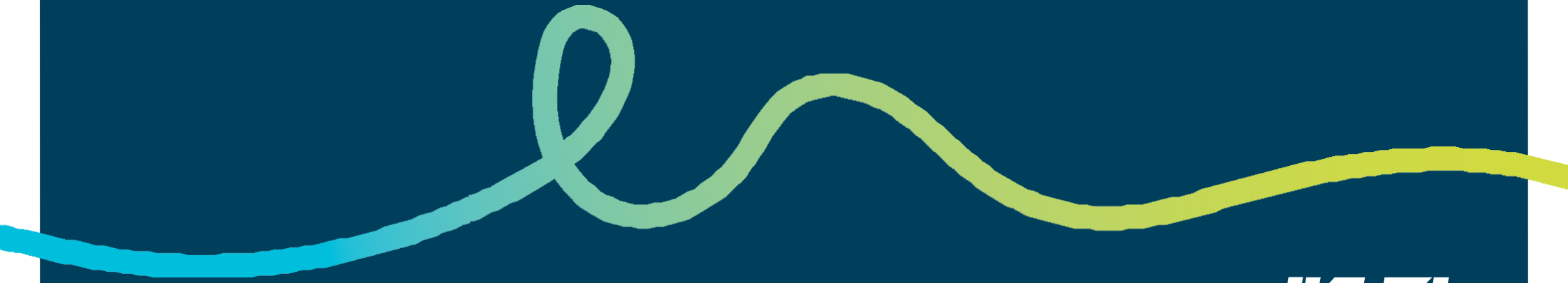
Pricing Methodology Disclosure 2023/24



20 February 2023

WEL Networks

Revision Overview

DATE	VERSION	CHANGES
28/2/13	1.0	Initial publication
27/2/14	2.0	New section on charge structure. Revisions to cost allocators; introduced new standard charge for residential and small scale distributed generation customers; structural changes made to posted discount and merged customer groups for 400V customers with a fuse capacity above 160amps.
19/1/15	3.0	Revision to 'Customer Groups' section and associated illustration following changes in customer group terminology, criteria and structure; revision to cost allocators and associated tables in the 'Cost Model' section; Revision to 'Key Statistics and Assumptions', 'Price changes' and 'Consultation' section following 2015/16 price changes.
23/2/16	4.0	Revisions to section 6 to reflect the introduction of smart pricing and clarify the description of our price structure. Other minor revisions have been made throughout to adopt standard industry terms and improve readability.
23/2/17	5.0	Revision to section 6 to include the introduction of a customer nominated capacity charge and an excess demand charge for Large Customers. Update of WEL's pricing strategy in section 13 and the inclusion of WEL's Road Map for future pricing.
21/2/18	6.0	Update of Figure 1 - 'Customer groups' to reflect new structure and price categories. Section 7.2 'Posted Discount' removed. Section 13.1 'Changes to the Pricing Strategy' removed. Table 7 - 'WEL Future Pricing Road Map' removed.
20/2/19	7.0	Sections 4 and 14.2 to reflect no pricing structural changes.
18/2/20	8.0	Revisions to section: 3 to incorporate the new distribution pricing principles, 4, 5, and 6 to incorporate structural pricing changes, 11 to incorporate removal of SSDG price categories, 12 and 13 to outline consistency with new pricing principles, 14 to discuss most recent retailer consultation.
26/2/21	9.0	Revisions to sections: 4, 7, 9, and 13, and tables 3, 5, and 6. Incorporated the reintroduction of the discount.
28/2/22	10.0	Updates and revisions to sections: 4, 5, 7.2, 8, 9, 13.2, and 14.1, and tables 3, 4, 5, and 6. Incorporated WEL's Pricing Reform Roadmap.
20/2/23	11.0	Revisions to most sections. Major revisions include: incorporation of additional network background and constraints, incorporation of new allocations, incorporation of new TPM, update on target revenue setting methodology, alignment with Electricity Authority's pricing reform expectations, and incorporation of visual roadmaps.

Executive Summary

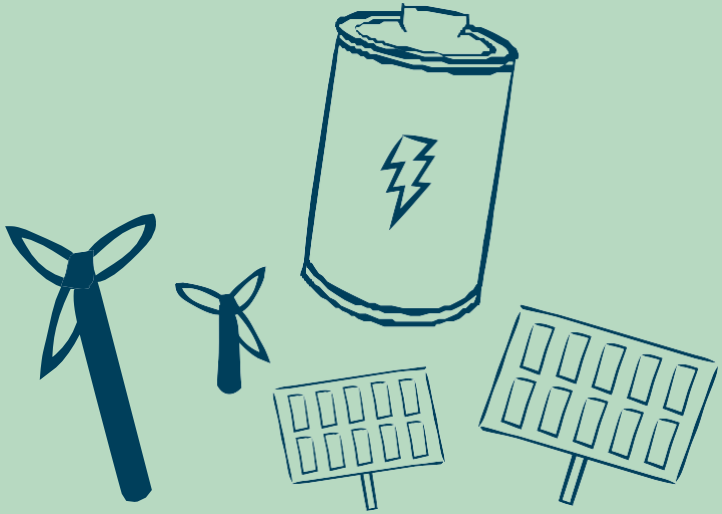
This Pricing Methodology sets out the approach used by WEL Networks Ltd. (WEL) to determine our price structure and set our prices for 2023/24. It has been prepared to meet the requirements of the Commerce Commission's *Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012*, and it has been prepared in accordance with the Electricity Authority's updated *Distribution Pricing: Practice Note v2.2 published in October 2022*. In determining our prices, WEL has also had regard to the requirements of the *Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004*, and the consultation requirements in the *Electricity Industry Participation Code 2010*.

WEL has set prices for the year beginning 1 April 2023 based on an allocation to customer groups of the costs of owning and operating its network. The customer groups determined by WEL are based on the level of service received by the customer, which is in turn determined by their demand profile and associated asset requirements. WEL uses the following criteria to distinguish between levels of service received by our customers:

- The voltage at which the customer is connected;
- The customer's fuse capacity;
- For small customers (connected at 400V, with a fuse capacity of less than 110kVA) the principal use of their property; and
- For a customer's principal place of residence, whether the customer has chosen their retailer's low user pricing plan.

Our cost allocation model uses cost drivers, such as annual energy consumption and measures of anytime maximum demand, to allocate costs to customer groups. These allocators were chosen based on WEL's assessment of each customer group's influence on costs, such as investment, maintenance, and transmission charges. WEL has focused on matching an allocator to each of the cost categories in a manner that best reflects the Electricity Authority's pricing principle 'Prices signal the economic costs of supply', subject to the availability of information, administrative simplicity, and regulatory compliance.

While our cost allocation model is an important factor in setting prices, it is not simply a mechanical exercise of applying the model annually as this could lead to volatility in prices. Other factors that influence our approach to pricing include: ensuring customers do not experience excessive price shocks, ensuring revenue adequacy, and maintaining logical relationships between price categories. WEL also has a small number of customers with individual pricing agreements, reflecting the cost of assets used specifically by those customers.



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1. Background

1.1. WEL Overview

WEL Networks is locally owned with one shareholder: the WEL Energy Trust. The capital beneficiaries are the region's local councils: Hamilton City Council, Waikato District Council, and Waipa District Council. Being community owned, the Trust is able to use the income it receives to benefit the community that WEL serves.

WEL is committed to delivering on its vision to "Create and support an innovative and sustainable energy future". This is evidenced by our public disclosures and corporate initiatives which deliver value and enable our communities to thrive.

Our Purpose

Enabling our ***communities to thrive***

Our Vision

To create and support an ***innovative and sustainable energy future.***

Our Values

A **Agile**

We listen to ideas; we explore opportunities, and we adapt to changing situations with an open mind. When change is needed, we make sure we understand why, and we make it work. We are flexible and we respond professionally to change.

B **Build the business**

We make sure our day-to-day activity is sound while exploring ways to improve the way we work or things we do. We often ask, "is there a better way to do this?" and we investigate options.

C **Care for each other, the customer and our assets**

We work as a team across the business to do things the right way. We treat others with respect, listening to their needs so we can deliver a safe and reliable service to our communities.

D **Do the right thing**

We make decisions with integrity and when we can, we help others make the right decision for their situation. We are open, honest, and trustworthy. We speak up if we feel we should and we listen to others.

E **Every Day - Home Safe**

We lead by example to keep ourselves, our workmates, and our communities safe. We use the right equipment; we challenge unsafe acts, and we say no if we think it is not safe.

1. Background

1.2. Network Overview

The core business of WEL is the provision of electricity distribution services in the Waikato region. As an electricity distribution company, WEL owns and maintains the electricity network of lines, cables, substations, and associated infrastructure. Our network connects over 99,000 customers (a small number of whom are generators) to the national transmission and generation facilities and includes more than 6,500 kilometres of lines and has an annual throughput of over 1,300 GWh. WEL owns, maintains, and operates over $675 million of electricity network infrastructure. Hamilton City is at the centre of our coverage area which extends to Maramarua in the north and across to the west coast. Our network also incorporates the townships of Huntly, Raglan, Te Kauwhata, and Ngaruawahia.

As well as providing a distribution service to our traditional network area, WEL has competitively tendered for electricity distribution services in major subdivisions in New Zealand. We supply subdivisions in Auckland, Cambridge, and Warkworth.

Peak demand is one of the primary drivers of WEL's network development investment and our forecast of peak demand is a key input informing the expected timing for growth driven investment. We expect system demand to increase modestly over the next ten years as shown in the GXP demand forecast (MVA) table below. Forecast constraints are indicated with (*).

GXP	Security	Firm Capacity	2024	2025	2026	2027	2028	2029	2030	2031	2032	2032
Hamilton 11kV	N-1	44	37	39	39	40	41	42	43	44	45*	47
Hamilton 33kV	N-1	132	132*	134	137	140	144	147	152	157	154	161
Huntly 33kV	N-1	82	31	32	33	34	35	37	39	41	49	52
Te Kowhai 33kV	N-1	136	91	93	97	99	102	104	107	110	115	118
System Peak (#)			**278**	**283**	**292**	**299**	**307**	**317**	**328**	**340**	**352**	**363**

(#) System Peak at 99.5% design percentile

WEL's system peak demand forecast shows a need to augment the supply capacity at the Hamilton GXP. To manage this constraint we plan to engage with Transpower, as well as reinforce and reconfigure the subtransmission network to transfer load to Te Kowhai and Huntly GXP's.

1. Background

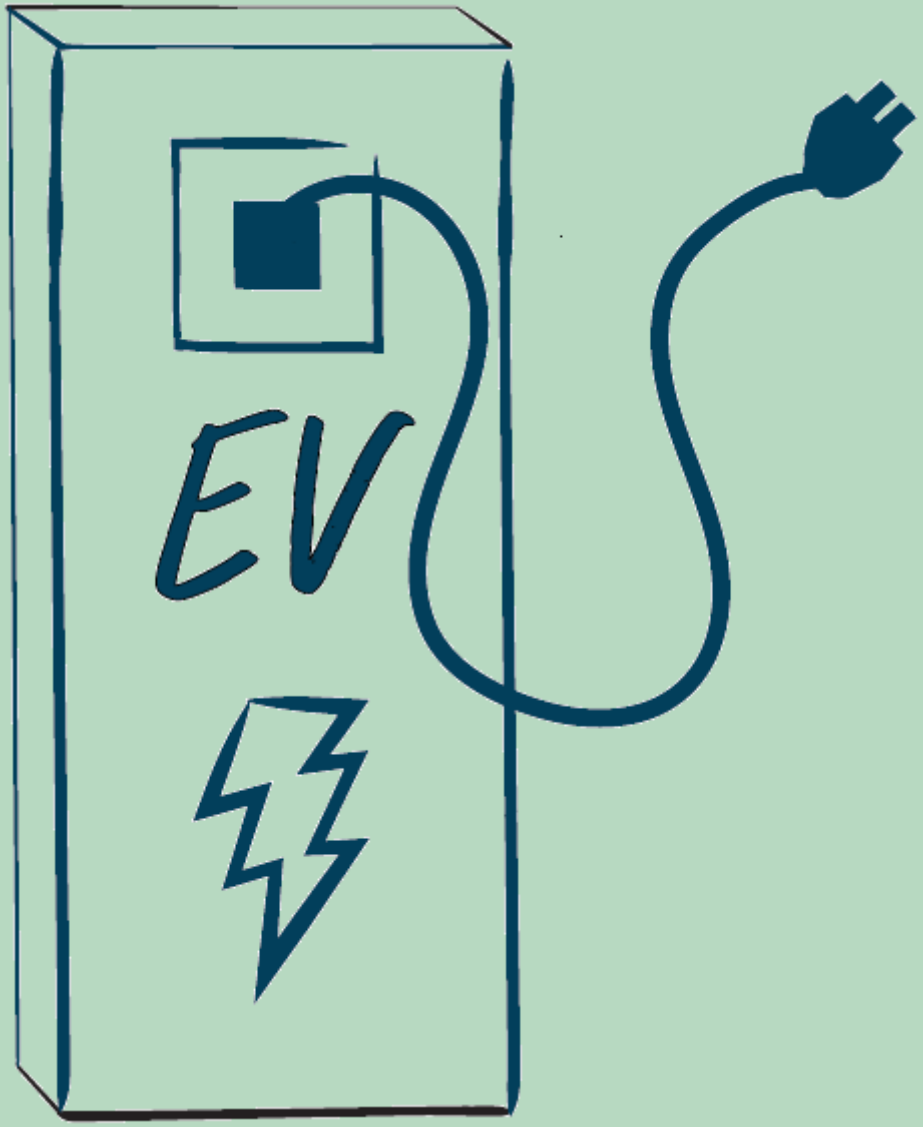
1.3. Pricing Methodology Overview

This Pricing Methodology sets out the approach used by WEL to determine our price structure and set our prices for 2023/24. It has been prepared to meet the requirements of the Commerce Commission's Commerce Act *(Electricity Distribution Services Information Disclosure) Determination 2012*, and it has been prepared in accordance with the Electricity Authority's updated *Distribution Pricing: Practice Note v2.2 October 2022*. In determining our prices, WEL has also had regard to the requirements of the Electricity *(Low Fixed Charge Tariff Option for Domestic Consumers)* Regulations 2004, and the consultation requirements in the *Electricity Industry Participation Code 2010 (the Code).*

The Commerce Commission's ID Determination requires WEL to publicly disclose, before the start of each financial year, a pricing methodology which:

- describes the methodology used to calculate the prices payable or to be payable (sections 6, 7 & 8);
- explains the rationale for customer groupings (section 5);
- describes any changes in prices and target revenues (sections 4, 8 & 9);
- explains the approach taken with respect to pricing in non-standard contracts and distributed generation (sections 10 & 11);
- describes the consistency of the approach taken with the pricing principles and explains WEL's pricing strategy (sections 12 & 13); and
- explains how the views of customers were sought, including their expectations in terms of price and quality, and reflected those views in calculating the prices payable or to be payable (section 16).

This document describes the allocation of costs, and the resulting structure and level of WEL's prices for electricity distribution and transmission services. These prices form only a part of overall electricity prices paid by customers to their electricity retailer. Queries about final consumer prices should be addressed to the applicable retailer.



2. Definitions

TERM	DEFINITION
AMI - Advanced metering infrastructure	A meter that records electricity used in half-hourly values (rather than a cumulative record). Advanced meters have communication features, eliminating the need for physical meter reading. Also known as a 'smart meter'.
AMD	Anytime Maximum Demand – the maximum demand of a customer or group of customers recorded at any time.
CMD	Coincident Maximum Demand – the demand of a customer or group of customers at the time total demand on the network is at its peak
Code	The Electricity Industry Participation Code 2010
DPP	Default Price-quality Path – price-quality regulation set by the Commerce Commission for non-exempt suppliers of electricity lines services
EDB	Electricity Distribution Business
External network	An electricity network owned by WEL located outside WEL's traditional network, they are located in Auckland, Cambridge and Warkworth.
GWh	Gigawatt hour
GXP	Grid Exit Point – a point of connection to the transmission network
ICP	Installation Control Point – the customer's point of connection to WEL's network. There is generally a meter at each ICP.
ID Determination	Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012
kVA	Kilovolt ampere
kWh	Kilowatt hour
MWh	Megawatt hour
Parent network	The distribution network (owned by another EDB) to which WEL's external network is connected.
Pricing principles	The Electricity Authority's Distribution Pricing Principles
RCPD	Regional Coincident Peak Demand – the measure used to determine Interconnection charges under the previous TPM
SSDG - Small scale distributed generation	Generation installation connected to the distribution network with a nameplate capacity of 10kW or less
TOU	Time of Use – consumption of electricity based on the time of consumption
TPM	Transmission Pricing Methodology

3. Overview of Pricing Influences

WEL's current cost allocation model is an important factor in setting prices; however it is not simply a mechanical exercise of applying the modelled outcome annually as this could lead to volatility in prices. Other factors that influence our approach to pricing include: ensuring customers do not experience price shocks, ensuring revenue adequacy, and maintaining logical relationships between price categories.

WEL maintains a robust Capital Contributions Policy which is used to economically model new and modified connection applications. This means customers pay their locational economic cost at the time of connection.

Given these considerations, the level of target revenue that is actually collected from a customer group will not necessarily be identical to the level of costs the model attributes to that group. It is WEL's intention that through the pricing revision each year WEL's prices and pricing structure will approximate the modelled revenue allocation, over time, in a way that is consistent with the pricing principles.

WEL has used the Authority's distribution pricing principles to form its pricing methodology. In section 12 we describe the extent to which we consider the resulting pricing methodology is consistent with the pricing principles.

3.1. Distribution Pricing Principles

Efficient distribution pricing is for the long-term benefit of consumers. Distribution pricing is important as it affects how consumers use electricity, how distributors and others manage load, when distributors invest in new (or replacement) poles and wires or network alternatives, and the timing, level and location of everyone's investments in new technology, such as distributed energy resources or demand management.

In 2019 the Electricity Authority published the distribution pricing principles below, to set clear expectations for efficient distribution prices.

a) **Prices are to signal the economic costs of service provision, including by:**
   - i. being subsidy free (equal to or greater than avoidable costs, and less than or equal to standalone costs);
   - ii. reflecting the impacts of network use on economic costs;
   - iii. reflecting differences in network service provided to (or by) consumers; and
   - iv. encouraging efficient network alternatives.

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.**

c) **Prices should be responsive to the requirements and circumstances of end users by allowing negotiation to:**
   - i. reflect the economic value of services;
   - ii. enable price/quality trade-offs.

d) **Development of prices should be transparent and have regard to transaction costs, consumer impacts, and uptake incentives.**

4. Changes to the Previous Pricing Methodology

The main changes to this year's Pricing Methodology compared to the previous year, are outlined in the following sections.

4.1. Pricing Reform Alignment

During the past year, we have worked to incorporate the Authority's pricing scorecard feedback and expectations outlined in open letters, into our Pricing Methodology Disclosure. We have also reviewed the Disclosures of those distributors which scored highly in prior pricing scorecard assessments. By better understanding 'what good looks like', we were able to adapt our pricing reform thinking and better explain how the pricing reform progress we are making aligns with the Authority's expectations.

We created section 15 to go into greater detail on our progress thus far, and future intentions, regarding the Authority's five areas of pricing reform focus.

4.2. Pricing Reform Roadmap

We have created two new visual representations of our pricing reform roadmaps. Section 14.1 shows the work we have undertaken to date to reform our pricing. Section 14.2 outlines the current pricing reform work we are undertaking and what we will continue to pursue into the future. Many of the action items detailed in Section 14.2 are the result of a review of our pricing methodology and structure. We determined that parts of our current methodology and pricing structure do not align well with the Pricing Principles. This helped us to understand where we were recovering revenue rather than signalling the economic costs of network use.

This area highlights our workstreams which aim to rectify inefficient pricing, such as:

- Transitioning mass market price categories from blanket TOU prices to targeted prices signalling network constraint or congestion (if any)
- Transitioning away from largely variable, towards largely fixed charges. In particular this stream focuses on winding down the peak demand prices for large customers (over 110kVA), in favour of fixed (or fixed-like) charges
- Transitioning from a cost allocation to an economic cost recovery model. Although this is a large and complex piece of work, it is necessary to ensure our pricing is cost-reflective.

4.3. Update of Allocation Methodology

With transmission charges from the new TPM beginning to take effect from 1 April 2023, we used the transition to update our allocation methodology. We found that many of the previous allocations were leading to costs being recovered in ways which would distort usage behaviour beyond the signal we were trying to send.

Table 2 in section 7 outlines our updated allocations. Many have changed from allocating based on Coincident Maximum Demand (CMD) to Anytime Maximum Demand (AMD).

4.4. New Target Revenue Setting Methodology

During 2022 WEL investigated, evaluated, and finally adopted a new approach to setting target revenue. The approach chosen was the Building Blocks Allowable Revenue (BBAR) methodology used by the Commerce Commission to determine non-price quality exempt distributors' maximum allowable revenues.

The adoption of this methodology was used to set WEL's target revenue for 2023/24 and represents a marked improvement to the maturity of how we generate return on investment.

5. Customer Groups

WEL determines customer groups based on the level of service received by the customer. The criteria used for allocating customers to these groups are chosen as proxies for the service level and reflect groupings with distinct demand profiles and associated asset requirements:

- The voltage at which the customer is connected;
- The customer's fuse capacity;
- For small customers (connected at 400V, with a fuse capacity of less than 110 kVA) the principal use of their property and whether they have installed generation capable of exporting into WEL's network; and
- For a customer's principal place of residence, whether the customer has chosen their retailer's low user pricing plan.

WEL considers that these criteria accurately reflect its cost drivers within regulatory constraints.

The following definitions distinguish mass market customers:

A ***residential customer*** (price category 1153/1154, 1153C/1154C) is a customer or small scale distributed generator with a fuse capacity less than 110 kVA, a connection voltage of 400V or less, and that the connection is for the purpose of supplying electricity to premises that are used or intended for occupation principally as a place of residence, and excludes those premises described in section 5(c) to (k) of the Residential Tenancies Act 1986. These criteria reflect the typical characteristics of a household; customers with larger fuse capacity or higher connection voltage typically require electricity for some other purpose than residential use.

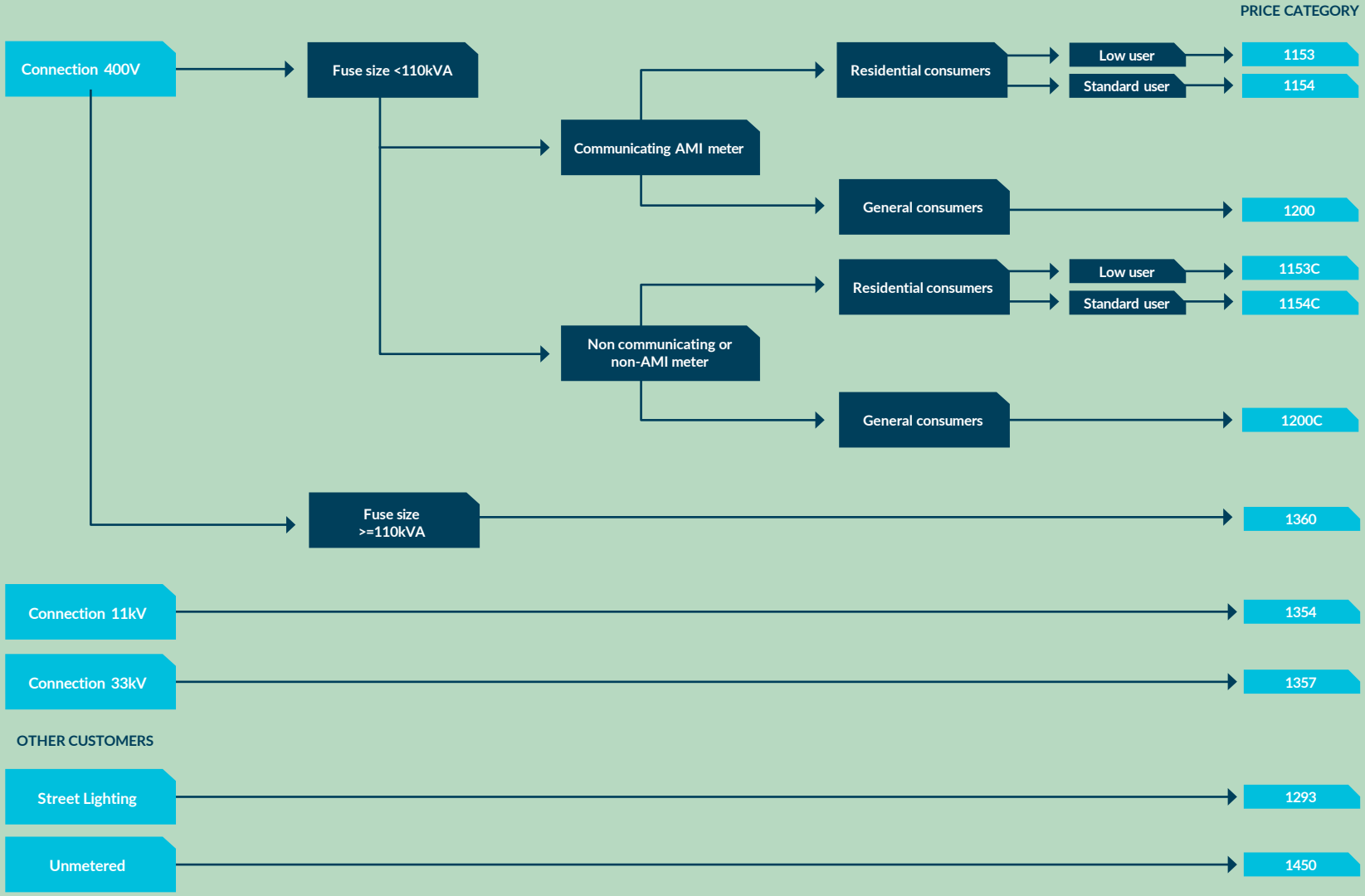
A ***general customer*** (price category 1200, 1200C) is a customer or small scale distributor with a fuse capacity less than 110 kVA, connection voltage of 400V or less, and is not a residential customer.

A ***low user customer*** (price category 1153/1153C) is a residential or small scale distributed generation customer who has nominated the retailer's low user pricing plan and the premises must be the customer's principal place of residence. For the avoidance of doubt, eligibility for low user pricing options excludes holiday homes and buildings that are ancillary to a customer's principal place of residence.

A ***standard user*** plan (price category 1154/1154C) applies to all other residential (non-low user) and residential small scale distributed generation customers.

The diagram on the following page illustrates the characteristics of each customer group and shows how price categories have been derived:

FIGURE 1 - **CUSTOMER GROUPS**



5.1. Low Fixed Charge Tariff Regulations

The Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004 outlines the fixed daily price which electricity distributors must offer residential customers who have opted for a low-user price category. Historically, this price was capped at no more than 15 cents per day (excluding GST). In December 2021, amendments were gazetted allowing for a gradual phase out of the LFC regulations. These amendments allow WEL to increase the fixed daily price to not more than 45 cents per day (excluding GST) for the year beginning 1 April 2023.

WEL has standard fixed charge categories in addition to the low fixed charge price categories. The variable prices for customers on low fixed charge categories is such that an average customer who consumes 8,000kWh pays no more in total per year on these options than the same customer would on any alternative option that is available to them.

It is a requirement of WEL's price group category criteria that an ICP must be a principal place of residence and the customer must also have nominated the retailer's corresponding low user price plan to be eligible for WEL's low fixed charge price categories.

6. Current Price Structure

WEL's current price structure was designed to reflect the historic economic costs of providing services to its customers. Recognising that the economic cost drivers of the network have changed over time, we have outlined the steps we are taking to align our price structure to these economic costs in our future roadmap (section 14.2). Our current structure recognises the varying patterns of consumption from each of the different groups of customers within the network. Some of the costs are fixed, that is they do not vary with the level of output in the short term, and are based on the level of installed capacity; some costs vary depending on consumption patterns.

WEL's price structure is similarly split into fixed and variable prices. Fixed prices are levied on a per day basis. Variable prices are typically based on the volume of electricity used for mass market customers. For Large Customers the average of the six highest periods of demand each month (during WEL's network peak time periods) is used as a variable charge and their nominated capacity as the primary fixed charge. These prices reflected the historical economic costs pertaining to the customer's time of consumption and demand profile (Transpower Interconnection Charges).

WEL uses a selection of variable prices for each customer group based on the characteristics of the groups economic cost drivers:

- ***Uncontrolled Supply Prices:*** are prices that apply to electricity supply that is continuously available under normal operating circumstances. Prices may be time of day dependent. The price is multiplied by the volume of energy used, measured in kilowatt hours (kWh), in the corresponding time periods. This is applicable to anytime or across peak, shoulder and off-peak prices. Where prices are applied based on peak, shoulder and off-peak time periods, WEL offers lower prices for consumption when there is expected to be spare capacity on the network (i.e. off-peak).
- ***Controlled Supply Prices:*** are prices that apply to the electricity supply that is capable of being interrupted (switched off) by WEL using remote technology for up to eight hours a day. The price is multiplied by the volume of energy used, measured in kilowatt hours (kWh). The ability for WEL to reduce peaks by controlling load (i.e. switching off supply) is valuable to WEL, and this is reflected in lower prices for supply to controllable load. This type of supply is typically connected to hot water cylinders and other appliances nominated by the customer. To be eligible, this supply must be metered separately from any uncontrolled supply. Combined metered supplies (uncontrolled and controlled) will be charged at the uncontrolled price.
- ***Peak Demand Price:*** A price that is applied based on the average of the six highest recorded demand (kVA) periods by a Large Customer in six individual half hour periods during WEL's peak periods each month. There is a price for the winter months (1 May to 30 September) and a price for the summer months (1 October to 30 April).
- ***Reactive Energy Price:*** The reactive energy price is only applied to Large Customers and non-standard contract connections. It is charged on the volume of reactive energy (kVARh) used when the customer's power factor is less than 0.95 within a half hour time period. A low power factor requires a greater supply of reactive energy, which increases the need for network capacity.

6. Price Structure cont

- ***Capacity Price:*** A capacity price is applied to the nominated capacity (kVA) for Large Customers and non-standard contracts. Customers with higher capacities represent a larger requirement for investment in network assets to ensure the stability of the network. The capacity charge is designed to ensure equitable distribution of this extra investment cost.
- ***Excess Demand Price:*** An excess demand price is applied when a Large Customer exceeds their nominated capacity in any half hour during the billable month. The excess demand charge is to ensure customers nominate accurately and customers' charges reflect their fair use of the network.
- ***Transformer Rebate:*** A transformer rebate is paid to medium (11kV) and high voltage (33kV) customers who own their own transformer(s) to reflect the reduced cost to WEL to supply that customer. This rebate is applied to demand recorded in a meter and is represented as a rebate ($) per kVA per month.

7. Cost Allocation Model

The key purpose of the cost allocation and design model is to ensure that the prices for each customer group reflect the economic cost of serving that group. This section outlines this allocation process and the rationale for the choice of cost allocators.

The model allocates each cost category (Table 2) to customer groups based on the chosen allocator (Table 1). These costs are aggregated to give modelled revenue for each customer group. This is used to derive a set of model prices for each customer group (comprising fixed and variable prices). WEL uses these prices as the basis for final prices.

WEL reviews the price changes as indicated by the cost model against the pricing principles taking into account the undesirability of price shocks, the need to ensure revenue adequacy (and mitigate revenue risk) for WEL, and the desire to maintain logical relationships between price categories prior to settling on the final price changes.

The final prices and forecast volumes are then combined to derive target revenue for each customer group (Table 5).

7.1. Method of Cost Allocation

The choice and application of cost allocators involves a degree of judgment. The cost allocation and price design model allocates costs to customer groups based on WEL's assessment of customer influences on investment, maintenance, service, and Transpower costs. WEL also monitors prices of other EDBs to ensure that WEL's prices are broadly aligned with industry norms.

Utilisation of assets provides a useful basis for allocating many of our costs. Assets are allocated to different customer groups depending on their point of connection to the network. So, for example the low voltage asset costs are not allocated to high voltage customers.

WEL focuses on matching an allocator to each of its cost categories in a manner that best reflects the pricing principle that prices should reflect the economic costs of supply, subject to the availability of information, administrative simplicity, and regulatory constraints.

The table below describes the allocators that WEL uses in its cost allocation and price design model. Anytime maximum demand (AMD) is now our primary measure of asset utilisation. AMD provides information about the capacity of assets required by a specific customer group at any time.

TABLE 1 - **DESCRIPTION OF COST ALLOCATORS**

ALLOCATOR	DESCRIPTION	FORMULA
ENERGY	The annual consumption of all customers in that group as a proportion of the total.	$\frac{MWh_c}{MWh_{total}}$
AMD	Measures the anytime maximum demand (AMD) of a customer group as a proportion of the total. AMD may occur in different time periods for different customer groups. An allocation is made to customer groups based on the design capacity of the network.	$\frac{AMD_c}{AMD_{total}}$

NOTE: c = Customer Group

The table below outlines each cost category, the allocator used by WEL to allocate that cost to customer groups and the rationale for choosing that allocator. The allocator with the strongest relationship to cost causation has been used.

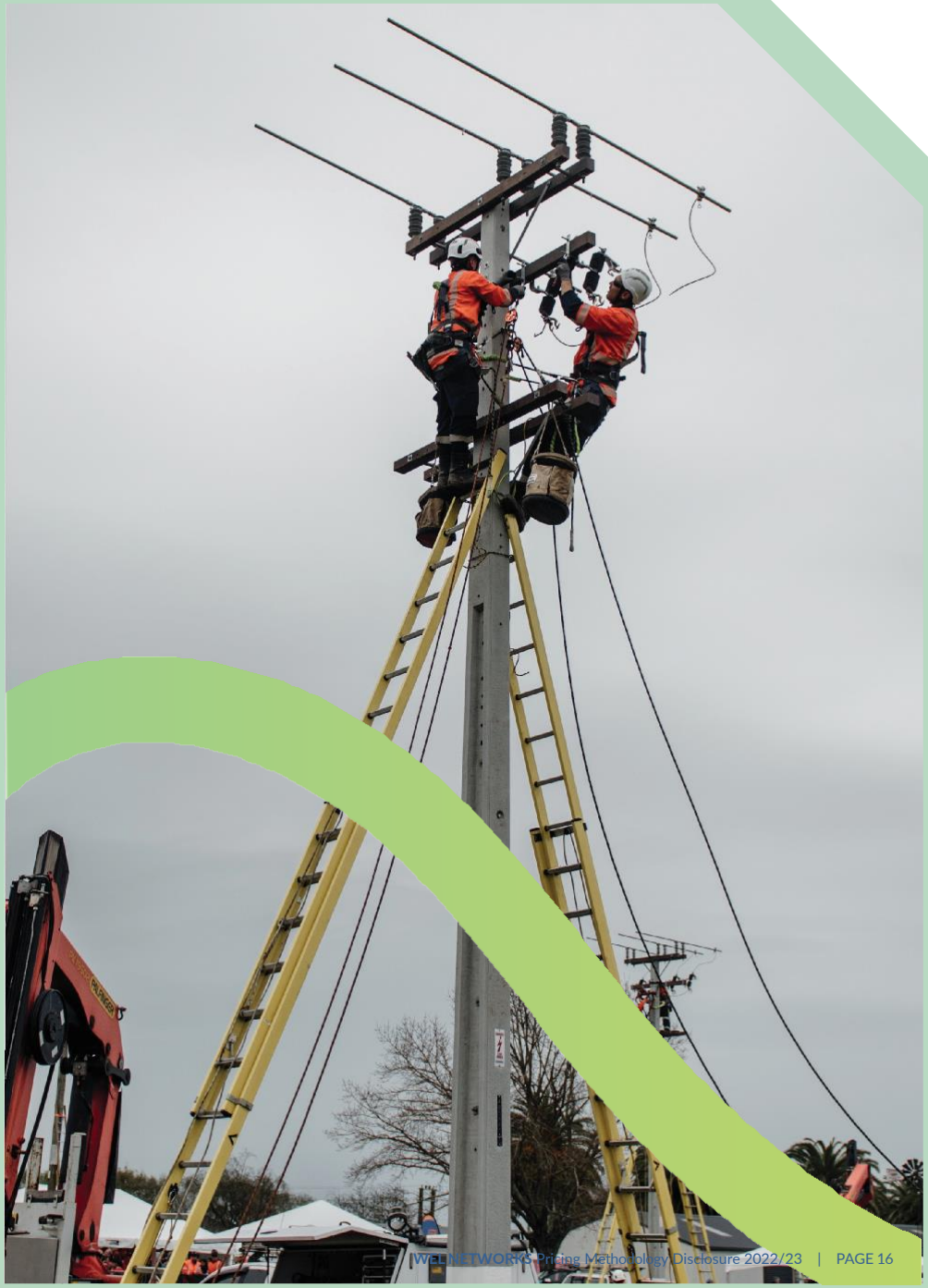


TABLE 2 - **RATIONALE FOR THE CHOICE OF COST ALLOCATOR FOR EACH KEY COMPONENT OF REVENUE**

KEY COMPONENT	ALLOCATOR USED IN COST MODEL	RATIONALE
Net profit after tax	AMD	Net profit after tax is allocated on the basis of the asset utilisation of each customer group (their anytime peak). This reflects the capacity of the assets employed, on which a return is sought.
Maintenance	AMD	WEL considers that the incidence of maintenance costs is best represented through customers' contribution towards the assets' overall utilisation. Maintenance costs are first attributed to the low, medium, and high voltage network, then the cost of each part of the network is allocated based on AMD.
Depreciation	AMD	Depreciation accounts for the cost of assets. These costs are therefore allocated based on asset utilisation by each customer group (their anytime peak). Depreciation costs are first attributed to the low, medium, and high voltage network, then the cost of each part of the network is allocated based on AMD.
Operating expenditure	AMD	WEL's operating expenditure includes staff and lease costs, printing, postage, rates, and motor vehicle expenses. These costs are allocated based on AMD as WEL's operating cost structure is largely fixed and is related to network capacity.
Tax & Interest	AMD	Allocated on the same basis as net profit after tax, as tax is directly related to profit.
Electricity Authority and Commerce Commission levies	Energy	These levies are based on the volume of energy distributed; this allocator therefore reflects the basis of these levies.
Transpower – transmission charges	AMD	In line with the guidance published by the Authority, we will be allocating the transmission charges from the new TPM using historical AMD.

7.2. Discount

WEL operates an annual discount scheme. In terms of disclosure requirements, the discount must create a firm commitment by WEL, prior to the beginning of the annual pricing year, to paying a discount after that pricing year has ended. For transparency and compliance, WEL includes this commitment as part of our Published Price Schedule and the Pricing Methodology disclosure.

The rationale for the discount scheme is that WEL Energy Trust (the owner of WEL Networks) asked WEL to investigate options for reinstating an annual discount. The methodology that has been adopted ensures WEL publishes a firm commitment to pay a discount, but basing the discount on a percentage of lines revenue gives WEL some flexibility in the case of an unforeseen economic downturn affecting WEL's ability to pay a fixed amount.

The discount for the pricing year 1 April 2023 - 31 March 2024 is 10.2% of gross lines revenue, up to a maximum of $12.450M (excluding GST). The discount will be calculated based on each eligible connection. To be considered eligible, a connection must be active and non-vacant as at 5pm 31 March 2024.

The discount will be calculated based on a percentage of each eligible connections' total lines charges for the 12 months from 1 March 2023 – 28 February 2024, subject to a maximum cap of $200 (excluding GST) per connection.

WEL is committed to pay a discount of 10.2% of gross lines revenue, up to a maximum of $12.450M (excluding GST), based on a percentage of the previous 12 months of each connections' lines charges, up to a maximum cap of $200 (excluding GST) per connection.

The discount is forecast to be paid in April 2025.

8. Key Statistics and Assumptions

The tables below represent the breakdown of WEL's Target Revenue for 2023/24 into key cost components, by customer groups and by each of the price components as published in the 2023/24 Price Schedule.

During 2022 WEL investigated, evaluated, and finally adopted a new approach to setting target revenue. Having reviewed our target revenue setting methodology at the time, we found it to lack the maturity of other distributors, particularly those on default price-quality paths (DPPs). We were advised by industry experts to consider adopting the principle of financial capital maintenance (FCM) and the building blocks allowable revenue (BBAR) methodology which the Commerce Commission uses to determine the maximum allowable revenues of distributors which are not exempt from price-quality regulation.

We have populated the template models from the Commission's website with data from our Asset Management Plan (AMP) and other sources. As we believe the risk/cost of underinvestment for a community owned distributor is higher as we transition towards a net zero carbon economy, WEL elected to set the weighted average cost of capital (WACC) at the 75th percentile.

The result of the adopted approach was a robust methodology aligned with the target revenue setting treatment which applies to DPP-exempt distributors. While our previous approach was applied on an ex-post basis, our new approach to revenue setting provides for an ex-ante return which will achieve FCM.

Before setting our 2023/24 revenue target using the new methodology, it was reviewed by external consultants to ensure we calculated it and applied it accurately.

TABLE 3 - **TARGET REVENUE BY KEY COST COMPONENTS ($000)**

KEY COST COMPONENT	$000
Net profit after tax (NPAT)[1]	$3,522
Tax	$1,637
Interest	$2,394
Maintenance	$10,078
Depreciation	$27,980
Operating expenditure	$39,834
Transmission charges	$23,190
Electricity Authority and Commerce Commission levy	$683
Gross Revenue	**$121,768**
Discount	-$12,450
Total Target Revenue	**$109,318**

TABLE 4 - **SHARE OF ALLOCATORS BY CUSTOMER GROUP**

CONNECTION	ENERGY	AMD
400V <110kVA	60.0%	76.2%
- Residential	*(43.5%)*	*(49.8%)*
- Non-residential	*(16.5%)*	*(26.4%)*
400V >= 110kVA	18.1%	11.8%
11kV	18.1%	10.2%
33kV	0.8%	0.3%
Street lighting	0.6%	0.1%
Unmetered	0.0%	0.6%
Non-Standard	2.4%	0.7%

Note – The data in the tables above represent the information used at the time of setting the prices for 2023/24 pricing year.

1 NPAT is the net profit after the payment of interest and tax

TABLE 5 - **TARGET REVENUE BY PRICE COMPONENT AND CUSTOMER GROUP ($000)**

	TIME OF USE PRICING			CONDITIONAL PRICING			Low Voltage	Medium Voltage	High Voltage	Street Lights	Unmetered	Non-standard contracts	Total	Proportion of Target Revenue
Price Component ($000)	Residential Low User	Residential Standard User	General	Residential Low User	Residential Standard User	General								
Fixed	8,082	15,694	5,629	486	1,254	1,484	1,201	275	4	1,457	30	79	35,675	32.6%
Uncontrolled Supply	-	-	-	1,019	854	2,508	-	-	-	-	4	-	4,385	4.0%
Controlled Supply	2,376	526	364	127	37	53	-	-	-	-	-	-	3,483	3.2%
Off Peak	4,181	2,369	2,749	-	-	-	-	-	-	-	-	-	9,299	8.5%
Shoulder	8,333	5,026	8,337	-	-	-	-	-	-	-	-	-	21,696	19.8%
Peak	5,320	4,586	3,837	-	-	-	-	-	-	-	-	-	13,743	12.6%
Generation Export	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
Default	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
Capacity	-	-	-	-	-	-	6,053	5,143	210	-	-	324	11,730	10.7%
Summer Peak	-	-	-	-	-	-	5,391	4,501	88	-	-	368	10,348	9.5%
Winter Peak	-	-	-	-	-	-	5,893	4,696	89	-	-	329	11,007	10.1%
Reactive	-	-	-	-	-	-	210	218	-		-	-	428	0.4%
Transformer rebate	-	-	-	-	-	-	-	-23	-3	-	-	-	-26	0.0%
Discount	-4,633	-4,876	-1,853	-224	-289	-335	-189	-36	-	-7	-6	-1	-12,450	-11.4%
Total	**23,659**	**23,325**	**19,063**	**1,408**	**1,856**	**3,710**	**18,559**	**14,774**	**388**	**1,450**	**28**	**1,099**	**109,318**	**100%**

9. Price Changes

This section describes the key changes to prices between those that were applicable between 1 April 2022 and 31 March 2023, and those that apply from 1 April 2023. The rationale for these changes is provided along with a measure of the significance of the change by consumer group below.

The following changes to WEL's network prices are effective 1 April 2023:

- Low user plans (1153 & 1153C) - Fixed daily pricing increased to $0.45 per day, variable pricing aligned
- Standard plans (1154 & 1154C) - Fixed daily pricing increased to $1.35 per day, variable pricing aligned to maintain compliance with LFC regulations
- General plans (1200 & 1200C) - Fixed daily pricing increased to $1.50 per day, variable pricing aligned
- Large capacity plans (1360, 1354 & 1357) - Capacity pricing increased to $0.1456 per kVA per day, Excess demand pricing increased to $0.7280 per kVA per day

All 2023/24 price changes have been made in order to ensure that WEL recovers our calculated allowable revenue and to increase the recovery of fixed costs with fixed charges in line with the Authority's expectations.

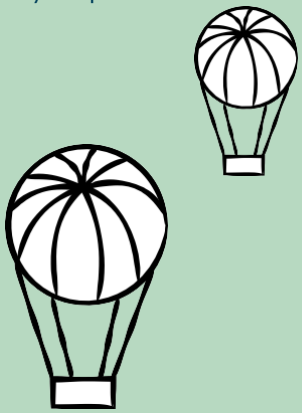


TABLE 6 - **AVERAGE PRICE CHANGES BY CONSUMER GROUP**

CONNECTION	PRICE CHANGE
400V <110 kVA	4.4%
- Residential	4.4%
- Non-residential	4.4%
400V >=110kVA	4.1%
11kV	4.8%
33kV	4.6%
Street lighting	4.3%
Unmetered	4.3%
Non-standard	3.2%

Table 6 indicates the 2023/24 price increases (in percentage terms) for each customer group.

9.1. Change in Target Revenue

WEL is forecasting target revenue to increase by 7.0% in 2023/24 compared to the 2022/23 budget. This reflects an overall 4.4% increase in network prices, along with increased growth experienced during the 2023/24 year and forecasted consumption and ICP growth for 2023/24.

10. Non-standard Contracts

Asset-specific pricing is available to large customers on a case-by-case basis. We currently have three customers (4 ICPs) who have asset-specific pricing agreements. The agreements are generally established when a customer approaches WEL to connect to the network. Where a large capital contribution would be required to install the connection, WEL may negotiate with the individual customer to determine a price (such as a monthly fixed price) that is economically equivalent to the capital contribution that would otherwise be required. This approach allows the customer to pay for the asset over a longer period that better reflects the value that they derive from it. Also, where there is a risk of an uneconomic bypass, WEL will negotiate pricing arrangements that reflect the customer-specific cost of supply.

This approach is consistent with the pricing principles as the prices reflect: the economic cost of service (principle a), and is responsive to the requirements and circumstances of end users (principle c).

WEL does not offer non-standard terms on service interruption to any customers.

11. Distributed Generation

WEL has a range of distributed generation (DG) connected to its network from residential solar installations up to grid-scale windfarms. Applications to connect distributed generation are treated in accordance with Part 6 of the Code. During the past 12 months, WEL has experienced a significant increase in the quantity, and especially the size, of DG applications to connect to the network. The assessment process for large-scale DG applications has revealed that Part 6 is no longer fit-for-purpose; WEL has utilised recent regulatory consultations to highlight the shortcomings of Part 6 to the Authority.

WEL has established price codes for exported generation for most price categories (exported generation is not relevant for streetlighting or unmetered connections). These price codes are set to zero dollars per kWh and are used primarily to monitor the quantity of generation being exported into the network.

Following a decision published by the Authority in late 2022, WEL is no longer required to compensate two large grid-scale generators who were previously eligible for avoided cost of transmission (ACOT) payments.

12. Consistency with the Pricing Principles

WEL's pricing methodology is based on its interpretation of the Authority's pricing principles and other factors outlined in Section 3. We have highlighted through the methodology, where and how the pricing principles have influenced the choices WEL has made. This section sets out the Authority's principles, reiterates WEL's interpretation and application of them, and outlines the extent to which the price design and cost allocation methodology are consistent (or inconsistent) with the pricing principles. WEL's purpose in simplifying the pricing principles is to aid our customers' understanding. This simplified statement of the principles is not intended to reduce their scope in any way.

(a) Prices are to signal the economic costs of service provision, including by:

- i. being subsidy free (equal to or greater than avoidable costs, and less than or equal to standalone costs);
- ii. reflecting the impacts of network use on economic costs;
- iii. reflecting differences in network service provided to (or by) consumers; and
- iv. encouraging efficient network alternatives.

WEL has simplified this principle to 'prices signal economic costs of supply'. We interpret this to mean that:

- WEL's prices should reflect the level of service available, including the capacity and interruptibility of the customer's connection and the associated demand on the network which are the primary drivers of WEL's costs. The cost allocators have been chosen on the basis that they are a good reflection of this pricing principle. WEL uses anytime maximum demand (capacity) and consumption measures as cost allocators (see section 7.1) and these are the basis of WEL's variable prices.

The incremental cost of a customer group is the cost of the additional capacity required to serve that group given that all other customers on the network are already being served. Incremental costs provide a lower bound to prices as WEL would be better off to stop supplying customers who are not meeting their incremental cost. A price below incremental cost also encourages an inefficiently high level of consumption. In times of spare capacity on the network short-run average incremental cost is close to zero.

WEL is working to improve our alignment with this principle. Our future roadmap (section 14.2) outlines our plan and timeframe for transitioning from our simple cost allocation approach, to a more mature economic cost recovery methodology based on the long-run marginal cost of supply.

(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.

WEL has simplified this principle to 'shortfalls in target revenue should be made up from prices that least distort network use'. This principle is intended recover residual costs (to make up target revenue) from fixed charges (or other non-distortionary charges) after variable charges have recovered the economic costs of connections. While historically our pricing has been poor in this area, we are now making progress. All price increases in 2023/24 were realised through increases to fixed daily, or capacity charges. Previously, low fixed charge regulations hampered our ability to make progress in this area for residential customer groups, but we are fully utilising the phase-out schedule. Our future roadmap (section 14.2) indicates how we will continue to build on our process until our pricing is fully aligned with this pricing principle.

(c) Prices should be responsive to the requirements and circumstances of end users by allowing negotiation to:

  i. reflect the economic value of services; and

  ii. enable price/quality trade-offs.

WEL's simplified statement of this principle is that 'prices should be responsive to stakeholder requirements and circumstances'. Where a new connection requires a large capital investment, WEL may negotiate an asset-specific price with the customer. This non-standard arrangement allows the customer to pay for the asset over a period that reflects the value they derive from it, and is consistent with this pricing principle. WEL's price structure also reflects the economic value of services for mass market customers by offering lower prices for controllable load. We will continue to work with our customers to investigate ways of enabling price/quality trade-offs in order to better align with this pricing principle.

(d) Development of prices should be transparent and have regard to transaction costs, consumer impacts, and uptake incentives.

WEL considers that to achieve "pricing development which is transparent" stakeholders should know WEL's strategies, price design, cost allocation methodologies, and any price changes in advance of them applying, and should be able to easily identify the price(s) that apply to individual consumers. WEL considers that the publication of this document and our price schedules contributes to this. WEL is committed to continuing to improve our communication of our pricing design to stakeholders.

WEL has chosen to unbundle its costs into broad categories, and use a limited number of allocators to allocate the cost categories to customer groups. This ensures that our approach is relatively easy to understand, and administrative and transaction costs are kept in check, reflecting this principle.

A notable aspect of this pricing methodology is the adoption of targeted and glide path (i.e. phased) adjustments. WEL considers this approach to be consistent with the principle, as it assesses consumer impacts before implementing any changes.

WEL works with retailers to ensure alignment of pricing structures and incentives are maintained.

13. Pricing Strategy

WEL's pricing strategy (originally developed in 2012) was updated in 2016 to more closely reflect WEL's future direction for pricing whilst still showing our commitment to innovation and improving our pricing structure to reflect the economic value of services and create customer benefits; it is:

Prices and price structure changes shall incorporate WEL's Pricing Principles and improve cost reflectivity whilst taking into account customer impact. Prices should provide consumers with options, enhancing utilisation of new technologies and efficient use of the electricity system. WEL is committed to customer and stakeholder engagement including consultation and education.

WEL will continue to monitor its price strategy and its application to the changing market conditions and consumer needs.

13.1. Key Objectives of WEL's Pricing Strategy

Key objectives of WEL's Pricing Strategy are listed below; these objectives are consistent with the pricing principles.

1. **Cost-Reflective Pricing**: ensure that pricing and pricing design reflect the cost drivers of supply to individual consumer groups e.g. increase the utilisation of capacity, time of use or demand based charges over time subject to public education and communication plans. This is consistent with signalling the economic cost of service provision (principle a);

2. **Clear Pricing Structure**: pricing should be simple and easy to understand by customers and accessible to new traders. This is consistent with transparent pricing development (principle d) and promotes retail competition in WEL's network;

3. **Customer Focus**: engagement with customers including consultation and education on pricing and pricing plans. The management of price shocks in the transition to new price structures. Negotiation to customer specific circumstances. This is consistent with responsiveness to end users requirements (principle c); and

4. **Incentivise Efficient Adoption of Network Alternatives**: pricing and price structures should signal the economic cost of supply to encourage the efficient adoption of new technologies. This is consistent with signalling the economic cost of service provision (principle a & d).

WEL will continue to monitor its price strategy and its application to the changing market conditions and consumer needs.

13.2. Future Pricing Strategy

In order to better reflect the context we now set prices in, WEL has elected to undertake a thorough review and update our Pricing Strategy prior to the publication of the next Disclosure.

14. Pricing Reform Roadmap

14.1. Work Undertaken to Date

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Voluntary "opt-in" TOU for mass market	Implemented	In effect			Retired				
Mandatory TOU for new mass market			Implemented	In effect	Retired				
Mandatory TOU for all mass market					Implemented	In effect			
Capacity charges for large customers				Implemented	In effect				
Phase out variable kWh for large customers				Implemented	In progress		Complete		
Phase out low fixed charge (LFC) option								Implemented	In progress

In April 2016 WEL implemented mandatory TOU pricing for new ICPs on Residential, General and SSDG price plans, referred to as 'Smart Pricing'. WEL's Smart Pricing consisted of three time periods (Peak, Shoulder, and Off-Peak) with peak timeframes aligning to WEL's system peak times.

During 2017 WEL undertook customer focus groups and consulted with Retailers on potential future pricing options (detailed in the ENA's New Pricing Options for Electricity Distributors) for Residential, General and SSDG customers. Of the future options given, Time of Use was preferred as it was transparent, understandable, and actionable. WEL advised Retailers in December 2017 of the transition of mass market ICP's onto Time of Use pricing. A default rate was also implemented (for a limited time) as some retailers were unable to provide time banded data. For Large Commercial customers WEL changed peak charges to be based on KVA not KW and introduced capacity charge and excess demand charges through reducing kWh charges with the view to eventually remove them.

In 2019, WEL undertook a retailer consultation to update and simplify the pricing schedule. The result was to discontinue SSDG (1250, 1251, 1250C, and 1251C) price categories and to migrate those ICPs onto the appropriate remaining price categories (1153, 1154, 1200, 1153C, 1154C, and 1200C). In order to maintain visibility of exported generation from SSDG, exported generation price codes were been added to most remaining price categories.

Between 2017 and 2021, kWh charges for Large Commercial customers were phased out. This was in line with our assessment of the key drivers of the cost to serve this customer group.

From April 2022, we begun to phase out the LFC option by increasing the fixed daily price by $0.15 each year. This will conclude in 2027, when the option will be phased out entirely.

14. Pricing Reform Roadmap

14.2. Ongoing and Future Work

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
Transition from TOU to targeted price signals	Implemented	In progress			Complete	Monitor and review			
Transition from largely variable to largely fixed charges	Implemented	In progress					Complete	Monitor and review	
Update allocation methodology	Complete	Monitor and review			Implement	Monitor and review			
Phase out low fixed charge (LFC) option	In progress				Complete				
Update Pricing Strategy	In progress	Implement	Monitor and review						
Transition from cost allocation to economic cost recovery model	In progress	Implement	Monitor and review						

We have identified that the peak, shoulder, and off-peak TOU pricing structure is no longer fit for purpose. While the rates signalled the economic cost of consumption under the previous TPM, now they are a price signal without a rationale. Beginning 1 April 2023, we are phasing out the shoulder rates and beginning to bring the peak and off-peak rates closer together. This will allow us to have a single variable rate to signal constraints (only if required) once the LFC is fully phased out in 2027. From 2027 onwards, mass-market connections will only pay a fixed daily charge, unless there is congestion requiring a targeted price signal.

Aligned with the transition away from TOU rates, we have also begun to transition all other price categories away from variable charges, in favour of fixed charges (where there are no major network constraints). This primarily takes the form of reducing the summer and winter peak demand price signals for large customers (over 110kVA), and increasing their fixed daily and capacity charges.

The cost allocation methodology was significantly updated for the 2023/24 pricing year to align with the new TPM and better reflect the principles of cost-reflective pricing. We intend to conduct a thorough review of this again in 2027/28 to ensure that it is achieving the results we intended.

WEL has elected to increase fixed charges for LFC eligible customers in line with the phase out path. We intend to continue to increase the fixed charges in line with the phase out path and retire the LFC category entirely in 2027 once this option is available to us. At this point, residential price categories are planned to be amalgamated together.

As outlined in 13.2, we are conducting a review of our Pricing Strategy and will produce and updated version for the 2024/25 pricing year.

As we highlighted in previous Disclosures, and the Authority correctly identified in our most recent pricing scorecard, WEL currently uses a cost allocation methodology for recovering revenue via lines charges. In order to ensure our pricing is cost-reflective, we are working to transition towards an economic cost recovery methodology based on the long-run marginal cost of supply.

15. Pricing Reform – Authority's Five Focus Areas

In September 2022, the Authority published an open letter to distributors outlining five areas they will be focusing on. We have outlined our progress and future intentions in regards to the five focus areas below.

15.1. Focus One

Distributors' roadmaps responding to future network congestion

This is an area WEL intends to improve on in 2023/24. We have identified a near-term constraint on the Hamilton GXP, solutions have already been put in motion to alleviate the constraint, but we will need to understand how best to recover these costs. In addition to broader network constraints, we will be investigating local, low voltage congestion (particularly in relation to electric vehicles) and how we are best to send price signals to manage or alleviate it.

15.2. Focus Two

Distributors' response to any significant first mover disadvantage (FMD) issues facing customers seeking to connect to their networks (new and expanded connections)

WEL maintains a robust Capital Contribution Policy (CCP) and accompanying model which work in unison with our distribution pricing. One of the key features of our CCP and model is the philosophy of assessing not only the upfront investment cost to facilitate a new connection, but also the lifetime revenue we expect to gain from the new connection, and the lifetime operational expenditure to provide the new connection. The two major features of our approach which mitigate the FMD risk are:

- **Future upstream investment allocation**. Each assessed new connection is given an allocation towards future upstream investment depending on the connection voltage they are requesting (e.g. a residential connection would have a small allocation for future low voltage reinforcement, distribution transformer upgrade, etc. A large commercial customer on the other hand would not be allocated future upstream investment cost for any assets below the voltage they are connected at, 11kV for instance). This approach mitigates the financial impact of a single customer becoming the tipping point and necessitating significant network reinforcement.
- **Shared assets are considered network upgrades**. When a new connection application requires network reinforcement, WEL's designers look at whether the new or upgraded assets will be dedicated to the applying customer, or shared between many customers. If they are shared between other new or existing customers, the cost is not attributed to the applying customer, and is instead funded from the prior upstream investment allocations.

15.3. Focus Three

The extent to which distributors are following the Authority's guidance on pass through of new transmission charges

We have made good progress aligning WEL's approach on pass through of transmission charges with the guidance given by the Authority, though the full effect will take time to align. We have updated our allocation methodology to allocate transmission charges under the new TPM to each customer group's contribution towards anytime maximum demand (AMD). Once each customer group's allocation of transmission costs is known, we have endeavoured to recover those costs via fixed (or fixed-like) charges to individual customers. This will take time to fully implement as we are limited to what we may recover from fixed charges from residential customers by low fixed charge regulations, and must manage annual price shocks for all other customer groups.

15. Pricing Reform – Authority's Five Focus Areas

15.4. Focus Four

Whether distributors are increasing their use of fixed charges to match the phase out path of the low fixed charge (LFC) tariff regulations

WEL has elected to increase fixed charges for LFC eligible customers in line with the phase out path. We intend to continue to increase the fixed charges in line with the phase out path and retire the LFC category entirely in 2027, once this option is available to us. The phase out has allowed us to continue to decrease the variable kWh charges we set for LFC eligible price categories. In order to expedite the transition to greater recovery of fixed costs with fixed charges, we also increased the fixed daily charge of our standard (non-LFC) residential price categories this year. Our intention is to eventually amalgamate the LFC and standard residential price categories together and then differentiate pricing on the basis of differentiated service (e.g. greater connection capacity, connection balanced across multiple phases, etc).

15.5. Focus Five

Distributors avoiding, or transitioning away from, recovery of costs that are fixed in nature through use based charges, such as charges based on a customer's Anytime Maximum Demand (AMD)

As highlighted in 15.3, WEL is continuing to transition away from recovery of fixed costs, with variable charges. This will continue to be managed within the confines of regulation and price shock relativity. We do not use AMD as a basis for charges, but we use it extensively for allocation of costs to each customer group. For large customers (those connected at a capacity greater than or equal to 110kVA), we utilise nominated capacity charges as the primary fixed-like charge. While we acknowledge that this charge is not truly fixed (as it is able to be modified once in a 12 month period at the customers request), we had to balance the operational risk of transitioning to an installed capacity measure. It is felt that using installed capacity would have the unintended consequence of greatly increasing the number of customers requesting physical upgrades/downgrades in supply. This would put unnecessary strain on our customer initiated works team and field delivery partners' workloads.

16. Pricing Impact and Feedback

16.1. Customer Consultation

WEL has a strong customer focus as we are owned 100% by the WEL Energy Trust, on behalf of the community. In addition to the WEL Energy Trust representing the views and interests of customers, WEL regularly consults with major customers and periodically conducts surveys of customers' expectations on its pricing and quality of service. The survey results are a key input into both WEL's Asset Management Plan (AMP) and our Pricing Methodology.

WEL has scheduled to perform an updated customer survey during early February 2023, unfortunately the results of this are unavailable at the publication of this disclosure.

The key findings from our most recent customer survey (conducted March 2021) were that the majority of the customers (99%) are satisfied with the current level of reliability of supply. Only 29% of customers surveyed would like to see further improvement in reliability of supply, however 75% (of the 29%) would not be willing to pay more for it. For context, 41% of respondents had experienced a supply interruption in the previous 12 months.

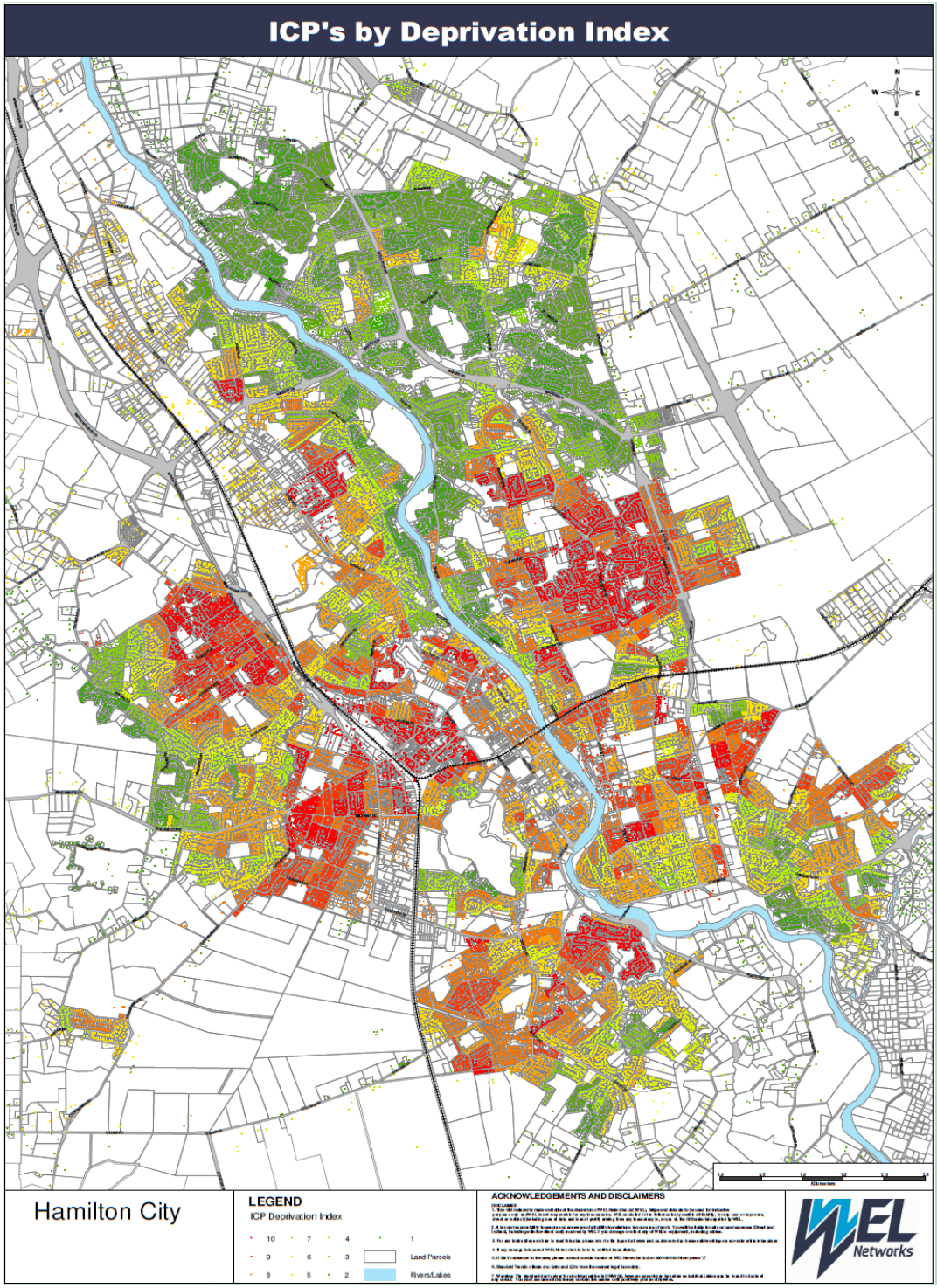
96% of customers surveyed believed their reliability was the same or better than during the previous survey. 60% believe under 60 minutes is an acceptable unplanned outage duration. Respondents were evenly split when asked if they preferred more interruptions of a shorter duration or fewer interruptions of a longer duration.

When given the opportunity to provide any other feedback, many respondents were very complimentary of their experiences with our field crews and customer care team. The major area of improvement requested was better communication of estimated restoration times during an interruption.

16.2. Retailer Consultation

Clause 12A.7 of the Code requires WEL to consult with retailers prior to making a change to our price structure. No structural changes took place this year, and as such, no retailer consultation was undertaken.

Even when retailer consultation is not undertaken, we work proactively with all retailers operating on our network to assist with accurate messaging of distribution price changes.



16.3. Deprivation Analysis

To better understand the impact of our pricing reform on our customer base, we have overlaid meshblock deprivation index data from the most recent New Zealand Census over our geographic information system (GIS). Together with granular smart meter data from our own WEL smart boxes (which gather data from approximately 65,000 connections), we have been able to test how different pricing or allocations would effect those customer in WEL's most deprived areas.

We successfully deployed the deprivation analysis tool in 2017 when we were considering making time-of-use charges mandatory for mass market customers. The deprivation analysis tool showed conclusively that those ICPs in the areas of highest deprivation (deprivation index 9 & 10), would on average see a minor overall reduction in annual lines charges compared to traditional pricing. We also found that connections in areas experiencing the least deprivation (deprivation index 1 & 2), would on average see a minor overall increase in annual lines charges compared to traditional pricing.

This analysis provided the final justification to introduce mandatory time-of-use pricing for mass-market price categories.

As we continue on our pricing reform journey, we will continue to utilise the deprivation analysis tool. We can now reference it to assess the impact of rebalancing prices and allocations on our most vulnerable customer groups. Where the results show the potential change would result in significant hardship for vulnerable customer groups, we can reassess and may elect to phase the changes in over a longer period.

17. Certification

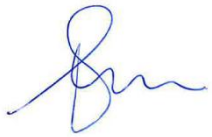
Schedule 17 – Certification for Year-beginning Disclosures

Pursuant to clause 2.9.1 of the Electricity Distribution Information Disclosure Determination 2012.

We, Barry Harris and Carolyn Steele, being directors of WEL Networks certify that, having made all reasonable enquiry, to the best of our knowledge:

a) The following attached information of WEL Networks 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.



BARRY HARRIS
Chair

CAROLYN STEELE
Director

Date: 20 February 2023