Overall Rating 3.5/5

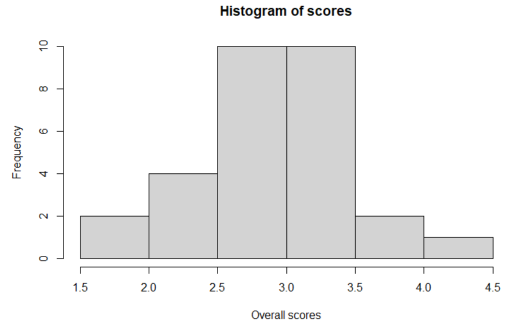
Distribution pricing principles – Scorecard 2021: The Lines Co

Summary

Current state	Strategy	Outcomes

Status-detail

Circumstance	Strategy	Efficiency
Principles	Roadmap	Consumer impact



Current state

- Sets out relevant context that flows through to pricing design: a mix of low and high density areas, a significant share of connections for holiday houses, and security constraints affecting 30% of connections.
- In discussing alignment with pricing principles TLC gives the economic basis for the peak time price (LRMC) and that administrative considerations for now outweigh the cost of having this same signal in areas of the network that may not need it.

Strategy

- With the transition to TOU pricing seen as complete, TLC's next stage is to reduce reliance on variable charges, particularly when LFC regulations are changed.
- Strategy section and static roadmap (20/21) reflects this next stage. The roadmap could map out and report on background work being done.

Outcome

- TLC has a clear rationale for having a peak time price and how it is set, and is aware of the risks of this signal in unconstrained areas. Reliance on variable prices for revenue recovery indicates there is still room for efficiency improvements.
- Strong focus on managing customer impacts of pricing reforms is apparent – e.g. modelling impacts, customer clinics, transitional arrangements, and (in response to feedback) temporarily reducing fixed charges to smooth the transition to TOU pricing.

Key messages

- TLC's pricing structure provides a good basis for ongoing refinement:
  - TLC states its peak time rate is aligned with LRMC, and so an appropriate signal for the 30% of connections in the security constrained part of network. It would be useful to foreshadow how signals may change once constraints are addressed.
  - Fixed charges' share of 28% of revenue remains relatively low. We understand why and that the plan is to increase the share over time. TLC could usefully map the trajectory for those not affected by LFC regulations.
  - Demand-based pricing for major customers. It would be useful for TLC to explain how demand and fixed like charges are aligned with signalling economic costs and recovery of remaining revenue.
- TLC explained why it has not acted on our observation last year that there may be scope to tighten the basis for cost allocation of overheads. The explanation seems reasonable.

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

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