



TOP ENERGY LIMITED

PRICING METHODOLOGY DISCLOSURE

2020-2021

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1. Introduction

Top Energy Limited (Top Energy) is the electricity distribution network in the Mid and Far North of the Northland region. The network distributes some 326,000,000 kWh of electricity to over 32,500 electricity consumers, who also own the company through the Top Energy Consumer Trust (TECT).

This pricing methodology document describes our key considerations and approach to setting distribution prices effective 1 April 2020. It also sets out our plans and pricing strategy.

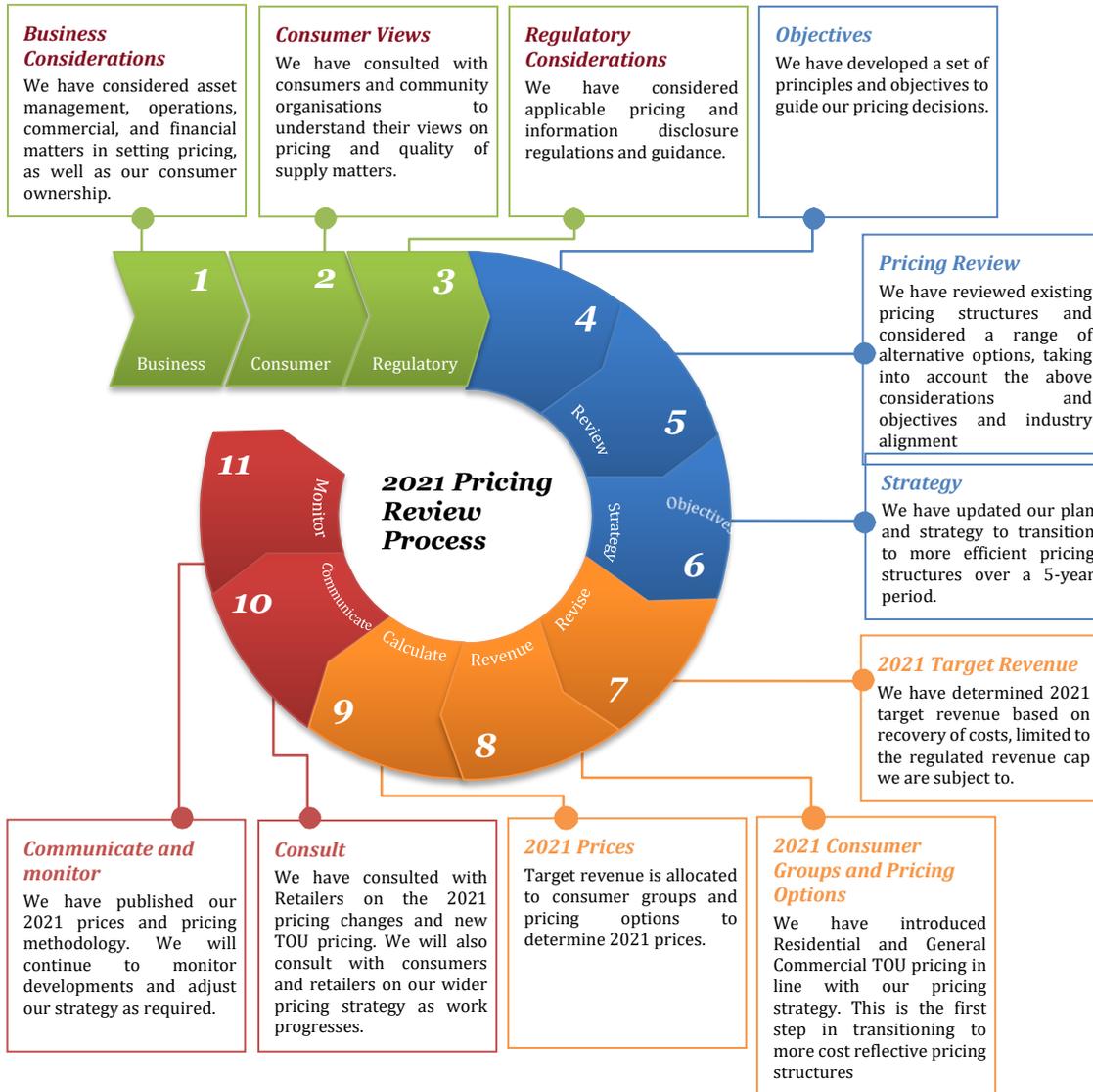
The pricing methodology is structured as follows:

- **Section 2** summarises our approach and key decisions for setting prices in 2020-21
- **Section 3** summarises key considerations we have taken account of in making decisions on pricing
- **Section 4** details our principles and objectives, recent review, and plans and strategy for pricing
- **Section 5 to 7** provides further detail on how prices are set, including:
 - how target revenue is determined
 - key decisions on consumer groups and available pricing options
 - how target revenue is allocated to each consumer and price option
- **Appendix 1** provides director certification of this pricing methodology
- **Appendix 2** provides a glossary of common terms used in this document
- **Appendix 3** maps compliance against section 2.4 of the ID Determination
- **Appendix 4** describes how this pricing methodology is consistent with the Electricity Authority's pricing principles published in June 2019
- **Appendix 5** details distribution prices that will apply from 1 April 2020

2. Summary of how prices are set

2.1. Process for setting prices

The following diagram illustrates Top Energy’s process for reviewing and setting prices in 2020-21.



2.2. How prices are calculated

Prices have been set to recover our 2020-21 target revenue. Target revenue is calculated to recover our forecast costs and is limited by a revenue cap determined by the Commerce Commission. This revenue covers the cost of our local electricity distribution network, pass through costs (including levies and rates) and costs associated with national transmission grid. Unit prices (comprising a daily fixed charge and/or a consumption-based variable charges) are calculated for each pricing option we offer by allocating target revenue:

- directly to a consumer, where costs are known for specific consumer groups
- using cost allocators for shared costs, which are based on consumer numbers or usage characteristics.

Figure 1 illustrates how target revenue is allocated to consumer groups and prices.

Figure 1: Calculation of prices



Notes: UM: Unmetered, IND: Industrial, DG: Distributed Generation

Top Energy's prices are used to charge electricity retailers in the Far North except two direct connect customers. Electricity retailers determine how to package these charges together with energy, metering and other costs when setting retailer prices that are charged.

2.3.Key changes to prices in 2020-21

We have continued the focus on our pricing methodology. The key highlights to date are:

- Separation of Residential and General Commercial customers and extension of Commercial TOU pricing (2016)
- Alignment with the industry with reference to the ENA's Distribution Pricing Guides (August 2015 and revised September 2016) to improve the efficiency and effectiveness of our pricing
- Implementation of optional residential TOU prices from 1 April 2019 assisted by acquiring a subset of TOU smart meter data for mass market customers

This year we are introducing one significant change to our price structure. As part of our move to more cost reflective distribution pricing, time of use (TOU) pricing has been introduced for Residential and General Commercial connections (99% of our customer base). A default single pricing will still be offered for connections without smart meters or access to smart meter data. In addition, larger commercial TOU pricing time bands for weekdays have been aligned. The discount paid by Top Energy will continue to be a posted discount and included in the price schedule. Distribution prices have decreased by 12.9% on average including the posted discount to recover net allowable revenues permitted under the revenue cap regulation. These decreases will be recovered through decreases in variable charges for residential and commercial customers and the balance through reduction in fixed charges for larger Industrial customers. Industrial (IND) consumers will continue to be assessed based on specific assets used. Overall prices have decreased by 15.9% after accounting for all pass through and recoverable costs and including the discount. Appendix 5 provides further detail on prices.

Top Energy's pricing strategy is dependent on the implementation of recommendations from the Electricity Pricing Review which was published in October 2019. In particular, the review supports that the Government issue a policy statement on distribution pricing and consideration for removal of the Low Fixed Charge Tariff (LFCT). The removal of the LFCT is critical in the ability to introduce more capacity-based pricing signals. If a government policy statement is issued or other relevant changes are implemented, Top Energy will review its pricing strategy and consult consumers and stakeholders accordingly.

This configuration is a legacy of a network design focused on providing electricity to a sparsely populated, economically deprived area, at a time when cost rather than reliability was the main driver for network development. Over 35% of Top Energy’s lines were originally built using subsidies provided by the Rural Electrical Reticulation Council (RERC). This levy assisted post-war farming development in remote areas and enabled the supply of electricity to consumers located in sparsely populated rural areas, which would otherwise have been uneconomic to service.

The original network infrastructure was also developed at a time when Kaikohe and Kaitia were the dominant urban centres. This is no longer the case, with growth now occurring in the Bay of Islands and Kerikeri as well as the East Coast peninsulas. This is where the existing infrastructure is weakest.

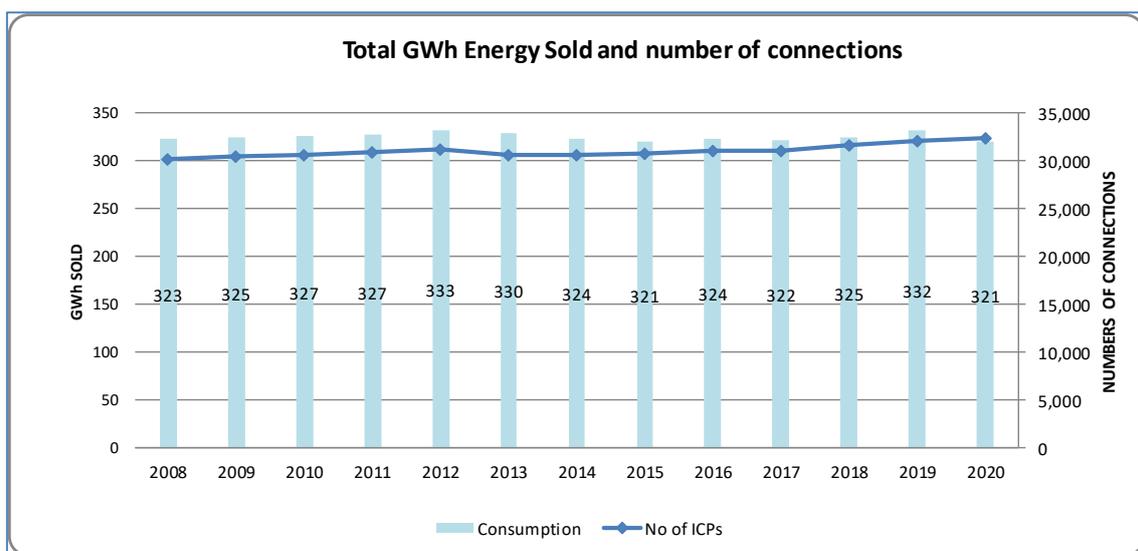
Many existing lines now require extensive rebuilding and refurbishment. Many assets are located in sparsely populated rural areas which remain uneconomic in some circumstances. However, Top Energy is required by legislation to maintain a power supply to consumers that were connected to these lines prior to 1993.

Within this environment, Top Energy has had to invest to meet both growth in new areas, while maintaining an appropriate level of service in existing high-cost network areas. The costs of these investments need to be reflected in prices going forward.

3.1.2 Network consumption and peak demand

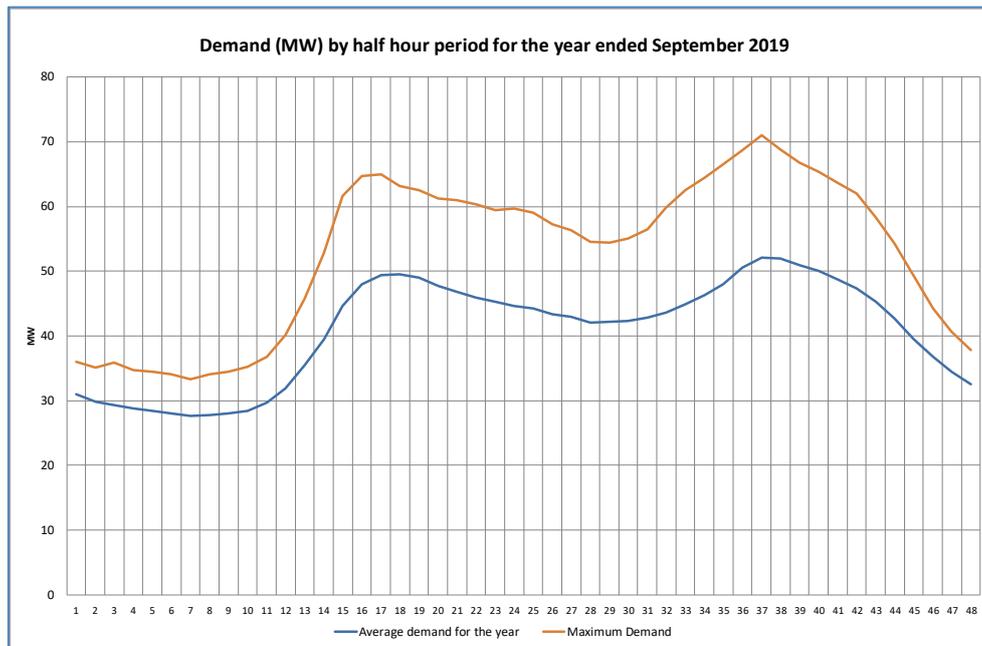
The utilisation of the network is heavily weighted towards small consumers, representing 99% of connections and over 78% of maximum demand. This is evidenced by the fact that average consumption is the one of the lowest in the country at 10,282 kWh/consumer. Top Energy’s pricing structures are therefore strongly focussed on the needs of the residential and general consumer groups, with only a few large connections. Total energy sold on the network is shown below and has been relatively stable over the last decade despite a steady increase in connections.

Figure 3: Consumption and total connections



The key driver for future investment on the network is maximum demand. Maximum demand on the network was approximately 71MW in 2019, 3% higher than in 2017 due to growth in connections. Further growth is forecast due to increased general connections and the possibility of additional industrial load from the potential Ngawha Industrial Park.

Figure 4: Demand on Top Energy network by time of day



Although no major capacity constraints exist on the sub-transmission 33kV network, when all network elements are in service, our Asset Management Plan has signalled that additional load growth would result in the load at risk continuing to increase and therefore more difficult to mitigate.

The most pressing capacity constraints on the Top Energy network are on the lower voltage network (11kV and less) which is typically at street and suburb level. These constraints are predominately in rural areas but also include some urban areas. Future growth in demand on these lines will require additional investment. This can be managed through increasing the capacity, optimisation of existing asset or smoothing demand through price signals.

3.1.3 Technology

Emerging new technologies are beginning to disrupt the traditional electricity industry and change customers use of the network and in some cases provide alternatives to grid connection. Emerging technologies include:

- Photovoltaic generation
- Battery storage and management systems
- Household Management Systems and
- Electric Vehicles

The overall impact of these technologies is uncertain and network implications and opportunities are currently under investigation. The impact of technology will have a direct impact on our pricing structures to ensure that the network utilisation can be maximised.

The network has the second highest penetration of solar in the country at 2.7% of connections (4MW) and this is expected to continue to increase. At present this can be managed with the existing network but the future impact on the network are being considered including the role of pricing reform.

The key immediate issue with solar is localised clustering e.g. at street level especially in the Eastern part of the networks. A high penetration of solar within a street or suburb results in voltage issues and potential capacity constraints.

Larger scale Distributed Generation, for the purpose of export, is expected to cause capacity constraints at all levels in the future and this includes on national transmission grid. Based on current applications, exported demand in Summer could exceed the capacity on the transmission line south of Top Energy's network if built.

Electric Vehicles have the potential to change consumption patterns and are also a consideration for network management.

3.2. Consumer views

To inform our decisions regarding the above investments, in 2009 Top Energy consulted with consumers on our proposed network developments and consumer expectations for prices and the quality of service they receive. This was completed via a telephone survey.

The survey results established that 80% of consumers wished to see network reliability improve. There was overwhelming support from community organisations for the construction of a second 110 kV circuit to secure the electricity supply to the Kaitaia region. Accordingly, we embarked on a programme to improve security of supply in which \$180 million would be spent over 10 years; the single largest expansion in the history of the network.

Since 2009, regular telephone surveys and focus groups have been completed to gauge customer views on our progress and incorporate any new insights into asset management planning and pricing approaches.

In 2018 and 2019, Top Energy completed comprehensive telephone satisfaction surveys to understand residential and commercial customer satisfaction and experience with the services provided.

The key results were:

- 85% of customers are satisfied with their current supply reliability. This is similar to 2018
- Customers are reasonably open to adopting new energy technologies with an increase across the board of new technologies adopted in 2019 compared to 2018. Over 60% of customers are using LED lighting and nearly 30% of customers using gas hot water or heating. Solar panels and LED lighting are the new technologies most likely to be adopted over next 12 months

- 18% of customers said that they changed power companies in the last 12 months. Close to four out of ten customers said that a saving of \$30 or less per month will motivate them to change power companies

The survey also measures the current levels of satisfaction with levels of price and quality. Feedback from the last three surveys indicates that both residential and commercial consumers are generally satisfied with the current levels of service, with the majority not willing to pay higher prices for increased reliability. This was demonstrated most recently in the 2019 customer survey, with the results shown below.

Figure 5: Price quality trade-off



Source: Key Research customer survey 2019

Surveys will continue to be completed to provide a benchmark of customer satisfaction and preferences over time.

To compliment the telephone surveys, Top Energy ran focus groups, in conjunction with the ENA, with customers in Kerikeri and Kaitaia in 2017. The focus groups included 6-8 representative Top Energy customers and provided in-depth discussed with customers on their views about the electricity sector, different pricing structures to recover distribution costs and Top Energy.

The key customer insights from the focus groups were:

- Top Energy customers are more engaged with electricity than groups in Christchurch and Auckland primarily due to higher cost
- Customer understanding that higher distribution costs are due to lower population, relative remoteness and high relative infrastructure needs
- Higher electricity costs, combined with lower incomes, appear to drive a number of cost saving behaviours and consideration of electricity alternatives including solar and gas. High upfront costs and long payback time has limited uptake
- Low Fixed Charge Tariff (LFCT) was thought to be targeted at elderly and / or those living alone. The number of customers on the LFCT in the Top Energy network was higher than expected

- Top Energy has a strong local brand. We are perceived as being highly responsive in emergency situations, solid community involvement and contribution, and highly visible in the community

The residential TOU trial has enabled us to get an insight into a small subset of customers behaviour on cost reflective pricing. The key findings have been that TOU prices does attract and reward customers with suitable consumptions profiles.

The annual surveys and focus groups continue to assist us in our review of our current pricing and future developments.

3.3.Regulatory considerations

Top Energy is subject to regulations which influence our pricing decisions as well provide guidance on how prices should be set. These are summarised in Figure 6.

The Commerce Commission determines the lines charge revenue which it considers is sufficient to recovery our reasonable costs, as well as an appropriate return on investment. In the new Default Price-Quality Paths Determination 2020, the methodology has changed to setting an allowable revenue rather than allowable prices. We must also publish a range of information on our prices and pricing methods. This pricing methodology is prepared pursuant to these requirements (see Appendix 3).

The Electricity Authority's (EA) pricing principles and information disclosure guidelines also provide useful guidance on setting economically efficient prices. The EA published new pricing principles (June 2019) and Practical notes (August 2019) and we have considered the extent to which our pricing methodology aligns with these new principles in Appendix 4.7.

To encourage and support distributors to adopt more efficient distribution prices the EA has developed scorecards for each distributor based on an assessment of their 2019 pricing methodology and pricing roadmap. The EA paper "Distributors Pricing 2019 Baseline Assessment" was published on 19 November 2019.

The assessment is aimed to complement industry-led efforts to promote more efficient distribution pricing, by analysing different pricing options, and offering frameworks and tools. The EA assessments will be repeated annually to track progress, identify good practice, and provide constructive feedback where progress lags. Top Energy has met with EA to better understand good practice, identify gaps and discuss suggested improvement opportunities. Feedback from this session and the scorecard has incorporated into our pricing strategy and pricing methodology. Comparison against other distributors will be considered when the EA releases each scorecard after the publication of pricing methodologies for the 2020/2021 pricing year.

Figure 6: Summary of relevant regulations

Regulation	How this affects Top Energy's prices
Electricity Distribution Services Default Price-Quality Path Determination 2020 (DPP)	Forecast revenue from prices must not exceed forecast allowable revenues determined by the Commerce Commission
Section 2.4 of the Electricity Distribution Information Disclosures Requirements (ID)	Requires Top Energy to publish certain information on prices and pricing methods
Distribution Pricing Principles and Information Disclosure Guidelines (Pricing Principles)	Provides guidance on: <ul style="list-style-type: none"> • economic principles and market considerations for setting prices • information that should be made available to support pricing methodologies
The Electricity (Low Fixed Charges Options for Domestic Consumers) Regulations 2004 (LFC Regulations)	Requires Top Energy to offer a price option to domestic consumers that has a fixed daily price not exceeding 15 cents.
The Electricity Industry Participation Code, Part 6 - pricing of distributed generation.	Limits prices for distributed generation to the incremental costs of connecting generation to the network, considering any avoided costs.
The Electricity Industry Participation Code, Part 12A.	Top Energy must consult with retailers in relation to any changes to pricing structures.

3.4. Stakeholder (Retailer) considerations

In accordance with the requirements of the Electricity Industry Participation Code, Top Energy has engaged with all retailers that have connections on our Network when we have intended to make changes to our pricing structures.

Over September and October 2019 Top Energy, in conjunction with Northpower, undertook consultations on cost reflective distribution pricing. The consultation focussed on the proposed choice of TOU pricing for Residential and General Commercial customers, retailers' capabilities to provide the data for billing purposes and whether the retailers were likely to offer TOU options to their customers.

Top Energy visited 11 Retailers and received detailed responses from 7 retailers including four of the five major retailers which covers 75% of connections on the network. Nearly all the retailers who responded said they were supportive of TOU pricing structures for mass market customers

Retailers stressed the need for the TOU pricing to allow for legacy meters, non-communicating advanced meters and retailers who unable to provide data and or bill TOU. This was consistent from previous discussions and learning from our TOU trial. Retailers were in favour of our proposal to accommodate these practical issues by offering, on request, a 12-month exemption for non-punitive single default prices for the following:

- legacy meters or non-communicating advanced meters (automatic)
- Specific meter providers due to system constraints or contractual issues
- Billing system limitations or
- other issues considered on a case by case basis

The requirement for non-punitive single default prices for legacy metering is heightened for Top Energy as smart meter penetration is only 63%. Retailers were also consulted on our communication plan for the price decrease and introduction of TOU prices.

For the first time, consultation with Retailers also included future areas of pricing reform from our pricing strategy including capacity pricing for larger commercial customers and new technology e.g. Electric vehicles. This will assist in our development before further consultation next year.

In addition to this formal notification, Top Energy has engaged stakeholders through attendance at industry workshops (e.g. ENA Strategic Pricing Working Group, Joint Retailer and ENA workshop), informal discussions and face to face meeting with retailers, or when new retailers sign up for a Use of System Agreement. Two new retailers started trading on the network in the last year taking the total number of retailers to 23. Two retailers exited the market and transferred their customers to another retailer.

4. Pricing Decisions

4.1. Pricing objectives

Top Energy has adopted the following six pricing objectives, informed by the above considerations:

1. Prices provide an adequate return to the shareholder within the restrictions of the Commerce Commission's price control regime
2. Prices are economically efficient, transparent, and simple to understand, but also recognise the socio-economic needs of consumers and the region
3. Prices reflect a fair and efficient allocation of cost, regardless of actual volumes of electricity consumed
4. Prices provide consumers with opportunities to significantly reduce their charges where they are able to make changes in their usage of the network to reduce Top Energy's long run costs

5. Price stability and certainty is maintained by signaling changes in advance and by transitioning these changes over an appropriate timeframe to avoid price shock
6. Prices do not differentiate urban and rural consumers

These objectives are informed by the key considerations discussed in the previous section, including business considerations, consumer feedback, industry and regulatory guidance (in particular the Electricity Authority pricing principles).

Trade-off exists across these objectives which must be balanced. Our current focus in meeting these objectives is:

- To allocate costs fairly between consumer groups
- To establish a range of price options that reflect consumer requirements e.g. new Residential and General Commercial TOU pricing
- That prices reflect the potential demand and capacity required by consumers
- To comply with regulatory requirements
- To appropriately recover pass through costs
- To achieve a rate of return acceptable to shareholders.

4.2. Five-year pricing strategy

Top Energy developed a plan and strategy to transition to and continually evolve our pricing structures. The pricing strategy is one component of the wider strategy to manage our network assets and investment for the long-term benefit of our existing and future consumers. A key driver of this is the management of maximum demand which has increased by over 3% since 2017. Maximum demand is forecast to continue to increase as outlined in our Asset Management Plan with low voltage constraints e.g. street and suburb level the most immediate risk. The main drivers for growth are expected to be from an increase in connections, adoption of new technologies e.g. electric vehicles and there is a potential for step change growth due to large-scale projects e.g. Ngawha Industrial Park.

The five-year pricing strategy outlined sees more cost reflective pricing implemented and will position Top Energy to better manage its network and investment in the future. The transitional approach outlined below will also enable Top Energy to manage the impact on customers while adapting the approach, if required, to changing requirements or technologies. This could include incorporation of new technologies and network alternatives by customers. Other mechanisms to manage maximum demand including ripple control will continue to be used in conjunction with pricing signals.

The implementation of the five-year plan has been brought forward from last year's strategy, with TOU pricing being implemented for all mass market customers from 1 April 2020 rather than a phased approach over two years. In addition, consideration of the next stage of cost reflective pricing, including new technologies, has been introduced into the strategy.

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Top Energy has brought forward the implementation of new pricing structures for all mass market customers after consideration of the industry’s progress and consultation with Retailers. In addition, the impact on customers has been managed by taking a transitional approach which balances the need for more cost reflective prices and our pricing objective to avoid pricing shock.

This approach also aligns with the EA view in their Decision paper: More efficient distribution network pricing – principles and practice – 4 June 2019 “that distributors need to act with ambition and urgency on reforming their pricing structures, and that concrete plans were needed now.

Top Energy also acknowledge that pricing reform will be an ongoing process and have incorporated the development and modelling of further cost reflective pricing including new technologies in the pricing strategy. This has been complemented by more consultation with retailers.

Top Energy’s pricing strategy is dependent on the implementation of recommendations from the Electricity Pricing review which was published in October 2019. In particular, the review supports that the Government issue a policy statement on distribution pricing and consideration for removal of the Low Fixed Charge Tariff (LFCT). If a government policy statement is issued or other relevant changes are implemented, Top Energy will review its pricing strategy and consult consumers and stakeholders accordingly.

The following table highlights the journey that has been completed to date and the planned approach for further pricing reform

Figure 7: Top Energy’s pricing strategy

2016/2019	Year 1 (2019/2020)	Year 2 (2020/2021)	Year 3 (2021/2022)	Year 4+
<input checked="" type="checkbox"/> COMPLETED <input type="checkbox"/> Redefine Commercial TOU periods to reflect actual peaks – align with industry <input type="checkbox"/> Participate in industry reviews and align <input type="checkbox"/> Engage with customers through surveys and focus group <input type="checkbox"/> Analysed smart meter data and modelled impacts of new pricing structures <input type="checkbox"/> COS model developed	<input checked="" type="checkbox"/> COMPLETED <input type="checkbox"/> Residential ToU Trial <input type="checkbox"/> Consultation with stakeholders on planned pricing changes <input type="checkbox"/> Consideration of the impact of new technologies e.g. solar and EV <input type="checkbox"/> Further collaboration with Northpower on Pricing <input type="checkbox"/> Assessed impact of Government electricity pricing review	<input type="checkbox"/> IMPLEMENT <input type="checkbox"/> TOU pricing for all Residential and General Commercial customers on 1 April <input type="checkbox"/> Develop and model demand or capacity based pricing for larger commercials <input type="checkbox"/> Consult with stakeholders on planned changes <input type="checkbox"/> Further assessment of the impact of Government electricity pricing review and TPM	<input type="checkbox"/> IMPLEMENT <input type="checkbox"/> Implement Demand / Capacity based pricing for larger commercials <input type="checkbox"/> Review customer impact and behaviour dynamics of TOU pricing <input type="checkbox"/> Review smart meter data requirements and impact of smart meter penetration <input type="checkbox"/> Update COSM	<input type="checkbox"/> IMPLEMENT <input type="checkbox"/> Refinement of new pricing structures implemented <input type="checkbox"/> Develop and model of further cost reflective pricing including new technologies for implementation in 2023

A key issue identified in implementing our price strategy is the roll out of smart meters to all our customers. In the EA consultation paper “More efficient distribution prices - 11 December 2018” the availability of smart meter data was central to pricing reform. Currently, only 63% of connections have smart meters installed and these are concentration

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in populated areas. See table below. Trustpower have confirmed that they will roll out smart meters over the coming years which should increase penetration to over 70%.

Density	HHR penetration (%)
REMOTE	46%
RURAL	59%
URBAN	65%

The availability of smart meters and data issues identified by Retailers, limits our ability to offer new pricing structures and for customers to potentially benefit. This has been addressed by offering a default non-punitive single rate for customers without smart meters and providing Retailers an option to apply for an exemption due to operational issues e.g. non-communicating meters, contractual issues with meter providers. The concentration of non-smart meters in remote low-socioeconomic areas is of concern as our most vulnerable customers may not only be able benefit but could also be negatively impacted as more network costs are allocated onto those without smart metering.

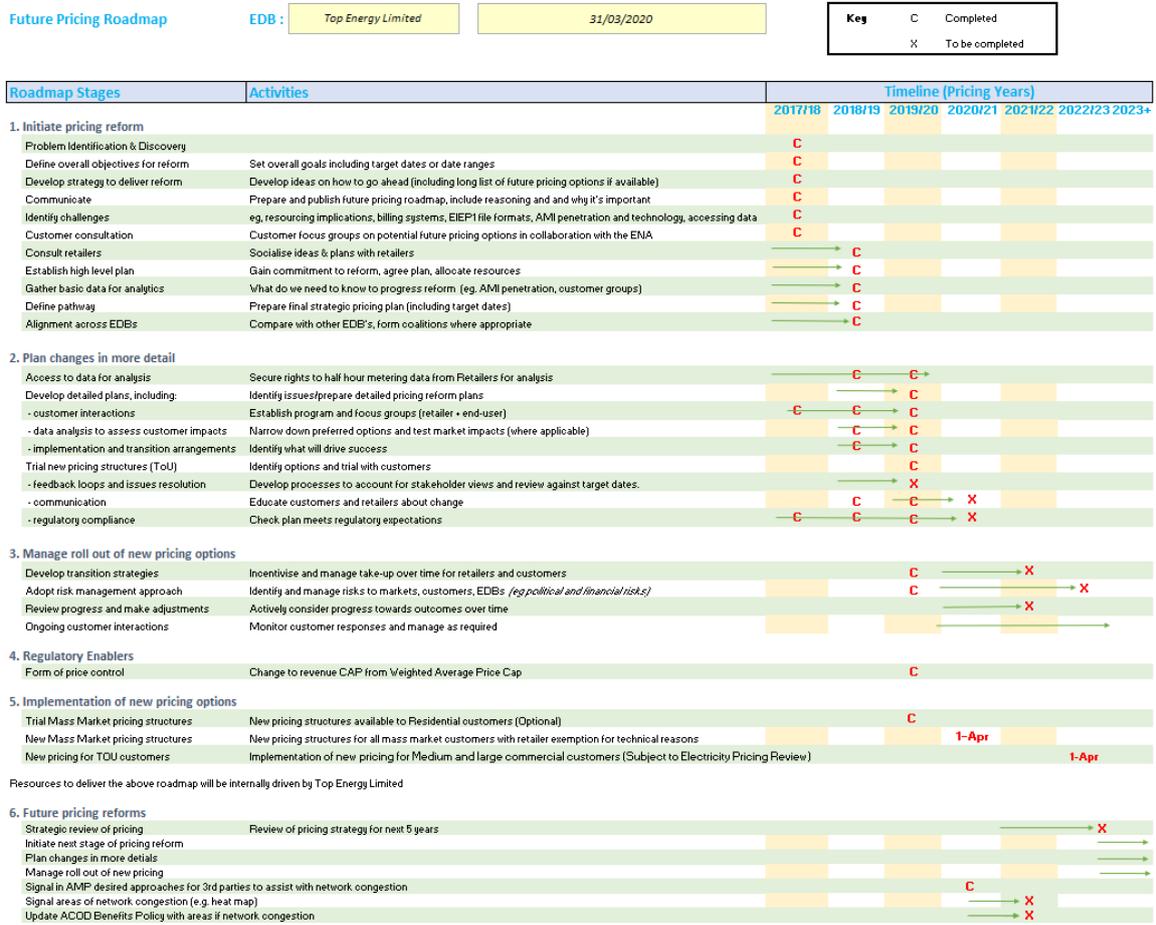
In October 2016, the Electricity Authority (EA) outlined their expectations that distributors would publish their plans for adopting efficient price structures. The plans are to include information that signals to stakeholders, including retailers and consumers, the distributor's goals and timeframes including:

- A clear outline of the process the distributor will adopt, including the nature of the consultation that will be undertaken with retailers and other stakeholders
- A timeline with the key milestones
- Discussion of distributor resourcing implications including how resources will be allocated.

Top Energy has fully complied with the EA's expectations. In last year's pricing methodology Top Energy's roadmap, that was provided to the EA, was published. An updated version is outlined in the table below showing progress and key timelines and the good progress achieved to date. It is noted that the EA no longer requires these to be sent separately to them, instead relying on the disclosures within this document.

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Figure 8: Top Energy’s future pricing roadmap (as at 31 March 2020)



4.3. Pricing review

Top Energy’s pricing strategy has provided the framework for activity over the last three years and for the changes being made this year. To assist in the delivery of the framework, in Top Energy has continued to be a part of the ENA’s Distribution Pricing Working Group (DPWG), to better understand and be involved in industry discussions on pricing and assist in industry alignment with the transition from a historical pricing structure. In addition, Top Energy and Northpower have worked closely together to delivery common pricing structures for Northland and industry consistency where possible. This includes joint consultation of retailers, a TOU trial and implementation of TOU pricing for mass market customers. Further collaboration is planned this year including analysis of the impact of TOU pricing on customer behaviour and consideration of demand and/or capacity pricing for larger commercial customers.

To better reflect the service we provide and our underlying cost structure (i.e. network capacity) and assist in managing future network capacity constraints outlined in the background section Top Energy has commenced implementing new pricing signals with the objective of moving from largely consumption-based pricing towards prices based on demand/capacity-utilisation with time of use consumption charges. The main changes and activities to date are:

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- Modernising the pricing structure to achieve better industry alignment e.g. ENAs distribution pricing guidelines, residential consumer group with Low User and Standard User category and the introduction of TOU pricing for non-residential customers
- Representation on the ENA Strategic Pricing Working Group to look at what cost-effective pricing means in practice including pricing structure design, customer testing and analysis using half hour metering data
- Consideration of the options outlined in the ENAs 2017 paper “A Guideline Paper for Electricity Distributors on new pricing options” which covered five network pricing types that either on their own or in combination that could be used to meet the pricing objectives
- Focus Groups in Kaitaia and Kerikeri, in conjunction with the ENA, to get feedback from customers on pricing options outlined in the ENAs Guidance paper
- Evaluation of pricing options and potential impact on customers through analysis using customer half hour meter, updating our cost to serve model and focus group insights. The cost to serve model showed that, most customer groups covered the cost (excluding Return on Capital) of their supply of electricity. The main exceptions were Low User customers in rural areas across the network
- Development of a trial residential TOU pricing, in collaboration with Northpower and retailers
- Introduction of TOU pricing for Residential and General Commercial customers from 1 April 2020

Implementation of these forms of pricing are dependent on the roll out of smart meters, with the rollout currently sitting at 63% of ICP's. This has been considered in the approach undertaken.

The key area of focus this year is the implementation of TOU pricing for Residential and General Commercial customers and consideration of capacity and/or demand pricing for larger Commercial customers.

To assist in the implementation of TOU prices, Top Energy and Northpower jointly ran a residential TOU trial over the last year. This trial enabled us to understand the appeal of TOU pricing and implementation of new pricing structures. These learnings were incorporated in the design of the new pricing and was consulted on with Retailers. In particular, the option of non-punitive single rate prices for legacy meters and non-communicating meters and the option for retailers to apply for an exemption for other operational issues e.g. contractual issues with meter providers or billing systems.

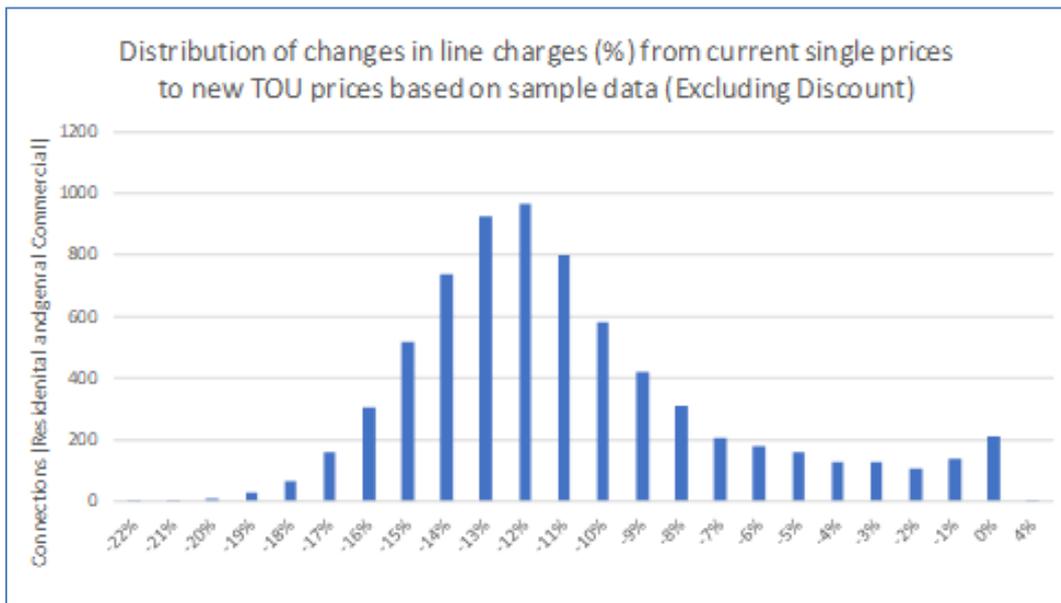
The TOU trial showed that the customers who elected this option had consumption profiles which resulted in lower overall costs relative to the single pricing option however no conclusions could be made on behavioural changes from the price signals due to the low uptake by retailers.

A transitional approach has been taken to setting Residential and General Commercial TOU pricing to manage the impact on customers. The impact on customers will be further analysed after implementation and pricing optimised. In addition, Top Energy will monitor change in consumption patterns as new propositions reflecting TOU pricing structures are offered by Retailers

The impact on customers line charges of the new ToU pricing structures has been analysed based on a sample of half hour data from Retailers. This shows that for residential and general commercial customers, given no behaviour change,

- greater than 80% of customers would get a change in their line charges by + / - 5 % relative to the average decrease (excluding the discounts). See Graph below.
- Nearly all customers will get a reduction in prices due to the introduction of TOU prices coinciding with the reduction in revenue under the 2020-2025 Price Quality path

Figure 9: Estimated impact on customers of price change excluding discount



As part of the pricing review, Top Energy have developed a framework to consider the impact of new technologies on our network and appropriate actions including timing. The framework outlines the key triggers points for new technology penetration e.g. Electric Vehicle or Solar and proposed action by Top Energy. This framework will be further refined over this year and be considered as part of our asset management strategy. Lastly, Top Energy will continue to actively engage with stakeholders, customers and Government agencies to ensure that Top Energy delivers to the objectives.

5. Target revenue

The first step in the pricing process is to establish the total target revenue to be recovered through prices. Distribution prices are set to generate sufficient revenue for Top Energy to recover its costs, subject to DPP allowable revenues. These costs are discussed in further detail:

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Figure 10: 2020-21 Breakdown of Target

COMPONENTS OF TARGETED REVENUE			
	(1 April 2020 to 31 March 2021)	(1 April 2019 to 31 March 2020)	% change
Transpower Charges	5,275,778	5,328,932	-1.0%
Avoided Cost of Transmission (ACOT)	1,751,722	2,752,881	-36.4%
Pass-through Costs	272,001	263,489	3.2%
Other recoverable Costs	-	143,136	-105.1%
Pass Through subtotal	7,156,366	11,146,675	-35.8%
Network Maintenance Costs	6,182,000	6,139,000	0.7%
Overheads	11,451,000	9,961,000	15.0%
Depreciation	9,056,890	9,056,890	0.0%
Pre tax ROI charge	16,302,000	22,055,137	-26.1%
Distribution subtotal	42,991,890	47,212,027	-8.9%
Annual Revenue Requirement	50,148,256	58,358,702	-14.1%
DPP Compliance Adjustment	-	5,046,970	33.7%
TOTAL TARGET REVENUE*	45,101,286	54,585,121	-17.4%

The total Target Revenue has decreased by \$9.5m (-17.4%). This is driven by the decrease in Top Energy's net allowable forecast revenue under the new 2020 Default Price Path (DPP) Determination (\$5.5M) and a decrease in Pass through costs of \$4.0 mainly due to the removal of the NPV Washup Allowance and Clawback (\$2.7M) and reduction in ACOT (\$1M).

5.1. Revenue cap regulation

Top Energy's revenue under the 2020 Default Price Path (DPP) Determination is based on a revenue cap. Total target revenue for 2020-21 is \$45.1M complying with the default price path (DPP) and based on consumption and connections forecasts. The methodology for forecasting consumption and connections is outlined in Top Energy Annual Price-Setting Compliance Statement – 2021 Assessment period). The target revenue is after any posted line charge discounts that are paid to consumers through a reduction in their electricity bill. Posted discounts are forecast to be in the vicinity of \$6.82m for the year, representing 15% of target revenue before the discount.

Under the 2020 DPP Determination, Top Energy is required to decrease revenue by 17.4% in the 2020-2021 year and then increase prices by CPI in the four subsequent pricing years. This decision was based on an allowable return on investment for the 2021-2025 regulatory period of 4.57% (67th percentile vanilla Weighted Average Cost of Capital (WACC)).

In addition, Top Energy is allowed to recover pass-through and recoverable costs including transmission charges, Avoided Transmission, Avoided Distribution, rates and levies

5.2. Transpower charges

Top Energy passes through all transmission charges at cost in accordance with the DPP and its own pricing principles. The transmission charge is equitably distributed across all customers. Transmission charges include:

- Connection Charges – Transpower charges for use of Kaikohe GXP connection assets to which Top Energy's network connects to the national grid
- Interconnection Charges – Transpower charges for use of core grid assets based on Top Energy's share of Regional Coincident Peak Demand (RCPD) in Transpower's Upper North Island demand measurement region
- New investment charges – Transpower contractual charges for grid connection capacity and security upgrades determined by agreement between Transpower and Top Energy.

5.3. Avoided Transmission – Distributed generation

Avoided transmission and voltage support charges may be payable to embedded generators of greater than 1MW output when suitable terms have been negotiated with Top Energy. Avoided interconnection charges are paid in recognition of a generator's contribution to reducing Top Energy's share of Transpower RCPD peaks.

5.4. Avoided Distribution – Distributed generation

Avoided distribution may be payable to embedded generators of greater than 1MW output when suitable terms have been negotiated with Top Energy.

5.5. Other Pass-through costs

This includes rates and regulatory levies.

5.6. Other recoverable costs

This includes quality incentive and Incremental rolling incentive scheme (IRIS) adjustments.

5.7. Network costs

Network costs comprise mainly maintenance costs. These are derived from the network maintenance programme which provides consumers with acceptable levels of safety and reliability, including an allowance for repairs following faults. The amount is determined in conjunction with Top Energy's Asset Management Plan.

5.8. Non-Network costs

These are costs incurred in managing the day to day operations of the business, including management, finance and administration costs, as well as system operations and network support.

5.9. Depreciation

Depreciation represents the return of Top Energy's asset investment and is estimated using 2019 Regulatory Asset Base (RAB) roll-forward.

5.10. Pre-Tax WACC

A pre-tax return on investment is derived by applying a pre-tax weighted average cost (WACC) to Top Energy's regulatory asset base (RAB). Our 2021 WACC estimate of 5.70% is based on the DPP WACC (4.57%) expressed on a pre-tax basis.

6. Consumer Groups and Pricing Options

6.1. Cost drivers

We have sought to align our consumer groups and pricing options to reflect differences in the key drivers of our costs. Approximately, 75% of our costs is associated with directly investing in, maintaining and operating the network, as well as receiving supply from Transpower. The remaining 25% is associated with general management and administration of the business. Top Energy considers that our network cost drivers are:

- peak demand
- the length of circuit required to supply consumers
- the number of consumer connections
- dedicated asset costs.

The cost drivers that are relevant to Top Energy's current pricing methodology are peak demand, the number of connections, and dedicated asset costs, as discussed below.

Peak demand

Top Energy builds capacity in the network to meet forecast demand. As demand increases, Top Energy must consider further investments in capacity. Consumers' peak usage of existing network capacity is therefore a key driver of future costs. For instance, the network potentially faces capacity constraints in a number of growth areas (as identified in 3.1 Business considerations) and Top Energy has undertaken a large investment programme in these areas to meet forecast demand. The introduction of TOU pricing may assist in deferring future investment.

Circuit length

The distance between a consumer's premises and the point of supply to the network influences the length of lines and cables required to deliver electricity to consumers. Effectively, consumers that are further away from the Kaikohe GXP create relatively higher costs for Top Energy.

In our view, it is not practical, or necessarily fair, to distinguish individual consumers by circuit length. However, groups of consumers within network sub-regions can be distinguished. Recently, as part of our Cost to Serve model update, we

investigated the merits of adopting pricing sub-regions, reflecting urban, rural and remote and Northern, Eastern and Western network supply areas, respectively. While some cost differences were evident across these regions, potentially justifying different prices, consumers have sent a clear message that rural and remote consumers should pay no more than urban areas. For similar reasons, we have decided not to distinguish between the Eastern, Western and Northern networks.

Therefore, while circuit length is a relevant cost driver, Top Energy has decided not to reflect this in pricing other than for Industrial customers.

Consumer connections

New connections create investment and ongoing operations and maintenance costs. Top Energy's policy is for consumers to contribute towards capital costs in an upfront capital contribution. Remaining connection related costs must therefore be recovered through pricing.

Consumer specific costs

As a general principle, costs that are specific to individual consumers or groups of consumers should be directly recovered from these consumers, where practical. The provision of street-lighting and community lighting is an example of a cost that is only caused by a specific group. Transmission and assets costs for large industrial consumers can also be identified and prices set to reflect these costs through non-standard contracts.

Pricing distinctions could also be made based on network regions (discussed above), use of the high voltage network only, and use of dedicated transformers. However, our review of pricing suggests there is little benefit for Top Energy in disaggregating prices to reflect these costs.

6.2.Consumer Groupings

Primarily consumers connections are classified into Consumer Groups according to their capacity requirements and connection profiles. Capacity is seen as a good proxy for Consumer groups with similar peak demand and therefore incur similar network costs. .

The number of Consumer Groups has been set at four reflecting that 99.5% of customer base is made up of mass market customers and the balance between minimising complexity and ensuring costs are allocated appropriately between consumers.

Figure 11: Consumer Groups

Consumer Group	Criteria	Rationale	Pricing and commercial terms
Larger	Large commercial and Industrial loads consuming >200,000kWh per annum, with a fuse capacity of 110kVa or greater	Pricing incentivises the efficient use of network capacity by large loads through variable charges levied on peak, shoulder and off-peak time of use periods for Large Commercial.	Standard
		Industrial loads are distinguished by much larger load size, time of use metering and Transpower and Top Energy's distribution costs can be identified for each consumer.	Non-Standard
Residential	Loads have similar capacity with a common load profile which is often controllable	Recognises the large majority of small load connections with or without access to time of use meters and providing compliance for low user regulations.	Standard
General	All connections that do not fit within other consumer groups	Same pricing options as 'standard residential' are available. In addition, pricing incentives through General Advanced variable charges levied on peak, shoulder and off-peak TOU periods. Also recognises that some connections will be without TOU meters.	Standard
Unmetered	Street and community lighting and other unmetered connections	This group recognises the unique cost and network usage profile of street and community lighting.	Standard

6.3. Summary of pricing options

Top Energy offer the following pricing options within the above consumer groups.

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Figure 12: Pricing Options

Price Code	Description and rationale	MWh	ICPs														
Industrial (IND)	Fixed price recovery of costs associated with industrial loads consuming >3,000,000kWh per annum and a fuse capacity of 110kVa or greater.	48,845,	3														
Large Generation (LDG)	Fixed price recovery of costs associated with the connection of large-scale distributed generation into the distribution network.		3														
Micro Generation (DG)	Variable price recovery of costs associated with the connection of small-scale distributed generation into the distribution network. Currently set at zero.	3,161															
General Advanced Metering (TOU) and (GA)	<p>TOU is the default code for all customers with an annual consumption exceeding 200,000kWh but less than 3,000,000kWh (TOU). Total charges for this plan include a fixed price for each day connected and a variable consumption price based on kWh consumption during three pricing periods, representing peak, shoulder and off-peak demand periods, as follows:</p> <p>GA Advanced metering is for small commercial connection with pricing beneficial for customers using between 30,000 and 200,000 kWh (GA) per annum.</p> <p>Both have pricing in the following time periods.</p> <ul style="list-style-type: none"> • Peak: 07:00-9:30 and 17:30-20:00 • Shoulder: 09:30-17:30 and 20:00-22:00 • Off-peak: 22:00-07:00 	48,150	104														
Residential	<p>Residential ICP's can have the following metering configurations: Uncontrolled, All inclusive, Day/Night (Closed) and Controlled.</p> <table border="1" style="margin-left: 20px;"> <thead> <tr> <th>Meter configuration</th> <th>Total usage (MWh)</th> </tr> </thead> <tbody> <tr> <td>Uncontrolled</td> <td>26,503</td> </tr> <tr> <td>All Inclusive</td> <td>116,570</td> </tr> <tr> <td>Day (Closed)</td> <td>2,377</td> </tr> <tr> <td>Night (Closed)</td> <td>941</td> </tr> <tr> <td>Controlled</td> <td>345</td> </tr> <tr> <td>Total</td> <td>146,736</td> </tr> </tbody> </table> <p>Where:</p>	Meter configuration	Total usage (MWh)	Uncontrolled	26,503	All Inclusive	116,570	Day (Closed)	2,377	Night (Closed)	941	Controlled	345	Total	146,736	146,736	27,173
Meter configuration	Total usage (MWh)																
Uncontrolled	26,503																
All Inclusive	116,570																
Day (Closed)	2,377																
Night (Closed)	941																
Controlled	345																
Total	146,736																

Uncontrolled (UN24): This plan includes a fixed price for each day connected and a variable consumption price based on kWh consumption during three pricing periods, representing peak, shoulder and off-peak demand periods, as follows:

Weekdays (excluding weekends and public holidays)

- Peak: 07:00-9:30 and 17:30-20:00
- Shoulder: 09:30-17:30 and 20:00-22:00
- Off-peak: 22:00-07:00

Weekends and public holidays

- Shoulder: 07:00 - 22:00
- Off-peak: 22:00 - 07:00

A single price default option is available for customers with legacy meters or non-communicating smart meters as indicated by “N” in the AMI flag field of the Metering Attributes section in the EA registry. In addition, Retailers can apply for an exemption to TOU pricing. Variable prices are set higher than other controlled codes to incentivise consumers to take up controlled prices.

All Inclusive (IN18): This plan includes a fixed price for each day connected and a variable consumption price based on kWh consumption during three pricing periods, representing peak, shoulder and off-peak demand periods, as above. A single price default option is available for customers with legacy meters or non-communicating smart meters as indicated by “N” in the AMI flag field of the Metering Attributes section in the EA registry. In addition, Retailers can apply for an exemption to TOU pricing. This requires that Top Energy can control load for up to 6 hours per day. The load offered must be at least 3 kW (e.g. a hot water cylinder). Variable prices are set higher than other controlled codes as the supply is a single meter and therefore it is not possible to determine the actual portion of controlled and uncontrolled load.

Day/Night (D16, N8): This plan includes a fixed price for each day connected and two variable consumption prices during a day (7am to 11pm) and night period (11pm-7am). This tariff is closed to new customers from 31 March 2020

Controlled 20 (CN): Top Energy can control load for up to 4 hrs per day and the load offered must be at least 10 kW. This is available to customers in conjunction with other configurations. Prices are lower than under the UN and IN price options to encourage consumers to offer up large interruptible loads.

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General	General ICP's can have the following metering configurations: Uncontrolled, All inclusive, Day/Night (Closed) and Controlled	77,682	5,356														
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Meter configuration</th> <th style="text-align: center;">Total usage (MWh)</th> </tr> </thead> <tbody> <tr> <td>Uncontrolled</td> <td style="text-align: center;">56,168</td> </tr> <tr> <td>All Inclusive</td> <td style="text-align: center;">11,537</td> </tr> <tr> <td>Day</td> <td style="text-align: center;">5,458</td> </tr> <tr> <td>Night</td> <td style="text-align: center;">2,462</td> </tr> <tr> <td>Controlled</td> <td style="text-align: center;">2,058</td> </tr> <tr> <td>Total</td> <td style="text-align: center;">77,682</td> </tr> </tbody> </table>	Meter configuration	Total usage (MWh)	Uncontrolled	56,168	All Inclusive	11,537	Day	5,458	Night	2,462	Controlled	2,058	Total	77,682		
Meter configuration	Total usage (MWh)																
Uncontrolled	56,168																
All Inclusive	11,537																
Day	5,458																
Night	2,462																
Controlled	2,058																
Total	77,682																
	See above for definitions.																
UM	Prices for streetlights (UML) are based on a price per lamp equivalent. Other connections (UMG) are supplied with continuous supply less than 500watts. Prices are wholly fixed.																
UM (CLOSED)	<p>11 different prices targeted at a range of unmetered supply configurations including:</p> <ul style="list-style-type: none"> • 9 different street and community lighting configurations • Continuous supply equipment less than 500watts (e.g. Battery Chargers, Electric Fences, Irrigation, PCM Cabinets, Phone Booths, Radio Repeaters, TV Boosters) • Intermittent supply equipment (Fire Sirens, Railway Crossing Lights, Traffic Counters). <p>Prices are wholly fixed given these connections are not metered. This plan is closed to new consumers from 1 April 2016</p>	1,109	2,478														

6.4. Industrial (Non-Standard)

Industrial pricing aims to recover Top Energy's costs to service these consumers. To meet these consumers' requirements, Top Energy charge a wholly fixed annual price divided into twelve equal payments. There is no variable component. This fixed charge comprises the following individual charge items:

- Transpower Connection charges
- Transpower Interconnection Charges
- Avoided transmission charges payable to embedded generators
- Avoided distribution charges payable to embedded generators
- Top Energy connection and interconnection charges for its sub-transmission assets
- Top Energy operations and maintenance charges

The charges have been calculated consistent with network cost drivers on the basis of:

- Asset usage (e.g. no low voltage or distribution level costs are assigned to these consumers as they connect directly into the sub-transmission system)
- Coincident peak demand (i.e. to directly allocate Transpower charges)

Top Energy does not have additional obligations or responsibilities regarding interruptions to supply for non-standard connections beyond those incorporated in its standard contracts. While additional circuit redundancy and specialist equipment is provided to these consumers in some circumstances, which is sometimes beyond what is provided to many standard connections, these consumers pay for this enhanced level of security on a cost recovery basis.

Top Energy may introduce non-standard pricing for specific regional development initiatives e.g. Energy park

6.5. General Advanced Metering

Pricing comprises of a fixed and variable component. Fixed prices have been set to maintain historical linkages, reduce stranding risk associated with larger connections, as well as reflect the proportion of asset used compared to other pricing options.

Variable rates are set relatively higher during periods of peak demand and progressively lower during shoulder and off-peak demand periods. These time periods have been designed:

- To align with typical demand periods on the network
- To incentivise consumers to shift demand from peak periods to shoulder periods and from shoulder to off-peak periods
- To maintain consistency with industry standard TOU periods

6.6. Residential/General

Pricing comprises of a daily fixed and variable component. A daily fixed price is levied on these plans as follows:

- a 15 cent per day is applied to all Residential consumers who meet the criteria of being a low user (LR) to comply with the low user fixed charge regulations and the Retailer has requested the low user (LR) code
- A \$1.20 per day is applied to all Residential consumers who do not meet the low user criteria
- A \$1.20 per day is applied to all other consumers who are not Residential

Variable rates are set relatively higher during periods of peak demand and progressively lower during shoulder and off-peak demand periods. Discounts to the standard Uncontrolled price are applied to Controlled plans (All Inclusive and Controlled 20), to incentivise consumers to offer up controllable load.

6.7. Unmetered

Unmetered pricing is wholly fixed. Fixed charges have historically been set with reference to historical amounts and rolled forward by inflation.

6.8. Distributed generation

Under Part 6 of the Electricity Industry Participation Code, Top Energy must price distributed generation at no more than the incremental cost of connecting this generation, taking into account any avoided costs.

Top Energy has not developed separate charges for distributed generation, other than for negotiated avoided transmission, avoided distribution and voltage support payments to large scale generators (greater than 1MW output). These generators are able to demonstrate on an annual basis that they are making a material contribution towards Top Energy avoiding additional transmission costs.

Avoided Cost of Transmission (ACOT) payments can no longer be paid to new generation connected to Top Energy's network. This reflects recent changes to the distribution generation regulations under Part 6 of the Electricity Industry Participation Code (the Code). New distributed generation customers will have to directly approach and contract with Transpower to receive ACOT payments. Top Energy will continue to pay existing ACOT arrangements for distributed generation connected to the network on 6 December 2016 and which are on the Electricity Authority's published list of eligible Upper North Island distributed generation.

Existing large-scale distributed generation (>1MW)

Connection charges have been set to recover the costs through a non-standard contract.

Avoided interconnection charges may be paid to generators that are connected to the Top Energy's network and which have actively contributed to reducing Top Energy's contribution to RCPD peaks, used to set Transpower's interconnection charges. Avoided transmission and voltage support charges are calculated based on the notified Transpower charges for the applicable pricing period. This requires appropriate metering facilities at each site, so that the contribution to RCPD or voltage support charge reductions can be verified.

Other distributed generation

Top Energy considers that other distributed generation customers (e.g. small-scale solar PV) already receive a significant benefit through reduced distribution consumption prices, to the extent that electricity generated on site reduces the amount of electricity delivered via the network. Conversely, the cost to Top Energy of servicing these connections (i.e. an average domestic connection) is not reduced by the presence of the distributed generation, especially if the connection requires access to the network at times of peak demand. Accordingly, we believe that some connections with distributed generation are paying less than the incremental cost of providing the connection to that consumer.

While there are only a relatively small number of distributed generation connections on the network, the planned move to demand / capacity pricing and a higher proportion of fixed charges will ensure that consumers with distributed

generation pay a fair share of costs, to satisfy cost recovery and fairness considerations under Top Energy pricing objectives.

6.9. Discounts

The discount methodology is unchanged and will continue to be a posted discount. The same consumption-based methodology will continue to be applied. Discounts calculated on this basis represent approximately \$6.82m and will be processed through the retailers to be applied to consumer invoices.

6.10. Capital contributions

A customer may be required to make an upfront contribution to the cost of extending or upgrading the network (e.g. arising from connecting to the network). This contribution pre-funds Top Energy's investment, with these costs excluded from line charges.

The value of the Capital Contribution is calculated from the total cost of extension work and reduced by the value of the Top Energy connection subsidy. The contribution represents the uneconomic cost of constructing the line but does not grant any ownership rights; Top Energy retaining ownership, and responsibility for repairs and refurbishment of the reticulated extension.

Capital Contributions may be non-refundable or refundable depending on the circumstances. Standard charges and requirements apply to typical connection configurations.

The full details of the methodology for determining capital contributions is publicly disclosed on the website www.topenergy.co.nz/network/network-disclosures/

7. Calculation of Prices

Tariffs are calculated by allocating costs to consumer groups and prices, based on assumed splits between fixed and variable tariffs. Figure 13 summarises the allocators used to allocate target revenue and the rationale for these decisions.

Figure 13: Summary of cost allocators used to set prices

Cost Category	Allocator used	Rationale
Transmission costs	<i>Interconnection charges and ACOT - DG:</i> Coincident share of RCPD (kW) for industrial consumers and Anytime Maximum Demand (AMD) for other connections	Allocation of interconnection charges aligns with Transpower's use of RCPD to apportion charges at a national level.

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	<i>Connection charges and ACOT - Transmission:</i>	Connection charges represent investment in GXP capacity. AMD broadly represents usage of this capacity.
	Share of AMD	
Network Costs	Customer group demand on the system as a percentage of ORC	Spreads maintenance cost weighted by the replacement cost of assets (recognising higher maintenance is usually attributed to higher cost assets).
Non-Network Costs	Regulatory Asset Base (RAB)	Spreads costs that are relatively static with the size of a customer's asset base, per feeder .
Depreciation	IND: Demand (kW) General Advanced: RAB Residential/General/UM: RAB	Allocation based on utilisation of asset utilisation, which broadly corresponds with depreciation representing use of capital.
Pre-tax ROI	RAB	Allocates return in proportion to value of assets RAB, consistent with regulatory framework.

The above allocation approach results in the following allocations of target revenue to consumer groups.

Figure 14: Cost allocation results

Consumer Group	Regulatory Asset Base 2021(\$m)	Number of ICPs	Energy Consumption Forecast 2021 (GWh)	Pass through \$000s	Distribution \$'000's					Revenue		
				Transmission, Other Pass-through and Recoverable Costs 2021	Network Costs (Maintenance)	Non-Network Costs (Overheads)	Depreciation	Posted Discount	Pre tax WACC	Annual Revenue Requirement	DPP compliance Adjustment	Total 2021 Target Revenue
IND	9	3	48.8	563	204	378	299	(26)	27	1,446	118	1,564
GG,GU,GC	54	5,356	77.7	1,622	1,171	2,170	1,716	(1,098)	1,101	6,682	7,589	14,271
GA	4	40	6.5	266	90	166	131	(12)	13	653	228	881
TOU	9	64	38.5	888	190	352	278	(72)	72	1,709	1,888	3,597
LDG	2	2	-	0	42	78	62	-	0	182	(118)	64
Unmetered	1	240	0.9	-	11	20	16	-	0	47	367	414
Total Commercial	0											
LR	102	16,165	71.8	1,881	2,198	4,071	3,220	(3,359)	3,364	11,375	(338)	11,037
SR	105	11,008	74.9	1,937	2,276	4,215	3,334	(2,257)	2,263	11,768	1,505	13,273
Total Residential	0											
Total	286	32,878	319.2	7,156	6,182	11,451	9,057	(6,824)	6,840	33,863	11,239	45,101

Appendix 5 summarises the resulting prices for 2020-2021 which are also located on the Top Energy website;

www.topenergy.co.nz/network/network-disclosures/

Appendix 1 – Certification for Year Beginning Disclosures



Certification for Year-beginning Disclosures

Pursuant to Schedule 17

Clause 2.9.1 of section 2.9

Electricity Distribution Information Disclosure Determination 2012

We, Euan Richard Krogh and David Alexander Sullivan, being directors of Top Energy Limited certify that, having made all reasonable enquiry, to the best of our knowledge –

- a) The following attached information of Top Energy 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 non-financial information included in the attached information has been measured on a basis consistent with regulatory requirements or recognised industry standards.

E R Krogh

D A Sullivan

31 March 2020

Note: This Pricing Methodology does not include any COVID-19 implications.

Appendix 2 - Glossary

ACOT	Avoided Cost of Transmission
ACOD	Avoided Cost of Distribution
AMD	Anytime Maximum Demand, which is defined as the average of the 12 highest off-take quantities for the customer 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.
Consumer	A purchaser of electricity from the Retailer where the electricity is delivered via the distribution network and is interchangeable with customer.
Consumption Data	Data provided by the Retailer to the Distributor as required under the Use of System Agreement, showing details of the measured electricity consumption on the distribution network.
Code	The Electricity Industry Participation Code 2010.
Demand	The rate of expending electrical energy expressed in kilowatts (kW) or kilovolt amperes (kVA).
Distributor	Top Energy as the operator and owner of the distribution network.
Distributed Generation (DG)	Electricity generation that is connected and distributed within the distribution network, the electricity generation being such that it can be used to avoid or reduce transmission demand costs.
ENA	Electricity Networks Association
GXP	Grid Exit Point, a point of connection between Transpower's transmission system and Top Energy's distribution network.
GST	Goods and Services Tax as defined in the Goods and Services Tax Act 1985.
HV	High Voltage, voltage above 1,000 volts.
ICP	Installation Control Point. Point of Connection on the Distributor's network, which the Distributor nominates as the point at which a Retailer is deemed to supply electricity to a Consumer.
IND	Industrial Customer defined by Top Energy.
Line Prices	The prices levied by Top Energy on Consumers for the use of the Network as described in this Pricing Methodology.
Load Control Equipment	The equipment (which may include, but is not limited to, ripple receivers and relays) which is from time to time installed in a consumer's premises for the purpose of receiving load management service signals.

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LV	Low voltage. Voltage up to 1,000 volts, generally 230 or 400 volts for supply to most Consumers.
Pricing Year	12-month period from 1 April to 31 March the following year.
RPDP	Regional Peak Demand Period, relates to an Upper North Island defined by Transpower where Top Energy is located. The half hour in which any of the 100 highest regional demands occurs during the capacity measurement period for the relevant pricing year.
RCPD	Regional Coincident Peak Demand, relates to the customer's offtake at the connection location during a regional peak demand period.
Retailer	The supplier of electricity to Consumers with installations connected to the distribution network.
ToU	Time of Use Customer, who is metered according to their electricity consumption for a particular period (usually half-hourly).
Transpower	Transpower (NZ) Limited
UN	Uncontrolled

Appendix 3 – Compliance with ID determination

ID Clause	Information Disclosure requirement	Pricing Methodology Reference
2.4.1	Every EDB must publicly disclose, before the start of each disclosure year, a pricing methodology which:	This Pricing Methodology will be published on our website prior to 1 April 2020.
2.4.1(1)	Describes the methodology, in accordance with clause 2.4.3 below, used to calculate the prices payable or to be payable;	See below for document references to compliance against clause 2.4.3.
2.4.1(2)	Describes any changes in prices and target revenues;	Prices have decreased for all customers by an average of 15.9% when comparing 2020 and 2021 pricing schedules. See section 2.3
2.4.1(3)	Explains, in accordance with clause 2.4.5 below, the approach taken with respect to pricing in non-standard contracts and distributed generation (if any);	Changes in target revenues are described in Section 5. See section 6.4 and 6.8
2.4.1(4)	Explains whether, and if so how, the EDB has 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. If the EDB has not sought the views of consumers, the reasons for not doing so must be disclosed.	Public consultation was completed during 2019 and 2020 (see section 3.2)

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2.4.2	Any change in the pricing methodology or adoption of a different pricing methodology, must be publicly disclosed at least 20 working days before prices determined in accordance with the change or the different pricing methodology take effect.	Any changes were disclosed by 1 March 2020.
2.4.3	Every disclosure under clause 2.4.1 above must-	
2.4.3(1)	Include sufficient information and commentary to enable interested persons to understand how prices were set for each consumer group, including the assumptions and statistics used to determine prices for each consumer group;	Top Energy considers this document provides sufficient information on how prices have been set but will continually review for improvements.
2.4.3(2)	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;	See Appendix 4 TEL considers our pricing is broadly consistent with the pricing principles, but we also discuss how potential changes to our pricing methodology will align more closely with these principles.
2.4.3(3)	State the target revenue expected to be collected for the disclosure year to which the pricing methodology applies;	See section 5.
2.4.3(4)	Where applicable, identify the key components of target revenue required to cover the costs and return on investment associated with the EDB's provision of electricity lines services. Disclosure must include the numerical value of each of the components;	See section 5.

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2.4.3(5)	<p>State the consumer groups for whom prices have been set, and describe-</p> <ul style="list-style-type: none"> • the rationale for grouping consumers in this way; • the method and the criteria used by the EDB to allocate consumers to each of the consumer groups; 	See Section 6.2.
2.4.3(6)	<p>If prices have changed from prices disclosed for the immediately preceding disclosure year, explain the reasons for changes, and quantify the difference in respect of each of those reasons;</p>	See section 2.3 and Appendix 5
2.4.3(7)	<p>Where applicable, describe the method used by the EDB to allocate the target revenue among consumer groups, including the numerical values of the target revenue allocated to each consumer group, and the rationale for allocating it in this way;</p>	See tables in Section 7.
2.4.3(8)	<p>State the proportion of target revenue (if applicable) that is collected through each price component as publicly disclosed under clause 2.4.18.</p>	See tables in Section 7.
2.4.4	<p>Every disclosure under clause 2.4.1 above must, if the EDB has a pricing strategy-</p>	
2.4.4(1)	<p>Explain the pricing strategy for the next 5 disclosure years (or as close to 5 years as the pricing strategy allows), including the current disclosure year for which prices are set;</p>	Our pricing strategy is discussed in section 4.2
2.4.4(2)	<p>Explain how and why prices for each consumer group are expected to change as a result</p>	See section 4.2
2.4.5	<p>Every disclosure under clause 2.4.1 above must-</p>	

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2.4.5(1) (a), (b), (c)	Describe the approach to setting prices for non-standard contracts, including- <ul style="list-style-type: none">• the extent of non-standard contract use, including the number of ICPs represented by non-standard contracts and the value of target revenue expected to be collected from consumers subject to non-standard contracts;• how the EDB determines whether to use a non-standard contract, including any criteria used;• any specific criteria or methodology used for determining prices for consumers subject to non-standard contracts and the extent to which these criteria or that methodology is consistent with the pricing principles;	See Section 6.4 and appendix 5
2.4.5(2)	Describe the EDB's obligations and responsibilities (if any) to consumers subject to non-standard contracts in the event that the supply of electricity lines services to the consumer is interrupted. This description must explain- <ul style="list-style-type: none">• the extent of the differences in the relevant terms between standard contracts and non-standard contracts;• any implications of this approach for determining prices for consumers subject to non-standard contracts;	See Section 6.4

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|----------|---|--------------------------------------|
| 2.4.5(3) | Describe the EDB's approach to developing prices for electricity distribution services provided to consumers that own distributed generation, including any payments made by the EDB to the owner of any distributed generation, and including the- | See Section 6.8 |
| | <ul style="list-style-type: none">• prices; and• value, structure and rationale for any payments to the owner of the distributed generation. | |
| 2.9.1 | Where an EDB is required to publicly disclose any information under clause 2.4.1, clause 2.6.1 and sub-clauses 2.6.3(4) and 2.6.5(3), the EDB must at that time publicly disclose a certificate in the form set out in Schedule 17 in respect of that information, duly signed by 2 directors of the EDB. | Completed and attached as Appendix 1 |

Appendix 4 – EA Pricing Principles

Pricing principles	Extent to which pricing methodology is consistent with pricing principle
<p>(a) Prices are to signal the economic costs of service provision, including by:</p> <p>(i) being subsidy free (equal to or greater than avoidable costs, and less than or equal to standalone costs</p>	<p>We interpret ‘avoidable cost’ as the additional cost of connecting a consumer, comprising connection costs, network upgrades, and incremental operating costs.</p> <p>Top Energy requires a capital contribution for new connections and asset upgrades if the expected line charge revenue from the connection is less than the associated incremental capital cost (i.e. an uneconomic connection). Accordingly, distribution prices will typically be in addition to incremental capital costs.</p> <p>Remaining incremental operating costs resulting from a new connection will be recovered through distribution prices. Over the last ten years a new connection has contributed approximately \$300 per annum (real) to operating expenditure. An uncontrolled consumer (UN) would need to consume less than 1,020kWh in a year for prices to fall below this incremental cost (i.e. based on the 15 cents per day fixed charge and existing UN prices). This highlights that the application of the 15 cents per day low fixed charge creates cross-subsidisation at very low levels of consumption.</p> <p>Top Energy considers ‘stand alone cost’ means the cost for a consumer to disconnect from the distribution network and install onsite generation. Solutions do exist for small loads to disconnect from the network through installation of onsite solar generation and batteries. However, these systems are relative expensive when compared to</p>

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distribution supply. For example, a 7kW solar system, 15kW battery system with diesel generator can cost more than \$40,000 to install. We estimate this would cost \$0.70/kWh over a 15-year period and the installation is funded by a mortgage. This is significantly more expensive than the average 42.81c/kWh charge Top Energy's consumers pay (source: MBIE quarterly survey of electricity prices, 15 February 2020). Nevertheless, the cost of installing these systems is falling rapidly and Top Energy will continue to keep a watch on this market and respond appropriately through pricing.

(ii) reflecting the impacts of network use on economic costs

Top Energy's primary service is to provide capacity in the distribution network. To further reflect the impact of network use on economic costs Top Energy has implemented Residential and General Commercial TOU pricing from 1 April 2020 (following a residential trial from 1 April 2019). We are also currently considering the adoption of demand/capacity for larger commercial customers. This aligns pricing more closely with the impacts of network use on economic costs.

In addition to the changes above, current pricing structures recognise the differences in network services provided to (or by) customers as follows:

- Consumer groups recognise different load sizes
- Many network and transmission related costs are allocated to consumer groups in proportion to demand
- Capital contributions help fund the uneconomic proportion of new investments in capacity
- Industrial sites (IND) are charged for specific asset usage and therefore the capacity these assets provide, and are apportioned transmission charges directly based on their contribution to RCPD
- TOU/Advanced Metering structures encourage consumers to optimise the usage of the network across all time periods

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	<ul style="list-style-type: none">Controlled prices encourage consumers to offer up controllable load which Top Energy can use to manage congestion during interruptions to supply, when the network maybe constrained
(iii) reflecting differences in network services provided to (or by) consumers and	<p>For the same reasons discussed above, Top Energy’s pricing structures reflect differences in network services provided to (or by) customers. The introduction of TOU pricing for Residential and General Commercial customers have improved these signals</p>
(iv) Encouraging efficient network alternatives	<p>Avoided transmission, avoided distribution and voltage support charges may be payable to embedded generators of greater than 1MW output. This may help justify investments in local generation.</p> <p>The introduction of TOU pricing for Residential and General Commercial customers provide better signals for investment in new technology e.g. electric vehicles, distributed generation and batteries. Further analysis has been included in our pricing strategy.</p>
(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	<p>This principle suggests that the short fall should be made up by prices which don’t impact usage behaviour e.g. higher fixed charges or that consumers with a higher willingness to pay should pay relatively more than consumers with a lower willingness to pay.</p> <p>Top Energy has increased its standard daily charge for Residential and General Commercial since 2016 from \$0.15/day to \$1.20/day. However, this approach is limited by regulatory constraints e.g. Low Fixed Charge Tariff regulation. Top Energy considers pricing based on willingness to pay should be linked to the level of service provided.</p>

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	<p>This is a common pricing practice in many competitive markets. For instance, the UN24 and CN20 pricing options give consumers a choice over whether heating loads are interrupted. Consumers that are unwilling to have supply interrupted pay relatively more than a customer that is willing to accept a slightly lower level of service. Similarly, consumers on TOU pricing options that do not want to shift load to off peak periods pay more for using electricity at time that suits them.</p>
<p>(c) Prices should be responsive to the requirements and circumstances of end users by allowing negotiation to:</p>	<p>Capital contributions and non-standard contracts provide a mechanism where a consumer can request assets that provide a higher level of service. The costs of specific assets are either recovered upfront through a capital contribution or within specific pricing. Consumers can also request alternative pricing structures under non-standard contracts to address their own risks (e.g. IND prices are wholly fixed).</p>
<p>(i) reflect the economic value of services and;</p>	
<p>(ii) enable price/quality trade-offs</p>	
<p>(d) Development of prices should be transparent, and have regard to transaction costs, consumer impacts, and uptake incentives</p>	<p>The pricing strategy explained in this document provides stakeholders with an overview of Top Energy's plans for prices over the next several years. We plan to continue to consult with consumers and retailers to seek their feedback on any changes which will be incorporated into any pricing decisions.</p> <p>Learnings from the TOU trial and retailer consultation enabled us to understand the transaction costs and operational policies for the implementation of TOU for Residential and General Commercial customers from 1 April 2020. The approach of the new TOU prices applying for all customers with automatic exemptions for non-</p>

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communication meters e.g. legacy meters and retailer's ability to apply for exemptions due to operation issues reflect this. The TOU price differentials are being phased in over time to manage rate shock and reduce revenue risk. As important it will allow further modelling as more consumption information becomes available which will assist in getting the final price differentials more accurate.

Appendix 5 - Network Line Charges 2020 – 2021

Public Notice								
<h1 style="margin: 0;">2020/21 Electricity Price Schedule</h1> <p style="margin: 0;"><i>Effective from 1st April 2020. All prices exclude GST.</i></p>								
Price Code	Description	Old Daily Price \$/day	1 April 2020 Daily Price \$/day	Old Unit Price \$/kWh	1 April 2020 Unit Price \$/kWh	Old Distribution Discount	1 April 2020 Distribution Discount	Capped Discount kWh
Low User (LR) for customers using less than 8,000kWh per year: 9,710 users (excludes holiday homes, ancillary buildings and meters)								
LRF	Daily Price	0.1500	0.1500			0.1350	0.1373	1kWh or greater
LUC	Uncontrolled (no load controlling applied)			0.2719	0.2305	0.1100	0.1481	1,130
LA	All inclusive (3kW loading)			0.2069	0.1810	0.1100	0.1481	
LD	Day (7am - 11pm)			0.2429	0.2213	0.1100	0.1481	
LN	Night (11pm - 7am)			0.0829	0.0993			
LFC	Controlled 20 (10kW loading)			0.0872	0.0872			
DG	Exported Micro generation			-	-			
Low User Time of Use Uncontrolled (LU) for customers who have no load controlling applied to their line : 1,195 users								
LUF	Daily Price on Half Hourly Read Uncontrolled		0.1500				0.1373	1kWh or greater
LU1	Peak (7am - 9.30am & 5.30pm - 8pm, excluding weekends and public holidays)				0.2977		0.1481	1,130
LU2	Shoulder (9.30am - 5.30pm & 8pm - 10pm or 7am - 10pm, weekends and public holidays)				0.2190		0.1481	
LU3	Off Peak (10pm - 7am)				0.1945		0.1841	
LFC	Controlled 20 (10kW loading)				0.0872			
DG	Exported Micro generation				-			
Low User Time of Use All Inclusive (LC) for customers who do have load controlling applied to their line : 5,339 users								
LCF	Daily Price on Half Hourly Read Controlled (3kW loading)		0.1500				0.1373	1kWh or greater
LC1	Peak (7am - 9.30am & 5.30pm - 8pm excluding weekends and public holidays)				0.2464		0.1481	1,130
LC2	Shoulder (9.30am - 5.30pm & 8pm - 10pm or 7am - 10pm weekends and public holidays)				0.1716		0.1481	
LC3	Off Peak (10pm - 7am)				0.1422		0.1481	
LFC	Controlled 20 (10kW loading)				0.0872			
DG	Exported Micro Generation							
Standard User (SR) for customers using more than 8,000kWh per year : 6,610 users (includes builders temporary supply)								
SRF	Daily Price	1.2000	1.2000			0.1350	0.1373	1kWh or greater
SUC	Uncontrolled (no load controlling applied)			0.2241	0.1833	0.1100	0.1481	1,130
SA	All inclusive (3kW loading)			0.1590	0.1338	0.1100	0.1481	
SD	Day (7am - 11pm)			0.1914	0.1619	0.1100	0.1481	
SN	Night (11pm - 7am)			0.0710	0.0876			
SFC	Controlled 20 (10kW loading)			0.0710	0.0710			
DG	Exported Micro Generation							
Standard User Time of Use Uncontrolled (SU) for customers who have no load controlling applied to their line : 1,062 users								
SUF	SUF Daily Price on Half Hourly Read Uncontrolled		1.2000				0.1373	1kWh or greater
SU1	Peak (7am - 9.30am & 5.30pm - 8pm excluding weekends and public holidays)				0.2513		0.1481	1,130
SU2	Shoulder (9.30am - 5.30pm & 8pm - 10pm or 7am - 10pm weekends and public holidays)				0.1747		0.1481	
SU3	Off Peak (10pm - 7am)				0.1478		0.1481	
SFC	Controlled 20 (10kW loading)				0.0710			
DG	Exported Micro Generation							
Standard User Time of Use All inclusive (SC) for customers who do have load controlling applied to their lines : 3,363 Users								
SCF	SCF Daily Price on Half Hourly Read Controlled (3kW loading)		1.2000				0.1373	1kWh or greater
SC1	Peak (7am - 9.30am & 5.30pm - 8pm excluding weekends and public holidays)				0.1962		0.1481	1,130
SC2	Shoulder (9.30am - 5.30pm & 8pm - 10pm or 7am - 10pm weekends and public holidays)				0.1279		0.1481	
SC3	Off Peak (10pm - 7am)				0.0927		0.1481	
SFC	Controlled 20 (10kW loading)				0.0710			
DG	Exported Micro Generation							

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Public Notice								
COMMERCIAL PRICING								
Price Code	Description	Old Daily Price \$/day	1 April 2020 Daily Price \$/day	Old Unit Price \$/kWh	1 April 2020 Unit Price \$/kWh	Old Distribution Discount	1 April 2020 Distribution Discount	Capped Discount kWh
General User (GG) for businesses that use less than 35,000 kWh per year, and builder connections : 3,256 Users								
GG	Daily Price	1.2000	1.2000			0.1350	0.1373	1 kWh or greater
GGUC	Uncontrolled (no loading controlling applied)			0.2241	0.1833	0.1100	0.1481	1,130
GGA	All Inclusive (3kW loading)			0.1590	0.1338	0.1100	0.1481	
GGD	Day (7am - 11pm)			0.1914	0.1619	0.1100	0.1481	
GGN	Night (11pm - 7am)			0.0710	0.0876			
GGFC	Controlled 20 (10kW loading)			0.0710	0.0710			
DG	Exported Micro Generation							
General User Time of Use Uncontrolled (GU): 1,601 users								
GUF	Daily Price		1.2000				0.1373	1 kWh or greater
GU1	Peak (7am - 9.30am & 5.30pm - 8pm excluding weekends and public holidays)				0.2513		0.1481	1,130
GU2	Shoulder (9.30am - 5.30pm & 8pm - 10pm or 7am - 10pm weekends and public holidays)				0.1747		0.1481	
GU3	Off Peak (10pm - 7am)				0.1478		0.1481	
GGFC	Controlled 20 (10kW loading)				0.0710			
DG	Exported Micro Generation							
General User Time of Use All Inclusive (GC): 562 user (3kW controlled load)								
GCF	Daily Price		1.2000				0.1373	1 kWh or greater
GC1	Peak (7am - 9.30am & 5.30pm - 8pm excluding weekends and public holidays)				0.1962		0.1481	1,130
GC1	Shoulder (9.30am - 5.30pm & 8pm - 10pm or 7am - 10pm weekends and public holidays)				0.1279		0.1481	
GC3	Off Peak (10pm - 7am)				0.0927		0.1481	
GGFC	Controlled 20 (10kW loading)				0.0710			
DG	Exported Micro Generation							
General Advanced User (GA) for businesses that use 35,000 to 200,000 kWh per year : 40 Users								
GAF	Daily Price on Half Hourly Read	9.6170	9.1898			0.5500	0.5500	1 kWh or greater
G1	Peak (7am - 9.30am & 5.30pm - 8pm)			0.2032	0.1730	0.0030	0.0038	1,092,500
G2	Shoulder (9.30am - 5.30pm & 8pm - 10pm)			0.1381	0.1175	0.0030	0.0038	
G3	Off Peak (10pm - 7am)			0.0710	0.0624	0.0030	0.0038	
DG	Exported Micro Generation							
Large User Time of Use (TOU) for businesses that use over 200,000 kWh per year : 69 Users								
TOUF	Daily price on Half Hourly Read (a capable meter greater than 200,000 kWh/yr)	27.6159	26.322			0.5500	0.5500	1 kWh or greater
TOU1	Peak (7am - 9.30am & 5.30pm - 8pm)			0.1650	0.1398	0.0030	0.0038	1,092,500
TOU2	Shoulder (9.30am - 5.30pm & 8pm - 10pm)			0.1121	0.0951	0.0030	0.0038	
TOU3	Off Peak (10pm - 7am)			0.0085	0.0085			
DG	Exported Micro Generation							
LDG	Exported Large Generation							
UNMETERED PRICING : Fixed charges only. No variable charge.								
Price Code	Description	Old Daily Price \$/day	1 April 2020 Daily Price \$/day					
Unmetered supply - Closed for New Connections 01.04.16 : 2,478 Users								
UMLSH	Pedestrian Crossing, Streetlights, Bollards, Unmetered Lights with 1 lamp					0.5010	0.4400	
UMLDH	1 pole with 2 lamps					1.0031	0.8800	
UMLTH	1 pole with 3 lamps					1.5028	1.3200	
UMLSHLPMC	1 lamp mounted on a Top Energy Pole e.g. Pedestrian Crossing, Streetlights, Bollards					0.6180	0.5400	
UMDECL	String lighting of Incandescent light bulbs					0.5010	0.4400	
UMGL	Community Lighting, Convenience Lighting, Jetty Lights, Under Verandah Lighting					0.1679	0.1500	
UMCON500	Continuous supply less than 500watts e.g. Battery Chargers, Electric Fences, Irrigation, PCM Cabinets, Phone Booths, Radio Repeaters, TV Boosters					0.4840	0.4300	
UMINT	Intermittent supply consisting of Fire Sirens, Railway Crossing Lights, Traffic Counters					0.2679	0.2400	
Unmetered supply - For New Connections after 01.04.16 : 57 Users								
UMLF	Streetlights (STL)					0.5010	0.4400	
UML	Streetlights (STL)							
UMGF	General Connection (UM)					0.5010	0.4400	
UMG	General Connection (UM)							
NIL	Tsunami Warning Alarms							