	Variable Based Line Charge measured in kWh	650	

11.4 LOAD GROUP THREE

Over 15kVA supplied at 400V with dedicated supply feeders. This group are mainly non domestic installations between 15 and 99kVA.

		Revenue \$000	No Consumers
(a)	Fixed Charge in cents per day per Metered Installation	60	41
(b)	Variable based line charge measured in kWh	134	

11.5 LOAD GROUP FOUR

Over 100 kVA supplied from the general 11 kV system taking supply at 400V. This group is medium industrial consumers.

		Revenue \$000	No Consumers
(a)	Fixed charge in cents per day per Metered Installation	49	9
(b)	Variable based line charge measured in kWh	107	

11.6 LOAD GROUP FIVE

Over 200 kVA with dedicated 11kV supply feeders. These are industrial consumers who take supply at high voltage and have dedicated transformers to supply them. The pricing structure has a power demand component and has maximum loadings over 200kVA.

		Revenue \$000	No Consumers
(a)	Fixed Charge per Metered Installation	38	3
(b)	Variable based line charge measured in kWh	308	
(c)	Asset Specific Charges	20	

11.7 TOTAL REVENUE REQUIREMENTS

Total revenue requirements are summarised below.

Total Fixed Charges	\$1.01M
Total Variable Charges	\$2.77M
Asset Specific Charges	\$0.06M
Total Revenue	\$3.84M

12. TRANSMISSION PRICING

Transpower's pricing structure at each of the two grid exit points is a fixed charge per annum. The maximum demand entitlement is applied to each of the two substations which are based on the peak loadings that Buller Electricity Limited imposes on each of the Grid connection points.

The company's policy for allocating transmission charges to each load group is as follows:

As all consumers share the common use of the Grid, transmission charges including the connection, capacity and network charges reflect the average costs incurred and have been allocated across all consumers.

Load Groups 1 – 5

Transmission costs for Load Groups One to Five are recovered by a variable unit charge of 1.5 cents per unit with no fixed component and total costs of the two points of supply are averaged over the 5 load groups.

Transmission Charges	Units of energy Sold	Cost per Unit
\$602,000	40.3 MWhrs	1.5 cents

Transmission costs per unit vary considerably from previous disclosures due to the removal of the data associated with the major industrial customer removed from these disclosures. This major customer data distorted the transmission costs associated with all customers connected to the Buller network and is now a fair representation of the actual costs.

13. GENERAL

All energy retailers using the Buller Electricity Limited network pay the same line charges. However pricing options may differ between energy retailers which may have an affect on the final charge the consumer pays.