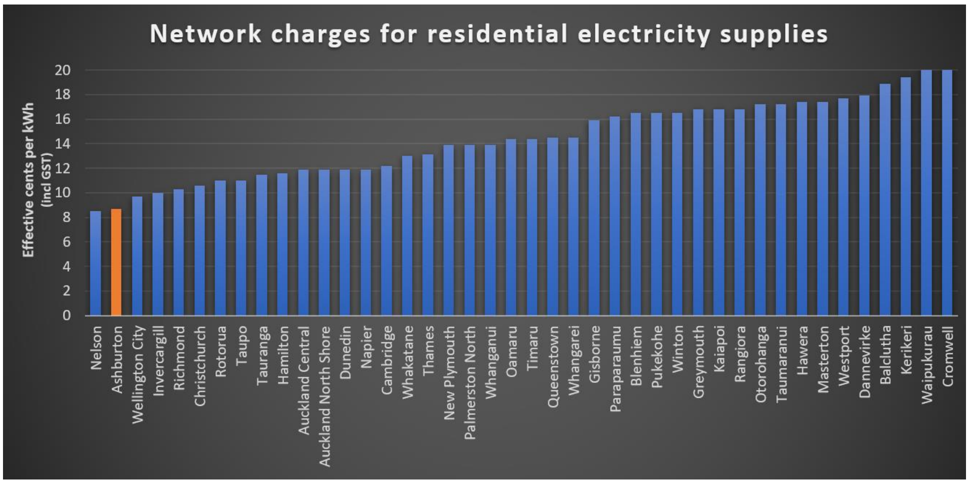
Electricity delivery pricing update summary

(for prices applying from 1 April 2025)

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 enabling our region and 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 (Nov 2024) places us second lowest in the country for residential supplies:



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 in our area. 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 has been updated and reset by the Commerce Commission to apply for the 5-year period beginning 1 April 2025. The previous 5-year price path was set at a time when interest rates were very low, and inflation was stable. This reset moves us back to a more normal interest rate environment, and provides for a catch up on the inflationary pressures that we were unable to reflect during the previous regulatory period.

The new regulated cap allows us to adjust our operating budgets to ensure that we maintain the network and essential service that it provides to meet customer demands.

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.	+3.6% +$1.8m
Our asset costs	Return on investment, depreciation, tax allowance and loss on disposal have also increased, largely driven by a return to a more normal cost of capital allowance, a related increase in taxation, as well as a CPI linked revaluation of the underlying assets.	+20.2% +$10.2m
Transmission related costs	Charges from Transpower for the national grid (representing 21% of our total costs) have increased by 20% as a similar regulatory reset is applied to Transpower's revenue.	+4.3% +$2.1m
Regulatory incentives and limits	The DPP includes incentives relating to expenditure and reliability, and changes in these incentives are reflected in prices. It also includes a wash up mechanism for prior under or over recovery. Of note, the Commerce Commission is phasing-in the regulatory reset to help mitigate the impact on customers, and this keeps our initial movement down a bit.	-4.5% -$2.3m
Overall charge increase		**+23.6%**

Asset costs
The return we make on our assets is regulated at about 6.5% per annum and linked to the indexed value of our asset register. This is higher than the 4.2% allowance in the prior year, and the indexation of asset values has also reflected the tail-end of the recent high inflation period that we have moved through.

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). We have also included an allowance for the planned replacement of our core finance and asset mapping systems.

Increased chargeable quantities
Compared to prior year forecasts, we are expecting our chargeable quantities to grow 3.5% which provides some of the revenue needed for the cost increases noted above. The balance of the increase is met with an average 19.9% 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	+22.2%
General connection 20 kVA (covering most residential)	+22.1%
General connection 50 kVA	+21.3%
General connection 69 kVA (new)	+5.3%
General connection 100 kVA	+19.0%
General connection 150 kVA	+18.3%
General connection 300 kVA	+18.4%
Irrigation	+18.7%
Industrial	+21.7%
Large customers	+24.9%
Streetlighting	+21.3%
Combined average	**+19.9%**

Finally, within each category we have adjusted the components 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 2025. 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. For this alternative, lower volume-based pricing would provide the opportunity and encouragement for all customers to purchase this low 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 collecting more of our revenue through fixed and capacity-based pricing, and volume-based prices will be relatively lower.

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 (including those with solar and gas appliances) will pay more.

To help mitigate the impact, we have enhanced the savings for our smallest residential connections in the General connection 8 kVA, maintaining a fixed daily charge of 37.5c/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. The Commerce Commission's regulated price path provides for consecutive annual increases of 11% plus inflation over the next four years, as it progressively aligns with the revised cost allowances.

The amount Transpower charges us is also on a regulated path where we expect a further 16% increase next year, followed by adjustments that are more aligned with movements in inflation.

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 & Regulatory 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.