

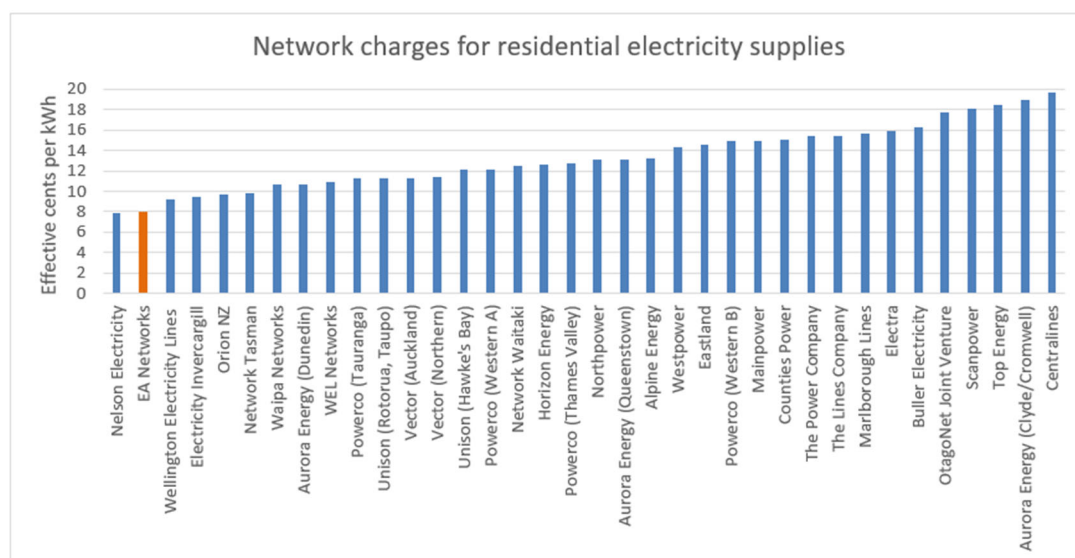
Electricity delivery pricing update

(for prices applying from 1 April 2024)



EA Networks maintains and operates the local electrical network to provide electricity delivery services for electricity retailers in the Ashburton area. We are a cooperative, owned by our customers, and we are committed to delivering value to our community.

We are one of the lowest cost electricity distributors in New Zealand, consistently ranking in the top few positions on price. The Ministry of Business, Innovation and Employment domestic electricity price survey (May 2023) places us second:



We charge electricity retailers for the delivery service and our charges are included in their retail prices, making up about 27% of the final retail power bill for residential customers. Each year we review our prices and this document provides a brief summary of the key changes we have applied in this year's update.

A schedule of our prices and the methodology that we use to establish prices are available on our website at <https://www.eanetworks.co.nz/disclosures/>.

Regulated price adjustment

We operate under a regulated default price-quality path (DPP) which was updated and reset by the Commerce Commission to apply for the 5-year period beginning 1 April 2020.

In 2020 the price path reset required a 1.3% reduction in our underlying revenue, and the following 4 years provides an inflation-based increase, together with a range of regulatory allowances. Last year we increased our charges by 10%.

This year, continued inflation pressures and the deferred increase from last year (mainly driven by an increase in the amount we are charged for our connection to the national grid) have again pushed our increase to close to 10%.

The main drivers for this change are set out in the following table.

Our management costs	The combined movement in our costs of managing and maintaining the network has increased significantly with inflationary pressures.	+6.8% +\$3.1m
Our asset costs	Return on investment, depreciation, tax allowance and loss on disposal have also increased, largely driven by the CPI linked revaluation.	+3.8% +\$1.7m
Transmission related costs	Charges from Transpower for the national grid (representing 21% of our total costs) vary from year to year.	+0.4% +\$0.2m
Regulatory incentives and limits	The DPP includes incentives relating to expenditure and reliability, and changes in these incentives are reflected in prices. It includes a wash up mechanism for prior under or over recovery, and it also imposes limits on the overall change that we are allowed to apply.	-1.2% -\$0.5m
Overall charge increase		+9.8%

Asset costs

The return we make on our assets is regulated at about 2% and linked to the indexed value of our asset register. This year the indexation of asset values, which tracks movements in other costs, has reflected the high level of cost inflation that we are currently seeing in the economy.

Management Costs - Operating and maintenance

The movements in administration, operations and maintenance effectively capture movements in the current high-inflation environment, reflects investment in people and systems and the increased costs of operating (for example traffic management and insurance).

Increased chargeable quantities

Compared to prior year forecasts, we are expecting our chargeable quantities to grow 2.8% which provides some of the revenue needed for the cost increases noted above. The balance of the 9.8% increase is met with an average 6.8% increase in prices.

Breaking down the numbers

We have updated our cost allocation model to take account of more recent relative use of our shared network services, and to continue the phasing-in of our new methodology which we began in 2022. These adjustments mean that the price movements vary across our connection categories.

The average price movements by category are:

General connection 8 kVA	-6.1%
General connection 20 kVA (covering most residential)	+6.9%
General connection 50 kVA	+6.8%
General connection 100 kVA	+9.5%
General connection 150 kVA	+3.7%
General connection 300 kVA (new)	+7.7%
Irrigation	+4.7%
Industrial	+10.1%
Large customers	+18.2%
Streetlighting	+5.4%
Combined average	+6.8%

Finally, within each category we have adjusted the structure of our pricing in line with the new allocation and to better reflect costs. This means that the charges in respect of an individual customer's supply will change by more or less than the averages above.

Pricing methodology

We maintain a cost allocation model to support our pricing updates, and the main aspects of this model are presented in our pricing methodology document which will be published on our website early March 2024. The document sets out how we define connection categories, how we allocate costs to each category, and how we establish prices to recover the allocated costs.

We consider a range of issues when setting prices. Subject to the many practical and regulated limitations, we think that the most important objective is to structure prices to appropriately reflect our cost drivers. When prices reflect costs, customers have an incentive to use electricity when and where it is economically efficient to do so (and select alternatives when there are lower cost solutions). This avoids an unnecessary economic burden for our community, and also minimises the extent to which some users might subsidise the costs imposed by other users.

The attributes that support our cost allocation and price setting vary from year to year and we smooth any impact by adjusting prices to reflect longer term trends.

Fixed and volume price rebalancing

For our general category, covering all residential and most commercial connections, we apply a combination of fixed and volume-based pricing components.

Volume based pricing is supported by regulation and provides some useful outcomes – it encourages customers to purchase energy efficient appliances, use LED light bulbs and to upgrade their insulation.

However, the industry and our regulators have recognised that volume-based pricing is driving some inefficient outcomes, particularly in terms of our sustainability objectives:

- it discourages customers from using our network to share local renewable energy resources (like solar generation),
- it adds a barrier to adoption of electric vehicles and electrification of commercial process heating,
- it discriminates against families in energy poverty, particularly larger families in poorly insulated rental accommodation with inefficient heating appliances and no access to solar panels or other alternatives.

We recognise that New Zealand's greatest opportunity for sustainability improvement is decarbonisation through electrification of our transport fleet. For this journey (among other things) we will need more renewable generation. To keep our energy costs at a reasonable level, it is important that this generation need is fulfilled by low-cost renewable generation. Our volume-based pricing is currently encouraging customers that can afford it to install small scale bespoke roof-top solar systems, rewarding them with a lower share of our fixed overhead costs. The alternative is large scale solar and wind generation solutions which can provide the same energy at around a third of the cost. Then, lower volume-based pricing provides the opportunity and encouragement for all customers to purchase this lower-cost energy delivered through our network.

Taking account of these influences, the regulations that limit the level of fixed charge that we can apply are being phased out. Alongside other NZ electricity networks, we will be lowering our volume-based charges over a period of several years, and instead recovering this revenue by increasing our fixed charges.

In itself, this change will be revenue neutral and, for customers with average usage levels, the adjustment will not change the total amount we charge. In the longer term it will lead to lower overall energy costs for our community. However, higher usage customers (including those in energy poverty, and those charging electric vehicles) will pay less, and low use customers will pay more.

To help mitigate the impact, we have enhanced the savings for our smallest residential connections in the General connection 8 kVA, lowering the fixed daily charge to 30c/day (excluding GST).

Looking forward

Alongside the fixed and volume rebalancing noted above, we expect our future annual pricing reviews will result in further increases. For next year's update, the 5 year regulatory control period is being reset by the Commerce Commission and we will roll out of the very low inflationary settings used in the current regulatory period. This will result in a step change in prices which is likely to significantly exceed the 10% movement cap that has restrained our price increases throughout the current regulatory period.

The amount Transpower charges us is also undergoing a similar reset, and Transpower has advised us that it is expecting a significant increase in its charges from 1 April 2025 as it moves to invest \$4.7 billion on:

- replacing aging assets,
- maintaining reliability and resilience, and
- facilitating electrification (to a small extent).

For EA Networks, Transpower is projecting a 32% increase in the amount it charges us, and this in isolation will add a further 6% step change in prices over and above the increment noted above.

In the years following (1 April 2027 onwards), we expect to return to increases around the 10% mark as we catch up with deferred increases and inflationary pressures that we have not been able to pass through.

Further information

Our pricing documentation including current and previous price schedules, loss factor schedules and our updated pricing methodology document are available on our website at <https://www.eanetworks.co.nz/disclosures/>. Queries regarding this update can be directed to Alex Nisbet, Pricing Manager at EA Networks (0800 430 460).

EA Networks is the trading name of Electricity Ashburton Limited. Our offices are at 22 JB Cullen Drive, Ashburton Business Estate, Ashburton. You can call us on 0800 430 460, send us an email at enquiries@eanetworks.co.nz, or visit www.eanetworks.co.nz.