Overall Rating 3.2/5

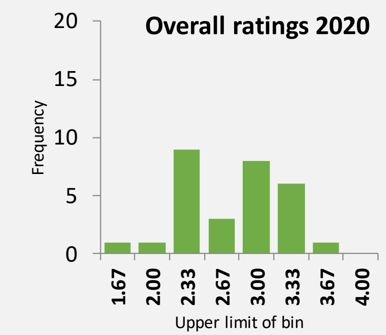
Distribution pricing principles - Scorecard 2020: **The Lines Company**

Summary

Current State	Strategy	Outcomes

Status - detail

Circumstance	Strategy	Efficiency
Principles	Roadmap	Consumer impact



Current State

- Useful context. Sparse and topographically challenging network. Substantial investment planned to alleviate security constraints (affecting 30% of connections) and address growth driven by major customer projects.
- Summarises journey to TOU-based pricing, said to be simpler to understand as well as to better manage the need for future network investments.
- Prices vary according to time of use, connection density, capacity, customer type, controllable load, and peak demand (for major customers).

Strategy

- No firm strategy in place, given TPM and LFC reviews, but articulates principles. Seems reasonable for an economically small network to focus on bedding down its significant change to TOU pricing over past years.
- Roadmap identifies useful work for incremental improvement to cost allocation and price signals over limited horizon of the next year or so.

Outcomes

- Among the few distributors that were relatively explicit on how price levels were set. Clear reasons for TOU, but unclear if TOU rates are efficient.
- Transition to new pricing and recent adjustments reflect work to understand impacts and managing change.

Key messages

- TLC has usefully provided explicit responses to pricing-related points raised by the EA (including providing a roadmap and plan to update the pricing model).
- Its pricing structure has good features; opportunities to improve efficiency are:
    - The peak time rate is aligned with LRMC. Would be useful to clarify if this signal is proportionate to the economic cost of use at peak for the 30% of connections in the security constrained part of network, or the the other 70%. of connections .(Peak prices based on LRMC are not necessarily efficient.)
    - Last year, fixed charges made up 23% of revenue which is relatively low. This year TLC reduced the fixed charges for general, temporary accommodation and dairy connections, to smooth the bill impact in the transition from demand to TOU prices. Lower revenue from fixed charges indicates less efficient (more distortionary) revenue recovery.
- There may be scope to tighten the basis for cost allocation. For example, overheads might be better allocated by ICP say (as for customer costs).

For scoring, see practice note and methodology at https://www.ea.govt.nz/operations/distribution/pricing/