



## **2007-08 Network Tariff Schedules: Statement of Reasons**

The Power and Water Corporation (Power and Water) is regulated under a Weighted Average Price Cap (WAPC), and is required to submit a Statement of Reasons and Network Tariff Schedules prior to the commencement of each financial year.

The structure of Power and Water's network access tariffs has not changed since the tariffs were re-balanced on 1 July 2006. The pricing constraints in 2007-08 allows for the weighted average price to increase by no more than 1.4677% ("CPI – X" WAPC constraint) and for no individual tariff to increase by more than 8.7154% ("CPI+5%" side constraint), as instructed in the Utilities Commission's "*Networks Pricing: 2004 Regulatory Reset Final Determination*" and as modified by the "*2004 Regulatory Reset Asset Valuation Off-Ramp Final Decision*". Power and Water has submitted detailed evidence to the Utilities Commission demonstrating compliance with each of these constraints.

Power and Water considers that the 2007-08 Network Tariff Schedules comply with the approved 2006 Network Pricing Principles Statement. A qualitative explanation follows.

### **NETWORK PRICING OBJECTIVES (Network Pricing Principles 2.1)**

Power and Water is guided by the network pricing objectives laid down in clause 74 of the *Electricity Networks (Third Party Access) Code* (the Code), and the interpretation set out in section 2.1 of the Network Pricing Principles Statement. Power and Water considers the 2007-08 Tariff Schedules conform to the Price Objectives because:

- The prices remain cost reflective. The approved 2006-07 re-balanced tariffs have been uniformly increased by the allowable weighted average price increase and these have been designed to reflect the movements in the underlying costs between tariff categories. Power and Water considers that the relationship between prices and costs have remained in balance;
- The prices provide for adequate revenue recovery. The 2007-08 Network Tariffs reflect Power and Water's assessment of forecast revenues from all tariffs and its underlying costs of service provision to ensure ongoing investment in network infrastructure;
- The prices remain simple for customers to understand. Since inception Power and Water has retained its current number and structure of tariffs and Network Users have become familiar with its application;
- The prices are stable. As there has been minimal change to tariff components and no change to tariff structures, this objective remains satisfied;

- The prices reflect an equitable allocation of costs which are reflective of user's network utilisation; and
- The prices are subsidy free.

#### COST ALLOCATION PRINCIPLES (Network Pricing Principles 2.3)

At the commencement of the second (current) regulatory control period, Power and Water Networks allocated its costs among network users using the Fully Distributed Cost (FDC) Model, as outlined in the 2006 Network Pricing Principles. The FDC Model allocates costs for different customer classes according to their level of connection in the system. At the commencement of the period, both Power and Water Networks and the Utilities Commission were satisfied that tariffs were reflective of costs.

Power and Water is conscious that costs that are allocated at the start of a regulatory period can theoretically 'drift' away from efficient levels within a regulatory period. However, Power and Water do not believe that this has occurred in any substantial way as demand has broadly followed Power and Water's expectations since the commencement of the period, there have been few major large customers entering and leaving the network, and Power and Water Network's underlying costs have not materially changed. Power and Water accordingly believes that the proposed 2007-08 tariffs are consistent with the cost allocation principles.

#### NETWORK TARIFF STRUCTURE (Network Pricing Principles 2.5)

There has been no change to the Network Tariff Structure described in the 2006 Network Pricing Principles since the commencement of the current regulatory period.