

Pricing Methodology: 1 April 2014



Executive Summary

The Lines Company Limited (TLC) is in the business of supplying its connected customers with reliable capacity. Capacity is a term used to describe the customer requirements or the ability of the network to supply energy at a moment in time. Reliability is a term used to describe the length of time and frequency that the network is unavailable to supply customers with electricity. It is the capacity requirements of its connected customers, rather than the amount of energy conveyed which determines the investment the company has to make in its network. The prices charged reflect the investment the company has made, and intends to make in order to provide a reliable supply capacity to its connected customers.

For the period 1 April 2014 to 31 March 2015, TLC's estimated target revenue is \$38.8 million. This figure represents the recovery of the cost of supplying capacity to approximately 24,000 customers and provides for a regulated return on investment to shareholders. The total cost recovered from customers includes \$7.1 million recovered on behalf of Transpower and generators operating within the network. At 31 March 2014, the estimated investment in the network is \$172 million.

The move to charging for capacity and demand/load was in response to the network constraints presented by an aged network with low demand and connection density, combined with a high proportion of customers with low annual consumption. On evaluation, this meant that a volumetric charging methodology was unsuitable to deliver a sustainable network. The move to demand based charging triggered the need to move to direct billing the customer for lines services. The aim of TLC is to build and maintain a network which is "right-sized" for the customer requirements and economically sound for both customers and investors.

To ensure the efficient use of network assets in a manner that provides service quality benefits to the customer at an affordable price and a regulated return to the shareholder, TLC charges customers for their capacity and demand/load requirements as opposed to their energy consumption.

By developing and maintaining a direct contractual relationship with its customers TLC is able to apply a capacity based pricing methodology more effectively than through the traditional retailer channel. Direct to customer billing services and customer engagement provide customers with the opportunity to get guidance on how to better manage kW load requirements and offers a better forum to communicate price/quality trade off requirements.

The pricing methodology used to set individual prices will determine how accurately charges paid by each customer recover the cost of supplying capacity to their installation. Imbalances can arise when a pricing methodology creates subsidies by requiring some customers to pay more than the cost of supply and others less. A pricing methodology based on charging for the amount of energy conveyed creates inequities. The current pricing methodology of demand charging means that prices should recover at least the marginal cost of supplying capacity to an individual and no more than the standalone cost of supply.

The process followed when setting prices is to determine the revenue requirement which is deemed sufficient to operate a sustainable network for the following year. Revenue and price setting is strictly controlled by regulation. Next, customers on the network are grouped with regard to similarities at point of connection, demand density and capacity requirements as these attributes influence the cost of supply to the customer. The variation in costs attributed to consumer groups

drives the allocation of revenue recovery. Finally, a pricing plan including key pricing components is designed to recover revenues and send pricing signals to the customer on the cost of service and where customer behaviour can directly influence their individual cost.

The methodology to set prices is outlined in the following sequential diagram.

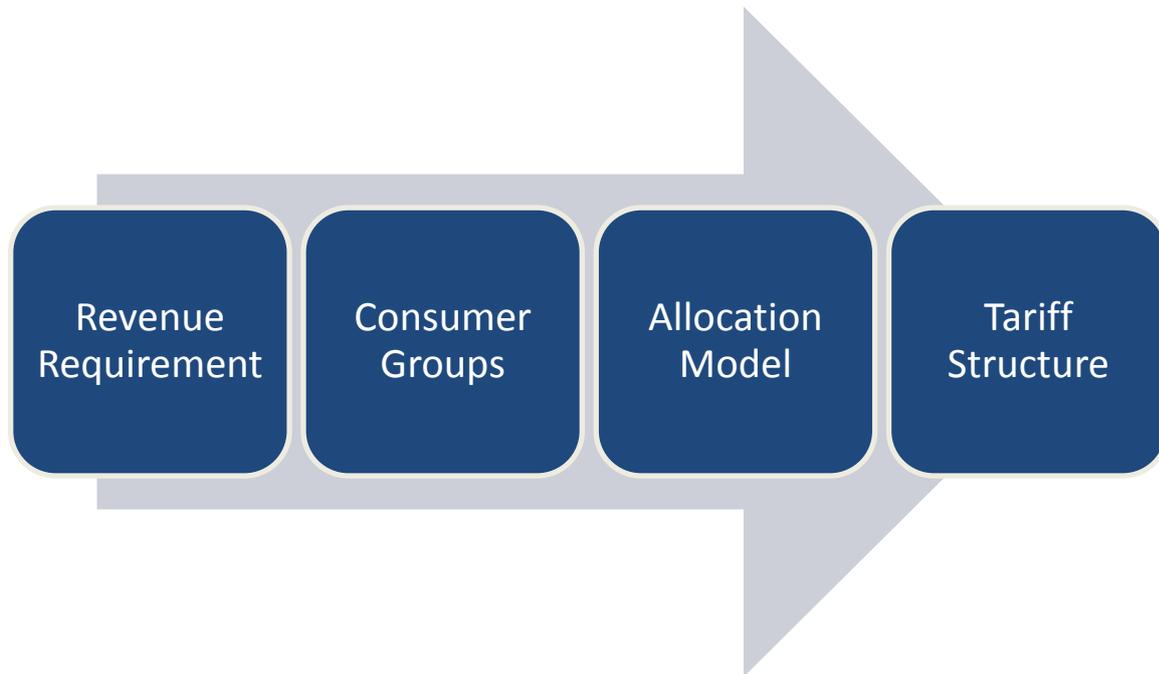


Figure 1: Sequential diagram of TLC's Pricing Methodology

By aligning the cost of supply to charges recovered from the customer, TLC is able to make efficient and economically sound investment decisions to the benefit of both customer and shareholder.

The integration of asset management planning with the pricing methodology is a critical process in TLC's business model. Revenue constraints combined with an aged network meant that TLC shareholders had to choose between network development and asset renewal. The development of a pricing methodology based on capacity and demand requirements, and the communication of this methodology to customers was part of a strategy to slow demand growth and channel its available resources on asset renewal. A focus on asset renewals has contributed to an improvement in quality of service levels. This was required because the network reliability a number of years ago was at a level that was not acceptable to consumers.

Since the introduction of demand charging in 2007, metering technology has improved substantially. This has allowed TLC to be progressive in its rollout of advanced meters and look toward replacing assessed capacity and demand charges with measured requirements. Currently 90% of customers have both fixed capacity (Network Charge) and variable demand (kW load) assessed through the use of a statistical process which produces a demand profile. The wide scale advanced meter installation project commenced in September 2013 and is expected to take about 3 years to complete for the majority of customers. A further period of approximately 2 years should complete the installation for remaining customers. Full installation will enable a closer alignment between asset management strategy and pricing methodology.

TLC's asset management strategy is focussed on providing just in time assets that will be utilised, provide service and earn revenue. The long term aim of our pricing methodology is to signal the lifecycle costs of the assets that are necessary to provide the capacity and quality service requirements of the consumer.

One of our primary objectives is to facilitate the lowest possible cost of lines and energy prices to our customers in what is by national standards a difficult set of challenges when operating an aged rural network.

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Abbreviations

TLC	The Lines Company
EDB	Electricity Distribution Business
EA	Electricity Authority
ComCom	Commerce Commission
ICP	Installation Connection Point
kW	Kilowatt
kWh	Kilowatt-hour
kVA	Kilovolt-ampere
ACOT	Avoided Cost of Transmission
LNI	Lower North Island Transpower transmission region
RCPD	Regional Co-incident Peak Demand
DPP	Default Price Quality Path
ID2012	Information Disclosure Determination 2012
IM2012	Input Methodologies 2012
TOU	Time-of-Use
POS	Point of supply

Pricing Abbreviations

kW Load	6x2 – calculation derived from the top 6, 2 hour periods of uncontrolled load during periods of load control (measured in kW); interchangeably used with the term “Demand”
Network Charge	Chargeable Capacity – measured in kVA

Consumer Group Terminology

HT	Hangatiki	WK	Whakamaru	OK	Ohakune
ON	Ongarue	NP	National Park	TK	Tokaanu
LV	Low Voltage Supply (400V)	HV	High Voltage Supply (11kV/33kV)		
HI	High Density (demand density $\geq 50\text{kVA/km}$)				
LO	Low Density (demand density $< 50\text{kVA/km}$)				

Pricing Plans

LUP	Regulated Distribution Tariff (Low Fixed Charge)
SUP	Standard User: Capacity normally $< 100\text{kVA}$
MUP	Major User: Capacity normally $\geq 100\text{kVA}$

1. Pricing Methodology Overview

In order to accurately reflect the cost of supplying capacity, TLC line charges are payable by connected consumers, both load and generation, according to the capacity each consumer requires and the assets in use to provide that capacity. The methodology used to set prices is based on assessed or measurable quantities of power rather than energy usage. Demand Charging and Dedicated Asset Charges enable TLC to set prices that signal to the consumer the relative cost of reliable supply to their installation. Sequentially, there are four stages employed in setting the prices:

1. Determine target revenue in accordance with regulations;
2. Identification of consumer groups;
3. Allocation of target revenue between these groups;
4. Development of pricing plans to recover target revenue and send pricing signals aligned to consumer behaviour.

Crucial to this process is alignment to the regulatory models developed by the Commerce Commission and Electricity Authority. These models ensure that revenue and prices reflect the cost of operating an efficient distribution network.

1.1. Customer Consultation

Customer engagement is an essential process in the development of a quality product or service. Consumers connected to TLC's network have a direct contractual relationship with TLC for the supply of capacity at a known price and level of quality. This relationship provides a level of transparency in pricing not common across the industry where line charges are bundled with retail energy prices. Most consumers of TLC receive two invoices; one from their energy retailer and a second from TLC. This assists customers to be aware that the line charges payable to TLC are for the supply of capacity and to signal demand as opposed to the retail price of energy.

Supporting this direct customer relationship is a dedicated customer service team, including a fault and outage response team. Amongst other things, in conjunction with network engineers, TLC employees are available to provide demand management and alternative energy supply advice. Six times a year, customers receive a customer newsletter outlining company news and network issues.

Newsletters, website updates and regulatory disclosures are effective at communicating matters of a routine nature. However, in order to understand the expectations consumers have with regard to a price/quality trade off, TLC must seek a more effective level of engagement. Regular community clinics are run and these provide consumers with the opportunity to discuss with TLC representatives their opinions and expectations regarding price and the level of service acceptable or desirable. Customer views are considered during the development of investment decisions in all aspects of TLC's product delivery.

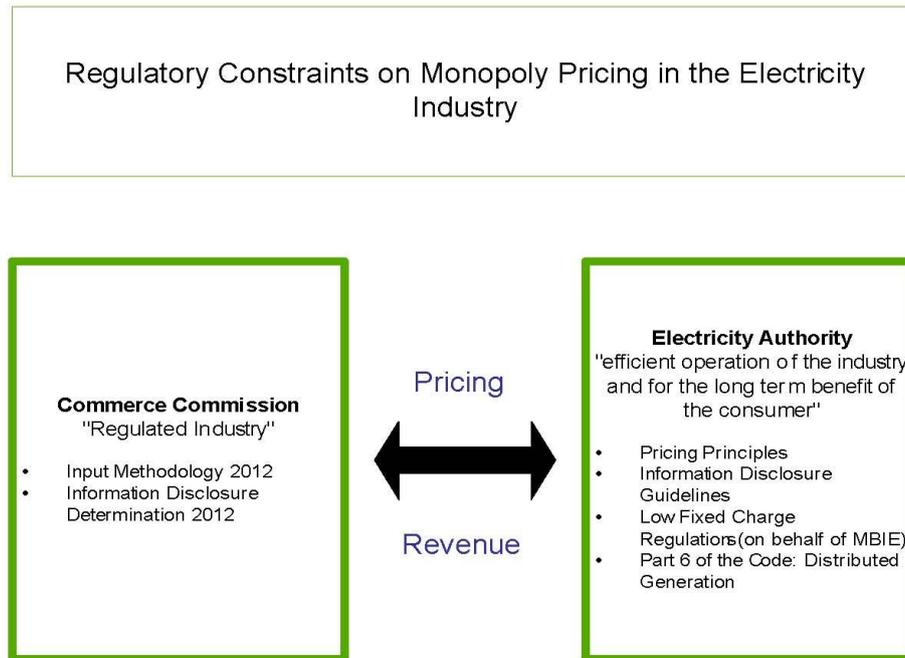
In 2012, workshops were run with the aim of investigating a possible quality only variation to the current default price/quality path. Although this application has not proceeded, customer feedback suggested 78% of those surveyed would be willing to accept an increase in outage duration as a tradeoff for delay and minimisation of future price increases.

The company regularly reviews customer feedback to establish what issues customers wish to discuss. As a result of this analysis, consultation on the development of vacant property charges is

planned for 2014/2015. Performance targets and current indicators of service expectations are presented in the Asset Management Plan¹ and Annual Report².

1.2. Regulatory Considerations

The EDB model is not subject to competitive market forces. As a natural monopoly the model is subject to both quality of service and price regulation. The following diagram looks only at the pricing constraints that TLC is subject to under current regulations.



1.2.1. Commerce Commission

TLC is one of 29 companies operating in New Zealand that provide electricity lines services. Sixteen of these companies, including TLC, are obliged to set target revenue and service levels according to Input Methodology requirements determined by the Commerce Commission (ComCom). TLC is subject to the "Default Price/Quality Path" (DPP) requirements and compliance is tested annually on revenues charged and network reliability performance against regulatory set targets. The Input Methodology is used to establish the capital requirements of an efficient distribution business and the service level appropriate. Public disclosure of the Pricing Methodology is one means of assessing compliance with the DPP. This document and other regulatory disclosures to ComCom can be viewed and downloaded from TLC's website. The scope and framework of this Pricing Methodology is prescribed by Section 2.4: Information Disclosure Determination 2012 (ID2012). *Refer to Appendix 3: Information Disclosure Determination 2012 Alignment Table.*

¹ 2013 TLC Asset Management Plan and 2014 TLC Asset Management Plan Update

² 2013 TLC Annual Report

1.2.2. Electricity Authority

The statutory objective set for the Electricity Authority (EA) by the Electricity Industry Act 2010 is:

To promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers.

The primary tools used by EA to assist in the delivery of this objective are:

1.2.2.1. Pricing Principles

EA have elected to use a principles based model rather than a prescriptive one-size fits all.

Refer to: Appendix 1: Pricing Principles Alignment Table.

1.2.2.2. Information Disclosure Guidelines

These guidelines have been developed to aid distributors in the disclosure of their pricing methodologies and to specifically show alignment with the pricing principles model. *Refer to: Appendix 2: Information Disclosure Guidelines Alignment Table.*

1.2.2.3. Low Fixed Charge Regulations

The Low Fixed Charge Regulations 2004 (LFC) are monitored by the Ministry of Innovation and Energy (MBIE). The EA is charged with administering compliance. Under the LFC, TLC is obliged to offer a regulated tariff to its domestic customers. This tariff must:

- Have a fixed charge of not more than 15 cents per day (excl. GST and net of prompt payment discount);
- The average domestic customer should pay no more in total per year on the regulated tariff than on any alternative plan.

The structure of the lower user tariff results in a significant portion of domestic customers paying less than the incremental cost of supply to their installations. As total revenue is constrained by regulation, it is implicit that lost revenue is sought elsewhere, effectively creating a level of cross subsidy. This position is recognised in Section (a) (i) of the Pricing Principles, "...except where subsidies arise from compliance with legislation and/or other regulation."

In 2005, the Ministry of Economic Development (now MBIE) granted TLC an exemption from full compliance with the Low Fixed Charge Regulations. The exemption expires in 1 April 2015. Copies of the exemption are available at the TLC's Main Office, King Street, Te Kuiti and on the website: www.thelinescompany.co.nz.

1.2.2.4. Distributed Generation

Regulation on the structure and value of both payments to generators and prices charged is contained within Part 6: Connection of Distributed Generation of the Electricity Industry Participation Code 2010.

The presence of generators on the TLC distribution network presents a set of technical connection issues. These issues range from safety considerations to system interference with neighbouring connections. Most large distributed generators have dedicated assets and associated charges plus load and associated charges when generation is not occurring or injection is at a level lower than the load required.

Payments made to generators connected to the TLC network are referred to as “Avoided Cost of Transmission” (ACOT) payments, as these costs would otherwise be payable to the national grid operator, Transpower. Where the generator is injecting into a Transpower POS at times when ACOT charges apply, then ACOT is not paid for any such injection. Generator output data signals also have to be supplied to the TCL SCADA system for ACOT payments to be made. Administration and engineering SCADA costs attributable to the generators are also allocated.

1.3. Changes to Pricing Methodology

In line with requirements from the EA, specifically Part (d) of the Pricing Principles and Part (a) of the Information Disclosure Guidelines, the document has been reformatted to improve communication of the Pricing Methodology to the interested reader. The changes are intended to improve transparency and customers and stakeholders understanding about the rationale used to set prices. Content formerly appended to the Pricing Methodology is now presented in the following separate documents: Variable Charges, Fixed Charges, Dedicated Asset Fees and Charges and Low User – all of which can be found using the following link: www.thelinescompany.co.nz/customers/pricing-and-billing.

1.4. Pricing Strategy

TLC is committed to a programme of network renewal and development which provides customers with an acceptable price/quality trade-off and also is economically right sized to ensure the network is not over capitalised and shareholder value not compromised. An adequate revenue stream is required to build and maintain the network in accordance with the set strategy and prices must be periodically adjusted to earn the required revenues. Over the past 3 years, the Company has elected to price at below sustainable regulatory levels in response to the difficult economic times faced by both individual customers and communities. From 1 April 2014, TLC believes it must increase its prices to begin the path of revenue recovery to sustainable levels. This higher price path will likely result in price increases to customers at rates higher than inflation over the next four to six years culminating with revenues being aligned to regulatory targets by 2020. Price increases in the range of 4-5% (including recoverable transmission costs) are currently being forecast but remain dependent on inflation staying at currently low levels and inflation only adjusted increases in transmission charges. The additional revenue will be used to secure network renewals, address ever changing hazard management requirements and deliver improved returns to our community trust shareholder.

The advanced meter rollout project and how customers respond to demand side management opportunities may impact the forward price path. Consistent with TLC’s pricing methodology, long term pricing benefits to the customer are clearly available if load is spread away from peak times.

The company is looking closely at its cost structure and is developing strategies to minimise the cost of service delivery. This strategy will involve further investments by the company with benefits being delivered over time in a controlled and sustainable way.

The company has a proven track record in finding innovative solutions to network renewal and hazard management. These innovations are driven by our need to hold down costs, but maintain or

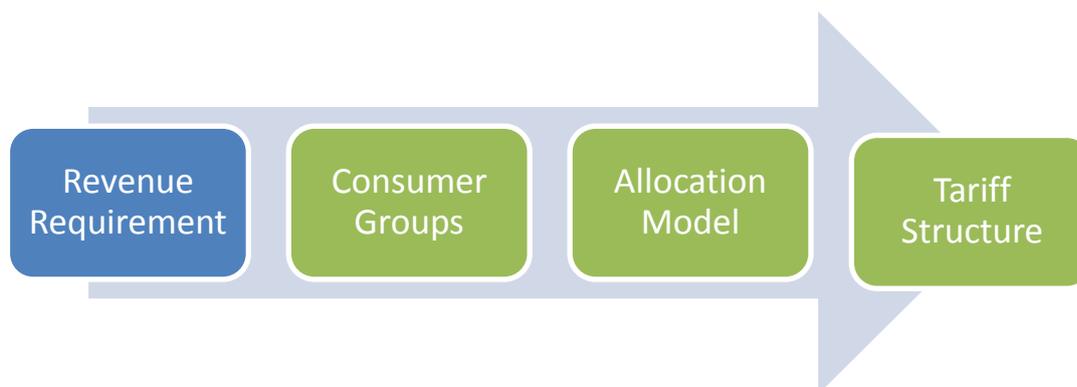
improve service quality standards. The company has been recognised in the past and will continue to strive to lead by example.

A work project is considering the feasibility of recognising similarities between customers based on service quality targets. This innovative approach aligns with the price/quality trade off with which the ComCom develops price pathways for non-exempt EDBs. Currently, TLC's Terms and Conditions and Asset Management Plan consider the provision of levels of service quality. The challenge for the company is to develop a pricing methodology that supports this approach at a consumer group level.

New approaches are being investigated and it is hoped that these will allow a greater integration of asset management and cost recovery. Furthermore, it is hoped these innovative systems will enable a level of transparency so that customers can better see the price quality trade off they are being offered, and make informed decisions as to their acceptance of the trade off.

2. Standard Contract Pricing Methodology

2.1. Revenue Requirement



Sequential diagram of TLC's Pricing Methodology

Target revenue is based on the aggregate of the following costs:

- Return on capital invested;
- Return of capital invested (depreciation);
- Recovery of direct operating costs (e.g. maintenance, etc.);
- Recovery of customer and administration costs (e.g. billing, etc.);
- Recovery of Pass-through costs (e.g. industry rates and levies);
- Recoverable costs (e.g. Transpower and ACOT).

The Input Methodologies 2012 (IM2012) developed by ComCom provides the methods and processes necessary to establish Target Revenue. Price setting is the mechanism by which the network investment and related costs to operate a network are recovered. The investment in the network by TLC includes assets such as poles, wires, transformers, switchgear and substations. Valuation of the asset investment for price setting purposes is estimated at \$172 million. The value of the assets owned by an EDB is commonly referred to as the Regulated Asset Base (RAB).

IM2012 identifies distribution, customer and administration costs that are either allowable, as in the asset renewal programmes necessary to maintain a quality provision of supply, able to be passed on, as in industry levies and rates, or recoverable.

Recoverable costs include transmission costs payable to Transpower for connection assets and interconnection demand charges, plus avoided cost of transmission payments (ACOT) made to generators feeding directly into TLC distribution network.

Aggregation of these costs provides an indicative maximum Target Revenue for the pricing period starting 1 April 2014. These costs are quantified in the following table (Table 1).

Target Revenue			
Distribution and Recoverable Costs			
Cost	Description	\$m	%
Distribution	Capital related costs	\$ 25.8	60%
	Maintenance costs	\$ 5.8	13%
	Customer and administration costs	\$ 4.2	10%
	Pass through costs	\$ 0.3	1%
Recoverable	Transmission costs	\$ 7.1	16%
Total Costs to Recover		\$ 43.2	100%
Total Target Revenue		\$ 38.8	90%

Table 1: TLC's Target Revenue 2014

2.1.1. Distribution Costs

ComCom regulates electricity distribution monopolies using a price/quality trade-off. Provision of reliable supply, measured in terms of outage duration and frequency, is balanced against the asset investment to deliver customer capacity requirements. Higher capital costs suggest higher revenue which suggests higher prices. Implicit is the assumption that asset investment should result in increased standards of reliability. Customer consultation is very important and these consultations should provide customers with the opportunity to influence the investment decisions being made on their behalf. Underlying these trade offs are requirements around safety and quality. For example, TLC must keep the voltage plus other more technical quantities such as harmonics levels within certain limits. Safety is legislated under two pieces of legislation, one focuses on worker and the other on public safety.

The cost lines in Table 1 detail:

1. A return on capital invested, combined with a return of capital invested, accounts for 60% of total costs recovered through revenues. Comparatively³, TLC capital expenditure by connection point is at the median range. These costs include:
 - a. Depreciation of assets at regulated rates;
 - b. Return on investment at a regulated rate.
2. Operating expenditure is 23% of total costs and include:
 - a. Network Maintenance – vegetation management, lines and pole maintenance fall within this cost line;
 - b. Customer and Administration – all other costs required to support and run an EDB including network management, business support systems and customer engagement.
3. Pass-through Costs are specifically allowed by ComCom IM2012 and are made up of industry levies and attributable local government rates.

Distribution costs account for an estimated 84% of total costs.

³ 2013 Price Waterhouse Cooper Information Disclosure Compendium

2.1.2. Recoverable Costs

Transmission and ACOT charges represent 16% of total costs. Table 2 provides a breakdown of these costs by supply point.

Recoverable Costs - Transmission	
Supply Point	\$m
Hangatiki	\$ 3.6
Whakamaru	\$ 0.2
Ohakune	\$ 0.6
Ongarue	\$ 1.3
National Park	\$ 0.6
Tokaanu	\$ 0.8
Total	\$ 7.1

Table 2: Recoverable Costs

ComCom allows EDBs to recover from customers the costs paid for transmission and ACOT. The recoverable costs are as billed by Transpower and distributed generators based on the capacity requirements measured in the preceding 12 months to the year ended 31 August 2013.

Transpower charges are a combination of connection and interconnection charges. The interconnection charge is a variable charge and the quantity (kW) is the average of the loads at that POS co-incident with the top 100 half hour peaks experienced on the Lower North Island transmission grid (LNI) over the 12 months ended 31 August.

The Whakamaru supply point is unique and transmission charges are replaced by a different mechanism. Recoverable costs for the Whakamaru supply point are based on economic transmission costs avoided.

ACOT payments to embedded generators on the network are legislated at the same rate as the interconnection charge from Transpower.

During the 12 months ended 31 August 2013, TLC controlled load in order to minimise the co-incident peaks and minimise Transpower's charge. The average co-incident load is 9% less than the previous year, resulting in a savings of \$0.4 million, before adjusting for tariff changes in RCPD pricing by Transpower.

Transpower RCPD rates have risen from \$76.14 per kW in 2012 to \$114.47 in 2015, a 50% increase. Since 2012, transmission charges have increased by \$1.7m or 30%. This is recovered directly from the customer. The following figure shows the change in transmission costs over the four years to March 2015.

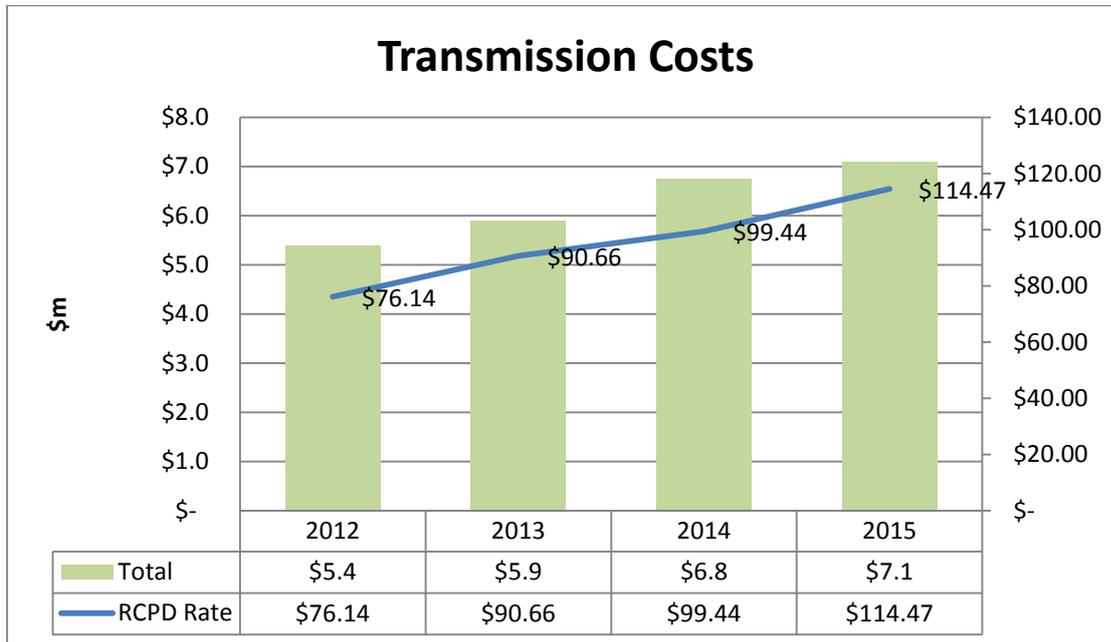
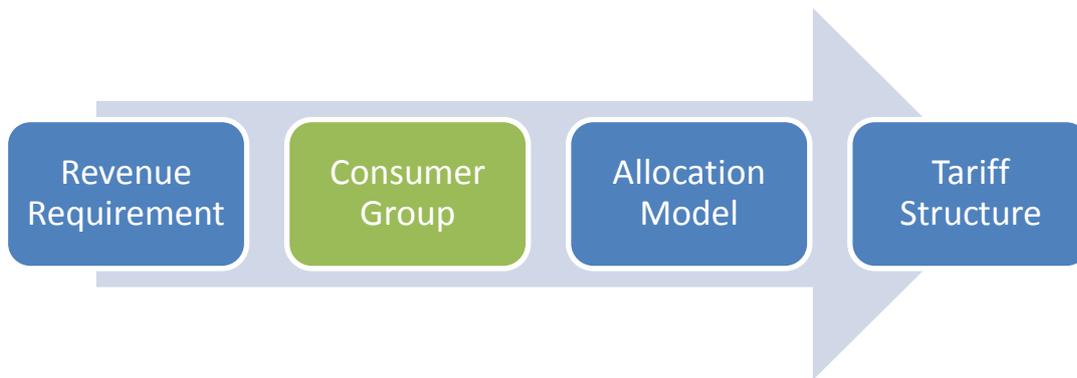


Figure 2: Transmission and RCPD rate increases

2.2. Consumer Group



Sequential diagram of TLC's Pricing Methodology

In order to recover Target Revenue, TLC must identify the customers from whom this revenue will be procured. Cost drivers are identified and customers are grouped according to their exposure to these drivers and individual influence on these drivers.

The nature of a distribution network means that there is a high level of fixed cost to be shared. Where possible, customers who benefit from the dedicated use of distribution assets are charged accordingly. Where dedicated use has been identified and recovered through a dedicated asset charge, the point of connection is redefined and the customer shares only the common cost of a high voltage distribution network. This is lower than the shared cost of a low voltage distribution network.

Defining a Consumer Group and the key features considered is discussed below.

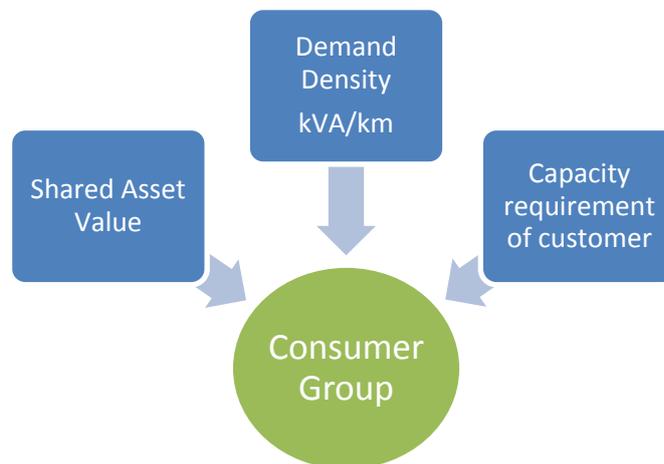


Figure 3: Consumer Group Definers

Shared Asset Value

Distribution assets are aggregated at a regional level, aligned to transmission POS and include the length of line, transformers, poles and other distribution related assets. By grouping customers based on POS, TLC is able to best match invested infrastructure costs to those who benefit. An exception is when the capacity requirements of a customer are sufficiently large to require investment in additional dedicated network infrastructure. Individual customer contracts are negotiated with these customers. There are six network regions with a RAB. These regions align with POS and are: Hangatiki, Whakamaru, Ohakune, Ongarue, National Park and Tokaanu. Where an area could be supplied from more than one POS, the customers in that area are grouped with those with whom they share the most in common.

Five of these regions correspond to POS on the national grid. These five POS are where the distribution network, as owned and maintained by TLC, intersects with the national transmission network (National Grid) operated by Transpower. The sixth POS is Whakamaru where TLC minimises transmission costs by contracting directly with a generator.

Demand Density

Demand density at ICP is an important cost driver. Demand density is based on a ratio of demand to line length. When compared with high demand density, low demand density, generally illustrated in remote areas with low population count, requires an increased level of investment per connection. Customers are grouped according to demand density at point of connection.

Capacity Requirement

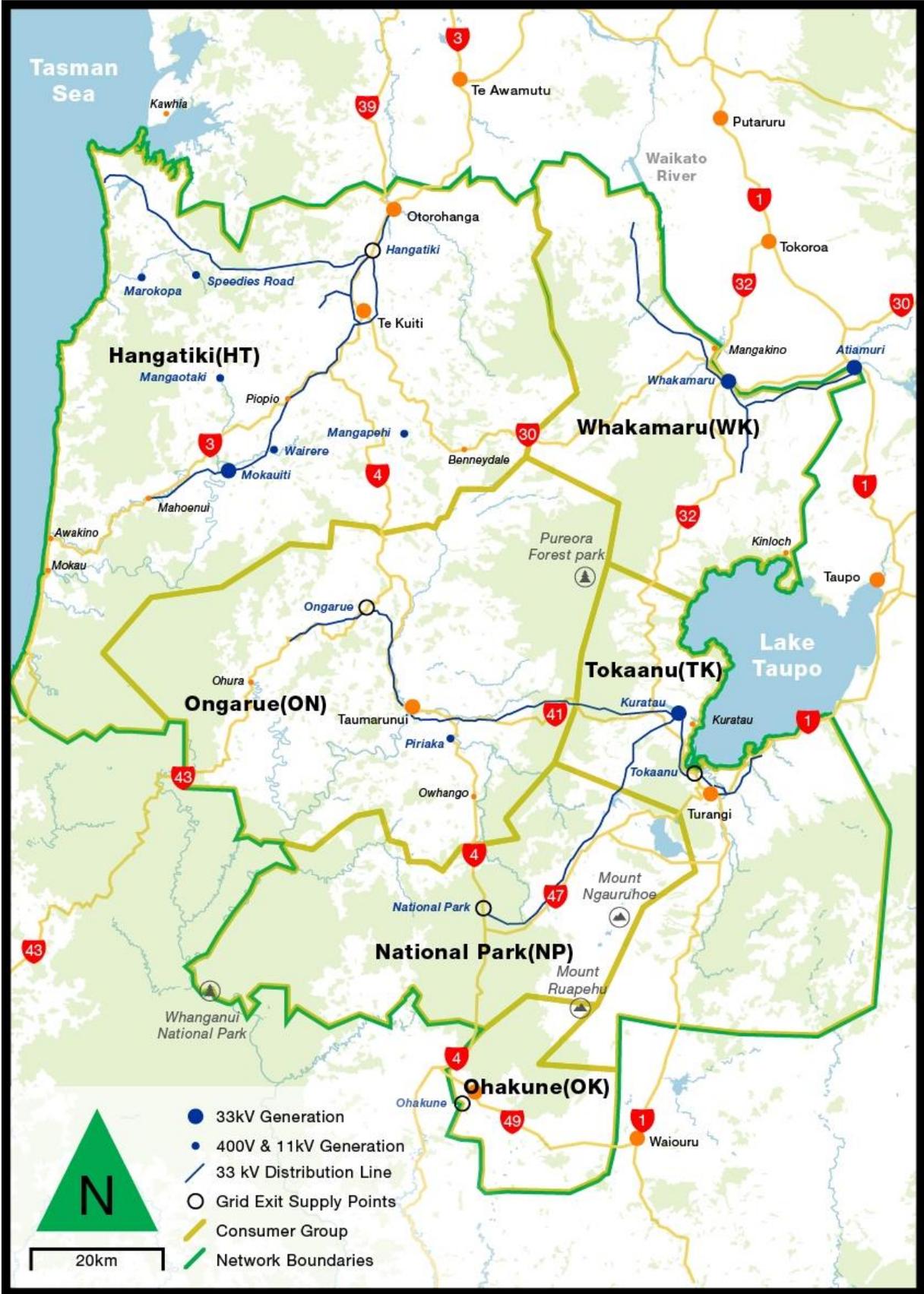
The capacity requirement of individual customers is also considered. Customers are identified with capacity requirements over 100 kVA (major users) and those below 100 kVA (standard users). Major users can have a singular impact on the network as the capacity requirement of these customers is such that their pattern of use will affect the reliability and supply of capacity to other customers on the local network. Consumers with capacity requirements greater than 100 kVA on the MUP are not differentiated by density.

The following table provides illustration of the Standard Contract Consumer Group matrix and a count of customers within each defined group.

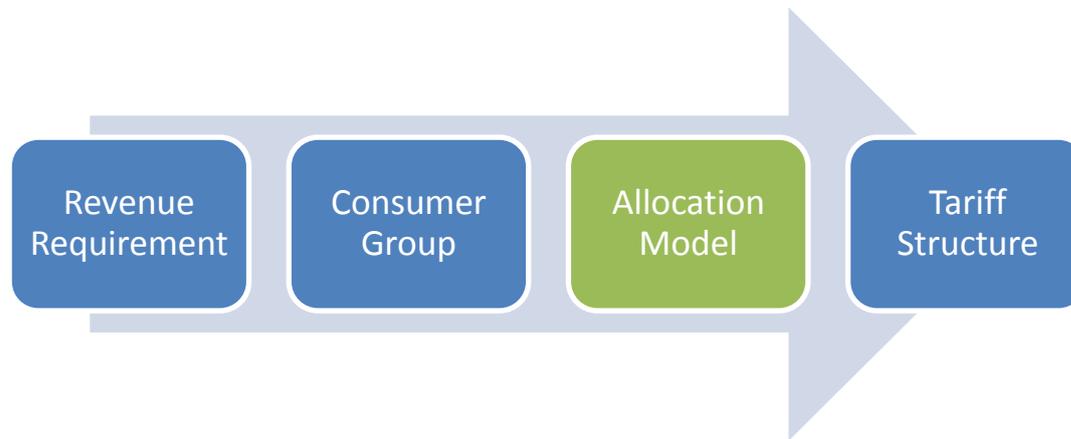
Consumer Groups (Excluding Non Standard Contracts)								
Total Customer Number - 24,069								
	Hangatiki				Whakamaru			
	HVHI	HVLO	LVHI	LVLO	HVHI	HVLO	LVHI	LVLO
Capacity <100kVA	1,377	1,666	4,888	1,163	76	1,143	778	491
Capacity ≥100kVA*	16				1			
	Ohakune				Ongarue			
	HVHI	HVLO	LVHI	LVLO	HVHI	HVLO	LVHI	LVLO
Capacity <100kVA	201	-	1,745	-	519	750	2,879	712
Capacity ≥100kVA*	-				2			
	National Park				Tokaanu			
	HVHI	HVLO	LVHI	LVLO	HVHI	HVLO	LVHI	LVLO
Capacity <100kVA	67	155	409	228	121	105	4,522	47
Capacity ≥100kVA*	3				5			
HV=High Voltage; LV=Low Voltage; HI=High Density; LO=Low Density								
*As Priced on MUP								

Table 3: Standard Contract Customer Groups and ICP count

TLC Network and Regional Consumer Groups



2.3. Allocation Model



Sequential diagram of TLC's Pricing Methodology

Having quantified Target Revenue and defined Consumer Groups, allocation of costs between Consumer Groups and/or individual customers is required.

The measurements and statistics relevant to the allocation of costs incurred are provided in the following table. Cost information is in reference to total network costs as provided in Table 1 and thus includes costs for all customers, not just Standard Contract customers.

Allocation Assumptions and Costs					
Supply Point	Demand Density	No. of connections	Line Length	Network	kW Load
		ICP #s	km	kVA 000's	kW/kVA 000's
Hangatiki	High	6,285	741	57.4	43.7
	Low	2,829	884	16.2	7.3
Whakamaru	High	856	84	6.6	3.0
	Low	1,634	535	17.8	8.6
Ohakune	High	1,948	203	13.2	9.7
	Low	0	0	-	-
Ongarue	High	3,400	472	21.9	9.9
	Low	1,462	675	8.0	3.1
National Park	High	480	204	5.0	4.0
	Low	383	150	5.9	2.5
Tokaanu	High	4,649	277	29.5	13.0
	Low	152	115	0.9	0.3
Network		24,078	4,340	182.4	105.1

Table 4: Allocation Model Assumptions and Costs

Allocation Assumptions and Costs				
Supply Point	RAB	Capital Costs	Maintenance Costs	Customer & Admin Costs
	\$m	\$m	\$m	\$m
Hangatiki	\$ 70.1	\$ 10.3	\$ 2.2	\$ 1.8
Whakamaru	\$ 24.1	\$ 3.4	\$ 0.8	\$ 0.4
Ohakune	\$ 16.5	\$ 2.3	\$ 0.3	\$ 0.3
Ongarue	\$ 27.9	\$ 4.5	\$ 1.5	\$ 0.7
National Park	\$ 12.7	\$ 1.9	\$ 0.3	\$ 0.2
Tokaanu	\$ 21.1	\$ 3.4	\$ 0.7	\$ 0.8
Network	\$ 172.4	\$ 25.8	\$ 5.8	\$ 4.2

Table 5: Allocation Model Assumptions and Costs (continued)

Capital costs

- These costs are based on the estimated value of the network assets as retrieved from asset management systems. The costs include an allowance for both a return *on* capital and a return *of* capital. If dedicated network asset use can be identified, the cost will be allocated to those customers receiving the benefit.

Operational costs

Network Maintenance

- Asset management systems are used to identify costs by consumer 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) and are allocated between high and low voltage supply. Historical averages are used to give a cost per km of line. These costs are allocated to Consumer Groups based on line length statistics. If there are negotiated contracts in place, a cost is deducted from the consumer group allocation.

Administration

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

Customer

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

Pass-through costs

- These are allocated in the same manner as outlined for Administration costs.

Recoverable costs

- Recoverable transmission costs are allocated on the basis of variable kW load at point of connection.

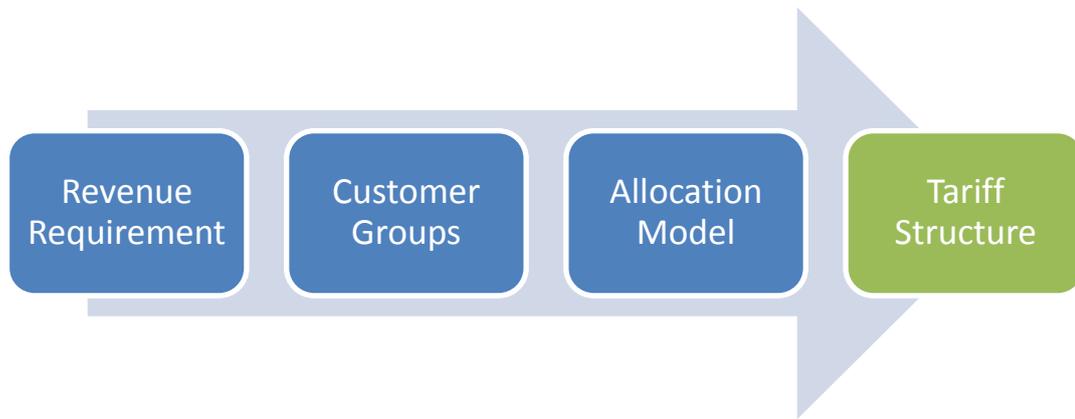
Target Revenue by Consumer Group

The following table shows target revenue allocation by Standard Contract consumer groups. This allocation has been made in line with the methodology and assumptions as outlined above, but excludes revenue earned from Non Standard Contract and Distributed Generator customers.

Consumer Groups (Excluding Non Standard Contacts)								
Total Target Revenue - \$33.3m (\$m)								
	Hangatiki				Whakamaru			
	HVHI	HVLO	LVHI	LVLO	HVHI	HVLO	LVHI	LVLO
Capacity <100kVA	\$ 2.85	\$ 2.44	\$ 5.60	\$ 1.12	\$ 0.22	\$ 3.13	\$ 0.63	\$ 0.60
Capacity ≥100kVA*	\$ 1.68				\$ 0.21			
	Ohakune				Ongarue			
	HVHI	HVLO	LVHI	LVLO	HVHI	HVLO	LVHI	LVLO
Capacity <100kVA	\$ 0.28	\$ -	\$ 2.00	\$ -	\$ 0.68	\$ 1.01	\$ 3.35	\$ 0.69
Capacity ≥100kVA*	\$ -				\$ 0.18			
	National Park				Tokaanu			
	HVHI	HVLO	LVHI	LVLO	HVHI	HVLO	LVHI	LVLO
Capacity <100kVA	\$ 0.13	\$ 0.28	\$ 0.58	\$ 0.70	\$ 0.43	\$ 0.13	\$ 3.80	\$ 0.04
Capacity ≥100kVA*	\$ 0.29				\$ 0.26			
HV=High Voltage; LV=Low Voltage; HI=High Density; LO=Low Density								
*As Priced on MUP								

Table 6: 2014 Target Revenue Allocations by Consumer Group

2.4. Tariff Structure



Sequential diagram of TLC's Pricing Methodology

The recovery of Target Revenue requires the development of a methodology to set prices. Currently, the majority of EDBs use a methodology that combines volumetric (energy consumption), demand charging for their larger capacity customers and daily fixed charges. Prior to 2007, TLC used a similar mixed charging methodology. In 2007, TLC moved to a charging methodology aligned to economic costs of service provision.

Meters capable of recording energy use over pre-set time periods are referred to as Time-of Use (TOU) meters. The limited number of Time-of-Use (TOU) meters at customer installations in 2007 was an issue for consideration by TLC when moving to demand charging. However, the network constraints presented by an aged network with low demand and connection density, combined with a high proportion of customers with low annual consumption, and alternatives such as solar reducing in price meant that a volumetric charging methodology was unsustainable. In 2007, TLC adopted demand charging for all of its customers.

Capacity represents an installation's anytime maximum demand. For a typical household this may be on a winter evening when the majority of household appliances are on and there is significant hot water use. Maximum household requirements may see load levels of 10-12 kVA. Once diversity is added to the equation the design requirements for a number of households supplied by a single transformer then typically sees the figure reduce to about 5 kVA per domestic installation at the transformer level.

A fixed capacity charge is used and reflects the fixed cost of distribution. Also, TLC uses a variable demand charge which is designed to benefit customers prepared to shift their load, flattening the combined peaks and troughs generally seen on distribution load models. Smoother peaks allow TLC to focus on network improvements over capacity increases.

In addition to the introduction of demand charging, TLC introduced dedicated asset charges. Dedicated asset charges only apply when there is clear and identifiable benefit being provided to the customer.

The three main pricing components used to recover distribution related target revenue at TLC are:

- Fixed capacity charge (Network Charge);
- Variable demand charge (kW Load Charge);
- Dedicated asset recovery (Transformer and other dedicated assets including control fees).

Complementing these pricing components are:

- Low Fixed Charge: this charge forms part of the regulated distributor tariff option, as required, for eligible customers. The charge must be no greater than 15 cents per day, and when combined with a variable charge, must be such that the average consumer will pay no more than on any alternative tariff. For eligible consumers, this charge replaces the network charge;
- Service fees: these fees recover costs incurred in the provision of dedicated services such as de-energisation and re-energisation requests;
- Transmission charges: these charges pass on recoverable transmission and ACOT costs from Transpower and Generators.

2.4.1. Demand Charging

A demand charging methodology concentrates on the peak demand at an installation as the capacity requirement is the main driver of network growth and development. In addition, consideration can be given to the co-incidental peak demand, the peak demand at an installation, at a specific time. TLC demand charging methodology uses a fixed capacity charge to represent the natural load of the installation and a variable demand charge to provide consumers a signal of their specific load patterns.

The allocation of revenue between these two pricing components is decided with reference to the short and long term strategic goals of the business. Pricing differentials can influence customer behaviour and elicit a demand side response (DSM). Currently, TLC derives close to 50% of Target Revenue from variable demand charges. From a consumer viewpoint, if the largest part of their monthly bill is a charge that they can reduce by load management, then the consumer is in a position to make a cost/benefit decision.

The emphasis by TLC on shifting load is eliciting a short term demand response by consumers with TOU meters. The benefit to both consumers and TLC has been outlined. In the long term, with the full rollout of TOU meters, TLC hopes to influence power factor efficiencies at the point of connection and have available information of the harmonic contributions of installations. The combination of fixed capacity charges and demand charges will be used to drive this response.

The way fixed capacity and variable demand charges are determined is influenced by the type of meter at the installation. The majority of meters currently on TLC's network are only capable of providing volumetric data (energy throughput – kWh). Therefore, both fixed and variable charges for these meters are assessed. This assessment is made using energy consumption data provided by energy retailers. Consumers who have TOU meters at their installation are able to effect load management without the need to focus on energy consumption as is required by customers with volumetric meters.

Fixed capacity charge

The capacity requirement at a connection is reflective of the natural load of that connection. Unless there is a significant change to the structure of the connection, it is expected that the capacity requirement will remain constant. For large capacity customers (> 100 kVA), the capacity is linked to the size of the dedicated assets (transformers, etc.) necessary to meet the capacity requirements of the site. This charge is referred to as the **Network Charge** and most consumers connected to the network incur this charge.

For consumers with capacity requirements less than 100 kVA, and not on the regulated low fixed charge, the network charge intends to reflect capacity requirements as at time of connection to the network. If a review of capacity is initiated, either by customer or TLC, the capacity requirement will be based on the highest ½ hour peak recorded at their connection. Any review undertaken will consider the capacity requirements of the installation, as initially agreed, in the customer connection agreement.

If the installation does not have a TOU meter, the capacity requirement must be assessed. The review assessment is made with reference to the billed kW load (variable demand charge) of the installation. Details of this assessment process are available on the company website www.thelinescompany.co.nz/customers/pricing-and-billing.

Variable demand charge

For consumers with a TOU meter, the variable demand charge is based on time of use, often during periods of network and/or transmission constraint. Network engineers hope to encourage consumers, through the use of pricing signals, to shift their load outside of network and/or transmission constraint periods.

Consumers with capacity requirements over 100 kVA do not have a distribution variable demand charge. The singular impact of these consumers on local network infrastructure and demand peaks means the capital investment incurred is irrespective of time of use, and recovery of this cost is through the use of dedicated asset and/or network charges.

For consumers less than 100 kVA and/or not on MUP, the variable demand charge is incurred during periods of load control. Load management through control channels and relays is an effective tool for EDBs. By pricing on load **not controlled** during periods of load control, TLC is sending a pricing signal that will reward those who respond by shifting load from these periods. Customers with no load during these periods continue to contribute to the cost of supply through the Network Charge.

To determine the uncontrolled load at an ICP with a TOU meter, TLC uses the average of the qualifying top six, two hours of uncontrolled load during periods of load control. This charge is referred to as “**kW Load**”, and is usually reset on an annual basis.

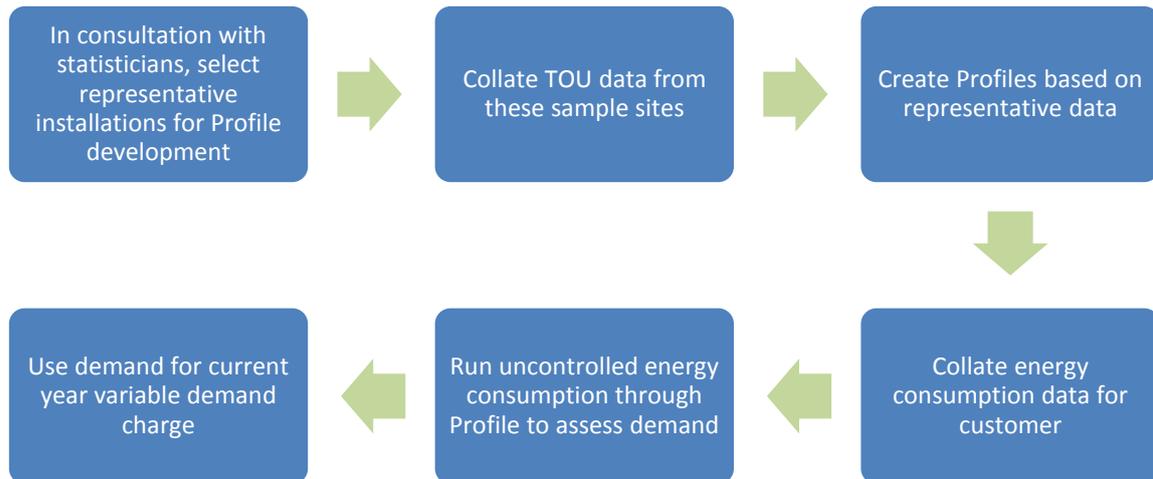
The measurement window of the top six, two hour periods was introduced in 2011. Consultation with customers led to the decision to replace the single measured three hour period. The benefit to the consumer is that they are not penalised for one off occurrences of high load. From a cost recovery perspective, it was decided that the greater number of periods gave a better representation of consumers load behaviour.

For consumers with capacity requirements less than 100 kVA, this charge reflects the impact of individual load requirements on the network infrastructure. Unlike consumers with capacity requirements over 100 kVA, the individual impacts of these consumers are unlikely to impact network loading. However, as the sum of individuals, allowing for diversification, load requirements will impact the network. It is for this reason the variable charge is an effective pricing tool.

TOU meters are able to record consumption data in pre-selected time intervals. This data can be downloaded and analysed to produce a load usage pattern for that consumer. In 2007, TLC used a representative selection of TOU meter data to mathematically produce an equation to predict that a certain level of energy consumption has a point of equivalence with demand (“profile”). Statisticians are used by TLC in the development of the profile equations. Using profiles, TLC was able to introduce variable demand charging even though the vast majority of its customers still had energy consumption only meters.

The following diagram shows the essential steps in this process. The process level decision and rules are provided on both the company website⁴ and in hard copy on request.

⁴www.thelinescompany.co.nz/customers/pricing-and-billing



A relatively small percentage of consumers currently benefit from the installation of TOU meters. In response, TLC has acted to ensure charging equity between customers by offering an opt back to the consumer's relevant profile.

The availability of the opt back is a transitional measure. TLC is currently installing advanced TOU meters at all connections on the network. This project is prioritised and it is expected that within 5 years all connections will have TOU meters. TLC will also offer access to other tools such as in-home displays to assist consumers in managing load.

At 1 April 2014, approximately 40% of consumers with TOU meters will opt back to the relevant profile. The objective of the opt back option is to ensure fairness to consumers as they learn, understand and transition to TOU measured demand – including how to 'beat their bills'.

To learn more about the processes and rules used to calculate billable quantities to consumers for both Network Charge and kW Load, plus the options used to ensure pricing equity between consumers with different meter types, please follow the links provided on the customer section of the website www.thelinescompany.co.nz/customers/pricing-and-billing or request a hard copy.

2.4.2. Dedicated Asset Recovery

Where identifiable, consumers are charged for the use of assets and associated investment as dedicated to their individual supply. The pricing components included are:

- Dedicated transformer charge;
- Dedicated lines charge;
- Control relay charge;
- Pole mounting charge for streetlights.

Standard use consumers, who pay for the use of a dedicated transformer, are charged a lower network charge. The high voltage network charge recovers less of the shared cost of supply. The transformer to which they are connected is dedicated to their use and their connection is to the high voltage distribution network. This price differential is shown on the tariff schedule as high and low voltage.

2.4.3. Low Fixed Charge

All EDB's have an obligation to provide a Regulated Distributor tariff option to consumers in their principal place of residence. This tariff (Low User Lines Charges) must have a fixed charge of no more than 15 cents per day and the sum of fixed and variable charges must be such that, for the average consumer, this tariff is not more than any alternative tariff offered. The requirement to offer such a tariff option, and the resulting subsidy, is acknowledged in section (a) (i) of the Pricing Principles.

Eligibility for this Tariff (LUP) is based on the definition of an "average consumer". The regulations define an average consumer as a customer in their primary place of residence with annual consumption below 8,000 kWh (9,000 kWh for applicable South Island regions). As the regulations don't define an average customer with regards to load, TLC has determined an average consumer for application of this Pricing Methodology. Explanation and supporting data for this has been provided to the EA under disclosure requirements in the regulations. (Reg. 23(d)). For the period 1 April 2014 to 1 April 2015, the average consumer has a kW Load of 2.4 kW.

2.4.4. Service fees

Other pricing components used to recover target revenue are:

- Account fees;
- De-energisation and re-energisation charges.

These charges recover the dedicated provision of the respective service. Similar to the dedicated asset charges, when dedicated provision of service is identified, it is recovered and shared costs reduced.

2.4.5. Transmission charges

The transmission charge recovers the connection and interconnection charges payable to Transpower plus any other recoverable costs payable to Distributed Generators on TLC network.

Customers with capacity requirements less than 100 kVA (SUP) contribute to the recovery of these costs through a single variable transmission charge based on kW Load.

Large capacity customers on the MUP have two transmission charges:

- Connection Charge – recovers a portion of the connection charge from Transpower;
- Individual Peak Demand/Demand coincidental with 100 highest Transpower peaks – based on either, the average of the highest six, two hour peaks recorded at the installation over the previous year; or the load co-incident with Transpower’s top 100 LNI peaks where an installation may make a significant impact on LNI RCPD. The decision to recover transmission from MUP using anytime peaks is that the load patterns of these consumers has a greater singular impact on network constraints.

2.4.6. Price Changes

The following table 7 shows the Target Revenue allocated by Pricing Component and the percentage of target revenue earned from each Pricing Component. The price component allocation has been made in line with the methodology, but excludes revenue earned from Non Standard Contracts and Distributed Generator customers.

Standard Contracts - Target Revenue and Price Components				
Cost	Key Price Component	2013/14	2014/15	2014/15
		\$m	\$m	% of Total
Distribution	Fixed Capacity Charges	\$ 7.9	\$ 8.0	24%
	Variable Demand Charges	\$ 14.3	\$ 15.6	47%
	Dedicated Asset Charges	\$ 3.1	\$ 3.1	9%
	Low Fixed Charges	\$ 0.2	\$ 0.3	1%
	Service Fees	\$ 0.3	\$ 0.3	1%
Recoverable	Transmission Charges	\$ 6.0	\$ 6.2	18%
Total		\$ 31.8	\$ 33.6	100%

Table 7: 2014 Price Changes

The above table shows a comparison of 2014/15 Target Revenue to estimated 2013/14 revenue. Revenue change results from both changes in billed quantities and tariffs. A tariff increase of 4.5%-5.0% is being considered for 1 June 2014 covering fixed capacity tariffs, variable demand tariffs, dedicated transformer tariffs and transmission tariffs. Due to a change in the kW load measurement for low user crossover, low user tariffs were adjusted at 1 April 2014 and will require further amendment on 1 June 2014 when variable demand tariffs are increased. The daily low user fixed

charge rate is being increased on 1 June 2014 to the maximum daily level under the regulations. Overall, the increase in tariffs is expected to increase revenues by approximately \$1.0m.

Tariff increases will be used to secure network renewals, address ever changing hazard management requirements and deliver improved returns to our community trust shareholder.

3. Non-Standard Contract Pricing Methodology

3.1. Non-Standard Contracts

TLC currently has nine consumers connected to its network on Non-Standard Contracts. The rationale for using a non-standard contract is based on the cost of the assets dedicated (substantially dedicated) to the provision of the connection and the service levels required to maintain supply at the connection.

Non-Standard Contracts	No. of Customers	Revenue 2013/14	Revenue 2014/15	2014/15 - % of Target Revenue earned from Key Pricing Components		
		\$m	\$m	Assets	Network	Transmission
Total	9	\$ 4.9	\$ 5.0	66%	12%	21%

Table 8: Non-Standard Contract Statistics

Shared network and transmission costs are recovered as per standard contracts. Typically a non-standard contract consumer will require a capacity over 100 kVA and may find the MUP beneficial.

The price charged for the dedicated assets will be driven by:

- An asset maintenance cost based on the costs to maintain the dedicated assets. It includes a charge based on the line length of the dedicated asset multiplied by the relevant rate per km;
- A value related cost to earn a rate of return on the Regulatory Asset Value of the dedicated assets during the regulatory return period;
- A recovery of capital cost to reflect depreciation of the asset during the contract term. The estimated value of the assets at the end of the current contract period is influenced significantly by the likelihood of the operation continuing beyond the contact period, or the assets being of value on contract expiry.

Customer related costs, depending upon the time commitment and frequency of interaction, required to maintain the contractual relationship.

3.1.1. Pricing Principles alignment

The non-standard contract methodology aligns with the Pricing Principles in that:

- It prices on the basis of being subsidy free (equal to or greater than incremental costs, and less than or equal to standalone costs);
- It has regard to the level of available service capacity;
- Prices are set with regard to consumers' demand responsiveness.

Prices are responsive to the requirements and circumstances of stakeholders in order to discourage uneconomic bypass.

3.2. Supply obligation

There is no specific obligation that would increase the supply obligation in any non-standard contract. However, an increased level of service is implicit when dedicated assets are installed as part of the infrastructure requirements.

4. Distributed Generation Pricing Methodology

Prices charged and payments made to Generators on TLC's network are in accordance to the intent of Part 6: Connection of Distributed Generation of the Electricity Industry Participation Code 2010 and the pricing principles outlined in that document. The code has different regulations for injection less than and greater than 10 kW.

4.1. Distributed Generation Charges

Distributed Generators, at point of connection, may be charged a:

- Network Charge based on capacity requirements;
- Dedicated Asset charge based on recovery of investment and related costs;
- An administration charge to cover costs associated with calculation of ACOT payments, general account maintenance, and engineering and other technical costs that relate to distributed generation generally and for specific installations.

4.2. Distributed Generation Payments

Generators may receive payment for the benefit they provide in avoiding transmission charges from Transpower. These ACOT payments are recovered from the interconnection portion of transmission charges made to all customers on TLC's network. Where possible the calculation of this benefit is dependent upon the current methodology used by Transpower to allocate their interconnection charges. Currently, the benefit is calculated as follows:

- The average injection by the generator at the time of each of the top 100 LNI peaks in the preceding year ending 31 August. Where negotiated, ACOT will be paid only if the generator supplies metering data to TLC in a format that can be constantly fed into TLC's network operating system;
- Adjusted by losses between the point of injection into the network and the Transpower POS;
- Multiplied by the charge, per kW, as charged by Transpower.

Appendix 1: Pricing Principles Alignment Table

Pricing Principles	Pricing Methodology Reference
(a) Prices are to signal the economic costs of service provision by:	
(i) being subsidy free (equal to or greater than incremental costs, and less than or equal to standalone costs), except where subsidies arise from compliance with legislation and/or other regulation	Section 1
(ii) having regard, to the extent practicable, to the level of available service capacity	Section 1.4
(iii) signalling, to the extent practicable, the impact of additional usage on future investment costs	
(b) Where prices based on 'efficient' incremental costs would under-recover allowed revenues, the shortfall should be made up by setting prices in a manner that has regard to consumers' demand responsiveness, to the extent practicable	Section 2.4.1
(c) Provided that prices satisfy (a) above, prices should be responsive to the requirements and circumstances of stakeholders in order to:	
(i) discourage uneconomic bypass	Section 3
(ii) allow for negotiation to better reflect the economic value of services and enable stakeholders to make price / quality trade-offs or non-standard arrangements for services	Section 1.1 , Section 2.2 , Section 3
(iii) where network economics warrant, and to the extent practicable, encourage investment in transmission and distribution alternatives and technology innovation	Section 4
(d) Development of prices should be transparent, promote price stability and certainty for stakeholders, and changes to prices should have regard to the impact to stakeholders	Section 1.4
(e) Development of prices should have regard to the impact of transaction costs on retailers, consumers and other stakeholders and should be economically equivalent across retailers	n/a

Appendix 2: Information Disclosure Guidelines Alignment Table

Information Disclosure Guidelines	Pricing Methodology Reference
(a) Prices should be based on a well-defined, clearly explained and published methodology, with any material revisions to the methodology notified and clearly marked	
(b) The pricing methodology disclosed should demonstrate:	
(i) How the methodology links to the pricing principles and any non-compliance	refer; Alignment table
(ii) The rationale for consumer groupings and the method for determining the allocation of consumers to the consumer groupings	Section 2.2
(iii) Quantification of key components of costs and revenues	Section 2
(iv) An explanation of the cost allocation methodology and the rationale for the allocation to each consumer grouping	Section 2.3
(v) An explanation of the derivation of the tariffs to be charged to each consumer group and the rationale for the tariff design	Section 2.4
(vi) Pricing arrangements that will be used to share the value of any deferral of investment in distribution and transmission assets, with the investors in alternatives such as distributed generation or load management, where alternatives are practicable and where network economics warrant.	Section 2.4 , Section 4
(c) The pricing methodology should:	
(i) Employ industry standard terminology, where possible	Abbreviations
(ii) Where a change to the previous pricing methodology is implemented, describe the impact on consumer classes and the transition to introduce the new methodology	Section 1.3

Appendix 3: Information Disclosure Determination 2012 Alignment Table

Information Disclosure Determination 2012 requirements	Price Methodology Reference
<p>Section 2.4.1 Every EDB must publically disclose, before the start of each pricing year, a pricing methodology which-</p> <p>(4) Explains whether, and if so how, the EDB has sought the views of consumers, including their expectations in terms of price and quality, and reflected those views in calculating the prices payable or to be payable. If the EDB has not sought the views of consumers, the reasons for not doing so must be disclosed.</p>	Section 1.1
<p>Section 2.4.3 Every disclosure under clause 2.4.1 above must-</p>	
<p>(1) Include sufficient information and commentary to enable interested persons to understand how prices were set for each consumer group, including the assumptions and statistics used to determine prices for each consumer group</p>	Section 2.3
<p>(2) Demonstrate the extent to which the pricing methodology is consistent with the pricing principles and explain the reasons for any inconsistency between the pricing methodology and the pricing principles</p>	refer Alignment table
<p>(3) State the target revenue expected to be collected for the disclosure year to which the pricing methodology applies</p>	Section 2.4, Section 3
<p>(4) Where applicable, identify the key components of target revenue required to cover the costs and return on investment associated with the EDB's provision of electricity lines services. Disclosure must include the numerical value of each of the components</p>	Section 2.1
<p>(5) State the consumer groups for whom the prices have been set, and describe -</p> <p>(a) the rationale for grouping consumers in this way</p> <p>(b) the method and the criteria used by the EDB to allocate consumers to each of the consumer groups</p>	Section 2.2
<p>(6) If prices have changed from prices disclosed for the immediately preceding disclosure year, explain the reasons for changes, and quantify the difference in respect of each of those reasons</p>	Section 2.4.6
<p>(7) Where applicable, describe the method used by the EDB to allocate the target revenue among consumer groups, including the numerical values of the target revenue allocated to each consumer group, and the rationale for allocating it in this way</p>	Section 2.3
<p>(8) State the proportion of target revenue (if applicable) that is collected through each price component as publicly disclosed under clause 2.4.18</p>	Section 2.4, Section 3

Appendix 3: Information Disclosure Determination 2012 Alignment Table (continued)

Information Disclosure Determination 2012 requirements	Price Methodology Reference
<p>Section 2.4.4 Every disclosure under clause 2.4.1 above must, if the EDB has a pricing strategy -</p> <p>(1) Explain the pricing strategy for the next 5 disclosure years (or as close to 5 years as the pricing strategy allows), including the current disclosure year for which prices are set</p> <p>(2) Explain how and why prices for each consumer group are expected to change as a result of the pricing strategy</p> <p>(3) If the pricing strategy has changed from the preceding disclosure year, identify the changes and explain the reasons for the changes</p>	<p>Section 1.4</p>
<p>Section 2.4.5 Every disclosure under clause 2.4.1 above must-</p> <p>(1) Describe the approach to setting prices for non-standard contracts, including-</p> <p>(a) the extent of non-standard contract use, including the number of ICPs represented by non-standard contracts and the value of target revenue expected to be collected from consumers subject to non-standard contracts</p> <p>(b) how the EDB determines whether to use a non-standard contract, including any criteria used</p> <p>(c) any specific criteria or methodology used for determining prices for consumers subject to non-standard contracts and the extent to which these criteria or that methodology are consistent with the pricing principles.</p>	<p>Section 3</p>
<p>(2) Describe the EDB's obligations and responsibilities (if any) to consumers subject to non-standard contracts in the event that the supply of electricity lines services to the consumer is interrupted. This description must explain-</p> <p>(a) the extent of the differences in the relevant terms between standard contracts and non- standard contracts</p> <p>(b) any implications of this approach for determining prices subject to non-standard contracts</p>	<p>Section 3.3</p>
<p>(3) Describe the EDB's approach to developing prices for electricity distribution services provided to consumers that own distributed generation, including any payments made by the EDB to the owner of any distributed generation, and including the-</p> <p>(a) prices; and</p> <p>(b) value, structure and rationale for any payments to the owner of the distributed generation.</p>	<p>Section 4</p>

Director's Certification - Schedule 17

Schedule 17 Certification for Year-beginning Disclosures

In accordance with Clause 2.9.1 of section 2.9 of NZCC 22 Electricity Industry Information Disclosure Regulations:

We, Angus Malcolm DON and Arthur Patrick MULDOON, being directors of The Lines Company Limited certify that, having made all reasonable enquiry, to the best of our knowledge:

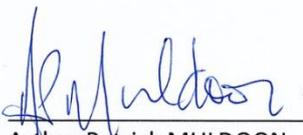
- a) The following attached information of The Lines Company Limited prepared for the purposes of clause 2.4.1, clause 2.6.1 and subclauses 2.6.3(4) and 2.6.5(3) of the Electricity Distribution Information Disclosure Determination 2012, in all material respects complies with that determination.
- b) 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.

27 MARCH 2014
Date



Angus Malcolm DON
Chairman

27 MARCH 2014
Date



Arthur Patrick MULDOON
Director

- The disclosure of this document is in accordance with Section 2.4.1 of the Information Disclosure Determination 2012.
- The development of this methodology is in alignment with the Pricing Principles developed by the Electricity Authority, in accordance with statutory objectives defined in the Electricity Industries Act 2010.
- The Pricing Methodology employed by The Lines Company Limited recovers regulated income under the Default Price Quality Path as prescribed by Commerce Commission Input Methodology Determination 2012.
- The disclosure year is 1 April 2014 to 31 March 2015.