

Price changes effective 1st April 2015

The final prices contained in the Pricing Schedule and associated attachments reflect an average overall decrease in charges of 0.46%. This increase can be broken down as follows:

- Starting price adjustment equivalent to an average price change of -0.36%; and
- Pass through of a decrease in transmission charges which adds a further -0.1% (approximately) to the overall price decrease.

a) Average price changes vary by region and consumer group

It is important to note that while the overall price adjustment is a decrease of 0.46%, the actual price movement varies between regions and consumer groups (as the table below shows).

The variations between regions and consumer groups are the result of re-balancing our charges to ensure they better align with our underlying costs. This adjustment helps to ensure that all consumers across our various regions and consumer groups pay a fair and equitable amount which reflects their utilisation of our network and the costs associated with their supply.

Table 1. Average mass market movement in network charges by region.

| Region | Network charge movement | Impact to overall monthly bill | |
|--|-------------------------|--------------------------------|---------|
| | | % | \$ |
| Tauranga / Bay of Plenty | 4.8% | 1.7% | \$3.50 |
| Thames Valley / Coromandel | -1.2% | -0.4% | -\$0.87 |
| Taranaki / Wanganui / Manawatu / Wairarapa | -0.3% | -0.1% | -\$0.22 |

b) Default price path (DPP) compliance (starting price adjustment)

Recently the Commerce Commission set the price path and quality standards that will apply to electricity distributors for the regulatory period 1 April 2015 to 31 March 2020.

As 1 April 2015 will be the start of a new regulatory period a starting price adjustment (otherwise known as a P0 adjustment) will apply. The Commerce Commission has determined that Powerco's maximum allowable revenue for the 2015/16 pricing year is \$250.4m. The Commission has further determined that, based on its forecasts of Powerco's quantities and costs, a theoretical 0.16% increase in revenue from the prior period would enable it to earn a fair return.

Powerco, using historical quantities (as per the methodology prescribed by the Commission), has determined that the starting price adjustment corresponds to an average decrease in distribution prices of around 0.36% for the 2015/16 pricing year (excluding the impact of transmission charges).

c) Transmission charges

Transmission charges levied on Powerco by Transpower, for the pricing year starting 1 April 2015, have increased by approximately 0.3% compared to the previous year.

The result is due to an increase in Powerco's offtake during the regional coincident peak demand periods which has effectively offset the decrease in Transpower's interconnection charge rate (which decreased from \$114.47 per kW to \$110.35 per kW). Transpower's connection charges, which are a smaller component and charged per GXP, have also increased but by only \$0.1m.

Payments to embedded generators for the avoided cost of transmission charges (ACOT) have decreased by 7% due to the decrease in the interconnection rate and lower demands. These payments have decreased from \$10.1m to \$9.4m for the 2015/16 pricing year.

Overall, these changes translate to a decrease in transmission charges (including ACOT) of 0.3% which corresponds to an average price decrease of around 0.1% for the 2015/16 pricing year.

d) Further details

Further details of our pricing structures and changes implemented this year can be found in our Pricing Methodology Disclosure and our Pricing Schedule which can both be located at: <http://www.powerco.co.nz/Publications-and-Disclosures/Pricing-Schedules/Electricity/>

If you have any questions about this information please contact Michael Warren (Electricity Pricing Manager) on 06 759 6235 or via email Michael.warren@powerco.co.nz