

Waipa Networks Ltd

Pricing Methodology 2015



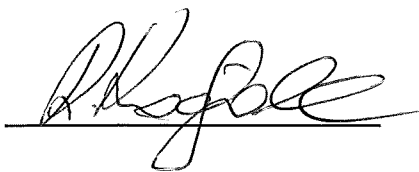
14.8 Schedule 17: Certification for Year-beginning Disclosures

Clause 2.9.1 of section 2.9

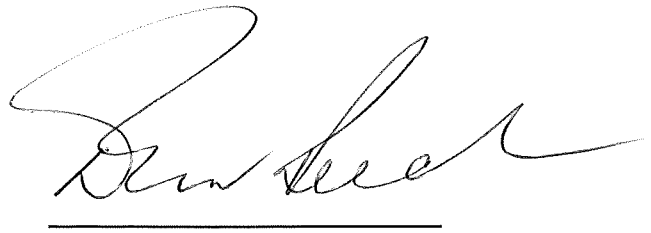
We, Richard Zbigniew Kadziolka and Diane Mary Reed, being directors of Waipa Networks Limited certify that, having made all reasonable enquiry, to the best of our knowledge –

The following attached information of Waipa Networks Limited 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.

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.



Richard Zbigniew Kadziolka



Diane Mary Reed

24 March 2015

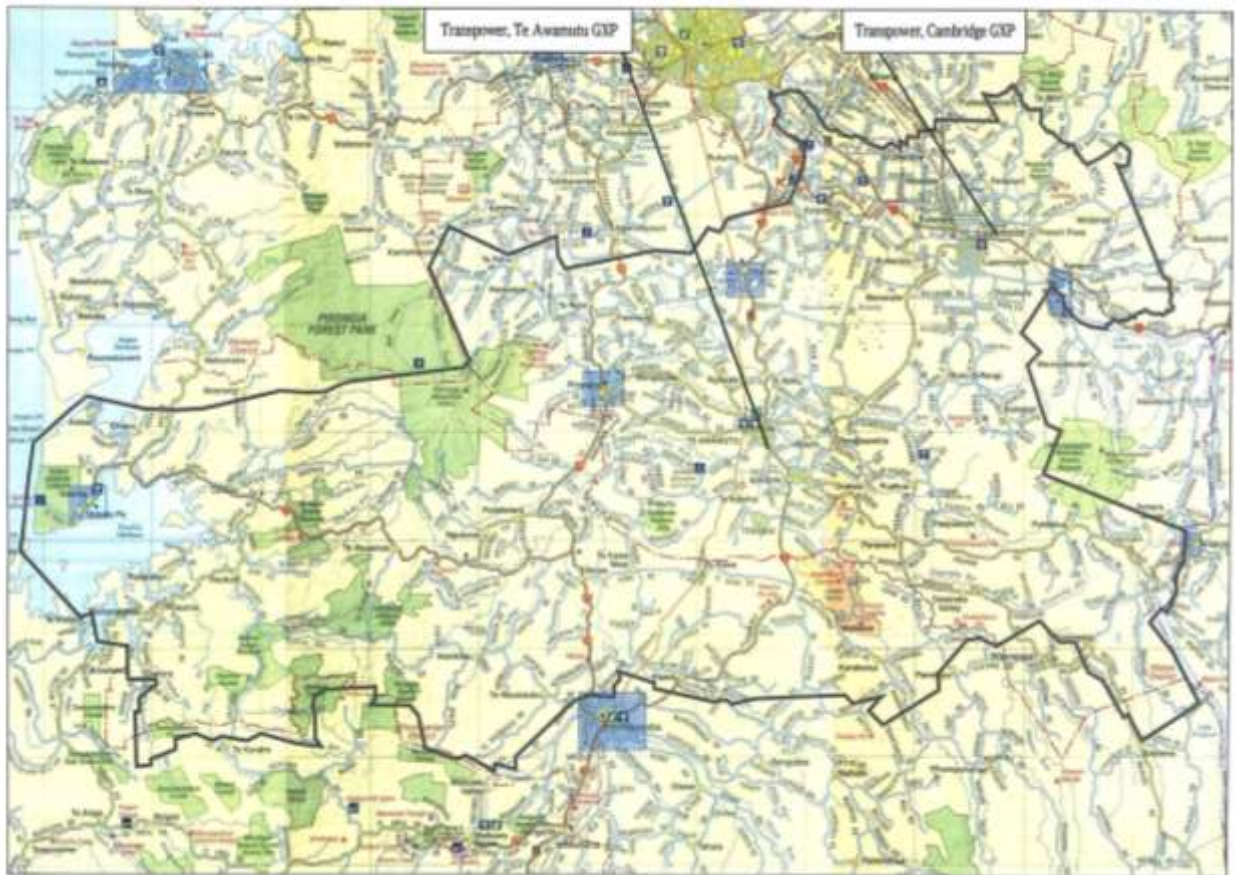
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Introduction

Waipa Networks Limited (Waipa) is the company responsible for distributing electricity to an area of approximately 1,865 square kilometers, servicing more than 24,700 customers; over almost 2,100 km of electricity lines. The area includes the two major rural service centres of Te Awamutu and Cambridge in a predominantly dairy farming region.

The pricing methodology described here relates only to the distribution area supplied by Waipa's electricity network illustrated below:



This document describes the process used by Waipa to develop line charges for the 2016/17 financial year. With the exception of customers who have a signed conveyance agreement with Waipa these line charges are levied on electricity retail companies who incorporate them in their charges to electricity consumers.

This document has been prepared to comply with Requirements 2.4.1 of the Commerce Commission's Electricity Distribution Information Disclosure Determination 2012 (NZCC 22) issued 1 October 2012 and the Distribution Pricing Principles and Information Disclosure Guidelines of the Electricity Authority.

The objectives of Waipa Networks Limited's pricing methodology are:

- To recover the costs of operating the electricity distribution system and make a sustainable return on and of the capital employed;
- To appropriately recover pass through costs such as transmission charges;
- To allocate costs fairly between consumer groups;
- To establish a fair range of charges;
- To provide demand based pricing signals where appropriate;
- To meet regulatory requirements relating to fixed daily charges / low-user rates;
- To provide discounts to reduce network charges.
- To enable Retailers to pass charges on to consumers in an understandable way

Accordingly this document discloses:

- The methodology used to calculate the prices charged;
- The key components of revenue required to cover costs and profits of the lines business activities;
- The consumer groups used to calculate the prices being charged, including:
 - The rationale for consumer grouping;
 - The method of determining which groups consumers are in;
 - The statistics relating to each consumer group;
 - The method and rationale by which components of the revenue are allocated to consumer groups;
- The numerical values of the different components;
- The rationale and method used to determine the proportions of charges which are fixed and the proportions which are variable.

Overview of Methodology

The purpose of the Waipa's pricing methodology is to allocate the companies revenue requirements fairly and transparently across all network customers. In determining the annual revenue requirements the company takes a long term view and seeks to offer price stability and predictability for customers.

Stability and predictability of prices is important to our customers who may be making long term investment decisions which may be influenced, in part, by our current and future charges.

No distinction is made between customers connected to the Te Awamutu GXP and those connected to the Cambridge GXP.

External Costs:

The Commerce Commission recognises Electricity Distribution Businesses (EDBs) are subject to a number of external costs over which they have no control. These costs are permitted to be passed through directly to customers.

The most significant of these are Transpower charges for connection to, and use of, the National Grid.

Other pass through costs are local body rates, and direct regulatory levies charged by the Commerce Commission and Electricity Authority.

In recent years Transpower charges have increased rapidly following investment in the National Grid. These charges have been passed through in the year in which they have been received and have been responsible for significant increases in Waipa's line charges in those years.

Waipa considers it would be inappropriate and unsustainable to try and smooth out these increases in ongoing operating costs. It would also create a subsidy from future network users to current users which would breach both the Commerce Commission's and Electricity Authority's pricing guidelines.

New Investments:

The Company has commenced a major investment in a new 110kV supply for Te Awamutu to improve both the reliability and security of supply for the area. These investment costs will be recovered via increased charges phased in over time and commencing once the new line is complete in 2016. The impact of these charges is expected to be an increase of about 10% on existing charges when fully phased in. These charges will be a combination of Transpower and Waipa investment and operating charges.

Disruptive Technology or Social Change:

As indicated in the section on Consumer Categories customers' demands on the network are changing and the Pricing Methodology will need to change over time. Where practicable these changes will be phased in, however when disruptive technologies or changes appear this may not be possible.

Capital Contributions:

Capital contributions are charged for new subdivisions and usually recover all low voltage and dedicated high voltage costs with the exception of distribution transformers.

The reinforcement of existing high voltage feeders from Transpower's GXP to the subdivision is normally exempted from capital contributions. It is treated as 'organic' network load growth, and recovered under this pricing methodology.

Subdivision reticulation costs are considered to be a part of the developer's risk (for example in the event where sections do not sell).

Capital contributions avoid cross subsidies between consumers and enable customers in new subdivisions to receive company discounts in a non-discriminatory fashion.

Cost Categories

EDBs costs can be identified as arising from:

- Transmission charges
- Capital employed
- Debt servicing
- Maintenance of assets
- Operations and overheads
- Pass through costs (excluding Transpower)
- Depreciation

Transmission Charges:

These are the charges levied by Transpower for connection to and use of the national grid.

They may also include transmission costs where similar assets are provided by alternative investors. The costs of Waipa's investment in a second supply for Te Awamutu will be recovered in this way once commissioned.

Capital Employed:

This is the return on investment required by the owners of the company. The company is owned by Waipa Networks Trust, a consumer trust on behalf of all connected consumers. Not charging for the use of capital would be economically inefficient and would result in the transfer of wealth between the network owners and the network users and/or electricity retailers.

Debt Servicing:

The Company currently has \$3M in borrowings which is expected to increase to \$25M over the few years to service investment in the 110kV line for Te Awamutu.

Maintenance of Assets:

The assets must be repaired and maintained in good working order to ensure a reliable supply of electricity to customers. An effective maintenance regime extends the life of assets.

Operations and Overheads:

These are the costs of operating the company: providing customer services, interfacing with electricity retailers, accounts and administration functions, and meeting extensive industry compliance requirements.

Pass Through Costs:

Pass through costs are Local body rates charged on the network, Commerce Commission and Electricity Authority costs.

While the Commerce Commission allows transmission costs charged by Transpower to be passed through transparently these are treated independently (see above) to enable their charging structure to be passed through. It would be inappropriate to use Transpower's methodology for other pass through costs.

Depreciation:

Depreciation is recovering the capital cost of the network in order to replace the assets at the end of their lives and hence maintain the network for future users.

Consumer Categories

Voltage Categories:

Customers are first classified according to the voltage at which they are supplied:

- 11kV
- Low voltage

This is necessary as 11kV customers do not require the use of any low voltage distribution assets and should not be charged for them.

Waipa Networks takes supply from Transpower at 11kV and has no 33kV or higher voltage consumers.

11kV Consumers:

11kV customers are further categorized as being:

- Standard, or
- Non-standard

Non-standard customers are those with dedicated assets from a Transpower GXP to their individual 11kV metering point.

Standard 11kV customers share the 11kV distribution network with other 11kV and low voltage consumers.

Low Voltage Consumers:

Low voltage customers are further categorized as being either:

- Domestic,
- Non-domestic, or
- Non-metered including street lighting

Domestic customers are classified as such where the primary use of the electrical supply is for domestic or residential purposes, as determined by the electricity retailer. These are typically indicated on the Registry as having ANZIC code '000000'. Waipa reserves the right to challenge an electricity retailer's classification if it believes it is incorrect and backdate any charges in cases where a classification has been proven incorrect.

In rural areas domestic customers may include individual ICPs required for domestic water pumps; excludes stock or irrigation pumps.

Domestic customers are required to be identified to comply with the Government requirement to offer small Domestic customers a daily fixed charge limited to no more than 15 cents.

Non-domestic consumers are all other metered low voltage ICPs not defined as being Domestic.

Non-metered supplies are typically telecommunication repeater cabinets and similar low wattage ICPs. These small installations are charged at a fixed daily rate.

Street lighting is generally non-metered and consumption is calculated based on hours of operation and lamp wattage. Street lights are charged on their estimated kWh consumption.

Small Scale Distributed Generation:

Waipa does not currently distinguish ICPs with small scale (<10kW) generation.

Over the next twelve months it is intended to discuss with retailers the creation of new categories to identify these customers and the types of tariff which may apply in future years.

Electricity Distribution Network Diagram

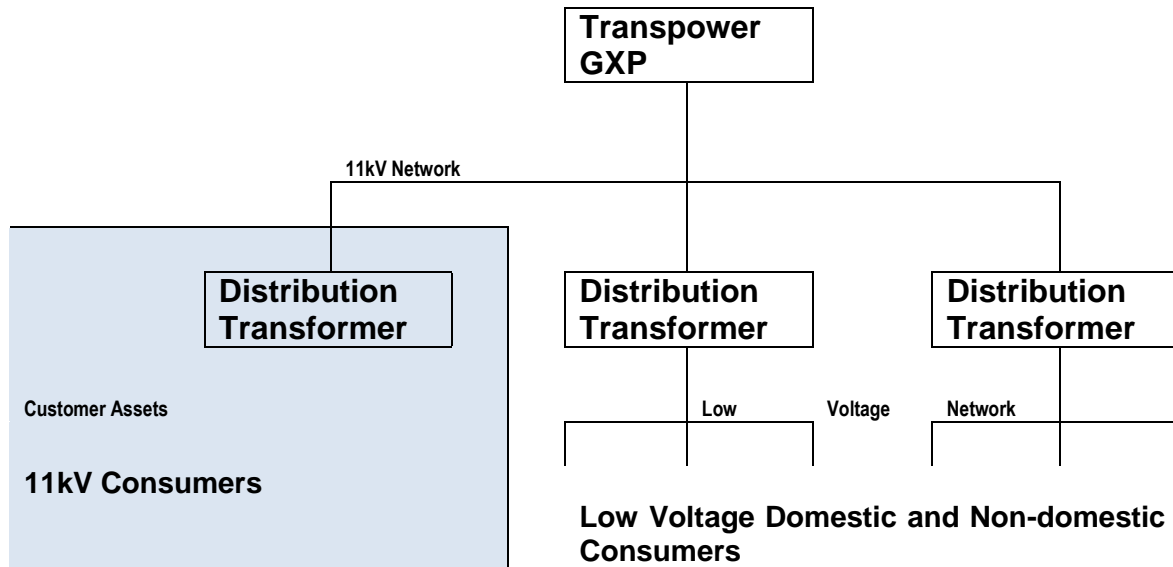


Figure 1.

The above diagram illustrates the assets employed by Waipa in distributing electricity from the Grid Exit Point (GXP) to individual customers.

Only those assets employed in distributing electricity to the consumer are charged to that Consumer Category

Allocation Factors

A number of factors are used to allocate the various cost categories across different customer groups.

Allocation Factor	Definition	Factor Name
Customer Numbers	Number of ICPs in each consumer category as a percentage of total number of ICPs. Refer to page 7 for definitions of the consumer categories we use.	%Consumers
Consumption	Metered consumption plus allocated network losses (voltage dependent) per consumer category as a percentage of total consumption and network losses.	%Consumption
AMD	Anytime Maximum Demand either metered or estimated per consumer category as a percentage of the total of all estimated/metered AMDs.	%AMD
CMD	Measured or estimated contribution of each consumer category to the average of the 100 coincident peaks in the Lower North island as defined by Transpower.	%CMD

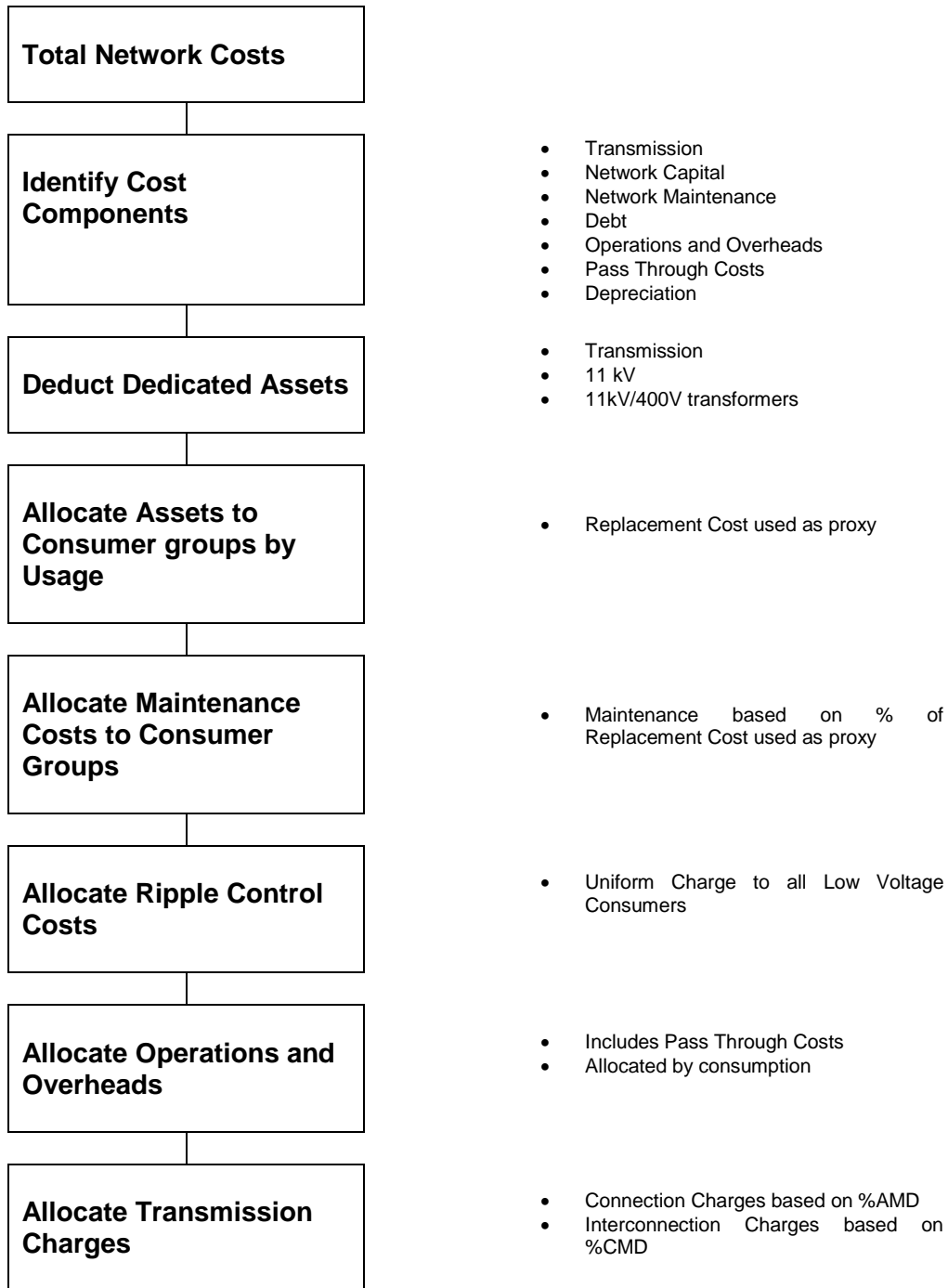
Appendix I provides details of the calculations used for the current year's pricing.

Allocation of Network Costs

The following process is used in allocating network costs:

1. Identify the following classes of assets:
 - a. 11kV assets dedicated to Non-Standard 11kV customers;
 - b. all remaining 11kV network assets;
 - c. 11kV to 400V distribution transformers;
 - d. low voltage assets; and
 - e. ripple control assets (transmitters and receivers).
2. Calculate the capital investment in the network using replacement cost of each of the above classes of assets.
 - a. Replacement costs are used for the following reasons:
 - i. The ODV process used to value the network for regulatory purposes has identified no redundant or uneconomic assets;
 - ii. Avoids rate shocks when old assets with little remaining book value are replaced by new assets;
 - iii. Is a proxy to spread the costs fairly and transparently.
3. Allocate maintenance costs for each of the classes of assets as a percentage of the asset replacement cost.
 - a. Replacement costs are used for the same reasons as in paragraph 2 above.
4. Allocate all dedicated assets to the consumers who have exclusive use.
 - a. Dedicated 11kV assets to Non-Standard consumers;
 - b. Dedicated transformers to 11kV consumers who lease these assets.
5. At each level of the network (11kV, low voltage, and distribution transformers) allocate the capital and maintenance charges to consumer groups based on their %AMD.
 - a. AMD is used because networks are sized to meet customer demand.
6. Ripple Control assets are allocated on a per consumer basis to all low voltage consumers.
 - a. Ripple receivers are individual assets installed at individual consumer premises and are therefore allocated on this basis.
 - b. The transmitter costs are allocated equally across all receivers.
7. Allocate Operations and Overheads based on Consumption (as defined on page 10).
 - a. Those customers who make greater use of the network pay more than small users.
8. Allocate Transmission services.
 - a. Connection Charges are allocated to consumer groups based on their %AMD because connection assets are provided to meet the AMD at each GXP;
 - b. Interconnection Charges are recovered on the consumer groups contribution to the Lower North Island Coincident Maximum Demand to mirror Transpower 's charging methodology (%CMD).

Flow Chart of Cost Allocation



Consumer Charges

Consumer charges are composed of fixed and variable portions.

The methodology requires fixed costs to be recovered by fixed charges and variable costs by variable charges.

Fixed cost components are:

- Ripple Control costs, and
- All Charges based on maximum demands:
 - Asset charges including maintenance
 - Transmission charges.

Variable charges are limited to:

- Operations and Overheads, and
- Pass Through Costs.

As expected the majority of cost components are fixed and result in relatively high fixed and low variable charges.

Small Low Voltage Consumers:

Government legislation has capped fixed line charges at 15 cents per day for Domestic Consumers using 8,000kWh per annum or less.

This legislation overrides the integrity of the above pricing principles. The result is some costs that would be recovered through the fixed charge have to be recovered through variable consumption charges for small Domestic Consumers.

As a result the company has determined to charge all Domestic Consumers 15 cents per day and avoid possible arbitrage of its charges.

Calculating the variable charges for Domestic Consumers and applying these across all small low voltage consumers (excludes those on demand tariffs) results in the fixed charge for small Non-Domestic being 30 cents per day.

At 30 cents per day the arbitrary nature and impact of applying Non-Domestic charges to businesses operated from a Domestic dwelling is mitigated.

A check sum is calculated each year to ensure there is no significant cross subsidy between small low voltage consumer groups.

Large Low Voltage Consumers:

Large low voltage consumers fixed costs are recovered through a demand charge based on the maximum demand they place on the network. These demand charges are fixed for a minimum period of twelve months due to the seasonal nature of the dairy industry which is the predominant driver of GXP demands and network capacity.

Remaining costs are recovered from variable charges.

11kV Consumers:

Large 11kV customers are charged on a similar basis to large low voltage customers. Their charges exclude the costs of the low voltage network.

Non-Standard 11kV Consumers:

The methodology used is described in Appendix II.

Customer Consultation

The various forms of customer consultation employed by Waipa are described in Appendix V.

The results of consultation suggest our pricing strategy is easily understood, has a high level of community acceptance and should continue. With customers supporting price parity (through the Annual Customer Survey) there is no mandate to offer a more diverse (regional or GXP type) pricing structure.

A common complaint is the difficulty consumers have in comparing 'apples with apples' for the competing retailer pricing options and wrongly believing the Company is responsible for the high daily fixed charges some of them pay. Increased transparency on retailer accounts may help avoid this fixed daily charge confusion.

Our low charges have allowed high retail margins and subsequently a large number of retailers have been attracted to operate on our network. These high margins mean our prices, and any changes to them are largely obscured. (Waipa charges comprise on average only about 30% of the retail price paid by domestic consumers as compared with about 39% nationally.) Any price differentials between controlled and uncontrolled tariffs need to be large if they are to be effective at the retail level. This further argues against the implementation of sophisticated fine tuned tariffs with subtle pricing signals which will be swamped by retailer charges even if the line component is passed through transparently. There is also no requirement for retailers to pass through line charges and they are able to repackage Waipa's tariffs them as they see fit. Retailers also argue that the large number of complex line tariffs they have to deal with increase their transaction costs and mitigate against the introduction of 'smart tariffs'. Waipa believes its simple tariff structure, as well as low prices, has been effective in providing our consumers with a high level of retail competition for their business.

One project where customers have expressed a need for increased service quality and a willingness to pay for it is the Te Awamutu reinforcement project. The need for improvement has been expressed in public meetings held with Transpower to explain the reasons, and arrange a suitable time, for planned maintenance of the single 110kV transmission line and terminating equipment supplying Te Awamutu. This has been augmented by lobbying by the Te Awamutu Chamber of Commerce and individual business owners (fast food outlets, petrol/diesel service stations, motels and other accommodation outlets, etc.), management of health issues (water and sewerage pumping) for the Waipa District Council created by the extended outages, and our owners the Waipa Networks Trust. The willingness to pay has been tested through our Annual Customer Survey where the majority of respondents, over a long period of time, have been willing to pay more for a second supply line. This project will improve the reliability and security of supply for the Te Awamutu GXP and is due to be complete in 2016.

For mass market customers and small to medium businesses, transmission charges are bundled with the disclosed distribution charges, and included in the appropriate tariff component. For Waipa's large industrial customers, it has been possible to pass on transmission charges in a direct and transparent fashion which provides efficient pricing signals to those customers.

Waipa Networks pricing strategy is to pass through increases in Transmission costs and to increase the balance of the prices by CPI.

Transpower charges increased by 0.1% from 1 April 2015 and CPI was 1.0% the resulting increase in tariffs was going to be approximately 0.7% and with CPI decreasing in the December Quarter it was decided to hold prices from 1 April 2015 by delaying this increase until the next tariffs review.

At present there is no charge for inputting distributed generation into the distribution network. This is unlikely to be sustainable in the future and charges will need to reflect the costs imposed on the network to avoid off take customers subsidising the generation.

Waipa Networks believes its Line Charging Methodology is consistent with the Electricity Authorities Distribution Pricing Principles: refer Appendix III.

The following Appendices are from our 2014 Pricing Methodology to reflect the fact that our pricing has not changed and is based on these figures.

Appendix I – Pricing Statistics

Statistics of Customer Groups

	Domestic	Non-Domestic	11kV	11kV Non Standard	Total
Customer Numbers	18,600	5,225	24	2	23,851
Units (kWh)	147,071,244	108,134,509	35,906,817	62,412,114	353,524,684
Transformer kVA	111,600	81,031	11,963	14,500	219,094
11kV Demand (kVA)	27,129	19,989	6,215	3,024	56,357
RC 11kV Assets (\$)	31,299,077	23,060,975	7,170,084	1,774,039	63,304,175
RC 400V Assets (\$)	32,323,914	23,727,818	2,373,244	0	58,424,976

Allocation Factors for Standard Customer Groups

	Domestic	Non-Domestic	11kV	11kV Non Standard	Total
Customers	78.00%	21.90%	0.10%	-	100%
Units (kWh)	50.52%	37.15%	12.33%	-	100%
Transformer kVA	54.55%	39.60%	5.85%	-	100%
11kV Demand (kVA)	50.87%	37.48%	11.65%	-	100%
RC 11kV Assets (\$)	50.87%	37.48%	11.65%	-	100%
RC 400V Assets (\$)	55.33%	40.61%	4.06%	-	100%

Fixed and Variable Charges

	Domestic \$	Non-Domestic \$	11kV \$	11kV Non Standard \$	Total \$
Fixed	1,018,350	1,285,852	458,378	1,071,923	3,834,503
Variable	10,983,834	9,192,051	514,073	0	20,689,959
Total	12,002,184	10,477,904	972,451	1,071,923	24,524,462

Fixed and Variable Charges Percentages

	Domestic	Non-Domestic	11kV	11kV Non Standard	Total
Fixed	8%	12%	47%	100%	16%
Variable	92%	88%	53%	0%	84%
Total	100%	100%	100%	100%	100%

Appendix II - Allocation Factors 2014/15

Allocation Factor		Definition	Factor Name
Customer Numbers		Number of ICPs in each consumer category as a percentage of total number of ICPs.	%Consumers
	Domestic	18,600	77.98%
	Non-domestic	5,133	21.52%
	400V Capacity	19	0.08%
	Unmetered supplies	90	0.38%
	Street lights	2	0.01%
	11kV Standard	5	0.02%
	11kV Non-Standard	2	0.01%
	Total	23,851	100.00%
Consumption		Metered consumption plus allocated network losses (voltage dependent) per consumer category as a percentage of total consumption and network losses.	%Consumption
	Domestic	147,071,244 kWh	41.60%
	Non-domestic	106,309,750 kWh	30.07%
	400V Capacity	19,926,131 kWh	5.64%
	Unmetered supplies		
	Street lights	1,824,759 kWh	0.52%
	11kV Standard	15,980,686 kWh	4.52%
	11kV Non-Standard	62,412,114 kWh	17.65%
	Total	353,524,684 kWh	100.00%
AMD		Anytime Maximum Demand either metered or estimated per consumer category as a percentage of the total of all estimated/metered AMDs.	%AMD
	Domestic	111,600 kVA	41.60%
	Non-domestic	81,031 kVA	30.07%
	400V Capacity	7,120 kVA	5.64%
	Unmetered supplies		
	Street lights	460 kVA	0.52%
	11kV Standard	4,843 kVA	4.52%
	11kV Non-Standard	14,500 kVA	17.65%
	Total	219,554 kVA	100.00%

CMD	Measured or estimated contribution of each consumer category to the average of the 100 coincident peaks in the Upper North island as defined by Transpower.	%CMD	
	Domestic	27,129 kVA	48.14%
	Non-domestic	19,605 kVA	34.79%
	400V Capacity	3,297 kVA	5.84%
	Unmetered supplies		
	Street lights	384 kVA	0.68%
	11kV Standard	2,918 kVA	5.18%
	11kV Non-Standard	3,024 kVA	5.37%
	Total	56,357 kVA	100.00%

Appendix III – Non Standard 11kV Pricing

Line Charging Methodology – Non Standard

The Non Standard Methodology is used when ICPs have assets allocated for the sole or primary use of the Customer from a Transpower GXP to the ICP's 11kV metering point.

This methodology applies to two 11kV customers with effect from 1 April 2014.

There is no difference in Waipa Networks obligations and responsibilities between non standard and standard customers when the supply of electricity to the customer is interrupted.

Waipa Networks Methodology for Allocating Transpower Charges

Dedicated switching assets costs including maintenance and operation are allocated 100% to the Customer.

Other connection assets costs including maintenance and operation are based on the ratio of the Customers average 12 Anytime Maximum Demands to the average 12 Anytime Maximum Demands at the relevant GXP at 11,000 volts (%AMD).

Interconnection costs are allocated on basis of coincident demand to the 100 peaks as defined by Transpower (%CMD).

All Transpower costs are recovered as a fixed monthly charge.

This passes on transmission charges in a direct and transparent fashion which provides efficient pricing signals to the customers. The customer meets the full costs of connection at and supply from the Transpower GXP, there are no benefits or costs if the customer were to take a direct supply from Transpower.

This meets all the pricing methodology requirements of the Commerce Commission and Electricity Authority.

Waipa Networks Charges

All Waipa network assets have been provided in full consultation with the customer and provide the degree of future proofing the customer desired and was willing to pay for. Charges are based on value of the assets provided.

Maintenance charges are based on the Replacement Cost as used by the Company for all 11,000 volt assets.

Operations and Overheads are charged on an agreed formula that reflects the customer's impact on the activities covered by these charges.

All Waipa Network costs are charged as a fixed monthly fee.

The non-standard Line Charging Methodology is consistent with charges to all other Waipa Network customers and the Electricity Authorities Distribution Pricing Principles.

Appendix IV – Consumer Group Revenue Information

Waipa Networks Target Revenue by Price Component

	Tariff c/kWh	Revenue \$
Domestic		
Single Meter ¹	8.03	3,654,690
Uncontrolled	8.94	6,875,483
Controlled	1.75	409,572
Controlled - 8	1.10	7,807
Day	12.85	33,636
Night	1.10	2,646
Fixed Daily Charge	15.00	1,018,350
Total Domestic		<u>12,002,184</u>
Non-Domestic		
Uncontrolled		7,696,717
Controlled		253,763
Controlled - 8		9,293
Day		432,063
Night		16,163
Street Lights		144,886
Fixed Daily Charge		562,283
Unmetered Daily Charge		32,850
Total Non-Domestic		<u>9,148,018</u>
400V kVA Capacity Contract ²		
Anytime	4.02	793,335
Day	5.48	6,971
Night	0.52	706
Capacity Charge (per kVA)	\$6.91	528,874
Total 400V kVA Capacity Contract		<u>1,329,886</u>
11 kV Contract		
Day	4.07	488,864
Night	1.10	43,662
Service Charge (per month)	\$40.00	2,400
Demand Charge (per kVA/month)	\$6.94	403,325
Transformer Rental (per kVA/month)	50.00	34,200
Total 11 kV Contract		<u>972,451</u>
Non-Standard Customers		
Fixed Charge		1,071,923
Total revenue		<u>24,525,897</u>

¹ Requires water heating to be subject to ripple control; tariff closed to new customers since October 2001. New customers with ripple control water heating to have separate meters for Controlled and Uncontrolled usage.

² Minimum charge for 70 kVA applies.

Appendix V – Customer Consultation

Customer Consultation

Price versus Quality

Waipa Networks employs a number of methods to consult with customers:

- Annual customer survey
- Public meetings
- Customer Helpdesk and Website feedback forms.
- Complaints Resolution Process

Annual Customer Survey:

Waipa's primary method of consultation with customers is an independent annual customer survey. The survey takes place midyear and consists of 400 telephone interviews with randomly selected customers. The overall results have a margin of error of +/- 4.86% at the 95 confidence level.

For analysis purposes, each customer/ICP is assigned one category from each of the following four consumer groupings:

- Grid Exit Point:
 - Te Awamutu
 - Cambridge.
- Feeder Type:
 - Urban Te Awamutu
 - Rural Te Awamutu
 - Urban Cambridge
 - Rural Cambridge.
- Tariff Type:
 - Domestic
 - Non-Domestic.
- Retailer Type:
 - TrustPower
 - Other.

Grid Exit Point / Feeder Type have been identified as key indicators and quotas are enforced to ensure the survey sample reflects the population mix.

Retailer type is included primarily to gauge if responses are influenced through the customer being supplied by the traditional incumbent versus competing retailers.

Some key results from the surveys:

- Customer satisfaction consistently exceeds 90%.
- On Price versus Quality, the 2013 survey found the following:

- When customers were asked to think of the last time they had a power cut, 71% were not prepared to pay any extra to reduce the likelihood of it happening again.
 - Only 13% were prepared to pay extra;
 - 17% were unsure.
- Regarding a specific project to improve reliability for all customers supplied from the Te Awamutu GXP:
 - 71% of customers were prepared to pay extra for the increased reliability.
- For a number of years we asked customers for their preference regarding price parity between urban and rural properties. Consistently customers preferred that all customers pay the same regardless of the fact it cost more to supply rural customers than urban ones.

Public Meetings:

Waipa Networks organises public meetings on an “as required” basis. An example are the meetings held in conjunction with Transpower to arrange suitable times for maintenance of the single transmission line supplying Te Awamutu. These meeting have provided strong requests from the community to provide a second line and avoid the need for these 8 hour outages affecting over half of our connected consumers.

Several years ago we held some “proactive” public meetings in key locales across our Network for customers to discuss aspects of our operations, including price and quality. Despite the meetings being widely publicised and scheduled outside business hours we only had two attendees in total. This again was perhaps reflective of the high satisfaction rating and reasonable pricing, and proactive meetings were abandoned as a result.

Customer Helpdesk and Website Feedback Forms:

Waipa Networks maintains toll free numbers for customers to contact us regarding any issue of our operations. We also maintain e-mail contact details of key staff on our corporate website, and a feedback form for customers to use.

Fault calls and their resolution are recorded in the Company database. Network faults are analysed and reported to the Board.

Complaints Resolution Process:

The Company operates a Complaints Resolution Process in accordance with the Electricity & Gas Complaints Commissioner requirements. All complaints are assigned a case manager and complainants are fully involved and informed on the progress of their complaint.

Complaints are analysed by complaint type and customer type.

Trust Ownership:

The company is owned by a consumer trust which is elected by consumers once every three years. The Company meets with the Trust at least twice a year and receives feedback on its performance and the desires of the community regarding prices and service levels.

The Trust holds public Annual Meetings each year at which consumers are given the opportunity to ask questions of both the Trust and the Company. There are usually questions

from the floor regarding progress on a second supply for Te Awamutu. Occasionally the Company is asked why there is no policy to underground street reticulation.

Underground versus Overhead Reticulation:

From time to time a local community has discussed with the company their desire to improve their environment by placing overhead lines underground. On only one occasion has the community group been prepared to make a small contribution to make this happen. As our annual survey shows there is generally no interest in undergrounding distribution lines if this will increase charges.

District Councils:

Discussions are held with the Waipa and Otorohanga District Councils from time to time. They are particularly concerned with the security of supply at the Te Awamutu GXP. Each time there is an extended outage at a Transpower GXP (planned or unplanned) they must make arrangements for water and sewerage pumping. On one recent occasion, when supply was lost for more than 12 hours, Waipa DC came close to declaring a civil emergency when its water reservoir came close to empty. Had it done so water pipes would have de-scaled creating health issues requiring flushing of the pipe network. They are particularly concerned to see a solution to the single line supplying Te Awamutu.

Appendix VI- Electricity Authority Pricing Principles

Electricity Authority Pricing Principles

<p>a) Prices are to signal the economic costs of service provision, by:</p> <ul style="list-style-type: none"> 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; ii) having regard, to the extent practicable, to the level of available service capacity; and iii) signaling, to the extent practicable, the impact of additional usage on future investment costs. 	<p>Costs are allocated fairly and transparently to Consumer Categories. The rationale is described on page 11.</p> <p>Non Standard customers neither give nor receive cross subsidies as demonstrated in Appendix III.</p> <p>Waipa's treatment of small low voltage customers is designed to avoid arbitrage between tariffs and avoids cross subsidies between them as demonstrated on page 13. Other customers face the costs of supply in a fairly and transparently without subsidy as demonstrated on page 14.</p> <p>Small customers face increasing costs with increased usage.</p> <p>Larger customers face increased charges based on their increase in demand.</p>	<p>Complies</p>
<p>b) Where prices based 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.</p>	<p>Small consumers' prices have been influenced by legislation requiring minimal fixed daily charges and increased variable charges for small domestic consumers as described on page 13.</p> <p>This provides an incentive for customers to manage their overall consumption this is easier for these customers to achieve than limit their maximum demand on the network at peak times which may be driven by a single large appliance.</p>	<p>Complies</p>
<p>c) Provided that prices satisfy (a) above, prices should be responsive to the requirements and circumstances of stakeholders in order to:</p> <ul style="list-style-type: none"> i) discourage uneconomic bypass; ii) allow fair negotiation to better reflect the economic value of services and enable 	<p>The use of a cost allocation model which ensures a price is set at (Non Standard 11kV Consumers) or below a stand-alone price for all other consumers as they share the costs of supply with a large number of other consumers.</p> <p>Larger consumers have a choice of tariffs:</p> <ul style="list-style-type: none"> • Load control provides a price/ quality option; 	<p>Complies</p> <p>Complies</p>

<p>stakeholders to make price/quality trade-offs or non-standard arrangements for services; and</p> <p>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.</p>	<ul style="list-style-type: none"> • Larger consumers can elect from demand and time of use options; • Non Standard arrangements are available to large stand alone consumers. <p>There are no impediments to the connection of small scale distributed generation (page 9).</p> <p>Large scale generation would be on an individually negotiated basis taking into account network conditions at the point of connection including possible savings in network assets where the generator is sufficiently secure for this to happen.</p>	<p>Complies</p>
<p>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.</p>	<p>There have been no changes to the tariff structure since 1 October 2001.</p> <p>Waipa aims to maintain stable pricing (pages 3 & 4) and will discuss any proposed changes with electricity retailers prior to introducing them (page 8).</p>	<p>Complies</p>
<p>e) Development of prices should have regard to the impact of transaction costs on retailers, consumers and other stakeholders and should be economically equivalent across retailers.</p>	<p>Waipa Networks tariff structure is simple, limited to fixed daily and variable consumption tariffs for all but a small number of the largest consumers.</p> <p>All posted tariffs apply equally and without discrimination to all customers and all retailers.</p>	<p>Complies</p>

Glossary

AMD	Anytime Maximum Demand	the maximum demand (load) placed on the network by a customer or consumer group.
CMD	Coincident Maximum Demand	The maximum demand (load) placed on the network coinciding with the 100 highest peaks on Transpower's Grid in the Lower North Island.
CPI	Consumer Price Index	a measure of the increase in cost of a basket of goods typically consumed by a domestic household. A measure of general household inflation
EDB	Electricity Distribution Business	Waipa Networks is an EDB
GXP	Grid Exit Point	the place where the EDB's network is connected to Transpower's national grid
ICP	Installation Control Point	the customers point of connection to the Waipa's Network.
kV	Kilo-Volt = 1,000 Volts	a measure of electrical pressure or voltage
kVA	Kilo-Volt Ampere	a measure of power, is used to rate transformers and other electrical equipment used on electricity distribution networks
kW	Kilo-Watt	a measure of electrical power
kWh	Kilo-Watt hour	a measure of electricity consumption. Equals one kilowatt being consumed for one hour
ODV	Optimised Depreciated Value	a regulatory measure used to value electricity network assets. The ODV Handbook is a guide issued by the Commerce Commission.
RC	Replacement Cost	
V	Volt	a measure of electrical pressure or voltage