



Price changes effective 1 April 2016

The final prices contained in the Pricing Schedules and associated Pricing Policy reflects an average overall nominal increase in charges of 1.6%. This increase can be broken down as follows:

- CPI adjustment of 0.5%
- Pass through of an increase in transmission charges which adds a further 1.1% (approximately) to the overall price increase

a) Average price changes vary by region and consumer group

While the overall price adjustment is an increase of 1.6%, the actual price movement varies slightly between regions and consumer groups (as the table below shows).

The variations between regions and consumer groups are the result of minor re-balancing of our charges to ensure consistency between regions and alignment with our underlying costs.

This helps to ensure that all consumers across our various regions and consumer groups pay a fair amount that reflects their use of the network and the costs associated with their supply.

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

Consumer Group	Region			
	Tauranga	Valley	Western	Overall
Mass Market	2.4%	1.8%	1.3%	1.7%
Commercial/Industrial	0.8%	1.3%	2.0%	1.5%
Overall	2.0%	1.6%	1.4%	1.6%

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

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

As 1 April 2015 was the first year of the new regulatory control period an initial starting price adjustment applied. For the remaining four years of this period Powerco is allowed to increase its prices at a rate equivalent to CPI, excluding changes to pass through costs.

From 1st April 2016 our distribution charges are subject to an annual CPI adjustment calculated as 0.5% for the relevant period.

c) Transmission charges

Transmission charges levied on Powerco by Transpower for the pricing year starting 1 April 2016 have increased by approximately 6% compared to the previous year.

This has resulted from an increase in Transpower's interconnection charges of \$6.0m, due in part to an increase in the interconnection rate from \$110.35 per kW to \$114.64 per kW. There was also an increase in Transpower's connection and new investment charges of approximately \$0.4m. Payments to embedded generators for the avoided cost of transmission charges (ACOT) have decreased by 4% due to reduced generation levels during peak demands. These payments have decreased from \$9.4m to \$9.0m for the 2016/17 pricing year.

The estimated increase in transmission charges and changes to other pass through costs such as rates, levies and miscellaneous wash-ups¹ corresponds to an average price increase of around 1.1% for the 2016/17 pricing year.

d) Changes to E100/E300 Chargeable Demand Quantities

From 1 April 2016 we will be moving to a new methodology for determining the chargeable demands for the E100 and E300 price categories across 464 large commercial/industrial customers in the Western region.

Historically these customers were charged demand charges based on the average of their 12 highest half hourly peaks (kVA) over the previous twelve months. Based on feedback from retailers and customers we have are moving to a less complicated, more cost reflective and transparent methodology. This involves taking historical half hourly (kW) Anytime Maximum Demands (AMD) and On Peak Demands (OPD) from the previous year to determine chargeable quantities.

From 1 April 2016 we will split the existing demand charge into two to allow us to separately apply a distribution charge and a transmission charge. The distribution charge will have the Anytime Maximum Demand (AMD) quantity applied to it while the transmission charge will have the On Peak Demand (OPD) quantity applied, similar to Transpower's current pricing methodology.

The AMDs and OPDs for each installation (ICP) will be determined and notified on an annual basis. A chargeable quantity will apply for every month across the entire pricing year.

As the new chargeable quantities are not equivalent to the existing quantities we have re-balanced the associated charges. This ensures the change is revenue neutral and compliant with the DPP. The charges will be stated and applied as "\$/kW/day" rather than a "\$/kVA/month" to align to the ENA Distributor Pricing Guidelines.

The more cost reflective approach ensures all customers pay their fair share of lines charges based on the costs we incur on their behalf. All customers will be affected differently based on their demand profiles. However, we have sought to minimise the impact of any rate shocks by smoothing the new charges across multiple price regions. We will be working with retailers to ensure customers are suitably notified of these changes over the next month.

e) T43 Migration

We are continuing with the migration of T43 connections to T50 Asset Based Pricing, which commenced on 1 April 2013, by migrating a further eight customers from 1 April 2016. Retailers will communicate this change with affected customers. We intend to review the transition of the remaining 10 sites from T43 to T50 on an annual basis, when existing sites review their assets and as customers vacate.

f) 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 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 Revenue Manager) on 06 759 6235 or via email Michael.warren@powerco.co.nz

¹ Such as the "Capex wash-up" adjustment which is M\$0.6 for the 2016/17 pricing year.