Certificate for Year-beginning Disclosures

Clause 2.9.1 of section 2.9

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

a) 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.

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.

Diane Reed

Richard Kadziolka

26 March 2013

Waipa Networks Ltd
Pricing Methodology

The purpose of this document is to describe Waipa Networks pricing methodology for the line charges effective from 1 April 2013. The pricing methodology disclosure document shall be subject to review annually or as required.

This document has been prepared to comply with Requirements 2.4.1 of 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 meet regulatory requirements relating to fixed daily charges / low-user rates
- To allocate costs fairly between consumer groups
- To establish a fair range of charges
- To appropriately recover pass through costs such as transmission charges
- To achieve a rate of return acceptable to owners
- To provide appropriate demand based pricing signals where possible
- To provide discounts to reduce network charges which is a visible sign of our price reduction, which otherwise would be absorbed into the energy retailers margin and impact on our competitiveness with gas and other alternative fuels.

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;
- and 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.

Customer consultation has occurred with customers refer Appendix V.

The results of consultation suggest our strategy of providing broad high supply satisfaction and low lines charges should continue. With customers supporting price parity, there is little mandate to offer a pricing structure more diverse than that already on offer. It should be noted the high retail margins and subsequent large number of retailers operating in our area mean our prices, and any changes, are largely obscured by retail market forces.

The one project where customers have expressed a need for increased quality and a willingness to pay for it is the TMU0111 reinforcement project and we will be using the feedback received when planning our funding for the project.

For the standard line charging Methodology refer Appendix I and for the non standard line charging Methodology refer Appendix II.

The line charge is based on each individual installation control point (ICP) and on the kWh consumption data provided by the respective retailers operating on WNL's network.

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 WNL'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.

Target revenues have been increased from 1 April 2013 to recover increased Transpower charges and the Waipa Networks portion of the prices has been increased by CPI of 0.8%.

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

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 subsiding the generation.

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

Waipa Networks Ltd

Line Charging Methodology - Standard

After allocating all costs to Non-Standard 11kV Customers according to the "Line Charging Methodology – Non Standard" (Appendix II), the remaining costs are allocated by the following methodology for all remaining customers who are classified as 400V Domestic, Non-Domestic and Standard 11kV customers.

Consumer Groups

- No distinction is made between those customers served from the Cambridge or Te Awamutu points of supply.
- Customers are classified into Domestic, Non-Domestic, or 11kV supply categories. Customers are split this way because 11kV customers either don't use the 400V network or use dedicated 400V assets and Domestic to comply with the Government requirement to offer small Domestic customers a 15 cents per day fixed charge.
- 11kV assets are allocated to customers on the basis of their estimated contribution to the demand on the 11kV system.
- 400V assets are allocated directly to individual 11kV customers where the company has supplied distribution assets.
- The remainder of the 400V assets are allocated on the basis of customer contribution to the total 400V demand.
- Ripple relay assets are allocated directly in the case of 11kV customers, and are averaged for other customers.

Statistics of Customer Groups

	Domestic	Non-Domestic	11kV	11kV Non Standard	Total
Customers	18,300	5,208	5	2	23,515
Units	145,979,159	125,815,534	16,254,732	60,318,726	348,368,151
Transformer kVA	109,800	86,209	4,834	14,500	215,343
11kV Demand	27,250	24,039	2,966	2,801	57,056
RC 11kV Assets	26,810,480	23,652,011	2,918,211	1,774,039	55,154,740
RC 400V Assets	25,248,973	19,880,530	335,000	-	45,464,503

Revenue Allocation

Target revenues have been increased to recover increased Transpower charges and the Waipa Networks portion of the prices has been increased by CPI of 0.8%.

- The Transpower interconnection charges are allocated in proportion to assessed demand, and the remainder of the Transpower charges are allocated on a customer usage (unit) basis. All Transpower costs are recovered on a variable basis.
- Maintenance is allocated in proportion to the capital value of the assets utilised and recovered on both variable and fixed charge basis.
- Operations and overheads are allocated in proportion to the capital value of the assets utilised and recovered on both variable and fixed charge basis.

- Depreciation is allocated in proportion to the capital value of the assets utilised and recovered on both variable and fixed charge basis.
- Cost of capital is allocated on variable unit consumption basis at the appropriate asset level.

	Domestic	Non-Domestic	11kV	11kV Non Standard	Total
Transmission Charges	3,498,206	3,029,382	387,753	562,463	7,477,804
Maintenance	1,783,954	1,523,344	139,605	39,655	3,486,558
Operations & Overheads	674,713	581,517	75,129	236,655	1,568,015
Depreciation	1,653,511	1,382,680	103,328	28,922	3,168,441
Cost of Capital	3,883,588	3,247,488	233,309	127,257	7,491,642
	11,493,973	9,764,411	939,125	994,952	23,192,461

Fixed and variable charging

- Government legislation has capped fixed line charges at 15 cents a day for Domestic customers using 8,000kWh or less per annum. This requirement has destroyed the integrity of the above pricing methodology and the company has set all domestic fixed line charges to 15c/day to avoid creating an opportunity for arbitrage.
- Fixed line charges for Non-Domestic customers have been set at 30 cents a day.
- The balance of the un-recovered fixed charges, calculated by the methodology, are recovered with the variable costs through uniform variable charges applied to both Domestic and Non-Domestic customers as the difference is not material.

	Domestic	Non-Domestic	11kV	11kV Non Standard	Total
Fixed	1,001,925	1,372,251	453,010	994,952	3,822,138
Variable	10,335,399	8,548,809	486,115	-	19,370,323
	11,337,324	9,921,060	939,125	994,952	23,192,461
Fixed	9%	14%	48%	100%	16%
Variable	91%	86%	52%	0%	84%
	100%	100%	100%	100%	100%

For Revenue by price component refer Appendix IV.

Variable unit rates have been calculated to indicate the value of control to the network.

A kVA capacity based charge is available to commercial customers:

- Minimum capacity charge 70kVA
- Revenue neutral with respect to average commercial customer on fixed daily charge

- This methodology applies to all 400V Domestic, Non-Domestic and Standard 11kV customers with effect from 1 April 2013.

Waipa Networks Ltd

Line Charging Methodology – Non Standard

The Non Standard Methodology is used when ICP's 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 2013.

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 TPNZ Charges

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

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

- Interconnection costs are allocated on basis of coincident demand to the 100 peaks as defined by Transpower.

- All Transpower costs are recovered by a fixed monthly charge.

This passes on transmission charges in a direct and transparent fashion which provides efficient pricing signals to the customers.

Waipa Networks Charges

- Charges are based on value of Distribution Network Assets, allocated for the sole or primary use of the Customer.

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

- Operations costs are based on the Demand Ratios.

- Are charged as a fixed monthly fee.

The non standard Line Charging Methodology is consistent with the Electricity Authorities Distribution Pricing Principles.

Waipa Networks Ltd

Electricity Authority Pricing Principles

a)	Prices are to signal the economic costs of service provision, by:	
	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;	The Waipa Networks pricing methodology is consistent with this.
	ii. having regard, to the extent practicable, to the level of available service capacity; and	
	iii. signalling, to the extent practicable, the impact of additional usage on future investment costs.	
b)	Where prices based on 'efficient' incremental costs would undercover 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.	
c)	Provided that prices satisfy (a) above, prices should be responsive to the requirements and circumstances of stakeholders in order to:	
	i. discourage uneconomic bypass;	The use of a cost allocation model which ensures a price is set below a stand-alone price, ensures consistency with this principle for the majority of customers.
	ii. allow fair negotiation to better reflect the economic value of services and enable stakeholders to make price/quality trade-offs or non-standard arrangements for services; and	The Waipa Networks pricing methodology is consistent with this.
	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.	The Waipa Networks pricing methodology is consistent with this.
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.	Waipa Networks consults with retailers on any planned changes to its pricing structure. There have been no changes to the tariff structure since 1 October 2001

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.	Waipa Networks tariff structure is simple, limited to fixed daily and variable consumption tariffs for all but a small number of the largest consumers. All posted tariffs apply to all customers and retailers equally.

Waipa Networks Ltd

Waipa Networks Target Revenue by Price Component

	Tariff	Revenue
Domestic		
Single Meter *	7.63	3,634,715
Uncontrolled	8.49	6,276,096
Controlled	1.70	395,229
Controlled - 8	1.05	9,434
Day	12.21	18,987
Night	1.05	938
Fixed	15.00	1,001,925
Total Domestic		11,337,324
Non Domestic		
Uncontrolled	8.49	7,102,978
Controlled	1.70	257,772
Controlled - 8	1.05	9,022
Day	12.21	429,247
Night	1.05	16,034
Street Lights	7.49	134,734
Fixed	30.00	567,758
Unmetered Daily Charge	100.00	32,850
Total Non Domestic		8,550,395
400V Kva Capacity Contract		
Anytime	5.13	901,840
Day	7.17	86,035
Night	1.05	5,032
Capacity Charges	4.51	377,758
Total 400V Kva Capacity Contract		1,370,665
11Kv Contract		
Day	4.54	555,113
Night	1.05	42,290
Service Charge	40.00	2,400
Demand Charge	5.26	305,122
Transformer Rental	50.00	34,200
Total		939,125
Non Standard Customers		
Fixed Charge		994,952
Total		23,192,461

* Requires water heating subject to ripple control; closed tariff since October 2001

Waipa Networks Ltd

Customer Consultation

Price versus Quality

Waipa Networks has employed a number of mediums to consult with customers:

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

Annual Customer Survey

The primary method of consultation with customers is our 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, each customer/ICP is assigned a category from each of the four customer groups:

- 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 the key indicators and so quotas are enforced for the survey 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 2012 survey found the following:
    - When customers were asked to think of the last time they had a power cut, 68% were not prepared to pay any extra to reduce the likelihood of it happening again. Only 6% were prepared to pay extra, while 26% were unsure.
    - Regarding a specific project to improve reliability for all customers supplied from the TMU0111 grid exit point, 69% 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.

Focus Groups

In 2009/2010 Waipa Networks ran focus group meetings with a cross-section of customers to discuss a variety of issues including supply quality and price. Interest in membership of the focus groups was low from the outset and this was perhaps reflective of the generally high service satisfaction coupled with the fact that Waipa Networks has consistently had the lowest average domestic lines charges in the country. The focus groups were not continued due to the lack of interest.

Public Meetings

Waipa Networks organises public meetings on an 'as required' basis. Examples in recent years have been for planned Transpower maintenance affecting around half the customers on our Network.

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 Commission 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.