



Pricing Methodology

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1. Introduction

Buller Electricity Limited (BEL) owns and operates the electricity distribution network on the northern West Coast of the South Island, New Zealand. Our distribution network extends from Meybille Bay in the south (5km north of Punakaiki) to Karamea in the north, and lies entirely within the boundaries of area administered by the Buller District Council. Much of the distribution area covered is rural incorporating significant dairy and other farming activities, with the main population being based in the Westport township. Coal mining at the Stockton opencast mine continues to be a major employer and electricity consumer in the region.

BEL is owned by its consumers via the [Buller Electric Power Trust](#) (BEPT). The company was established in 1947 with a vision to facilitate the electrification of the region. While our core activity is electricity distribution, BEL also operates an electrical contracting business (Electro Services Limited) and is a shareholder of the electricity retailer Pulse Energy LP.

BEL receives electricity from Transpower's national grid and local embedded (distributed) generation and we distribute this electricity using our network to approx. 4,764 homes and businesses (our consumers). The service we provide is the delivery of electricity only – we do not buy and sell electricity, we simply deliver it to the customers of electricity retailers that operate in our area. We charge electricity retailers on a wholesale basis for this delivery service, and they in turn include this cost in their retail electricity prices to their customers.

Currently our network is seen as a natural monopoly – due to economies of scale a competitor could not profitably duplicate our network. As a result, we are not exposed to the competitive pressures that drive improved efficiencies and service levels in other markets. As a surrogate for these competitive pressures, the Government has developed regulations for electricity network owners under the Commerce Act 1986 (the Act). The Act is administered by the Commerce Commission and requires BEL to disclose certain information about our business, including our Pricing Methodology.

The purpose of information disclosure is to promote efficient operation of electricity distribution businesses by ensuring that electricity distributors make publicly available reliable and timely information about the operation and behaviour of their businesses. Information disclosures about such factors as profit, costs, asset values, price, quality, security, reliability and the methods used for price-setting enable interested parties to assess if the prices set by distributors promote efficiency and how the benefits of efficiency gains are being shared with consumers. It therefore supports assessment of whether the purpose of the Act is being met.

2. Pricing Principles, Strategy & Considerations

In simple terms BEL sets prices in a manner to provide sufficient revenue to recover the cost of operating our distribution network while seeking to comply with the regulations. The structure of our pricing aims to reflect the economic cost of providing our Delivery Service. With this approach, consumers can make efficient decisions about which form of energy to use and when to use it, which in turn contributes to economic welfare. Recognising these high-level objectives, the following considerations influence our pricing decisions. In many situations it is necessary to achieve an appropriate trade-off or balance between the various competing considerations.

2.1 Delivery Services

The primary services BEL provides to consumers are as follows:

- **Demand/Capacity** – access to an agreed level of electricity supply
- **Reliability & Security** – in simple terms keeping the power on
- **Power Quality** – ensuring quality of supply is within acceptable/regulatory limits
- **Load Control** – control of load e.g. electric hot water heating to minimise collective costs
- **Fault Repair** – repair and restoration of electricity supply on an on-call 24/7 basis

2.2 Delivery Prices, Line Charges & Retailer Charges

Delivery Prices are used to determine the Delivery Charges – also commonly referred to as Line Charges – which will be levied on a Retailer for their customers use of BEL’s network. Distributors are paid by Retailers on a monthly basis as part of the Retailer Billing process, and the billing quantities (for example the number of connections and energy consumption) are normally explicitly itemised at the individual consumer level in the Retailer Billing data. As a result, the Delivery Charges for every connection can be readily identified by the Retailer and Distributor.

In terms of the charges consumers see of their power account with their Retailer, the Retailer will either:

- Separately disclose the different components of their overall electricity bill in relation to electricity (energy) charges, delivery charges, administration charges, metering charges and/or Electricity Authority levy etc,
- Or alternatively repackage and include one or more of the charge components listed above into their own retail prices, in which case the charge components are not disclosed separately.

While the Distributor also has the option of billing consumers directly for their delivery service, this is not the common/standard practice, and is generally only considered for the billing of the largest consumers. BEL currently does not direct bill any consumers.

2.3 Economic Considerations

In terms of the structure of our pricing, we aim to ensure that our pricing is economically efficient, which means that:

- Customers choosing to use our network should face the appropriate cost of that decision and be incentivised to weigh up the value of the service and the cost of alternatives,
- And consequently, investments in our network over time will be at an appropriate level and in the interest of consumers.

2.4 Even-Handedness & Practical Considerations

BEL takes into account the need for even-handedness and practicality in determining Price Categories, cost allocations and the structure of our pricing. Specifically, we:

- Apply price averaging over large groups of connections, because it is generally not practical to single out individual connections for cost-specific delivery pricing,
- Recognise that all consumers should share in the benefits of greater utilisation of shared assets (and other enhanced economies of scale),
- Recognise that consumers change their demand behaviour only over relatively long periods of time, and it is important that we provide compelling and consistent pricing incentives aimed at maximising the efficient utilisation of our assets (for example, low night-time prices that support off-peak usage),
- Seek to make our price signals effective by balancing strong price signals with easily understood application and measurement,
- Treat connections with similar electrical attributes consistently,
- Set prices that are the same for all retailers, providing a 'level playing field' to promote retail competition.

2.5 Regulatory Considerations

EDB's are subject to the Electricity Distribution Information Disclosure Determination (IDD) 2012¹ determined pursuant to Part 4 of the Commerce Act 1986. In the Determination, Clauses 2.4.1 – 2.4.5 set out the requirements for BEL to disclose its Pricing Methodology, including:

¹ https://comcom.govt.nz/_data/assets/pdf_file/0025/78703/Electricity-distribution-information-disclosure-determination-2012-consolidated-3-April-2018.pdf

- Target Revenue information
- Discussion of the extent of consistency of the Pricing Methodology with the Pricing Principles² – administered by the Electricity Authority and last updated in July 2019
- Pricing Strategy
- Approach to pricing for non-standard contracts and distributed generation
- Disclosure of consumer consultation on price and quality

The Commerce Commission notes that pricing disclosures help interested persons to understand:

- How prices are set and enable comparison between the different Price Categories
- How efficiency is promoted
- Whether they are sharing the benefits of efficiency gains with other consumers.

Additional regulatory guidance for BEL in preparing its pricing methodology comes from the Low Fixed Charge (LFC) Regulations 2004³ which applies to Residential consumers. An Amendment⁴ to these Regulations, which provides for the phasing out of Low Fixed Charge based pricing over a 5-year period from 1 April 2022, has been passed into law in November 2021.

As a consumer-owned EDB BEL is exempt from the Commerce Commission's Default Price-Quality Path (DPP) regime⁵ which began its 3rd 5-year control period on 1 April 2020. While exempt EDB's are subject to a lower level of scrutiny in comparison with their non-exempt peers, BEL has determined that it is in our interests, the interests of its consumer-owners, and the interests of consumers connected to the BEL network, to align its Pricing Methodology and practices to those of our non-exempt peers. A key aspect of this is industry benchmarking, so far as practically possible, using information available from the Information Disclosure Determination (IDD).

2.6 Changes to the Pricing Methodology

BEL's Pricing Methodology has not been significantly changed or modified for the 2022/23 financial year.

² <https://www.ea.govt.nz/dmsdocument/25436-more-efficient-distribution-prices-principles-and-practice>

³ <http://www.legislation.govt.nz/regulation/public/2004/0272/latest/DLM283614.html>

⁴ https://www.legislation.govt.nz/regulation/public/2021/0391/latest/whole.html?search=ts_act%40bill%40regulation%40deemedreg_Electricity_resel_25_a&p=1#LMS600815

⁵ <https://comcom.govt.nz/regulated-industries/electricity-lines/projects/2020-2025-default-price-quality-path>

2.7 Retailer & Consumer Communications

While BEL has not undertaken formal consultations on pricing with our consumers for a number of years, price-quality trade-off related questions are routinely included in the consumer surveys we undertake on a bi-annual basis. The most recent of these surveys was undertaken in mid-2021 and the majority of respondents have indicated that they are satisfied with the status quo, and are not inclined to trade-off current reliability levels for higher or lower prices.

2.8 Pricing Strategy

BEL is committed to establishing a formal and prescribed Pricing Methodology, as well as overall Company processes and a decision-making framework, which results in desirable outcomes in relation to the economic, social and regulatory considerations associated with our network and detailed in this document.

Our high-level Delivery Pricing Strategy has been approved by the BEL Board and is as follows:

Our Delivery Pricing Strategy

We aim to set our Delivery Prices to provide sufficient revenue to recover our prudent and efficient costs, including our cost of capital, while seeking to comply with the regulations.

We aim to reflect the long-term economic costs of providing consumers with the quality of delivery service that they require. Cost recovery is fundamental to retaining our incentives to invest in our network in the long-term interests of consumers. In structuring and setting our prices we take a medium to long term view, and we consider economic efficiency, equity and practicality. We seek to ensure that our pricing is economically efficient, which means that customers who use our network face the appropriate cost of that use, and are incentivised to weigh up the value of our delivery service and the alternatives. Cost-reflective prices should help to ensure that our investments in our network over time will be at an appropriate level.

Recognising that consumer capital contributions are a component of the overall recovery of our costs – in simple terms the level of contributions determines how much is recovered up front as opposed to on an ongoing basis – we incorporate our approach to contributions into our set of pricing documentation.

In determining Price Categories, cost allocation and the structure of our pricing we:

- apply price averaging over large numbers of connections, because it is generally not practicable to single out individual connections for cost-reflective delivery pricing. Where it is practicable to do so we allocate assets and costs to the specific connection categories that use them,
- recognise that all consumers should share in the benefits of greater utilisation of shared assets and economies of scale,
- recognise that consumers generally change their demand behaviour over relatively long periods of time, and it is important that we provide compelling and consistent pricing incentives aimed at maximising the efficient utilisation of our assets,

- seek to make our prices effective, by balancing strong price signals with simple application and measurement,
- set prices that are the same for all retailers, providing a 'level playing field' to promote retail competition.

Key considerations relating to our pricing over the next five years include:

- our developing thinking on sustainability and the way we manage the trade-offs between the environmental and affordability aspects of the energy trilemma (the balance of affordability, security of supply and carbon intensity) in New Zealand's transition to a low carbon economy,
- preserving incentives for managed water heating load and off-peak network consumption,
- the impact of changing use of the network due to emerging technologies such as distributed generation, battery storage, off-grid systems, and electric vehicles,
- the recommendations of the Government's Electricity Price Review, in particular its recommendations regarding the low fixed charge regulations,
- the Electricity Authority's:
 - continuing review of Transpower's transmission pricing methodology (TPM),
 - recent review of the pricing principles and associated practice note and scorecards.

The way we implement our pricing strategy is updated and publicly disclosed in our Pricing Methodology document. We usually change our delivery prices on 1 April each year.

2.9 Future Pricing Objectives

With the significant changes which were made to our Pricing Methodology for the 2021/22 financial year BEL has completed a major part of its existing distribution pricing reform work program. In comparison our further plans for the adoption of more efficient distribution pricing are considered to be relatively minor – the details of which can be found on our website [here](#).

Options for distribution pricing reform which BEL Management and Board have currently decided are not to be considered are:

- Increasing the overall level of fixed revenue in any Price Category to be greater than 50%
- Urban/rural locational pricing differentiation

BEL also recognises the economic impacts electricity price increases have had on members of our community and one of our pricing objectives is where possible to the minimise any increases to Residential consumers.

3. Overview of the Price-Setting Methodology

This section provides an overview of the Price-Setting Methodology BEL uses to determine electricity Delivery Prices. The major tasks which comprise the Price-Setting Process are as follows:

- Determining the Target Revenue
- Review (and possible change) the Price Categories & Price-Structure
- Allocation of costs to the Price Categories and Price-Calculation

The nature of these tasks is detailed below, and this is followed by a discussion on the difference between Traditional and Cost-Reflective Price-Setting Methodologies, and how BEL’s current Pricing Methodology aligns.

3.1 Determining the Target Revenue

The Target Revenue is obtained using a building blocks approach from the budgets and [Asset Management Plan](#) as shown in Figure 1. The budget takes into consideration the costs associated with providing an electricity delivery service to consumers including network maintenance, asset base depreciation, transmission costs, business support (administration) and cost of capital.

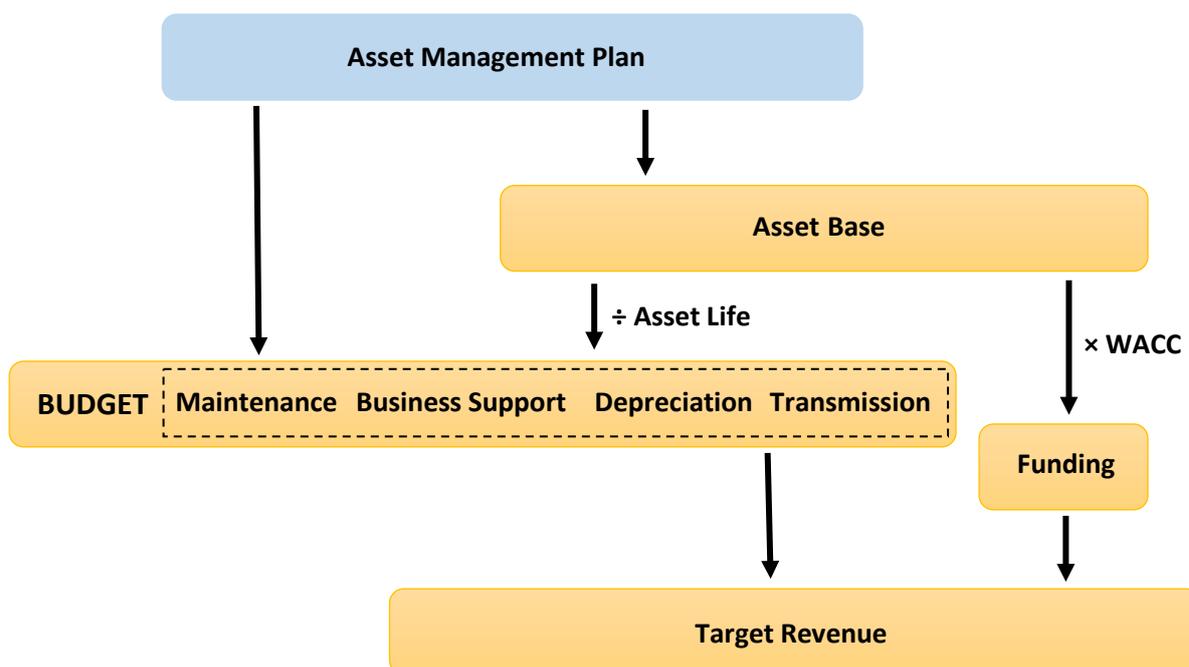


Figure 1 Process for Determining the Target Revenue

3.2 Price Category & Price-Structure Review

Consumer connections are categorised into Consumer Groups (Electricity Registry Price Categories) which have similar maximum demand, capacity, network usage characteristics, and other electricity delivery cost drivers. These categories are reviewed annually using information from our consumer database, Pricing Strategy and historic Retailer Billing & consumption data.

The Price-Structure is reviewed annually with reference to BEL's Pricing Policy & Strategy. It determines the manner in which the Target Revenue will be collected from the Price Categories in relation to:

- The proportion of Revenue to be collected as Fixed Revenue versus Variable Revenue/Charges
- Application of locational price differentiation
- The types of Fixed Charge which are to be applied e.g. Fixed Daily Charge (\$/Con/Day) or Fixed Demand/Capacity Charge (\$/kW/Day)
- The Variable (consumption) Charge types to be applied e.g. Uncontrolled, Controlled, All Inclusive, Day, Night and/or Time-of-Use (TOU)

The Price Categories and Price-Structure provides the platform/framework/foundation on which the later Cost Allocation & Price-Calculation tasks of the overall Price-Setting Methodology are undertaken. Price Categories are generally stable from year to year, and any significant changes would generally require consultation with Retailers and/or consumers well in advance of when BEL completes the annual Price-Setting process in November/December each year.

The Price Categories and Price-Structure, in conjunction with the associated historic data, allow Retailer Billing quantity forecasts to be made, which are key inputs to the following Cost Allocation and Price-Calculation tasks of the Price-Setting Methodology.

BEL made significant changes to the Price Categories used for the implementation of our pricing for the 2021/22 financial year. These Price Categories are to be retained in 2022/23 and we do not envisage there will be major changes to these in the short/medium-term future.

3.3 Cost Allocation & Price-Calculation

The Cost Allocation & Price-Calculation tasks of the Price-Setting Methodology are depicted in Figure 2 where the blue boxes represent inputs. The Target Revenue is allocated to the Price Categories using the Cost Allocation Algorithm. This algorithm identifies the costs associated with the electricity delivery service provided to each Price Category, with the end result being the Target Price Category Revenue.

Price-Calculation involves determining the individual prices which will be applied to the Retailer Billing qualities e.g. number of consumers, Chargeable Capacity and electricity consumption, to calculate the expected Revenue for each Price Category. The previous year's prices are normally used as an initial estimate of the following years prices, and these prices are then modified in an iterative manner, with a goal of achieving the best pricing solution subject to a range of criteria such as:

- The desired proportion of fixed versus variable Revenue
- Overall Price Category revenue impacts, and possibly also the charge impacts at the individual consumer level if deemed necessary
- The difference between the Target Revenue and Forecast Revenue for each Price Category
- The difference between the overall Target Revenue and Forecast Revenue
- The percentage change in prices between years

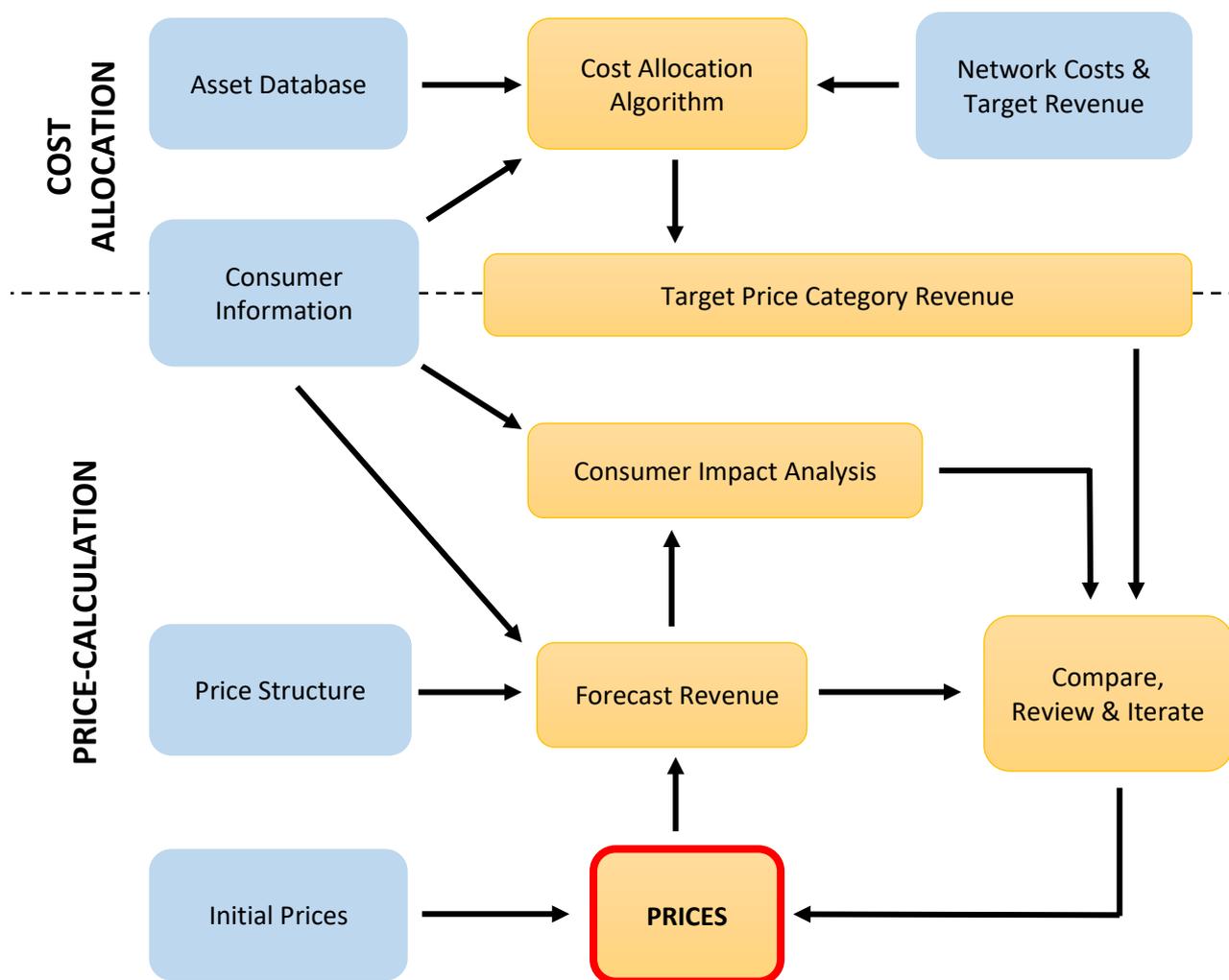
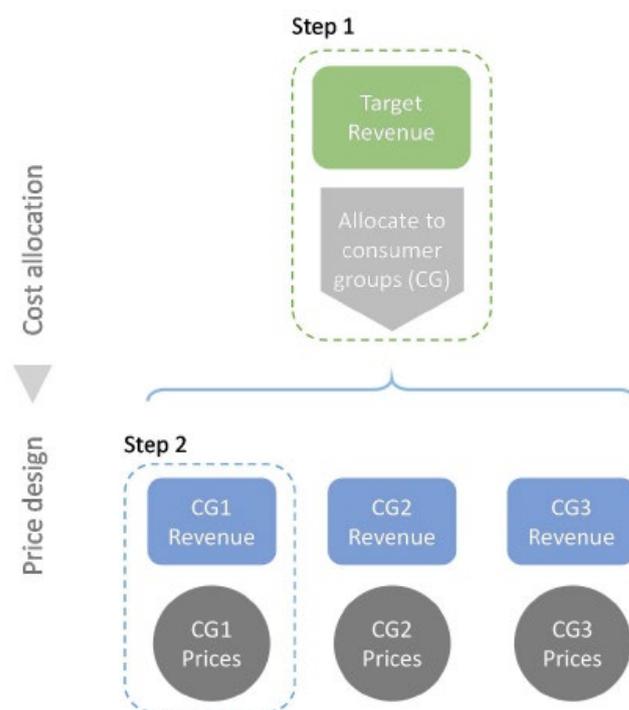


Figure 2 Cost Allocation & Price-Calculation Tasks of the Price-Setting Methodology

3.4 Traditional & Cost-Reflective Price-Setting Methodologies

The Electricity Authority updated the Pricing Principles in its Distribution Pricing Decision Paper⁶ released in July 2019, published a Distribution Pricing Practice Note⁷ in August 2019, and further update to this Practice Note⁸ in December 2021. In Figure 1 of the 2019 Practice Note the Authority provided diagrams which highlight the differences which exist between Traditional & Cost-Reflective Price-Setting Methodologies – and these diagrams are reproduced in Figure 3 and Figure 4 for reference.



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A Cost-Reflective Price-Setting Methodology is essentially a Traditional Price-Setting Methodology with an additional initial step where:

⁶ <https://www.ea.govt.nz/dmsdocument/25436-more-efficient-distribution-prices-principles-and-practice>

⁷ <https://www.ea.govt.nz/dmsdocument/25528-distribution-pricing-practice-note-august-2019>

⁸ <https://www.ea.govt.nz/assets/dms-assets/29/Distribution-Pricing-Practice-Note-2021-2nd-edition.pdf>

⁹ 'Price Design' includes the separate BEL pricing tasks we referred to as 'Price-Structure Review' and 'Price Calculation'

- The Economic Cost is allocated to the Price Categories and appropriate cost-signalling prices are calculated to recover these costs. The combined forecast revenue associated with these signalling-prices is referred to as the Forecast Signalling Revenue
- The Residual Costs (Target Revenue less Forecast Signalling Revenue) are then allocated to the Price Categories using a (modified) Traditional Price-Setting Methodology – which results in the least distortion in network use – and appropriate prices are calculated to recover these costs

With regard to the Authority’s Price-Setting terminology, Price Design refers to combination of the separate BEL pricing tasks which we refer to as:

- Price-Structure Review
- Price-Calculation

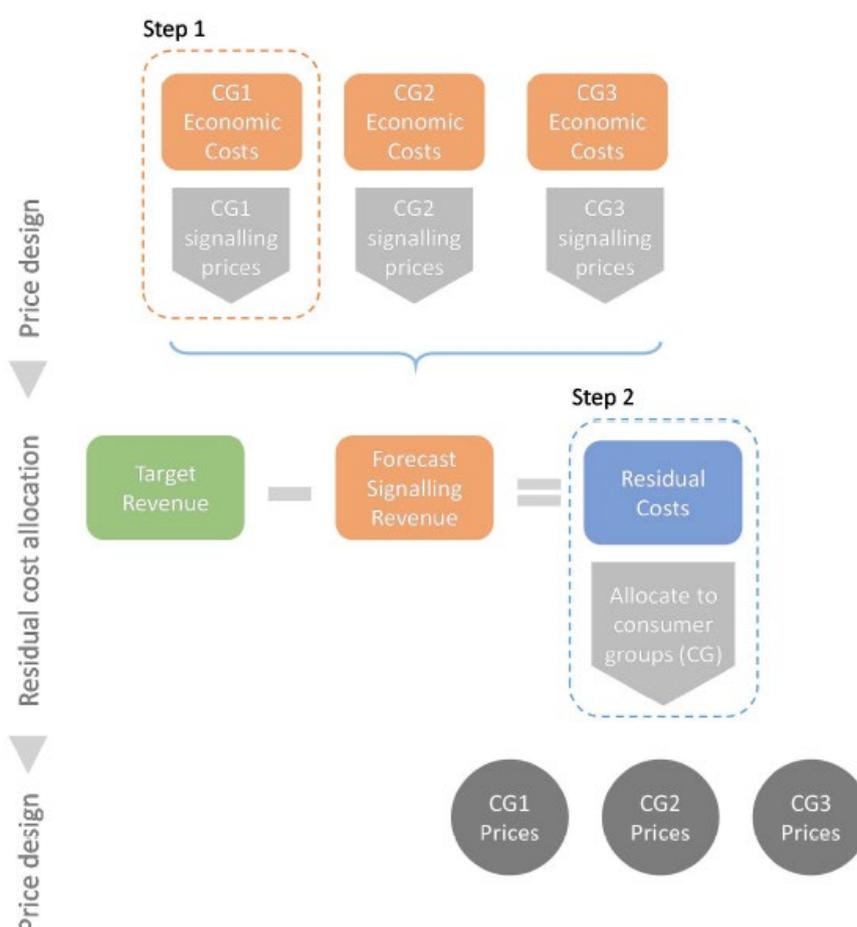


Figure 4 Price-Setting Methodology – Cost-Reflective

The Price-Structure Review and Price-Calculation tasks differ in the sense that the Price-Structure provides the platform/framework on which the Price-Calculation is undertaken. Price-Structure changes will often require Retailer/consumer consultation as they are generally more permanent and/or significant, for example the introduction of a new price component or significant change in the proportion of fixed revenue. Retailer/consumer consultation takes time and as the Price-

Structure is generally not changed regularly, we use the term 'review' as more often than not it is a review rather than a change.

In contrast Price-Calculation is undertaken annually and prices generally change from year to year. Price changes generally only require Retailer/consumer notification, rather than consultation, provided the price/charge changes are within reasonable bounds and do not constitute price shocks.

Historically BEL's Pricing-Setting Methodology has taken the form of a Traditional Price-Setting Methodology and this continues to be the case for 2022/23. It is however noted that in the situation where the Economic Costs are zero (or near zero), the Cost-Reflective Methodology reverts to the form of a Traditional Price-Setting Methodology e.g. no initial step to determine the signalling-prices and Signalling Revenue is required.

BEL is of the view that the Economic Costs associated with our Price Categories is currently zero for the following reasons:

- Network demand has not experienced growth in recent years and this is forecast to continue in the foreseeable future
- Significant spare capacity exists on our network and there are no congestion issues
- No capex expenditure is forecast to manage network growth or relieve constraints

BEL's Asset Management Plan 2021-31, available from our website [here](#), provides details on our Load Forecasts, Constraints & Proposed Capex Program in Sections 6.6 – 6.8 respectively. Section 6.8.2 states that, as BEL is forecasting zero growth for the 2021-31 planning period no allowance has been made for capex expenditure for system growth.

Given this information BEL is of the view that the Price-Setting Methodology we have been using for a number of years is, and continues to be, consistent with a Cost-Reflective Price-Setting Methodology.

3.5 Locational Price Differentiation

Lower density rural areas require a greater level of investment for each consumer connection, both in terms of establishing connections and maintaining the network. While this provides a basis for applying higher prices to our consumers in rural and remote rural areas BEL's current policy is to not implement locational price differentiation. Our reasons for this are outlined as follows:

- Rural consumers make a greater (capital) contribution when first connecting to the network and this provides a clear locational signal
- We are conscious that rural customers receive a lower level of service with a greater number of faults and longer restoration times, and this somewhat offsets the higher on-going costs of supply to rural areas
- We recognise that consumers have made long-term investment and/or consumption decisions on the basis of expectations that have been shaped from past pricing arrangements. Significant increases in our prices to rural connections does not support these previous decisions and/or provide price stability.

- A significant proportion of the existing rural and remote network was funded via the Rural Electrical Reticulation Council (RERC) which operated from 1946 to 1993, rather than by our connected consumers (owners)

BEL understands it costs the Company much more to provide supply to our rural consumers and their level of service is relatively lower. Improving this cost/service equation is not possible using the existing electricity supply technology. In the longer term the best available option available to low use rural consumers may be off-grid supply as the cost of these generation + battery solutions decrease. BEL also recognises that rural consumers have made long term investment decisions in connecting to the network, and as electricity is a social service the Company is committed to ensuring that a reliable and cost-effective supply continues to be made available.

How BEL addresses pricing has the potential to create significant implications for the future use of our network in both urban and rural areas. With the continual decrease in the cost of new technologies, such as off-grid and alternative energy storage systems, we are actively monitoring the relevant economic factors and the long-term benefits which exist to consumers, BEL, and the wider community. Given the higher costs associated with rural connections, off-grid supplies in these areas will in general become economic before those in urban areas.

4. Target Revenue

As a consumer-owned Electricity Distribution Business (EDB), BEL is exempt from the Default Price Path (DPP) regime administered by the Commerce Commission. However, BEL has determined that it is in its interests, the interests of its consumer-owners, and the interests of consumers connected to the BEL network, to align its Pricing Methodology to that of its non-exempt peers. It is therefore integral to BEL's Pricing Methodology that a 'building blocks' approach is used to determine the appropriate level of costs to be recovered – this being the Target Revenue required for the year.

BEL has two subsidiaries – a wholly owned electrical contracting business and an investment holding company which holds c.47% of a limited partnership electricity retail business. BEL's pricing approach for the network business is on a standalone basis and is not influenced or diluted by any of the subsidiary businesses.

4.1 Target Revenue Components

The Target Revenue has been determined to be \$7,684k for the 2022/23 financial year, and consists of the following major cost components (also see Figure 5):

- **Maintenance \$1,482k**
Non-capital investment costs which are directly associated with maintaining the distribution network assets. Network operational costs are included in Maintenance.
- **Transmission Costs \$446k**
Costs paid to Transpower for our connection to the national transmission grid together with 'Avoided Transmission' costs paid to local generators. These are referred to as *Recoverable Costs* by the Commerce Commission.
- **Business Support \$2,667k**
Includes the other indirect costs (such as Administration and Overhead costs) necessarily incurred in providing the distribution service. Pass-through costs (another term used by the Commerce Commission) includes some industry levies and Local Authority rates, and these are also included in Business Support costs.
- **Depreciation \$1,567k**
Capital investment in distribution network assets is recovered over their useful life as depreciation
- **Return on Investment \$1,512k**
Comparable to a post-tax Weighted Average Cost of Capital (WACC)

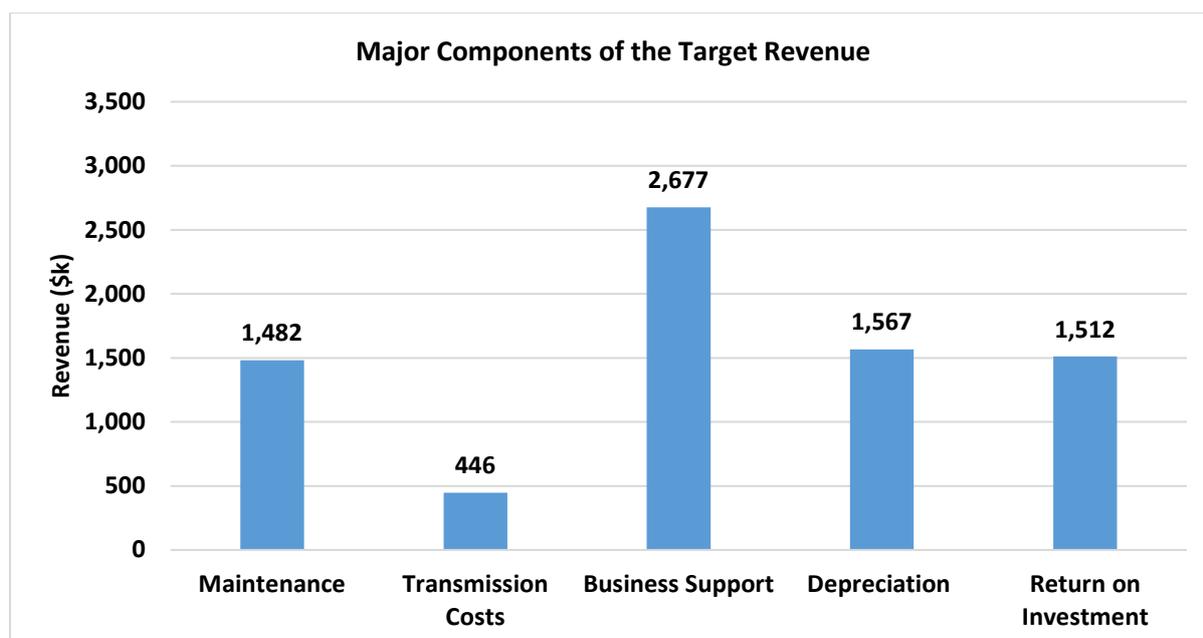


Figure 5 Major Components of the Target Revenue

4.2 Capital Contributions

In addition to the Line Charge revenue BEL also receives capital contributions from consumers that require new or upgraded connections to our network. As the requirement for a capital contribution can only be determined once details of the specific connection are known, BEL does not have a schedule of charges. However, as there is a high degree of consistency in prices for similar categories of connection, the level of capital contribution is transparent to consumers. Being a small rural based network with limited growth, and limited or no building of network extensions, the level of capital contributions compared with our Target Revenue is very low, and as a result the value budgeted for this revenue is zero.

4.3 Discretionary Discounts and Rebates

BEL does not have specific policies in place regarding discretionary discounts or rebates. Any decision to provide a discount or make a rebate will be determined by the BEL Board following input from management and our Trust owners.

4.4 Metering and Load Control Equipment

Whilst BEL sold its metering and ripple control relays to TrustPower in the late 1990's following the deregulation of the electricity industry, it retained the equipment and operational services for sending out load control signals (ripple signals) and BEL charges consumers for this service. The costs associated with providing this load control service is included in the Business Support component of the Target Revenue.

5. Price Categories

Consumer connections are categorised into Price Categories (Electricity Registry Price Categories) which have similar maximum demand, connection capacity, network usage characteristics, and other energy delivery cost drivers in order to simplify the processes of:

- Price-Setting
- Revenue recovery via Retailer Billing
- Administration
- Meeting Regulatory requirements e.g. Low Fixed Charge (LFC) Regulations 2004

The key cost drivers for the supply of electricity to consumers are identified as being maximum demand, connection capacity, connection assets, network usage characteristics and location. For the time being BEL does not take into consideration location in setting Delivery Prices, and as a result the costs associated with locational variation is averaged across BEL's distribution region.

BEL has adopted the standard practice of separating Residential from Commercial/Industrial/Business (General) connections and the Price Categories listed in Table 1 are being used to determine and apply Delivery Prices in 2022/23.

Price Category 2022/23	Price Category / Connection Description	Anytime Maximum Demand (AMD)	No. of Connections	Fixed Charge Type
RSU	Residential Standard User	AMD ≤ 15kW	1,484	\$/Con/Day
RLU	Residential Low-User	AMD ≤ 15kW	2,659	\$/Con/Day
G15	General Connection – Small	AMD ≤ 15kW	408	\$/Con/Day
STL	Streetlight Connection	AMD ≤ 15kW	46	\$/Con/Day
G69	General Connection – Medium	69kW ≥ AMD > 15kW	86	\$/kW/Day
DFM	Dairy Farm Connection		67	\$/kW/Day
GHH	General Connection – Large	1,000kW ≥ AMD > 69kW	6	\$/kW/Day
STK	Large Industrial Connection	> 1,000kW	1	\$/kW/Day
Total			4,757	

Table 1 Price Categories and Number of Connections (forecast) 2022/23

5.1 Residential Connections

Residential Standard User (RSU) and Residential Low User (RLU) Delivery Prices are set so that a typical connection using 8,000kWh annually would experience the same annual Line Charges on either Standard or Low User prices – as required by the Low Fixed Charge (LFC) Regulations 2004. Consumers using more than 8,000kWh will generally be better off on Residential Standard User pricing, while those using less than 8,000kWh will generally be better off on Residential Low User pricing.

The average Residential consumer connected to the BEL Network uses 5,045kWh annually, and as a result it is expected that most Residential consumers would be better off on Residential Low User pricing. Only connections which are the primary place of residence are eligible for low user pricing.

A recent Amendment¹⁰ to the Electricity Regulations allows Distributors to phase out Residential Low User Pricing from 1 April 2022. The Fixed Daily Charge for these users (previously set at \$0.15/Con/Day) can now be increased by \$0.15 each year for the next 5 years, at which time the Standard User and Low User Residential categories will be amalgamated. BEL is of the view that it is appropriate for us to phase out our pricing to Low Users in this manner and we have decided to implement this option.

5.2 Non-Residential Connections – AMD Based Pricing

BEL significantly restructured its pricing for Non-Residential connections from 1 April 2021 including the adoption of an Anytime Maximum Demand (AMD) based Pricing Structure. For connections for which a Fixed Capacity Charge (\$/kW/Day) applies the half-hour AMD is used as the Chargeable Capacity rather than the Connection Capacity (design or maximum capacity of the connection) as is most commonly the case for the implementation of distribution pricing in New Zealand.

The Chargeable Capacity is currently reassessed on an annual/bi-annual basis subject to the availability of Smart Meter data, or as otherwise deemed appropriate following an upgrade or material change of use. Chargeable Capacity is determined for the 12-month period ending 31 August and applied for charging at the start of the following financial year (1 April). Full details of our Chargeable Capacity assessment process and our decision to adopt AMD based pricing are provided in our [Pricing Policy](#).

¹⁰https://www.legislation.govt.nz/regulation/public/2021/0391/latest/whole.html?search=ts_act%40bill%40regulation%40deemedreg_Electricity_reselel_25_a&p=1#LMS600815

5.3 Temporary Connections

BEL does not have a specific Price Category for temporary connections as these are treated in the same manner as permanent connections. Temporary supplies are always metered connections. Builders Temporary Supplies (BTS) for the construction of new homes are normally categorised as Residential connections, although some Retailers choose to set these up as General connections during the construction period.

5.4 Unmetered Connections

BEL does not have a specific Price Category or pricing for unmetered load. The most significant unmetered load consists of approx. 150 Buller District Council streetlights (recorded in the RAMM streetlight database), which are aggregated onto a single Distributed Unmetered Load (DUML) ICP on the Electricity Registry.

Phone Booths and Cabinets are also unmetered and are charged as General connections on individual ICPs at the standard rates of consumption for these loads.

5.5 Streetlight Connections

A new Price Category specifically for Streetlight connections was created at the beginning of the 2021/22 financial year. While the overall proportion of network energy consumption is less than 1% for this Price Category, the specific asset usage and consumption profile warrants a separate pricing for this connection type.

5.6 Dairy Farm Connections

A new Price Category specifically for Dairy Farm connections was created for the 2021/22 financial year. BEL has identified Dairy Farm milking sheds as making up a significant proportion of the load on our rural 11kV network (approx. 40%). The vast majority of Dairy Farm connections have a half-hour Anytime Maximum Demand (AMD) greater than 15kW.

5.7 Irrigation Connections

BEL does not have a specific Price Category for irrigation load as this type of connection does not represent a significant proportion of the load on our network.

6. Price Category Revenue/Cost Allocation

The Cost Allocation Algorithm allocates the components of the Target Revenue detailed in Section 4 to the Price Categories. The Allocation Parameters listed in Table 2 are used to undertake this allocation as they are considered the most appropriate to provide a Price Category Target Revenue which is cost-reflective and service-based. The Price Category Allocation Parameters which form a part of the Cost Allocation Algorithm are listed in Table 5-7 and are shown graphically in Figure 7.

Target Revenue Component	Allocation Parameter	Cost (\$k)
Maintenance	Asset %	1,482
Transmission Costs	Energy %	446
Business Support	Energy %	2,677
Depreciation	Asset %	1,567
Return on Investment	Energy %	1,512
Total		7,684

Table 2 Cost Allocators used to allocate the Target Revenue Components to the Price Categories

Parameter	Input/Output	Description	Section
Connection %	Input	Number of Connections as a Proportion of the Total	6.1
Energy %	Input	Energy Consumption as a Proportion of the Total	6.2
Asset %	Output	Value of Assets Used as a Proportion of the Total	6.3
Revenue % / Cost %	Output	Revenue/Cost Allocation as a Proportion of the Total	6.4

Table 3 Price Category Allocation Parameter Description

6.1 Allocation Parameter – Connection %

This parameter is the forecast average number of Active connections in each Price Category for the 2022/23 financial year as a proportion of the total number of connections. Due to the static and limited growth of network connections these are taken to be the number of connections as of 1st November 2021.

Parameter	RSU	RLU	G15	STL	G69	DFM	GHH	STK	Total
Connection (#)	1,484	2,659	408	46	86	67	6	1	4,757
Energy (GWh)	9.3	11.6	4.1	0.2	5.6	4.2	4.8	9.8	49.6
Asset Value (\$k)	9,647	12,488	4,114	215	5,354	3,125	3,531	3,588	42,063
Revenue/Cost (\$k)	1,568	1,989	681	34	911	619	705	1,176	7,684

Table 4 Allocation Parameters – Value

Parameter	RSU	RLU	G15	STL	G69	DFM	GHH	STK	Total
Connections %	31.2%	55.9%	8.6%	1.0%	1.8%	1.4%	0.1%	0.0%	100%
Energy %	18.8%	23.4%	8.3%	0.4%	11.3%	8.5%	9.7%	19.8%	100%
Asset %	22.9%	29.7%	9.8%	0.5%	12.7%	7.4%	8.4%	8.5%	100%
Revenue/Cost %	20.4%	25.9%	8.9%	0.4%	11.9%	8.1%	9.2%	15.3%	100%

Table 5 Allocation Parameters – Percentages

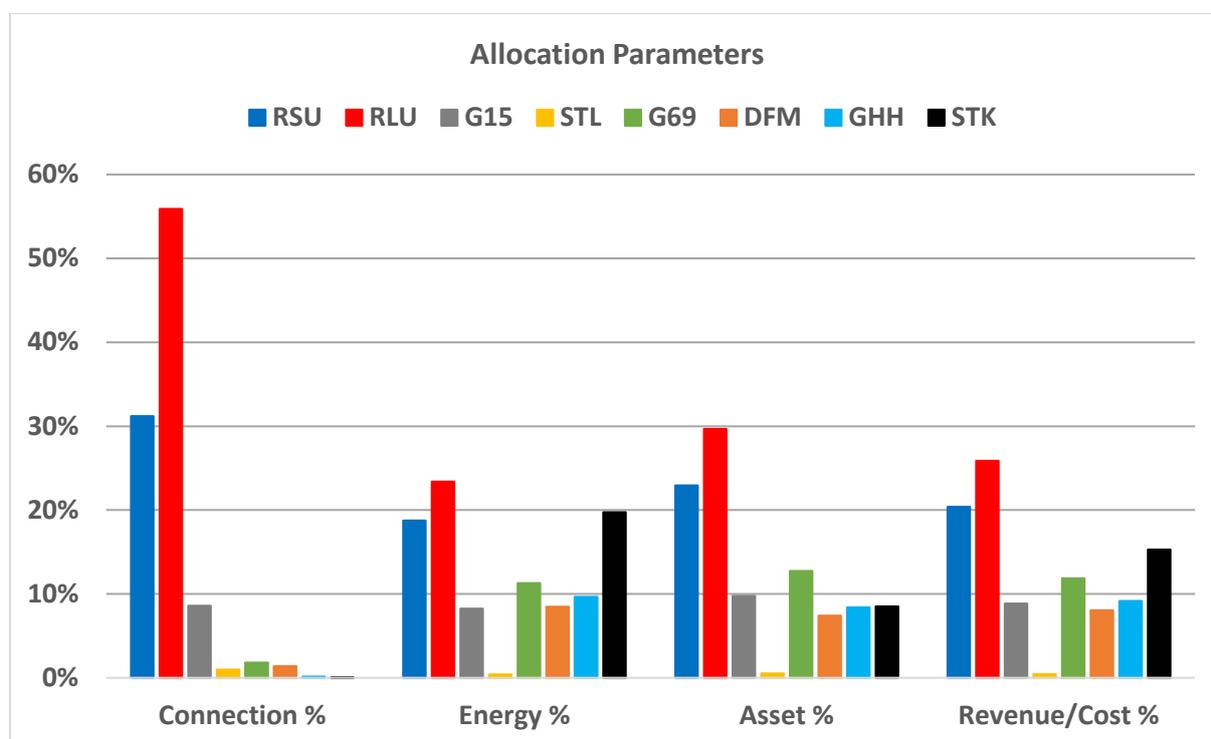


Figure 6 Price Category Allocations

6.2 Allocation Parameter – Energy %

This parameter is the forecast energy consumption (kWh) in each Price Category for the 2022/23 financial year as a proportion of the total energy consumption. These quantities are estimated using historic Retailer Billing data in conjunction with the forecast number of connections.

6.3 Allocation Parameter – Asset %

This parameter is the value of the different network Asset Classes obtained from BEL's Asset Database and the chosen Allocation Parameters are listed in Table 6. For certain Asset Classes the Energy % Allocation Parameter is modified to account for the extent to which a Price Category makes use of the Asset Class as follows:

- **Zone Substations & 33kV Network** – STK is deemed to utilise 33% of these Asset Classes
- **11kV Network** – Not used by Price Categories GHH & STK so they are excluded
- **400V Network** – Not used by Price Categories DFM, GHH & STK so they are excluded

In each case the remaining components of the Energy % Allocation Parameter have been uniformly scaled so that the modified Energy % Allocation Parameter sum to unity. The resulting values of the Allocation Parameters along with the calculated Price Category Asset Value and Asset % are provided in Table 7.

Asset Class	Allocation Parameter	Asset Value (\$k) ¹
110kV + GXP Assets	Energy %	3,143
Zone Substation	Energy % + STK = 33%	2,971
33kV Network	Energy % + STK = 33%	6,017
11kV Network	Energy % + STK Excluded	20,710
400V Network	Energy % + DFM/GHH/STK Excluded	6,542
SCADA	Connections %	1,779
Generators	Connections %	901
Total		42,063

Table 6 Asset Class, Allocation Parameter and Asset Value

¹ Asset Values were last updated for the 2018/19 pricing year

Allocation Parameter	RSU	RSL	G15	STL	G69	DFM	GHH	STK	Total
Energy %	18.8%	23.4%	8.3%	0.4%	11.3%	8.5%	9.7%	19.8%	100%
+ STK = 33%	15.7%	19.5%	6.9%	0.3%	9.4%	7.1%	8.1%	33.0%	100%
+ STK Ex	23.4%	29.1%	10.3%	0.5%	14.1%	10.6%	12.1%	–	100%
+ DFM/GHH/STK Ex	30.2%	37.7%	13.3%	0.6%	18.2%	–	–	–	100%
Asset Value (\$k)	9,647	12,488	4,114	215	5,354	3,125	3,531	3,588	42,063
Asset %	22.9%	29.7%	9.8%	0.5%	12.7%	7.4%	8.4%	8.5%	100%

Table 7 Modified Energy % Allocation Parameters, Asset Value & Asset %

6.4 Allocation Parameter – Revenue/Cost %

The Cost Allocators are applied to the Target Revenue Components (see Table 2) to obtain Target Price Category Revenue as detailed in Table 8.

Revenue Component	RSU	RLU	G15	STL	G69	DFM	GHH	STK	Total
Maintenance	340	440	145	8	189	110	124	126	1,482
Transmission Costs	84	104	37	2	50	38	43	88	446
Business Support	502	626	221	11	302	227	259	529	2,677
Depreciation	359	465	153	8	199	116	132	134	1,567
Return on Investment	284	354	125	6	171	128	146	299	1,512
Total	1,568	1,989	681	34	911	619	705	1,176	7,684
Revenue/Cost (%)	20.4%	25.9%	8.9%	0.4%	11.9%	8.1%	9.2%	15.3%	100%

Table 8 Allocation of the Target Revenue Components to the Price Categories

7. Price-Structure & Price-Calculation

This Section firstly documents the Price-Structure on which the Price-Calculation task is performed:

- Fixed Revenue Proportion
- Fixed Charges – Price Components
- Variable Charges – Volume Price Components

The results of the Price-Calculation and the Forecast Price Category Revenue for the 2022/23 financial year are then presented. A full list of the Price Components which exist in the different Price Categories is provided in Appendix A – Price Schedule.

7.1 Fixed Revenue Proportion

BEL has currently settled on an overall Fixed Charge proportion of 50% in each Price Category, and we are of the view that this provides a good balance between fixed and variable charges and is entirely defensible and reasonable. BEL considers that in terms of following Good Electricity Industry Practice, and being a prudent network operator, it is in our interests to maintain incentives for managed water heating load and off-peak network use as per our Pricing Policy.

While the Economic Costs associated with the operation of our network are near zero, the pricing guidelines issued by the Electricity Authority advocate that BEL should collect all Revenue (being entirely made up of Residual Costs) as Fixed Charges. BEL considers this is unrealistic with a maximum possible value for proportion of Fixed Charges being in the range 66-75% if incentives for water heating load and off-peak network usage are to be preserved.

Furthermore, contrary to the Authority's assertion we are of the view that Fixed Charges also incentivise consumers to modify their use of the network due to the step changes which exist at Fixed Charge pricing boundaries. The greater the proportion of Fixed Charges the greater the incentive. We have explained this in detail in our October 2021 Distribution Pricing Consultation Submission¹¹.

7.2 Fixed Charges – Price Components

Fixed Daily Charge – \$/Con/Day

Fixed Daily Price Components (\$/Day, \$/ICP/Day or \$/Con/Day) are applied to consumers in Price Categories RSU, RLU, G15 and STL. For Residential Low User consumers (Price Category RLU) the fixed price amount is set at \$0.30/day by the LFC regulations 2004.

¹¹ <https://www.ea.govt.nz/assets/dms-assets/29/Buller-DP-Practice-Note-submission-2021.pdf>

Fixed Capacity Charge – \$/kW/Day

Fixed Capacity Price Components (\$/kW/Day) are applied to consumers in Price G69, DFM, GHH & STK. This is a lagged charge where the Chargeable Capacity is the half-hour Anytime Maximum Demand (AMD) in the previous September to August period e.g. for 2022/23 pricing the relevant period is September 2020 – August 2021. This AMD value is also referred to as Chargeable Capacity as this value is recorded in the Electricity Registry in the Chargeable Capacity of the Pricing section. The Fixed Capacity Charge and the Chargeable Capacity assessment process is fully described in BEL's Pricing Policy available [here](#).

7.3 Variable Charges – Volume Price Components

All consumers are subject to variable price components which are dependent on the energy (kWh) units consumed, as recorded by revenue metering. In each Price Category BEL offers Uncontrolled (24 hour), Controlled (for water heating), Day (7am-11pm) and Night (11pm-7am). In addition, BEL has legacy All Inclusive prices in the Residential Price Categories. Our variable prices are set in a manner to incentivise the use of electricity during off peak times (Night), and to encourage consumers to offer their hot water heating as controllable load.

Historically the differential between BEL's Volume Prices e.g. Uncontrolled/Controlled & Day/Night have been wide and different for each Price Category. Starting from 1 April 2021 the ratios between our Volume Prices have been standardised across all Price Categories and a 3-year plan to reduce the differentials between Volume Prices was put in place.

The Volume Price ratios which apply in 2022/23 are detailed in Table 9 as well as the values we intend to use in 2023/24. The 2022/23 ratios have been applied to all Price Categories except for the Residential Low User category, as compliance with the Low Fixed Charge (LFC) Regulations 2004 requires the ratios for this category to be increased from the standard values.

#	Volume Price Ratio	2022/23	2023/24
1	Controlled / Uncontrolled	0.625	0.750
2	All Inclusive / Uncontrolled	0.925	0.950
3	Day / Uncontrolled	1.150	1.100
4	Night / Uncontrolled	0.460	0.550
5	Day / Night	2.500	2.000

Table 9 Standard Variable (Volume/Consumption) Price Ratios

Given that BEL has a Pricing Strategy which seeks to preserve incentives for managed water heating load and off-peak network consumption the 2023/24 ratios given in Table 9 are considered to represent the lowest Volume Price differentials which will satisfy this objective.

7.4 Power Factor

BEL currently does not apply a Power Factor charge to any connections. The provision for such a charge exists as part of the Retailer Agreements in place with the Retailers trading on our network.

7.5 Price-Calculation

The final step in the Price-Setting process is to determine Delivery Prices – the actual values of the fixed and variable price components – so that that the Target Price Category Revenue and overall Target Revenue are forecast to be recovered. With reference to Figure 2 this is the Price-Calculation task of the Price-Setting Methodology.

Given a set of Delivery Prices the Forecast Price Category Revenue can be calculated for each Price Component using appropriate forecasts of the consumer numbers, Chargeable Capacity and energy consumption. BEL's forecasts for 2022/23 take the view that there will be no material increases in energy consumption or consumer numbers.

The previous year's prices are normally used as the initial prices, and these prices are then modified in an iterative manner, with a goal of achieving the best pricing solution subject to a range of criteria including:

- The difference between the Target and Forecast Price Category Revenues
- The split between fixed and variable line charge revenue for each Price Category and for the overall revenue
- Percentage and dollar value allocation of the forecast revenue across the Price Categories
- Overall Price Category revenue impacts, and possibly also the charge impacts at the individual consumer level if deemed necessary
- The percentage change in prices between years
- Compliance of the Residential prices (Price Categories RSU and RLU) with the LFC Regulations 2004

The Price-Calculation task is a relatively simple process if the required price increases are minimal or not required, and increases in complexity the greater the required price increases.

7.6 Forecast Price Category Revenue

The Forecast Price Category Revenue and associated pricing statistics for the 2022/23 financial year are summarised in Table 10. The percentage Price Category Revenue forecast & pricing model target for the 2022/23 financial year are given in Table 11 and shown graphically in Figure 7. It is noted that there the Fixed Revenue for RLU and STL deviates from the previously mentioned guideline value of 50%. For the Price Category RLU this is essentially required by the LFC Regulations 2004, but this has increased from 8.0% (2021/22) to 15.6% (2022/23). In the case of the Price Category STL a recent LED replacement program has seen the energy consumption drop by approx.

50%. In this instance BEL has deemed it appropriate to retain the 2021/22 pricing which results in the proportion of Fixed Charges being above 50%.

The Delivery Prices set for the pricing year from 1 April 2022 are considered cost reflective in terms of the Target and Forecast Price Category Revenue being approximately equal. While Figure 7 shows that over/under recoveries exist, the difference between the forecast and target values is considered acceptable.

Price Category	ICPs	Energy (GWh)	Chargeable Capacity (kW)	Fixed Revenue (%)	Variable Revenue (%)	Fixed Revenue (\$k)	Variable Revenue (\$k)	Total Revenue (\$k)
RSU	1,484	9.3		50.0%	50.0%	796	796	1,593
RLU	2,659	11.6		15.6%	84.4%	291	1,573	1,864
G15	408	4.1		50.0%	50.0%	344	344	688
STL	46	0.2		64.2%	35.8%	38	21	59
G69	86	5.6	2,573	50.0%	50.0%	478	477	955
DFM	67	4.2	2,128	50.0%	50.0%	307	307	614
GHH	6	4.8	1,239	50.0%	50.0%	334	334	667
STK	1	9.8	2,393	50.0%	50.0%	662	622	1,244
Total	4,757	49.6		41.8%	58.2%	3,210	3,457	7,684

Table 10 Forecast Price Category Statistics for the 2022/23 Financial Year

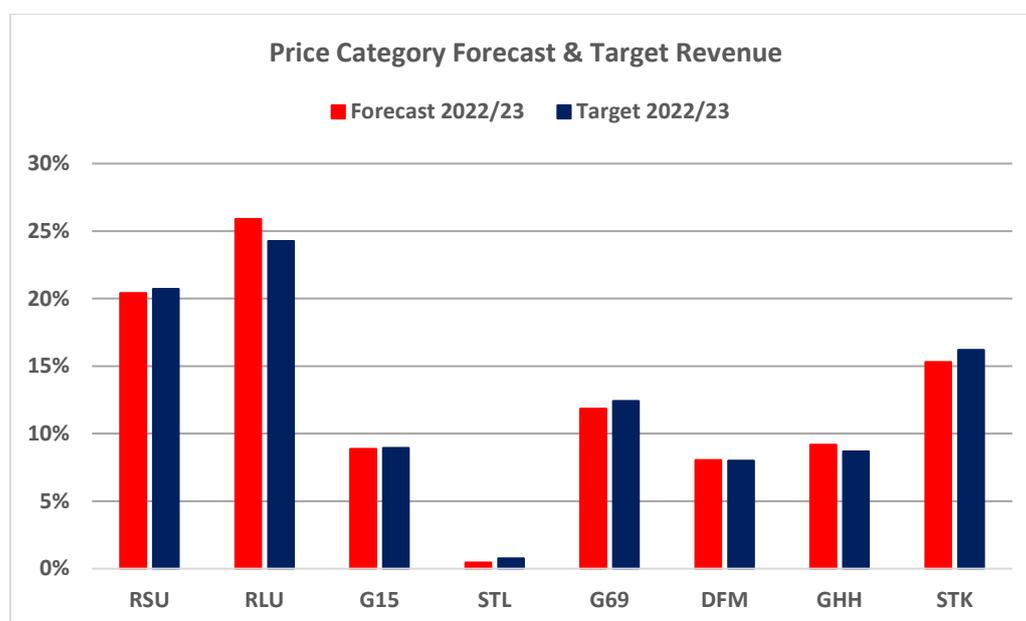


Figure 7 Price Category Forecast Revenue Percentages 2022/23

Allocation	RSU	RLU	G15	STL	G69	DFM	GHH	STK
Forecast 2022/23	20.7%	24.3%	9.0%	0.8%	12.4%	8.0%	8.7%	16.2%
Target 2022/23	20.4%	25.9%	8.9%	0.4%	11.9%	8.1%	9.2%	15.3%

Table 11 Price Category Forecast Revenue Percentages

8.7 Price Category Delivery Price Increases

The overall increase in Delivery Prices for the Price Categories for the 2022/23 financial year is summarised in Table 12. This is determined by applying 2021/22 and 2022/23 Delivery Prices to the forecast 2022/23 fixed and variable price component quantities e.g. consumer numbers, Chargeable Capacity and energy consumption, and comparing the resulting year on year total Price Category Line Charge Revenue on a percentage change basis. The Line Charge changes determined in this manner reflect the overall average change in the Delivery Prices & Line Charges to consumers in each Price Category.

Price Category	Description	Average Overall Change in Delivery Prices
RSU	Residential Standard User	-1.6%
RLU	Residential Low-User	+0.9%
G15	Small Commercial	0%
STL	Streetlights	0%
G69	Medium Commercial >15kW	0%
DFM	Dairy Farm	0%
GHH	Large Commercial > 69kW	0.0%
STK	Large Industrial >1000kW	0.0%
RSU + RLU	Overall Residential	-0.3%
Total		-0.1%

Table 12 Average Overall Change in Price Category Delivery Prices

It is noted that:

- BEL's overall forecast Revenue in 2022/23 is the same as the 2021/22 forecast
- Whether or not an individual consumer will experience an increase, decrease, or no change in their Line Charges from year to year depends on the Delivery Prices they are subject to in combination with their electricity usage patterns.

Appendix A – Delivery Price Schedule 2022/23

Delivery Price Schedule for Buller Electricity Limited



Applicable from 1 April 2022

This schedule lists the wholesale prices used to charge electricity retailers for the delivery service Buller Electricity Ltd (BEL) provides. This service includes the transmission and distribution of electricity but does not include the cost of the electricity itself. Please refer to your electricity retailer for details of retail electricity prices.

The Price Category and Fixed Capacity Charge associated with Non-Residential connections have been determined using the measured half-hour AMD (kW) during the period September 2020 – August 2021, or as otherwise determined by BEL.

Changes to Residential Low User Pricing

A recent amendment to the Electricity Regulations allows Distributors to phase out Residential Low User Pricing from 1 April 2022. The Fixed Daily Charge for these users (previously set at \$0.15/Con/Day) can now be increased by \$0.15 each year for the next 5 years, at which time the Standard User and Low User Residential categories will be amalgamated. BEL is of the view that it is appropriate for us to phase out our pricing to Low Users in this manner and we have decided to implement this option.

Consumers that have questions regarding their delivery charges are invited to call Buller Electricity on (03) 788 8171, or email energy@bullernetwork.co.nz.

Residential Price Categories

Standard Users – Number of Connections: 1,484		
Fixed – Daily Charge	1.4700	\$/Con/Day
Variable – Uncontrolled Volume	0.0918	\$/kWh
Variable – Controlled Volume	0.0574	\$/kWh
Variable – All Inclusive Volume	0.0849	\$/kWh
Variable – Day Volume	0.1056	\$/kWh
Variable – Night Volume	0.0422	\$/kWh
Low Users – Number of Connections: 2,659		
Fixed – Daily Charge	0.3000	\$/Con/Day
Variable – Uncontrolled Volume	0.1432	\$/kWh
Variable – Controlled Volume	0.1074	\$/kWh
Variable – All Inclusive Volume	0.1360	\$/kWh
Variable – Day Volume	0.1718	\$/kWh
Variable – Night Volume	0.0501	\$/kWh

Non-Residential Price Categories

General Small – AMD ≤ 15kW – Number of Connections: 408		
Fixed – Daily Charge	2.3100	\$/Con/Day
Variable – Uncontrolled Volume	0.1078	\$/kWh
Variable – Controlled Volume	0.0674	\$/kWh
Variable – Day Volume	0.1240	\$/kWh
Variable – Night Volume	0.0496	\$/kWh
Streetlights – Number of Connections: 46		
Fixed – Daily Charge	2.2500	\$/Con/Day
Variable – Streetlight Volume	0.1055	\$/kWh
General Medium – AMD >15kW – Number of Connections: 84		
Fixed – Capacity Charge	0.5089	\$/kW/Day
Variable – Uncontrolled Volume	0.0873	\$/kWh
Variable – Controlled Volume	0.0546	\$/kWh
Variable – Day Volume	0.1004	\$/kWh
Variable – Night Volume	0.0402	\$/kWh
Dairy Farms – Number of Connections: 67		
Fixed – Capacity Charge	0.3950	\$/kW/Day
Variable – Uncontrolled Volume	0.0832	\$/kWh
Variable – Controlled Volume	0.0520	\$/kWh
Variable – Day Volume	0.0957	\$/kWh
Variable – Night Volume	0.0383	\$/kWh
General Large – AMD > 69kW – Number of Connections: 6		
Fixed – Capacity Charge	0.7375	\$/kW/Day
Variable – Uncontrolled Volume	0.0725	\$/kWh
Variable – Day Volume	0.0834	\$/kWh
Variable – Night Volume	0.0334	\$/kWh

Notes

- AMD – Anytime Maximum Demand
- All delivery prices exclude GST
- Day Period of Day/Night: 7:00am – 11:00pm
- Night Period of Day/Night: 11:00pm – 7:00am

Appendix B – Distribution Pricing Principles

This Appendix outlines and comments on the aspects of our Pricing Methodology that relate to the regulatory requirements of the Electricity Authority’s Pricing Principles and the Commerce Commission’s Information Disclosure requirements.

The then Electricity Commission published a set of pricing principles in February 2010, together with information disclosure guidelines. The principles-based approach to distribution pricing encourages all Distributors to conduct their pricing in a similar way. The Authority inherited these principles and guidelines on its establishment in November 2010. It has recently revised the principles, replaced the guidelines with practice notes, and introduced a scorecard approach to assess distributor pricing and pricing development.

B.1 Electricity Authority Pricing Principles

The Commerce Commission Information Disclosure Determination (IDD) requires EDB’s in their Pricing Methodologies to –

“Demonstrate the extent to which the pricing methodology is consistent with the pricing principles and explain the reasons for any inconsistency between the pricing methodology and the pricing principles.”

The Electricity Authority Distribution Pricing Principles¹² were updated in June 2019 and 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; and**
 - 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**

¹² <https://www.ea.govt.nz/assets/dms-assets/25/25436Distribution-pricing-More-efficient-distribution-prices-Principles-and-practice.pdf>

- ii. Enable price/quality trade-offs.*
- d) Development of prices should be transparent and have regard to transaction costs, consumer impacts, and uptake incentives.*

The following Sections provide comments on the alignment of our Pricing Methodology with the Pricing Principles.

B.2 Principle (A) – Signalling Economic Cost

- 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.*

Principle a) – i

BEL considers that our prices are subsidy-free in the sense that our costs are allocated to Price Categories using the Cost Allocation Algorithm, and the Target Price Category Revenue is approximately recovered from each Price Category using appropriate set Delivery Prices.

It is noted that the term subsidy-free is used here in the context that costs are averaged over all consumers in a Price Category. Our current pricing implementation does not attempt to account for specific locational factors and the associated network costs for consumers in different areas, or the age of an individual consumers supply when determining network charges. In this regard there may be elements of price discrimination and/or mis-priced risks, the most significant perhaps being that between urban and rurally located consumers.

BEL has established that the incremental costs (economic costs) incurred in supplying another unit of electricity is close to zero in most cases, and our signalling prices and associated Signalling Revenue are zero.

Standalone cost is the consumers next best alternative to connection to BEL's distribution network. The primary options available for network bypass is using small-scale PV solar plus battery solutions for those with low electricity requirements, and diesel generation for larger consumers.

Principle a) – ii

While our economic costs are near zero, we nonetheless have historically, and continue, to provide consumers with price signals at the periods of highest network demand when use of the network is most likely to result in future incremental costs. This is in the form of:

- Lower prices for controllable and night-time loads which incentivises movement of load away from the periods of high network demand
- Fixed capacity-based charges for all connections (either \$/Day or \$/kW/Day) which incentivises consumers to reduce their contribution to the local and overall network Any-Time Maximum Demand. While consumers are not charged directly for their contribution to the network Coincident Any-Time Maximum Demand (CAMD) or the Regional Coincident Peak Demand (RCPD), these cost drivers are well approximated by the contribution to total energy consumption (at the Price Category level) in the Cost Allocation task of the Price-Setting Methodology as they influence the Target Price Category Revenue on a lagged basis. Any growth in Price Category CAMD and RCPD results in higher relative prices and charges to the Price Category (and associated consumers) in the future.

Principle a) – iii

The nature of interconnected distribution networks, where the assets and costs are shared by all for collective benefit, is that in most cases consumers are unable to individually select their level of service. The primary exceptions to this are the:

- Demand/Capacity service as larger consumers pay higher capacity based fixed charges (\$/Day or \$/kW/Day)
- Controlled load service where the consumer offers their hot water heating for BEL to control in exchange for lower variable consumption prices associated with this load

In terms of fault repair and restoration following widespread power outages our objective is to minimise the extent of the disruption to our consumers, subject to the physical resources available to do this work at the time. An inherent by-product of this equation is that in general terms larger consumers will be restored prior to smaller consumers if/when/where this becomes a matter of resource allocation. Furthermore, it takes longer to find, repair and restore faults in rural areas compared with urban areas. This is viewed by BEL as another aspect of the inherent price-quality trade-off which exists on our network.

Principle a) – iv

When prices are above the standalone cost for particular consumers, a situation is created where the possibility of inefficient alternatives to existing infrastructure arises. Given that BEL's services are currently priced below that of the equivalent standalone alternative in most cases we are of the view that our pricing does not currently encourage inefficient network alternatives.

While the uptake of small-scale distributed generation (primarily PV solar) in our region remains very limited, as the relative cost of PV solar and other emerging technologies drops, more economic alternatives may arise. In the medium term, BEL intends to consider options for encouraging alternative supply when that is efficient.

B.3 Principle (B) – Allocation of Residual Costs

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.

We are of the view that our current allocation of residual costs creates the least possible distortion of network use given:

- We currently have a 50% Fixed Revenue proportion – excluding the Price Categories which are fixed charge constrained. While the LFC Regulations 2004 are clearly a material constraint in this area it is recognised that starting from 1 April 2022 BEL intends to phase out Low User Pricing as provided for in the recent LFC Regulations 2004 Amendment.
- Our existing policy to not increase the Fixed Revenue proportion in any Price Category to be greater than 50% with the existing exception of Streetlight connections
- Revenue collected via Fixed Price Components (\$/Con/Day or \$/kW/Day) are less likely to create distortion in network use as they are less demand responsive than other measures

B.4 Principle (C) – Responsiveness 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***

While BEL currently applies standard services and prices to all consumer connections, we are open to negotiation in situations where our standard terms of supply are inadequate or inappropriate. BEL believes that this approach will allow consumers to make price/quality trade-offs which better match their circumstances. To date this has not been required, and it is expected that this would only be a realistic option for our major consumers.

More generally, all customers are free to invest in ways of achieving a higher quality service than that provided by our network, by for example:

- Installing an on-site backup generator to achieve higher reliability than that provided by our network
- Using a relatively low-cost UPS (Uninterruptible Power Supply) to supply critical loads, such as computers and cash registers

B.5 Principle (D) – Transparency

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

BEL is committed to establishing a formal, prescribed and transparent Pricing Methodology which aims to allocate costs to individual consumers in a manner which fairly reflects the cost of providing network services.

We seek to minimise the transaction costs associated with our pricing and revenue collection via Retailers by limiting the complexity of the Price Categories and Price-Structure we use.

BEL recognises that consumers have made investment and/or consumption decisions based on expectations that have been shaped from past pricing arrangements. Price stability and price certainty are key considerations when making material pricing decisions. Wherever possible, any material changes to pricing should be signalled well in advance, and implementation should be phased in over time. To avoid price shocks, any significant rebalancing between Price Categories, or any reweighting between Fixed and Variable Price Components within a Price Category are modelled, using actual historic consumer Retailer Billing data, to assess the impact on consumers – with an intention of demonstrating and ensuring that price adjustments are not unreasonably large from year to year.



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IN ACCORDANCE WITH THE COMMERCE ACT

Electricity Distribution Information Disclosure Determination 2012

Certification for year beginning Disclosure 2022

We, **Francis Thomas Dooley** and **Craig Matthew Scanlon**, being directors of Buller Electricity Limited certify that, having made all reasonable enquiry, to the best of our knowledge-

- a) the following attached information of Buller Electricity Limited prepared for the purposes of clause 2.4.1 of the Electricity Distribution Information Disclosure Determination 2012 in all material respects complies with that determination.
- b) the prospective financial or nonfinancial information included in the attached information has been measured on a basis consistent with regulatory requirements or recognised industry standards.

A handwritten signature in black ink, appearing to be "F. Dooley", written over a horizontal dotted line.

Director

A handwritten signature in black ink, appearing to be "Craig Scanlon", written over a horizontal dotted line.

Director

Dated: March 07 2022
