
April 2006 Public Disclosure of Pricing Methodology

This document relates to WEL's obligations under the Electricity (Information Disclosure) Regulations to disclose the methodology used to determine line charges by WEL Networks Limited ('WEL').

1. General Approach

WEL's pricing philosophy is based on the following pricing principles:

- Long-term stability and price reductions in real terms;
- Target the underperforming tariffs for price increases;
- Keep the charges inline with industry norms so that charges are not out of alignment with industry averages; and
- Ensure that increased costs are fairly allocated across all customers.

In December 2005 Transpower announced 19% increases in charges as from 1 April 2006. As a result WEL passed through the additional \$2.6m per annum in its published network charges dated 1 April 2006. Subsequently the Commerce Commission announced that this action would breach Transpower's pricing thresholds. In response Transpower has implemented an interim rebate pending the final outcome of the Commerce Commission action. Once Transpower finalises the rebate WEL has committed to pass back any rebate to its customers.

The approach to the price increases was to ensure consistency with industry practice and consistent returns over the tariff groups. This was undertaken through:

- a) The development of Cost Allocation Model that is designed to determine the returns from individual tariffs. This model allocates costs to those tariffs that are driving investment, maintenance and Transpower costs.
- b) A review of the proposed tariffs against industry tariffs is undertaken to ensure that the proposed changes will not take WEL out of alignment with standard industry charges.
- c) The use of discounts to reduce prices in order to meet our owner's strategic directive to reduce electricity prices. Our discount is a visible sign of our price reduction, which otherwise would be absorbed into the electricity retailers overall charges.

2. Consumer Groups Used

Four load groups are defined in the methodology. These groups relate to consumers taking supply at:

- 33kV
- 11kV
- 400/230V with demand metering
- 400/230V without demand metering (mass market)

The rationale for these consumer groups is that:

- The network is designed around a 33kV sub-transmission and 11kV distribution system that steps down to a low voltage (400V) distribution system. Customers who connect to the 33kV sub-transmission system do not utilise the low voltage network components and so are not charged for this infrastructure. These customers tend to be large industrial sites with significantly different load profiles to WEL's 11kV customers;
- 11kV customers do not use the low voltage network and so are only charged for the high voltage network;
- Customers on the 400V (low voltage network) are charged for the low and high voltage networks. These customers have half-hourly metering and so are able to be charged on a basis that more truly represents the cost they impose on the network; and
- Customers on the 400V (low voltage network) without half-hourly metering. This group comprises small business and residential customers.

3. Methodology of WEL's Cost Allocation Model

A cost model was developed to ensure the required returns were obtained from each tariff group. This was accomplished by allocating costs to tariffs by way of cost drivers.

a) Cost Drivers

Cost drivers are defined as the underlying factors that result in WEL incurring costs. These costs can be related to additional assets or operation costs. These underlying costs were determined after discussions internally, analysis of Transpower costs, discussions with other line companies and a review of industry best practice. These cost drivers have been used to determine the allocations in section 6.

b) Network Costs

Only costs and assets relating to the regulated line business were considered in the cost allocation model. These costs included administration, maintenance, return on capital, Transpower charges and depreciation. Costs shared between the regulated line business and other businesses are allocated in accordance with WEL's regulatory disclosure accounts.

c) Allocation of Costs to Tariffs

All the costs were broken down by type and then allocated to one or more cost drivers. Allocation the cost drivers was based on the nature and or service that a particular cost provided. Costs are then allocated to tariffs based on each customer group's proportion of the cost driver.

4. WEL Discount

WEL has announced a \$19.7M discount for the 2006/07 year that will be paid out to all customers on WEL's network as at 5pm on 31 March 2006. This discount is a \$14.7M increase on the \$5M discount that WEL has posted and that is presented in the attached tariff schedule.

The discount consists of two parts, a discount comprising 100% of fixed charges plus a proportion of the variable charge. The discount is capped at \$1500 per customer.

5. The Statistics Related to the Consumer Groups

Tariff Group	MWh	MW	Customers
33kV	34,648	1,657	4
11kV	247,716	28,165	157
400V	85,717	9,733	215
Demand	29,735	3,521	158
Std TOU	6,774	2,278	88
Streetlight	8,360	43	22
Mass Market	667,091	161,698	78,571
Totals	1,080,041	207,095	79,215

6. Allocation of Key Revenue Components

a) Allocation of Asset Related Costs

The asset related costs include:

- Total value of assets
- Network maintenance
- Depreciation on assets

These costs allocated as laid out in the table below.

Asset Group	Allocated to Customer Groups Based on the following allocation of costs		
	kWh	kVA	Other
33kVA Sub-transmission Network	50%	50%	
Zone Substations	40%	60%	
11kV Distribution Network	30%	70%	
Low Voltage Distribution Network	0%	100%	
SCADA and Communications	100%	0%	
Customer connection assets			100% allocated to customers numbers
Street Light Equipment			100% allocated to street light customers
Other Non-network Assets Plant And Equipment	100%		

Note: this table represents a summary page of an allocation of 35 asset groups.

The principle in allocating the asset related costs to the customer groups is that High Voltage customers do not pay for the low voltage network.

b) Allocation of Transpower Costs

Transpower costs are split and allocated as follows:

- Connection costs are allocated on the basis of kWh. The connection costs are allocated by kWh as the connection points of the Hamilton and Te Kowhai Substations are fixed cost and this method ensures a fair recovery of the costs over all customers.
- Peak demand charges are allocated on the basis of the customer groups contribution to WEL's 12-month rolling average peaks, as this peak determines the transmission charge.

c) Allocation of Administration and Operational Costs

Administration and operational costs are allocated based upon each load groups distributed volumes (kWh) across WEL's traditional network.

d) Return on Capital

Return on capital relates to the return required by WEL having regard to past investment and future capital expenditure requirements.

7. Components of Revenue Required to Cover Costs and Profits and Allocation of Costs to Consumer Groups

	33kV	11kV	400V TOU	Mass Market	Total
Capital	\$1.97M	\$20.06M	\$16.28M	\$180.15M	\$218.47M
Components of WEL's Revenue Requirement					
Depreciation	\$0.08M	\$0.8M	\$0.55M	\$5.66M	\$7.09M
Maintenance	\$0.06M	\$0.63M	\$0.36M	\$4.25M	\$5.30M
Transpower Charges	\$0.26M	\$2.95M	\$1.25M	\$11.41M	\$15.87M
Administration and Operations	\$0.2M	\$1.46M	\$0.68M	\$4.03M	\$6.37M
Return on Capital	\$0.29M	\$3.55M	\$3.33M	\$21.71M	\$28.89M
Total	\$0.89M	\$9.39M	\$6.17M	\$47.06M	\$63.51M

Note: The revenue shown above has been adjusted for the discount published in the tariff schedule. These figures do not include the additional non-posted discount.

As stated previously, WEL has announced that it will pay a \$19.7M discount, which is \$14.7M greater than the posted discount, as a consequence the return on assets is 4.7% post tax.

8. Variable to Fixed Split

WEL's discount covers 100% of all fixed charges so that all WEL customers effectively pay no fixed costs. The WEL discount will be paid back to all customers connected to the WEL network on 31 March 2006.

For load groups with demand meters, approximately half the variable revenue is recovered over the maximum monthly demand in peak time hours and half over energy delivered.

For low voltage consumers not paying on a demand option, customers are charged a variable rate and a fixed rate. The fixed charges to this customer group are effectively zero when the network discount is applied.

9. WEL External Embedded Networks

WEL external embedded networks are priced using the same methodology but are priced separately from WEL's traditional network, as they incur different cost drivers and risks. Future tariffs on these networks are likely to be adjusted to reflect the incumbent line company transmission charges and the return on the WEL capital investment of each embedded network. The external embedded networks represent 0.4% of WEL's total line revenue.

10. Miscellaneous

A charge for reactive energy where power factors are below 0.95 is levied to encourage power factor correction investment.

A rebate reflecting the average cost of investment avoided is given where consumers own the transformers on their premises.

1 April 2006 Tariff Changes for WEL's Traditional Network

(a) Under 0.25GWh/year

Residential and Small Commercial Customers				
	Standard Line Services	Lines Charges Effective 1 April 2006		
Code	STANDARD LINE CHARGES	Line Charge	Transpower Component	WEL Networks Component
501	Fixed Charge - Standard (c/day)	13.96	0	13.96
	PLUS Consumption Based Charge			
502	Continuous Supply (c/kWh)	8.54	2.15	6.39
503	Controlled Supply (c/kWh)	1.98	0.43	1.55
	Less WEL Discount			
501D	Annual Fixed Discount (c/day) - applies to Code 501	-9.91	0	-9.91
502D	Annual Discount Continuous Supply (c/kWh) - applies to Code 502	-0.46	0	-0.46
503D	Annual Discount Controlled Supply (c/kWh) - applies to Code 503	-0.06	0	-0.06

(b) Over 0.25GWh/year

Medium and Large Commercial Customers				
	Demand Line Services	Lines Charges Effective 1 April 2006		
Code	STANDARD LINE CHARGES	Line Charge	Transpower Component	WEL Networks Component
504	Fixed Charge (\$/mth)	48.92	0	48.92
	PLUS Consumption Based Charge			
505	Summer Peaktime Demand Weekday (\$/kW/mth)	6.99	1.91	5.08
605	Winter Peaktime Demand Weekday (\$/kW/mth)	9.69	2.73	6.96
506	Continuous Supply (c/kWh)	2.87	0.42	2.45
	Less WEL Discount			
504D	Annual Fixed Discount (\$/mth) - applies to Code 504	-38.33	0	-38.33

Large Commercial and Industrial Customers				
	Over 0.25 GWh/year	Lines Charges Effective 1 April 2006		
Code	STANDARD LINE CHARGES	Line Charge	Transpower Component	WEL Networks Component
517	Fixed Charge (\$/mth)	48.92	0	48.92
	PLUS			
509	33 kV Summer Peaktime Demand Weekday (\$/kW/mth)	3.75	1.00	2.75
609	33 kV Winter Peaktime Demand Weekday (\$/kW/mth)	5.71	1.57	4.14
512	11 kV Summer Peaktime Demand Weekday (\$/kW/mth)	5.98	2.44	3.54
612	11 kV Winter Peaktime Demand Weekday (\$/kW/mth)	8.28	3.38	4.90
514	400 V Summer Peaktime Demand Weekday (\$/kW/mth)	6.97	1.76	5.21
614	400 V Winter Peaktime Demand Weekday (\$/kW/mth)	9.65	2.52	7.13
	PLUS			
510	33 kV Continuous Supply (c/kWh)	1.37	0.39	0.98
513	11 kV Continuous Supply (c/kWh)	1.75	0.42	1.33
515	400 V Continuous Supply (c/kWh)	2.44	0.42	2.02
	Less WEL Discount			
517D	Annual Fixed Discount (\$/mth) - applies to Code 517	-38.33	0	-38.33

Street Lights				
	Continuous Supply	Lines Charges Effective 1 April 2006		
Code	STANDARD LINE CHARGES	Line Charge	Transpower Component	WEL Networks Component
520	Street Lights (c/kWh)	6.80	0.48	6.32