

Price Changes effective 1st April 2014

The final prices contained in the Pricing Schedule and associated attachments reflect an average annual increase in charges, in nominal terms, of 5.5%. This increase can be broken down as follows:

- CPI adjustment of 0.97%;
- Allowed differential and claw-back adjustment of 1.7% (see below); and
- Pass through of transmission charges which have contributed approximately 2.8% to the overall price increase.

a) Default Price Path (DPP) Compliance (differential and claw-back adjustment)

The DPP Determination, set by the Commerce Commission, regulates the allowable revenue of non-exempt electricity distributors (including Powerco). The DPP Determination includes a revenue differential adjustment term which essentially means that the difference (plus/minus) between the allowable revenue and notional revenue at 31st March can be applied to the following year's allowable revenue (i.e. at the start of a pricing year the price path can reset to the level which was approved by the Commission as part of the DPP Determination).

The DPP Determination also allows non-exempt electricity distributors to apply a "claw-back" adjustment in relation to any under or over recovery of maximum allowable revenue (MAR) relating to the 2012/13 pricing period.

Powerco has determined that the revenue differential adjustment, the application of "claw-back" combined and an adjustment for CPI corresponds to an average distribution price increase of around 2.7% for the 2014/15 pricing year (excluding the impact of Transmission charges).

b) Transmission Charges

Transmission charged levied on Powerco by Transpower, for the pricing year ended 31st March 2015, have increased by approximately 9.5% compared to the previous year. We understand that this increase reflects the on-going level of investment in the transmission network across the country and the commissioning of major assets.

The result is that Transpower's interconnection charge has increased from \$99.44 per kW to \$114.47 per kW. Transpower's connection charges, which are a smaller component and charged per GXP, have decreased overall by approximately \$0.2m.

Payments to embedded generators for the avoided cost of transmission charges have increased by 10% from \$9.1m to \$10.1m.

The overall increase in transmission charges corresponds to an average price increase of around 2.8% for the 2014/15 pricing year.

c) Further Details

Further details in regards to our pricing structures and changes implemented this Year can be found in our Pricing Methodology Disclosure (paragraphs 29 – 32) and our Pricing Schedule which can both be located at the following location:

<http://www.powerco.co.nz/Publications-and-Disclosures/Pricing-Schedules/Electricity/>