

Network Tasman Limited

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**IN ACCORDANCE WITH THE COMMERCE ACT
(ELECTRICITY INFORMATION DISCLOSURE REQUIREMENTS 2004).**

Requirement 36(1)

**STATUTORY DECLARATION IN RESPECT OF STATEMENTS AND
INFORMATION SUPPLIED TO THE COMMERCE COMMISSION**

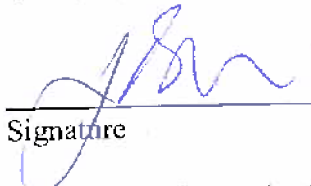
I, Christopher IM Turner, of Hill Street, Richmond, being a director of Network Tasman Limited, solemnly and sincerely declare that having made all reasonable enquiry, to the best of my knowledge, the information attached to this declaration is a true copy of the information made available to the public by Network Tasman Limited under the Commerce Commission's Electricity Information Disclosure Requirements 2004.

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

Declared at this 22nd day of April 2010



CIM Turner



Signature

Justice of the Peace (or Solicitor or other person authorised to take a statutory declaration)

Anissa Bain
Lawyer
Pitt & Moore
Richmond

Network Tasman Limited

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22 April 2010

Director - Networks Branch
Commerce Commission
PO Box 2351
The Terrace
Wellington

Dear Sir

Disclosure of Pricing Methodology 2010-11

Pursuant to the Electricity Information Disclosure Requirements issued 31 March 2004 (Consolidating all amendments to 31 October 2008), Part 5 Clause 22 & 23, please find attached a copy of Network Tasman Limited's line pricing methodology and information concerning line business costs to be recovered by line charges for the 2010-11 financial year.

This information has been publicly disclosed on the company's web site and a director's statutory declaration is also attached.

Should you have any queries concerning this information please do not hesitate to contact me on DDI (03) 989 3615.

Yours sincerely
NETWORK TASMAN LIMITED


S W Mackey
Chief Executive Officer

Enclosures

NETWORK TASMAN LIMITED

PRICING METHODOLOGY DISCLOSURE

For Year Commencing 1 April 2010

Pursuant to

Electricity Information Disclosure Requirements

**(Issued 31 March 2004 & Consolidating
all amendments to 31 October 2008)**

For compliance with :

Requirement 22: Disclosure of Pricing Methodology

Requirement 23: Contents of Pricing Methodology Disclosures

**Network Tasman Limited
P O Box 3005
RICHMOND 7050**

1.0 REGULATORY REQUIREMENT

- 1.1 The Information Disclosure Requirements 2004 (Sections 22 & 23) gazetted by the NZ Commerce Commission require electricity line businesses to annually disclose:
- existing pricing policies and methodologies
 - key components of revenue required to cover the costs and profits, (including transmission costs), of the line owners business activities
 - consumer groups used in the calculation of line prices and charges
 - the method of allocating costs and revenues amongst consumer groups
 - the method by which the a line owner determines the proportion of fixed and variable charges.

2.0 FINANCIAL INFORMATION

- 2.1 This pricing methodology disclosure is based on financial information drawn from NTL's line business budget and financial forecasts for the year ending 31 March 2011. These costs have been separated from NTL's other non line business activities in accordance with the Electricity Information Disclosure Handbook 2004 (as amended to 31 October 2008).
- 2.2 The forecast financial information provides the transmission, operating, maintenance, depreciation and overhead cost data used in determining NTL's line business annual revenue requirement.
- 2.3 The cost of capital for the network is calculated using NTL's estimate of WACC and the ODV valuation of systems assets established at 31 March 2004. The later is updated for capital expenditure and depreciation for the intervening period to 31 March 2010.

3.0 NETWORK TASMAN PRICING PRINCIPLES

- 3.1 NTL's pricing methodology reflects the pricing principles incorporated within the company's Statement of Corporate Intent, agreed annually between the Company and its shareholder, the Network Tasman Trust. All the shares in NTL are held by the Network Tasman Trust on behalf of the consumer beneficiaries, who elect the Trustees.
- 3.2 NTL's pricing principles as stated below, are included in both the company's SCI and in its Use of Systems Agreements with Retailers :
- A fair and reasonable rate of return to shareholders (measured on a pre-tax, pre discount basis) will be recovered
 - The cost of capital, measured on a pre tax, pre discount basis, will be reasonably allocated to, and recovered from, each group of consumers
 - Direct and indirect distribution costs and depreciation will be reasonably allocated to, and recovered from, each group of consumers
 - Transmission costs will be allocated and recovered in a manner that reasonably reflects how these costs are incurred by each group of consumers
 - Appropriate economic signals will be given to consumers relating to their use of the distribution and transmission systems

- Regulatory and public policy requirements imposed by Government, the Commerce Commission and the Electricity Commission will be accommodated within network pricing as required
- Pricing will be simple to understand, implement and administer
- Pricing will retain a reasonable level of uniformity amongst like consumers across NTL's regional areas.
- Pricing will provide certainty and medium term stability for consumers and retailers. The distribution component of pricing will be changed once, at most, in any 12 month period while the transmission component may be changed whenever Transpower alters its transmission charges.

3.3 Where any of these objectives conflict, Network Tasman Directors will use their discretion and judgement to achieve an acceptable trade off between the conflicting items.

4.0 LINE CHARGE DERIVATION

4.1 Line charges are the sum of distribution charges and transmission charges. Each component has different underlying cost drivers and so distribution and transmission pricing components are derived separately as described in the following sections.

5.0 DISTRIBUTION SERVICES

- 5.1 The derivation of distribution charges links costs to prices by allocating costs to load groups and then calculating tariffs for those load groups. The stages involve:
- Determination of the Overall Distribution Revenue Requirement
 - Identification of Load Groups
 - Allocation of Distribution Costs to Load Groups
 - Derivation of Distribution Prices and Revenues for Load Groups

6.0 NTL DISTRIBUTION REVENUE REQUIREMENT

- 6.1 The revenue requirement for a the distribution network is the sum of:
- operating & maintenance costs
 - overhead costs
 - return *of* capital employed (depreciation)
 - return *on* capital employed (WACC)

- 6.2 Network Tasman Ltd's distribution costs are accumulated into the following classifications:
- Direct Network Costs which include operations and maintenance costs and direct overheads
 - Network General Overhead & Administration costs
 - Depreciation (return of capital) which are based on ODV rates for network assets and financial reporting rates for non systems assets
 - Return on capital/assets employed which is calculated by applying WACC to NTL's line business asset base valued at ODV

- 6.3 The sum of costs listed in 6.2 above equates to the line business's total distribution revenue requirement. Information on NTL's 2010-11 distribution revenue requirement by cost classification and load group can be viewed in Appendix A.
- 6.4 The allowable return on capital is represented by the weighted average cost of capital (WACC) for the distribution business and covers the cost of debt (interest costs) and the cost of equity finance. It is obtained by multiplying the pre-tax cost of capital by the system and non-system asset values allocated to each load group. Systems assets are valued at ODV and non system asset values are based on their accounting book values.
- 6.5 The cost of capital (WACC) is derived using the Capital Asset Pricing Model. For the financial year commencing 1 April 2010 NTL used the following inputs:
- 5 year government stock rate to estimate the risk free rate at 5.2%
 - Target capital structure of 40% debt to total assets
 - Cost of debt 8.0%
 - Asset beta of 0.40 as the measure of the line business systematic risk
 - post tax market risk premium for equity of 7.5%
 - corporate tax rate of 30.0%

Based on these inputs NTL has calculated a pre tax cost of capital of 10.6% or a post tax WACC of 7.4% for the assets of NTL's line business

7.0 LOAD GROUPS

- 7.1 NTL's distribution revenue requirement is allocated to consumer load groups and distribution charges are derived for ICP's (Installation Control Points) within consumer load groups.
- 7.2 The allocation of ICP's to load groups is determined according to the:
- maximum capacity/demand an ICP can place on the network and
 - use/reliance by an ICP on particular segments of the network

Consumer ICP's are classified to load groups as follows:

Consumer Group	Network Segment Used	Maximum capacity requirement
Group 1	General 400V / 11 / 33kV	Fused <= 15 kVA
Group 2	General 400V / 11 / 33kV	Fused > 15 & < 150 kVA
Group 3	Limited 400V and 11 / 33kV	AMD>150kVA+ hhr metering
Group 6	Dedicated & Semi dedicated network, 33 kV and limited 11kV	>= 2000 kVA + hhr metering

Explanation:

- 400V/11/33kV refers to the voltage level at which the consumer takes supply and indicates the components of the network the consumer uses.

- The kVA indicates the consumers potential anytime maximum demand (AMD) and is measured by either the size of the ICP fuse installed or from historical half hourly (hhr) data available from a TOU meter installed close by the ICP.
 - Dedicated consumers are those utilising dedicated or semi dedicated feeders and network assets at voltages equal to or greater than 11kV.
- 7.3 Government policy and SCI requirements encourage Network Tasman to treat loads on rural spurs lines largely the same as those on the urban meshed parts of the network. Consequently load groups, and therefore distribution charges, are not differentiated across geographical areas.
- 7.4 Load group statistics used to allocate costs and calculate prices are presented in Appendix A.

8.0 ALLOCATION OF NETWORK COSTS TO LOAD GROUPS

8.1 Direct Network Costs, Depreciation and Capital Costs

Direct network costs, depreciation and capital costs are assigned to the network asset categories as shown in Figure 3.1 below. These network costs are then accumulated into those associated with the upper & lower segments of the network as shown in Figure 3.2.

- 8.2 Using the Figure 3.3 formulae, the network costs accumulated to the upper network segments are apportioned to each load group on the basis of coincident maximum demand (CMD), calculated on a 3 year rolling average basis at each GXP.
- 8.3 A key difference between the treatment of the upper and lower network cost components is that no lower network costs are allocated to load Group 6, as this group relies solely on upper network assets for its supply.
- 8.4 While the lower network cost component for 11kV lines is allocated between Groups 1, 2 & 3 based on relative CMD's, allocations for the 400V cost components are modified to reflect Group 3's minimal reliance on these assets.

FIGURE 3.1 ALLOCATION OF DIRECT COSTS TO COMPONENTS OF THE NETWORK

NETWORK COMPONENT	DIRECT NETWORK COSTS	DEPRECIATION	RETURN ON ASSETS	TOTAL DIRECT COST ALLOCATION
General 400V lines	a1	b1	r1	c1
Distribution transformers	a2	b2	r2	c2
General 11 kV lines	a3	b3	r3	c3
Dedicated 11 kV lines	a4	b4	r4	c4
Sub transmission lines and zone subs.	a5	b5	r5	c5
Dedicated networks	a6	b6	r6	c6
TOTALS	a	b	r	c

FIGURE 3.2 NETWORK UPPER AND LOWER NETWORKS

NETWORK COMPONENT	TDC BY COMPONENT	UPPER NETWORK ALLOCATION	LOWER NETWORK ALLOCATION
General 400V lines	c1	d1	e1
Distribution transformers	c2	d2	e2

General 11 kV lines	c3	d3	e3
Dedicated 11 kV lines	e4	d4	e4
Sub transmission lines and zone subs	e5	d5	e5
Dedicated networks	e6	d6	e6
TOTALS	c	d	e

Note: d1 & d2 = 0 and e5, & e6 = 0

FIGURE 3.3 ALLOCATION OF DIRECT NETWORK COSTS TO LOAD GROUPS

Load Group	Supply Voltage V	Coincident Demand MVA	Accumulated Formula MVA	Cost Allocation Formula	Total Direct Cost Allocation By Group
(1) 400V Gen <= 15 kVA	230/400	M1	A1	$(M1/A6*d)+(M1^2/A3*e)$	TDC 1
(2) 400V Gen > 15 & < 150 kVA	400	M2	A2	$(M2/A6*d)+(M2^2/A3*e)$	TDC 2
(3) 400V & 11kV > 150 kVA	400/11000	M3	A3	$(M3/A6*d)+(M3^2/A3*e)$	TDC 3
(6) Ded. Network	Over 11000	M6	A6	$(M6/A6*d)$	TDC 6

Note: $A1 = M1, A2 = M1+M2, A3 = M1+M2+M3$ etc.

$M1^2, M2^2, M3^2$ are CMD's adjusted to reflect G3 minimal use of the 400V lower network assets

8.5 Allocation of General Overhead and Indirect Costs

Management estimates are used to allocate the overhead and indirect costs to Group 6 & bulk supply consumers.

The remaining overhead and indirect costs are allocated to load Groups 1,2 & 3 in proportion to their relative shares of installed capacity (measured by fuse size of dedicated transformer capacity).

FIGURE 3.4 LOAD GROUP REVENUE REQUIREMENT

Load Group	Supply Voltage	Total Direct Cost Allocation	Total General Overhead Allocation	Total Distribution Revenue Requirement
(1) 400V Gen <= 15 kVA	230/400	TDC 1	OH1	$TR1 = TDC 1 + OH1$
(2) 400V Gen > 15 & < 150 kVA	400	TDC 2	OH2	$TR2 = TDC 2 + OH2$
(3) 400V & 11kV > 150 kVA	400/11000	TDC 3	OH3	$TR3 = TDC 3 + OH3$
(6) Ded. Network	Over 11000	TDC 6	OH6	$TR6 = TDC 6 + OH6$

9.0 DERIVATION OF DISTRIBUTION TARIFFS.

9.1 **General:** The TR_i totals from figure 3.4 identify the revenue requirement for each load group recoverable through distribution tariffs. Revenue is recovered using "fixed" and "variable" tariff components. Fixed tariffs are either daily charges (expressed as cents/day) or capacity/demand based tariffs (expressed as cents/kVA/day). Variable tariffs are based on consumption or usage (expressed as cents/kWh).

9.2 Determining the proportion of fixed and variable charges

- (a) NTL must strike a balance between the conflicting demands of:
- economic rationale

- government policy and regulatory requirements
 - electricity retailers desire for simplicity and predictability
 - the expectations of different electricity consumers
- (b) Economic theory encourages the use of fully cost reflective pricing. Regionally differentiated pricing associated with customers peak network demands would result. This supports economic efficiency by reflecting the fixed nature of the line business cost structures and the sunk nature of its asset based costs. The government owned grid operator Transpower operates a pricing methodology along these lines

Government policy and regulations however compel distributors to provide low fixed charge tariffs to lower use domestic consumers and to ensure rural and urban pricing structures remain closely aligned.

NTL also acknowledges some consumers and environmental groups oppose high fixed charge structures and expect a significant element of their charges to vary with consumption so some influence can be exerted over their electricity bills. These views conflict with the preferences of many high use business consumers who consider capacity based charges more fairly reflect costs of supply and reward high load factor consumers for efficient use of network assets.

- (c) Consequentially NTL distribution pricing is structured such that:
- Group 1 (both small business and residential) fixed charges are set at 15 cents per day to meet government regulatory requirements. As a consequence Group 1 pricing no longer reasonably reflects the fixed costs of supply to poor load factor or remotely located consumers in this group.
 - Groups 2 & 3 contain larger, higher load factor business consumers so greater reliance is placed on fixed capacity based pricing (sometimes facilitated by time of use metering)
 - Group 6 consumers have fully fixed charges to reflect the high levels of asset dedication associated with their supply.
 - There is no tariff differentiation between regional areas and consequently the revenue recovered in rural areas does always fully reflect the cost of supply to those areas.
 - There is no differentiation of tariffs (fixed or variable) based on consumers end use of electricity (ie between business or domestic).
- (d) For load Group 1 there is a single fixed charge expressed as a "cents per day" charge because all consumers in this Group have the same fuse capacity limiting their maximum demands on the network to 15 kVA.
- (e) Group 2 fixed charge is expressed as "dollars per kVA of anytime maximum demand" and is applied to the range of fuse capacities (measured from 20 to 150 kVA) limiting the maximum demands of consumers within in this group.
- (f) For load Group 3 the fixed charge is expressed as:
- (i) "dollars per AMD" and
 - (ii) "dollars per Winter RCPD demand" The winter demand is the customers average demand measured coincident against the top 12 regional coincident peak demands (RCPD) on Transpower's transmission system in the upper South Island.

