

Discounts Decision - Q & A

16 January 2018

1. Why have you taken the decision to end the discount programme?

Rapid change to the industry, such as the increasing use of solar energy and customers being able to trade their power usage means we as a Trust have to create the change we wish to see.

We also want to invest more into the community now, and over the life of the Trust, and to find new ways to do that to tackle the big challenges our community faces.

This is about reaching and benefiting more of the community. It's also a more transparent way of working. We looked at the benefits to electricity customers, the wider community, and the challenges and opportunities for the Company in making this decision.

2. How will this affect me?

There will be lower lines prices charged to retailers for residential electricity customers, and there will be more investment into the Community through grants and other investments.

As well as the usual discount being paid in 2018, there will also be a reduction in lines prices to retailers for residential customers amounting to about \$7M overall, representing half of the total residential customer discount, from next year and into the future.

The Lines charge makes up approximately 25% of the electricity bill. WEL Networks charges retailers electricity lines charges based on their customers usage. How this is passed through to their customers is a commercial decision made by individual Retailers.

WEL are investing in ways to give customers more choice, to reduce peak load demand, and to reduce power charges. The net result over time will be a positive outcome for the Company, electricity customers, and the wider community.

3. What are the benefits to the community going to be?

The Trust currently grants approximately \$2M - \$2.5M each year into over 250 community organisations. There will be a three-fold increase in our ability to support these organisations and initiatives as a result of this decision.

We will be able to support the Company in driving lower prices for customers overall through investment in new initiatives, and we will also be able to invest more in the community now through grants, while also ensuring the Company is best placed to grow the capital value of the asset over time to benefit future generations also.

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4. Why aren't we getting the full discount returned in lower prices?

The residual discount will be invested in ways that will effectively reduce pricing over time and provide increased benefit to the community now and into the future. This includes the Company building on investments in ways to reduce peak load demand, and to reduce power charges. We support them in developing ways to disrupt the sector so total power prices are reduced, and wish to ensure the Company is in a position of strength in a rapidly changing environment.

5. Why has the discount become a problem for the Company?

A 'discount' is not the best way to manage pricing, it hasn't had the impact we wanted over time in terms of lowering electricity prices overall, and it's not transparent. With this decision, the Trust and Company will be in a stronger and more flexible position to negotiate and to take advantage of opportunities to disrupt the market so total prices are reduced.

It provides more clarity in capital structure and distribution expectations, and will benefit the community through increased dividends to the Trust resulting in increased grants to the community.

6. Are you doing this to fund legacy projects? And what gives you the right to decide how customers spend their discount, or how excess funds are used?

Our responsibility and mandate is to ensure we best meet our Mission to grow investment for our community (including electricity customers), now and into the future.

The Trust has been given the specific task to work collaboratively with the community to ensure that more grants are dispersed to more people living in the Waikato. This decision will enable us to better align resources to that strategic intent.

We are fulfilling those responsibilities in taking this decision.

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7. Did you consult with the community or other stakeholders about this?

Yes, this thinking is informed by the development of our long-term strategy. The strategy work involved 12 to 18 months of engagement, listening and challenging ourselves regarding what role the Trust can and should play in our Regions future. Our goal is to ensure we can best meet our Mission and to grow investment for our community (including electricity customers), now and into the future.

We've worked with the Company to establish clarity around overall return to the Community, and to ensure the current structures are the best fit for purpose for both the Company success and in terms of providing the best pricing to electricity customers and benefits to the wider community. This has required a broader look at the WEL Networks Distribution Policy overall, including the annual discount.

8. Aren't trustees going against their election pledge of committing to 'discounts and grants'?

Both grants and discounts will be delivered for two of the three years of the current electoral term.

Through the long term strategic plan that was adopted in 2017 prior to the election, Trustees committed to continue to review investments and business structures to ensure they are best fit for purpose, including the level of liquidity the Trust requires to action its strategic intent. The discount programme has been part of this review.

9. Do you understand how difficult it is for people on low incomes to pay power bills? And what about the hard-working middle class?

Trustees are acutely aware of the challenges faced by many in our community. Having a positive impact on that is at the heart of the Trust's Vision and Mission.

It is the Trust's intention that the net result of this decision will be positive for the Company, for electricity customers, and for the community overall. We will track outcomes, and adjust things if not.

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10. What initiatives are underway to reduce prices?

OurPower is a key example. OurPower is a project that is being developed out of a belief that electricity prices are too high. By introducing systems which significantly reduce retail costs we're able to drive down the cost of electricity, giving consumers real choice in the market. In future, there is no reason this could not be expanded to include solar, or even gas provision.

11. Are you selling the Company?

No, this decision has nothing to do with shares in the Company. The Trust believes that retaining a controlling interest in WEL Networks is beneficial in ensuring the Company retains a strong sense of social responsibility, and in growing investment in our community. This is embedded in our long-term plan and Statement of Investment Policies and Objectives (SIPO), and hasn't changed.

If however, something happened that caused the Trustees to believe the correct course of action was to bring on a new investor then a public consultation process would be required before any decision was made.

For further information please contact:

Mark Ingle

Mobile: 027 4884 833

E-mail: inglemarkj@gmail.com

'Here for the Community'

Perry House
360 Tristram Street
Hamilton
PO Box 1336, Hamilton 3240
P: 07 838 0093
info@welenergytrust.co.nz
www.welenergytrust.co.nz