Distribution Pricing Roadmap

Year ending 31 March 2022

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keeping you connected.

Introduction

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

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 (Authority), customers and other interested parties with an understanding of our pricing strategy. The Authority has encouraged all distributors to produce a pricing roadmap and urges priority for distribution pricing reform.

This roadmap should be read in conjunction with our other pricing-related and asset management documents including TLC's Pricing Methodology 1 April 2021[1] and Asset Management Plan[2].

1. https://www.thelinescompany.co.nz/site/uploads/2021/03/TLC-Pricing-Methodology_RY2022.pdf
2. https://www.thelinescompany.co.nz/site/uploads/2021/03/2021-Asset-Management-Plan-Final-2021-05-28.pdf

TLC's current pricing

TLC has completed its transition from a demand-based pricing methodology to Time-of-Use (TOU) pricing. TOU pricing was introduced on 1 October 2018 and was supported by our New Pricing Transition Discount for the first year.

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

The structure of TLC's fixed daily prices plus variable TOU kWh prices applies to all connections with a capacity requirement less than 150 kVA. Prices vary according to location (high or low density), capacity, customer type (low fixed charge residential, standard residential, general, dairy and temporary accommodation) and whether the connection has controlled load i.e. controlled hot water.

Pricing for connections greater than 150 kVA are capacity and asset-based, with coincident peak demand charges to recover TLC's transmission costs. Unmetered load is asset-based pricing.

Our pricing from 1 April 2021 did not involve structural change. The April 2021 price changes represented the balancing required to ensure affordability to our customers and provide an adequate return. We continue to fund our renewal programme with a focus on network safety. Also, transmission and pass-through prices were changed to reflect these costs.

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Changes to billing

- The Electricity Pricing Review (EPR) expressed the view that it is better for distributors to bill retailers than to bill customers directly.
- In response, TLC's Board consulted, considered and made the decision to move away from direct billing for most of our customers.
- Implementing this change has been a key area of focus for TLC over the past 12 months. We have been making system and organisational changes and working with electricity retailers to achieve a successful changeover.
- For example, we have developed:
  - Agreements and protocols with retailers
  - Billing system changes
- We expect that customers will start to receive bills through their choice of electricity retailer from October 2021. We have a clear communications plan to help our customers understand what the changes mean for them.
- The pricing structures that are offered to TLC customers will be determined by retailers and will not necessarily reflect TLC's TOU pricing.

Consumer impact and affordability

As we work towards more efficient and effective pricing, we continue to evaluate how our pricing impacts our customers. We do this through:

- Pricing simulations to calculate impacts for individual customers and for customer groups;
- Benchmarking our prices against other distributors;
- Communicating with and educating our customers.

TLC support our community:

- For RY2021, TLC provided $1m of COVID pricing relief to residential customers;
- The TLC Discount for WESCT Customers totalled $3.8m for RY2021;
- The Maru Energy Trust, established by TLC in August 2019, was set-up to specifically improve home insulation, heating and provide energy efficiency awareness through education. In 2020, 323 homes were helped to become drier, healthier and more energy efficient.
- We rolled out a new vulnerable customer care program based on a home-grown case management approach. Our program involved working face-to-face with 140 of our most vulnerable customers who were caregivers to more than 193 tamariki.
- Our customer care initiative resulted in the avoidance of more than 60 disconnections.
- This initiative, the mahi undertaken by Maru Energy Trust, and our COVID-19 relief was recognised at the New Zealand Energy Excellence Awards winning the Community Outcomes category for 2021.

Cost allocation

- The Authority has highlighted that there is scope for TLC to improve the way that costs are allocated to load groups and how we describe these allocations in our pricing methodology.
- During the last year we commissioned an update our cost allocation model. We have received the finalised model and are reviewing the choice of allocators to increase efficiency of our prices.
- We will use the revised model to develop our prices for 1 April 2022.
- The model will also allow us to evaluate whether and how changes in the Transmission Pricing Methodology (TPM) will affect our cost allocations from 1 April 2023.

Pricing Methodology April 2020

This worksheet contains key extracts and summaries from the pricing methodology for reference.

1. Revenue Requirement [Pages 11]

The composition of the revenue requirement is as follows:

Cost	Description	$m	%
Distribution	Depreciation	10.2	24%
	Return on capital	6.8	16%
	Regulatory tax	3.3	8%
	Operating expenditure	14.9	36%
Total distribution		35.2	84%
Rates & levies (Passthrough)	Rates & levies	0.6	1%
Transmission	Transmission	6.1	15%
Total revenue requirement		**41.9**	**100%**
WESCT discount		3.9	
Revenue net of discount		**38.0**	

Table 2: 2020 TLC target revenue

Cost	Description	$m	%
Distribution	Depreciation	10.2	24%
	Return on capital	6.8	16%
	Regulatory tax	3.3	8%
	Operating expenditure	14.9	36%
Total distribution		**35.2**	84%
Rates & levies (pass through)	Rates & levies	0.6	1%
Transmission	Transmission	6.1	15%
Total revenue requirement		**41.9**	100%
WESCT discount		(3.9)	
Revenue net of discount		**38.0**	
Check		-	
Check		-	
Check		-	

2. Allocation Methodology [Pages 15-16]

5.2.1 Capital-related costs

These costs are based on the estimated value of the network assets as recorded in TLC's asset management systems. The costs include an allowance for return on capital and a return of capital as previously discussed. If a dedicated network asset use can be identified, the cost is allocated to those customers receiving the benefit of the dedicated assets. Otherwise, an appropriate allocator is used to proxy use of the network asset by each customer group.

5.2.2 Operational costs

Maintenance Costs

Asset management systems are used to identify maintenance costs by customer group, where available. Supply voltage, demand density and network age impact total maintenance costs.

Maintenance costs include both direct and indirect costs (being principally network support costs). Historical averages are used to give a cost per km of line. These costs are allocated to customer groups based on line length statistics. If there are negotiated contracts in place, a cost is deducted from the customer group allocation.

Customer and Administration

Administration costs include the provision of shared services including corporate governance, finance, human resources, pricing and regulatory management and information technology. Unless attributable to an individual these costs are allocated across the customer groups based on capital costs. If attributable, the cost will be passed on as a service fee or as part of a negotiated contract.

Customer costs include billing services, demand-side management services and customer support services. The costs are allocated to customer groups on a proportional basis (ICP count) or as part of a negotiated contract.

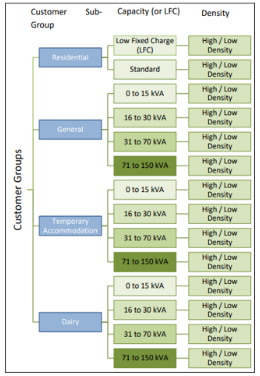
Metering costs, including the cost of delivering of consumption data, relay services, and metering infrastructure are allocated by meter type and quantity for each customer group.

5.2.3 Rates, levies and transmission costs

Rates, levies and transmission costs are considered together and are allocated based on consumption (kWh). Where transmission costs can be related to a particular time of use band, they are recovered during that time (ie, using TOU kWh rather than being allocated by total consumption). This particularly relates to Transpower peak usage charges which are closely related to network usage during the peak time bands.

Capital Related Costs Dedicated asset - direct allocation.
Everything else - appropriate allocator.

3. Pricing Categories [Page 18]



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Other pricing-related initiatives

- **Peak/Shoulder/Off-peak price signals:**
  - The Authority is interested in how distributors set price signals, and how these relate to economic costs.
  - Last year, we reconciled our peak price with Long Run Marginal Cost (LRMC).
  - Over the next year, we will examine how our peak price signals should evolve with changes in network constraints, transmission pricing, and new load that will emerge from growth in electricity vehicle charging.

- **Change to Low Fixed Charge Tariff (LFC) Regulations:**
  - The EPR recommended phasing out of the low fixed charge tariff regulations because they exacerbate inefficient pricing signals and are not well targeted.
  - Industry and the Government has been working on how to transition away from the current regulations, while protecting vulnerable customers from adverse impacts.
  - When further information is available on the changes and transition, TLC will further evaluate the implementation requirements to changes to our pricing and the impacts on customers.

Climate Change, Innovation and Emerging technology

- **Climate Change Commission**
  - TLC supports the Government's commitment to reaching net-zero emissions of long-lived gases by 2050.
  - Targeted assistance will be needed to ensure some low-income households, older people, people with disabilities, Māori and Pasifika households or households that live in remote areas can access new technologies and are not disproportionately affected by the climate transition.
  - Distribution pricing will have a key role to play, and TLC is considering this.
- **Innovation and Emerging technology**
  - TLC supports Distributed Energy Resources (DER i.e. solar, battery storage and automated demand response) investment.
  - TLC is keeping a watch on emerging technologies and supports accelerated EV uptake with pricing to support changes.
  - Distribution prices and standing offer price information that reflect network conditions and costs in order that users of the network make informed decisions are mechanisms for contracting and paying for DER that support its use as network alternatives.
  - Also, the allocation of distribution costs and revenues efficiently between the regulated service and contestable (unregulated) business activities is desirable to facilitate investment in DER.

Our roadmap

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

2016/17/18	2018/19	2019/20	2020/21	2021/2022	2022/2023 onwards
• 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	• Analysis of customer impacts of end of price transition discount. Adjustments to fixed prices of some categories. • Review of direct billing • Promotion of energy efficiencies	• Implement billing via retailers for most customers • Monitor responsiveness of customers to TOU pricing • Update price signals as demand growth changes • Review and update pricing model ➢ cost allocation ➢ how price signals reflect economic costs	• Implement outcomes of government changes to LFC Regulation • Use updated price model in price setting • Assess how the new Transmission Pricing Methodology (TPM) changes the way that Transpower's charges are passed through to customers.

Our roadmap continued

2016/17/18	2018/19	2019/20	2020/21	2021/2022	2022/2023 onwards
• Customer affordability and demographic considerations • TOU trials • Community engagement • System changes • Revenue modelling	• 12 month “New Pricing Transition Discount” to support customer transition to TOU pricing	• Continuing data analysis and validation of initial modelling • Promotion of SmoothPay	• COVID-19 pricing considerations and support for residential and vulnerable customers	• Support customers through the change away from direct billing	• Continuing to support, assist and educate customers during industry pricing reform • Engagement and discussion with electricity retailers on TLC’s pricing structure and methodology.

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.

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About our network

the lines company

What we do

- TLC was formed in 1999 following the Government's electricity industry reforms. TLC 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; 34,000 power poles; 5000+ transformers; 38 substations.

Investment in our network

- Over the next 10 years, we'll invest $166m in the network replacing old equipment, building resilience, and preparing for growth.
- We are focused on improving network reliability, as well as continuing to enhance resilience. We are experiencing industrial growth on our network, and so are bringing forward network upgrade projects, and preparing engineering resources, to support these large-scale customer projects.
- We seeing changes in the way that customers use energy e.g. through the emergence of electric vehicle charging infrastructure.

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