

Pricing Methodology

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For the assessment period ending 31 March 2027

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1 Glossary

Abbreviation/Term	Definition or description
2026/27 Disclosure of Prices	Wellington Electricity Lines Limited's Disclosure of Prices
Annual Price-Setting Compliance Statement	Discloses how much revenue a network can collect and demonstrates that forecast prices are set at a level to collect that revenue
Capacity	The maximum amount of energy that a part of the network is able to carry at any point in time
Commerce Commission	New Zealand Commerce Commission (NZCC)
Consumer	A person, residential or business, that uses electricity or acquires electricity lines services
Consumer group	The category of consumer used by the Electricity Distribution Business (EDB) for the purpose of setting prices
Controlled load	An amount of electrical load which a consumer makes available to the distributor's load control system to turn off during periods of network congestion or to assist in restoring supply
CPI	Consumer Price Index inflation
CPP	The Commerce Commission sets a price-quality path for each regulated lines company - a price path is the maximum total revenue a lines company can recover from its consumers and the quality path is the minimum level of quality of service that it must provide. A customised price path (CPP) is a unique price-quality path used to deliver a specific programme of work
Delivery price	The total delivery price for both distribution and transmission services (also known as lines charges)
Demand	Electricity use at a point in time
Distributed generator	Any person, or small business as defined by the EA, who owns or operates equipment that is connected to Wellington Electricity Lines Limited's distribution network, including through a consumer installation, which is capable of injecting electricity into the network

Distribution Network	A distribution network is the network of equipment that carries electricity from the high voltage transmission grid to industrial, commercial and domestic users
Distribution pricing practice note	The 2021 distribution pricing practice note 2 nd edition 2021 provides guidelines to help distributors interpret and apply the distribution pricing principles. This can be found on the Electricity Authority's website.
DPP	The Commerce Commission sets a price-quality path for each regulated lines company - a price path is the maximum total revenue a lines company can recover from its consumers and the quality path is the minimum level of quality of service that it must provide. A default price path (DPP) is a low cost, standard method of calculating the price-quality path for lines company's not on a CPP
DPP Determination 2025	WELL's current price-quality path, Decision No [2024] NZCC 28, Electricity Distribution Services Default Price-Quality Path Determination 2025
EDB	An Electricity Distribution Business is an entity that owns and operates an electricity distribution network to provide electricity distribution services
Electricity Authority	The Electricity Authority. The Electricity Authority is an independent Crown entity responsible for the efficient operation of the New Zealand electricity market. It is the electricity market regulator
Electricity distribution services	Electricity distribution services are the conveyance of electricity on lines from the transmission GXP to consumers ICPs
EV	Electric Vehicle
Flexibility Services	Services which use consumer smart devices to move electricity demand away from congested periods on the network.
GXP	A point of supply to Wellington Electricity Lines Limited's distribution network from Transpower's national transmission grid
HV	High Voltage – equipment or supplies at voltages of 11kV, 22kV or 33kV
ICP	An Installation Control Point (ICP) is a physical point of connection on a local network or an embedded network that the distributor nominates as the point at which a retailer will be deemed to supply electricity to a consumer
ID Determination 2012	Electricity Distribution Information Disclosure Determination 2012 (Consolidated) – 6 July 2023

IM Determination 2012	Electricity Distribution Services Input Methodologies Determination 2012 - consolidated as of 23 April 2024
LFC Regulations	Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulation 2004
Lines charges	Refer to Delivery price
LRMC	Long Run Marginal Cost. This is the cost of expanding or upgrading the electricity network to meet future demand. It helps set fair prices by reflecting the cost of supplying an extra unit of electricity over time, ensuring investment is made when needed while keeping prices stable for consumers.
LV	Low Voltage – equipment or supply at a voltage of 220V single phase or 415V three phase
Network	The electricity distribution network owned by Wellington Electricity Lines Limited for the conveyance of electricity. Network assets include substations, lines, poles, transformers, circuit breakers, switchgear, cabling etc.
Point of connection	A point at which a consumer's fittings interconnect with the Network as described by diagrams as used from time to time by Wellington Electricity Lines Limited
Power factor (PF)	<p>A measure of the ratio of real power to total power of a load. The relationship between real, reactive and total power is as follows:</p> $PF = \text{Real Power (kW)} / \text{Total Power (kVA)}$ $\text{Total Power (kVA)} = (\text{kW}^2 + \text{kVAr}^2)^{0.5}$ <p>Power Factor is a measure of how efficiently electricity is being used. A poor power factor means the network has to work harder to deliver the same useful power, which can lead to higher costs and strain on the system. Businesses often need to correct their power factor to avoid extra charges and improve efficiency</p>
Pricing Methodology	Wellington Electricity Lines Limited's Pricing Methodology Disclosure Document
Pricing Principles	The Electricity Authority's updated Distribution Pricing Principles have been provided in "Distribution Pricing: Practice Note", August 2019. This can be found on the Electricity Authority's website.
Quality	In electricity distribution, quality is determined by how well the network delivers safe, reliable, and efficient power to consumers. It is typically measured through reliability measures that track how often and how long power outages occur:

- SAIDI (System Average Interruption Duration Index) – The average outage duration per customer.
- SAIFI (System Average Interruption Frequency Index) – The average number of outages per customer.

RAB	Regulated Asset Base – is the regulated value of the distribution assets that Wellington Electricity uses to provide line function services
Regulatory Period	A regulatory period is the period of time that a price-quality path Determination applies to. The Regulatory Period for a DPP is usually five years
Regulatory Year	A regulatory year is the period from 1 April to 31 March
TPM	Transmission Pricing Methodology is the methodology and approach, set by the Electricity Authority and implemented by Transpower, to allocate transmission costs to the user of grid services, including EDBs.
WELL	Wellington Electricity Lines Limited

2 Introduction

Wellington Electricity Lines Limited (**WELL**) owns and operates the electricity distribution network in the Wellington region. We manage the poles, wires and equipment that provide electricity to approximately 415,000 consumers in the Wellington, Porirua, Lower Hutt and Upper Hutt areas. We have been provided capital expenditure allowances of \$426m between April 2025 to March 2030 (the upcoming regulatory period) to continue investing in a safe, reliable network for our customers.

 <p>We have allowances to invest \$426m in infrastructure on the Wellington network over the next five years</p>	 <p>We provide electricity to over 176,000 households & premises and to over 415,000 people</p>	 <p>Our total network is around 6,800 km in length with over 4,200 km of it being underground cables.</p>	 <p>We have around 4,000 substations and 40,000 poles.</p>	 <p>There are about 13,600 electric vehicles connected to our network, 1,600 more than last year.</p>
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WELL recovers the cost of owning and operating the network through a combination of standard (published) and non-standard prices for electricity lines services, and capital contributions for new connections. WELL is regulated by the Commerce Commission (**Commission**) and is required to publish its Pricing Methodology used to calculate prices for its electricity lines services. WELL is also regulated by the Electricity Authority (**Authority**), who provides guidance on how network tariffs are derived and provides the terms and conditions for applying those tariffs to retailers.

This document describes WELL’s price setting methodology and outlines how costs are allocated to and recovered from the consumer groups who receive electricity distribution services from using the Wellington distribution network. This Pricing Methodology is for the pricing year commencing 1 April 2026.

3 Regulatory background

WELL is a supplier of electricity distribution lines services and its prices are regulated by:

Regulator	Regulation	Purpose	Regulatory mechanism
Commerce Commission	Part 4 of the Commerce Act 1986	Sets the price and quality path (how much revenue an EDB can collect).	Price Path Determination
		Sets reporting and disclosure requirements (the information about prices and tariffs that an EDB must publicly disclose).	Information Disclosure Determination
Electricity Authority	Electricity Industry Act 2010	Provides terms and conditions for applying tariffs to retailers.	The Electricity Participation Code and the Default Distribution Agreement
		Provides guidance on developing tariff structure so that they reflect the costs of providing distribution services.	Distribution Pricing Principles 2019

3.1 Commerce Act 1986

Under Part 4 of the Commerce Act 1986, the Commission regulates markets where competition is limited, including electricity distribution services. The purpose of Part 4 is to safeguard the long-term benefits of consumers by promoting outcomes consistent with competitive markets and ensure EDBs have incentives to innovate, invest, improve efficiency, and provide services at a quality that consumers demand. The Commission regulates pricing for electricity distribution services in two ways:

- Setting the price-quality path:** The Commission regulates the price (how much a customer pays for the service) and quality (the level of quality it must provide) to ensure EDBs face incentives and pressures that are similar to those in a workably competitive market. The Commission sets a price-quality path determination which provides how much revenue an EDB can collect (price) and the service quality it must provide.
- Information Disclosures:** The Commission regulates what information Electricity Distributors Businesses (EDB) must publicly disclose about its operating and business performance. This allows the Commission, stakeholders and the public to judge whether the purpose of Part 4 of the Commerce Act is being met. The Commission sets an Information Disclosure Determination which provides the information that EDBs must disclose publicly. This Pricing Methodology is part of that determination.

3.1.1 Price-quality path determination

WELL is currently on the *Electricity Distribution Services Default Price-Quality Path Determination 2025 (DPP Determination 2025)* price-quality path. This price path is for the regulatory period between April 2025 and March 2030. The price path provided by the DPP Determination 2025 has three components:

Component of the price path	What the price component recovers
Distribution price component	The cost of operating the electricity distribution network and providing electricity distribution services.
Pass-through price component	The costs for other external services that EDBs then pass through to consumers. These costs include council rates, electricity regulation levies and transmission costs. These costs are largely outside of the control of EDBs.
Recoverable price component	Recoverable costs are in-period adjustments to distribution service costs. Recoverable costs include incentive payments and penalties, wash-ups for differences between forecasts and actual pricing inputs, delayed recovery of revenue from price smoothing and approved innovation allowance cost recovery.

At the commencement of each regulatory period, the Commission determines the total amount of allowable revenue that a regulated EDB is allowed to collect from its customers. Allowable revenue comprises of cost ‘building blocks’ which include operating expenditure, asset depreciation, tax expenses and an “industry benchmarked” rate of return on capital employed. Once the cost building blocks are determined for each year of the regulatory period, the annual cost amounts are aggregated and smoothed over the regulatory period as forecast net allowable revenue.

The DPP Determination 2025 sets WELL’s forecast net allowable revenue from distribution prices for each year of the current regulatory period. A mechanism at the end of each pricing year allows for any differences between allowable revenue and actual revenue to be washed up in subsequent years with a time value of money adjustment.

Pass-through price components recover the actual pass-through and recoverable costs that WELL incurs. A mechanism at the end of each pricing year allows for any differences between pass-through and recoverable costs and pass-through price revenues to be washed up in subsequent years with a time value of money adjustment.

The prices provided in this Pricing Methodology are compliant with WELL’s regulatory DPP Determination 2025 for the 2026 Assessment Period, i.e. the year commencing 1 April 2026.

3.1.2 Information Disclosure Determination 2012

WELL is also subject to information disclosure regulation under Part 4¹ of the Commerce Act 1986. The purpose of this regulation is to ensure that sufficient information is readily available to interested persons to assess whether the purpose of Part 4 of the Act is being met. As a result, WELL must make disclosures under the ID Determination 2012, including publicly disclosing its Pricing Methodology before the start of each disclosure year

¹ Section 54F of the *Commerce Act 1986*

commencing 1 April. The requirements of the ID Determination 2012 relating to pricing methodologies are set out in Appendix A.

3.2 Electricity Industry Act 2010

The Electricity Industry Act 2010 provides a framework for the regulation of the electricity industry. The Act is enacted via The Electricity Industry Participation Code 2010 (Code) which provides the rules that govern most aspects of the New Zealand electricity industry. The Authority is the regulator of the Electricity Industry Act 2010 and the Code.

3.2.1 Authority's price reform

The Authority is reforming prices for transmission and distribution services. Note, the price reform is for methods used to calculate the unit tariffs which pass costs onto customers – not the total amount of revenue that is allowed to be collected (which is provided by the Commerce Act 1986 and is the responsibility of the Commission).

The intent of the reform is to provide prices that are more reflective of the underlying costs of providing lines services. Prices influence people's and businesses' use of electricity and the investments they, EDBs, Transpower and others in the sector make. Cost-reflective price signals support customers and the industry to make efficient infrastructure investments which will help reduce the size of any future price increases. Helping to ensure the industry is making efficient infrastructure investments will be especially important as New Zealand's Emissions Reduction Programme increases electricity demand and future investment requirements. The Authority have:

- Applied a new Transmission Pricing Methodology (TPM) which is used to calculate the overall cost of transmission services that distribution networks pass through to retailers and direct customers. The TPM also provides how transmission costs should be passed through to customers.
- Provided updated Pricing Principles and a new Pricing Methodology for distribution services.
- Changed rules for payments to small customers with DG.

3.2.1.1 Transmission Pricing Methodology (TPM)

In April 2022, the Authority released its TPM which has been applied from April 2023. The final TPM decision and its inclusion in the Electricity Code is provided in the Electricity Industry Participation Code Amendment (Transmission Pricing Methodology) 2022, and Transmission Pricing Methodology 2022, Decision paper. These can be found on the Authority's and Transpower's websites respectively. The change in approach has resulted in material changes to EDB tariffs. The key changes being:

- a. Changes in the overall costs assigned to each distribution network to pass through.
- b. Change in the cost allocation methodology used to pass through costs to customers.

These changes applied from 1 April 2023. This Pricing Methodology details the Transmission cost allocation methodology.

3.2.1.2 Distribution Pricing Principles 2019

The Authority's Distribution Pricing Principles 2019 provide voluntary pricing principles for EDBs to use when developing their tariff structures. The Authority have also provided the Distribution Pricing Practice Note to help

distributors interpret and apply the distribution pricing principles. In accordance with the ID Determination 2012, we demonstrate that WELL's pricing methods are consistent with the Pricing Principles in Appendix B.

The Authority also provide an annual scorecard assessment of how well an EDB's prices reflect the pricing principles and are reflective of the underlying costs of providing distribution services.

3.2.1.3 DG peak payments

From 1 April 2026, the Authority will require distributors to apply negative tariffs to DG injection at network peak times.

To better target these payments towards the network peak, we are applying them during the winter peak period. For the pricing year beginning 1 April 2026, we are using the transitional option of basing the negative tariff on the peak signal. In 2027, we will be required to base the negative tariff on Long-Run Marginal Cost (LRMC).

We are applying an adjustment factor of 0.83, to arrive at a negative tariff of 2 cents applicable to residential customers and small businesses as defined by the EA. The tariff has been set this way because:

- We are taking a prudent approach as we do not want to start with strong incentives which may be hard to reverse. We can fine tune this tariff over time as more information becomes available to us and strengthen incentives later.
- Large or synchronised injections at any single time or location may impose additional network costs.
- The number of consumers capable of injecting electricity is currently low, but has significant potential for rapid growth. In the WELL context there is also significant uncertainty in the medium term in regards to the amount of growth in DG injection.
- We aim to minimise consumer impact, in an environment of rising distribution prices across Aotearoa.
- We expect to refine our pricing to better target constraints over the next few years, and this will be analysed in conjunction with our other pricing initiatives outlined in our Pricing Roadmap.

3.2.2 Default Distribution Agreements

The Default Distribution Agreement (DDA) provides the terms and conditions for the provision of distribution services. The application and content of the DDA is a Code requirement. The agreement is between the EDB and the retailer (distribution services are provided to customers via the retailer). The DDA includes the terms and conditions which govern how tariffs are applied and updated.

3.3 Other regulatory requirements

Other regulatory requirements directly applicable to this pricing methodology are:

- The Low Fixed Cost Regulations - these require EDBs to offer a unique pricing plan to residential consumers who use less than 8,000kWh per annum (called low users). The low-user pricing plan:
 - Restricts the size of the fixed daily price.
 - Requires that variable charges are set at a level so that residential low users are no worse off than residential standard users when consumption is at 8,000kWh per annum.

The legislation applying the fixed price restrictions is being phased out over five years, with EDBs being able to increase their fixed price for low energy users by 15 cents each year. Prices this year included the fourth fixed price adjustment. The fixed daily charge for residential low users has been increased this year from 75 cents per day to 90 cents per day.

- Schedule 6.4 of Part 6 of the Electricity Code sets out pricing principles for distributed generation.

3.4 Related pricing documents

In addition to this Pricing Methodology disclosure document, the following documents support WELL’s prices and price setting process - they can all be found on WELL’s website:²

Document	Purpose
Annual Compliance Statement	Confirms that WELL has met its revenue and quality expectations set out by the price-quality path.
Annual Price Setting Compliance Statement	Confirms that WELL’s forecast prices have been set at a level to collect the allowances determined by the price-quality path set by the Commission.
Customer Contributions Policy ³	WELL collects revenue from its (1) on-going tariffs or from (2) customer contributions toward new connections. The Customer Contribution Policy is a regulatory disclosure which sets out how WELL calculates a customer’s contribution towards a new connection.
Network Pricing Schedule	The Network Pricing Schedule provides Retailers with WELL’s network lines charges and the terms and conditions of their application. Specifically, the Network Pricing Schedule provides: <ul style="list-style-type: none"> (a) Pricing structure; (b) Pricing categories, and the eligibility criteria for each price category; (c) Price options (if any); and (d) Unit prices.
Disclosure of Prices	The Disclosure of Prices provides stakeholders (consumers, retailers and regulators) with prices and any price changes for the upcoming regulatory year. The Disclosure of Prices is a regulatory Information Disclosure requirement.
Line Charge Notice	The Line Charge Notice provides WELL’s tariffs for the upcoming regulatory year. WELL publishes the Line Charge Notice on news website Stuff and on WELLS own website.
Pricing Roadmap	The Pricing Roadmap updates stakeholders about WELL’s plans for future changes to pricing structures and/or prices, together with expected timeframes and progress updates.

4 Pricing Roadmap and future pricing

Our Pricing Roadmap provides our future pricing plans, including our transition to prices which are more cost reflective. We are planning to introduce prices to support new services that will offer consumers with smart devices (like smart electric vehicle chargers and household solar and battery equipment) the opportunity to participate in services that manage demand away from peak demand periods on the network. If we can shift

² Available at: www.welectricity.co.nz/disclosures/pricing

³ Available at: www.welectricity.co.nz/disclosures/customer-contributions/

demand away from busy periods on the network, we can delay building a larger network to meet the increase in climate change related electricity demand (from the electrification of transportation and gas appliances). Participating consumers will be rewarded with cheaper prices and will help keep prices lower for everybody in the long term (lower than they would be if peak demand wasn't reduced, and we had to build more capacity). These new prices will complement our Time of Use (ToU) prices that we introduced in 2020.

4.1 Pricing strategy

The objective of WELL's pricing programme is to equitably collect the revenue that it needs to build and operate the network and to signal the future cost of using the network. Practically, this means:

- Prices that will recover the cost to build and operate the network;
- Prices that encourage off peak electricity use and discourage peak electricity use;
- Prices that encourage consumers to allow their appliances to be directly managed.

Signalling the cost of network congestion provides consumers with the opportunity to change their energy use behaviour and to reduce their electricity costs by moving their demand to when the network is not congested. This has the immediate benefit of less expensive lines charges (for those who move their energy consumption to off peak periods) and the long-term benefits of lower prices through avoiding or delaying network re-enforcement.

We want to move all consumers to cost-reflective pricing arrangements that better signal economic costs. The speed and shape of this transition is constrained by factors such as the need to limit price shock (especially for consumers who struggle with affordability), to comply with low-user low-fixed charge regulations, and the speed at which retailers can change their own processes and systems to pass on price signals.

Our pricing programme is informed by:

- The cost impact of reinforcing the distribution network to meet growing demand during peak congestion periods. Signalling the cost of reinforcing the network will let consumers choose to avoid network reinforcement and enjoy lower long-term prices, or to pay more to build a larger network that removes the anticipated restrictions on when energy can be used. The price signal provides a clear price-quality trade-off opportunity for consumers;
- The risks (e.g. of congestion and cost of providing higher network capacity) and opportunities (e.g. to reduce network investment pressures) of new and maturing technologies – these increase the value of adopting prices that clearly signal congestion periods and costs of increasing network capacity, which encourages more efficient use of the network;
- The impact that price changes will have on consumers, especially those in energy hardship. Practically, this will likely mean a gradual transition to cost reflective prices over time;
- The Government's Emissions Reduction Plan, specifically the programme to electrify activities and services that are currently provided by using fossil fuels. This includes the electrification of transportation and potential transition from using gas in homes and businesses to using electricity;
- The Authority's revised pricing principles and supporting guidelines.

4.2 Updated pricing approach

The Pricing Roadmap has been updated to incorporate the Authority's pricing methodology. The Electricity Authority provided updated Pricing Principles in 2019 and supported them with a Distribution Pricing Practice

Note (2021) to help distributors interpret and apply the distribution pricing principles. The purpose of the Pricing Principles is to provide prices that are more reflective of the underlying costs of providing distribution services.

Applying the principles requires a different approach to pricing, an approach which first sets a price signal which reflects the cost of using electricity during peak congestion periods, and then recovers any residual costs in a way that doesn't influence consumers' energy use behaviours i.e. the peak demand price signal already signals the future cost of using energy during peak demand periods and no further price signals are needed. The remaining revenue should then be collected in a way that minimises any volatility from changes in consumer energy use habits, generally by using fixed charges.

This differs from the past pricing approach which allocated costs to consumer groups using cost drivers, and then applied price signals that reflect the cost of using energy during peak demand periods. Appendix C illustrates the pricing approach – this diagram is sourced from the Authority's Distribution Pricing Price Note 2021.

The pricing approach is an important step in signalling the cost of using electricity during busy periods on the network. This will encourage consumers to shift discretionary energy use to less busy periods, and in some cases, help us to delay expensive network reinforcement.

4.3 Future price structure

In 2021 we reviewed our prices and developed a new pricing structure which aligns with the Electricity Authority's cost reflective pricing methodology. In 2022 we consulted with retailers on the new price structures and in 2023 we started the transition process. Our future pricing structures include changes to residential and non-residential prices. This Pricing Methodology summarises our future pricing structure and our Pricing Roadmap provides more detail.

General mass market tariffs: Our pricing will use the long-run marginal cost (LRMC) to set pricing signals for the mass market, rather than the more volatile short-run costs. We believe that distribution pricing is best suited to signalling enduring (or slow-moving) network economic cost. We recognise that an 'accurate' estimate of network LRMC would vary by location and time – rising as load growth reduces capacity headroom before collapsing after each new capacity investment. However, due to the general consumer's inability to meaningfully respond to such granular and dynamic prices, distribution pricing is better suited to relatively stable, network-wide estimates of LRMC. To start we are proposing to use a network-level LRMC. In future we may consider other options like geographic pricing zones where the network has significant differences in the LRMC. Beyond this we expect to move pricing towards targeting particular constraints.

Flexibility services solving specific network issues: We will consider short-run costs for flexibility services designed to solve specific short-term network issues. These services are not designed to be enduring and will be targeted at flexibility providers who have the tools and expertise to respond to more complex price signals.

4.3.1 Residential price structures

Our residential price structures assume the removal of the current low fixed charge regulations which currently are a barrier to the full implementation of cost-reflective prices.

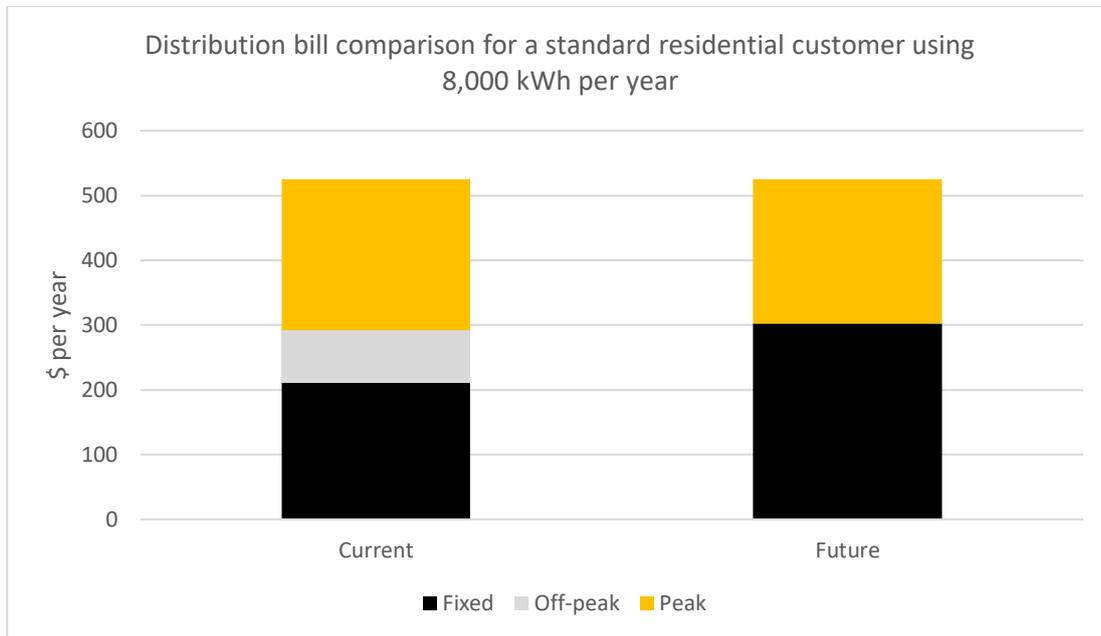
Our prices will use different price signals depending on the type of prices and behavioural changes being targeted. This includes a zero-rated off-peak price signal and rebalancing the variable/fixed price mix. Practically, this means reducing the amount of revenue collected from off-peak periods and increasing the proportion of revenue collected from fixed prices. This will shift pricing incentives from encouraging customers to reduce overall

energy use (promoted by the off-peak price signal) to reducing energy use during busy periods on the network, when the network has limited capacity. This provides several advantages:

- It reflects that there is excess capacity during off-peak periods and there are no peak period cost impacts.
- It clarifies the price signal to consumers. Currently, consumers must subtract the peak demand price signal away from the off-peak signal to reveal the true peak demand price signal. Rebalancing variable and fixed prices using the LRM will also make the price signal more reflective of the cost of using energy during peak demand periods.
- It removes potential subsidisation of distribution prices for non-solar users. Currently, solar users may be paying less because they are able to reduce their off-peak prices by offsetting their energy use using solar. This means they are avoiding paying for services they should be contributing towards – the network has capacity during the off-peak periods and there are no benefits of reducing demand at this time. Other customer prices then must be raised to cover the revenue shortfall. Customers with solar **and** a battery will be able to use solar to charge their batteries in the day and then use the batteries to avoid higher peak prices.

Early estimates of the LRM show our prices could collect 50% - 60% of the revenue from fixed prices and 40% - 50% from the peak price signal. Figure 1 illustrates the change in price structure, comparing the bill components for a household consuming 8,000 kWh per year, which is broadly in line with the average consumption of a household on our network.

Figure 1 – Comparison of old and future residential pricing structures



ToU is the best-fit for now for smaller consumers; ToU is effective because it:

- is readily understood – it doesn't require consumers to understand a new usage statistic (e.g. peak demand) – and doesn't expose consumers to excessive volatility or risk
- can be implemented by most NZ retailers, helped along by its emerging prevalence amongst larger distributors

- sends an efficient signal and effective signal for the types of decisions small consumers make

Longer-term, successors to ToU may be appropriate, for example if:

- daily load profiles flatten enough that investment is driven by peak days rather than peak hours
- there are enough responsive demands (or injections) in a typical household to support more dynamic signalling
- retail (or aggregator) capability is no longer an impediment

However, more dynamic pricing (such as coincident peak demand) comes with significant implementation challenges and risk of repeated bill shocks.

We will compliment ToU prices with discounts for “appliances” that can be controlled to further manage network load. This is well established for hot water heating – a storage load that can be managed with minimal customer impact. Remote management allows staggered restoration to avoid risk of post-control peak. The same approach is attractive for electric vehicles (EV). Because it’s a storage technology (using the EV battery), vehicle charging is a very ‘shiftable’ load, so with ToU alone there could be sizeable surge at onset of the off-peak period.

We will offer a discounted charge for controlled load that is consistent with ToU design philosophy:

- A discount could be 100% if control is fully effective at eliminating investment pressure
- Scaled-down discount if the controlled load is not separately metered – i.e. ‘inclusive’ tariff
- Recover the cost of control systems from managed load parties using a fixed or annual charge

Figure 2 summarises the structures for residential consumers. The figure also provides the reasons the price component was selected.

Figure 2 – Future residential price structures

Component	Pricing method	Reason selected
Peak demand charge	<p>Time of use for unmanaged load, with limited opt-out (ToU currently in place, but with wide opt-out options).</p> <ul style="list-style-type: none"> - Weekday peak rate from 7am to 11am and 5pm to 9pm. The structure aligns with the sector majority (aiding retail uptake) and network demand (aiding the efficiency of price signal). - Zero-rated off-peak (incl. weekends). Reflects excess capacity off-peak (and no other cost impacts). 	<ul style="list-style-type: none"> - Understood and can be implemented by retailers - Sets an efficient and effective signal for the types of decisions small consumers make (what appliance to buy, simple changes in routine – e.g. delaying running a dishwasher)
	<p>Peak discount for manageable load</p> <ul style="list-style-type: none"> - Discounted for metered controllable load. - Discounted for managed load. - Discounted peak rate for “inclusive” controllable load. - Apply an additional fixed price increment to recover the cost of control. 	<ul style="list-style-type: none"> - Discount appropriately rewards uptake. - Assumes flexibility service providers would be financially incentivising residential consumers, and not WELL directly
Residual cost allocation and	<p>Energy-based cost allocation</p> <ul style="list-style-type: none"> - Cross-check against robust subsidy-free analysis. 	<ul style="list-style-type: none"> - Least distortionary impact on energy use behaviours - Simple and achieves Electricity Price Review (EPR)

Component	Pricing method	Reason selected
recovery	- Net off expected signalling revenue, then spread balance across ICPs to derive fixed charge per ICP.	recommendation of reversing historic over-allocation to residential.
	<p>Higher fixed rate</p> <p>- Fixed rate adjusted up to achieve full recovery of costs allocated to the residential consumer group.</p>	- Least distortionary impact on energy use behaviours

4.3.2 Non-residential price structures

The review of our commercial price structures also provides an opportunity to simplify the current structure which has many different price categories.

We will apply ToU to small and medium size customers because:

- It is readily understood – it doesn’t require consumers to understand a new usage statistic (e.g. peak demand) – and doesn’t expose consumers to excessive volatility or risk
- can be implemented by most NZ retailers, helped along by its emerging prevalence amongst larger distributors
- sends an efficient signal for the types of decisions smaller consumers make
- operates with existing commercial cycles (annual rate setting, monthly billing)

We are considering coincident peak demand (CPD) for large customers. CPD charges for usage during actual network peaks, rather than pre-defined peak periods. CPD typically:

- operates on lagged basis – e.g. usage measured over 12 months is used to set prices for future 12-month period
- is supported by notifications to make users aware when system demand is high and is likely to be a charging period (in ex-post designs) or will be a charging period (in ex-ante designs)
- can produce volatile outcomes that are difficult for consumers to predict (and slow to arrive)
- is better targeted than ToU in theory, but can produce excessive avoidance in practice

These characteristics mean CPD is only suited to larger, more sophisticated users (i.e. large energy-intensive businesses) who are able to manage their demand in a way that makes CPD effective in practice (and not just in theory). This type of pricing suits customers who can integrate load profiling into their operations.

We are early in our thinking about price structures for larger commercial customers. We will be consulting again as we refine our thinking. Figure 3 summarises our non-residential price structures.

Figure 3 – Future non-residential price structures

Component	Pricing method	Reason selected
Peak demand signal	<p>Small non-residential users (15kVA or less)</p> <p>Time of use</p>	<p>- Understood and can be implemented by retailers</p> <p>- Sends an efficient and effective signal for the types of decisions smaller consumers make (what</p>

Component	Pricing method	Reason selected
	<ul style="list-style-type: none"> - Weekday peak rate from 7am to 11am and 5pm to 9pm. Structure aligns with sector majority (aiding retail uptake) and network demand (aiding efficiency of price signal). - Zero-rated off-peak (incl. weekends). Reflects excess capacity off peak (and no other cost impacts). - No distinction between those with dedicated transformers and those connected to low voltage network – no significant cost difference 	<ul style="list-style-type: none"> - appliance to buy, simple changes in routine) - Remove fixed daily charges
	<p>Medium non-residential users (>15 to 300 kVA)</p> <p>Time of use</p> <ul style="list-style-type: none"> - Peak and off-peak periods dependent on local demand profiles. - Zero-rated off-peak (incl. weekends). Reflects excess capacity off peak (and no other cost impacts). - The majority of dedicated transformer connections are for <u>connections</u> greater than 300 kVA. Therefore, we are proposing no distinction between those with dedicated transformers and those connected to low voltage network for the medium price category. 	<ul style="list-style-type: none"> - Understood and can be implemented by retailers - Sends an efficient and effective signal for the types of decisions smaller consumers make (what appliance to buy, simple changes in routine) - Remove fixed daily charges
	<p>Large non-residential users</p> <p>Current hypothesis is to apply coincident peak demand charge.</p> <ul style="list-style-type: none"> - Separate prices for dedicated transformer and low voltage connections – as they have different long run marginal costs - Simplify the number of pricing components - Still considering the current power factor charge 	<ul style="list-style-type: none"> - Largest users <i>may</i> be energy intensive (and sophisticated) enough to manage a coincident peak demand charge - Remove fixed daily charges and any time variable prices as they are no longer needed
<p>Residual cost allocation and recovery</p>	<p>Energy-based cost allocation</p> <ul style="list-style-type: none"> - Allocate total costs between residential and business consumer groups using energy (GWh) as allocator. - Cross-check against robust subsidy-free analysis. <p>Apply fixed prices:</p> <ul style="list-style-type: none"> - Small users – a fixed daily charge - Medium users – a fixed charge based on connected capacity - Large users – a fixed charge based on connected capacity 	<ul style="list-style-type: none"> - Least distortional impact on energy use behaviours - A daily fixed fee for small users because there is not a range of different connection sizes - A fixed charge based on capacity for medium and large users will allow us to reduce the number of price categories and remove the current price steps between categories - It also reflects that larger users should pay more because they are using a larger share of the network

The new price structures will continue to include direct agreements and individual tariffs for some large connections with unique commercial or operating conditions. This will allow WELL:

- To offer services that reflect different price/quality trade-offs. This could include when a customer wants to connect to an area of the network that does not have the capacity to provide standard network security limits, within a time period that would not allow WELL to build more capacity.
- To allow customers to participate in providing flexibility services.

4.3.3 Consumer impact

The new price structures will impact prices in multiple ways. Figure 4 summaries the key effects.

Figure 4 – Impact of applying the pricing structures on customer bills

Change	Effect
Only recover demand-driven costs via variable charges (i.e. set the price signal first). Residual costs recovered via fixed charges	Will increase proportion of revenue from fixed charges. Increase small users' bills and lower large users' bills. Average bill within consumer group is unchanged
Only recover demand-driven costs through variable peak charges. Provide zero variable rate off-peak and managed load charges	Will increase bills for peakier consumers (those who use more energy during peak periods) and vice-versa for flatter consumers
Revised cost allocation between consumer groups	Energy-based cost allocation will reduce residential consumer bills and increase non-residential (commercial) consumer bills
Simplifying non-residential consumer groups and making price consistent between consumer groups	Little impact on the small and very large non-residential users. Could impact medium size businesses

The retailer consultation provided a more detailed analysis of the customer impact of the changes.

4.3.4 Transition rules

To minimise any price shocks, we will apply transition rules which limit the size of any price changes. The transition rules will allow us to adjust the speed and size of the transition to other price changes. The transition rules are:

- Only applying a distribution price structure transition adjustment, if the overall price change for a price category is less than 5%.
- Limiting any price increase within a pricing category to a maximum of 5%.

Note, these transition rules will only apply to the transition of prices to the new distribution price structures. The overall change in distribution allowance and distribution revenue set by the Commerce Commission, may be higher than 5% - changes that are outside of our ability to limit the price increase to 5%.

The transition rules will mean a gradual shift between the residential and commercial categories as well as a gradual shift within the commercial tariffs. The transition rules we have adopted will mean that the implementation of these changes will take place over a number of years. The transition of transmission prices, exit of low fixed

user restrictions, higher inflation or higher than expected changes to the regulatory price path could all extend the transition period.

4.3.5 Implementation

The Pricing Roadmap provides a detailed timetable for the next steps in the transition to cost reflective prices.

We consulted with retailers in November 2022 on the overall price structures and we are now transitioning to the new prices for residential customers and small and medium non-residential consumers. We have more thinking to do on prices for large commercial customers and we will be discussing different options with retailers this year.

Now we have we have designed and are transitioning to the new pricing structure, our focus will shift to developing a revenue allocation model and a revised subsidy-free range test.

Next steps include:

1. Continue the transition to the new price structures. Last year's prices included moving from a 5c to a 8c residential peak demand price signals and combining the EDB and residential ToU prices. We also simplified our small non-residential tariffs by combining our small, dedicated transformer tariffs with the low voltage connection equivalent.
2. Consult on a refined structure for large commercial customers.
3. Refine the LRMC price calculation and continue to strengthen the peak demand prices. This could include refining ToU structures, shifting to seasonal prices or adjusting the peak and off-peak periods to better match electricity use.
4. Implement the revised methodology for allocating revenue to consumer groups and calculating the subsidy free range.
5. We are also considering locational ToU prices to allow for different peak demand price signals in different locations that are more or less constrained at certain times of day than others.

4.4 Progress against roadmap

In 2017 WELL published a Pricing Roadmap which outlined how we are developing our prices. We refresh the roadmap as our pricing strategy develops and as we learn from the implementation of the Roadmap workstreams. Progress against the roadmap is provided in Appendix D.

Figure 5 provides a summary of the pricing programmes for each consumer group. The figure provides an assessment of the impact that each consumer group has on peak demand and the pricing programmes that WELL is implementing to reduce that demand. The roadmap initially focused on Electric Vehicle (EV) owners and residential consumers as the main potential contributors to peak demand and therefore the greatest driver for the need to re-enforce the network.

Figure 5 – Summary of progress on the Pricing Roadmap

In 2018, WELL completed the first phase of the Pricing Roadmap by trialling cost-reflective electric vehicle (EV) prices and then introducing Time of Use (ToU) prices for EV and household battery system consumers. In 2019, WELL widened the eligibility for ToU prices to all residential consumers, offering it to retailers as an optional price

category. From 1 April 2021, we then applied ToU to all residential consumers. In 2023 our joint Resi-Flex programme with Orion started the development of prices for residential flexibility services, including the development of a commercial framework and different pricing options. Updates on specific aspects of the programme can be found at:

Consumer Group	Impact on peak demand	Pricing year			
		2026/2027	2027/2028	2028/2029	2029/2030
Residential consumers	High – main contributor to peak demand	Refine and transition to new TPM allocations			
		Residential TOU	Regional pricing/pricing to constraints		
Flexibility services & DER	High – future contributor to peak demand	Negative tariff for injection	Refine DG injection tariffs		
Small/medium commercial	Currently low – expected to increase to medium with DER aggregation		Move to signalling constraints for commercial tariffs		
Large commercial	Low – cost-reflective prices & contribution policy in place				

- **EV Trial:** Our EV trial helped us understand how consumers want to use their EV's. The EV trial results can be found at www.welectricity.co.nz/disclosures/pricing/evtrial/
- **EV Connect:** We have been working with stakeholders to articulate the steps required to support EV adoption. An update on progress can be found at: <https://www.welectricity.co.nz/about-us/major-projects/ev-connect/>
- **ToU prices and how to benefit from them:** If people change when they use electricity, away from busy periods on the network, a larger network doesn't have to be built. Avoiding having to build a larger network means that prices can be kept low. Learn more about ToU prices at: <https://www.welectricity.co.nz/disclosures/pricing/time-of-use-pricing/>
- **Resi-Flex commercial framework for flexibility services:** The joint Resi-Flex programme with Orion is developing a commercial framework for Flexibility Services, including different tariff options. Follow the projects progress at: <https://www.welectricity.co.nz/news/show/resi-flex-best-paper/>

4.5 This year's pricing programme

The focus of this year's programme is to develop negative tariff, as discussed in section 3.2.1.3. We are using the transitional approach to setting the negative tariff for the 2026 pricing year.

4.5.1 Long run marginal cost calculation methodology

In 2022 we implemented a review of our LRMC methodology which we use to set the strength of our price signals. We considered two methods:

1. Average incremental cost which divides the present value of forecast growth capex (annualised) by the present value of forecast demand growth.
2. The perturbation approach which divides the present value of the change in capex that would be needed to deliver a step change in demand.

Figure 6 provides our assessment of the two methodologies. We will be calculating both methods, using the different methods as a cross check.

Figure 6 – selection of a LRMC methodology

Method	Pros	Cons
Average incremental cost (AIC)	<ul style="list-style-type: none"> • simple to apply using inputs from an AMP • commonly used by Australian distributors • if using the counterfactual approach, can address interaction between growth and other drivers 	<ul style="list-style-type: none"> • not very robust • assumes continuous (non-discrete) relationship between growth and investment • more robust variants (counterfactual, segmentation) reduce simplicity
Perturbation	<ul style="list-style-type: none"> • flexible and intuitive • outputs provide useful insight (investment pressure heatmap) • robust 	<ul style="list-style-type: none"> • more work than (simple version of) AIC • project-based approach less holistic than AIC with counterfactual

We have calculated a LRMC using the AIC in 2023 which provided a wide LRMC range of between \$100 and \$400 kW per year depending on our capex assumptions. We also developed a perturbation calculation methodology which uses our asset management planning outputs to calculate the long run marginal cost. We plan to implement the methodology in 2027.

We have started strengthening of our peak demand price signal. Peak price signals increased from 8c to 9c per kWh from 1 April 2025 for residential customers. This was the largest increase we could make while still meeting our Low User legislative obligations. We have continued to increase the peak price signal this year, to 12c per kWh from 1 April 2026 for residential customers.

4.5.1.1 Continue to transition from low fixed charge restrictions

The government made legislative changes in 2021 to remove the low fixed charge regulations. The transition is over five years to reduce any price shocks to consumers. We made the final step in the transition this year, increasing the daily fixed charge of residential low users from 75 cents to 90 cents. A corresponding decrease in the variable price component was also made.

4.5.1.2 Continue to transition to the new Transmission Pricing Methodology

In November 2022 we notified retailers of the change in methodology used to allocate transmission costs and the impact that the changes would have on customers. We also provided transition rules on how we would transition to the new methodology while minimising price shocks.

Applying the new cost allocation methodology to the commercial tariffs requires significant price changes within the commercial tariffs. This reflects that WELL’s individual commercial tariffs have evolved individually overtime, creating some inconsistencies. This also means that the transition will take years for some commercial price categories. This year is year three of the transition.

The transition path will depend on how much headroom we have after general price changes to adjust prices. For example, if we make a 2.5% change to each of the commercial categories:

- GLV15, GLV138 and GTX300 have already reached the target revenue (RY26);
- GLV300, GLV1500, GTX1500 and GTX1501 will reach their target revenue over the next few years; and
- GLV69 will eventually reach its target revenue by around RY34.

4.5.1.3 Encourage retailers to support ToU prices

We have offered retailers exemptions from applying ToU if their billing systems and processes cannot provide the consumption data needed to apply peak and off-peak prices. Approximately 95% of all residential consumers are now submitting peak and off-peak consumption data, an increase from 70% last year. We will continue to encourage retailers to develop their processes so that ToU tariff can be applied as intended.

We will consider applying higher prices to those who continue to apply the alternative anytime variable prices from 1 April 2026. Alternatively, we may also consider removing the opt out options if most retailers are able to submit peak and off-peak consumption data. Our intention is to eventually remove the opt out prices and to simplify our tariff structure.

4.6 Electricity Authority’s pricing scorecard

The Electricity Authority typically make an annual assessment about how cost reflective a distribution network’s tariffs are. The Authority makes the assessment using a scorecard of different pricing attributes.

Figure 7 summarises the three scorecard assessments to date, the latest being the 2023 assessment. Our pricing scorecard was rated the best amongst NZ’s EDBs in that assessment.

Figure 7 - Pricing scorecard assessment

Scorecard category	Score			Improvement made and work programmes updates
	2020	2021	2023	
Circumstance	2	5	5	A detailed description of the network capacity constraints and demand characteristics was provided in the updated roadmap. In 2023 we also developed a low voltage constraint study which we are now including in our LRMC calculations and flexibility service design.
Principles	3	3	5	An updated pricing principles assessment has been included in this Pricing Methodology update.
Pricing strategy	2	4	4	Revised pricing strategy was included in the 2021 roadmap. The strategy focused on developing demand management tools in response to the expected increase in demand from the climate change actions. The strategy is also being updated to include a commercial framework for flexibility services.
Roadmap	2	5	4	Updated roadmap reflecting the Authorities new pricing methodology.
Roadmap implementation	New in 2023		5	The first roadmap has been completed and we are now working on an updated work programme.

Scorecard category	Score			Improvement made and work programmes updates
	2020	2021	2023	
Efficiency	2	3	4.5	<p>The peak demand price signal was increased to 12c from 1 April 2026 and the off-peak signal has been removed where we are able. The transition to a higher price signal is limited by the low fixed user restrictions. We will continue to increase the peak demand price signal towards the LRMC as the low fixed users restrictions are removed.</p> <p>We will also continue to refine the LRMC methodology in 2026. This year we will support the 2023 average incremental cost calculation with the more complex, but more accurate, perturbation methodology.</p>
Customer impact	2	3	4	<p>WELL consults with retailers about all price structure changes. The consultations include a customer impact analysis. See section 7.6.1 for retailer consultation and customer impact analysis for recent price structure changes.</p> <p>WELL has also adopted an approach of transitioning changes that create price shocks. While this delays the implementation of some changes, it limits the impact of changes to customers. We also consider the impact to those in energy poverty. WELL consulted with retailers on whether to transition prices and they agreed it was sensible.</p>
Focus areas	New in 2023		5	See Figure 8 for details.
Overall (average)	2.2	3.8	4.6	

The 2023 scorecard assessment also provided feedback on areas of improvement. Our Pricing Roadmap provides a summary of how our pricing work programme is addressing the feedback.

The Pricing Roadmap also provides a self-assessment against the revised scorecard categories and weighting that were released by the Authority in 2022⁴. The Roadmap has been updated to include the focus areas the Authority have included in the revised assessment. Figure 8 provides a summary of the Authorities new areas of focus and WELL’s current approach to those subjects.

Figure 8 – WELL’s approach and progress on the new scorecard focus areas

Focus areas	Approach and progress
Distributors’ roadmaps responding to future network congestion	A detailed description of the network capacity constraints and demand characteristics was provided in the updated roadmap. The description included the impact of the climate change related network demand and the development of flexibility services to mitigate some of the peak demand increase.
Distributors’ response to any significant first mover disadvantage issues facing	WELL’s Customer Contribution Policy and its supporting internal implementation guidelines have removed significant first mover disadvantage. Section 6.2.2.1 provides a summary of

⁴ Open letter to distributors - Distribution Pricing Reform September 2022

customers seeking to connect to their networks (new and expanded connections)	how we ensure those who benefit from connecting assets, fund a corresponding share of the asset cost.
The extent to which distributors are following the Authority's guidance on pass-through of new transmission charges	WELL is applying the Authority's guidance on passing-through transmission charges. Our application methodology is provided in section 6.3.2 of this Pricing Methodology. Note, the changes have resulted in large price increases for some commercial customers. We have chosen to smooth the changes over time. The changes have resulted in all transmission costs being passed through as a fixed charge (except residential prices which still have low fixed user restrictions applied).
Whether distributors are increasing their use of fixed charges to match the phase-out path of the low fixed charge tariff regulations	WELL is increasing its fixed charges in-line with the low fixed users transition path. Fixed prices for low fixed users increase from 75c to 90c per day from 1 April 2026.
Distributors avoiding, or transitioning away from, recovery of costs that are fixed in nature through use-based charges, such as charges based on a customer's Anytime Maximum Demand (AMD)	In 2022 WELL consulted with retailers about a new price structure of a peak demand price signal (based on the cost of congestion) and a fixed charge based on energy used and connected capacity. WELL is currently considering retailer feedback and will release its final price structures shortly. WELL will be consulting again this year, focusing on price structures for large commercial businesses. Our early thinking is to use a peak demand price signal. We started to transition to the new price structures from 1 April 2024.

5 This year's pricing changes

This year's price changes focused on the continuation of previously disclosed tariff changes. This included increasing the peak demand price signal to 12c per kWh (from 9c per kWh), the gradual implementation of the TPM, and low fixed user restrictions. We opted not to make significant structural changes this year, given the size of the overall price increase. We consulted with retailers and direct bill customers on the changes and overall price increase in November 2024. Feedback supported the changes.

Change	Driver	Customer impact
Seasonal pricing	Wellington is a winter peaking network. Our current ToU price structures do not reflect this. We will apply peak tariffs only in winter is a more targeted approach to managing network constraints.	This will only impact residential customers. While the bill impact will be varied, in general, those that are able to shift some of their usage away from peak times may be better off and vice versa.

<p>Injection pricing</p>	<p>Regulatory requirement as per the Electricity Industry Participation Code Amendment (Injection Payment Requirements) 2025.</p>	<p>Residential consumers that are able to inject into the network during peak times will benefit from the negative tariff applied.</p>
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6 Setting prices for the 2026/27 regulatory year

The objective of WELL’s pricing methodology is to develop electricity distribution prices that:

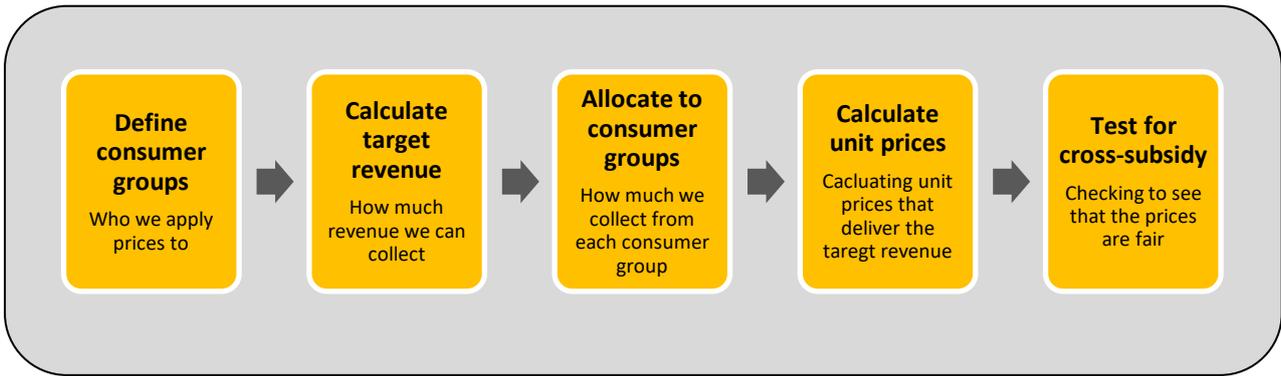
- Are cost reflective – prices that signal to consumers the impact of their usage on future expenditure;
- Are consumer and retailer centric, such that prices:
 - Are logical and simple to understand;
 - Allow consumers to manage their usage and bills;
 - Can be passed on transparently by retailers.
- Minimise revenue volatility and under-recovery;
- Seek to reduce price shock to consumers;
- Are forward looking, being robust to changes in technology and regulation;
- Are practical and achievable to implement within the next 1-5 years; and
- Are not inconsistent with pricing structures used by other EDBs.

WELL’s price setting process is described in Figure 9. Each step is described in detail in the following section of this chapter. The Pricing Methodology starts with defining the consumer groups that WELL will apply different prices to. WELL then calculates how much overall revenue it will collect from prices. The revenue calculation is determined by the Commission and provided in the DPP Determination 2025.

WELL uses a cost of supply model to allocate revenue to each consumer group based on how much it costs to provide distribution services to each consumer group. In parallel, unit prices (tariffs) are calculated to deliver the target revenue. The calculation includes the impact of any forecast volume changes. The revenue from the cost of supply model is then compared to revenue from prices to check that they are approximately the same. If they are not, unit prices are adjusted. This ensures unit prices are reflective of the costs to provide services.

Lastly, WELL checks that there is no cross-subsidisation between consumer groups – that costs are allocated equitably between groups. This is done by testing whether revenue from prices for each consumer group falls within the subsidy free range – that revenue from prices is less than the stand-alone cost (it’s not better for consumers to receive services from another source) and greater than the avoidable cost (another consumer group isn’t subsidising the direct costs of providing the service).

Figure 9 - The Price setting process



Note, this price setting process has been superseded by the revised pricing methods provided by the Authority and is outlined in our Pricing Roadmap. Once the new revenue allocation methodology and subsidy free range test has been developed, we will transition to the new price setting process. At that stage we will also update this Pricing Methodology with the new process and transition plan. In the meantime, our future price setting process can be found in our Pricing Roadmap.

6.1 Define consumer groups

This section sets out the rationale and criteria for our consumer groups.

6.1.1 Defining consumer groups

WELL has adopted the following consumer groups for pricing purposes:

- Standard contracts:
 - Residential Low User Time of Use (RLUTOU);
 - Residential Standard User Time of Use (RSUTOU);
 - Residential Low User (RLU);
 - Residential Standard User (RSU);
 - General Low Voltage Connection (GLV);
 - General Transformer Connection (GTX); and
 - Unmetered (G).
- Non-standard contracts.

Consumers are grouped by voltage level connection, end use, and their utilisation of electricity assets. As an example, the General Transformer Connection group does not make use of the low voltage (LV) reticulation network, as it connects directly to the high voltage network via a dedicated transformer.

Our Price Schedule (called Wellington Electricity Lines Charges Notice from 1 April 2026) sets out prices for the 2026/27 year for the standard contract consumer groups. Non-standard contract consumer groups are notified directly of their pricing.

The criteria used by WELL to allocate consumers to consumer groups is as follows:

6.1.1.1 Residential (including Time of Use)

The Residential consumer groups are consistent with the definition of “Domestic consumer” in the Low Fixed Charge Regulations, where the primary use of the point of connection is a home not normally used for any business activity. Consumers in these groups almost exclusively are connected to the LV Network, place similar capacity demands on the network, and can use night boost⁵ and controlled⁶ tariffs, provided they have the required metering, dedicated interruptible load and meet other eligibility criteria.

WELL has two types of residential prices – (1) ToU prices that signal peak congestion periods, and (2) an alternative price for residential consumers who do not have meters that can provide the data to calculate ToU prices. Each of the two types of prices has a low user and standard user variant, resulting in four residential price categories in total. Figure 10 provides the residential price categories.

Figure 10 - The residential price categories

⁵ Night boost is a separately metered supply to permanently wired appliances, such as night store heaters, which are switched on and off at specific times. Night boost supply will be switched on during the night period (11pm to 7am) and for a minimum two hour boost period during the day (generally between 1pm to 3pm). Customers on EVB plans are not eligible for night boost pricing.

⁶ A controlled supply is a supply that allows WELL to control energy supply to permanently wired appliances, such as hot water cylinders. The load control associated with a controlled supply is not operated based on specific daily times.

Price category	Price category code	Purpose
Residential Low User Time of Use	RLUTOU	ToU prices signal peak and off peak periods of network demand. These are our standard residential consumer prices that most residential consumers will be on. Lower off peak prices encourage consumers to use energy away from the more expensive peak periods. Consumers who move their energy use away from peak periods will benefit from lower prices.
Residential Standard User Time of Use	RSUTOU	
Residential Low User	RLU	Alternative prices for consumers that do not have meters that can provide the half hour data needed to calculate ToU prices. We estimate that about 10% of consumers will need these price categories.
Residential Standard User	RSU	

A low user (Residential Low User and Residential Low User Time of Use) is a residential consumer who consumes less than 8,000 kWh per year and who is on a low fixed charge retail pricing plan. The Low Fixed Charge Regulations require electricity distribution businesses (EDB’s) to offer a pricing plan to domestic low users with a fixed price of no more than 90 cents per day. The low fixed user restrictions are being removed over a five-year period. Prices will increase from 75c to 90c per day from 1 April 2026. Low fixed prices will increase by 15 cents per day each year until 1 April 2027, when Low Fixed Charge Regulations are removed. An accompanying decrease in variable prices is also applied to each increase in fixed prices.

A standard user (Residential Standard User and Residential Standard User Time of Use) is a residential consumer who consumes more than 8,000 kWh per year.

Time of Use prices (Residential Low User Time of Use and Residential Standard User Time of Use) apply to all residential consumers – these are our primary residential price category’s. Time of Use prices provide consumers with the opportunity to save money by changing when they use energy to less congested period of the day. To be eligible for Time of Use, a consumer must be a residential consumer as defined in WELL’s Network Pricing Schedule. A consumer must also have an advanced meter with reliable communication (AMI meters that provide usage in half hour increments). This is required to allow different prices to be applied to different times of the day.

Consumers who do not have an advanced meter with reliable communication are eligible for the alternative Residential Low User and Residential Standard default price categories. These alternative prices do not need data in half hour increments. See the Network Pricing Schedule for details around eligibility for the different residential prices.

The Time of Use category will enable a wider range of consumers to save money if they move their energy use to off peak periods of the day⁷. Managing congestion on the Wellington network supports the electrification of New Zealand’s vehicle fleet and industrial processes – essential steps to achieving New Zealand’s zero carbon targets.

⁷ This assumes that a consumer uses a retailer that offers Time of Use prices.

6.1.1.2 General Low Voltage Connection

The General Low Voltage Connection group is connected to the LV network with a connected capacity of up to 1500kVA, where the premises are a non-residential site used for business activity (e.g. a shop or a farm).

6.1.1.3 General Transformer Connection

The General Transformer Connection group includes consumers who receive supply from a transformer, owned by WELL and dedicated to supplying a single consumer, where the premises is a non-residential site used for business activity.

6.1.1.4 Voltage and asset distinctions

Figure 11 depicts the relationship between consumer groups, load and asset utilisation characteristics.

Figure 11 – Consumer group and load characteristics

Connection asset characteristics	Unmetered	Residential	General Low Voltage	General Transformer	Non-Standard
<1kVA	✓				
<=15kVA		✓	✓		
>15kVA & <=69kVA			✓		
>69kVA & <=138kVA			✓		
>138kVA & <=300kVA			✓	✓	
>300kVA & <=1500kVA			✓	✓	
>1500kVA				✓	✓
Low voltage	✓	✓	✓	✓	
Transformer	✓	✓	✓	✓	✓
High voltage				✓	✓
Dedicated assets	✓ ⁸			✓ ⁹	✓ ¹⁰

6.1.1.5 Non-standard contracts

The non-standard contracts group is made up of consumers who have atypical connection characteristics. For non-standard consumers, a confidential agreement exists between WELL and the individual consumer which sets out the terms and conditions for the supply of the electricity lines services including the price.

In accordance with its Customer Contributions Policy¹¹, WELL uses the following criteria to determine if a non-standard contract is appropriate:

- The consumer represents an unusual credit risk; or
- The consumer wants to reserve future network capacity; or

⁸ Streetlight circuits

⁹ Transformers

¹⁰ Dedicated network assets

¹¹ Available at: www.welectricity.co.nz/disclosures/customer-contributions/

- There are unusual asset ownership or demarcation issues; or
- The consumer and/or WELL wishes to contract for additional services not covered in standard contracts; or
- The site to be connected has unusual locational or security issues; or
- Any other unusual circumstances that WELL, at its discretion, considers warranting the use of a non-standard rather than standard contract.

6.1.1.6 Unmetered

The Unmetered consumer group includes consumers who do not have any metering because the cost of metering is prohibitive relative to their consumption. This includes streetlights, bus shelters, traffic lights etc.

6.2 Calculate target revenue

The target revenue for the 2026/27 pricing year is \$217.1 million. Target revenue is determined by the DPP Determination 2025 and is disclosed before each regulatory year starts in a networks Annual Price-Setting Compliance Statement. The Annual Price-Setting Compliance Statement outline the amount which WELL can collect through prices to cover costs and to provide the allowable return on investment. Figure 12 summarises the components of WELL's target revenue. The Annual Price-Setting Compliance Statement can be found on our website at <https://www.welectricity.co.nz/disclosures/pricing/>

Figure 12 – Key cost components to fund the provision of electricity line services¹²

Components	2026/27 (\$m)
Operating expenditure	49.8
Depreciation ¹³	34.5
Return on capital ¹⁴	48.5
Transpower charges	68.8
Other recoverable costs	9.1
Pass-through costs	6.4
Target revenue	217.1

6.2.1 Cost components

WELL uses the DPP Determination 2025 and Input Methodologies¹⁵ to determine the target revenue in each disclosure year. The following figure describes the cost components of target revenue.

¹² Sourced from WELL's revenue forecast and DPP Determination 2025 financial model

¹³ Regulatory depreciation

¹⁴ Including tax, time value adjustments and inflation smoothing

¹⁵ IM Determination 2012

Figure 13 – Key cost components to cover provision of electricity line services

Cost component	Description
Operating expenditure	Operating expenditure includes forecast costs associated with operating and maintaining the network and managing day to day business activities. Operating expenditure is provided by the DPP determination.
Depreciation	Reduction in the value of WELL’s asset base over time, due in particular to wear and tear. Depreciation is provided by the DPP determination.
Return on capital	A pre-tax return on WELL’s regulatory asset base. Return on capital is provided by the DPP determination.
Transpower charges	Charges payable to the national electricity grid operator, Transpower, to transport energy from generators to WELL’s network. This includes connection charges, benefit based charges, residual charges and other transmission provisions. WELL passes these charges onto its consumers at cost.
Other recoverable costs	Other recoverable costs include the recovery of capex wash up adjustments, incentives and pass-through balances, as allowed under the DPP.
Pass-through costs	This includes local council rates, Commerce Commission levies, Electricity Authority levies and Utilities Disputes Limited levies. WELL passes on these charges to consumers at cost.

6.2.2 Relationship with the Customer Contribution policy

WELL’s standard and non-standard tariffs recover the cost of operating the existing distribution network. The costs to operate the distribution network include on-going maintenance costs, the cost to replace aging assets, electricity power restoration, business and network support costs and vegetation management. Tariffs also fund building new network capacity to support new connections and increasing customer demand.

The cost of a new customer connecting to the network or customers altering their existing services, are funded by either (or a combination of) tariff and upfront customer capital contribution. These costs are for assets that only the connecting customer, or the customer altering their existing connection benefit from. The cost of connecting to the network or altering existing services is the capital cost of designing and installing the new connection assets or any new assets needed to adjust a customer’s existing services. Figure 14 summarises how distribution service costs are recovered.

Figure 14 – how distribution service costs are recovered

Distribution service costs	Costs are recovered by:
Costs to operate the existing network, including maintenance, vegetation management, asset replacement, service interruptions and emergency responses, system interruptions, network and business support.	Tariffs
The costs of building new capacity to allow future customers to connect and to deliver increasing electricity demand	Customer capital contribution and/or tariffs

Capital costs to connect to the network and costs to relocate network assets at a customer's request	Customer capital contribution and/or tariffs
--	--

A customer capital contribution payment is a one-off payment made at the start of a project and is used to directly fund capital works. The rules (the Input Methodologies), used to calculate the on-going allowances a network has to fund the operation of a network, require that the customer capital contributions are excluded from the allowance calculation. This reflects the customer, rather than WELL, has funded some or all of the capital costs of connecting. This also means that the customer capital contribution is excluded from tariffs, ensuring the assets are not paid for twice.

Practically, customer capital contributions are excluded from allowances by subtracting the contributions from the value of the assets added to the Regulatory Asset Based (RAB). The RAB records the value of the assets that WELL has invested in and is used to calculate the allowances that a distribution network operator is provided to recover the cost of purchasing the assets and the return for making that investment. Excluding customer capital contributions from the RAB ensures a customer's investment is not included in the revenue used to set tariffs.

EDB's are required to disclose its methodologies for calculating customer capital contributions as well as its pioneer scheme. WELL's Customer Contribution Policy can be found at <https://www.welectricity.co.nz/disclosures/customer-contributions/>

6.2.2.1 Avoiding first mover disadvantages when connecting to the network

An area of pricing focus for the Authority and part of the revised scorecard assessment is for EDB's to respond to any significant first mover disadvantage issues facing customers seeking to connect to their networks (new and expanded connections). A first mover disadvantage might occur if a new connection requires wider network reinforcement that provides additional capacity or security benefits to other customers who do not contribute towards funding the asset.

WELL customer contribution methodology means significant first mover disadvantages are avoided. WELL has a process to allocate the cost of reinforcement required for a connecting asset to those who benefit from using those assets. We include the cost of any network reinforcement where the connecting customer is the primary beneficiary, in the customer capital contribution calculations. If the upstream network reinforcement benefits other existing or future customers, the reinforcement cost will be funded from tariffs, allocating the costs to other customers who will also benefit.

If it's uncertain whether other customers will benefit from the wider network reinforcement, the customer contribution policy allows connection costs to be reimbursed from future customers who may benefit. The process of allocating costs to those who benefits (wider network reinforcements costs in particular) is provided in internal guidelines that outline how WELL practically delivers the Customer Contribution Policy. The process of allocating costs to those who benefit is summarised in Appendix E.

6.3 Cost allocation

WELL has a Cost of Supply Model (COSM), which is used to allocate costs between different consumer groups. Previously, WELL used a single cost allocation methodology for Distribution and Pass-through and Recoverable (which includes Transmission costs) costs. The new TPM methodology provides a specific cost allocation methodology for the allocation of Transmission costs. WELL notified retailers of the new Transmission cost allocation methodology in November 2022. Two COSM models are now used:

1. COSM for Distribution, Pass-through and Recoverable costs (excluding Transmission costs)
2. COSM for Transmission costs

6.3.1 COSM for Distribution, Pass-through and Recoverable costs (excl Transmission costs)

Please note that the Electricity Authority have recommended a new approach towards allocating costs in its “Distribution Pricing: Practice Note”, August 2019. WELL consulted with retailers on a new cost allocation methodology last year. The proposed methodology allocates costs to consumer groups using an energy use (GWh) cost driver. We will be using retailer feedback to finalise the cost allocation model when we start the transition. WELL will continue to use its current COSM approach until then. We will update the Pricing Methodology to reflect the new cost allocation methodology.

6.3.1.1 How the COSM is used

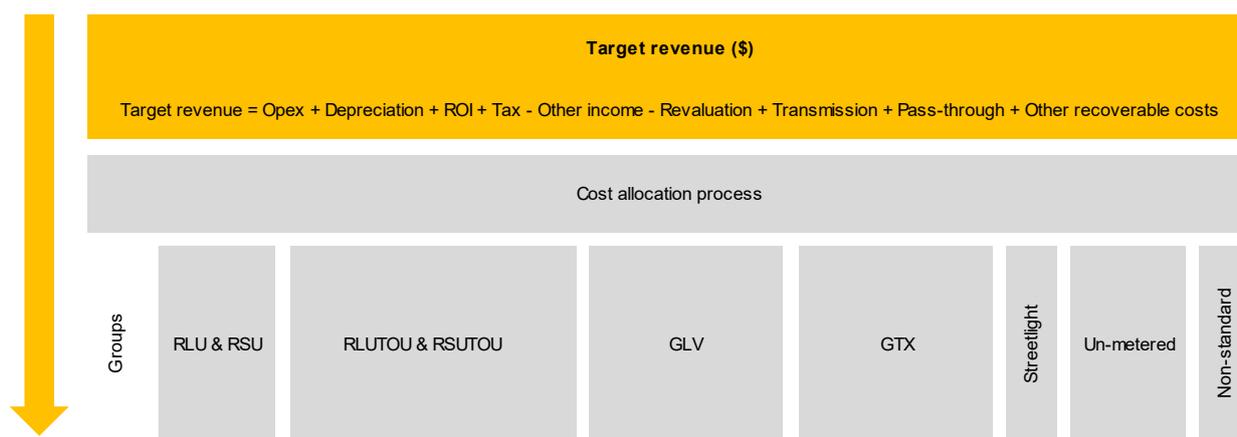
The COSM model was used to calculate unit prices in 2016 when it was first implemented. Rather than use the COSM model to re-calculate unit prices each pricing year, it is used to test whether unit prices are collecting the approximately correct levels of revenue. If there is a significant difference, prices are progressively adjusted to align to the cost of supply over time to mitigate the risk of price shocks occurring.

The focus of our COSM analysis for the majority of consumer groups is on the proportion of target revenue to recover from each consumer group, rather than the dollar amount to recover. Applying the COSM at the price level adds significant complexity and increases unnecessary volatility due to the inherent volatility in some allocator metrics (e.g. demand) and costs (e.g. maintenance).

6.3.1.2 COSM summary

The COSM allocates the various expenditure components of WELL’s target revenue to consumer groups. Figure 15 summaries the allocation methodology.

Figure 15 – COSM model



Revenue from non-standard consumers is initially removed from target revenue, as these consumers are typically priced based on recovery of actual costs. Allocators and other inputs are also adjusted to remove non-standard consumers. The remaining cost components of target revenue are allocated to consumer groups as follows:

- Costs are directly attributed to consumer groups where known (e.g. streetlight maintenance).
- Shared costs are allocated using cost drivers. The cost drivers used are provided in Figure 16.

Figure 16 – Key cost components to cover provision of electricity line services

Consumer group cost allocator		Cost components	Rationale
RAB	<p>A composite RAB allocator is created by allocating regulatory asset base values to consumer groups as follows:</p> <ul style="list-style-type: none"> • Connection assets: by ICPs • Streetlight assets: directly attributed to streetlights • LV network assets are allocated to non-metered, residential, LV and streetlights by proportion of their demand • All other assets: demand <p>This seeks to directly attribute asset costs to consumers where possible</p>	<ul style="list-style-type: none"> • ROI • Network depreciation • Revaluations • Tax • Opex (routine and asset renewal) 	<p>RAB costs are allocated to consumer groups based on that consumer groups utilisation (share of demand) of the network assets.</p>
ICPs	Consumer connections	<ul style="list-style-type: none"> • Opex (service interruptions, emergencies, vegetation management) 	<p>A general allocator that recognises that all consumers benefit from expenditure to prevent and respond to interruptions to supply.</p>
kWh	kWh consumption	<ul style="list-style-type: none"> • Other income • Opex (system operations and network support) • Non-network depreciation 	<p>A general allocator to recognise that consumers benefit from operation of the network in proportion to their use of the network.</p>
ICPs & kWh	A 50:50 weighting of ICPs and kWhs	<ul style="list-style-type: none"> • Opex (business support) • Pass-through costs • Wash-ups and incentives 	<p>This weighting recognises that larger consumers create relatively higher costs per connection, and that levies are incurred in proportion to ICPs and kWhs.</p>

Figure 17 provides the cost allocations for each of the cost drivers provided in Figure 16.

Figure 17 – COSM allocators by consumer group (excl. non-standard)

Consumer group	Demand	RAB	ICPs	kWh	Weighted ICPs & kWh
Residential	67.6%	68.9%	85.0%	49.9%	67.3%
General Low Voltage	19.6%	19.3%	8.4%	25.1%	16.8%
General Transformer	11.8%	9.7%	0.2%	24.0%	12.1%
Non-metered	0.2%	0.2%	0.7%	0.2%	0.5%
Streetlights	0.8%	1.9%	5.7%	0.8%	3.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

The proportion of the total costs allocated to each customer group is provided in Figure 18. The COSM outputs have been calculated by applying the cost driver allocations provided in Figure 17 to the cost groups summarised in Figure 16.

Figure 18 – COSM allocations of costs by consumer groups (excl. non-standard)

Consumer group	% of revenue allocated
Residential	65.9%
General Low Voltage	18.9%
General Transformer	11.0%
Non-metered	0.3%
Streetlights	3.9%
Total	100.0%

6.3.1.3 Application to prices

Figure 19 compares revenue collected from prices and revenue allocated using the COSM for the regulatory year 1 April 2026 to 31 March 2027. The difference represents the under/(over) recovery of costs. The figure shows the difference is not significant and there is no need to adjust prices. If there was a significant difference, WELL would progressively adjust prices over time to mitigate the risk of price shocks.

Figure 19 – Revenue from prices relative to cost of supply (excl. non-standard)

Proportion of target revenue (1 April 2026 to 31 March 2027)			
Consumer group	Implied COSM allocation	2026/27 pricing (applied)	Difference
Residential	66.1%	64.8%	1.3%
General Low Voltage	18.7%	19.4%	-0.7%
General Transformer	11.1%	12.0%	-0.9%
Non-metered	0.3%	0.4%	-0.1%
Streetlights	3.8%	3.4%	0.4%
Total	100.0%	100.0%	0.0%

6.3.2 COSM for transmission costs

The TPM classifies transmission costs into four components:

- Connection Charges:** Charges for connection assets – this has not changed from current prices.
- Benefit Based Charges:** Allocates costs of new and certain historical grid investments to customers in proportion to their benefit. Benefit-based charges (BBCs) recover capital and operating costs (including a share of overhead opex) attributable to a benefit-based investment.
- Residual Charges:** Residual charges recover Transpower's revenue not recovered through other transmission charges. Includes old investments and overheads not included in BBC.
- Provisions for adjusting transmission charges:** The TPM also allows for a number of other adjustments to Transmission charges, including:
 - Adjustments for substantial and sustained change in grid use;
 - Reassigning costs if the forecast future loading is substantially less than the expected capacity of an investment;
 - Prudent discount adjustments to ensure efficient investment decisions; and
 - Transitional cap to smooth aspects of the TPM transition.

The TPM allocates these cost pools to each grid customer, including WELL. WELL then passes these costs through to its own customers. The allocation methodology was developed for Transmission costs using the guidelines provided by the Electricity Network Association (**ENA**). The ENA's guidelines were informed using the EA's Distribution Pricing Practice Note¹⁶, which provides specific guidance on how to apply the TPM to Distribution Prices. The EA's expectations are:

- Fixed Transmission charges, which are not intended to influence customers' network use decisions, should be passed through as fixed (daily) distribution charges.
- Transmission charges intended to send price signals that influence network use should be passed through as distribution charges that send the same price signal (and influence network use in the same way) as the Transmission charge.

¹⁶ <https://www.ea.govt.nz/assets/dms-assets/30/Distribution-Pricing-Practice-Note-v-2.2-October-2022.pdf>

The Transmission costs allocated to Wellington Electricity are all fixed so the cost allocation methodology focuses on prices that will not influence a customer's energy behaviours i.e. distribution prices relating to Transmission costs will also be fixed (noting that low fixed user restrictions means we are having to transition these changes).

The Distribution Pricing Practice Note also provided practical guidance about the application methodology. The ENA's guidelines summarise this guidance in two principles:

- Principle 1—distributors should not attempt a detailed replication of the allocation approach used in the TPM. Rather the allocation approach should be consistent with and have regard for the allocation approaches adopted by the TPM. In practice, this can be achieved by adopting the same underlying allocation drivers of demand (AMD) or usage (kWh) share.
- Principle 2—the pricing structures for the recovery of Transmission costs should reflect the non-distortionary principle (prices should not influence the ongoing use of the grid) implicit in the fixed charge adopted by Transpower.

We used these two principles to select the cost drivers used to allocated Transmission costs to each customer group. Appendix F summaries how we have applied the guidelines and principles to allocate transmission costs to consumer groups and tariff categories. The cost allocation reflects:

- The allocation drivers used to allocate costs to each customer group align with the TPM cost drivers – Benefit Based Costs and Residual costs are allocated by kWh and Connection costs are allocated by AMD which is approximated using connected capacity.
- Costs are allocated within the customer group using connected capacity:
 - Costs are allocated to residential and small commercial customers using a standard connected capacity size of 15kVA
 - Costs are allocated to medium commercial customers using a weighted average connected capacity
 - Costs are allocated to direct bill customers and large commercial customers using actual connected capacity.

We did have a choice of using energy used or anytime maximum demand for allocating Residual costs as the TPM used both cost drivers to allocate Residual costs. We selected energy used (GWh) to allocate Residual costs because:

- **It is consistent with the TPM allocation approach (principle 1):** Consistent with the guidance provided by the EA and the ENA, we have used an allocation approach that has regard to the TPM, rather than replicating it. We have used a simple single cost allocator and a one year's historic data set to simplify the allocation calculation. The TPM uses both AMD (for the initial cost allocation) and GWh (to annually update the cost allocation). As provided by the ENA pricing guidelines, it is therefore appropriate that distributors use either approach when allocating Residual charges to pricing groups.
- **It meets the non-distortionary principle (principle 2):** Costs are allocated to the consumer groups using historic energy used. A single customer cannot materially impact the proportion of total Transmission cost allocated to a customer group by charging how they consume electricity. The EA's Distribution Pricing Practice Note provides that GWh is the best cost driver for ensuring customers cannot influence the ongoing use of the grid (paragraph 4.40).
- **The GWh cost driver is transparent, readily available and is an accurate data source:** Historical electricity use is disclosed publicly as part of our Annual Compliance Statement Disclosures. The

electricity used data is externally audited and certified by our directors before it is disclosed on our website and provided to the Commerce Commission.

6.3.2.1 Revenue allocation

Figure 20 provides the energy used and connected capacity cost drivers used to allocate revenue to each customer group.

Figure 20 – Cost driver allocators by consumer group

Consumer group	Connected capacity (%)	GWh (%)
Residential	62.1%	49%
General Low Voltage	28%	37%
General Transformer	10%	13%
Non-metered	0.0%	0.2%
Streetlights	0.1%	0.8%
Total	100%	100%

The proportion of the total costs allocated to each customer group is provided below. The COSM outputs have been calculated by applying the cost driver allocations provided in Figure 21 to the TPM cost categories.

Figure 21 – COSM allocations of costs to consumer groups (excl. non-standard)

Consumer group	% of revenue allocated
Residential	51.9%
General Low Voltage	35.1%
General Transformer	12.2%
Non-metered	0.2%
Streetlights	0.7%
Total	100.0%

6.3.2.2 Application to prices and transition

WELL is transitioning the revenue from prices between commercial and residential tariff categories gradually overtime. WELL's transition plan limits any price increase to 10% maximum within a pricing category where possible, resulting in a gradual shift between the residential and commercial categories as well as a gradual shift within the commercial tariffs. Figure 22 compares the proportion of revenue allocated using the cost drivers and the actual proportion of revenue allocated to each customer group by prices. The gap will close over time as WELL transitions prices within the transition rules.

Figure 22 – Comparison between COSM revenue allocated and revenue allocated by prices.

% of target revenue (1 April 2026 to 31 March 2027)			
Consumer group	Implied COSM allocation	2026/27 pricing (applied)	Difference
Residential	51.9%	56.5%	-4.6%
General Low Voltage	35.1%	30.2%	4.8%
General Transformer	12.2%	12.6%	-0.4%
Non-metered	0.2%	0.1%	0.1%
Streetlights	0.7%	0.6%	0.1%
Total	100.0%	100.0%	0.0%

6.4 Calculating tariffs

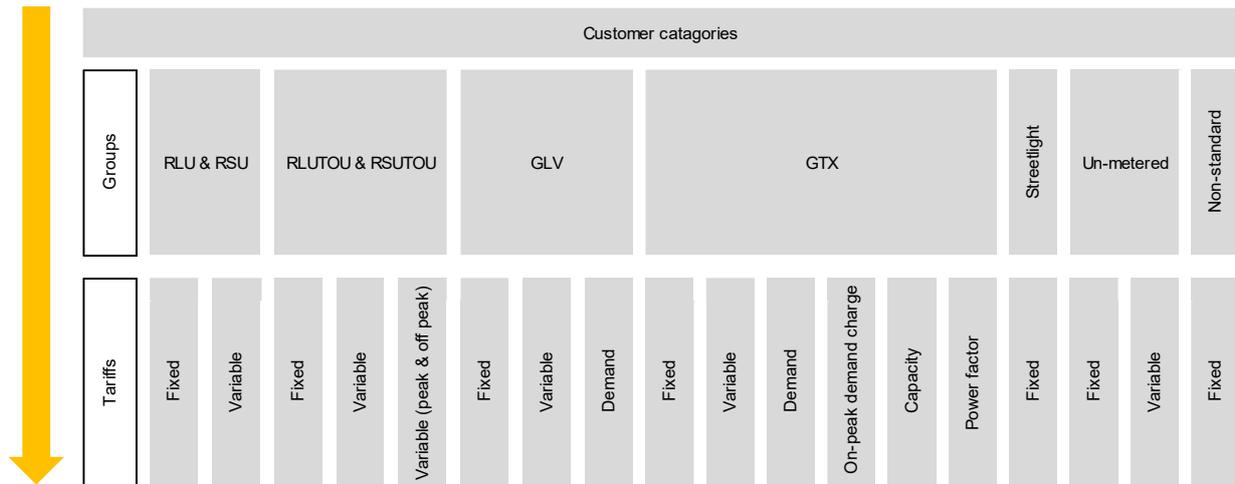
WELL's tariffs are a function of how much revenue it needs to collect and volumes. The tariff setting process is disclosed each year in its Price Setting Compliance Statement which can be found at: <https://www.welectricity.co.nz/disclosures/price-quality-path-annual-compliance-statements/>. The statement includes the target revenue calculation and any volume changes. It also includes final tariffs, quantities and the resulting revenue.

6.4.1 Tariff components

Each customer category has a number of different pricing components. Customer prices have a fixed and variable component. The fixed component doesn't change with energy use and is either a daily fixed charge or a capacity charge. The variable component varies with energy used (kWh), any time peak demand (kW), peak demand (kW) or energy used during peak and off-peak time periods (kWh).

Figure 23 provides a summary of the different tariff components. Note, there are also other tariff types which provide discounts for devices that can be remotely managed so that their use doesn't fall during busy networks periods. WELL's Network Pricing Schedule provides the full detail about all of the tariff types and components. This can be found at <https://www.welectricity.co.nz/disclosures/pricing/>

Figure 23 – tariffs for each customer category



6.4.2 Setting price signals – discounts for off peak electricity use

WELL offers tariff discounts for using electricity away from congested periods on the network. This reflects that WELL will have to build new capacity in the future to meet increasing demand for electricity (See the Pricing Roadmaps for an overview of network congestion). Figure 24 summarises the off-peak discount if provides for its residential prices, and the discounted price for allowing WELL to directly manage hot water and night store heating.

Figure 24 – current off peak price signals

Tariff type	Per kWh off peak discount (difference to peak demand price)
ToU off peak discount	12 cents
Controlled discount (discount for participating in managed hot water heating)	9 cents
Night boost discount (discount for participating in managed night store heating)	13 cents

We increased the discount last year from 8c to 9c and then again to 12c this year as we transition to a new LRMC that includes the investment in new capacity needed to deliver the Governments Emissions Reduction Plan. The electrification of many activities currently provided by fossil fuels will significantly increase peak demand and capacity constraints. The value of shifting demand and deferring future network investment will therefore also increase.

We have calculated an initial LRMC using the inaccurate Average Incremental Cost method which results in a range between \$100 - \$400 per kW per annum.

We are currently recalculating the LRMC using the more accurate but complex perturbation method and we will continue to increase the peak period price in future years as the Low Fixed User restrictions are removed.

6.4.3 Changes between tariff types

The application of the TPM, the application of the Authority’s new pricing methodology and the transition away from the Low Fixed User restrictions, means there is a shift of revenue collected from variable tariffs to fixed tariffs. This means the overall amount of revenue collected from fixed prices will increase and the amount from

variable prices will decrease. Section 7.1.5 demonstrates the change in revenue collected from fixed and variable prices.

6.5 Test for cross-subsidisation

To help ensure consumer groups are free from cross subsidisation, we test whether revenue collected from prices is less than the stand alone cost and greater than the avoidable cost (the cross subsidy free range), for each consumer group. The consumer groups tested are residential and small, medium and larger non-residential customers. Note, this test has been adjusted to exclude Transmission costs as these are now set and passed through using the TPM cost allocation methodology.

Note, we are developing a more accurate subsidy free range test as part of our new pricing structures. We plan to recalculate the subsidy free range in 2026. We will update this methodology with the new calculation once we do. See our Pricing Roadmap for the revised calculation.

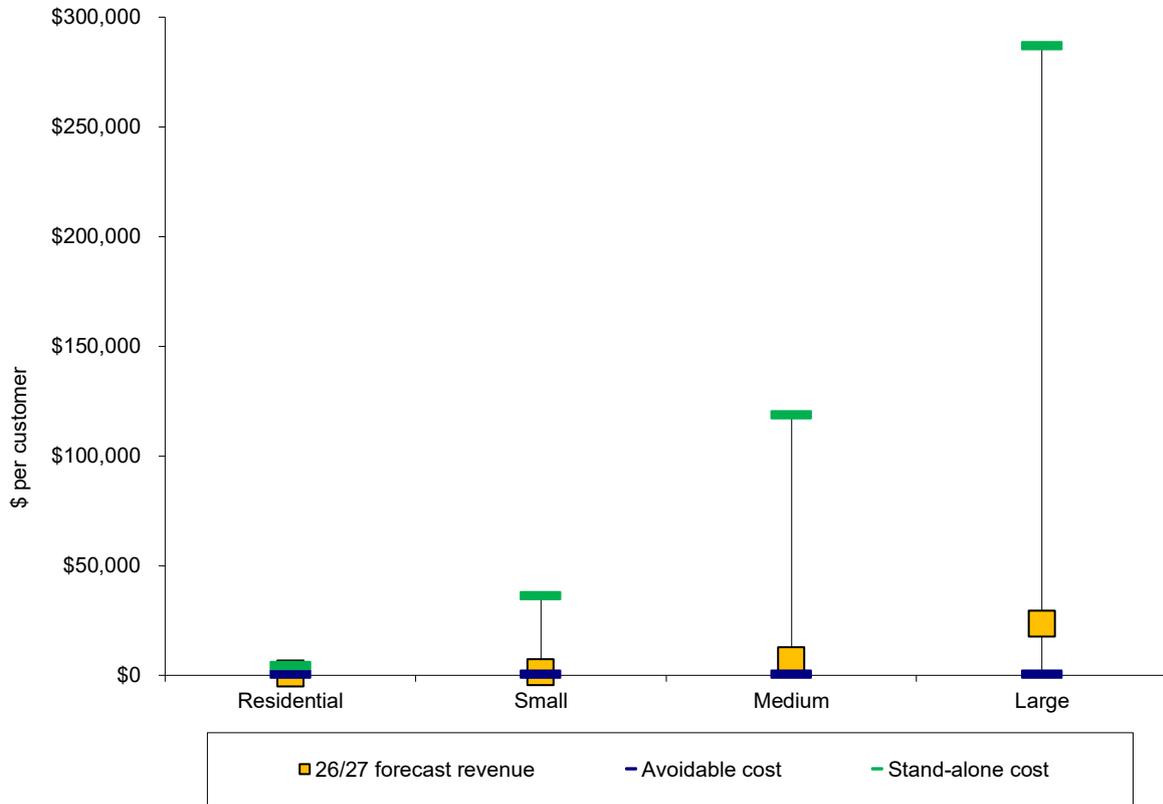
Stand-alone cost (SAC): considers the costs that a consumer would face to supply their energy needs from alternative energy sources. This represents the cost of going 'off-grid' or bypassing the network. The Electricity Authority's pricing principles practice note (the Guidance) suggests that SAC should be estimated with reference to micro grid schemes under which a group of consumers share energy resources.

Prices above stand-alone cost could not be sustained due to threat of competing energy sources and may create the possibility of inefficient bypass of the network. That is, consumers would be better off disconnecting from the electricity network and taking up the alternative energy solution where total electricity charges exceed SAC. This is inefficient as WELL's average unit cost to operate the network will increase for the remaining consumers, which may potentially further distort network usage. It is therefore better to discount prices below SAC in order to retain those consumers that are at risk of bypass.

Avoidable costs: the avoidable cost for a consumer group is the cost that can be avoided, should the distribution business no longer serve that consumer group (whilst still supplying all other remaining groups). If a consumer group were to be charged below its avoidable cost, it would be economically beneficial for the business to stop supplying that consumer group as revenue obtained from the consumer would not cover these costs. Further, where avoidable costs are higher than revenue recovered, the associated price levels may also result in inefficient levels of consumption.

As demonstrated in Figure 25, the revenue for each consumer group is within the subsidy free range established by stand-alone (SAC) and avoidable costs (AC). Revenue from the residential consumer groups falls on the avoidable cost limit but is within the margin of error for the test. There is no requirement to adjust prices.

Figure 25 – Comparison of avoided costs, stand-alone costs, and revenue from prices¹⁷



7 Impact of 2026/27 price changes

Prices for all consumers are set in accordance with the IM Determination 2012 and DPP Determination 2025 which are defined by the Commerce Commission. The DPP Determination 2025 allows WELL to recover a net allowable revenue for the 1 April 2026 to 31 March 2027 assessment period of \$132.9m. The IM Determination 2012 defines how pass-through and recoverable costs are treated.

In 2026/27, WELL will be in its second year of the regulatory period determined by the DPP Determination 2025. Prices include:

- Regulatory allowances provided by the DPP4 Determination¹⁸;
- Transpower transmission costs;
- Pass-through costs;
- Other recoverable costs; and
- Cost of supply allocations.

Prices for residential consumers are also adjusted to comply with the LFC Regulations.

¹⁷ Includes distribution, pass-through and recoverable costs.

¹⁸ As defined in Electricity Distribution Services Default Price-Quality Path Determination 2025

7.1 Changes to standard prices

The following adjustments have been made to prices.

7.1.1 Regulatory allowances provided by the DPP4 Determination

The Commission calculated a regulatory allowance (as provided in the DPP Determination 2025) for WELL's five-year regulatory period. Allowances for Distribution Services have increased by \$14.2m (7.5%) from last year's allowance¹⁹. This is the second year of DPP4 and the increase reflects:

- The higher costs that we are facing including the cost of borrowing, cost of materials, and inflationary pressures since the last revenue review in 2019; and
- We need to invest in our network to replace assets that need renewal, ensuring it remains reliable and resilient.

7.1.2 Transpower transmission charges

Transpower Electricity Lines Service charges have increased by \$10.0m or 17.0%. This is the second year of Transpower's IPP which also reflects the increase in costs since the last revenue review.

7.1.3 Pass-through costs

Pass-through costs have increased from last year by \$1.1m (22.2%). Pass-through costs comprise of council rates and industry levies. Pass-through costs are charged on to consumers at cost. The increase is largely due to above inflationary increases in council rates.

7.1.4 Other recoverable costs

Other recoverable costs include cost savings incentives, quality incentives and the wash-up account balance. The wash-up account balance is the difference between actual revenue collected and the revenue that WELL is allowed to collect. This ensures that WELL does not earn more revenue than it is allowed. These adjustments are made in line with the IM Determination and the DPP Determination 2025.

Other recoverable costs have increased by \$1.8m (25.2%) due mainly to an increase in the washup drawdown amount which includes the adjustment for the Commerce Commission's CPI Error reopener. The reopener resulted in an increase in the washup account for the difference between actual and forecast inflation in the regulatory year starting 1 April 2024.

7.1.5 Balance between fixed and variable prices

The application of the Transmission Pricing Methodology to an EDB's share of Transmission costs, and the transition away from the Low Fixed User restrictions, means there is a shift from variable tariffs to fixed tariffs. This means the overall amount of revenue collected from fixed prices will increase and the amount from variable prices will decrease. Specifically:

- The fifth year of the transition to remove the fixed daily restrictions for low users has increased low user fixed daily charges from 75c to 90c. There is also an offsetting reduction in the variable charge.
- The application of the TPM means Transmission costs are now collected by fixed prices. All variable tariffs have been removed for commercial transmission charges. Some variable charges still exist for residual transmission tariffs due to the low fixed user restrictions.

¹⁹ Last year's allowance has been adjusted following WELL's 2025 reopener and its impact on maximum allowable revenue. The corrected forecast net allowable revenue for 25/26 is \$97.0m.

Figure 26 illustrates the shift of revenue collected between fixed and variable tariffs for each customer group. 51% of revenue collected is now fixed, reflecting that most Transmission revenue is collected from fixed tariffs and an increase in the low users daily rate.

Figure 26 - proportion of revenue collected from fixed and variable tariffs

Pricing year	2023/24		2024/25		2025/26		2026/27		Difference (2026/27 versus 2023/24)	
	Fixed	Variable	Fixed	Variable	Fixed	Variable	Fixed	Variable	Fixed	Variable
Residential	47%	53%	50%	50%	51%	49%	53%	47%	6%	-6%
General Low Voltage	63%	37%	62%	38%	61%	39%	65%	35%	2%	-2%
General Transformer	52%	48%	50%	50%	49%	51%	53%	47%	1%	-1%
Non-metered	24%	76%	15%	85%	17%	83%	13%	87%	-11%	11%
Streetlights	100%	0%	100%	0%	100%	0%	100%	0%	0%	0%
Total	52%	48%	54%	46%	54%	46%	57%	43%	5%	-5%

The overall price change a customer will see, will depend on the offsetting amount between the tariff types. For example, Residential Standard User Uncontrolled daily tariff has increased from \$1.40 to \$1.60 (a 13.7% increase) and the Residential Standard User Uncontrolled variable tariff has increased by 0.4%. The overall impact is a 11% increase for residential and 17% increase for commercial.

7.1.6 Volume changes

WELL also forecasts unit volumes that the prices are applied to. An increase in volumes means that there are more consumers and higher volumes of electricity use that WELL can spread its costs over. This means that lower prices are needed to recover those costs. Prices have fixed and variable volume components, each requiring separate quantity forecasts – the fixed component requiring a forecast for the number of new connections and the variable component requiring a forecast of electricity used (kWh). This year’s volume forecasts are summarised below.

Figure 27 - Volume forecasts

Standard consumer groups (excl. unmetered)	Forecast connections		Forecast volume (kWh)	
	Annual % change from 2025/2026 base year	Forecast base	Annual % change from 2025/2026 base year	Forecast base
Residential (includes low user, standard user and EV)	0.7%	5-year historic average	0.5%	4-year historic average
General Low Voltage	0.0%	5-year historic average (adjusted to zero)	-0.5%	4-year historic average
General Transformer	0.8%	5-year historic average	-0.5%	4-year historic average

We are forecasting flat volumes overall.

7.1.7 Summary of adjustments

The figure below summarises the change in lines charges for the 1 April 2026 to 31 March 2027 regulatory year compared to the previous year. The percentage change is calculated as a weighted average of all prices.

Figure 28 - Change in overall price

Price change element	Contribution to total average change in delivery charges
Change in allowances	7.5%
Transpower transmission charges	5.3%
Pass-through costs (rates, levies etc)	0.6%
Other recoverable costs (incl. wash-ups, incentives and pass-through balance movement)	1.0%
Total change in prices	14.3%

Our delivery charges represent around 27% of the total electricity bill paid by consumers. Transmission charges represent a further 11% of the total electricity bill. However, consumers should be aware that energy retailers will package up our prices into their own retail offerings and the actual impact on consumer electricity bills will vary according to price plans, consumption and the extent to which energy retailers pass through WELL's network prices. Consumers should check with their energy retailer if they wish to further understand the actual impact on their total electricity bill.

7.2 Non-standard contracts

For consumers on non-standard contracts WELL changed the distribution and transmission price component from 1 April 2026 in accordance with the conditions of the non-standard contracts. Total delivery charges are the sum of the distribution and transmission prices.

For non-standard contracts established prior to the transfer of ownership of the network in 2009, WELL continued previously agreed connection policies and prices (reviewed annually). For non-standard contracts established under WELL's ownership, WELL has applied the methodology in accordance with WELL's Customer Contributions Policy.²⁰

The following figure shows the number of contracts and connections covered under non-standard agreements.

Figure 29 – Non-standard contract statistics²¹

Non-standard contract statistics	Total
Number of non-standard contracts	9
Number of ICPs	20
Target revenue	\$2.13m

7.3 Obligations and responsibilities to consumers on non-standard contracts

All of WELL's non-standard contracts contain the same commitments to supply security and restoration priority as WELL's standard Use of Network Agreements and Default Distribution Agreements with retailers. WELL's non-standard agreements have some special conditions:

- One non-standard contract commits WELL to contract specific communications protocols in the event of supply disruption;
- None of WELL's non-standard pricing is affected by supply disruptions; and
- WELL has one non-standard contract where certain types of supply disruptions impose financial obligations on WELL.

As noted above, where WELL's non-standard contracts were established prior to 2009, WELL will honour the previously agreed connection policy and price.

7.4 Distributed generation

Distributed generators may be on either standard or non-standard contracts depending on the circumstances.

A \$0.00/kWh-injection price applies for standard DG connections. This is done so that billing information can be recorded for these connections for monitoring purposes.

For further information on connection of distributed generation refer to our website: www.welectricity.co.nz/getting-connected/generating-your-own-electricity/

In-line with the Authority's new TPM, WELL has discontinued ACOT payments since 1 April 2023.

Negative tariffs for injection are discussed above.

7.5 Service charges

A service charge relates to work performed for a consumer by WELL's approved contractors. These charges are set to recover incremental costs and include external contractor rates and an administration fee to recover

²⁰ Available at: www.welectricity.co.nz/disclosures/customer-contributions/

²¹ Target Revenue includes transmission and pass-through cost recovery

WELL's processing costs (e.g. updating network records and registry information etc.). The figure below sets out the charges applicable for the 2026/27 year. Prices have been adjusted this year in line with inflation of 3.11%.

Figure 30 – Service charges

Description	Unit	Charge effective 1 April 2025	Charge effective 1 April 2026
New connection fee – single phase connection	per connection	\$314	\$324
New connection fee – two or three phase connection	per connection	\$554	\$571
Upgrade or Downgrade – to and from single, two and three phase connections. Also applicable for any change of capacity regardless of fusing	per upgrade/downgrade	\$597	\$616
Site visit fee	per site visit	\$188	\$194
Permanent disconnection/decommission fee	per disconnection/decommission	\$464	\$478
General administration fee - to cover costs such as late, incorrect or incomplete consumption data, administering embedded networks, etc	per hour	\$145	\$150

WELL's Network Pricing Schedule²² provides further descriptions of these charges.

7.6 Consumer views on pricing

WELL seeks consumer views of changes to price structures before a change is made, by consulting retailers as the consumer advocate. We also regularly check with consumers that we continue to provide services at a level of quality that they are willing to pay for.

7.6.1 Consulting before price structure changes

WELL consults with retailers, as the consumers representative, before any changes are made to price structures. The consultation documents include an estimate of the impact that any change will have on different consumer groups, the benefits that the change will provide consumers and any potential downside. WELL then uses retailer feedback to refine the prices. We will usually consider transitioning changes over time to avoid price shocks.

Consultations and pricing notifications (including customer impact analysis) to date include:

- 2020 - Applying optional ToU prices
- 2021 - Applying ToU prices to all residential customers
- 2022 - New pricing structures to align with the Authority's new pricing methodology
- 2022 - Notification on the application of the TPM cost allocation methodology to Transmission costs

²² Available at: www.welectricity.co.nz/disclosures/pricing

- 2023 - Removal of small, dedicated transformer tariffs and combing EVB prices with residential ToU prices
- 2024 - Adjustment of Other service charges and a summary of the continued impact of the TPM and Low Fixed User restrictions

7.6.2 Understanding expectations of price and quality

Since November 2017, WELL has surveyed consumers who have been impacted by outages to better understand consumers’ expectations of price. As of December 2024, 9,457 have responded to the questions asking about outages experienced and the price of services. Figure 31 summarises the responses.

WELL also conducted a similar survey of randomly selected consumers in 2018, to determine whether recency of outage experience had any impact on the survey results. The results of that survey have been added to responses from a survey published on the Wellington Electricity website to form a control group.

Figure 31 – Monthly cost/quality trade-off survey questions²³

No.	Question	Yes		No		Maybe	
		Post outage survey	Control Group	Post outage survey	Control Group	Post outage survey	Control Group
1	Would you be prepared to pay a bit more for your power if it meant fewer power cuts?	7%	12%	53%	57%	40%	31%
2	Would you be prepared to have slightly more power cuts if it meant prices were a bit cheaper?	4%	9%	80%	22%	17%	69%
3	Would you be prepared to pay \$2 on top of your monthly electricity bill if it meant that the Wellington region was better prepared for a major natural disaster?	48%	41%	14%	29%	38%	30%

The results for question 1 show that the majority of consumers surveyed after an outage were comfortable with the current price/quality balance – that they are not willing to pay more for fewer outages. The control group were more certain that they would not prefer to pay more for fewer outages.

²³ Figures in this table are rounded to the nearest whole number

The results for question 2 suggest that consumers are broadly satisfied with their current level of reliability and the price of delivering that service. Consumers surveyed after an outage were more certain that they would not be prepared to have slightly more power cuts if it meant prices were cheaper.

For question 3 the two groups' results differed in previous years but have come closer together to be more consistent. The majority of consumers are willing to pay more to be better prepared for a natural disaster or were unsure.

We do not believe that the survey results provide any compelling reasons to adjust our approach to calculating base prices from prior years.

7.7 Proportion of target revenue by price component

Clause 2.4.3(8) of the ID Determination 2012 requires that the proportion of target revenue collected through each price component is noted. This is shown for the regulatory year 1 April 2026 to 31 March 2027 below.

Figure 32 – Proportion of target revenue by price component

Consumer group	Consumer plan code	Fixed (FIXD) per day	Uncontrolled (24UC) kWh	All Inclusive (AICO) kWh	Controlled (CTRL) kWh	Night (NITE) kWh	Peak Uncontrolled (P-24UC) kWh	Off-peak Uncontrolled (OP-24UC) kWh	Peak All Inclusive (P-AI) kWh
		\$	\$	\$	\$	\$	\$	\$	\$
Residential low user time of use	RLUTOU	24,169,480	1,846,090	1,251,839	779,814	53,253	9,239,897	7,175,216	6,413,205
Residential standard user time of use	RSUTOU	32,405,539	1,531,767	991,265	495,203	52,750	8,584,012	3,011,523	6,315,461
Residential low user	RLU	1,314,142	1,060,112	539,053	32,241	2,660	0	0	0
Residential standard user	RSU	2,288,063	1,183,580	470,617	29,963	3,399	0	0	0
General low voltage	GLV15	2,359,416	1,768,912	0	0	0	0	0	0
General low voltage	GLV69	12,802,365	8,177,266	0	0	0	0	0	0
General low voltage	GLV138	2,165,957	1,815,449	0	0	0	0	0	0
General low voltage	GLV300	3,056,780	1,409,803	0	0	0	0	0	0
General low voltage	GLV1500	4,865,076	840,634	0	0	0	0	0	0
General transformer	GTX300	988,571	699,097	0	0	0	0	0	0
General transformer	GTX1500	2,067,541	1,937,855	0	0	0	0	0	0
General transformer	GTX1501	594	172,173	0	0	0	0	0	0
Unmetered - non-street lighting	G001	67,834	330,432	0	0	0	0	0	0
Unmetered - street lighting	G002	4,481,192	0	0	0	0	0	0	0
Non-standard Contracts	IC	0	0	0	0	0	0	0	0
Total Network Revenue		93,032,550	22,773,169	3,252,773	1,337,221	112,062	17,823,909	10,186,740	12,728,666

Consumer group	Consumer plan code	Off-peak All Inclusive (OP-AI) kWh	Demand (DAMD) kVA/month	Capacity (CAPY) kVA/day	On-pk Demand (DOPC) kW/month	Pwr Factor (PWRP) kVAr/month	Non standard contracts (IC)	Total Revenue
		\$	\$	\$	\$	\$	\$	\$
Residential low user time of use	RLUTOU	5,115,320	0	0	0	0	0	56,044,114
Residential standard user time of use	RSUTOU	1,792,480	0	0	0	0	0	55,179,998
Residential low user	RLU	0	0	0	0	0	0	2,948,208
Residential standard user	RSU	0	0	0	0	0	0	3,975,621
General low voltage	GLV15	0	0	0	0	0	0	4,128,328
General low voltage	GLV69	0	0	0	0	0	0	20,979,631
General low voltage	GLV138	0	0	0	0	0	0	3,981,406
General low voltage	GLV300	0	0	0	0	0	0	4,466,584
General low voltage	GLV1500	0	2,153,116	0	0	0	0	7,858,826
General transformer	GTX300	0	0	0	0	0	0	1,687,668
General transformer	GTX1500	0	4,702,468	5,270,917	0	0	0	13,978,781
General transformer	GTX1501	0	0	2,480,467	3,654,499	153,731	0	6,461,465
Unmetered - non-street lighting	G001	0	0	0	0	0	0	398,267
Unmetered - street lighting	G002	0	0	0	0	0	0	4,481,192
Non-standard Contracts	IC	0	0	0	0	0	2,013,769	2,013,769
Total Network Revenue		6,907,800	6,855,584	7,751,384	3,654,499	153,731	2,013,769	188,583,858



8 Appendix A – Pricing Methodology – Information Disclosure Requirements

2.4.1 Every EDB must publicly disclose, before the start of each disclosure year, a pricing methodology which-

- (1) Describes the methodology, in accordance with clause 2.4.3 below, used to calculate the prices payable or to be payable;
- (2) Describes any changes in prices and target revenues;
- (3) Explains, in accordance with clause 2.4.5 below, the approach taken with respect to pricing in non-standard contracts and distributed generation (if any);
- (4) Explains whether, and if so how, the EDB has sought the views of consumers, including their expectations in terms of price and quality, and reflected those views in calculating the prices payable or to be payable. If the EDB has not sought the views of consumers, the reasons for not doing so must be disclosed.

2.4.2 Any change in the pricing methodology or adoption of a different pricing methodology, must be publicly disclosed at least 20 working days before prices determined in accordance with the change or the different pricing methodology take effect.

2.4.3 Every disclosure under clause 2.4.1 above must-

- (1) Include sufficient information and commentary to enable interested persons to understand how prices were set for each consumer group, including the assumptions and statistics used to determine prices for each consumer group;
- (2) Demonstrate the extent to which the pricing methodology is consistent with the pricing principles and explain the reasons for any inconsistency between the pricing methodology and the pricing principles;
- (3) State the target revenue expected to be collected for the disclosure year to which the pricing methodology applies;
- (4) Where applicable, identify the key components of target revenue required to cover the costs and return on investment associated with the EDB's provision of electricity lines services. Disclosure must include the numerical value of each of the components;
- (5) State the consumer groups for whom prices have been set, and describe-
 - (a) the rationale for grouping consumers in this way;
 - (b) the method and the criteria used by the EDB to allocate consumers to each of the consumer groups;
- (6) If prices have changed from prices disclosed for the immediately preceding disclosure year, explain the reasons for changes, and quantify the difference in respect of each of those reasons;
- (7) Where applicable, describe the method used by the EDB to allocate the target revenue among consumer groups, including the numerical values of the target revenue allocated to each consumer group, and the rationale for allocating it in this way;

- (8) State the proportion of target revenue (if applicable) that is collected through each price component as publicly disclosed under clause 2.4.18.

2.4.4 Every disclosure under clause 2.4.1 above must, if the EDB has a pricing strategy-

- (1) Explain the pricing strategy for the next 5 disclosure years (or as close to 5 years as the pricing strategy allows), including the current disclosure year for which prices are set;
- (2) Explain how and why prices for each consumer group are expected to change as a result of the pricing strategy;
- (3) If the pricing strategy has changed from the preceding disclosure year, identify the changes and explain the reasons for the changes.

2.4.5 Every disclosure under clause 2.4.1 above must-

- (1) Describe the approach to setting prices for non-standard contracts, including-
 - (a) the extent of non-standard contract use, including the number of ICPs represented by non-standard contracts and the value of target revenue expected to be collected from consumers subject to non-standard contracts;
 - (b) how the EDB determines whether to use a non-standard contract, including any criteria used;
 - (c) any specific criteria or methodology used for determining prices for consumers subject to non-standard contracts and the extent to which these criteria or that methodology are consistent with the pricing principles;
- (2) Describe the EDB's obligations and responsibilities (if any) to consumers subject to non-standard contracts in the event that the supply of electricity lines services to the consumer is interrupted. This description must explain-
 - (a) the extent of the differences in the relevant terms between standard contracts and non-standard contracts;
 - (b) any implications of this approach for determining prices for consumers subject to non-standard contracts;
- (3) Describe the EDB's approach to developing prices for electricity distribution services provided to consumers that own distributed generation, including any payments made by the EDB to the owner of any distributed generation, and including the-
 - (a) prices; and
 - (b) value, structure and rationale for any payments to the owner of the distributed generation.

9 Appendix B – Consistency with Pricing Principles

The Electricity Authority's Pricing Principles have been updated and provided in "Distribution Pricing: Practice Note" August 2019. We have assessed how well our current Pricing Methodology meets the principles.

We have developed a revised Pricing Methodology that reflects the Electricity Authority's updated Pricing Principles and Cost Reflective Pricing Methodology. Last year we consulted with Retailers on the new structures, and we are currently refining the methodology using their feedback. Our new Pricing Methodology is provided in our Pricing Roadmap and is summarised in this Pricing Methodology disclosure. We will be refining our thinking this year by consulting again with retailers, focusing on prices for large commercial businesses.

For each of the Pricing Principles we have assessed alignment with our current methodology and against our future Pricing Methodology.

Pricing Principle (a) (i)

(a) Prices are to signal the economic costs of service provision, including by:

(i) being subsidy free (equal to or greater than avoidable costs, and less than or equal to stand-alone costs);

Subsidy free means that consumers in consumer groups are no worse off by being part of the whole network – that they are not better off with another service, or they are not paying for the incremental costs of another consumer group. WELL calculates the stand alone and avoidable cost for each major consumer group – residential, non-residential consumers connected to the low voltage network and non-residential consumers with dedicated transformers.

Stand-alone cost calculation: considers the costs that a consumer would face to supply their energy needs from alternative energy sources. This represents the cost of going 'off-grid' or bypassing the network. The Electricity Authority's pricing principles practice note (the Guidance) suggests that SAC should be estimated with reference to micro grid schemes under which a group of consumers share energy resources.

To estimate SAC we have investigated micro-grid schemes under which consumers generate and store their own electricity and use LPG substitutes to create a hypothetical standalone network. We note that there are few real world off-grid micro-grid schemes in New Zealand. However, using publicly available information we were able to design and cost a hypothetical micro-grid that might be capable of supplying a subdivision or business park grouping of consumers. Our research suggests that the most common and economic off-grid solution would use a combination of solar PV, batteries, backup diesel generation, and LPG.

Avoidable costs: The avoidable costs associated with each of the consumer groups were derived by estimating how short-term costs reduce if a specific consumer group is no longer supplied. Consistent with the guidance, avoidable costs include short-term variable cash costs, such as repairs and maintenance, billing and customer service costs, and transmission charges. Network asset costs are excluded as they are fixed in nature and are not avoided if a consumer group disconnected from the network.

Principle	Current Methodology	Future Methodology
<i>Being subsidy free</i>	Estimated short run avoidable cost and the cost of a standalone alternative in line with the Authority's Distribution Pricing Practice Note 2021.	The stand-alone cost will also be updated as alternatives to distribution services are developed.

(ii) reflecting the impacts of network use on economic costs, and

Pricing structures are economically efficient where they assist to efficiently signal the economic costs of servicing different network usage profiles. WELL's prices are initially based on building block allowable revenues under Part 4 regulation, reflecting key network investment and operating costs. WELL then considers the drivers of consumer usage to develop prices for each consumer group. WELL's pricing has regard to the economic cost of using existing network capacity and to the cost of future capacity, as follows:

Time of use (ToU) charges: From 1 April 2021, Wellington Electricity will implement mandatory ToU pricing for Residential consumers. These pricing structures incentivise efficient use of peak network capacity and signal the cost of investing in new capacity by charging a higher price during periods when the network is typically congested and a lower price during off-peak periods.

Demand (kW): The demand charge applied to GTX1501 pricing plans provides a price signal by incentivising larger consumers to reduce their demand at high network congestion periods.

Night boost: The night boost pricing option ('NITE') applies to separately metered and permanently wired appliances, such as night store heaters, which are switched on and off at specific times. This controlled option will be switched on during the off-peak night period (11pm to 7am) and for a minimum "boost period" during the day of two hours generally between 1pm and 3pm. This incentivises consumers who have invested in these heating options to use these loads during off-peak periods.

Load management: Wellington Electricity provides lower prices to consumers that offer up dedicated controllable loads (e.g. electric hot-water cylinders). This lower price signals to consumers the cost savings associated with shifting consumption away from network peaks or other congestion periods (e.g. during outages).

Use of LV and HV assets: All pricing categories disaggregate consumers by their use of LV and HV assets. Our cost of supply model also only allocates LV costs to consumer groups that use these assets aligning use of these assets to network pricing.

WELL does not specifically factor circuit length into prices. The relatively compact and interconnected nature of our network makes this difficult to apply in practice.

Dedicated equipment: The GTX pricing group distinguishes the distinct costs associated with providing dedicated transformers, as well as recognises that these consumers do not typically use LV circuit assets. This is also reflected in our cost of supply model which allocates a higher proportion of transformer costs direct to the GTX group.

Connection capacity: kVA bands are applied across our general pricing groups to reflect differences in installed connection capacity. This typically reflects differences in the usage of different sizes of transformers and circuit voltage capacity.

Power factor charge: To encourage power factor management, a power factor charge is applied to General Transformer Connections greater than 1500 kVA (GTX1501) who fail to correct inductive loads. This signals to the consumer the need to manage power factor to optimise network capacity and quality of supply.

Streetlights: Separate streetlight charges seek to directly recover the cost of streetlight assets and maintenance.

Connection costs: Differences in connection costs are recognised through fixed daily charges, capacity bandings, and capital contributions for new connections.

Transmission cost pass-through: Transmission costs are passed through to consumers using methodologies which are in line with the TPM. Specifically, WELL passes through costs as a fixed charge reflecting that TPM prices are not signalling grid congestion.

Looking forward: WELL's Future Pricing Roadmap summarises the changes WELL expects to make to its pricing in the future. WELL implemented ToU pricing initially for EVB consumers from 1 July 2018 and expanded it to include all residential consumers in 2020. WELL continues to investigate efficient pricing options and is considering efficient prices for small commercial consumers and prices for managing EV charging. This year, WELL will be finalising its new price structures that reflect the Electricity Authority's new Cost Reflective Pricing Methodology. We will start to transition to the new structures from 1 April 2026.

Principle	Current Methodology	Future Methodology
<i>Signal economic cost</i>	<p>We signal the economic cost of using the network by:</p> <ul style="list-style-type: none"> Tariffs that reflect the cost of using electricity during peak demand periods A Customer Contribution policy that ensures connecting consumers fund the incremental cost of connecting 	<p>Continue to refine its price signals for using energy during peak demand periods. Key programmes include:</p> <ol style="list-style-type: none"> Refine the LRMC calculation and reflect the cost of using electricity during peak periods in the allocation of variable and fixed prices. Consideration will be given to geographic price signals – prices that reflect significantly different LRMC for specific parts of the network. Develop cost reflective prices for small and medium size non-residential consumers,

Principle	Current Methodology	Future Methodology
	Recent improvements include the application of mandatory ToU pricing for all residential consumers.	replacing any-time variable price components. 4. Consider capacity based fixed prices for medium and large non-residential consumers. 5. Transition away from low fixed charges to standard pricing.

(iii) reflecting differences in network service provided to (or by) consumers;

Networks in New Zealand generally do not offer different levels of service for its core distribution services. The regulatory framework is based on providing set levels of quality for all consumers within a service area. Regulatory penalties and incentives are applied to quality targets based on those service levels.

However, we note the Distribution Pricing Practice note broadens the definition of this principle to encompass any differences in the network service provided by or to a distributor.

WELL’s pricing reflects different network service offerings that account for price and quality trade-offs, asset usage requirements, and consumption preferences. Specific examples of consumer service preferences that are catered for in our pricing are also discussed above and include:

- **Time of use and night boost prices:** Time reflective cost reflective prices reflect consumer preferences over when they use the network.
- **Interruptible supply:** Consumers can offer up interruptible hot water load in exchange for a discount on prices. Specific reliability requirement can also be negotiated as part of our network connections policy.
- **Connection capacity:** The different pricing categories reflect a range of connection sizes reflecting different consumer requirements.
- **Dedicated equipment:** WELL pricing and connections policy provides consumers with the option of being provided with dedicated equipment. Dedicated transformers are provided under GTX pricing. WELL also provides a range of dedicated equipment using direct agreements with consumers.
- **Non-standard terms:** Large industrial connections with atypical seasonal or daily load profiles are also offered non-standard terms to better meet their preferences for fixed or variable pricing or asset charges. Non-standard terms could also reflect different levels of security and operating restrictions for a specific consumer.

This year we will be trialling residential flexibility services that manage electricity use away from peak demand periods on the network. Prices for these services will reflect the value of avoiding network upgrades.

Principle	Current Methodology	Future Methodology
<i>Prices that reflect the service being provided</i>	Different service levels are reflected by: <ul style="list-style-type: none"> • Pricing differentials reflecting different levels of distribution services provided. • Non-standard contractual terms, prices and consumer contributions reflecting different service levels. 	We will continue to develop new services and prices to reflect changing consumer demand. We are currently developing: <ul style="list-style-type: none"> • Managed EV charging services that will allow demand to be managed during peak demand periods. Consumer will receive lower prices in return. • Continue to offer large consumers non-standard terms that reflect their specific operational needed and budgets.

(iv) *encouraging efficient network alternatives;*

Network pricing should encourage efficient investments in alternatives to traditional transmission or distribution network supply (including demand response). Network alternatives include distributed generation (e.g. Solar PV, wind, hydro), storage, interruptible demand, and flexibility services. Our pricing structures (e.g. ToU, NITE, Controlled, and demand pricing) encourage investments in non-traditional network alternatives where they are more efficient:

- As discussed in Principle (a) (i) above, our prices are less than stand-alone cost for all consumer groups so are therefore likely to discourage inefficient investment in off-grid alternative energy solutions. This reflects that most residential solar solutions only provide 25% of a household’s energy needs. The network is still needed to provide the remaining 75%. Conversely, if an individual or consumer group can find a more cost-effective alternative than the prices signal, they would be better to use that service.
- Our prices signal the cost of future network reinforcement if consumers use electricity during peak demand periods (i.e. price signals are set using the LRMC). This allows consumers to choose to use electricity during peak demand period and pay more or avoid using electricity during busy periods and avoid the investment cost.
- Our peak period prices encourage alternative network solutions where they are more efficient than using traditional solutions to solve capacity or security constraints. Examples are, lower prices for hot water control, and peak ToU tariffs that signal when it is efficient to purchase distributed energy resources like household batteries to shift load to off peak periods.

Principle	Current Methodology	Future Methodology
<i>Encouraging efficient network alternatives</i>	Our current prices signal when it would be efficient to use network alternates.	Refine and improve the price signals, including: <ul style="list-style-type: none"> • Refine the stand alone and avoidable cost calculation. • Refine peak demand periods to reflect any changes in peak periods due to changes in energy use behaviours. • Refine the LRM calculation, including considering geographic price signals. • Develop and offer flexibility services as an alternative to traditional solutions to capacity and security constraints.

b) Where prices that signal economic costs would under-recover target revenues, the shortfall should be made up by prices that least distort network use.

Prices are first set to signal future economic costs. Where these prices result in a short-fall of revenue, this short fall should be recovered by a pricing mechanism that least distorts network usage. Because this residual amount has no need to send a price signal (because all the price signalling work is done in the first step) this residual recovery process should be done in a way that means a consumer has no reason to change their electricity consumption use or pattern.

In practice, non-distortionary charges are likely to target consumers that demand a service the most or which are less likely to change their usage behaviour due to a price change. A challenge with this approach is it can be difficult to identify consumers based on willingness to pay due to lack of information on price elasticities (i.e. a measure of willingness to pay) specific to different consumer groups in the New Zealand electricity sector.

WELL’s recovery of the residual revenue is in line with the Distribution Pricing Practice Note 2021 and applies a fixed daily charge per ICP. WELL has different non-residential pricing categories that reflect different size connections. Fixed prices are larger for larger sized connections reflecting that those connections are using a larger proportion of the network.

Principle	Current Methodology	Future Methodology
<i>Least distorting recovery of residual revenue.</i>	Fixed charges are applied by ICP. The size of the charge reflects the size of the connection. Currently, WELL collects 54% of its revenue from fixed charges which does	Refine and improve the fixed charges used to recover residual revenue: <ul style="list-style-type: none"> • Refine the LRM calculation and the residual amount to be collected from fixed prices.

Principle	Current Methodology	Future Methodology
	not align with the LRMC. The overall residual amount could be refined.	<ul style="list-style-type: none"> Retain the least distorting fixed daily prices for residential and small non-residential connections where the connections sizes are similar. Apply least distorting fixed charge based on connected capacity for medium to large non-residential connections.

c) Prices should be responsive to the requirements and circumstances of end users by allowing negotiation to:

i. reflect the economic value of services; and

Prices above stand-alone cost could not be sustained in a competitive market and may result in inefficient bypass of the existing infrastructure. As Wellington Electricity’s prices are below the stand-alone costs, bypassing the network is discouraged suggesting that the prices reflect the economic value of services.

However, we are open to considering non-standard arrangements for large connections that may be prone to bypass to the gas or electricity transmission network. Note, EDBs cannot offer different quality levels to the mass market i.e. the mass market use shared assets that provide a single level of quality.

Principle	Current Methodology	Future Methodology
<i>Reflect the economic value of services.</i>	<p>Prices are set below the standalone cost and reflect the economic value of services.</p> <p>We offer individual prices and terms for large customers with unique requirements.</p>	We will continue to offer individual prices and terms for large customers with unique requirements.

i. enable price/quality trade-offs

Price/quality trade-offs are reflected through different service and asset level offerings affecting firmness of supply, reliability and connection capacity:

- Uncontrolled pricing plans have higher prices recognising the higher willingness to pay for consumers that do not want their hot water load interrupted.
- ToU and NITE prices are targeted to consumers that are willing to shift their demand to the off-peak.

- Demand pricing and kVA bands allow consumers to self-select the capacity service they require, consistent with their willingness to pay.
- WELL’s connections policy enables non-standard connection or assets to be recovered through capital contributions. For example, higher security of supply through multiple levels of redundancy can be recovered through these contributions at the time of connection.
- Large general connections can choose between sharing a distribution transformer on the GLV group or, having their own dedicated transformer on the GTX pricing group. This reflects consumer preferences over security of supply.

WELL has committed to standard pricing categories for most consumers. However, non-standard pricing structures can be agreed by negotiation for large industrial connections. This policy seeks to balance the need for non-standard pricing arrangements with the need to reduce transaction costs for retailers and consumers.

Principle	Current Methodology	Future Methodology
<i>Enable price/quality trade-offs.</i>	Standard prices reflect different service offering. We offer individual prices and terms for large customers with unique requirements.	We will continue to offer new prices for new services offering different service levels. In the future this will include flexibility services. We will also continue to offer individual prices and terms for large customers with unique requirements.

(d) Development of prices should be transparent and have regard to transaction costs, consumer impacts, and uptake incentives.

Our pricing methodology and annual price changes are transparently published on our website. These disclosures are designed to provide all the relevant information that consumers and retailers need in order to understand how prices are set. The level of aggregate prices has been set within the constraints of the DPP Determination 2025 which is set and overseen by the Commission.

We also seek to signal changes in prices in our pricing strategy. We have sought to reduce retailer transaction costs by developing pricing to reflect standard consumer profiles and connection characteristics, where possible. New ToU pricing, in particular, has been developed to try to align to ToU structures that other EDBs are adopting, thereby reducing transaction costs for retailers. Before we make any price structure changes, we consult with retailers as the consumers representative. The consultation document includes the potential impact on customer electricity bills and options to transition or smooth changes if there is a risk of price shocks.

WELL seeks to limit transaction costs arising from its network charges, by limiting the complexity of charges and structures and the number of charging parameters within each charge. However, economic efficiency criteria are weighted more highly.

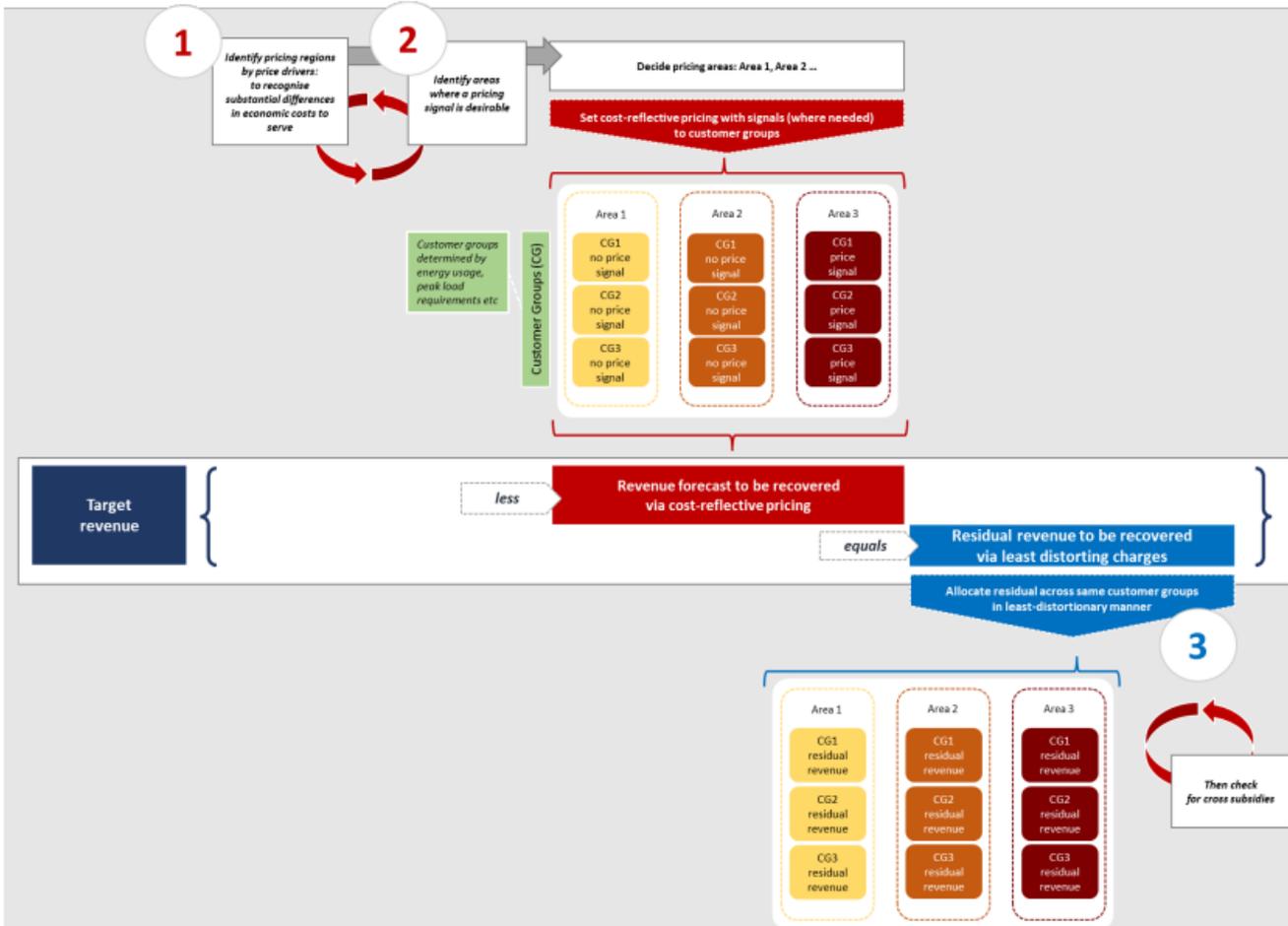
WELL applies the same charging structure to all retailers, excluding any non-standard contracts. A separate contractual agreement is negotiated with non-standard consumers as they have unusual connection characteristics that can't be applied using standard tariff structures and the DDA terms and conditions.

Principle	Current Methodology	Future Methodology
<i>Transparent</i>	We provide our Pricing Methodology to explain how prices are derived and the Pricing Roadmap outlining how we are refining our Pricing Methodology going forward.	Continue to publicly disclose our pricing methodology and future pricing plans.
<i>Transaction costs</i>	<ul style="list-style-type: none"> We have developed our ToU pricing structures to align with other networks. Limiting the complexity of charges and structures and the number of charging parameters within each charge. 	<ul style="list-style-type: none"> We are planning to simplify our pricing structures. We consulted on the new structures with retailers last year and applied them from 1 April 2024. This includes reducing the number of price categories and pricing components. We will align new price structures with other networks where it is sensible. The exit of the low fixed user tariffs will clarify residual pricing.
<i>Customer impacts</i>	We consult with retailers as the consumers representative before changes are made. The consultation document includes the potential impact on customer electricity bills and options to transition or smooth changes if there is a risk of price shocks.	We will continue to consult with retailers on any price structure changes.
<i>Uptake incentives</i>	<p>We ensure that price signals for our different price options are consistent in the value they reflect – that consumers aren't incentivised to select a pricing options over another which has a better economic benefits.</p> <p>We have now aligned the price signals between:</p> <ul style="list-style-type: none"> EVB and ToU tariffs Off peak, controlled and night boost. All-inclusive and controlled (applying a consistent 10-15% discount). 	<ul style="list-style-type: none"> Refine the price signals for our prices, aligning them with the LRMC.

10 Appendix C – Pricing Methodology

From the Electricity Authority’s Distribution-Pricing-Practice-Note-2021-2nd-edition, <https://www.ea.govt.nz/assets/dms-assets/29/Distribution-Pricing-Practice-Note-2021-2nd-edition.pdf>

Figure 1: Steps to setting efficient distribution pricing: 1) cost drivers and 2) any price signalling and 3) least distortional residual allocation



11 Appendix D – Progress against current Pricing Roadmap²⁴

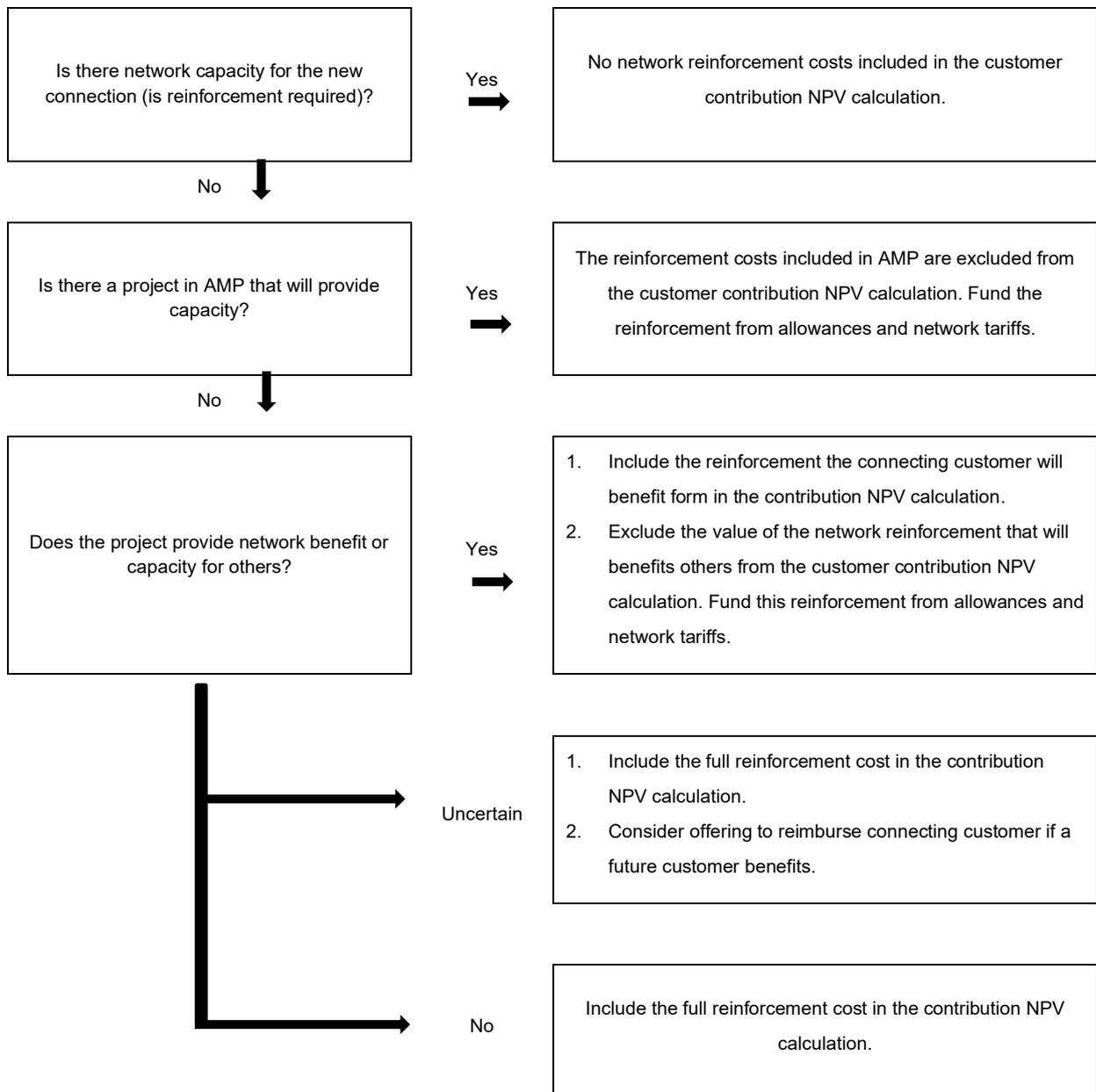
Initiate pricing reform (April 2017 – March 2018)		Develop detailed plans for pricing reform (April 2018 – March 2020)		Manage roll-out of future pricing (April 2020 – March 2026)	
Initiative	Progress	Initiative	Progress	Initiative	Progress
Identify overall objectives for pricing reform and update strategy and plan.	<ul style="list-style-type: none"> ✓ Completed ✓ Updated for phase 2 	Work with ENA and other distributors to ensure alignment of proposed price structures.	<ul style="list-style-type: none"> ✓ Industry standard for residential consumers developed 	Implement new price structures and prices (under revenue cap).	<ul style="list-style-type: none"> ✓ Large commercial cost reflective already in place ✓ Residential ToU prices implemented ● Developing small commercial cost reflective (in progress) ● Developing managed EV and battery charging prices (in progress)
Determine preferred future price structures, e.g. ToU and/or demand and/or capacity.			<ul style="list-style-type: none"> ✓ Residential ToU + DER management price ● Small commercial structures still to be developed and implemented 	Transition consumers from old to new price structures.	<ul style="list-style-type: none"> ✓ Transitioning all residential ToU in 2021
Consult with stakeholders on future pricing structures.	<ul style="list-style-type: none"> ✓ Completed for EV trial 	Further consult with stakeholders to explain preferred pricing structures and to educate them about upcoming pricing changes.	<ul style="list-style-type: none"> ✓ Industry review panels ✓ Retailer residential ToU consultation complete 	Further consult with stakeholders. Educate consumers on how to save money on distribution charges by managing usage and shifting load to off-peak periods.	<ul style="list-style-type: none"> ✓ Energy Mate programme ✓ Educational webtools
High level scoping of metering, data and billing constraints/issues.	<ul style="list-style-type: none"> ✓ Completed – industry review 	Develop plan for remediation of metering / billing / data issues.	<ul style="list-style-type: none"> ✓ Billing system tested for ToU rollout 	Resolve implementation issues.	<ul style="list-style-type: none"> ✓ ToU billing operational
Gather data for analytics.	<ul style="list-style-type: none"> ✓ Completed for EV trial ✓ High level industry study ✓ Still to get for WELL network 	Seek funding from Commerce Commission for required changes to billing systems. Work with 3rd parties (retailers, MSP) to resolve metering and data issues.	<ul style="list-style-type: none"> ✓ Funding needs included in DPP capex ● Access to meter data now part of Code – consider most appropriate data source 	Ongoing review of progress towards achieving pricing objectives.	<ul style="list-style-type: none"> ✓ New Cost Reflective Pricing Methodology and pricing structures developed ✓ Consult with retailers on new structures and transition rules.
Introduce trial demand charge for residential EV consumers.	<ul style="list-style-type: none"> ✓ Completed 	Detailed modelling of new pricing structures and prices, including likely impacts on consumers. Consumer trials if required.	<ul style="list-style-type: none"> ✓ High level industry analysis completed ✓ Consumer impacts of residential ToU analysed 		
		Check of regulatory compliance	<ul style="list-style-type: none"> ✓ New residential ToU prices comply with low fixed user restrictions 		
		Separate pricing categories for EV residential consumers and update of demand charge from \$0.00/kW/month.	<ul style="list-style-type: none"> n/a Considering combining EV ToU with residential ToU ✓ Demand pricing replaced with ToU 		
		Agree with EA/Retailers how retailers will pass through distribution price signals to end consumers.	<ul style="list-style-type: none"> ✓ Consulted with retailers – majority suggested they would pass price signal through in some form. 		

²⁴ Note, the roadmap in Appendix D is focused on residential prices as the main driver of peak demand. Prices for Commercial consumers will be addressed in the later stages of the roadmap.

Appendix E – allocating connection costs (including any required network reinforcement)

WELL allocates network reinforcement related with a new connection to those who benefit. Generally, we include the proportion of network cost that benefits other customers on the RAB and in wider network tariffs. If there is uncertainty about whether other customer may benefit (e.g. we are unsure whether there will be new growth to use spare capacity) we can reimburse the connecting customer. While the Contribution Policy provides the option to reimburse reinforcement costs, it is rarely used because most spare capacity is expected to be used by climate change related demand increases. Figure 33 summarises the process of assessing how network reinforcement relating to a new connection is allocated to each customer.

Figure 33 – allocation of network reinforcement relating to a new connection



12 Appendix F – Transmission pass-through methodology

Transmission cost	Cost driver - price categories	Price category	Cost driver - within price categories	Customer group	Tariff
Residual	kWh	Residential	Fixed capacity (15 kVA)	Residential	Fixed daily
		Commercial	Fixed capacity (15 kVA)	Small (15kVA and under)	Fixed daily
			avg. connected capacity	Medium (4 x categories from 15kVA to 1500kVA - GLV & 3 x categories from 15kVA to 300kVA - GTX)	Fixed daily or capacity charge
			Individual connected capacity	Large (2 x categories from +300 kVA - GTX)	Capacity charge
Non-metered	Fixed capacity	Non-street lighting	Fixed daily		
		Fixed capacity	streetlighting	Fixed daily	
		Direct	Individual connected capacity	Direct bill	Capacity charge
Benefit based	kWh	Residential	Fixed capacity (15 kVA)	Residential	Fixed daily
		Commercial	Fixed capacity (15 kVA)	Small (15kVA and under)	Fixed daily
			avg. connected capacity	Medium (4 x categories from 15kVA to 1500kVA - GLV & 3 x categories from 15kVA to 300kVA - GTX)	Fixed daily or capacity charge
			Individual connected capacity	Large (2 x categories from +300 kVA - GTX)	Capacity charge
Non-metered	Fixed capacity	Non-street lighting	Fixed daily		
		Fixed capacity	streetlighting	Fixed daily	
		Direct	Individual connected capacity	Direct bill	Capacity charge
Connection	Connected capacity	Residential	Fixed capacity (15 kVA)	Residential	Fixed daily
		Commercial	Fixed capacity (15 kVA)	Small (15kVA and under)	Fixed daily
			avg. connected capacity	Medium (4 x categories from 15kVA to 1500kVA - GLV & 3 x categories from 15kVA to 300kVA - GTX)	Fixed daily or capacity charge
			Individual connected capacity	Large (2 x categories from +300 kVA - GTX)	Capacity charge
Non-metered	Fixed capacity	Non-street lighting	Fixed daily		
		Fixed capacity	streetlighting	Fixed daily	
		Direct	Individual connected capacity	Direct bill	Capacity charge

13 Appendix G – Directors' Certification

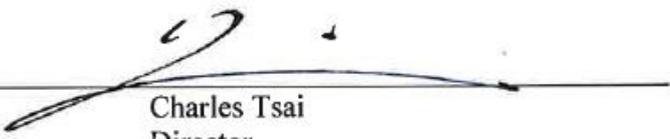
Schedule 17 Certification for Year-beginning Disclosures

Clause 2.9.1

We, Richard Pearson and Charles Tsai, being directors of Wellington Electricity Lines Limited certify that, having made all reasonable enquiry, to the best of our knowledge-

- a) The following attached information of Wellington Electricity Lines 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 the basis consistent with regulatory requirements or recognised industry standards.


Richard Pearson
Director


Charles Tsai
Director

03 March 2026

03 March 2026