Distribution Pricing Roadmap

thelines company

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keeping you connected.

Introduction

The Lines Company (TLC) has been working towards distribution prices that send clear signals about the cost of using our network, but which also ensure equity, simplicity and transparency.

Having clear and effective pricing signals can help keep distribution costs and prices down in future, by providing consumers with incentives to use electricity networks efficiently, reducing or delaying the need for additional network investment.

This roadmap has been prepared to provide the Electricity Authority, consumers and other interested parties with an understanding of our forward pricing strategy. The Authority has encouraged all distributors to produce a roadmap and has expressed the view that distribution pricing reform should be a priority for the electricity sector.

This roadmap should be read in conjunction with our other pricing-related documents including TLC's Pricing Methodology 2020[1] and TLC's Service-based Pricing Review[2,3] undertaken in 2016 and 2017.

1. https://www.thelinescompany.co.nz/site/uploads/Disclosures/Pricing/2020/TLC-Pricing-Methodology_2020.pdf
2. https://www.thelinescompany.co.nz/site/uploads/Disclosures/Pricing/PricingReview/2016-Pricing-Review-Terms-of-References.pdf
3. https://www.thelinescompany.co.nz/site/uploads/Disclosures/Pricing/PricingReview/2017-Service-Based-Pricing-Review.pdf

Our current pricing

TLC has now completed its transition from a demand-based pricing methodology to Time-of-Use (TOU) pricing. TOU pricing was introduced on 1 October 2018, with the New Pricing Transition Discount that applied for 12 months.

We implemented TOU pricing following extensive community consultation including customer workshops, focus groups, trials and analysis. Our decision to implement TOU pricing followed recommendations of external expert advisors.

The structure of daily prices plus TOU kWh prices (peak/shoulder/offpeak) applies to all connections with capacity less than 150 kVA. Prices vary according to location (high or low density areas), capacity, customer type (low-use residential, standard residential, general, dairy and temporary accommodation) and whether the connection has controlled load i.e. controlled hot water. Pricing for Major customers includes capacity, and coincident peak demand charges, and unmetered load is asset-based pricing.

Our new pricing from 1 April 2020 did not involve structural change but resulted in a reduction in prices for most customers. On average, residential customer bills for the 2020/21 pricing year, will fall by around 8%, with impacts on individual customers varying according to their usage profile. In addition, we reduced the daily prices for general connections, but these will incrementally rise for the next few pricing years.

Responding to feedback

TLC's demand pricing faced scrutiny. Our 2016 Pricing Review and Consultation actively sought feedback and we acted by implementing TOU pricing. Recent commentary on our pricing includes the following:

Stakeholder	Issue	TLC actions to respond/address
Electricity Authority	*Peak/Shoulder/Off-peak price signals:* The Authority commented in its initial scorecard of TLC's pricing that it is not clear how TOU pricing will contribute to efficiently managing current or anticipated capacity constraints i.e. whether peak, shoulder off-peak prices reflect economic costs of network use.	Residential peak price signals have been aligned with existing Long Run Marginal Cost (LRMC) estimates in 1 April 2020 pricing. We plan to update and review our pricing model during 2020/21, which will allow us to better understand economic costs of network use.
	Managing consumer impacts: In the initial scorecard of TLC's pricing, the Authority commented that managing consumer impacts would seem a primary consideration near term.	Some degree of consumer impacts are inevitable in changing pricing structures, however the New Pricing Transition Discount was applied for the first 12 months of TOU pricing. This allowed customers time to adjust to the new pricing. Extensive modelling of consumer impacts and benchmarking led to reductions in fixed charges for general customers from 1 April 2020 - these will incrementally increase in the coming years.
	Publish roadmap: The Authority has acknowledged the significant progress made by TLC in implementing TOU pricing and that TLC's focus has been on that implementation. However, it also encouraged TLC to develop a roadmap for the next phase of pricing reform to address potential demand growth.	Roadmap produced in FY2021.
Consumers	*Consumer impacts:* A number of small businesses highlighted the bill impacts that the move to TOU pricing had for them.	As discussed above, fixed charge reductions were implemented from 1 April 2020 in response to these concerns. However, TLC's pricing is similar to other distributors daily prices and will be incrementally increased in the coming years.
	Peak/Shoulder/Off-peak price signals: Residential customers highlighted that there was little reward for shifting peak load to shoulder or off-peak pricing periods.	The differential between peak and shoulder/off-peak prices has been altered to better reflect economic costs, and reward customers for shifting load.
	Covid-19: TLC recognised the challenging and uncertain time for the whole of New Zealand and our customers.	TLC's Board resolved to provide special pricing and to wipe variable kWh prices during April 2020 for residential customers on our standard and LFC pricing plans.

Responding to feedback - EPR

There were also a number of issues raised by the 2018/19 Electricity Pricing Review (EPR) Panel that TLC is considering. Some of these relate to comments that the Panel specifically made about TLC, while others relate to broader recommendations for the sector as a whole.

Stakeholder	Issue	TLC actions to respond/address
Electricity Pricing Review Panel (EPR)	*Direct Billing:* The EPR panel expressed the view that it is better for distributors to bill retailers than to bill customers directly.	TLC Board and Management are reviewing direct billing arrangements.
	Prompt payment discount (PPD): The EPR panel identified concerns with prompt payment discounts and in their final report recommended that the government prohibit PPD but allow reasonable late payment fees. It noted that TLC already intended to remove PPD.	Pricing changed from 1 April 2020 so that the prompt payment discount is now included in pricing for all customers. Late payment fees were introduced.
	Cost allocation: The EPR panel raised cost allocation as a matter for all electricity distributors. Especially, whether the allocation is fair with respect to residential and business customer allocations.	As part of our review and update of our pricing model we will consider whether our cost allocations remain appropriate.
	LFC regulations: The EPR Panel recommended phasing out low fixed charge tariff regulations because they exacerbate inefficient pricing signals and are not well targeted.	TLC understands that analysis by the government of the LFC is underway. When further information is available on the intended charges and transition we will prepare a plan for our to implement required changes to our pricing.

Our roadmap

Our roadmap, including past developments, and planned future developments are summarised in the following table:

Pre 2016	2016/17/18	2018/19	2019/20	2020/21	2021/2022 onwards
• Demand pricing methodology • Direct billing • 'Smart' meter deployment	• Service-based pricing review • Customer consultation • Detailed data analysis • Customer impact analysis	• Implementation of TOU pricing – October 2018 • Customer education and communication • Restructure of billing processes	• First full year of TOU pricing • Feedback received and used to refine FY2021 pricing, including peak/shoulder/off-peak differentials, fixed charges and prompt payment discounts	• Review and update pricing model ➢ cost allocation ➢ how price signals reflect economic costs • Review of direct billing • Promotion of energy efficiencies	• Monitor responsiveness of customers to TOU pricing • Update price signals as demand growth changes • Implement outcomes of government changes to LFC Regulation

Our roadmap continued

Pre 2016	2016/17/18	2018/19	2019/20	2020/21	2021/2022 onwards
	• Customer affordability and demographic considerations • TOU trials • Community engagement • System changes • Revenue modelling	• 12 month New Pricing Transition Discount to support customer transition	• Continuing data analysis and validation of initial modelling • Promotion of SmoothPay	• COVID-19 pricing considerations and support for vulnerable customers	• Continuing to support, assist and educate customers particularly during industry pricing reform

TLC's pricing strategy is developed by Management and overseen by the Board. TLC is an active participant in the Electricity Network Association's working groups, including the Strategic Pricing and Regulatory Working Groups.

About our network

What we do

- TLC was formed in April 1999 following the Government's electricity industry reforms. The company is wholly owned by the Waitomo Energy Services Customer Trust (WESCT).
- TLC owns and operates the electricity distribution network in the King Country, Ruapehu and Central Plateau areas, covering an area of 13,700 square km and providing approximately 24,000 connections.
- Our network has: 4,500km of power lines; 35,000 power poles; 5000+ transformers; 27 substations.

Investing in our network

- Over the next 5-year period, we expect to invest approximately $85m in our network, including $60m in asset replacement and $20m in network development to address growth and security requirements.
- Planned network development investment includes alleviating security of supply constraints on major zone substations and catering to forecast growth.