



OUR PEOPLE | OUR POWER

PRICING METHODOLOGY

April 2025 - March 2026

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PURPOSE STATEMENT

Centralines Limited ('Centralines', 'we', 'our' or 'us') review our pricing annually to meet company, industry, legislative and regulatory requirements.

This Pricing Methodology sets out our pricing structure for the 2025/26 pricing year. It is prepared pursuant to requirements of clauses 2.4.1 to 2.4.5 of the Electricity Distribution Information Disclosure (amendments related to IM Review 2023) Amendment Determination 2024 (Information Disclosure Determination). This disclosure document is supplied to the Commerce Commission and is made publicly available at www.centralines.co.nz.

Our Pricing Methodology will help you understand how we set our prices, including the methods used to determine revenues, consumer groups and allocation of costs of providing and maintaining the network.

In developing our prices for the 2025/26 pricing year we have been mindful of the importance of further transitioning more cost-reflective pricing approaches while considering consumer impact.

Residential pricing approaches have not been as effective in signaling network cost structures due to:

- legacy pricing approaches (especially under the constraint of the LFC Regulations)
- limits on the measurement capabilities of residential consumers' meters (i.e. non-smart meters), and
- access limitations to half hourly data at ICP level.

We are actively engaged with industry peers to develop new approaches and to seek residential pricing reform. With a transition process to remove LFC Regulations coming to an end in 2027, residential pricing can move towards a position that is more reflective of costs, where variable prices will be able to reduce to reflect marginal costs.

As we have progressed through the five-year LFC phase out period (April 2022 – March 2027), Centralines' prices have become more closely aligned with the cost of supply model (COSM) revenue targets and are currently less than 5% under-recovered to fully cost reflective prices with higher under-recovery observed for residential customers on low fixed charge tariffs.

In developing this Pricing Methodology, we have considered the Electricity Authority's guidelines and industry scorecards. Where the Authority has identified specific areas of improvement and highlighted best practice, we have sought to incorporate this feedback into our Methodology.

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1. WHO IS CENTRALINES?

1.1 Background

Centralines owns the distribution network that serves Central Hawke's Bay consumers. The network is managed and operated by Unison Networks Limited under a Managed Services Agreement (MSA) with Centralines.

Centralines is wholly owned by the Central Hawke's Bay Consumers Power Trust (CHBCPT) on behalf of Central Hawke's Bay's electricity consumers. Centralines' Board of Directors is appointed by the CHBCPT.



Figure 1 – Map of Centralines Distribution Network

1.2 Centralines' Distribution Network

1.2.1 Overview

Centralines is in the business of providing a safe, reliable, and cost-effective supply of electricity to our customers in the Central Hawke's Bay region. This is achieved through the provision, operation, and long-term management of our electricity distribution infrastructure, including overhead lines, underground cables, transformers, and substations. We currently supply electricity to approximately 9,000 active ICPs. Centralines' supply area is shown in Figure 1 above.

Our network serves the Central Hawke's Bay region with the majority of consumers in the main towns of Waipukurau and Waipawa. An extensive rural region is served in the surrounding areas as shown in Figure 2.

Our network is relatively lightly loaded, with much of the load being relatively small and spread over a large geographic area. This is reflected in the low connection point density at 5.0 ICPs per km, the fourth least dense network in New Zealand. The major load types are:

- four large commercial consumers in excess of 435kVA connection size
- 250 commercial connections
- 1,850 small commercial and unmetered connections situated in the business districts of the small towns and throughout the rural area, and
- 6,900 residential consumers in urban and rural locations.

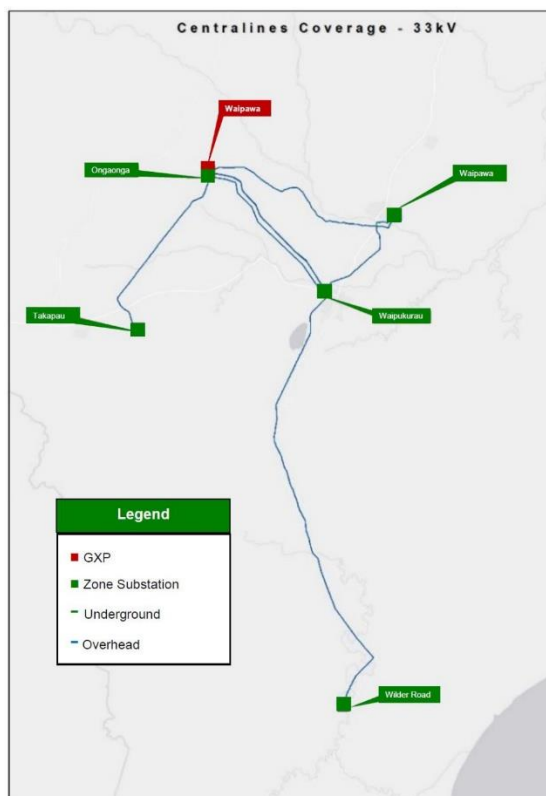


Figure 2 – Centralines' GXPs and Substations

1.2.2 *Future Development*

For a number of years the two main towns in the Centralines' region, Waipukurau and Waipawa, saw steady growth in the number of residential connections. Over the last five years the increase has on average been 2.1% annually. While this has not caused significant concerns around congestion or peak network demand yet, continued growth will need to be monitored to ensure localised issues do not arise. Waipukurau zone substation has reached its N-1 limit during peak periods due to industrial growth, and the Waipawa GXP supply transformers are also approaching their limits.

Irrigation connections are another area of growth in recent years with more than 70 connections having irrigation as the prime or sole type of use. Irrigation load is concentrated in rural areas and, while substantial compared to the surrounding non-irrigation load previously located in these areas, it has been managed within available network capacity. Irrigation load also aids network diversification. This diversity of load is important and allows us to manage the increase in overall load efficiently. There are areas now, however, where additional irrigation load will mean peak irrigation load will exceed N-1 limits on existing assets.

In a comparatively small network such as Centralines, large commercial connections can present both opportunities and risks. A major change in demand, either increase or decrease, can influence the immediate future network requirements. While increases in capacity from a single enterprise will be funded by them in the main, there may be upstream network enhancement that should be brought forward, which would be funded across existing network connections. Likewise, a reduction in commercial activity could result in spreading the required total revenue across the remaining connections.

Having price signals in place that can be strengthened or weakened as required is an important tool to provide for future uncertainty. Given the emerging constraints mentioned above, we are reviewing our price signals to ensure they are best suited to manage future constraints and provide consumers with opportunities to make informed choices on additional and discretionary load placement.

2. HOW ELECTRICITY PRICES ARE REGULATED

2.1 Overview

2.1.1 Commerce Act

The electricity distribution sector is regulated by the Commerce Commission to ensure that the long-term interests of consumers are protected. This regulation means that many EDBs:

- are limited to what they can charge their customers
- must meet prescribed customer service levels, and
- must regularly disclose certain information about their operations.

In 2021, the High Court granted an application by the CHBCPT to vary its Trust Deed. This change meant that there would no longer be appointees to the Trust with all Trustees being elected. This satisfied criteria in the Commerce Act for Centralines to be deemed 'consumer owned'. Being 'consumer owned' means we are subject to lighter regulation, which aligns better to smaller, consumer owned, electricity distribution businesses.

With this status confirmed by the Commerce Commission, we are now exempt from price and quality regulation but remain subject to information disclosure requirements (see *point 2.1.2*). The benefit to consumers is less volatility in prices year-to-year and more flexibility for us. This will ensure we can undertake and sustainably fund expenditure at appropriate levels to meet the needs of stakeholders and ensure a safe and reliable network.

After exemption in the 2021/22 pricing year, we elected to use a revenue model developed by PwC New Zealand to establish future revenue to be gathered through distribution line charges. PwC have a long history of involvement as a key advisor to the electricity distribution industry.

2.1.2 Information Disclosure

We must also ensure we meet the information disclosure requirements under the Commission's Electricity Distribution Information Disclosure (amendments related to IM Review 2023) Amendment Determination 2024. This Determination aims to ensure sufficient information is readily available to the Commission, stakeholders and the public to assess whether the business is performing under Part 4 of the Commerce Act. This Pricing Methodology is covered under clauses 2.4.1 to 2.4.5 of the Information Disclosure Determination.

2.2 Electricity Authority

2.2.1 Electricity Industry Act 2010

The Electricity Industry Act provides a framework for the regulation of the electricity industry, including:

- establishing the Electricity Authority, and
- incorporating provisions from the now revoked Electricity Industry Reform Act.

2.2.2 Pricing Principles

The Authority has a monitoring role in respect of distributors' price setting approaches. We have developed our prices with reference to the Authority's 2019 Distribution Pricing Principles¹.

The Authority's recent reform of the Pricing Principles made changes to:

- promote cost reflectivity
- focus on the essential elements of efficient pricing, and
- continue to recognise that distributors should have regard to transaction costs, consumer impacts and uptake incentives.

While compliance with the Pricing Principles is voluntary, the Disclosure Determination requires each distributor to either:

- demonstrate consistency with the Pricing Principles, or
- provide reasons for any inconsistencies.

Refer to *Appendix A* for details of how our Pricing Methodology aligns with the Pricing Principles.

2.2.3 Scorecard

The Authority developed a scorecard approach to monitor and comment on distributors' pricing structures and pricing reform. These pricing scorecards evaluate distributors' pricing plans against the Authority's Pricing Principles. The Authority intends the scorecards to form a basis for regular and constructive engagement with distributors on their price reform aspirations, efforts and roadblocks. We have considered the Authority's commentaries on previous distributor pricing methodology disclosures and sought to address the Authority's recommendations and observations on best practices when developing this year's prices and methodology disclosure.

2.3 Low Fixed Charge Regulations

We are required to make available low user prices in line with Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004 and the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Amendment Regulations 2021 (LFC Regulations).

¹ Note, the Authority has published an updated Practice Note (Distribution Pricing: Practice Note Second Edition v2.2, 2022) to assist with the practical interpretations of the Pricing Principles.

The key requirements of this regulation are as follows:

- we must offer a fixed daily charge to residential consumers of no more than 75c per day excluding GST, and
- a consumer on the low fixed charge daily rate should pay the same or less than a residential consumer on a comparable non-low fixed charge price plan at an annual consumption of 8,000kWh.

These requirements have a significant impact on Centralines' prices and price structure as outlined in *Section 5*.

An Amendment was passed to phase out the LFC Regulations over a five-year period (April 2022 to March 2027). The 2025-26 pricing year allows distributors to set the fixed daily charge for low users at 75c per day.

At this stage, it is expected the fixed charges for price categories designated 'Low Fixed Charge' will increase at the rate set out in the transition amendment. As the revised daily charges are implemented, we will assess the effect on residential consumers and will consider if any additional revisions to the overall residential pricing plans are needed. This includes standard price plans where fixed charges have not been constrained to artificially low levels.

2.4 Distributed Generation

Our policies and procedures for the installation and connection of distributed generation are in accordance with the requirements of Part 6 of the Electricity Industry Participation Code 2010. More information about distributed generation can be found on our website (<https://www.centralines.co.nz/tell-me-about/electricity/distributed-generation/>).

2.5 Related Pricing Information

In addition to this Pricing Methodology, we also have the following pricing-related information available on our website www.centralines.co.nz.

Document	Purpose
Pricing Policy and Schedules	Full details of eligibility for price categories, price options or capital contributions.
Capital Contributions Policy	A regulatory disclosure which describes how we calculate a customer's contribution towards a new or modified connection or relocation of network assets.
Distributed Generation	Information for customers connecting distributed generation to their home or business, along with solar pricing information.

3. OUR CUSTOMER GROUPS

3.1 Rationale for Grouping Consumers

We group consumers firstly by the size of their connection to the network. As connection size increases the demands placed on the network and the level of investment required to support the connection increases.

In addition, we recognise residential connections generally have different load profiles from other small connections where a residence is not the dominant form of use. Residences have similarities with each other that allow more specific price options to be applied, such as recognition of controlled hot water load, in order to deliver a more tailored solution for these consumers. Accordingly, they are separated into their own group.

Figure 3 illustrates the classification of consumers into different groups:

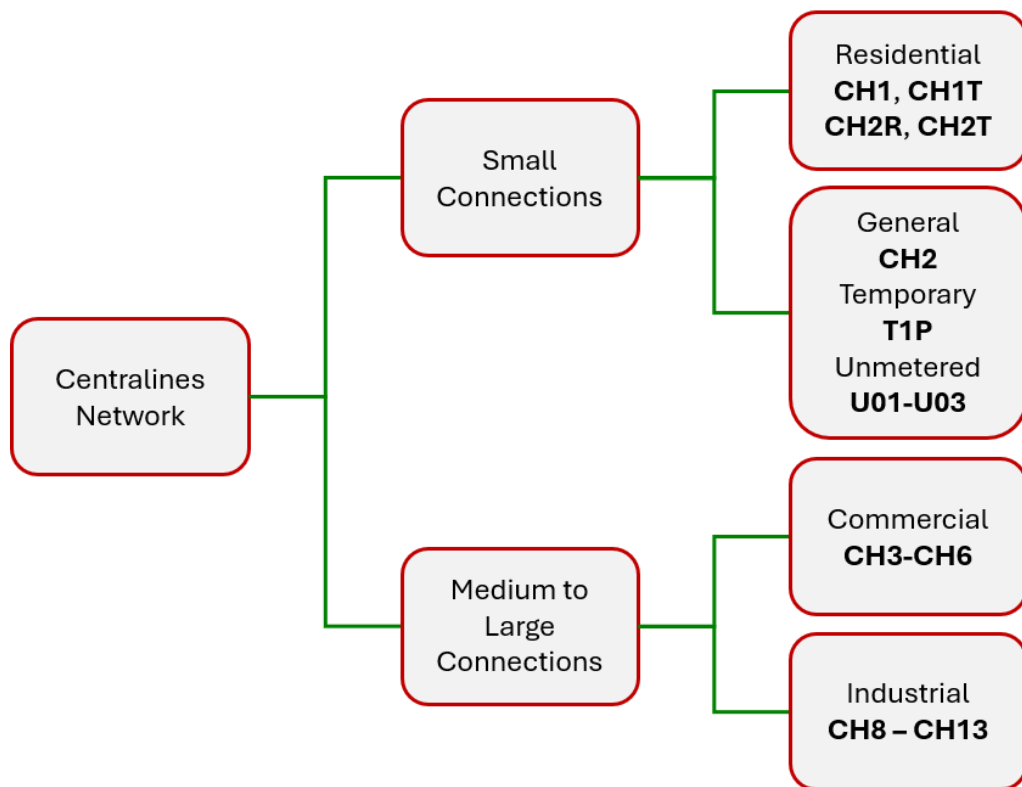


Figure 3 – Centralines' Consumer Groupings

4. OUR PRICING APPROACH

4.1 Overview of Our Pricing Strategy

This section describes our pricing strategy including the context in which we have set our prices and the strategic considerations impacting future changes in the structures of our prices.

New technologies, changes in regulatory requirements, and changing consumer opportunities and preferences will have a significant impact on our pricing over the next several years, especially at the residential level.

Our Pricing Methodology describes the process used to determine:

- the total dollar value of operating and capital costs that we can recover from network users, and
- a fair allocation of these costs to the different consumer groups that use the network through the delivery prices we charge.

The prices we charge should meet the following objectives:

- recover the costs we incur in providing our network services to consumers
- fairly allocate the costs to consumers based on the use of those services
- signal the value of consumers adjusting their usage to reduce the load and costs on the network, and
- be as stable as possible to avoid financial disruption to consumers making long-term decisions on electrical equipment (including distributed generation and battery storage equipment).

4.2 Our Pricing Roadmap

4.2.1 *Time-of-Use Pricing and Future Developments*

Centralines has offered time-of-use (TOU) residential pricing for some time, however, retailer adoption has been slow. By the end of the 2025-26 pricing year, we anticipate that approximately half of all residential ICPs will be assigned to a TOU tariff. Following consultation with retailers in 2024, we have signaled that TOU pricing will become mandatory for all ICPs with communicating smart meters from April 2026. This change aligns with the objectives of the Energy Competition Task Force.

In last year's methodology, we indicated our intention to engage an economic consultant to conduct a long-run marginal cost (LRMC) analysis to further refine our peak charges. Link Economics carried out this analysis, which has informed our updated pricing structure. Notably, we have introduced shoulder pricing and reduced off-peak charges to zero for

standard mass-market customers. Further development in this area is required, in alignment with the Authority’s guidance and ongoing sector-wide initiatives.

Further pricing developments under consideration, and due for consultation this year, are:

- the currently considered rebate for peak injection by mass market
- reducing demand charges for commercial and industrial customers, and
- re-introducing consumption variable charges as a of use-of-system charge.

This will lead to better alignment with Transpower’s methodology, where both demand and consumption are used to determine charges.

4.2.2 Future Price Developments

Like many other distribution networks, Centralines has seen an increase in investment into its assets as well as an increase in operating costs to ensure the reliability and quality of service expected of us. Based on the current asset management plan and the price paths for both transmission and distribution services the expected price increases for the next five years are following:

Price forecast	2025-26	2026-27	2027-28	2028-29	2029-30
Distribution	13%	10%	7%	5%	5%
Transmission	19%	19%	6%	6%	6%
Total Delivery	14%	11%	7%	5%	5%

Table 1: Centralines’ Expected Price Increases over next Five Years

In alignment with the Electricity Authority pricing guidance, and Energy Competition Task Force Package Two initiatives, we expect to be further aligning our TOU charges with long run marginal cost (LRMC) and this will likely see us introduce negative tariffs for energy export during peak periods and changes to distributed generation pricing over the next two years.

4.3 Our Strategic Considerations

4.3.1 Overview

In the context of network capacity, our strategic intention is principally to ensure:

- prices are set to provide signals showing consumers where discretionary and additional load is best placed, without imposing structures causing consumers to inefficiently reduce their use of the network, and
- equity between consumers within and across price categories.

4.3.2 *Price Signals and Long Run Marginal Cost (LRMC) Analysis*

The Authority has called for EDBs to move towards cost-reflective pricing, where on-peak and off-peak prices give signals of economic cost. Ideally, this would result in on-peak prices set at a measure of LRMC, off-peak prices at zero, the price of controlled usage set low enough to reflect that the service can be interrupted and shifted out of on-peak times, and the residual being recovered through the fixed charge.

Centralines has put in place TOU pricing to enable us to provide these signals to customers. We have recently estimated LRMC using an average incremental cost methodology to help inform our pricing. In practice, we need to also consider the impact that pricing has on customers. An implication of this is that the fixed charge is constrained by what consumers can bear.

For the 2025/26 pricing year we have increased fixed charges for our LFC plan to 75c per day, reflecting the phased change in the LFC regulations. We have also increased fixed charges for our standard plan from \$1.75 to \$1.90 per day.

We have given priority to the Authority's call for off-peak charges to reflect the zero economic cost during these periods. We think this is important in a context where demand and technology is evolving. A zero off-peak price gives consumers a clear signal that, if they can shift load to off-peak periods, then they will be rewarded for doing so. For example, by charging EVs during off-peak periods and shifting other load.

Our analysis of LRMC has shown it to be volatile from year-to-year, which is perhaps symptomatic of using average incremental cost for a small network. The results of the analysis are sensitive to the lumpy investments that are typical of electricity networks, with large system growth investments required in some years and smaller or no system growth investment in others. For bigger networks, their larger scale means that the total investment profile of system growth assets will generally be a lot smoother than for small networks, yielding less volatile LRMC estimates.

With off-peak rates at zero, controlled usage rates set relatively low (5c per kWh) to reflect service levels, and the fixed rate constrained by affordability considerations, our current peak charge of 25c per kWh is significantly above our LRMC estimate of 3.5c per kWh, because of the need for recovery of residual costs. In future pricing years, we will continue to refine our estimation of LRMC and consider the optimal recovery of residual costs across fixed and variable charges.

4.3.3 *Equitable Recovery of Costs*

Apart from providing appropriate price signals, the key role of our prices is to recover the fixed costs of providing the network service in a manner that is equitable across users.

Over the longer term, increasing use of EVs may place pressure on parts of the network, especially if consumers choose to charge their vehicles at peak times.

We expect that uptake of EVs in the region will follow the rest of New Zealand, so we intend to monitor pricing approaches used by other EDBs to determine an optimal pricing approach to encourage off-peak charging. We have residential TOU plans available and have set the

peak/shoulder and off-peak pricing to provide an incentive for consumers to consider time-shifting discretionary loads to off-peak and to a lesser extent to shoulder periods.

4.3.4 Residential Approach and LFC Regulations

We have lifted residential fixed charges in alignment with the LFC Regulations transition allowances, with commensurate reductions in variable charges to achieve better cost-reflectivity in residential plans.

As the Low Fixed Charge (LFC) phase-out approaches completion (2027), we plan to consult with retailers in 2025 to explore viable pricing options for the mass market. This consultation will consider the diverse range of residential properties, from small, single-occupancy homes with a single-phase 40-amp connection to larger properties with multiple EVs, heat pumps, pools, and hot tubs requiring a three-phase 40-amp connection. While some EDBs have considered capacity-based pricing bands, reliable capacity data remains a challenge for accurate allocation. An alternative approach under consideration is maintaining a variable charge that serves as a proxy for capacity – where higher-consumption properties incur higher charges and lower-consumption properties are charged less. While this method does not account for demand profiles, it does incorporate socio-economic considerations.

4.3.5 Commercial Approach

The Commercial pricing options are closely aligned with our cost allocation model. We are however considering a review in this area which will consider consumption as one of the variable charges. The LRMC calculation assists in determining the peak demand component as a proportion of total commercial revenue while assets values and installed capacity inform the fixed rates.

The two areas of potential significance in the commercial sector are irrigation and large industrial connections. There has been growth in numbers of irrigation-focused connections in the last 10 years and, while this growth has tapered off, there remains potential for continued increases.

4.3.6 Industrial Approach

There are four industrial connections of significance in terms of their demand compared to the total Centralines demand. Recent expansion of one of these connections has caused a re-assessment of future capacity availability. In a network such as Centralines, changes of this nature can have significant financial consequences for the future affordability of the network.

4.4 Distributed Generation

We currently have one embedded generator on our network. Embedded generators are sites/customers on the network who generate power and either deliver energy into our network, generate for their own use, or both.

For those who generate for their own consumption, consumers are financially rewarded by:

- variable network charges based on the kWh consumption reduction
- a reduced allocation of transmission charges in relation to their lower annual average usage of grid provided energy (for large-scale generators), and
- a reduction in the proportion of network asset values allocated to the consumer if the AMD that they place on the network is reduced.

Note

We also recognise the reduced costs associated with serving larger users who build close to the GXP, hence minimising the network investment required to service them. This is achieved via the pricing derivation which calculates the value of assets assigned to the ICP.

4.5 Non-standard pricing use

Centralines does not currently have any ICPs subject to non-standard contracts.

4.6 Consumer Considerations

When applying the process outlined in *Section 5* to the annual setting of prices, we take into account several consumer considerations:

- prices are as transparent as possible to aid consumer understanding of how their prices are determined
- prices logically relate to each other:
 - progressions between load groups follow a consistent pattern
 - within a price category, prices consistently reflect the costs and benefits of the consumption at different times (e.g. lower prices for controlled load)
 - options are priced to reflect future benefits, i.e. off-peak and shoulder rates are at a level that would encourage additional load to be concentrated at these times, and
- avoiding price shocks to individual consumers or groups of consumers. Stability and consistency of prices is one of our objectives.

Note

We have historically not differentiated pricing between rural and urban consumers and do not intend to, unless there is clear understanding that our consumers would broadly agree.

5. HOW WE SET OUR PRICES

5.1 What we consider

We consider a number of factors when setting our prices so they reflect the costs of supplying electricity distribution services to consumers and help consumers make informed decisions regarding their electricity usage. The factors we consider are detailed below, including regulatory requirements, network characteristics and consumer behaviour. All influence how we set our prices.

5.2 We follow the Pricing Principles

As well as meeting the considerations described in *Section 4*, we ensure our pricing methodology is consistent with the Authority's Pricing Principles and guidance provided by the Authority's Distribution Pricing: Practice Note 2019 for all electricity distributors. These principles are as follows:

- (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 standalone costs);
 - (ii) reflecting the impacts of network use on economic costs;
 - (iii) reflecting differences in network service provided to (or by) consumers; and
 - (iv) encouraging efficient network alternatives.
- (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.
- (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
 - (ii) enable price/quality trade-offs.
- (d) Development of prices should be transparent and have regard to transaction costs, consumer impacts, and uptake incentives.

Refer to *Appendix A* for details of how this Pricing Methodology aligns with the Pricing Principles.

5.3 Our Network Characteristics

Centralines has a single grid exit point (GXP) connection to the National Grid at Waipawa. This is connected south via Dannevirke from Woodville, and north to Fernhill.

Transpower has load scenarios in place that suggest an increase in load from the current 23MW peak demand to 34MW by 2038. There is recognition by Transpower that some upgrade work is required on the GXP, including an outdoor to indoor conversion and the installation of an 'Overload Protection Scheme'. This upgrade work has current indicative costs of \$500,000 and a possible implementation within the planning period prior to 2030. RCP4 covering a 5-year period from 2025-2030 has revenue increases of 16% for year 1 and 2 and 5% for years 3-5. As these are pass-through costs they will contribute to an increase for the distribution charges too.

Transpower has recognised that low voltage and transformer capacity issues will affect the Waipawa GXP. Transpower acknowledge that an option exists to replace one or both supply transformers, which would resolve both the capacity and low voltage issues, but they have no investments planned to address this situation. Instead, it is planned that these capacity issues will be managed operationally by Centralines.

Load growth will be closely monitored and pricing measures used to incentivise movement of load away from the network's peak times.

The demand and peak demand pricing options reflect the consequences of use during peak periods and allow commercial consumers to make informed decisions on the timing of their activity.

Our two major use categories, outside of large industrial connections, are residential and irrigation. These load types are complimentary, irrigation has a summer load profile, while residential connections peak on mornings and evenings during winter. Setting a very strong price signal in either load type is unlikely to solve future constraints. However, in order to manage loads into the future, we have TOU residential pricing to signal when it is best to shift discretionary load or place new load. For irrigation consumers, Day/Night rates are available to emphasise the advantage of using load in low demand periods. The larger irrigators are also subject to demand-based pricing, which signals clearly the advantage of reducing load in peak-demand periods.

We have increased the level of fixed charges across price categories to incorporate transparent pass-through of transmission charges and to reflect the mostly fixed nature of costs. The methodology used to allocate transmission charges to pricing tariff groups mirror Transpower's Transmission Pricing Methodology (TPM).

5.4 Our Methodology

5.4.1 Core Process

To achieve the objectives and principles listed above, we use the following core process to drive our pricing methodology and annual review of prices.

1. Establish a target distribution revenue using the revenue model developed by PwC.
2. Determine the value of pass-through costs to be recovered through prices.
3. Establish allocators for each component of Centralines' costs/revenue requirement to allocate to consumer groups where costs cannot be directly attributed.
4. Set or adjust prices to ensure forecast revenues from each consumer group equate to the allocated costs.

For the 2025/26 pricing year Centralines' approach has not changed and is to:

- allocate transmission costs across price categories using a methodology aligned to Transpower's allocation method
- allocate other direct costs across price categories
- allocate target distribution revenue across price categories
- determine cost-reflective pricing elements within each customer group, and
- make adjustments to ensure the overall revenue requirement is met.

5.4.2 Cost Allocation Model

A considerable portion of network costs are essentially fixed. The assets that are currently available for use are long-life assets that are used by many individual connections of varying size and with a diversified pattern of use. The value of the existing asset base is distributed using a Cost Allocation Model.

This Model allocates each asset on the network based on a nominal demand value. This is a stable measure that is not a reflection of use but of anticipated use profiles. The network is built to manage expected future loads and therefore the allocation through the Cost Allocation Model reflects this.

Residential and non-residential connections of a similar connected size are allocated a similar level of demand with consumer group separation occurring later.

5.4.3 Fixed Costs

A truly cost reflective price option would be a fixed charge for all these connections at the same rate to recover fixed costs. The current limitations of the LFC Regulations, even with reform in progress, prevent this from occurring. There are increases in fixed charges this year at the level allowed under the transition agreement for designated Low Fixed Charge plans. Fixed charges have also been increased in most price plans with associated reductions in variable rates to deliver as close as possible forecast revenue to cost reflective allocations.

The change in TPM implemented from 1 April 2023 involves the allocation of transmission costs to pricing tariffs as fixed costs, and are to align to the TPM. This methodology allocates:

- connection charges based on demand
- benefits based charges based on consumption, and
- residual charges also based on consumption.

5.4.4 *Price Signals*

With more research conducted regarding a value for a network LRMC, and the understanding that there are areas of concern around network upgrades that may need to be brought forward, certain price signals have been adjusted and some left in place to allow for flexibility in the near future.

With these criteria in mind, prices and options available to consumers are adjusted so that they:

- achieve the desired cost allocations/revenue requirement
- establish relativities that can assist in reflecting future costs, and
- will generate income as close as reasonably possible to Centralines' allowable revenues.

Note

Refer to *Sections 8 and 9* for the key price categories and how prices for each category are determined.

6. HOW OUR PRICES RECOVER COSTS

6.1 Introduction

This section sets out the amount of revenue that we are expected to recover through prices (total forecast revenue) in the 2025/26 financial year and breaks this down by key cost components.

We are not subject to a revenue cap but apply a methodology modelled by PwC to establish overall revenue and prices. The target distribution revenue is established using a building block of required revenue and includes costs that are passed through into pricing.

6.2 Revenue for 2025/26

Centralines' total forecast revenue for the 2025/26 year is shown in Table 2.

Components of Revenue	\$000
Target Distribution Revenue	16,194
Transmission	2,561
FENZ Levy	34
Local Body Rates	92
Commerce Commission Levy	27
Electricity Authority Levy	33
Utilities Disputes Levy	7
Total Target Revenue	18,948

Table 2: Components of Target Revenue

6.3 Target Distribution Revenue

6.3.1 Model for Future Revenue

PwC was commissioned to develop a model where future revenue can be evaluated. The purpose of the model is to:

- forecast Centralines' future revenues and cash flows

- conduct a valuation of our network fixed assets for impairment testing and financial reporting purposes
- assist with long-term (10 years) forecasting of financial statements
- help consider the financial implications of important issues and decisions
- develop forecasts of revenue between customer groups, and
- update forecasts on an annual basis, by rolling forward the model dates and inputs.

6.3.2 Assumptions used in PwC Model

The model bases the 10-year projection on certain parameters. The following are the key discretionary assumptions used:

- target revenue is set to finance the asset management plan designed at keeping the network reliability. The revenue path for the next three years averages at 10% increase year-on-year and then steadies at 5%
- transmission costs are increasing at 19% per annum for the next two years and 6% for the three years after. This is based on the Commerce Commission's allowance for Transpower, and adjusted for Centralines based on actual charges for FY26
- WACC assumption for 2026-2030 is based on DPP4 regulated vanilla WACC 7.10%. The Post-tax WACC of 6.44% is used as discount factor, and
- annual inflation is assumed at 2%.

These revenue targets do not include any step changes in consumer growth or consumption/demand. Industry expectations are for increases in consumption as a result of decarbonisation and load growth from electrification. Some of these changes in behaviour will drive an increase in investment and therefore an increase in required distribution revenue. As prices increasingly base revenue generation through fixed prices, increases in consumption will not deliver a linear increase in revenue, e.g. a 20% increase in energy use will not deliver a 20% increase in revenue. This will be evident in residential rates as the LFC regulations are removed and more consumers shift to more appropriate daily fixed charges.

To achieve the necessary revenue near the end of this 10-year projection, prices will need to rise more in step with the proposed revenue increases. Consumers are expected to be paying a larger portion of their total energy spend on electricity than they are currently. While this will be more efficient, and the overall energy spend may reduce, consumers will still continue to have higher power bills year on year.

6.4 Pass-through Costs

In addition to the core costs of operating the network, we also make allowance for pass-through costs.

These are costs paid to third parties who provide essential services in the electricity value chain. Centralines has little or no control of these costs so they are itemised and passed through into the total annual target revenue. These pass-through costs include:

Transmission

The primary pass-through cost is for the operation of the national grid that moves electricity around the country, and to and from Centralines' network.

Centralines have specified rates of fixed charges for each price category based on the allocation of transmission charges that, when multiplied by the forecast volumes, will equate to the annual transmission charges.

Fire and Emergency Levies

These are levies charged as part of Centralines insurance cover for the network.

Local Body Rates

We operate within a number of local body jurisdictions and where rates are charged on the site of network equipment required to deliver distribution services. These are recovered through prices.

Commerce Commission Levy/Electricity Authority Levy/Utilities Disputes Levy

These government agencies charge levies to each industry bodies, including distributors, to cover costs of operating.

Table 2, in *point 6.2* above, itemises the value of each of these pass-through costs.

6.5 Price Changes for 2025/26

We have made no changes to the structure of distribution pricing for the 2025/26 year aside from:

- an increase in the overall revenue to be received through distribution prices of 13.2% compared to forecast revenue for the 2024/25 period
- an increase in the daily fixed charge for residential 'Low Fixed Charge' price plans, CH1 and CH1T, from 60c per day to 75c per day
- the introduction of a Shoulder rate for periods from 11am to 5pm on weekdays and from 7am to 11am and 5pm to 9pm on weekends
- the removal of a Night rate in residential TOU tariffs, as an off-peak rate is to be used
- the review of TOU periods, which resulted in a reduction of peak period and an introduction of shoulder period
- reducing off-peak rates in residential TOU categories (reduced to zero in residential Standard use tariff)
- reducing commercial and industrial peak demand and anytime maximum demand rates in response to LRMC analysis, and
- reducing power factor rates for commercial and industrial customers.

The overall effect of these changes is to increase the proportion of revenue received through fixed charges and, while incorporating marginal cost analysis, increase the differential between on-peak and off-peak rates to further incentivise off-peak consumption.

Revenue 2025/26	\$000
Target Distribution Revenue	16,387
Pass-through Transmission Costs	2,561
Total 2025-26 Target Revenue	18,948
Target Distribution Revenue (pre-discount)	14,470
Pass-through Transmission Costs	2,153
Total 2024-25 Target Revenue	16,623
Change	14.0%

Table 3 – Revenue 2025/26

The price changes implemented for the 2025/26 year will see, on average, a 14% increase in prices. Revenue comparison excludes discounts that are being discontinued from 2026 for pricing year 2025/26 but applied to pricing year 2024/25.

Due to varying cost allocations between consumer groups and our continuous efforts to align with a Cost Allocation Model (CAM) the Table 4 below summarises the different price increases by consumer category:

Consumer type	CAM over/under recovery	2025-26 Forecast revenue (\$000)	% of Revenue	Average price change
Residential	Low under recovery	\$10,696	56%	16%
General	Fully cost reflective	\$3,637	19%	13%
Commercial	Low over recovery	\$3,243	17%	6.7%
Industrial	Medium over recovery	\$1,372	7.2%	1.7%
Total		\$18,947	100%	14%

Table 4 – Price Change by Consumer type 2025/26

7. HOW WE ALLOCATE COSTS TO EACH CONSUMER GROUP

7.1 Cost Components

Consumers are assigned to a load group based on:

- fuse size at the installation control point (ICP)
- type of use, and
- meter type, e.g. half-hour metering is mandatory for consumers within the TOU load group.

Although we have price categories for a number of different consumer groups as identified in *Section 3*, cost allocations are made to two broad consumer groups: residential and commercial.

Because of the small scale of our network, we have found that to allocate at any higher degree of disaggregation would cause discontinuities in price structures, so it is only practical to allocate to the two groups.

Cost allocators are chosen to reflect as reasonably as possible the key underlying drivers for each cost component so that the allocation can be reflective.

Table 5 shows the cost components and the allocators used, along with the reason chosen for the allocator.

Cost Component	Allocator	Reason for Allocator
Operating Expenditure	Installed Asset Value	All connections are subject to these costs. The more assets that are required to deliver the required energy, the greater the allocation of costs.
Depreciation		
Return on Investment		
Fire and Emergency Levies		
Commerce Commission Levies	Installed Asset Value	These levies are assessed on network asset value.
Transpower Connection	Measured/Assessed Capacity	Connection charges are based on the assets required to supply energy through the GXP. An increased capacity requirement at the GXP would involve an increase in Transpower charges.
Transpower Benefit-based	Annual usage (kWh)	Both charges are most closely allocated by total annual energy usage. As Benefit-based charges increase over time the Residual charge will decrease, therefore, providing stability between the two charges.
Transpower Residual Charges		

Local Body Rates	Number of Connections	All connections are subject to these costs, which are location based.
Electricity Authority Levy	kWh Consumption	The dominant method of basis for the levy.
Utilities Disputes Levy	Number of Connections	Levies are based on the number of connections.

Table 5 – Cost Components

7.2 Our Approach to Allocating Costs

Our approach to the allocation of costs has been to ensure allocators are:

- reasonable
- fair, and
- simple to measure and apply.

Where a cost is directly driven by a variable, costs are allocated in proportion to that variable. For example, Electricity Authority levies are primarily driven by the kWh of consumption therefore the annual consumption by price category is used to allocate this pass-through cost.

Asset-driven allocators make up the biggest share of total costs allocated to each region and consumer group. We use a combination of assets utilised by ICPs and an assessed capacity to proportionately allocate a representative share of assets.

Centralines cost allocation methodology:

- traces all assets utilised in the connection of the network to each ICP
- allocates the replacement value of these assets using the assessed capacity requirement, and then
- aggregates firstly to each connection, and then to a consumer group level.

This approach takes account of the distance of consumers from the GXP and therefore the length, number and value of assets needed to connect them to the network.

The network is also built to service the types of connection prevalent in that part of the network. In a residential area the assets employed to build the network to meet criteria, allowing for diversity, is not dependent on the consumption of individual connections.

Likewise, as commercial connections require larger capacity, they are allocated a larger portion of the existing assets than smaller-sized connections. While the demand and consumption at a particular site will vary from year-to-year, the assets employed do not, therefore, an assessed level of capacity produces a more stable asset allocation.

While pricing, particularly of smaller connections, is generally based on consumption this is not a good proxy for allocating assets. Distribution assets are installed to meet demand requirements, not volumes consumed.

7.3 Cost Allocation

The value of each allocator for each consumer group is shown in Table 6.

Allocator	Residential	Commercial
Connections	6,878	1,988
Consumption (000 kWh)	46,218	71,724
Asset Value (\$000)	89,737	55,557
Capacity (kVA)	50,173	37,553

Table 6 – Relative Value of Allocators for Consumer Groups

7.4 Forecast vs Target Revenue

Total annual target revenue is allocated to consumer groups to provide a target revenue for each consumer group. Forecast volumes for each price are then used to set rates to achieve as close to target revenue as is practical.

A comparison of target revenues and forecast revenues (before discount) is set out in Table 7. These revenue figures are stated before the forecast annual consumer discount is accounted for.

Consumer Group	Target Revenues (\$000)	Forecast Revenues (\$000)
Residential	11,224	10,696
Non-residential	7,724	8,252
Total	18,948	18,948

Table 7 – Comparison of Target Revenues and Forecast Revenues

This table indicates that both Residential and Commercial revenues are forecast to be close to the target revenue established. Residential volumes, and therefore revenues, are more predictable than Commercial volumes, especially those that deal with highly volatile loads such as irrigation.

We seek to manage price volatility, so forecast and target revenues do not match perfectly in any given year but are within reasonable levels of tolerance.

7.5 Revenue by Price Category

The following table shows the forecast revenue for 2025-26 by price category.

Centralines	Forecast Revenue (\$000)	% of Total Revenue
Low Fixed Charge – CH1	2,487	13.1%
Std Fixed Charge – CH2R	4,171	22.0%
Time of Use LFC – CH1T	1,449	7.6%
Time of Use Std – CH2T	2,588	13.7%
Residential	10,696	56.4%
Non-Residential – CH2	3,463	18.3%
Temporary – T1P	2	0.0%
Unmetered – U01, U02 and U03	172	0.9%
General	3,637	19.2%
Commercial to 69 kVA – CH3	1,263	6.7%
Commercial to 138 kVA – CH4	1,258	6.6%
Commercial to 276 kVA – CH5	533	2.8%
Commercial to 435 kVA – CH6	188	1.0%
Commercial	3,243	17.1%
Industrial	1,368	7.2%
Region	18,948	100.0%

Table 8 – Forecast Revenue by Price Category and Consumer Group

8. PRICE CATEGORIES

8.1 Overview

Once costs have been attributed and/or allocated to our consumer groups, we forecast whether existing prices and activity levels will generate the revenue needed for us to fully collect those allocated costs.

If there is a difference, we adjust our prices to better align forecast revenue to allocated costs. This alignment of revenue and prices is not an exact match and we must estimate variables including:

- environmental factors
 - changes in consumer usage, and
 - responses to price incentives to reduce demand on the network.
-

8.2 Price Categories and Price Options

8.2.1 Overview

We set prices at a category level for groups with common needs or usage. We then offer consumers within each category price options so that they have some choice and control over the end cost of their electricity.

8.2.2 Price Categories

Price categories reflect groups of consumers with a:

- common site usage (e.g. place of residence versus place of business), and
- common capacity and metering.

Our price categories are detailed in *points 8.4 to 8.6* below.

8.2.3 Price Options

Price options represent the choices consumers have on how they will be charged for the use of our network. These prices are structured in such a way as to:

- maintain equality between consumers who create similar costs for the network
- signal to consumers the benefits and costs of different patterns of consumption
- maintain relativities between options to incentivise desirable behaviour, e.g. consuming outside of peak hours, and
- minimise opportunities for arbitrage, i.e. seek to gain a cost advantage by using a price option for a purpose for which it was not intended.

Note

Details of price options available to our consumers are detailed in *Section 9*.

8.3 Fixed and Variable Components to Prices

We recover costs for most price options through a mix of a:

- fixed daily charge to the consumer, and
- variable charge that is based on their consumption over a given billing period (mostly residential customer and small commercial customers), or
- variable charge that is based on anytime maximum demand and peak demand (large commercial and industrial customers).

The fixed component is designed to give some certainty of cost to consumers and cost recovery to us. It also reduces the revenue risk to Centralines and its shareholders should there be:

- material and unforeseen changes to consumption or demand quantities, or
- major movements of ICPs between price categories and price options.

Fixed charges better reflect the fixed nature of the underlying costs we incur in operating a network to distribute electricity. The allocation of transmission charges is now specified as a fixed daily charge for each price category within the overall daily charge. This is the Authority's preferred method and ensures that individual connections cannot influence the amount they will pay for transmission charges that are set before the start of the pricing year.

We offer consumers multiple price options and combinations for the variable component of prices. This includes options for both uncontrolled and controlled load services. In addition, for residential connections, TOU categories offer price signals with higher variable prices at times of typically higher use and lower prices for periods of reduced use.

This range of options allows individual consumers to potentially manage their total electricity costs through their patterns of consumption. It remains the case that residential and small commercial connections are subject to the plans that retailers offer in order to get the most benefit from distribution price signals. While we reduce the off-peak rates in TOU plans, and also offer a stronger reduction for controlled load, there is likely to be an increased incentive for retailers to offer plans that match or close to match distribution signals.

Large commercial customers see a more transparent pass-through of distribution charges and are more able to make informed business decisions about behaviour change that could alter their overall distribution charges.

8.4 Residential

8.4.1 Overview

We seek to clearly categorise ICPs as either residential or non-residential. ICPs that are places of residence versus business show similarities in:

- their patterns of consumption, and
- the demand they place on the network.

Demand responsiveness mechanisms, such as control of hot water heating, are applied for ICPs in this category, as are prices compliant with the LFC Regulations.

We offer both accumulative and TOU pricing to customers in the residential category. Accumulative is where a meter records consumption accumulated over the whole billing period, typically a month. TOU is where consumption is measured and charged depending on when the energy was used. Time periods relating to typically high network demand will be charged at a higher rate than those that relate to low network demand.

Overall annual charges that would apply to a connection on an accumulative plan should match a connection using the same amount of overall consumption on a TOU plan.

8.4.2 Accumulative Pricing

The following price categories apply to places of residence that are charged on accumulative price options (i.e. non-TOU):

- Permanent Residence (CH1 and CH2R).

Under the LFC Regulations, we are required to offer a price option with a maximum fixed daily charge of 75c. This is catered for with the CH1 and CH1T price category. The low fixed charge categories, when compared to other comparable permanent residential plans (i.e. CH1 compared to CH2R) should have total charges that are the same or less based on 8,000kWh annual consumption.

8.4.3 TOU Pricing

The following price categories apply prices based on the time of the day when consumption occurs:

- Permanent Residence TOU (CH1T and CH2T).

The two TOU price categories mirror the accumulative categories with the equivalent fixed charges applied. While, on average, a consumer using 8,000kWh per annum would pay the same amount on an accumulative or a TOU price plan, the TOU plan offers the clear incentive for moving some use from on-peak time periods to off-peak time periods.

As the increasing penetration of EVs occurs, the use of the off-peak time periods for additional and discretionary load will increase in importance. We are looking at the next step in providing meaningful incentives in this area. While there are relatively few EVs currently it

is important to get incentives in place before they are essential for network security and demand control.

8.5 General

8.5.1 *Non-Residential <30kVA*

This category includes connections with a wide range of use types. There are very diverse consumption patterns, some with very occasional use.

This category is priced on fixed daily rates and accumulative consumption. Centralines will look to introduce a General TOU price category once the roll-out of improved metering is complete. This could be as early as the 2026-27 pricing year. Once implemented, this will allow consumers to elect whether to use on-peak and off-peak pricing for these connections or remain on monthly accumulative pricing.

With the very diverse consumption patterns of this group of connections, there may be some that can take significant advantage using this option. This will allow customers to choose to pay less overall for electricity consumption by shifting their demand to periods of lower network demand.

8.5.2 *Temporary (Builders Supply)*

The General category also includes a category for Temporary (Builders Supply) connections. This caters for connections that are temporary in nature due to the initial build or renovation. Once the build is complete the connection will be priced according to the final connection requirement and the type of use.

8.5.3 *Unmetered Supply*

Where a connection does not have individual metering, and they fit a tight guideline, they can be charged under the Unmetered category. These connections have small but relatively predictable consumption where a reasonable estimation of total consumption can be made without needing to individually meter each connection. Typically lighting and communications cabinets are included.

Where streetlighting is connected and is managed via a database, generally through a local authority, the connections will be priced under the U03 category where the majority of revenue is collected via a fixture per day price. This is more reflective of the costs placed on the network as they do not directly correlate with the level of consumption.

8.6 Commercial

We price commercial connections according to the size of the fused connection. As the size increases, the applicable category will be subject to a higher fixed daily charge.

The CH3 and CH4 Commercial categories (up to 138kVA capacity) have both accumulative and demand-based pricing options available, and the choice is defined on the metering available onsite.

Demand pricing is considerably more cost reflective as the units of measure relate more accurately to the costs placed on the network, compared to accumulative where consumption is the unit of measure. The larger Commercial connections are required to have full TOU metering and are, therefore, a cost reflective demand pricing option.

We have two demand-based rates, an Anytime Monthly charge and a seasonal On-Peak Demand charge. Although the Anytime charge signals the cost of network capacity provided, it is less reflective of the costs imposed on the network by demand during periods of congestion and has, therefore, been reduced for the second year in a row. The On-Peak charge is targeted more at times when network demand would typically peak and is useful in signaling to large consumers that, if possible, it is desirable to reduce peak demand in those time periods. We have adjusted these peak rates down, also in response to LRMC analysis.

We have four large Commercial connections over 436kVA capacity. They are priced on an individual basis relating to their specific characteristics.

9. PRICE OPTIONS

9.1 Price Option Overview

Within each price category, there are different price options. These options seek to signal the value of consuming outside of network peaks, while aiming to cover Centralines allowed revenues under the price path. Depending on whether consumers have TOU or non-TOU metering and their price category, the following price options are available:

Non-TOU Metered Consumers:

- 24UC – no ability to control load (e.g. water heating)
- AICO – controllable load, but no separate data stream (cannot identify exactly how much load is reduced)
- CTRL – separately controlled and recorded load
- NITE – controlled to be available from 11pm to 7am, and
- CTUD – controlled to be available from 7am to 11pm.

TOU consumers:

- ONPK – consumption occurring during the periods 7am to 11am and 5pm to 9pm on weekdays
- SHDR – consumption occurring during the periods 11am to 5pm and 9pm to 11pm on weekdays and 7am to 11am and 5pm to 9pm on weekends
- OFPK – consumption occurring during the periods 11pm to 7am on weekdays and 9pm to 11pm on weekends
- SOPD – highest peak load occurring within on-peak periods on a working day, during a summer month
- WOPD – highest peak load occurring within on-peak periods on a working day, during a winter month
- DMND – maximum load during the month, and
- KVAR – a charge for consumption having less than .95 power factor.

Note

Refer to **CL-CM0002 Centralines' Pricing Policy and Schedules** for full details of the applicability of each price option.

9.2 Relativities between Residential Price Options

In order to deliver a fair pricing relativity between consumers with different meter types and various equipment at their residences, the rates are set based on average historical usage.

This means that, on average, a residential connection that does not have hot water control, and their consumption is measured as wholly uncontrolled (24UC) usage, will pay the same amount as a connection that has a meter that separately measures day use and night use. If a consumer on a Day/Night plan moves more than the average energy use to the night period they will incur less distribution charges.

Hot water control offers savings to consumers but can be a disadvantage if the network reduces their level of service. Load control is a definite advantage for the network allowing for reduction of demand at peak network demand periods.

We are strongly in favour of households having a metering configuration that can deliver separately measured controlled and uncontrolled usage. This provides more transparent cost reflectivity and shows consumers more clearly the benefits of allowing hot water control. Some meter configurations allow control of hot water but do not separately measure the two components. These inclusive meters are not ideal as the benefit of lower rates for hot water control are not as clear, but with the number of these that are in the community we retain the inclusive pricing option so that historical configurations that are outside of the consumers control do not disadvantage them.

We provide TOU plans in addition to accumulative plans, and these are also priced using average consumption data to deliver an equivalent annual distribution charge as the accumulative plans.

9.3 General

The General price category, CH2, encompasses a large range of connections with a small connection size, less than 30kVA. Being of a small connection size they typically have standard accumulative metering and are charged on kWh of consumption with a daily fixed charge.

A controlled price option is available although the level of discount available is reduced as these connections have a reduced level of controlled load available to them. There is no inclusive price option available with the reduced value of controlled load in these types of connections. Day/Night options remain available to encourage consumption outside of the daytime period when network peaks are likely to occur.

9.4 Temporary

Temporary connections are used when premises are under construction before the final connection is confirmed. Because of the administrative work involved, and the relatively short time of connection, a 5% incremental fixed charge compared to the standard residential (CH2R) rates applies.

9.5 Commercial Fixed Rates

The fixed daily rates are set within connection size bands. Moving up to the next band will see an increase in the daily rate. In general terms an increase in capacity will see an increase in the value of assets required to service that connection.

9.6 Commercial Variable Options

Accumulative options are established on the same principles as the equivalent Residential and General options. As with the General category, there is no inclusive price option available as this type of meter configuration was typically only applied to residential connections.

As the penetration of meters that record half hour consumption increases, we will introduce TOU pricing options for commercial connections. We have consulted with retailers on an introduction of a TOU General tariff and intend to implement it in April 2026.

Demand-based options are available for all commercial categories. This type of pricing is mandatory for connections in the CH5 category and above.

At a commercial size, the levels of network impact are such that the additional information attained from a meter, and the additionally reflective pricing, will allow consumers to recognise the financial costs and benefits that behaviour incurs.

The demand option (AMD) is an expression of the maximum impact on the network at any time in the month whereas the On-Peak Demand (OPD) option relates to the demand requirement during periods of typical network peak demand. The level of AMD has reduced again this year with the expectation that this will continue to reduce and may be replaced with consumption-based variable charge. AMD signals the cost of network capacity, provided it is not seen as being reflective of the impact the connection places on the network during periods of peak network congestion. OPD relates more specifically to periods when the network is likely to be constrained.

10. HOW WE ENGAGE WITH OUR CUSTOMERS

10.1 Customer satisfaction survey

10.1.1 Overview

Centralines engaged SIL Research to conduct a consumer satisfaction survey in February to March 2025. The timing of the survey is deliberate to set a baseline ahead of a period of expected electricity price increases as the electricity industry transitions to a more dynamic de-centralised system. In this system, consumers will be able to start taking advantage of cheaper energy costs by electrification of transport and space/water heating, and take advantage of technologies to better manage their energy consumption and generation.

10.1.2 Interim Survey Findings

As the survey is still ongoing at the time of writing this disclosure, the findings are not yet based on the full sample and may change. The objective of the survey was to gauge customer satisfaction, identify priorities, and assess willingness to adopt new energy technologies and pay for service improvements. The insights gained will help us refine our service and address customer concerns more effectively. The key findings so far are summarised below.

1. Brand Awareness and Customer Priorities

Centralines enjoys strong brand awareness among its users. The survey highlights that reliability and service quality are the most critical factors for customer satisfaction, while cost remains a notable concern. Electricity consumers expect high-quality service but are generally unwilling to pay extra for improvements.

2. Key Observations

- *Reliability and Service Quality:* Customers prioritise reliability above all else, which aligns with electricity distributor expectations. Outage notifications scored highly, emphasising the importance of proactive communication.
- *Affordability Concerns:* Perceived price importance has scored highly, reflecting ongoing concerns about affordability. The pricing concern was reinforced by a lower satisfaction score, highlighting cost sensitivity.
- *Power Restoration:* While restoration speed scored well, it lags slightly behind other service factors, indicating some customer frustration with outage durations.
- *Voltage Fluctuations:* Flickering or dimming lights received the lowest importance rating, suggesting that minor fluctuations are tolerated more than full outages.

3. Willingness to Pay for Improvements

- Customers demonstrated low willingness to pay extra for service improvements, emphasising their expectation that enhancements should be achieved within existing tariff structures.

- The lowest willingness score was for faster customer service response, indicating that most customers are already satisfied with response times.

4. Energy Behaviour and Technology Adoption

- There is moderate interest in adopting new technologies for cost reduction, though enthusiasm remains limited.
- Low engagement with off-peak electricity use suggests potential barriers such as ingrained usage habits, lack of incentives, or limited awareness of cost-saving opportunities.
- Centralines could encourage behaviour change through dynamic pricing models, smart meter education, or targeted promotional campaigns on energy efficiency.

10.1.3 *Conclusions and Recommendations*

The survey reaffirms that Centralines' customers prioritise reliability and affordability, with a strong preference for proactive communication. While price sensitivity remains high, our customers do not express a strong willingness to pay extra for improvements. Moderate interest in energy efficiency technologies suggests an opportunity for Centralines to enhance awareness and incentives.

Centralines will review full survey results and make sure these continue to be reflected in preparation of the asset management plans, which drive the cost that is passed onto the customers in form of prices.

DEFINITIONS

AMD	Anytime Maximum Demand – a measure of consumers’ peak use of Unison’s network at any time in a given month. AMD is measured in kilowatts (kW). Centralines calculates AMD by multiplying by two the energy in kilowatt-hours (kWh) it delivers over the half hour period when the consumer’s peak use of its network occurred in that month.
Authority	The Electricity Authority – the electricity regulator who ensures distributors apply and comply with key regulations governing the electricity industry.
Avoided Transmission	The expenses incurred by Centralines as a direct result of payments to: <ul style="list-style-type: none"> • generators for generation, or • any other activity, which substitutes for the use by Centralines of the national grid transmission system.
Code	The Electricity Industry Participation Code 2010 – sets out the rules made by the Electricity Authority under section 36 of the Electricity Industry Act 2010.
Commission	The Commerce Commission – an independent statutory body responsible for economic regulation and monitoring of electricity distributors, among other functions.
Consumer	Any person who is a party to an agreement with a retailer for the supply of electricity by means of Centralines’ distribution network.
Consumer Group	A category of consumers for which Centralines develops its pricing. These categories reflect groups of consumers with a common: <ul style="list-style-type: none"> • site usage (e.g. place of residence versus place of business), and • capacity and metering.
Cost Allocation Model	The methodology used by Centralines to allocate costs to their consumer groups.
COSM	Cost of supply model.
CPI	Consumer Price Index.
Customer	A direct customer of Centralines receiving line function services or a retailer whose customers use Centralines’ (the distributor) network.
Demand	The rate at which electricity is being used expressed in kilowatts (kW).
DG	Distributed generation – electricity generation that is connected and distributed within the Centralines’ network.
DPP	Default Price-Quality Path – set by the Commerce Commission to control the level of revenue and prices distributors can set.
EDB	Electricity Distributor Business – a company that distributes electricity within New Zealand. Centralines is an EDB.

Generator	An organisation that owns or operates generating units that inject electricity into the network.
GXP	Grid Exit Point – a point of connection where Centralines’ network connects to, and receives electricity from, the national transmission system run by Transpower.
ICP	Installation Control Point – a point of connection on the distributor’s (Centralines) network, which: <ul style="list-style-type: none"> • Centralines nominates as the point at which a retailer is deemed to supply electricity to a consumer, and • the connection point has the attributes set out in the Code.
kVA	Kilovolt Amp – a unit of measure for how much power is being provided through a business or home’s electrical circuits or technology. It is the apparent power expressed in thousand volt-amps.
kW	Kilowatt – Kw (1000 x watts) – a unit of measure of power or electricity.
kWh	Kilowatt hour – the amount of electricity consumed in an hour.
LFC Regulations	Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004 and Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Amendment Regulations 2021.
Loss code	Distributors determine loss factors applying on their networks against which traders should submit consumption to the reconciliation manager. Each loss factor has a specified loss code that is stated on Centralines’ public website under Loss Factors Methodology and Disclosure.
LRMC	Long-Run Marginal Cost – refers to the incremental cost of supplying an additional unit of electricity over the long term.
Network	The lines and associated equipment owned or operated by a distributor (Centralines) in a continuous geographic area or areas.
Non-TOU	Non-Time of Use – a consumer’s site where electricity is metered over a period (e.g. month).
Power factor	The ratio of active power to apparent power (kW divided by kVA).
Price category	A category of charges identified as a price category in CL-CM0002 Centralines’ Pricing Policy and Schedules . It defines the delivery charges applicable to a particular group of ICPs with a common capacity need or usage behaviour.
Price option	The price option within a price category that gives consumers a choice of how the energy they consume is collated and charged. The options available are usually determined by the configuration of metering and load control equipment used by the consumer.
Pricing period	1 April to 31 March year.
Retailer	The company that supplies electricity to consumers with installations connected to the distributor’s network.
TOU	Time of Use – a consumer’s site where half-hour metering is installed. These values are used for the calculation of charges.

Transmission	The movement of electricity from its place of generation through the grid injection points to grid exit points.
Transmission charge	Charge incurred by Centralines for transmission of electricity from the national grid operated by Transpower to Centralines' network. This enables Centralines to deliver power to its network users.
TPM	Transmission Pricing Methodology.
WACC	Weighted Average Cost of Capital – a measure of the return on shareholder capital that distributors can achieve under the Default Price-Quality Path regulations set by the Commerce Commission.

APPENDIX A – ALIGNMENT WITH PRICING PRINCIPLES

As noted earlier, we have prepared this Methodology considering the Distribution Pricing: Practice Note – August 2019 (Practice Note) and the second edition of the Distribution Pricing Practice Note, released in October 2022. This Practice Note sets out a number of principles that distributors are expected to formally demonstrate they adhere to. We consider that we have historically adhered to the new principles because of their reasonable nature.

In this section, we set out how we consider we meet the Authority’s pricing principles. Each principle is stated, followed by commentary.

Signal economic costs

- (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 standalone costs);
 - (ii) reflecting the impacts of network use on economic costs;
 - (iii) reflecting differences in network service provided to (or by) consumers; and
 - (iv) encouraging efficient network alternatives.

Centralines interprets the requirements for subsidy-free prices as requiring that, for each consumer group, the revenues obtained from that consumer group must not:

- be below the cost of connecting that consumer to the network (incremental costs), or
- exceed the costs of serving that consumer group, as if they were the only consumer group (stand-alone costs).

These bounds are extremely wide as there are extensive shared assets on Centralines’ network. As a result, if Centralines were to stop supplying any consumer group there would be limited reduction in costs and assets as different consumer groups are intermingled on the network.

Centralines considers that, by definition, its prices are subsidy free because it applies a Cost Allocation Model to allocate costs across the consumer base to determine the revenue requirement.

This is then used as a basis for establishing prices for each consumer group. As the Cost Allocation Model allocates the total cost of supplying all Centralines’ consumers in proportion to the assets that are required to deliver a distribution service, no consumer group pays more than their stand-alone costs, given the economics of providing a shared network.

Centralines also ensures that new connections are not subsidised by calculating a capital contribution where the expected revenues from prices does not cover costs. This ensures that total revenues from each consumer (including the capital contribution) are not expected to be less than incremental costs.

In adopting a capacity-based approach to assigning consumers to price categories, this signals to consumers the fact that increasing capacity demands on the network will increase costs over the longer-term.

As noted earlier, there is capacity headroom on most parts of Centralines' network but there are areas of potential concern in the near future.

Centralines does not consider it necessary to strengthen price signals to seek additional peak load reductions overall, however, retaining options that allows alteration of the price signals currently in place is warranted.

(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.

Centralines has increased the balance of fixed prices compared to variable-based prices with fixed prices being the least distortionary option for recovering revenue. There are limitations to the degree which fixed prices dominate overall distribution revenue. Price signals through variable rates reflect the current situation of the network but should also signal future issues. Distribution pricing is relatively inflexible, and generally based on annual incremental changes to prices. To deliver a stable and understandable pricing strategy to consumers' pricing needs to look well forward and not have radical changes in direction. A consumer looking to make an investment decision such as an EV versus a petrol vehicle, or whether to install generation and a battery should expect some consistency in strategy and the impact of price signals.

As Centralines moves towards a more clearly defined selection of rates that show either a non-distortionary structure (fixed prices) or a clear price signal (on-peak/shoulder/off-peak/controlled rates) then consumers should be able to assess future investments related to their distribution charges.

Mainstream media have reported concerns around what level fixed prices should reach. While the reporting has not been Centralines focused, it is an area that Centralines will continue to be aware of. Centralines is a small network with strong consumer connections and there may be factors outside of economic ones that influence pricing decisions.

Prices responsive to end users

(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
- (ii) enable price/quality trade-offs.

Listed below is how Centralines' compliance under these principles is achieved.

- Uneconomic bypass is avoided through Centralines' cost allocation approach to setting prices, whereby (by the use of a proportional cost allocation approach) pricing is set below stand-alone costs.
- Centralines also avoids uneconomic bypass/inefficient disconnection by lowering charges to consumers who, but for the level of line charges, would cease business.

- Given the shared nature of the network, it is generally not practical to negotiate with consumers (particularly small consumers) to provide different price-quality trade-offs, Centralines establishes performance metrics pertaining to different zones (e.g. fault restoration times for rural versus urban consumers).
- Centralines most recent survey was conducted in February and March 2025 and early results at the time of writing this disclosure indicated that in general consumers are satisfied with Centralines quality of service, while cost sensitivity was highlighted by the majority of customers.
- The survey reaffirms that Centralines consumers prioritise reliability and affordability, with a strong preference for proactive communication. For more detail please see *Section 10*.
- As a result of the regulatory regime and consumer preferences, Centralines' prices will track the costs associated with preserving the status quo quality and reliability levels.
- Centralines sets specific charges for large industrial consumers to ensure that charges reflect the economic costs of service provision (thereby discouraging uneconomic bypass and allowing such consumers to negotiate their specific needs).
- Centralines allows smaller generators, 10kW or less, to connect to Centralines' network and to utilise the distribution network for delivering their generation without incurring network charges. Compliance with Centralines' Network Connection Standards is required, and administration and connection costs may be applicable (these can be viewed on Centralines' website).
- Because of Centralines' peak/control-period prices, larger consumers have a clear value against which to assess network alternatives or behaviour changes. Many consumers, particularly major consumers, can reduce demand in response to such signals. The majority of Centralines' residential consumers heat their water through controlled meters in response to Centralines' controlled pricing rates.
- The introduction of optional residential TOU pricing allows consumers that wish to make choices of when they use energy to reduce costs. While the peak periods are broad, they do deliver a signal on when the network is likely to reach peak levels.

Transparent development of prices

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

Centralines' development of prices:

Is transparent:

- through this disclosure statement, where Centralines provides information on the costs it allocates to different consumer groups, and
- by the publishing of a pricing policy, which details the relative prices for different price options and categories. Consumers can review charges and weigh up costs for changing capacity requirements or load profile and the resulting benefits.

Centralines annually consults extensively with electricity retailers on pricing strategy, price category, and option development. While there is significant variability in the degree retailers engage in this

consultation process, the opportunity to engage in the process is equal for all retailers operating on Centralines' network.

Promotes price stability

Centralines' allocation model is only altered where a strong case exists for such alteration.

To ensure price stability for consumers, we strive to keep any price changes below 10% to limit rate shocks to any particular consumer group, in line with standard industry practice. However, due to significant changes in the sector involving security and reliability of supply, this is not always possible. As delivery charges make up around 35-40% of a typical consumer's bill, this approach ensures that no consumer group would face more than a 4% delivered price increase due to changes in distribution charges.

Promotes certainty

Centralines endeavours to maintain consistency in its price structure and relativity between prices. This ensures consumers who make investments (e.g. in controllable loads) due to the savings between controlled and uncontrolled rates are able to realise the savings expected when the original investment was made.

As noted above, with the further roll out of smart meters, Centralines intends to further focus on developing TOU price options. As fixed rates increase so the revenue related to price signals becomes more targeted towards peak and shoulder periods. Effective 1 April 2025, Centralines implemented a zero off-peak price for standard TOU residential tariff CH2T.

Consumers will have time to consider behavioural changes and investment to avoid adverse bill impacts as Centralines:

- seeks to strengthen differentials between on-peak and off-peak charges over time, and
- considers phasing out less cost reflective consumption-based price categories and options.

Centralines recognises the need to minimise undue complexity for retailers, subject to its legitimate business needs to signal costs to consumers and ensure equity between consumers.

All retailers are subject to the same price schedules from Centralines. Therefore, Centralines considers that its prices are economically equivalent across all retailers.

APPENDIX B – CERTIFICATION




Certification for Year-beginning Disclosures

Clause 2.9.1

We, Fenton Wilson and Anthony Gray, being directors of Centralines Limited certify that, having made all reasonable enquiry, to the best of our knowledge:

- a. the following attached information of Centralines Limited prepared for the purposes of clauses 2.4.1, 2.6.1, 2.6.3, 2.6.6 and 2.7.2 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 a basis consistent with regulatory requirements or recognised industry standards.
- c. The forecasts in Schedules 11a, 11b, 11c, 12a, 12b, 12c and 12d are based on objective and reasonable assumptions which both align with Centralines Limited's corporate vision and strategy and are documented in retained records.


Director Anthony Trevor Gray Date: 27 March 2025


Director Fenton David Wilson Date: 27 March 2025

APPENDIX C – DOCUMENT INFORMATION

Document contributors

Contributors	Name and Position Title	Approval Date
Creator	Tomas Kocar Principal Regulatory Advisor	13/03/2025
Authoriser	Rachael Balasingam Regulatory Manager	17/03/2025
Approver	Jason Larkin General Manager Commercial and Regulatory	27/03/2025

Key dates

Published Date 28/03/2025

Related references

Legislation and Guidance

Centralines' pricing methodology and prices are guided by, and comply with, key legislation, regulations and guidelines governing the electricity industry, including:

- Commerce Act 1986
- Electricity Distribution Information Disclosure (amendments related to IM Review 2023) Amendment Determination 2024
- Electricity Industry Act 2010
- Electricity Industry Participation Code 2010
- Electricity Authority: Distribution Pricing: Practice Note – August 2019
- Electricity Authority: Distribution Pricing: Practice Note, Second Edition v2.2, 2022
- Electricity Authority Pricing Scorecard reports
- Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004
- Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Amendment Regulations 2021

Centralines Policy

- CL-CM0002 Centralines' Pricing Policy and Schedules for 2025 to 2026