



Counties Power Limited
Electricity Distribution Business
Pricing Methodology Disclosure
1 April 2019 to 31 March 2020

Pursuant to
Electricity Information Disclosure Information
for compliance with
Part 2.4: Disclosure of pricing and related information

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1.0 Introduction

This document outlines Counties Power's pricing methodology for the period 1 April 2019 to 31 March 2020.

1.1 Overview of Counties Power

Counties Power owns, manages and operates the electricity distribution network in southern Auckland and northern Waikato¹ with a footprint of approximately 2,250 square kilometres. The number of retailer consumers served by the network (active ICPs) is approximately 43,230, the maximum coincident system demand is approximately 124 MW and the annual delivered energy after losses is 586 GWh.

Within our area of operations, the distribution network includes approximately 3,281 km of lines and cables, eight zone substations, more than 4,052 distribution substations and all associated control, communications, ancillary and protection equipment.

Like most network infrastructure companies, Counties Power's distribution assets are dispersed over a large area and are highly interdependent. The service area is a mix of towns, rural land and remote farmland. Added to this mix is significant residential, commercial, and industrial growth particularly along State Highway 1 and in Pukekohe. Supplying these newly urbanised areas from a predominantly rural electricity network is both an engineering and financial challenge.

To meet this growth, substantial capacity and technology investments have been made in the network over the last decade. This has included investing in an 110 kV sub-transmission network and the deployment of smart meters.

Counties Power is 100% owned by the Counties Power Consumer Trust and has exempt status from the Commerce Commission's default price-quality path, which sets a cap on distribution revenue. However, Counties Power is required to submit various forms of information disclosures to the regulatory authorities, which enables these bodies to have oversight of the activities of the Company.

1.2 Legal requirement

Under section 2.4 (Pricing and Related Information) of the *Electricity Distribution Information Disclosure Determination 2012 (consolidated in 2015)*, Counties Power must publicly disclose, before the start of each disclosure year, a pricing methodology which:

- Describes the methodology used to calculate prices payable or to be payable;
- Describes any changes in prices and target revenues;

¹ Appendix A *Map of the Counties Power territory* shows the area covered by Counties Power and key connections on to the national transmission network (Transpower GXP's) and Counties Power substations.

- Explains the approach taken with respect to pricing in non-standard contracts and distributed generation; and
- Explains whether, and if so how, we have sought the views of consumers, including their expectations in terms of price and quality, and reflected those views in calculating the prices payable or to be payable.

1.3 Consumer survey

Counties Power benefits from consumer (beneficiary) feedback provided by the Counties Power Consumer Trust, as publicly elected representatives of the consumer beneficiaries of the Company.

Counties Power conducts a consumer survey annually. This survey includes questions designed to ascertain the level of consumer satisfaction in both price and quality. The results of the survey are an input to the development of the Asset Management Plan which is also produced annually. Capital expenditure driven by this plan is a factor in the Company setting its target revenue. The Company also undertakes regular surveys of those consumers who have recently interacted with it in order to establish perceptions of service quality and performance.

2.0 Pricing strategy

Counties Power is committed to cost-reflective pricing to improve utilisation of its electricity network, and to support efficient use of its network and of the supporting transmission network. Efficient optimisation lowers ongoing investment costs and serves to reduce Transpower charges. These cost savings support lower prices to all consumers and in particular those who wish to make savings by avoiding peak power use.

Counties Power continues to invest in its assets, and the development of tools and tariffs that encourage efficient use of its network and that contribute to improving long-term value for money for its consumers through:

- The installation of smart meters, with over 96% of Counties Power's ICPs having a Counties Power smart meter as at 31 March 2019;
- Consulting with every electricity retailer on the Counties Power network and gaining their commitment to obtaining consumption data from the Counties Power smart meters;
- The introduction of smart tariffs on 1 January 2014, which were made available to all mass market consumers through their retailers; and
- Jointly working with our metering provider Metrix to ensure that smart tariff data is available to retailers.

To support this investment strategy Counties Power's pricing methodology is driven by the following principles:

- Recover the costs required to run the network and, when needed, invest in new capacity;
- Allocate costs to consumers on an economic basis so that all consumers pay, at the minimum, their incremental cost of supply plus a fair contribution to overheads and at a maximum the standalone cost for their electricity supply;
- Provide pricing that, where possible, promotes price stability and limits rate shock through gradual price changes;
- Maintain high levels of transparency about input costs by aiming to reduce price complexity;
- Adopt line tariffs that send price signals that promote efficient use of the distribution and transmission network; and
- Provide prices that comply with all applicable regulatory obligations.

A key philosophy of Counties Power is working with all electricity retailers to support better price signalling and simpler tariffs for consumers. To this end, the Company is working to develop shared pricing initiatives that enable retailers to present tariffs to consumers that – where possible - align generation, distribution and transmission underlying cost signals that let consumers act and be rewarded for efficient behaviour, while being simple and straightforward.

3.0 Methodology

Counties Power's pricing methodology is aligned to the pricing principles outlined in the Electricity Authority's (EA) paper "*Distribution Pricing Principles and Information Disclosure Guidelines*" (dated February 2010).

Counties Power's pricing model is intended to ensure that, as far as possible, prices reflect the costs of serving different consumer groups to encourage both the efficient use of the distribution network and the efficient operation of the network.

3.1 Target revenue

In the period 1 April 2019 to 31 March 2020, Counties Power will not be changing the distribution component of electricity prices for consumers but will be passing through a 12% increase in Transpower transmission charges. This has resulted in an overall increase of 0.9% in consumer prices. The Company has a lines revenue target for the period 1 April 2019 to 31 March 2020 of \$60.1 million. This target revenue is built-up from the budgeted costs in the FY2020 year, which in total form Counties Power's total recoverable revenue.

Table 1 – Breakdown of costs that form the target revenue:

Cost component	2019/20 budget (\$k)
Transpower	12,946
ACOT	631
Network operations	9,169
Head office	6,967
Depreciation	10,303
Other costs	1,064
Taxation	4,781
Return on capital	14,281
Total revenue required to cover total costs	60,142

4.0 Cost allocation

Counties Power's costs are allocated on a cost driver basis. For instance, Counties Power's Transpower transmission charges are allocated to the Company's regional coincidental peak demand. This then enables the cost to be allocated to consumer groups based on that groups total proportion of the peak demand. The cost allocators that are used in the model are listed below.

Table 2 – Cost drivers

Allocator	Description	Cost categories and rationale
CMD	Demand from a consumer group as a proportion of total demand during the 100 periods of highest coincident maximum demand (CMD) on the network.	CMD is used in preference to the asset allocator where the value of the network is not a factor in the cost incurred e.g. network administration and interest costs. Also, applied to Transpower connection charges as this is the basis of these pass-through costs.
RCPD	Demand from a consumer group as a proportion of total demand during Transpower's regional coincident peak demand (RCPD) measurement periods.	Applied to Transpower's interconnection charges as this is the basis of these pass-through costs.
Major consumers	Costs that relate solely to serving major consumers are allocated entirely to this consumer group.	Administration costs that relate solely to serving major consumers are allocated entirely to this consumer group.
Volume overheads - kWh	Annual consumption of a consumer group as a proportion of total annual consumption of all consumers.	Applied to administration and overhead costs that Counties Power considers increase with the total volume of consumption.
Consumer overheads - ICP	Number of ICPs (installation control points) in a consumer group as a proportion of the total.	Applied to administration and overhead costs that Counties Power considers increase with the number of consumers.

Allocator	Description	Cost categories and rationale
Asset	There are two steps in determining this allocator. First, the value of assets is divided into distinct parts of the network (e.g. low voltage and high voltage), then the value of the assets in each part of the network is allocated to those consumer groups that use that part of the network. These values are aggregated for each consumer group. Further detail is provided in table 3.	The asset cost allocator was designed by Counties Power to allocate certain budget items based on the extent to which network assets were required to satisfy the demand of each consumer group. These budget items include network operations expenditure, insurances, depreciation and return on capital investment.

4.1 Asset cost allocation

The allocation of expenditure relating to network assets is assumed to occur in proportion to the total RAB² value of assets in each component of the network. For example, low voltage assets comprise 22% of the network asset base, so it is assumed that maintenance costs on low voltage assets will be 22% of the total maintenance costs. Counties Power's intention is to allocate asset-related costs based on the extent to which a consumer group uses those assets. This is largely related to usage (maximum demand) and the specific allocators are shown in table 3.

Table 3 – Asset cost allocation

Network component	Consumer groups included in allocation	Allocator
Streetlighting	Unmetered streetlights only	Full allocation
Low voltage cables, lines and plant	All mass market consumer groups (i.e. excludes major consumers, non-standard contracts and unmetered streetlights)	Equally weighted: proportion of ICPs in consumer group and 100 highest anytime maximum demand (AMD) during peak periods (weekdays 0700-1100, 1700-2100) for each consumer group as a proportion of the sum of AMD (so measured) for all consumer groups
Shared distribution substations	All consumer groups except non-standard contracts	AMD (as above)
11kV and 22kV network, zone substations and sub-transmission network	All consumer groups	CMD (as above)

4.2 Allocation to consumer groups

The aggregated value of each of the allocations used in the model is then allocated to the consumer groups as detailed in table 4. Once applied to the relevant cost categories, this then gives the aggregate modelled target revenue recovery amount by consumer group, as shown in table 5.

² Regulated asset base, which is the regulated capital value of Counties Power's regulated network.

Table 4 – Value of allocators by consumer group

Consumer groups	ICPs	kWh	CMD	RCPD	Asset	Major consumers
Major consumers	0.4%	19.6%	12.8%	16.0%	12.4%	100.0%
Prepaid	1.8%	0.7%	1.0%	1.0%	1.1%	0.0%
LFC	28.9%	11.7%	17.5%	16.2%	18.7%	0.0%
Residential	49.4%	32.5%	47.2%	44.0%	47.3%	0.0%
General	18.5%	20.1%	10.1%	11.6%	12.6%	0.0%
LFC with distributed energy resource (DER)	0.2%	0.1%	0.2%	0.2%	0.2%	0.0%
Residential with DER	0.6%	0.5%	0.8%	0.8%	0.8%	0.0%
General with DER	0.0%	0.1%	0.1%	0.1%	0.1%	0.0%
Unmetered streetlights	0.0%	0.4%	0.5%	0.5%	1.6%	0.0%

The above modelling provides the initial modelled target revenue levels for each consumer group but this is not the target revenue that would be obtained from final prices. This is because the *Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004* state that there must be an adjustment within the cost categories, which requires manipulation of the modelled outcomes³.

4.3 Split of costs into fixed and variable prices

Counties Power's prices are a combination of both fixed and variable components. The model associates each allocated cost pool with either a fixed or a variable component of the price. This step links the structure of prices with the structure of costs so that the level of each price component reflects – where possible⁴ - relevant costs. For example, costs in the “consumer overheads” ICP pool are those that Counties Power believes are related to the number of ICPs on its network and are therefore most appropriately recovered through a fixed price component.

Counties Power has, from FY2020, modelled its mass market time-of-use prices (peak and off-peak prices) alongside its standard prices for mass market consumers. The pricing model has been designed to also enable future options, including capacity and demand based pricing.

³ Counties Power is required to make this correction owing to the LFC regulations. However, the Company considers this to be an inefficient allocation of costs that is unfair to some consumer groups, such as large families in rented homes.

⁴ Most of the Company's distribution costs are fixed, however LFC regulations presently prevent the Company from allocating fixed costs in a way that reflects its underlying cost structure and send truly cost-reflective signals to retailers and consumers.

4.4 Pricing stability and continuity

Counties Power's pricing model is used to provide pricing guidance to Counties Power's Management and Board and to ensure underlying consumer pricing is fair for each group. Other critical issues are considered with the determination of prices including consumer bill shock, pricing stability and the long-term pricing strategy to implement cost-reflective pricing. For these reasons the pricing produced from the model does not today align with the prices posted by Counties Power. However, as part of its long-term pricing strategy, Counties Power is committed to restructuring prices over time so that they more closely reflect the modelled prices and are more cost-reflective.

Table 5 – Modelled target revenue by consumer group

Consumer groups	Target revenue (\$k)
Industrial direct contracts	3,155
Commercial and industrial TOU	9,722
Prepaid	367
LFC (low fixed charge)	10,003
Residential	21,537
General	13,968
LFC with distributed energy resource	254
Residential with distributed energy resource	519
General with distributed energy resource	108
Unmetered streetlights	509
Total	\$60,142

5.0 Pricing for non-standard contracts

5.1 Approach to setting prices for non-standard contracts

Counties Power currently has four consumers on non-standard contracts. These four consumers are connected at eight ICPs. Consumers on non-standard contracts contribute approximately 5.25% of the total target revenue.

The line tariffs for the four non-standard contracts used by Counties Power take the same form i.e. a single fixed charge calculated annually and invoiced monthly.

The calculation of the charge involves a distribution component and a Transpower component. The distribution component is determined on the average of the twelve highest peak demands in the previous 12-months multiplied by a negotiated per kW price. This per kW price reflects a return on capital employed, the associated maintenance and operating costs, plus a contribution to Counties Power's overhead costs.

The Transpower component of the charge is determined as the consumers' contribution to the Counties Power peak demand and contribution to the GXP

connection charges. This charge uses the rates published by Transpower as pass-through costs plus a handling fee.

5.2 Pricing for distributed generation

There are 708 small⁵, thirteen medium sized and two large distributed generators connected to the Counties Power network. Consumers owning distributed generation of less than 10 kW, and connected to the Counties Power network, pay 1.03c per kWh to export electricity over the Counties Power network. The revenue recovered seeks to offset the incremental costs of connecting the distributed generation. These costs relate to the additional compliance and administrative costs, rather than the additional network infrastructure costs; table 6 below summarises the number of ICPs with distributed generation and their associated charges and payments.

Table 6 – Distributed generators

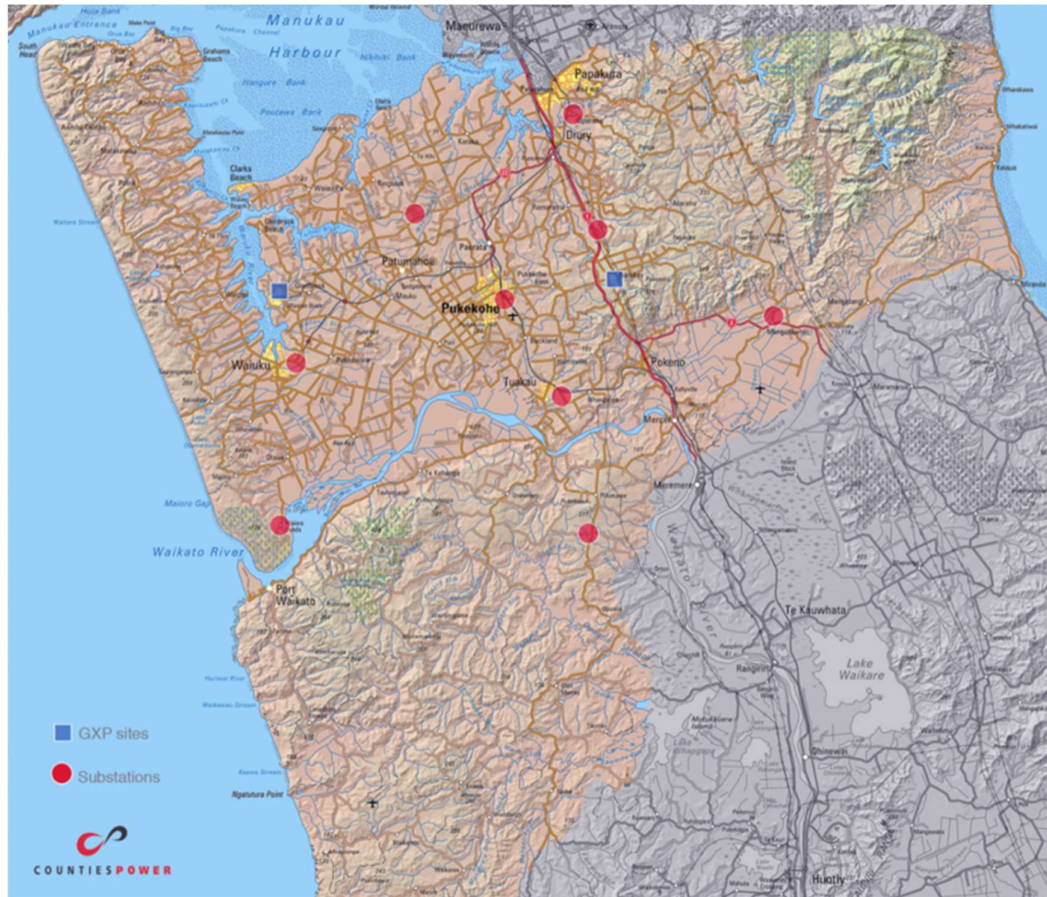
	Capacity <= 10kW	Capacity >10kW	
		<0.5GWh/annum	>0.5GWh/annum
No. of ICPs	708	13	2
Export charge	Yes	No	No
ACOT payments	No	No	Yes

6.0 Summary

Counties Power has made significant investment into smart meter technology, data analysis and development of pricing models to bring cost-reflective pricing to Counties Power's consumers. The long-term benefits from this improved price signalling will flow back to consumers if consumers wish to opt for electricity cost savings through shifting their power use from Counties Power peak demand periods to off-peak times. The consumer savings are possible because reduced peak demand results in cost savings to Counties Power through deferred capital expenditure and reduced Transpower charges.

⁵ As at 28 February 2019.

Appendix A: Map of the Counties Power territory



Appendix B: Electricity Authority pricing principles

- a. Prices are to signal the economic costs of service provision, by:
 - i. being subsidy free (equal to or greater than incremental costs, and less than or equal to standalone costs), except where subsidies arise from compliance with legislation and/or other regulation;
 - ii. having regard, to the extent practicable, to the level of available service capacity; and
 - iii. signalling, to the extent practicable, the impact of additional usage on future investment costs.
- b. Where prices based on 'efficient' incremental costs would under-recover allowed revenues, the shortfall should be made up by setting prices in a manner that has regard to consumers' demand responsiveness, to the extent practicable.
- c. Provided that prices satisfy (a) above, prices should be responsive to the requirements and circumstances of stakeholders in order to:
 - i. discourage uneconomic bypass;
 - ii. allow for negotiation to better reflect the economic value of services and enable stakeholders to make price/quality trade-offs or non-standard arrangements for services; and
 - iii. where network economics warrant, and to the extent practicable, encourage investment in transmission and distribution alternatives (e.g. distributed generation or demand response) and technology innovation.
- d. Development of prices should be transparent, promote price stability and certainty for stakeholders, and changes to prices should have regard to the impact on stakeholders.
- e. Development of prices should have regard to the impact of transaction costs on retailers, consumers and other stakeholders and should be economically equivalent across retailers.

Appendix C: Alignment with Electricity Authority's pricing principles

This section describes how the Counties Power methodology links back to the Electricity Authority's pricing principles⁶.

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

- i. being subsidy free (equal to or greater than incremental costs, and less than or equal to standalone costs), except where subsidies arise from compliance with legislation and/or other regulation;*
- ii. having regard, to the extent practicable, to the level of available service capacity; and*
- iii. signalling, to the extent practicable, the impact of additional usage on future investment costs.*

To capture these pricing principles Counties Power introduced mass market time-of-use tariffs on 1 January 2014. These tariffs are currently comprised of an off-peak and a peak c/kWh charge. The higher peak charge reflects the available capacity and future investment costs. This is because most of Counties Power's investments are to increase network capacity because of increasing peak loads.

Counties Power's legacy tariffs capture the future and available capacity by being allocated to all the associated network costs. However, the price signals are blunted by the implicit average pricing of the legacy tariffs.

Pricing principle (b): *Where prices based on 'efficient' incremental costs would under-recover allowed revenues, the shortfall should be made up by setting prices in a manner that has regard to consumers' demand responsiveness, to the extent practicable.*

Counties Power believes that the most efficient mechanism to recover unallocated costs is through the fixed daily charge. This is because consumers would reduce consumption if the charge was applied to a kWh charge, however, few if any consumers would not consider connecting because of a higher fixed daily charge.

Pricing principle (c): *Provided that prices satisfy (a) above, prices should be responsive to the requirements and circumstances of stakeholders in order to:*

- i. discourage uneconomic bypass;*
- ii. allow for negotiation to better reflect the economic value of services and enable stakeholders to make price/quality trade-offs or non-standard arrangements for services; and*
- iii. where network economics warrant, and to the extent practicable, encourage investment in transmission and distribution alternatives (e.g. distributed generation or demand response) and technology innovation.*

⁶ The pricing principles are set out in the EA paper *Distribution Pricing Principles and Information Disclosure Guidelines*.

Counties Power negotiates as required to ensure pricing principle (c) is met. This includes negotiation with large consumers for non-standard pricing arrangements and negotiations with Counties Power's largest distributed generator for connection to the Counties Power network.

Pricing principle (d): *Development of prices should be transparent, promote price stability and certainty for stakeholders, and changes to prices should have regard to the impact on stakeholders.*

Counties Power has promoted price stability by increasing prices on 1 April 2017, 1 April 2018 and 1 April 2019 by only passing through Transpower, and local authorities land rates, increases and absorbing internal cost increases. In addition, smart tariffs were simplified and continued to be made available on a voluntary basis rather than making them mandatory. The effect of this will be monitored during the 2019/20 year to determine an optimal approach for future years.

Pricing principle (e): *Development of prices should have regard to the impact of transaction costs on retailers, consumers and other stakeholders and should be economically equivalent across retailers.*

Prices are economically equivalent across retailers. Counties Power is seeking to reduce transaction costs through minimising the number of line tariffs that are available.

Appendix D: Definitions

ACOT - Avoided cost of transmission, which is a payment made to large distributed generators for reducing Counties Power's Transpower transmission charges.

AMD - Anytime maximum demand, which for major consumers is defined as the average of the 12 highest offtake quantities for the consumer at the connection location during the capacity measurement period.

Capacity measurement period - 12-month period starting 1 September and ending 31 August inclusive, immediately prior to the commencement of the pricing year.

Code - The Electricity Industry Participation Code

CMD - Coincident maximum demand, which is the consumer's demand during Counties Power's peak demand.

EA - Electricity Authority

GWh - Gigawatt hour

GXP - Grid exit point - the Transpower substation that connects Counties Power to the national transmission network.

ICP – Installation control point - the consumer's point of connection to the network.

Legacy meters – The old mechanical meters that measure only aggregate kilowatt-hours sold.

Legacy tariffs – Simply average priced kWh tariff that does not reflect how the cost for providing the power varies over the time of day.

kWh - Kilowatt hour

MWh - Megawatt hour

RCPD - Regional coincident peak demand, relates to the consumer's off-take at the connection location during the upper North Island regional peak demand period.

Smart metering – Counties Power's Landis & Gyr meters with Silver Spring Networks communications. These meters allow half-hour data consumption to be read remotely while providing real time network data to Counties Power.

Smart tariffs – Line tariffs that vary by time of day. Counties Power's smart tariffs have peak and off-peak time periods.