



Pricing Strategy & Roadmap

1 April 2023

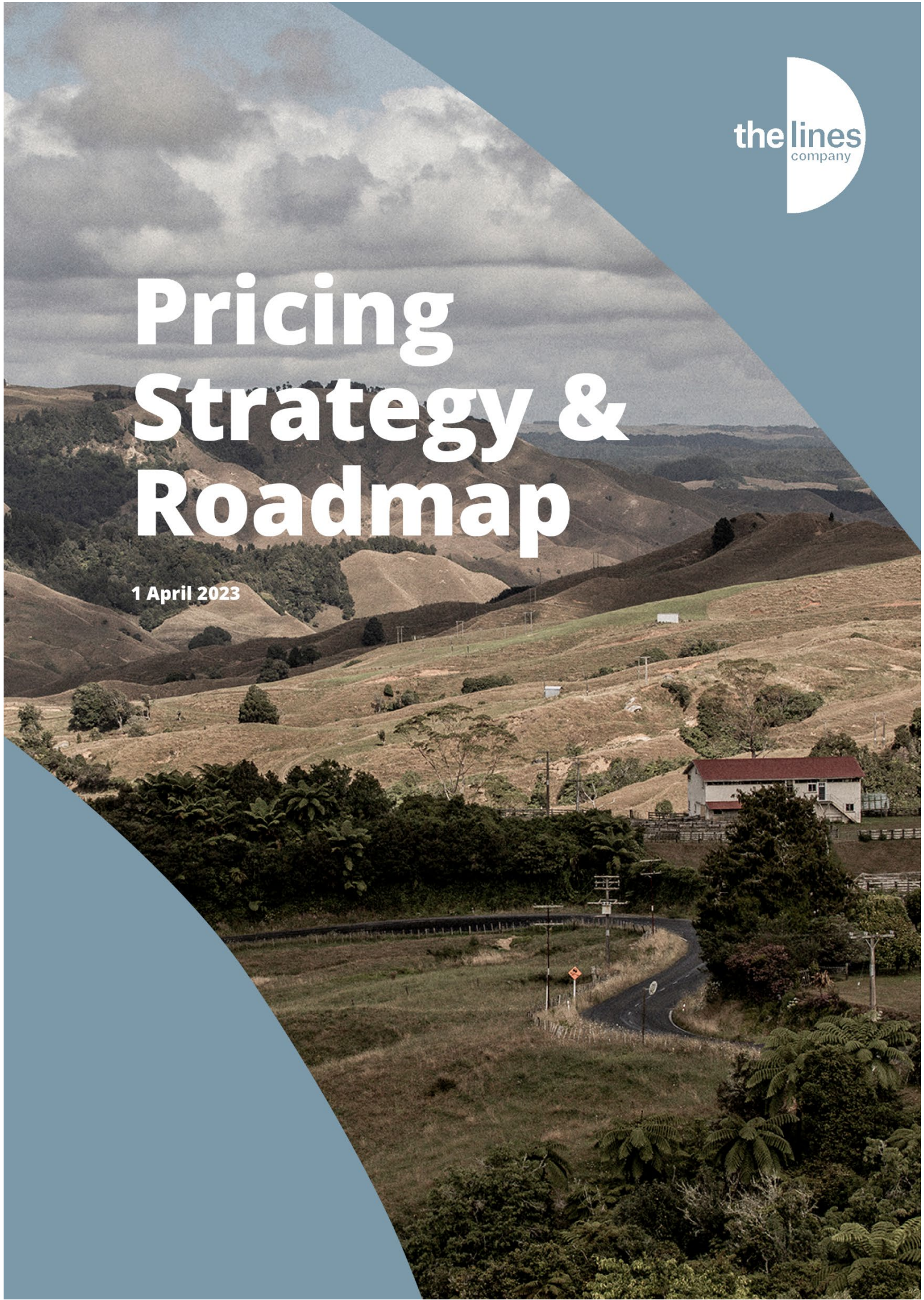


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Abbreviation

AMP	Asset Management Plan
CAPDED	Capacity and Dedicated
DER	Distribution Energy Resource
kWh	Kilowatt Hour
LFC	Low Fixed Charge
LRMC	Long-run Marginal Cost
MVA	Megavolt Amperes
RY2023	Regulatory year from 1 April 2022 to 31 March 2023
RY2024	Regulatory year from 1 April 2023 to 31 March 2024
TLC	The Lines Company
TPM	Transmission Pricing Methodology
TOU	Time of Use
WESCT	Waitomo Energy Services Customer Trust

Introduction

This roadmap has been prepared to provide customers, and other interested parties with an understanding of our pricing strategy and future plans for pricing. The Roadmap should be read in conjunction with TLC's Pricing Methodology and Asset Management Plan (AMP).

The Lines Company's (TLC) long-term pricing strategy is for fixed daily prices to gradually transition to the underlying cost structure of the business while achieving efficiency in the use of network investments. Any future changes will be completed after careful consideration of customer affordability, energy equity and limiting price shock. TLC is customer-owned and cares for its customers and we aim to deliver fair and simple pricing for all customers on our Network.

Our Network

What we do

- TLC was formed in April 1999 following the Government's electricity industry reforms. The Waitomo Energy Services Customer Trust (WESCT) wholly owns the company.
- TLC owns and operates the electricity distribution network in the King Country, Ruapehu and Central Plateau areas.
- Our network covers an area of 13,700 km² and provides approximately 24,000 connections.
- Our network has 4,500 km of power lines, 35,000 power poles, 5,000+ transformers, 29 substations and eight points of supply from the national grid.



Investment in our Network

- Over the next ten years, we will invest \$219m in the network.
- The AMP describes how we will balance our investment to manage safety, improve reliability, maintain customer affordability, and support New Zealand's transition to a low-emission future.
- Our AMP targets maximisation of the lifecycle of our assets, where it makes sense to do so having regard for safety, risk, economic outcomes, and customer services.
- Demand is expected to increase from 74 to 117 MVA over 10 years. This is driven by 60% industrial customers and 40% by customer decarbonisation efforts. In 2026 we expect a significant step change in industrial growth from four capacity and dedicated asset customers.

Our Customers

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

- Pricing simulations to calculate impacts for individual customers and for customer groups
- Communicating and educating our customers on potential price changes

Initiatives that continue to maximise our value to customers and our wider community include:

- Increased investments in assets to further improve safety, reliability and resilience
- Energy education programmes in schools and the community
- Continuing support of Maru Energy Trust to improve home insulation, and heating and generating awareness around energy efficiency
- TLC Discount for WESCT Customers of \$4.3m for RY2024

Our Current Pricing

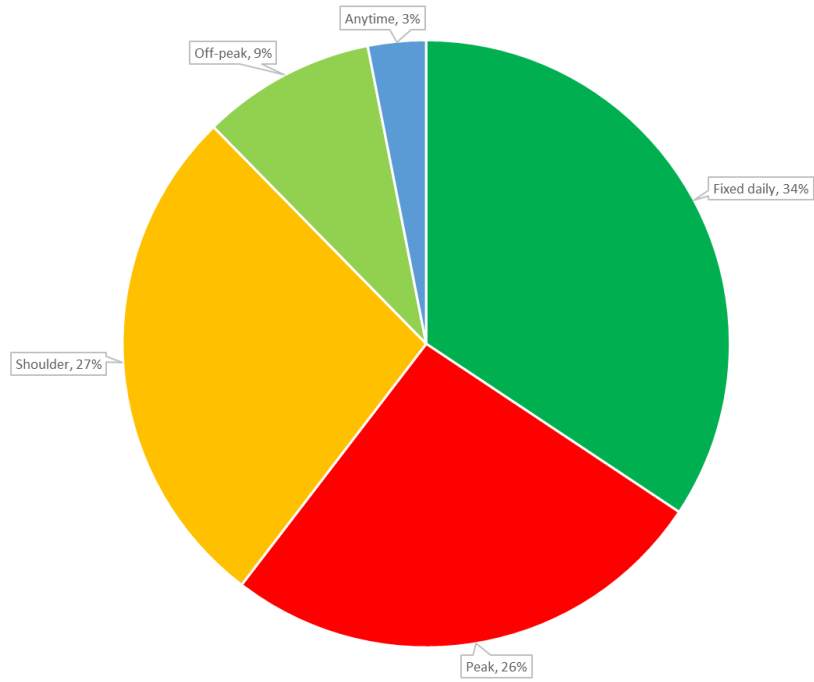
For RY2024, TLC has not changed the distribution pricing methodology from the prior year. It continues to use a Time of Use (TOU) pricing structure for residential and other connections billed on kWh.

The transmission charges pass-through methodology has been amended following the new Transmission Pricing Methodology (TPM) that will come into effect on 1 April 2023. For Standard customers, approximately half of the transmission costs have been allocated to fixed daily charges and the remaining costs allocated as a flat kWh price. This excludes Low Fixed Charge (LFC) pricing categories that are constrained by LFC regulations. For Capacity and Dedicated Asset (CAPDED) customers, TLC replicated the new TPM to the extent possible.

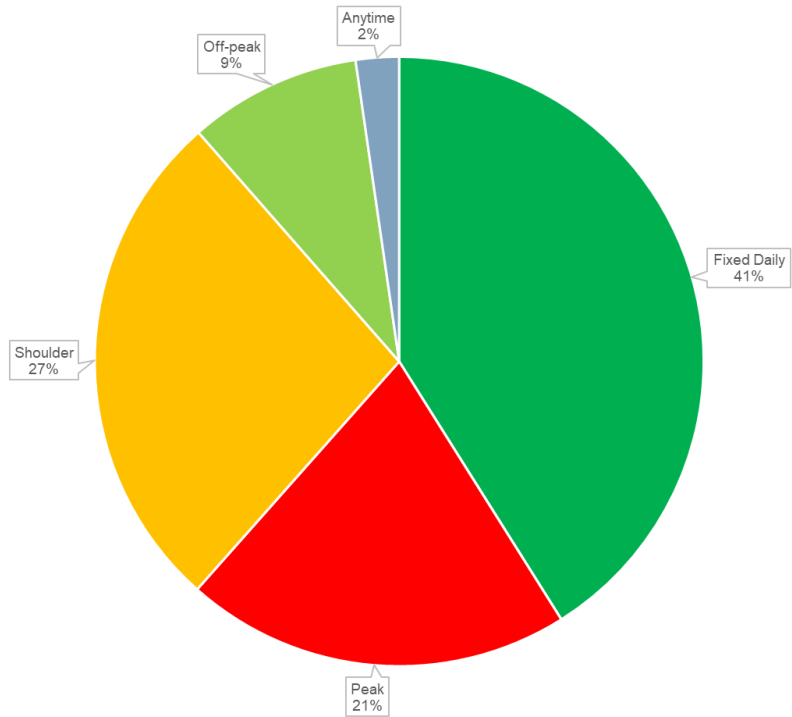
LFC fixed daily prices were increased by 15 cents to \$0.45 per day and TLC is likely to continue this transition until the low fixed charge regulations are fully phased out.

For RY2024, TLC has rebalanced revenue recovery from mass-market customers so that a greater proportion is recovered through fixed charges and less is recovered from variable charges. In RY2024, 41% of revenue is expected to be received from fixed charges, up from 34% in RY2023. The peak/shoulder differentials from RY2023 will be utilised for RY2024 adjusted for the reallocation of transmission costs. This should provide greater stability on usage profiles and forecasts.

Forecast revenue recovered through standard contract pricing components RY2023



Forecast revenue recovered through standard contract pricing components RY2024



Our Pricing Strategy

As TLC develops its long-term pricing strategy it is aware it needs to balance many objectives:

- **Gradual** – allowing thorough consultation and data analysis
- **Limit price shock** to its customers
- Consider **future expenditure and demand** on the Network
- Be cognisant of **new technology** being used more broadly on the network
- Transition towards prices that reflect the **future economic costs** of the network
- Be **affordable** for its customers, and consider customer **energy equity**
- Use price as one of the tools to **signal network constraints** to customers
- Work alongside customers to **understand non-price drivers** including customer usage patterns and behaviour

Pricing initiatives that TLC will be engaging in:

- **Customer engagement** – Customers are at the forefront of everything we do. TLC will consult with our Customer Services Panel before making any major changes to pricing. Detailed simulations of price changes will be run to understand the impact on customers and assess long-term affordability and impact on customer vulnerability. TLC cares for its customers and we aim to deliver fair and simple pricing for all customers on our network.
- **LFC phase out** – Implement gradual rebalancing between fixed and variable charges for low user plans as the LFC Regulations are phased out, with the fixed daily price increasing at 15 cents each year.
- **Continue TPM transition** – For Standard contract kWh priced customers, approximately half of transmission costs have been reallocated to fixed daily prices for RY2024 – the remainder being recovered through variable kWh prices. We will likely continue to transition transmission costs to fixed prices to reflect Transpower's Transmission Pricing Methodology but will do this with consideration and in discussion with our customers.
- **Refresh long-run marginal cost (LRMC) estimates** – We will review the methodology we use to calculate LRMC and then produce updated LRMC estimates.
- **Prices signal the economic cost of provision** – by reflecting the impacts of network use on economic cost (a(ii) of the EA's 2019 distribution pricing principles). We will use the updated LRMC estimates to inform how we set prices and review the balance between fixed and variable prices.
- **TOU bands** – Assess current customers' usage to understand current TOU band relevance and the potential of reducing to two i.e., peak and off-peak.
- **Simplification of pricing and capacity loads** – Customers' usage, consumption profiles and characteristics are to be analysed and similarities identified. This includes an analysis of controlled vs uncontrolled loads. The expectation is for the pricing categories to reduce, and the complexity of pricing groups removed.
- **Locational pricing** – Some parts of the network may be constrained in the short to medium term compared to other unconstrained parts of the network. TLC already has locational pricing (low and high density) but will be assessed further including assessing the likely benefits against the drawback (such as increased complexity).
- **Discount policy** – assess the discount policy with any changes made to the price structure identified in the long-term strategy ensuring it is equitable and reduces energy hardship.

- **Develop distribution energy resource (DER) pricing** – DER penetration is not currently significant on the network. TLC's will actively support the transition to a decarbonised economy and the integration of DERs, balancing charges to DER users or ensure there is equity in charges across all network customers. We will do this, in conjunction with other distributors in the Northern Energy Group to seek alignment of pricing where possible.
- **Capital contributions** – TLC's capital contribution policy will be reviewed and updated to reflect the current investment requirements to support new and enhanced connections.

Our Roadmap

Description	2021/2022	2022/2023	2023/2024	2024/2025	2025/2026	2026/2027
Customer engagement	Support customers with retail billing	Support customers with TPM	Continue engagement with customers. Consult with the Customer Services Panel before making any major changes to pricing and pricing structure			
Retailer billing for standard customers	Retailer billing implemented					
LFC phase-out	LFC daily fixed prices increase by 15 cents until phased out on 1 April 2027					
Continue TPM transition			50% reallocated	Continue to move transmission kWh prices into fixed daily prices		
Review LRMC methodology and refresh LRMC estimates			Refresh LRMC estimates		Implement any changes identified	
Prices signal the economic cost of provision			Review prices so that are informed by updated LRMC estimates		Implement price changes to better signal economic costs	
TOU bands				Review usage in TOU bands	Implement changes in TOU bands if identified	
Simplification of pricing and capacity loads				Review usage and customer characteristics	Implement a simplified pricing structure	
Locational pricing				Assess the benefits of locational pricing	Implement locational pricing if deemed appropriate	
Discount Policy			Assess Discount Policy with a long-term strategy		Implement any changes identified in the Discount Policy	
Pricing that supports efficient DER				Examine pricing or rebate mechanisms relevant to DER		Implement
Capital contributions			Review policy and develop the model	Implement		