Pricing Strategy & Roadmap

1 April 2024

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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	Mega Volt Amperes
RY2024	Regulatory year from 1 April 2023 to 31 March 2024
RY2025	Regulatory year from 1 April 2024 to 31 March 2025
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).

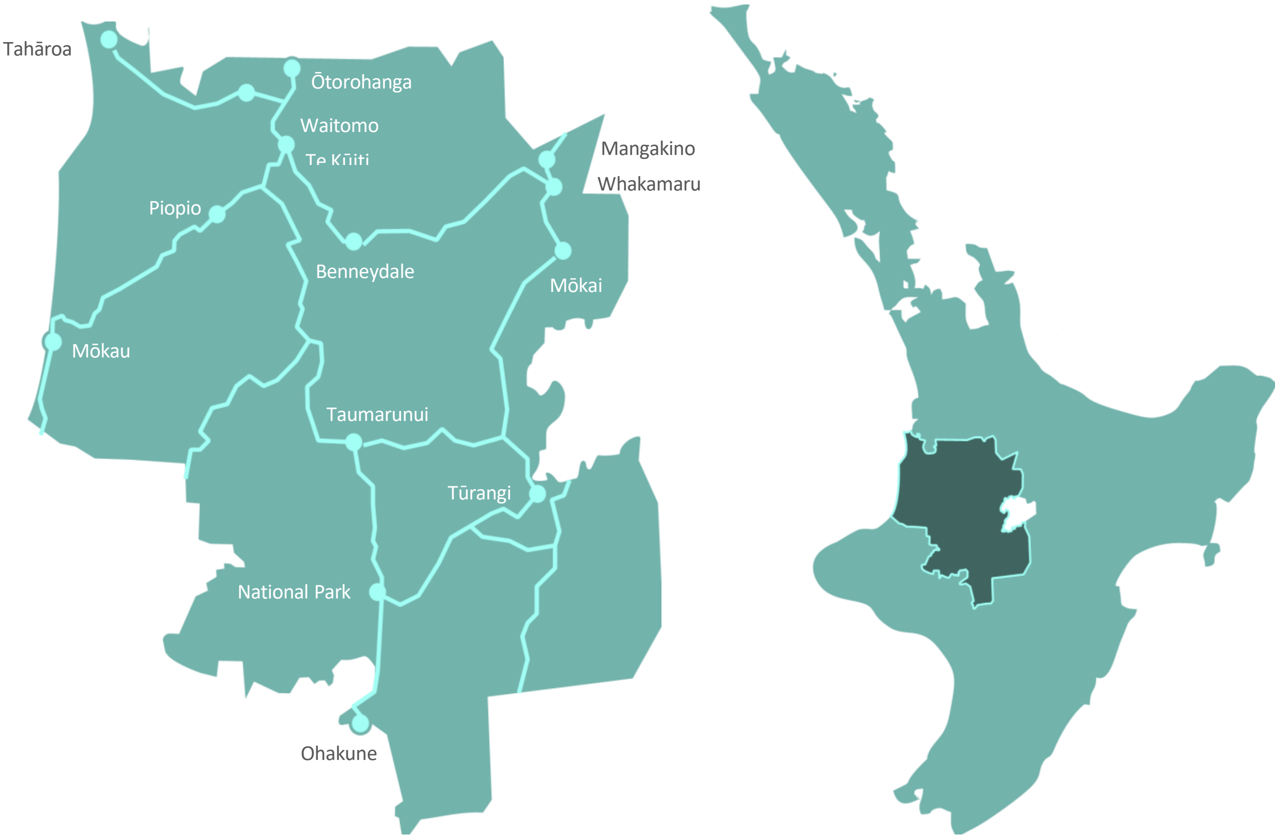
The Lines Company's (TLC) long-term pricing strategy is for fixed daily prices to gradually transition to the underlying cost structure of the business while achieving efficiency in the use of network investments. In addition, we aim to significantly reduce off peak pricing to reduce the risk of peak congestion and incentivise more efficient use of the network.

Any future changes will be completed after careful consideration of customer affordability, enabling an equitable transition to decarbonisation 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 km^2 and provides approximately 24,000 connections.
- Our network has around 4,500 km of power lines, 40,000 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 $259m capex 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-carbon future.
- Our AMP targets a resilient network, maintaining security of supply, and maximisation of the lifecycle of our assets where it makes sense to do so having regard for safety, risk, economic outcomes, and meeting customer price and quality performance standards.
- Growth is modelled with compounding organic growth rates of 1% (low) and 2% (high). Step load increases for circa 3.5MVA for new EV chargers and decarbonisation are also included in the forecast.

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

We are conscious that our pricing has a direct impact on customers and in refining our pricing we need to:

- Allow for thorough **consultation**
- Base decision on sound **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
- Ensure **affordability** for its customers
- Consider an **equitable** transition to a decarbonised environment
- 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

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.
- Balance the timing of investments in the network to ensure we mee the current and future needs of our customers without investing to early and burdening customers with additional costs.
- Energy education programmes in schools and the community helping them use electricity more efficiently.
- In the coming financial year, we will significantly increase our financial contribution to Maru Energy Trust to improve home insulation, and heating and generating awareness around energy efficiency thus reducing energy hardship.
- A new initiative includes a roll-out programme which will see staff with solar power gifting energy to customers experiencing energy hardship in the form of credits on their electricity bills.
- Partnering with others to support initiatives focusing on energy hardship
- TLC Discount for WESCT Customers of $5.2m for RY2024

Our Pricing Strategy

TLC is working towards distribution prices that send better signals about the cost of using our network. This will incentivise customers to use our networks more efficiently thus reducing the need for investment and will assist in keeping distribution costs down in future.

The fixed cost portion of our charges will increase over time to point that is comprises 70% to 80% of total revenue, reflecting the underlying fixed/variable cost structure of the business.

To ensure the transition to a higher fixed charge does not impact peak demand signalling, peak demand and network utilisation will be assessed. This will see a revision of TOU bands and pricing to ensure pricing incentivises the most efficient use of the network. We expect this will result in lower off-peak prices in the long term and this reduction has commenced in RY2025 pricing.

TLC currently has 88 price categories which makes our pricing complex for customers to understand and from our analysis, drives no material change in customer behaviour. Through further analysis of customers demand, consumption profiles and characteristics we will identify opportunities to optimise the number of pricing categories. The expectation is for the pricing categories to reduce, and the complexity of pricing groups removed. This analysis will also help us understand whether locational pricing is beneficial to the network, balanced against the complexity it adds to pricing.

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

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 Reference 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.
- **Finalise TPM transition** – In RY2024 for Standard contract kWh priced customers, approximately half of transmission costs have been reallocated to fixed daily prices for RY2024. In RY2025 we have managed to the allocate the remaining costs.
- **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.
- **Reduce off peak pricing and increase fixed daily pricing** – fixed daily prices to gradually transition to the underlying cost structure of the business while achieving efficiency in the use of network investments. In addition, we aim to significantly reduce off peak pricing.
- **Simplification of pricing structures** – 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 distributed 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	2022/2023	2023/2024	2024/2025	2025/2026	2026/2027	2027/2028
Customer engagement	Support customers with TPM	Continue engagement with customers. Consult with the Customer Services Panel before making any major changes to pricing and pricing structure				
LFC phase-out	LFC daily fixed prices increase by 15 cents until phased out on 1 April 2027					
Finalise TPM transition		50% reallocated	Remaining 50% reallocated			
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		
Reduce off peak pricing		9%	5%	Continue reducing off peak pricing		
Increase fixed daily pricing		41%	48%	60%	70%	
Simplification of pricing structures			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		Changed discount to align with variable and fixed charges	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	