Pricing Methodology 2014-2015

Pursuant to the Electricity Distribution Information Disclosure Determination 2012

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Electricity Authority Distribution Pricing Principles and Information Disclosure Guidelines

March 2014

Contents

1 INTRODUCTION

This document describes the methodology that Network Waitaki Limited ("NWL") has used in determining its Distribution and Transmission charges from 1 April 2014 until the next review.

1.1 Legislative Compliance

This document has been compiled to comply with the Commerce Commission's Electricity Distribution Information Disclosure Determination 2012 ("2012 IDR"), Section 2.4, Pricing and Related Information, covering an Electricity Distribution Business's ("EDB's") pricing methodology.

As part of the disclosures made under Section 2.4 of the 2012 IDRs, Clause 2.4.3(2) requires that an EDB demonstrate the extent to which its pricing methodology is consistent with Electricity Authority's March 2010 Pricing Principles ("EA Principles and Guidelines"). The EA Principles and Guidelines, and NWL's compliance with them are detailed in Appendix 3 of this document.

A detailed summary of how NWL complies with the 2012 IDRs and which sections of this pricing methodology comply with each requirement can be found in Appendix 4.

There have been material changes to NWL's pricing methodology in order to respond to the December 2013 review of its 2013 pricing methodology by the Electricity Authority's consultant Castalia[1].

The table in Appendix 1 showing how the value of the network based on the 2004 ODV valuation had been allocated to different customer load groups has been removed.

The previous Appendix 2 and the table in it showing how Distribution and Transmission costs were allocated amongst load groups has also been removed.

Further in Appendix 1 a table has been inserted that reconciles NWL's revenue requirement to the overall customer groupings of Small, Medium, Large and Individually Assessed Contract consumers. The revenue in this table is proportioned over groupings based on the revenue shares reported for these groups in NWL's Information Disclosure to the Commerce Commission for the year ended 31 March 2013. The reasons for this are discussed further in Appendix 1.

Appendix 3 of the previous methodology is now Appendix 2. Appendix 4 is now Appendix 3. Appendix 5 is now Appendix 4.

2 PRICING OBJECTIVES

2.1 Revenue

NWL must obtain sufficient revenue to:

1. meet its contractual obligations for connection to the Transpower grid;
2. meet its contractual obligations for the delivery of energy over the distribution network;
3. comply with statutory requirements on public safety, environmental protection, and quality of supply;
4. provide for new investment; and

[1] Evaluation of Network Waitaki 2013 Pricing Methodology, Castalia December 2013

5. provide a rate of return on funds that is acceptable to the owners.

To meet the revenue requirement, NWL uses the following principles:

- to provide pricing which is simple to understand and administer and which complies with regulations;
- to maintain the stability of historic pricing regimes in order to lessen price shocks to consumers;
- to provide pricing which will not differentiate between urban and rural consumers;
- to provide pricing which allows the network to be operated safely, reliably, and efficiently; and
- to provide pricing which allows for an adequate level of return to the shareholders.

Discount

NWL has a policy of paying discounts to qualifying consumers towards the end of each financial year. Except when noted otherwise all revenues stated in this pricing methodology are before the payment of any discount. NWL's discount to consumers is comprised of a non-discretionary component and a discretionary component. The non-discretionary component is a guaranteed amount that will be discounted to consumers in NWL's various load groups. The amount of the discretionary component is determined by trading conditions during the year.

For both discretionary and non-discretionary discounts, the discount offered on each tariff is an equal proportion of the fixed charge component of each tariff. Domestic Low User ("DLU") regulations require tariffs to be equal for the standard residential consumer at 9,000 kWh before and after discounts. By setting the discount as an equal proportion of the fixed charge component of each tariff, consumers are rewarded equally through the application of the discount without any regard for their consumption mix across tariffs. This distribution arrangement is an equitable means of distributing the benefit to consumers of their ownership in NWL.

2.2 Efficiency

<u>For Standard Contracts this applies as follows:</u>

A move to lower fixed rates and higher variable rates to support NWL's user pay's philosophy. To continue to monitor power factors and maintain the loss factor. To encourage off peak usage and maintain load control to minimise transmission charges.

<u>For Individually Assessed Contracts ("IND") this applies as follows:</u>

To continue improving the efficiency of electricity delivery by promoting efficient investment in and operation of the network and by clearly signalling the fixed and variable costs of delivery.

2.3 Fairness

As a supplier of essential services NWL has endeavoured to set fair and reasonable tariffs for each consumer group, however, given the wide variations in usage within

each consumer group, achieving a fair tariff is a difficult objective. What one customer perceives as fair may be perceived by another customer as unfair based solely on their usage patterns.

Customers are placed in load groups based on the capacity of supply they require. The charges applied to each group reflects the value of the assets that they use, based on both group capacity and demand.

Individually Assessed Contact consumers are subject to individual charges that reflect their use of network assets together with the associated transmission costs.

NWL's simple tariff structure lowers the financial costs of new retailers entering the market in NWL's area. It avoids the cost of duplicating ICP billing software and data management.

2.4 Simplicity

NWL has been working towards simplifying its tariff structure by rationalising the range of controlled rates it provides. However, it has retained the same number of consumer groups to signal the cost of usage patterns more accurately within each group.

2.5 Transparency

Tariffs should reflect costs and signals contained in the tariff and should be in a form that will allow the consumer to respond in a positive manner.

2.6 Consumer Engagement

In September 2012, NWL conducted a phone survey of a random sample of 400 of its mass market consumers, as well as face-to-face interviews with 13 of the largest consumers on its network. Consumers were asked if they would prefer to either:

1. Pay more for a higher level of service that would keep outages to a minimum;
2. Pay the same and maintain the same level of service with outages kept about the same; or
3. Pay less for a slightly lower level of service with the possibility of slightly more outages.

83 per cent of consumers said they would prefer to pay the same as they are paying now in return for a similar level of service. As detailed in Section 3, NWL faces increasing costs that need to be recovered, so tariff increases are necessary. However, NWL has attempted to keep increases to a minimum level that will maintain the same level of service to its consumers.

In the 2014-15 period NWL will again do a similar large scale survey of its consumers and any significant changes will be reported in next year's pricing methodology.

In November 2013, NWL had face to face meetings with 5 of its larger business consumers. These were informal meetings where members of the NWL management team met with the management teams of the businesses in question.

The larger business consumers were generally very happy with the service they had received from NWL and noted that they were particularly pleased with the progress updates each of them had received from NWL on when power would be restored during recent unplanned outages.

The larger business consumers also discussed their future energy needs with NWL and anything which was not already known has been considered by NWL's Asset Management Plan and other relevant network planning processes.

3 COST STRUCTURE

The pricing methodology is based on cost recovery. Consequently, the pricing structure closely relates to the corresponding cost structure. The following cost categories are involved:

3.1 Distribution Costs

Distribution costs are comprised of four main cost pools, discounts are not included as a cost to be recovered:

1. Operation and Maintenance
    I. Maintenance costs are based on the NWL Asset Management Plan, with the allocation of costs between asset categories being determined by the 2014-2015 maintenance budget.
    II. Operating costs include all other network direct and indirect expenses excluding administration costs. The total figure is equivalent to the NWL 2014-2015 budget, and is allocated across network components on the basis of Optimised Replacement Cost ("ORC").
2. Depreciation

    Depreciation for each asset is calculated by dividing the financial carrying value of network property, plant and equipment by the ODV Standard Life for that asset, which results in a very long depreciation period with a correspondingly low depreciation requirement.
3. Return on Asset

    A provision for future investment in the network based on the 2014-2015 budget. This provision aims to:
    - provide for growth;
    - deliver appropriate service standards where network usage has changed; and
    - replace assets that have reached the end of their economic life with modern solutions.
4. Administration

    A provision for support services related to distribution costs, based on the 2014-15 budget.

3.2 Recoverable and Pass-Through Costs

Recoverable costs cover transmission charges, avoided transmission costs, and new investment contracts. Pass-through costs cover local authority rates, Electricity Authority, Commerce Commission and Electricity and Gas Complaints Commission Levies.[2] What these comprise of is largely self-explanatory, however, transmission charges are determined by Transpower NZ Limited ("Transpower") according to the EA's Transmission Pricing Methodology currently in effect, and comprises the following price components:

1. Interconnection Charge

[2] Recoverable and Pass-through costs are defined by the Commerce Commission in Decision 710, its Input methodologies determination applicable to electricity distribution services pursuant to Part 4 of the Commerce Act 1986.

This charge is based on the average of the 100 highest half-hour coincident regional peak demands. The charges for the 2014-2015 financial year are based on the demands recorded between 1 September 2012 and 31 August 2013. All of the NWL GXPs are located in the Lower South Island region.

2. Connection Charge

   This charge represents the fixed costs associated with the dedicated assets at each GXP. Shared assets are still allocated on the basis of each off-take customer's share of the 12 highest half-hour demand peaks measured at the GXP.

Further, avoided transmission costs are associated with transmission assets that have been provided by the distributor rather than by Transpower. In many instances, distributors can provide certain classes of transmission assets at a lower cost to consumers than assets provided by Transpower.

3.3 Capital Costs

NWL is currently in a period with some capital growth that is mainly being driven by irrigation. In addition, a number of major assets are becoming capacity-constrained requiring new assets or the upgrading of existing assets. Capital expenditure will therefore continue to exceed the norm as capacity is increased. Additional information concerning the assumptions governing NWL capital investment can be found in NWL's Asset Management Plan.

3.4 Grid Exit Points

NWL has connections to the Transpower network at the following Grid Exit Points:

- Oamaru;
- Waitaki;
- Twizel.
- Black Point[3]

The Oamaru Grid Exit Point accounts for approximately 91% of the total network demand and 86% of the total Transpower charges and supplies 86% of the total customer base. Transmission charges have therefore been averaged out over the whole consumer base.

[3] The Black Point GXP was built for the exclusive connection of one particular major customer. NWL passes the transmission charges for Black Point to that customer.

3.5 Annual Revenue Requirement

The revenue required to cover the costs and profits of NWL's line business activities for 2014-15 are given in the table below. The amount of the non-discretionary discount to consumers is noted in the table for information purposes, but is not part of NWL's revenue requirement.

Note that as detailed in Appendix 2, the distribution component of Network Waitaki's line charges actually increased by 6.1%. Transpower has also increased its transmission charges to Network Waitaki and these were reflected in an average increase of 10.2% in the transmission component of Network Waitaki's line charge tariffs. Overall charges have increased by 7.4% by from last year. The 2013-14 Revenue Requirement as per the previous Pricing Methodology was based on a higher volume estimate than actually resulted and consequently tariffs had to increase by a greater level in 2014-15 to compensate.

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Annual Revenue Requirement	2013-14	2014-15	% Increase
Distribution requirements			
Operation and Maintenance	$ 2,612,849	$ 3,281,457	25.6%
Depreciation	$ 2,877,988	$ 2,913,164	1.2%
Administration	$ 737,822	$ 667,458	-9.5%
Return on Assets	$ 4,952,434	$ 3,810,001	-23.1%
Total Distribution Revenue Requirement	**$ 11,181,093**	**$ 10,672,080**	-4.6%
Transmission Requirement			
Transmission Charge	$ 4,196,081	$ 5,089,879	21.3%
Avoided Transmission Charge	$ 401,655	$ 232,632	-42.1%
Total Transmission Requirements	**$ 4,597,736**	**$ 5,322,511**	15.8%
Total Revenue Requirements	**$ 15,778,828**	**$ 15,994,591**	1.4%
Non-Discretionary Discount	**$ 1,039,790**	**$ 1,067,528**	**2.7%**
Total Revenue Requirements less Non-Discretionary Discount	$ 14,739,038	$ 14,927,063	1.3%

4 REVENUE FACTORS

4.1 Asset Valuation

For the purposes of revenue calculations, the Distribution assets are valued at the August 2004 ODV. Each load group utilises some or all of these assets to a greater or lesser degree, and the cost recovery from each load group is based on its utilisation of these assets. Allocation of the assets utilised by each group is based on the estimated capacity (kVA) requirements of each load group, and the after-diversity maximum demand (kW) that they placed on the network.

4.2 Maintenance of Existing Assets

The annual maintenance programme is driven by safety requirements, security of supply objectives, and fault response and repair. The NWL Asset Management Plan contains details of the planned maintenance programme set out under the following asset categories:

- Sub-transmission (33kV lines and cables);
- Zone Transformers (33kV – 11kV);
- 11kV lines, cables and associated switchgear;
- Distribution Substations (33/11kV-400/230V transformers and sites);
- Low Voltage Distribution (400/230V lines, cables and associated switchgear).

These costs are allocated across load groups based on their share of the ODV asset value of the assets it was estimated they utilised.

4.3 Depreciation

Depreciation is calculated on a straight-line basis in accordance with NWL's accounting policies. The depreciation is allocated against the asset groups listed above, and is recovered from load groups based on their share of the ODV asset value of the assets it was estimated they utilised.

4.4 Administration

Administration costs cover the costs of operating the business for billing etc. These costs are not asset-related and are recovered as a fixed per-connection charge.

4.5 Return on Assets

A return on assets is required to fund the capital development and replacement programme and provide a return to the owners. NWL is consumer-trust owned, and this return currently takes the form of an annual discount to consumers. The rate of return is recovered from load groups based on their share of the ODV asset value of the assets it was estimated they utilised.

5 PRICING STRUCTURE

NWL pricing structure is split into two main headings Standard Contracts and Individually Assessed Contracts.

Standard Contracts recover network costs by means of a fixed annual charge based on the consumer load group, and a variable kW charge as shown in the schedule of charges. This contract applies to the majority of consumers.

Individually Assessed Contracts recover network costs by means of a fixed annual charge based on the individual customer's asset usage, capacity requirements, and contribution towards the system peak demand.

5.1 Standard Contract Consumer Load Groups

Load groups are based on the standard distribution transformer capacities used on the network, with no distinction being made between a single-phase and three-phase connection. The minimum connection capacity for a single-phase supply is 15kVA, while the minimum connection capacity for a three-phase supply is 30kVA. Consumers are allocated into the various load groups based on their contracted connection capacity, with no distinction being made between domestic and non-domestic connections with the exception of the Domestic Low User ("DLU") category which is available only to primary domestic supplies, and applies irrespective of the connection capacity.

The groupings at different kVA ratings are made because KVA is a measure of service capacity and so is reflective of the costs incurred to serve each group. It should be noted that NWL plans to deploy advanced meters on its network. Once this has been completed and the additional data from the advanced meters has been analysed it is likely that these groupings may change. To make any change before then would be premature, particularly if the changes were proven incorrect after further analysis. It might also be against EA Pricing Principle (d) that states that prices should promote stability.

Since last year, at the request of electricity retailers in order to assist them to efficiently determine what the equivalent standard tariff for a consumer should be when the consumer moves off of DLU to a standard tariff, NWL has divided its DLU category into the new sub-groups DLU15U, DLU15C, DLU30U, DLU30C, DLU50U, and DLU50C. These sub-groups all have the same line charge and receive the same discount and there is no impact on consumers from this. As noted below, DLU30C to DLU50U have higher fuse ratings, however in order to comply with the DLU Regulations, NWL does not treat them any differently to DLU15C and DLU15U.

The load groups are:

Load Group	Description	Maximum Fuse Rating
DLU15C	Domestic Low User 15C	1x 63A fuse
DLU15U	Domestic Low User 15U	1x 63A fuse
DLU30C	Domestic Low User 30C	1 x 100A fuse or 3 x 40A fuses
DLU30U	Domestic Low User 30U	1 x 100A fuse or 3 x 40A fuses
DLU50C	Domestic Low User 50C	3 x 80A fuses
DLU50U	Domestic Low User 50U	3 x 80A fuses
15C	0 - 15kVA controlled	1 x 63A fuse
15U	0 - 15kVA Uncontrolled	1 x 63A fuse
30C	16 - 30kVA Controlled	1 x 100A fuse or 3 x 40A fuses
30U	16 - 30kVA Uncontrolled	1 x 100A fuse or 3 x 40A fuses
50C	31 - 50kVA Controlled	3 x 80A fuses

50U	31 - 50kVA Uncontrolled	3 x 80A fuses
100	51 - 100kVA	3 x 160A fuses
200	101 – 200kVA	3 x 315A fuses
300	201 – 300kVA	3 x 400A fuses
500	301 – 500kVA	NA
750	501 – 750kVA	NA
IND	Individually Assessed	NA

Street lighting is a specialist load group which utilises dedicated LV assets and is covered by an Individually Assessed Contract.

5.2 Standard Contract Annual Fixed Charges

Although the majority of network costs are fixed, passing these costs through to consumers as a predominantly fixed cost would not provide consumers with the pricing signals necessary to encourage them to use the resources efficiently.

To this end, NWL, consistent with previous years, held constant the fixed portion of its charges for all load groups (with the exception of the Individually Assessed Contract consumers) and increased its variable charges. By over-time increasing the proportion of variable to fixed charges, NWL is encouraging more effective use of network resources.

0 – 50kVA Load Groups

Consumers in the 15, 30, and 50kVA groupings are typically domestic or small commercial installations which have water-heating or other loads that can be controlled. NWL has developed a number of control options for those consumers that foster economic use of the network assets and enable load to be moved to off-peak periods. In recognition of this, the fixed charges for installations that provide year-round access to controllable load are lower than for installations with no controlled load. In addition controlled installations can utilise two-rate, night/day metering, which enables consumers to benefit from the cheaper night rate charges that apply between 11:00pm and 7:00am.

The total costs associated with each load group are allocated on the portion of the assets that they utilise. The load group share of the assets is determined by comparing the group capacity with the total network capacity and the group-after-diversity maximum demand with the network maximum demand. Costs are allocated 50% on group after diversity maximum demand (“GADMD”), and 50% on the group capacity.

In addition a DLU[4] option is available in accordance with the DLU Regulations. This option is revenue-neutral for a consumer using 9,000 kWh per annum after a non-discretionary discount has been applied.

51 – 750kVA Load Groups

Installations in the 100 – 750kVA load groups are predominantly commercial, light industrial, or farming, and do not normally have loads that can be controlled externally. Load control is not generally available for these load groups, although limited access to night-rate tariffs are available for irrigation supplies and for installations with Time Of Use (“TOU”) metering. These installations are normally supplied from a dedicated transformer and therefore do not utilise the same range of

[4]The DLU tariff now includes the sub-groups DLU15U, DLU15C, DLU30U, DLU30C, DLU50U, and DLU50C.

network assets as small low-voltage connections. Energy use within these load groups is much higher than the <50kVA groups resulting in the costs being predominantly governed by energy use rather than fixed charges. This provides consumers within these load groups with clear pricing signals that relate directly to consumption.

The total costs associated with each load group are allocated on the portion of the assets that they utilise. The load group share of the assets is determined by comparing the group capacity with the total network capacity and the group after diversity maximum demand with the network maximum demand. Costs are allocated 50% on group after diversity maximum demand, and 50% on the group capacity.

5.3 Standard Contracts Variable Charges

Standard Contracts Variable charges are based on GXP totals adjusted to account for losses and individual contract customer-usage. Day rates apply to all units transported over the network between 7:00am and 11:00pm and night rates to all units transported over the network between 11:00pm and 7:00am. Night rates are lower than day rates to encourage retailers to develop tariffs that reward customers for off-peak usage.

5.4 Individually Assessed Contracts

Individually Assessed Contract consumers are assessed on their contribution to network system demand and the contracted capacity they require. The assets required to supply each customer installation are assessed and valued at ODV, and the contribution that the installation makes towards network system demand is determined from TOU metering data. The costs associated with the network assets are then recovered as a fixed charge based 50% on demand and 50% on contract capacity. Customers in this group can reduce their costs by improving their utilisation of assets and controlling their peak demands.

5.5 Transmission Charges

The following methodology has been used as the basis for the recovery of transmission charges in a way that is equitable to all groups and reflects Transpower's pricing structure.

Transpower Connection Charges and NWL Avoided Transmission Costs are fixed asset-based charges, and are allocated between load groups based on the group capacity requirements. These costs are recovered as a fixed charge.

Transpower Interconnection Charges are determined by the average of the 100 highest half-hour coincident regional peak demands recorded between 1 September and 31 August each year.

These costs are recovered from Standard Contract consumers as a variable (kWh) charge plus a small fixed charge, while for Individually Assessed Contract consumers these costs are recovered as a fixed charge.

5.6 Standard Contracts - Transmission Charges

Transpower Connection Charges are recovered by means of a fixed charge and a variable charge. The fixed charge is based on the assessed capacity (kVA) requirements of each load group.

Transpower Interconnection Charges are recovered by means of a variable (kW) charge based on group demand and consumption.

The fixed portions of the charges for Standard Contract consumers are kept at a low level so that consumers with lower consumption levels are not subsidising consumers

with higher consumption levels. The variable charges are based on GXP totals adjusted to account for losses and Individually Assessed Contract consumer usage. Day rates apply to all units transported over the network between 7:00am and 11:00pm, and night rates to all units transported over the network between 11:00pm and 7:00am.

5.7 Individually Assessed Contracts - Transmission Charges

Transpower Connection Charges are recovered by means of a fixed charge based on the capacity (kVA) requirements of each consumer.

Transpower Interconnection Charges are recovered by a fixed charge based on the average of the 100 highest half-hour demands (kW) recorded by each consumer in the previous 12 months.

5.8 Transmission Charges Relating Loss and Constraint Rebates

Loss and Constraint Rebates are credits rebated by Transpower, resulting from over-recovery of costs and are included in transmission charges.

6 LOSSES

6.1 General

Losses represent the percentage of electricity entering the network that is either consumed in the delivery process or lost, and can be categorised as either technical losses or non-technical losses.

Technical losses comprise:

(a) standing losses arising from zone and distribution transformers; and

(b) variable losses arising from resistive losses in conductors. Resistive losses are proportional to the square of the current passing through the conductor.

Non-technical losses comprise:

(a) losses arising from metering faults or errors; and

(b) losses arising from electricity theft etc.

The energy measured at customers' installations is therefore after losses, and must be multiplied by the overall "loss factor" to determine each retailer's purchase quantities at each GXP.

6.2 LV and HV Connection

The majority of customers take supply and are metered at 400/230V and the loss factor applied to these sites must account for distribution transformer and low voltage reticulation losses. A small group of customers take supply and are metered at 11,000V and the loss factor applied to these customers does not include distribution transformer and LV reticulation losses.

6.3 Loss Factor Allocation

The average loss factor for the network is calculated from data supplied by the National Reconciliation Manager. This information is compared with the GXP data to determine the long run overall loss factor.

6.4 Distributed Generation ("DG")

NWL is always keen to work with consumers and to advise them of distribution alternatives such as DG from wind or solar. Any consumer interested in DG is encouraged to get in touch to discuss the opportunity further.

NWL offers connection to DG by the standard terms defined by the Electricity Authority. The standard terms are easy to understand and are consistent with the majority of distributors across the country. These terms can be found on the DG page on NWL's website: www.networkaitaki.co.nz.

NWL incentivises consumer investment in DG by way of its high variable to fixed charge apportionment – consumers who invest in DG can decrease their usage and thus the variable cost of their line charges.

DG consumers are not charged for injecting into the grid at this time. In future there may be a need to charge for this, but it will be set at a level that does not overly discourage DG and all relevant stakeholders will be consulted at the time.

For a sufficiently large distributed generation consumers located in an area of strategic importance where a contribution to peak reduction could be deemed useful, NWL may consider payments to the DG consumer for the amount it reduces NWL's Regional Co-incident Peak Demand ("RCPD"). Payments would likely be a proportion of the current Transpower ($/kW) Interconnection Rate. NWL encourages any potential large scale DG consumer to get in touch to discuss this opportunity.

NWL may consider similar arrangements to those noted above for large scale DG for demand reduction or other innovative technologies that might help reduce peak demand. Again NWL encourages any potential consumer offering services of this type to get in contact to discuss the opportunity further.

Appendix 1 - Allocation of Revenue Requirement to different consumers

In the 2013 pricing methodology this Appendix depicted a table showing how the value of the network based on the 2004 ODV valuation had been allocated to different consumer load groups. A table showing how Distribution and Transmission costs were allocated amongst load groups was depicted in Appendix 2.

The Castalia report noted that the pricing methodology should identify cost allocators and the rationale for the use of particular cost drivers for particular costs. It was also noted that the methodology should show how tariffs recover costs and that there should be a reconciliation of target revenue with allocated costs.

In order to better comply with the recommendations of the Castalia report the table below reconciles NWL's revenue requirement to the overall consumer groupings of Small, Medium, Large and Individually Assessed Contract consumers. Revenue is proportioned over the groupings based on the revenue shares reported for these groups in NWL's Information Disclosure to the Commerce Commission for the year ended 31 March 2013.

NWL's current methodology which allocates costs based on estimated usage of network assets valued at the 2004 ODV may no longer be fully applicable. NWL has therefore chosen to not show those allocations in the current methodology.

NWL is planning to deploy advanced meters on its network. Once this has been completed it will be able to see in detail exactly where and when on the network assets are utilised by different customer groups, and if the customer groups it has defined based on connection capacity are reflective of actual customer groups with common usage behaviour. It will then be in a position to clearly assess if its methodology correctly allocates costs and if not it will be able to effectively revise its allocations.

It should be noted that NWL has previously estimated that consumers connected to the Oamaru GXP (Oamaru being the main urban centre on NWL's network) are responsible for nearly 90 per cent of network demand. It therefore may be the case that existing load group definitions that do not differentiate between consumers based on location, i.e. between urban and rural consumers, are accurate after all.

Further NWL has a capital contributions policy that charges consumers when they initially connect for line extensions and future network development needs over the whole of the network. NWL considers that this in part justifies current consumers groups and their lack of differentiation based on location.

In any case NWL considers that making any significant changes to its methodology before advanced meters can give a true picture of consumer behaviour would be premature and potentially against EA Pricing Principle (d) which states that prices should promote stability. This would be particularly so if a change was made that was then proven to be incorrect once advanced meter data on customer profiles had been fully analysed.

Once advanced meters are fully deployed and there has been sufficient time elapsed to capture customer data, NWL will undertake a full review of its tariffs in accordance with the EA Pricing Principles.

Allocation of Target Revenue to Overall Consumer Groups

Proportion of Target Revenue Allocated to Each Load Group	Distribution	Transmission	Non-Discretionary Discount	Total Less Non-Discretionary Discount
Small Consumers: DLU15U, DLU15C, DLU30U, DLU30C, 15C, 15U	$ 4,840,770	$ 2,144,771	$ 495,529	$ 6,490,012
Medium Consumers: 30U, 30C, 50U, 50C	$ 1,778,158	$ 787,838	$ 182,022	$ 2,383,973
Large Consumers: 100, 200, 300, 500, 750	$ 3,142,269	$ 1,392,226	$ 321,661	$ 4,212,835
IND: Individually Assessed Contract customers	$ 910,883	$ 997,676	$ 68,316	$ 1,840,244
Total	**$ 10,672,080**	**$ 5,322,511**	**$ 1,067,528**	**$ 14,927,063**

Appendix 2 - Schedule of Charges from 1 April 2014

Distribution Charges (excl GST)								
Fixed Charges				**From 1 April 2014**				
Code	**Load Group Description**	**Current**	**Changes**	**New ($)**		**Non-Discretionary Discount**		**No of Consumers**
				Per Annum	**Per Day**	**Per Annum**	**Per Day**	
DLU15U	Domestic Low User 15U	34.75	-	34.75	0.09521	29.75	0.08151	442
DLU15C	Domestic Low User 15C	34.75	-	34.75	0.09521	29.75	0.08151	3467
DLU30U	Domestic Low User 30U	34.75	-	34.75	0.09521	29.75	0.08151	15
DLU30C	Domestic Low User 30C	34.75	-	34.75	0.09521	29.75	0.08151	39
DLU50U	Domestic Low User 50U	34.75	-	34.75	0.09521	29.75	0.08151	1
DLU50C	Domestic Low User 50C	34.75	-	34.75	0.09521	29.75	0.08151	1
15U	0 - 15kVA	96.34	-	96.34	0.26395	91.34	0.25025	1490
15C	0 - 15kVA Controlled	84.75	-	84.75	0.23219	79.75	0.21849	5020
30U	16 - 30kVA	107.45	-	107.45	0.29438	99.93	0.27378	437
30C	16 - 30kVA Controlled	96.34	-	96.34	0.26395	91.34	0.25025	189
50U	31 - 50kVA	140.80	-	140.80	0.38575	130.94	0.35875	649
50C	31 - 50kVA Controlled	133.39	-	133.39	0.36545	128.39	0.35175	116
100	51 - 100kVA	177.86	-	177.86	0.48729	165.41	0.45318	286
200	101 - 200kVA	344.60	-	344.60	0.94411	320.48	0.87802	91
300	201 - 300kVA	459.46	-	459.46	1.25879	427.30	1.17068	45
500	301 - 500kVA	615.09	-	615.09	1.68518	572.03	1.56722	21
750	501 - 750kVA	907.81	-	907.81	2.48715	807.95	2.21356	3
IND	Individually Assessed							29
Variable Charges								
Note: The variable charges shown will apply to customers in all of the load groups listed above with the exception of IND.								
	Variable day charge 7am - 11pm	6.36600	0.43766	6.80366	cents per kWhr			
	Variable Night Charge 11pm - 7am	0.65600	0.04510	0.70110	cents per kWhr			

Transmission Charges (excl GST)						
Fixed Charges				**From 1 April 2014**		
Code	**Load Group Description**	**Current**	**Changes**	**New ($)**		**No of Consumers**
				Per Annum	**Per Day**	
DLU15U	Domestic Low User 15U	20.00	-	20.00	0.05479	442
DLU15C	Domestic Low User 15C	20.00	-	20.00	0.05479	3467
DLU30U	Domestic Low User 30U	20.00	-	20.00	0.05479	15
DLU30C	Domestic Low User 30C	20.00	-	20.00	0.05479	39
DLU50U	Domestic Low User 50U	20.00	-	20.00	0.05479	1
DLU50C	Domestic Low User 50C	20.00	-	20.00	0.05479	1
15U	0 - 15kVA	67.45	-	67.45	0.18479	1490
15C	0 - 15kVA Controlled	20.00	-	20.00	0.05479	5020
30U	16 - 30kVA	76.34	-	76.34	0.20915	437
30C	16 - 30kVA Controlled	28.89	-	28.89	0.07915	189
50U	31 - 50kVA	96.34	-	96.34	0.26394	649
50C	31 - 50kVA Controlled	48.89	-	48.89	0.13394	116
100	51 - 100kVA	143.13	-	143.13	0.39214	286
200	101 - 200kVA	286.26	-	286.26	0.78429	91
300	201 - 300kVA	382.60	-	382.60	1.04823	45
500	301 - 500kVA	597.30	-	597.30	1.63644	21
750	501 - 750kVA	897.33	-	897.33	2.45843	3
IND	Individually Assessed					29
Variable Charges						
Note: The variable charges shown will apply to customers in all of the load groups listed above with the exception of IND.						
	Variable day charge 7am - 11pm	2.65981	0.31651	2.97632	cents per kWhr	
	Variable Night Charge 11pm - 7am	0.27397	0.03260	0.30657	cents per kWhr	

Total Distribution and Transmission Charges (excl GST)								
Fixed Charges				**From 1 April 2014**				**No of**
Code	**Load Group Description**	**Current**	**Changes**	**New ($)**		**Non-Discretionary Discount**		**Consumers**
				Per Annum	**Per Day**	**Per Annum**	**Per Day**	
DLU15U	Domestic Low User 15U	54.75	-	54.75	0.15000	29.75	0.08151	442
DLU15C	Domestic Low User 15C	54.75	-	54.75	0.15000	29.75	0.08151	3467
DLU30U	Domestic Low User 30U	54.75	-	54.75	0.15000	29.75	0.08151	15
DLU30C	Domestic Low User 30C	54.75	-	54.75	0.15000	29.75	0.08151	39
DLU50U	Domestic Low User 50U	54.75	-	54.75	0.15000	29.75	0.08151	1
DLU50C	Domestic Low User 50C	54.75	-	54.75	0.15000	29.75	0.08151	1
15U	0 - 15kVA	163.79	-	163.79	0.44874	91.34	0.25025	1490
15C	0 - 15kVA Controlled	104.75	-	104.75	0.28699	79.75	0.21849	5020
30U	16 - 30kVA	183.79	-	183.79	0.50353	99.93	0.27378	437
30C	16 - 30kVA Controlled	125.23	-	125.23	0.34309	91.34	0.25025	189
50U	31 - 50kVA	237.14	-	237.14	0.64970	130.94	0.35875	649
50C	31 - 50kVA Controlled	182.28	-	182.28	0.49939	128.39	0.35175	116
100	51 - 100kVA	320.99	-	320.99	0.87943	165.41	0.45318	286
200	101 - 200kVA	630.86	-	630.86	1.72839	320.48	0.87802	91
300	201 - 300kVA	842.06	-	842.06	2.30702	427.30	1.17068	45
500	301 - 500kVA	1,212.39	-	1,212.39	3.32162	572.03	1.56722	21
750	501 - 750kVA	1,805.14	-	1,805.14	4.94558	807.95	2.21356	3
IND	Individually Assessed							29
Variable Charges								
Note: The variable charges shown will apply to customers in all of the load groups listed above with the exception of IND.								
	Variable day charge 7am - 11pm	9.02581	0.75417	9.77998	cents per kWhr			
	Variable Night Charge 11pm - 7am	0.92997	0.07770	1.00767	cents per kWhr			

Notes

1. During the previous year NWL has experienced increasing costs in the operation of its network. These include increases in local body rates, fuel, labour and regulatory levies. In order that it may continue to operate a safe and reliable electricity distribution network, the Board of NWL has deemed it necessary to increase line charge tariffs to reflect these increasing costs. On average the distribution component of NWL's line charge has increased by 6.1%. Transpower has also increased its transmission charges to NWL and these are reflected in an average increase of 10.2% in the transmission component of NWL's line charge tariffs. Overall charges have increased by 7.4%.
2. NWL determines the allocation of each site to a load group as described in its Use of System Agreement.
3. The Domestic Low User ("DLU") groups of DLU15U, DLU15C, DLU30U, DLU30C, DLU50U, and DLU50C are only available for a consumer's primary domestic residence.
4. Variable charges are based on metering and reconciliation at the Grid Exit Point reduced by the declared network loss rate.
5. Distribution *and* Transmission charges are charged in respect of each site. Charges are invoiced to electricity retailers monthly in arrears. Fixed charges accrue on a daily basis at the rate of 1/365th of the annual amount due. From time to time, the charges above may be subject to discounts.
6. NWL's annual discount to consumers is comprised of a non-discretionary and a discretionary component. The non-discretionary component is a guaranteed amount that will be discounted to consumers in the various load groups listed and will be payable in March 2015. The balance of the targeted discount shown in the Statement of Corporate Intent is the discretionary component, and the magnitude of this component will be determined by trading conditions during the year.
7. Discounts will be payable in March 2015 based on the number of days that the installation has been connected within a specific load group during the preceding 12 months and will be payable to the connected consumer at that installation on the day that the discretionary discount is declared.
8. Full terms and conditions detailed in the Use of System Agreement take precedence over the above summary. A standard Use of System Agreement is available at www.networkwaitaki.co.nz. This schedule is provided pursuant to Clause 2.4.18 and 2.4.19 of the Commerce Commission's Electricity Distribution Information Disclosure Determination 2012.

Appendix 3 - Electricity Authority Pricing Principles and Information Disclosure Guidelines

As part of the disclosures made under Section 2.4 of the 2012 IDRs, Clause 2.4.3(2) requires that an EDB demonstrate the extent to which its pricing methodology is consistent with Electricity Authority's March 2010 Pricing Principles ("EA Principles and Guidelines"). The EA Principles and Guidelines, and NWL's compliance with them are detailed in the table below.

Pricing Principle	**How compliance has been shown**
(a) Prices are to signal the economic costs of service provision, by:	
i. being subsidy free (equal to or greater than incremental costs, and less than or equal to standalone costs), except where subsidies arise from compliance with legislation and/or other regulation;	For its Standard Contract consumers, NWL placed these consumers in load groups according to an estimate of their use of actual transformer capacity used by each consumer. Capacity requirements were also taken into account when the charges of Individually Assessed Contract ("IND") consumers were set. NWL is of the view that dividing consumers into different groups according to capacity utilisation is reflective of the underlying cost drivers of incrementally supplying each load group and IND consumer. According to this Principle, being subsidy free means that for each consumer group or IND consumer, the revenues from that group or IND consumer should not be below the cost of connecting that consumer group or IND consumer to the distribution network (incremental cost) and this is indeed the case given NWL's capacity utilisation reflective prices. Further, this Principle means that revenues from each consumer group or IND consumer should not exceed the costs of supplying that group or IND consumer as a standalone. It is difficult to accurately determine the standalone costs for most customers supplied by a common service via a meshed distribution network, however, it can be concluded, given the efficiencies of a well-run distribution network such as NWL's, that standalone costs must be significantly higher than the average costs to supply different consumer load groups or IND consumers.

	Thus, with the exception of subsidies provided in compliance with the *Electricity (Low Fixed Charge Tariff for Domestic Consumers) Regulations 2004* ("DLU Regulations"), NWL is of the view that its prices are free of subsidies. And this is particularly the case for NWL, as no distinction is made between domestic and non-domestic consumers aside from the noted exception of DLU consumers. The Castalia report noted that estimates of incremental cost, in particular for domestic users, should be presented to show that DLU consumers benefit from cross-subsidies. NWL believes that it will be in a position to estimate this for its network after advanced meters have been deployed. Advanced meters will give a much more accurate assessment of network conditions unique to NWL. It would be premature to make any estimates before then.
ii. having regard, to the extent practicable, to the level of available service capacity; and	By dividing consumers into load groups according to transformer capacity NWL has particular regard for this principle. The Castalia reported noted that the methodology should show the relationship between prices and capacity availability throughout the network. This again is something that will be far easier to measure once advanced meters are available. NWL will report on this once data from advanced meters gives a more accurate picture of the network.
iii. signalling, to the extent practicable, the impact of additional usage on future investment costs.	NWL is following a policy of increasing the proportion of variable line charges in comparison to its fixed line charges to consumers. By continuing to increase variable charges over time whilst holding fixed charges constant, NWL is sending a clear signal to consumers that additional usage will impact on the future investment costs of NWL. In addition, for NWL's variable Day and Night charges, there is a higher charge in the congested Day period which signals that additional usage will impact on future investment costs. As a further signal, NWL offers discounted charges for consumers who opt for Controlled tariffs. Both distribution and transmission fixed charges are lower for

	controlled tariffs compared to the equivalent uncontrolled tariffs to signal the benefits of load control. The transmission fixed charge component of each controlled tariff is significantly lower to signal the clear and direct impact that load control has on reducing transmission charges. As well as directly impacting on transmission charges; across the whole electricity sector, load control systems are effective in reducing demand at peak times by deferring non-time critical electricity usage. The benefits of controlled load include greater predictability of the magnitude of peak demands, less need to build peak generation plants and potential to defer transmission and distribution capacity upgrades. Going forward, NWL will be deploying advanced meters on its network and is currently working with retailers on a range of advanced meter enabled tariffs that will signal the impact of additional usage on future investment costs. The Castalia reported noted that the methodology should present information on network investments that have been planned that could be deferred by price changes. Again this is something that advanced meters will give a much more accurate picture of and it would be premature to present any predictions on this until advanced meter data is available.
(b) Where prices on 'efficient' incremental costs would under-recover allowed revenues, the shortfall should be made up by setting prices in a manner that has regard to consumers' demand responsiveness, to the extent practicable.	NWL considers this principle matches the economic principle known as Ramsey Pricing, which is a form of price discrimination where if differential prices are appropriate, then the highest prices should be borne by consumers with the most inelastic demand. In practice, however, Ramsey Pricing is only ever used to provide guidance in pricing development as it is not practical to accurately observe the price elasticity of different consumers. Further, Ramsey pricing also requires an ability to segment consumers by their respective characteristics, e.g. cinemas can easily differentiate between adults, children, students and senior citizen viewing audience by the time of day and day of the

	week of movie screenings, with prices set accordingly to reflect the differences in willingness to pay between these different groups. However, it is much more difficult for an EDB to differentiate between consumer groups, and particularly so for an EDB like NWL which uses interposed arrangements with retailers. With the exception of DLU customers, NWL does not differentiate between customers on Standard Contracts – the cost to do so would be prohibitively expensive. NWL contends, however, that by weighting its charges towards variable charges, it is to some extent discriminating between differences in end consumers' willingness to pay when it is unknown what elasticity each consumer group has. For Individually Assessed Contract consumers, however, where the transaction costs of developing non-standard arrangements are small in relation to the value of the network service, customers' charges are calculated as an annually recalculated fixed charged based 50% on contracted capacity and 50% on the contribution the customer's installation makes to system demand. The contribution an installation makes to system demand is less subject to demand response than other measures, and is thus reflective of this principle. The Castalia report noted that variable charges are not a form of price discrimination if regardless of their demand responsiveness, all customers face the same variable charge. Differing variable charges for different groups is something that NWL considers would be much more effectively implemented with advanced meter enabled tariffs. It is currently working with retailers on this. The report further noted that while it is difficult for small consumers, large consumers are more likely to be price sensitive and thus could have proportionately less common cost. NWL is of the view that advanced meters would give a more accurate view of the price sensitivity of consumer classes. Advanced meter enabled tariffs are also better at sending

	price signals. It would therefore be premature to make any changes to the status quo until advanced meters have been deployed.
(c) Provided that prices satisfy (a) above, prices should be responsive to the requirements and circumstances of stakeholders in order to:	
i. discourage uneconomic bypass;	This principle considers that it is not economically efficient to replicate sunk assets and therefore requires that prices should not be at a level so high that it becomes economic for a competitor to supply a consumer from an alternative network supply. For Standard Contract consumers NWL follows this principle by ensuring that at a load group level, prices faced by consumers reflect the true economic cost of their service provision. Each load group utilises some or all of NWL's network assets to a greater or lesser degree, and the cost recovery from each load group is based on its utilisation of these assets. Allocation of the assets utilised by each group is based on the capacity (kVA) requirements of each load group, and the after-diversity maximum demand (kW) that they place on the network. Further, in the past for Individually Assessed Contract consumers, NWL has discouraged uneconomic bypass by analysing on a case-by-case basis the specific needs of the consumer, tailoring pricing to reflect the cost to supply and unique needs of the consumer in question. NWL has not been accepting new Individually Assessed Contract consumers because the current methodology is likely not flexible enough to match the needs of existing IND consumers, some of which may be better served on a standard contract. NWL has been engaging with these consumers and expects some to move to standard contracts shortly. As it develops advanced meter enabled tariffs that offer even more flexibility, NWL expects more consumers to move to standard contracts. It should be noted that NWL has 29 customers on Individually Assessed

	Contract. This is high compared to most networks. For historic reasons some consumers are on IND contracts when other very similar consumers are on standard contracts. NWL will revisit its Individually Assessed Contract methodology in due course when it has more information on its network from advanced meter data. Before that time it would be imprudent to accept any new IND consumers. NWL may instead define new standard contract terms if there is a particular need.
ii. allow for negotiation to better reflect the economic value of services and enable stakeholders to make price/quality trade-offs or non-standard arrangement for services; and	NWL is 100% owned by the Waitaki Power Trust ("Trust"). Trustees of the Trust represent the interests of consumers and engage with NWL to ensure that NWL makes appropriate price/quality trade-offs. In addition, for Individually Assessed Contract consumers, through a process of one-to-one consultation, NWL has in the past negotiated a service tailored to the requirements of the individual consumer, making a price-quality trade-off appropriate for that consumer. As noted previously, NWL is not accepting new Individually Assessed Contract consumers at this time, but may do so again after it has deployed advanced meters.
iii. where network economics warrant, and to the extent practicable, encourage investment in transmission and distribution alternatives (e.g. distributed generation or demand response) and technology innovation.	Refer to paragraph 6.4 of the methodology for a discussion on this.
(d) Development of prices should be transparent, promote price stability and certainty for stakeholders, and changes to prices should have regard to the impact on stakeholders.	For transparency and as mandated by the 2012 IDR, NWL's prices are available in a wide number of locations for customers to view: • two advertisements run each year in the Otago Daily Times newspaper; • pricing schedules are sent to all retailers with whom NWL has a use of system agreement; • NWL's website; and • in hard copy at NWL's offices in central Oamaru. Further, through its ownership by the Waitaki Power Trust, and the regular engagement with Trustees of the Trust (who

	represent the interests of consumers), NWL ensures that its prices are transparent to the Trust and have full regard to the impact they have on consumers. When NWL changes the structure of its tariffs, it consults with retailers on its network and takes on-board any feedback from them on the proposed new tariff structures. From feedback it received; from last year NWL divided its DLU category into the new sub-groups DLU15U, DLU15C, DLU30U, DLU30C, DLU50U, and DLU50C. These sub-groups all have the same line charge and receive the same discount and there has been no impact from this on consumers. However, the change has greatly assisted retailers in determining what the equivalent standard tariff for a consumer should be when that consumer moves off of DLU. As a 100% Consumer Trust owned company, NWL is exempt from following the Default Pricing-Quality Path ("DPP")[5] that most EDBs are obliged to follow, however, to the extent it is practicable in order to ensure price stability, NWL follows the DPP when it reviews its prices each year, and keeps price increases net of Recoverable and Pass-Through Costs at a rated limited to CPI + X. The magnitude of the X rate of change term is determined by the NWL Board. The Commerce Commission recently reset the DPP of non-exempt EDBs and NWL has analysed what its X would have been had it been subject to the same controls. The Board has used this analysis in its decision of what X should be for the coming year. When it decides on what the X should be, the Board is always mindful of the extent to which price increases will impact on consumers and balances this against the requirements inherent in providing a reliable and secure electricity supply and the need for future invest in asset replacement and network development.
(e) Development of prices should have regard to the impact of transaction	NWL's tariffs do not favour one retailer over another. NWL's pricing methodology and

[5] See Consolidated Version of Commerce Act (Electricity Distribution Default Price-Quality Path) Determination 2010 at: http://www.comcom.govt.nz/assets/Electricity/2010-2015-Default-Price-Quality-Path/Default-Price-Quality-Path-Determination/Commerce-Act-Electricity-Distribution-Default-Price-Quality-Path-Determination-2010-Consolidated-7-April-2011.pdf

costs on retailers, consumers and other stakeholders and should be economically equivalent across retailers.	applicable prices are identical across all retailers, with no discrimination in regards to available tariff options, applicable charges, calculation methodology, or discount. NWL's prices are therefore economically equivalent across retailers. Further, through its engagement with Trustees of the Waitaki Power Trust and its consultation with retailers from time-to-time, NWL gives regard to the impact of transaction costs on consumers and other stakeholders. By dividing its DLU category into the sub-groups DLU15U, DLU15C, DLU30U, DLU30C, DLU50U, and DLU50C, electricity retailers are now able to tell straightaway without having to consult NWL what the standard tariff a consumer should be on when it moves off of DLU. This will reduce transaction costs for retailers.

Summary of Compliance with Information Disclosure Guidelines

Information Disclosure Guideline	**How compliance has been shown**
(a) Prices should be based on a well-defined, clearly explained and published methodology, with any material revisions to the methodology notified and clearly marked.	NWL makes all of its communications clear and easy to understand. This Pricing Methodology is published on NWL's website at: www.networkwaitaki.co.nz from 1 April 2014. There have been material changes to NWL's pricing methodology in order to respond to the December 2013 review of its 2013 pricing methodology by the Electricity Authority's consultant Castalia. Given the short time that has elapsed since this review and the publishing of the 2014 pricing methodology the table in Appendix 1 showing how the value of the network based on the 2004 ODV valuation had been allocated to different customer load groups has been removed. A table in Appendix 2 showing how Distribution and Transmission costs were allocated amongst load groups was also removed. Further in Appendix 1 a table has been inserted that reconciles NWL's revenue

	requirement to the overall customer groupings of Small, Medium, Large and Independent Contract Consumers. The revenue is proportioned over the groupings based on the revenue shares reported for these groups in NWL's Information Disclosure to the Commerce Commission for the year ended 31 March 2013. The reasons for this are discussed further in Appendix 1. .
(b) The pricing methodology should demonstrate:	
(i) how the methodology links to the pricing principles and any non-compliance;	The tables in Appendix 3 demonstrate how the methodology links to the pricing principles. NWL considers that there are no significant areas of non-compliance.
(ii) the rationale for the consumer groupings and the method for determining the allocation of consumers to the consumer groupings	Paragraphs 5.1 to 5.4 show the rationale for consumer groupings and the method for determining the allocation of consumers to those consumer groupings.
(iii) quantification of key components of costs and revenues;	The tables at paragraph 3.6 and in Appendices 1 and 2 show the quantification of key components of costs and revenues.
(iv) an explanation of the cost allocation methodology and the rationale for the allocation to each consumer grouping;	Paragraphs 5.1 to 5.8 explain NWL's cost allocation methodology and the rationale for the allocation to each consumer group. The Castalia report noted that the methodology does not provide a rationale for the allocation of cost drivers. Cost drivers were allocated based on an estimate of assets utilised by each consumer group with a value of assets from the 2004 ODV valuation. The estimate was based on expert opinion at the time the methodology was established. NWL will revise these estimates in due course once it has a more complete picture of its network from analysis of advanced meter data.
(v) an explanation of the derivation of the tariffs to be charged to each consumer group and the rationale for the tariff design; and	Paragraphs 5.2 to 5.7 provide an explanation of the derivation of the tariffs to be charged to each consumer group. Paragraphs 2.1 to 3.4 provide a rationale for tariff design.
(vi) pricing arrangements that will be used to share the value of any deferral of investment in distribution and transmission assets, with the investors in	Refer to paragraph 6.4 of the methodology for a discussion on this.

alternatives such as distributed generation or load management, where alternatives are practicable and where network economics warrant.	
(c) The pricing methodology should:	
(i) employ industry standard terminology, where possible; and	Through on-going consultation with retailers NWL from time-to-time reviews it terms and definitions to better align to industry standards.
(ii) where a change to the previous pricing methodology is implemented, describe the impact on consumer classes and the transition arrangements implemented to introduce the new methodology.	At this stage NWL has not changed its pricing methodology in terms of allocation of costs or changes to consumer load groups, so this guideline does not currently apply.

Appendix 4 - Compliance with 2012 Information Disclosure Requirements

2.4 Pricing and Related Information
- *Disclosure of Pricing Methodologies*

Clause in Determination	Section of Pricing Methodology which complies with the clause
2.4.1 Every EDB must publicly disclose, before the start of each disclosure year, a pricing methodology which-	
(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 compliance with clause 2.4.3.
(2) Describes any changes in prices and target revenues;	See the tables in Appendix 2 for changes to prices. See the table on paragraph 3.6 for changes to target revenues.
(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);	Compliance with clause 2.4.5 for pricing in non-standard contract is discussed in paragraphs 5.1 to 5.8 of the methodology. See paragraph 6.4 for a discussion on Distributed Generation.
(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.	See paragraph 2.6 Consumer Engagement for an explanation of how NWL has sought the views of consumers.
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.	There have been no material changes to the pricing methodology since publication of the last methodology in 2013.
2.4.3 Every disclosure under clause 2.4.1 above must-	
(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;	Paragraphs 5.1 to 5.8 explain how prices were set for each consumer group, for both standard and non-standard contracts. The tables in Appendix 1 and 2 detail the statistics used to determine prices for each consumer group.
2) Demonstrate the extent to which the pricing methodology is consistent with	Appendix 3 details the consistency of NWL's pricing methodology with the Electricity Authority

the pricing principles and explain the reasons for any inconsistency between the pricing methodology and the pricing principles;	Pricing Principles and Information Disclosure Guidelines. NWL considers its pricing methodology to be fully consistent with these.
(3) State the target revenue expected to be collected for the disclosure year to which the pricing methodology applies;	The table in paragraph 3.6 shows the target revenue to be collected in the disclosure year 2013/14.
(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;	Again the table in paragraph 3.6 covers this.
(5) State the consumer groups for whom prices have been set, and describe- (a) the rationale for grouping consumers in this way; (b) the method and the criteria used by the EDB to allocate consumers to each of the consumer groups;	Paragraph 5.1 details consumer groups and the rationale for grouping consumers this way and the method and criteria that NWL has used to allocate consumers to each group.
(6) 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;	Note 1 of the table in Appendix 2 details this - fixed charges for all consumer groups have remained the same, however variable distribution and transmission charges have increased.
(7) 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;	Section 4, Revenue Factors describes the method that NWL has used to allocate target revenue amongst consumer groups. The table in Appendix 1 shows numerical values of the target revenue allocated to each overall consumer group. Once advanced meters are deployed on its network NWL expects to have a more detailed allocation of target revenue to different consumer groups.
(8) State the proportion of target revenue (if applicable) that is collected through each price component as publicly disclosed under clause 2.4.18.	This is not applicable as NWL does not have different revenue targets for price components. NWL's revenue is only targeted across consumer groups and not to a lower level.
2.4.4 Every disclosure under clause 2.4.1 above must, if the EDB has a pricing strategy-	This is section is not applicable as the Directors of NWL have yet to decide on any such pricing strategy. A pricing strategy will be devised in due course once advanced meters are fully deployed on the NWL network.
(1) 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;	Not applicable as above.
(2) Explain how and why prices for each consumer group are expected to change as a result of the pricing strategy;	Not applicable as above.

(3) If the pricing strategy has changed from the preceding disclosure year, identify the changes and explain the reasons for the changes.	Not applicable as above.
2.4.5 Every disclosure under clause 2.4.1 above must-	
(1) Describe the approach to setting prices for non-standard contracts, including-	
(a) 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;	There are 29 consumers on non-standard contracts. The value of target revenue from non-standard contracts is $1,908,599 for both distribution and transmission before the application of the non-discretionary discount – also see the table in Appendix 1.
(b) how the EDB determines whether to use a non-standard contract, including any criteria used;	NWL has a number of historic non-standard contracts. However, it now has a policy that it will not offer non-standard contracts to any new customers.
(c) 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 are consistent with the pricing principles;	The methodology for determining prices for non-standard contracts is detailed in paragraph 5.4 for distribution and 5.7 for transmission.
(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-	This is not applicable as NWL does not treat interruptions to non-standard contract consumers any differently to those on standard contracts.
(a) the extent of the differences in the relevant terms between standard contracts and non-standard contracts;	Not applicable as above.
(b) any implications of this approach for determining prices for consumers subject to non-standard contracts;	Not applicable as above.
(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-	Refer to paragraph 6.4 for a discussion of this.
(a) prices; and	Refer paragraph 6.4.

(b) value, structure and rationale for any payments to the owner of the distributed generation	Refer paragraph 6.4.

Appendix 5 - Schedules 17 Directors' Certificate

Network Waitaki Limited
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SCHEDULE 17
Certification for Year-beginning Disclosures
Clause 2.9.1 of section 2.9

We,

Clare Margaret Kearney
Anthony James Wood

being directors of Network Waitaki Limited certify that, having made all reasonable enquiry, to the best of our knowledge-

a. the following attached information of Network Waitaki Limited prepared for the purposes of clause 2.4.1, clause 2.6.1 and sub-clauses 2.6.3(4) and 2.6.5(3) 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.

Clare Margaret Kearney

Anthony James Wood

DATED: 24 March 2014