

Before the annual discount scheme was retired.

In 2017 WEL Energy Trust announced that it supported the decision of WEL Networks Ltd to replace the annual discount payment, which was around \$20M (incl.GST) per annum, and instead to provide reduced lines prices for electricity customers, and greater balance of returns to the community overall. The Trust and Company had noted that over the life of the discount scheme, retail electricity prices (of which the lines component is about 1/3 of the total) continued to increase faster than inflation, putting pressure on household budgets. In comparison, prices faced by commercial and industrial customers remained relatively flat.

In the years leading up to the removal of the discount scheme, WEL Network Ltd.'s policy was to set prices for lines charges such that they would recover sufficient revenue to both pay the annual discount, and provide a level of return on investment which would ensure WEL Networks remained a viable business.

The level of return on investment targeted was the regulated return on investment (ROI) determined appropriate by the Commerce Commission every five years. In essence, prices were set so that WEL Network's annual revenue would recover the sum of: WEL Network's breakeven costs, plus enough to make a regulatory return (currently 4.6%), plus the cost of the annual discount scheme.

After the annual discount scheme was retired.

Since removal of the discount scheme, prices for lines charges have been reduced by a greater amount that was previously returned as a discount, as below:

- 2018 April - June \$17.566m excl. GST was paid out (relating to monies received from April 2017 - March 2018), of which \$12.1M was distributed to residential customers. This was the last discount.
- 2018 April - new WEL pricing for residential customers was reduced by \$6m (excl. GST). These charges are made to retailers who then charge customers.
- 2019 April - new WEL pricing for residential customers had another \$5.65m (excl. GST) reduction. The same effect as noted above.
- 2020 April - new pricing has been released that reduces WEL Network Ltd.'s lines charges by a further \$10M (excl. GST) spread across all customer types.

An advantage in replacing the discount scheme was that reduced lines prices fairly reflect how much a customer uses each month, whereas the discount was based on who the customer at a certain address was at a single moment in time. WEL Networks Ltd has also invested in new technology to reduce electricity prices in the region. The largest impact on residential electricity charges in the history of the Trust has been the establishment of Our Power, which is saving people on average over \$500 per annum. Although it is early days for the retailer, the Trust and Company are committed to growing its influence on energy pricing in the region.

In summary, the removal of the annual discount scheme has ultimately allowed WEL Networks Ltd to reduce power bills to customers in the Waikato, while generating greater dividends to be invested in the community by way of the shareholder, WEL Energy Trust.

Here for the Community'

Perry House

360 Tristram Street

Hamilton

PO Box 1336, Hamilton 3240

P: 07 838 0093