



Pricing Methodology

1 April 2023

Pursuant to Electricity Distribution Information Disclosure Determination 2012

Contents

1. INTRODUCTION	3
1.1 OVERVIEW OF MLL	3
1.2 PRICING CHANGES FOR DISCLOSURE YEAR 2024	5
1.3 PRICING METHODOLOGY	6
2. CONSUMER ENGAGEMENT	6
2.1 DY23 ANNUAL CUSTOMER SATISFACTION SURVEY	6
2.2 DISTRIBUTION PRICING SURVEY	7
2.3 FURTHER CONSUMER ENGAGEMENT	7
2.4 ELECTRICITY RETAILER CONSULTATION	7
3. CONSUMER GROUPS	7
4. FORECAST REGULATORY COSTS	9
4.1 DY24 REGULATORY COSTS AND ALLOCATION METHODOLOGIES	9
4.2 NETWORK STATISTICS BY CONSUMER GROUP	12
4.3 ALLOCATED REGULATORY COSTS DY24	13
5. PRICE SETTING CONSIDERATIONS	14
5.1 PRICES OVERVIEW	14
5.2 PRICING REGIONS	14
5.3 PRICE SIGNALLING	15
6. TARGET (FORECAST) REVENUE FROM PRICES	17
6.1 TARGET REVENUE OVERVIEW	17
6.2 NON-STANDARD CONTRACTS	18
7. DISTRIBUTION PRICING ROADMAP (STRATEGY)	18
7.1 PRICING TO ALLOW AN APPROPRIATE COMMERCIAL RETURN	19
7.2 MOVE TOWARDS MORE COST REFLECTIVE PRICING	20
7.3 PRICING REFORM TIMELINE (INDICATIVE)	22
APPENDIX 1 – INFORMATION DISCLOSURE REQUIREMENTS	24
APPENDIX 2 – CONSISTENCY WITH PRICING PRINCIPLES	26
APPENDIX 3 – TARGET REVENUE BY PRICE COMPONENT	30
APPENDIX 4: METHODOLOGY FOR PASS THROUGH OF TRANSPower SETTLEMENT RESIDUAL REBATES	31
APPENDIX 4 – COPY OF DIRECTORS’ CERTIFICATION	32

1. Introduction

1.1 Overview of MLL

1.1.1 Ownership structure and regulatory regime

Marlborough Lines Limited (MLL) is the electricity distribution business (EDB) connecting more than 26,500 consumers across the Marlborough region. It is owned by the Marlborough Electric Power Trust (MEPT), which holds shares on behalf of the consumers connected to MLL's network. The MEPT has six elected trustees, with elections held biennially.

MLL meets the criteria specified for a consumer owned EDB, under Part 4 of the Commerce Act 1986 and as a result is not regulated by the Commerce Commission's default price-quality path (DPP) provisions. MLL is, however, required to comply with other regulations, including the Commerce Commission's Information Disclosure (ID) regime.

The Electricity Authority also has regulatory oversight of the electricity industry. It also sets out several requirements for EDBs.

1.1.2 MLL's business structure

MLL has its own inhouse electrical contracting capability to undertake capital and operational (maintenance) work, primarily for the network but also for other local customers. MLL has approximately 165 staff across both the network office and the contracting depot, both of which are in Blenheim.

Outside of its core business, MLL has invested in other companies both within the distribution sector and outside of the electricity industry. MLL owns 50% of Nelson Electricity Limited, the EDB supplying consumers in urban Nelson, and 100% of Yealands Wine Group Limited, a grape growing and wine producing business located primarily in Marlborough.

1.1.3 Network characteristics

MLL's network has a particularly extensive 33kV (sub-transmission) network (owing to the single Transpower grid exit point (GXP), located in Blenheim), connecting 16 zone substations. In total there is approximately 3,400km of overhead lines and underground cables. Lines typically radiate out (there is some meshing in urban areas) to supply most areas of Marlborough. Significant extents of MLL's network is in remote and rugged areas, including the outer Marlborough Sounds, upper Wairau, Waihopai and Awatere Valleys, the southern extent of Marlborough's East Coast and its inland valleys, such as the Clarence Valley.

These areas are very sparsely populated¹, and as a result, MLL has many connections where the cost to supply these connections greatly exceeds the revenue received from them. Electrical infrastructure supplying these areas was typically constructed in the 1960s and 1970s under grant funding from the Rural Electrical Reticulation Council. Many of the connections in these areas are holiday homes, where there is typically very low occupancy rates and consequently low electricity consumption.

¹ Across the network, there are on average 7.5 ICPs/km of line. In the remote areas, 1 to 2 ICPs/km of line is not uncommon.

The urban areas of the network (including their immediate surrounds) are typified by domestic premises, small to medium businesses, and large commercial and industrial consumers. The latter are concentrated at the Cloudy Bay and Riverlands industrial estates, and other wineries around the outskirts of Blenheim.

A significant number of irrigation consumers are connected to the network. These typically supply irrigation and/or storage water for irrigation or other agricultural/horticultural purposes.

Further information on MLL's network (including demand forecasting and network capacity) is included in the Asset Management Plan, available on MLL's website².

1.1.4 Electricity retailers (traders)

MLL has an interposed relationship with the consumers connected to its network, i.e. the contractual relationship to deliver services is through the energy retailers trading on the network. As such, MLL does not have a direct contractual relationship with the consumers connected to its network.

As at March 2023, there are 23 electricity retailer brands trading on MLL's network. MLL has an agreement in place with each of these retailers (noting that some retailers have multiple brands).

1.1.5 Consumer connections

Of the more than 26,500 consumers connected to the network, the vast majority are domestic premises (residential connections). Table 2 includes a breakdown of consumer connection numbers on MLL's network.

In addition to these (predominantly) load connections, there are several medium scale distributed generation connections on MLL's network, including:

- Weld Cone wind farm: Three 250kW wind turbines (0.75MW generation)
- Lulworth wind farm: Four 250kW wind turbines (1.0MW generation)
- Dominion Salt Limited's wind turbine: single 660kW turbine; and
- Kea Energy's Wairau Valley solar farm: generation of up to 1.85MW.

MLL's experience to date with distributed generation connection applications is that they involve considerable work on MLL's part in providing information requested by the applicant, and significant resource to review the application and its potential impacts on MLL's network (and potentially, existing consumers connected to the network). MLL is fielding an increasing number of distributed generation enquiries, many for larger sized connections than those listed above.

In addition to the above, Trustpower's Waihopai hydro power station generates up to 2.4MW and is connected to MLL's 33kV network in the Waihopai Valley.

1.1.6 Annual discount payment

To recognise the benefits of being community trust owned, MLL makes an annual discount payment (posted) from its line ownership and operations to eligible consumers connected to its

² <https://www.marlboroughlines.co.nz/About-us/Disclosures/Asset-Management.aspx>

network. Applicable discount payment rates for eligible price plans are included in MLL's line delivery price schedule.³

In accordance with the Electricity Industry Act 2010, MLL, as a community trust owned EDB, must apply income distributions (i.e. the discount payment) to at least 90% of its beneficiaries.

The amount of the discount payment for each consumer is dependent on the type of connection (i.e. price plan the consumer is on) and the amount of energy consumed over the qualifying discount period. The discount payment is funded from MLL's return on investment (ROI) – refer to section 4.1.5 for further detail.

The discount payment rate set for most applicable price plans is approximately 20%.

1.2 Pricing changes for Disclosure Year 2024

Price changes become effective for disclosure year 2024 (DY24), from 1 April 2023. The most recent pricing changes prior to this took effect on 1 April 2022.

Key price changes being introduced for DY24 include:

- An increase to primarily the fixed price components for most consumer groups.
- Introduction of new price categories Residential and General Extreme Remote.
- Reintroduction of a charge for small scale distributed generation (\$0.0050/kWh for energy injected into MLL's network) to cover incremental costs MLL is incurring in relation to distributed generation.
- Change to transmission pricing methodology and the passing through of transmission charges incurred by MLL to consumer groups.

A full copy of the line delivery price schedule applying from 1 April 2023 is available on the pricing page of MLL's website. The schedule includes changes from DY23 prices, as well as what components of the line delivery price are attributable to distribution and transmission components.

1.2.1 Reasons for price changes

The DY24 price changes have been made to apply more effective price signalling and are set to recover sufficient revenue to meet increased forecast costs for DY24.

Line delivery prices have been set to target revenue of \$50.4m for DY24 (up from \$46.6m, or 8.0%, from DY23), which is based on applying proposed prices to forecast connections and electricity consumption and demands across the DY24 year. For distribution pricing only (excluding transmission), the actual increase in prices on a per ICP (all groups) basis, adjusting for the 366th day, is 7.8%.

³ Available at <https://www.marlboroughlines.co.nz/About-us/Disclosures/Pricing.aspx>

1.3 Pricing Methodology

This pricing methodology provides detail on MLL’s pricing structure, regulatory costs and allocation of costs to consumer groups, as well as the forecast revenue to be recovered from consumers.

MLL considers this pricing methodology to meet the requirements of ID, while giving due consideration to the Electricity Authority’s pricing principles. For reference and completeness, these are included in Appendix 1 – Information Disclosure Requirements and Appendix 2 – Consistency with Pricing Principles respectively.

Two separately published documents⁴ should be read in conjunction with this pricing methodology:

- MLL’s line delivery price schedule, which comprises a schedule of all prices for the various consumer groups and price plans, including a breakdown of distribution and transmission components, as well as applicable discount payment rates for the pricing year, and, the prior year’s (DY23) line delivery prices for comparative purposes.
- MLL’s line delivery price guidelines. The guidelines provide detail on the various consumer groups, respective qualification criteria, and a breakdown of the prices for each consumer group.

2. Consumer engagement

MLL undertakes regular consumer satisfaction surveys, to assess consumers’ views on MLL’s performance. The most recent consumer satisfaction survey was undertaken in August 2022 and included distribution pricing specific questions.

Separately, in December 2019, MLL conducted a distribution pricing survey of consumers connected to its network.

2.1 DY23 Annual Customer Satisfaction Survey

MLL undertook an annual customer satisfaction survey in August 2022. The survey was emailed out to approximately 16,000 consumers⁵. MLL received 2,574 survey responses, a 16.1% response rate with those responding providing a very representative sample of MLL’s consumers by type and location.

With respect to survey questions that were specific to distribution pricing:

- 60% of respondents responded that MLL’s (distribution) price component (29% for an average domestic consumer) was fair (down 1% from the August 2021 survey).
- This compared with 38% (35% in 2021) of respondents who considered that the overall price of their monthly electricity bill was fair.
- Nearly three quarters (74%, no change from 2021) of respondents thought that the prices should remain the same for the same amount of power outages as they are currently experiencing.

⁴ Available on MLL’s website at <https://www.marlboroughlines.co.nz/pricing>

⁵ Not all electricity retailers permitted MLL emailing the survey to their customers.

- With respect to location-based pricing⁶, nearly two thirds (61%) of respondents believed that remote consumers that cost more to maintain supply to should somewhat or completely pay the full cost of maintaining those supplies.

Similar to the December 2019 distribution pricing survey, the August 2021 and August 2022 surveys demonstrate that MLL is actively seeking consumers views on MLL’s distribution pricing, and that consumers are broadly satisfied with MLL’s distribution pricing and are supportive of MLL’s distribution pricing strategy.

2.2 Distribution pricing survey

The purpose of the survey, undertaken in December 2019, was to:

- Help MLL better understand the level of interest consumers had with respect to distribution pricing, and their understanding of it; and
- Assess whether the current pricing structure and prices were appropriate from consumers’ perspective, and whether there was a demand for a change to the existing pricing structure.

The results of this survey were set out in detail in the DY22 Pricing Methodology. The survey responses confirmed that generally those consumers that responded were satisfied with MLL’s approach to distribution pricing (both structure and prices). MLL has not undertaken a distribution pricing specific survey since December 2019, instead, questions pertinent to distribution pricing are included in the Annual Customer Satisfaction Survey.

2.3 Further consumer engagement

MLL has continued to actively engage with its Commercial and Industrial consumers throughout DY23. Engagement has focused on communicating changes to the transmission pricing methodology (and transmission charge pass through by MLL) and further understanding current and future electricity requirements of these consumers. MLL recognises the importance of understanding large changes in demand and any potential future network implications arising from this. This also provided consumers the opportunity to discuss distribution pricing.

MLL will continue its ongoing engagement with the larger Commercial and Industrial (and other) consumers and offer those consumers the opportunity to discuss MLL’s transmission and distribution pricing.

2.4 Electricity Retailer consultation

During December 2022, MLL notified electricity retailers trading on its network of the proposed transmission and distribution price changes for DY24. MLL asked retailers to provide any feedback prior to MLL finalising its pricing by the end of January 2023. MLL did not receive any specific feedback from electricity retailers.

3. Consumer groups

Typical of other EDBs, MLL separates consumers into the following consumer groups:

⁶ Note that in this context, location-based pricing is location on the network (distance) from MLL’s single Transpower GXP

- Residential – those consumers that meet the definition of ‘domestic premises’ in relevant legislation;
- Residential (low fixed charge) – those consumers defined as ‘domestic premises’ in the Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004 (LFC regulations), who consume <8,000kWh per annum and that meet other eligibility criteria (ministerial exemptions), including:
 - Not being supplied by three phases;
 - Not being supplied with capacity >15kVA;
 - Not located in areas deemed remote on MLL’s network⁷; and/or
 - Not being a home that is serviced by a single line that serves few homes and no other significant electricity consumers.
- General – generally those consumers that do not meet criteria for other consumers groups. These are typically small to medium businesses, but may also be residential dwellings used for commercial accommodation purposes;
- Commercial and Industrial – those consumers with installed capacity greater than 150kVA;
- Irrigation – consumers where connections are primarily to supply pumps for water supply, irrigation or storage;
- Unmetered – connections where metering is not installed to measure the volume of energy consumed (due to its low volume and as it is cost prohibitive); and
- Streetlights – connections supplying private or utility owned street lights.

These consumer groups are common throughout most EDB’s across New Zealand and have been the basis of MLL’s pricing structure for many years.

Ambiguity can exist, particularly between the residential and general consumer groups. This is particularly the case for holiday homes (of which there are many connected on MLL’s network, particularly in the Marlborough Sounds), residential dwellings that are used to house workers, and residential dwellings that are used primarily as a place of residence but from which also a small business operates (and/or a bedroom is let out through ‘AirBnB’ for example).

In DY21, MLL separated its Residential group consumers into remote vs non-remote. For DY22 and DY23, MLL increased prices for these remote residential consumers relative to the non-remote equivalents. In DY23, MLL separated its General group consumers into remote vs non-remote. Most of the remote General consumers use relatively low amounts of electricity compared to their non-remote equivalents, and the cost of supplying these connections, like Residential remote connections, is significantly higher.

For DY24, MLL has added an additional price category for both the residential and general consumer groups for those connections located in extremely remote areas.

The method and way in which consumers are allocated to respective consumer groups is set out in MLL’s Line Delivery Price Guidelines⁸.

⁷ A map showing remote areas is included on MLL’s website’s pricing page <https://www.marlboroughlines.co.nz/pricing>

⁸ Available at <https://www.marlboroughlines.co.nz/About-us/Disclosures/Pricing.aspx>

4. Forecast regulatory costs

4.1 DY24 regulatory costs and allocation methodologies

MLL's forecast regulatory costs for DY24 are set out in Table 1. Further detail on these regulatory costs is provided in the sub-sections that follow. It should be noted that these costs are generally fixed in nature, and very little of MLL's forecast expenditure relates to investing in capacity upgrades to meet consumers' electricity demand, i.e., MLL's network is generally not experiencing capacity constraints.

Table 1 – Summary of forecast regulatory costs for DY24

Cost component	DY2024 (\$m)	DY2023 (\$m)	Allocation basis
Transmission (interconnection RCPD)	0	5.9	Contribution to RCPD
Transmission (connection and new investment)	0	0.9	Share of assets
Transmission (residual charges)	3.9	0	kWh/AMD
Transmission (connection charges) ⁹	0.8	0	AMD
Transmission (benefit-based charges)	1.3	0	kWh
Levies and Rates	0.3	0.2	ICPs
Network operations, support and maintenance	14.1	12.0	Share of assets
Business support	5.0	4.9	MWh/ICP
Depreciation	10.6	9.6	Share of assets
Taxation	2.4	2.2	Revenue
Return on investment	12.5	11.6	Share of assets
TOTAL*	50.9	47.3	-

* These are deemed the total regulatory costs to recover through miscellaneous regulatory revenue and line delivery price revenue.

4.1.1 Transmission costs

DY24 will be the first year under Transpower's new Transmission Pricing Methodology (TPM). Transmission costs incurred by MLL are now comprised of residual, connection (including investment contracts), and benefit-based charges. The following sub-sections provide further information on these charge types and how these charges have been allocated to MLL's consumer groups

4.1.1.1 Residual charges

The Residual charge is the most significant transmission charge component and is \$3.9m for DY24. The below sets out how the residual charge is allocated to MLL, and then how MLL allocates the charge to consumer groups.

The Anytime Maximum Demand Residual (AMDR) baseline amount is calculated based on the annual highest half hourly AMD values from 1 July 2014 to 30 June 2018. The Average Total Gross Energy (ATGE, in kWh) baseline is calculated for the same period. The Lagged Average Total Gross Energy (LATGE) for 2023 pricing year is then calculated, with the Residual Charge Adjustment

⁹ Includes investment contract and transitional cap charges

Factor (RCAF) determined from LATGE (2023)¹⁰ divided by the ATGE baseline. The RCAF is then multiplied by the AMDR baseline value to derive MLL's AMDR for 2023.

MLL considers the average consumption by consumer groups for the corresponding periods above (to mimic the TPM charge as much as possible) to determine their own AMDR baseline values. The equivalent ATGE and LATGE values for each consumer group are also used, to determine RCAF values. These are applied to the assessed consumer group AMDR baseline value to get the AMDR (2023) value, and the residual charge is apportioned to each consumer group based on their respective AMDR (2023) values of the total AMDR.

These charges per consumer group are then allocated to each price category within the consumer group based on their share of total consumption (kWh) over a 12-month period which will be from 1 September to 31 August the year following.

4.1.1.2 Connection and new investment charges

The connection and new investment charges (and approximately \$19k of transitional cap charges) for DY24 total \$0.81m. These charges are allocated to consumer groups based on their AMD. Transpower allocates MLL's transmission connection charge based on the single highest kW peak occurring anytime in the twelve-month period from 1 September to 31 August (from the year prior to the applicable pricing year), known as the Capacity Measurement Period (CMP).

MLL allocates to consumers groups based on an assessed AMD (based on kWh of consumption from the months in which the 12 highest AMD demands occurred), with the exception of the Commercial and Industrial group where their contribution to the AMD amount is known from time of use (half hourly) metering.

MLL then applies to consumer price categories based on their respective contribution towards total consumption, and for Commercial Industrial consumers, their allocation is based on the average of their monthly maximum demands (each month's maximum are themselves the average of the six highest half hourly kW demands) for the equivalent CMP.

4.1.1.3 Benefit based charges

Benefit based charges include MLL's allocation by Transpower of its benefit-based investments (BBIs), which are investments in interconnection assets, replacement and refurbishing of existing interconnection assets or investments in transmission alternatives that avoid or defer the need to invest in interconnection assets, and are separated out into:

- Appendix A charges (historic (pre-2019) benefit-based investments): \$839k to MLL for DY24;
- the Simple Method charges (for post-2019 low value (<\$20m) benefit-based investments): \$426k to MLL for DY24; and
- the Standard Method charges (which covers high value (>\$20m) post-2019 benefit-based investments, for DY24 this covers the Clutha Upper Waitaki Lines Project): \$36k to MLL for DY24.

¹⁰ LATGE (2023) considers the four-year period 1 July 2015 to 30 June 2019. For DY2025, the LATGE (2024) value will consider the four-year period 1 July 2016 to 30 June 2020 against the fixed AMDR baseline value. This will result in a different RCAF value, and a change in the residual charge attributed to MLL.

MLL has allocated these charges to consumers groups based on their consumption (kWh) for the corresponding periods through which Transpower has allocated each charge:

- Appendix A – annual average consumption from 1 July 2014 to 30 June 2018).
- Simple Method – annual average consumption from 1 September 2017 to 31 August 2022.
- Standard Method – annual average consumption from 1 September 2014 to 31 August 2019.

MLL then allocates the respective charges to each price category based on their share of total annual consumption for the 12-month period aligning to 1 September to 31 August the year following (the most recent full 12 months prior to the pricing year for which prices are set).

4.1.1.4 Settlement residual payments

In November 2022, the Electricity Authority published a decision to amend the Code to require MLL to pass through settlement residual rebates (otherwise known as *losses and constraints excess payments*) received by Transpower to MLL’s customers (both retailers and any direct connected customers).

The Code requires that settlement residue is allocated to customers in proportion to the transmission charges that are paid by customers in respect to each network location (GXP). The locational aspect of this is not relevant to MLL as its network is only connected to one GXP.

MLL previously used the income received from settlement residual to offset forecast line delivery price revenue (i.e., MLL did not pass through the settlement residual received). MLL’s price increases for DY24 account for the settlement residual revenue that MLL will no longer retain.

4.1.2 Levies and rates

A total of \$0.3m for levies and rates has been forecast for DY24. This comprises local government rates for properties owned by MLL, and Commerce Commission, Electricity Authority, and Utilities Disputes levies.

Levy and rates costs are allocated by consumer group ICPs.

4.1.3 Network operations, support and maintenance expenditure

System operations and maintenance expenditure is forecast at \$14.1m for DY24 and includes the following sub-expenditure types¹¹:

- Service interruptions and emergencies: Works relating to unplanned instantaneous events impairing the normal operation of the network – i.e. work to rectify faults and ensure electricity supply restored.
- Vegetation management: Works involved with trimming or felling vegetation, including inspections and liaising with landowners.
- Routine and corrective maintenance and inspection: planned inspections, testing and maintenance work schedules for assets.
- Asset replacement and renewal: need to maintain network asset integrity to maintain safety, security of supply and physical security of assets.

¹¹ The operational expenditure types are in Commerce Commission’s ‘Electricity Distribution Information Disclosure 2012’.

- System operations and network support: management of the network, control room operation and office-based system operations (asset management, customers, IT, engineering, planning, asset related system management etc). comparative

As most of these costs are directly related to the assets servicing consumers, these costs have been allocated based on each consumer groups' share of network assets.

4.1.4 Business support expenditure

Business support activities, such as commercial, legal, finance, property and human resource related work (commonly referred to as administration and overhead costs) are related to MLL's servicing of all consumers and other company obligations. These shared costs are not directly attributable to any consumer group, or consumer. As such, the number of ICPs and volume of energy consumed has been combined for a cost allocator for business support costs. The forecast business support expenditure for DY24 is \$5.0m.

4.1.5 Depreciation, taxation and return on investment

The depreciation expense (\$10.6m) relates to the annual estimated amount incurred, based on MLL's regulatory asset base. The taxation expense (\$2.4m) has been determined from the estimated revenue.

MLL has historically targeted an RoI lower than the weighted average cost of capital (WACC) rate determined by the Commerce Commission for non-exempt EDBs. DY2021 was the first year of the new five-year DPP3 period, which has a post-tax WACC at the 67th percentile of 4.23%.

This regulated WACC for DPP3 is lower than MLL's cost of capital, as MLL has zero debt and targets a 5% post-tax return on shareholders' funds (pre-discount payment). In determining the forecast regulatory RoI "cost" for DY24, MLL has factored a post-tax 5% return.

MLL's forecast DY24 pre-discount RoI is 5.4% (based on the forecast DY24 revenue), reducing to 1.7% when the forecast discount payment is allowed for. This is in line with previous years' RoI, and well below the Commerce Commission's determined WACC value for non-exempt EDBs, when assessed net of posted discounts.

MLL's approach to targeted RoI is outlined further in section 7.1.

4.2 Network statistics by consumer group

Key network statistics for each consumer group is set out in Table 2. These statistics are used to assist in the allocation of regulatory costs to consumer groups. ICPs, billed units and kWh/ICP are based on forecast amounts for DY24. Capacity provided, peak demand, regional coincident peak demand (RCPD) and assets are based on existing available information.

Table 2 – Summary of key network statistics by consumer group

Consumer group	ICPs	Assessed ADMD contribution (MW)*	MWh/ICP	Assets (%)
Residential standard	11,042	14.3	8.5	23.0
Residential remote	2,131	1.4	4.4	13.7
Residential extreme remote	86	0.1	5.0	1.6
Residential low user	9,290	15.8	5.3	12.1
General	3,180	7.8	23.3	26.1
General remote	229	0.2	8.5	5.8
General extreme remote	50	0.0	7.2	3.5
Commercial and Industrial	137	30.7	1,064.1	8.7
Irrigation	387	1.6	42.7	5.2
Other (excl. MLL)	47	0.2	26.3	0.2
TOTAL	26,579	72.2	-	100.0

* Based on MLL's 12 highest half hour peak demands from Transpower, Commercial and Industrial consumers known, the rest assessed based on weighted consumption during months when half hourly peaks occurred (April, June and July).

4.3 Allocated regulatory costs DY24

Table 3 provides a summary of the regulatory costs attributable to each consumer group based on the cost allocation methodology applied.

Table 3: Summary of costs (\$000) allocated to consumer group based on cost allocation methodologies

Cost type	Residential	Residential remote	Residential extreme remote	Residential Low	General	General remote	General extreme remote	Commercial and Industrial	Irrigation	Other (SLs and UM)	Total
Transmission (residual)	829	77	3	420	692	19	2	1,747	127	19	3,934
Transmission (connection)	180	17	1	91	142	4	0	339	29	3	805
Transmission (BBC)	314	29	1	159	284	7	1	437	61	7	1,301
Fees and levies	116	22	1	98	33	2	1	1	4	0	280
Network Ops	3,253	1,927	221	1,712	3,690	826	498	1,221	735	35	14,118
Business Support	1,638	260	11	1,189	772	34	7	942	142	12	5,007
Depreciation	2,442	1,447	166	1,285	2,770	620	374	917	552	26	10,600
Taxation Expense	621	119	8	346	519	18	6	611	93	19	2,360
RoI	2,882	1,708	195	1,517	3,269	732	442	1,082	652	31	12,510
TOTAL	12,275	5,607	606	6,817	12,172	2,262	1,331	7,298	2,394	152	50,915

5. Price setting considerations

5.1 Prices overview

Revenue is typically recovered from consumer groups through a combination of fixed and variable prices. To better reflect MLL's costs of supplying consumers, MLL for DY24 has maintained its weighting towards recovering revenue through fixed price components.

Fixed prices are generally set in \$/day/connection, with the price varying based on the capacity supplied for the connection. There will be variances between consumer groups for this (e.g. Residential vs General), as the costs of supplying consumer groups can vary.

Variable prices are set in \$/kWh of energy consumed. This is generally a flat rate and not related to the time of use (consumption). Different prices are available for controlled for uncontrolled energy, with a night only rate (a form of time of use pricing) available for residential and general consumers. For irrigation consumers, the variable prices have traditionally been higher during winter months. This is a longstanding approach by MLL signalling that winter months are typically the time of year when network demand is highest. This price differential was removed in DY23 as the drivers for this are no longer applicable. Irrigation consumers have a price differential for uncontrolled vs-controlled irrigation supplies.

For Commercial and Industrial consumers, a peak demand-based price is the most significant price component. As these consumers have time of use metering, and their electricity demand is readily available, MLL can determine their maximum demand. A lower price is available during night-time (11pm to 7am) when network demand is relatively low. This is a form of time-of-use pricing.

The setting of prices across and within consumer groups is subject to several considerations, including existing/legacy prices (price restructuring and step changes may result in price shocks for consumers, so MLL has maintained a degree of stability in the past by making incremental changes typically), pricing regions, and network capacity and demand for example.

5.2 Pricing regions

Electricity Authority pricing guidance¹² suggests that "pricing regions" are identified to recognise substantial differences in economic costs to serve. For over a decade MLL has differentiated between remote and non-remote consumers, recognising that those outer-lying (remote) consumers generally required significant costs to maintain supply. As such, MLL sought (and obtained) an exemption to these consumers being eligible for a low user price plan, and MLL has also not paid out its annual discount payment to these consumers.

This, however, is not a pricing signal and was a way in which MLL recognised that the revenue received from these consumers was insufficient to cover the regulated costs of supplying them.

From 1 April 2021, MLL introduced higher daily fixed charges to residential remote consumers to signal that MLL incurred higher fixed costs to supply them, and to reduce the cross subsidisation

¹² <https://www.ea.govt.nz/assets/dms-assets/30/Distribution-Pricing-Practice-Note-v-2.2-October-2022.pdf>

from other consumer groups. DY24 sees a further increase to remote residential consumers prices relative to non-remote equivalents.

In DY23 MLL introduced remote General consumer prices plans. Fixed prices for these consumers are higher than those of their non-remote equivalents. Like the residential remote consumers, the General remote consumers cost significantly more to supply, and they typically consume lower amounts of electricity. MLL believes that setting a higher fixed daily price (on top of shifting the balance from variable to fixed, refer below) sends a more appropriate price signal to these consumers that reflects that the cost of supplying these connections is largely due to their remote location.

Additional residential and general extreme remote price categories have been introduced for DY24 to recover greater revenue from the highest cost remote connections.

MLL does not have other consumer group types (e.g., irrigation or commercial and industrial) located in remote areas.

5.3 Price signalling

5.3.1 Fixed vs variable pricing

For DY24, MLL is generally increasing its fixed prices for consumers to better reflect the (generally) fixed cost of supplying consumers. Setting a higher fixed price better signals to consumers that MLL's costs are fixed, and that consumers electricity consumption generally does not impact on MLL's costs. This is particularly relevant in remote areas of MLL's network, where electricity consumption is relatively low.

Consumers requiring additional capacity pay more for their daily fixed charge. This signals to consumers that MLL's network costs are largely attributable to consumers capacity requirements, not consumption of electricity.

Applying higher fixed prices can also offset the potential reduction in revenue attributable to lower electricity consumption from small scale distributed generation installed on homes and businesses. Figure 1 illustrates the increased installed capacity of SSDG on MLL's network in recent years. While currently the penetration levels of SSDG are not resulting in material revenue reduction for MLL, further penetration in future could. MLL has acted to address this through materially shifting the balance of pricing from variable to fixed for DY24.

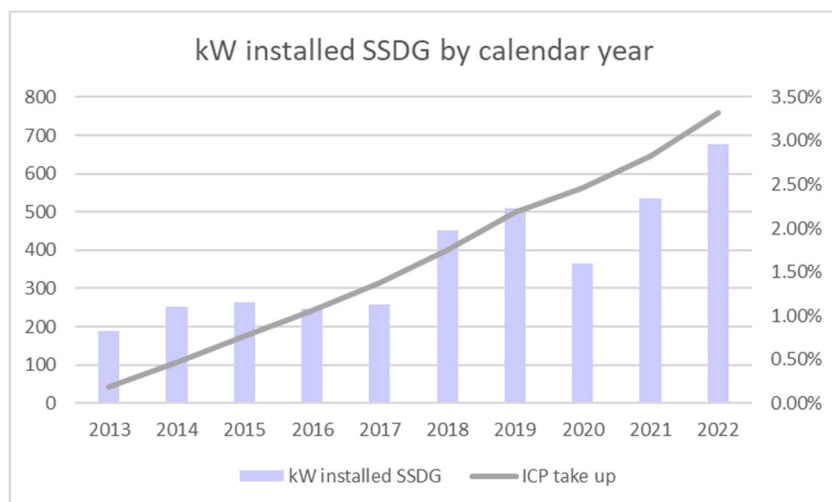


Figure 1: SSDG capacity (kW) installed by calendar year (source: EMI website)

5.3.2 Time of use pricing

MLL has existing time of use pricing for Commercial and Industrial consumers through a day and night (11pm to 7am) variable price differential. This has been in place for several years, and signals to these consumers that at times where there is relatively high availability of network capacity, that the consumer would pay less (with respect at least to MLL's line delivery prices) than during daytime hours when the network demand was relatively high.

MLL signalled in its DY23 pricing methodology that it would review the need for expanding time of use pricing to other consumer groups, such as residential and general consumers. MLL will not be applying time of use pricing to other consumer groups for DY24 but will again review this and may introduce this for DY25. MLL is not experiencing network capacity constraints in general at present, and therefore does not see the need for introducing time of use pricing for DY24. However, with changes in network demand likely in the medium to long term, MLL may introduce time of use pricing for areas of the network that become constrained and/or for specific consumer groups, if experience from other EDBs who have implemented time of use pricing shows that doing so has the desired effect of shifting consumers consumption away from peak periods.

5.3.3 Controlled vs uncontrolled energy prices

For Residential and General consumers, MLL applies a price differential for controlled vs uncontrolled energy. Controllable energy provides MLL with the ability to shed load, and by doing so, manage the peak demand on the network. MLL has generally utilised load control to manage the RCPD charge from Transpower, rather than for managing any local network constraints. However, as network demand increases over time (through general growth, industry decarbonising, and the adoption of electric vehicles), the need for load control to manage network constraints will likely become more important.

For an "average" domestic consumer, the difference (i.e., equivalent controlled units at controlled price tariff shifted to the uncontrolled price tariff) is approximately \$100 per annum. If this value was multiplied across all consumers whom use controllable load, the difference is estimated to be in the order of \$1m.

If MLL did not offer a controllable tariff, it estimates that this would add another approximately 10MW of load to the network at peak load, which could result in the need for significant network investment to provide additional capacity in affected areas.

MLL believes that the current price differential between uncontrolled and controlled energy is appropriate, as they signal to consumers that providing MLL with the ability to control load can offset the need for MLL to invest more in providing additional network capacity. However, if in future MLL's network approaches capacity constraints, then MLL will consider if there is a higher 'premium' on controllable energy and whether further price separation may be warranted.

5.3.4 Capacity increases

Where new connections require investment to provide additional network capacity (growth), increases are generally funded by the connecting consumers directly through capital contributions, or indirectly through a development contribution. The intent of this approach is

that no existing consumers connected to MLL’s network subsidise new consumers connecting to MLL’s network. This is outlined in MLL’s Capital Contributions Policy.¹³

It is widely accepted that demand on electricity networks will increase in future years through, for example, the uptake of electric vehicles (EVs). From DY23, MLL has allowed those installing EV charging points at their premises, the opportunity to connect this to a controllable meter register. In doing so, consumers that do this will be eligible for the lower priced controllable tariff (including the night only option).

MLL is signalling to consumers, that where they allow MLL to control their EV electricity demand, the consumer will pay a lesser price for electricity consumed. MLL would then have the ability manage future increases in demand on its network through the operation of load control, in the same manner which it currently does from electrical load for hot water.

6. Target (forecast) revenue from prices

6.1 Target revenue overview

Table 4 provides a summary of target (forecast) revenue vs forecast regulatory costs by consumer group for DY24. Figure 2 then shows the breakdown in revenue by price type (fixed, variable, or capacity) and by consumer group (note the distinction in fixed vs variable for the low fixed charge residential consumer group).

Table 4: Forecast target line delivery price revenue vs forecast costs by consumers group for DY2024

Consumer group	Forecast revenue (\$000)	Forecast regulatory costs (\$000)	Difference (\$000)	ICPs
Residential (excl. low fixed charge)	13,245	12,655	590	11,042
Residential remote	2,545	5,680	-3,135	2,131
Residential extreme remote	180	611	-431	86
Residential low fixed charge	7,392	7,029	363	9,290
General	11,081	12,489	-1,408	3,180
General remote	377	2,273	-1,896	229
General extreme remote	124	1,335	-1,211	50
Commercial and Industrial	13,037	7,672	5,365	137
Irrigation	1,975	2,451	-476	387
Other	396	163	233	47
Total	50,352	50,915	-563	26,579

Note that the above may not add to rounding, the figures do not allow for discount payments made to eligible consumers, that forecast miscellaneous revenue is excluded from forecast revenue above.

* Forecast revenue for Residential and Residential Remote (including Extreme) approximated based on variable revenue price components 10, 12 and 18 which are grouped across each of those consumer price plans. Similarly, for General and General remote (and Extreme).

¹³ Available on MLL’s website <https://www.marlboroughlines.co.nz/pricing>

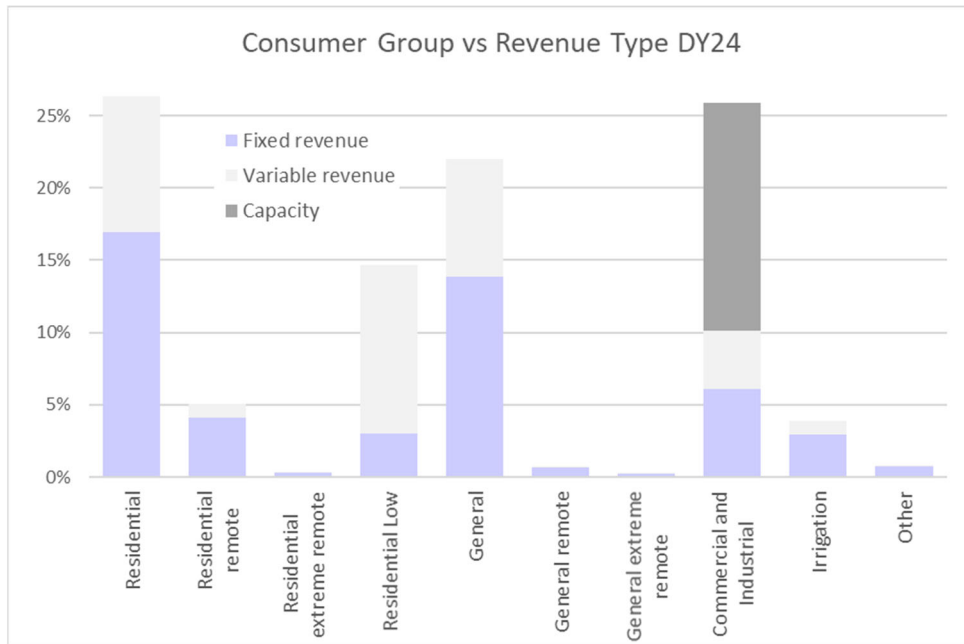


Figure 2 – Consumer group vs revenue type for DY24 forecast revenue.

In accordance with Clause 2.4.3 (8) of Information Disclosure, the proportion of target revenue forecast to be collected through each price plan included in MLL’s pricing schedule for the disclosure year, are set out in Appendix 3.

6.2 Non-standard contracts

MLL currently has one non-standard contract for the Waihopai hydropower station, which is connected to and distributes energy through MLL’s network. The price is fixed under a contract put in place in 1999 when MLL sold the generation assets to Trustpower. Price changes for each disclosure year are recalculated based on CPI data and presented to Trustpower for review.

The target revenue for DY24 is \$83,394 (excluding GST), noting that this amount will be confirmed once the final CPI rate has been determined.

MLL will consider non-standard contracts for consumers that do not readily meet the typical criteria of consumers making up the consumer groups outlined in section 3, or, if the connection is one that is deemed to be higher revenue risk to MLL, and/or that could impart significant additional cost on MLL particularly through significant network upgrades or new dedicated assets attributable to the consumer.

If another non-standard contract was to be considered, MLL would set prices following detailed financial analysis including a discounted cash flow, with due consideration of revenue risk. MLL may consider other circumstances, at its discretion.

7. Distribution Pricing Roadmap (strategy)

MLL is cognisant of the requirements for more cost reflective pricing as well as (when appropriate) sending price signals to consumers.

MLL is also aware of the Electricity Authority's request for MLL to produce a distribution pricing 'roadmap', which effectively sets out MLL's pricing strategy for relevant stakeholders, such as electricity retailers and consumers. MLL first prepared a pricing roadmap in April 2017 and provided an updated roadmap and a progress update in its Pricing Methodologies for DY22 and DY23.

This year's pricing sees a continuation of MLL's pricing reform, through:

- Applying increases in prices to the fixed price component generally to further rebalance the fixed price relative to variable for most consumer groups. MLL's costs are generally fixed for each additional unit of usage and therefore shifting the balance of pricing to fixed is more cost reflective. As a proportion of total targeted fixed revenue, DY24 has increased to 48.9% (64.6% if included Commercial and Industrial capacity-based charge) from 44.8% in DY23 (and 36.0% in DY22 when MLL first undertook a material shift to more fixed pricing).
- The costs to supply MLL's remote consumers is relatively high, both in terms of the capital (assets) required to supply these consumers as well as ongoing operational costs, such as fault and vegetation management, and maintenance inspections (particularly in single wire earth return (SWER) networks which typically are in MLL's remote areas). An example of the high costs were two separate faults that occurred on a long length of overhead line in a remote area supplying two consumers that cost over \$30,000 to restore supply (MLL received less than \$3,000 in revenue from those two consumers during DY23).

The following sub-sections provide an overview of MLL's pricing strategy, which in MLL's view, is essentially the roadmap towards continued distribution pricing reform that is appropriate for MLL and the consumers connected to its network.

The pricing roadmap (objectives and timeline summary) that was first included in the DY21 Pricing Methodology is included in Section 7.3 and has been updated to reflect the current status.

During DY24, MLL intends to undertake a more detailed review of its approach to distribution pricing, which could result in changes to pricing structure from DY25 onwards, subject to the results of the review work.

7.1 Pricing to allow an appropriate commercial return

One of the key strategic objectives of MLL's pricing is that an appropriate commercial return is made for MLL's shareholder, the Marlborough Electric Power Trust. An appropriate return is one that will consider:

- The target return on shareholder funds set in MLL's Statement of Corporate Intent;
- The pre-discount returns set by the Commerce Commission for non-exempt EDBs; and
- Smoothing across the end and beginning of five yearly regulatory periods. This is considered important to mitigate the potential for significant step changes across regulatory periods, and associated price volatility for consumers.

MLL is also duly aware of section 36 of the Energy Companies Act 1992, which requires that MLL, as an EDB, has the principal objective of operating as a successful business. MLL interprets this to mean that an appropriate return on its investment is therefore made. Making an appropriate return on its investment underpins MLL's pricing strategy.

7.2 Move towards more cost reflective pricing

MLL, subject to ongoing review of its pricing structure and prices, will continue to build on the significant reform work it has done over the last three pricing years. This will primarily be done through reducing existing inter and intra consumer group cross subsidies, and through further shifting the balance of prices from variable to fixed. MLL has made significant changes to be more cost reflective.

7.2.1 Variable to fixed (and ToU pricing)

As MLL's costs are generally fixed in nature, MLL made a material shift in its DY23 prices from variable to fixed. MLL carefully considered impacts on consumers of those price changes and has not fielded any pricing related enquiries arising from this change.

For prices to apply from 1 April 2023, for an "average" domestic consumer, the proportion of fixed revenue has increased from approximately 64.1% to 66.4% (45.3% for DY22).

Similarly, of the total targeted revenue to recover during DY24, the fixed proportion is 48.9% which is an increase from 45.2% in DY23 (36.0% in DY22). Additionally, the revenue from the Commercial and Industrial consumers' capacity-based charge is approximately 15.7% (refer to Figure 2).

MLL is limited in its ability to recover revenue through fixed prices for those consumers on the low user residential price plan. Changes to the LFC regulations from 1 April 2023 will allow MLL to recover 45c/day from those consumers, up from the 15c/day prior to the change in the LFC regulations, but still well short of the standard residential equivalent (\$1.9829/day).

7.2.1.1 ToU pricing

MLL considers that a variable price component is still appropriate, and during DY24 will further review the way in which this is applied (i.e. moving from a flat to a time (of day and/or time of year) based consumption variable price for those consumer groups where a time of use price option is not currently available (i.e., residential, general and irrigation consumers).

Many of New Zealand's 29 EDB networks have moved or are moving to ToU based pricing. As a provincial network, with minimal electric vehicle penetration, no significant network capacity constraints, and an existing effective time of use controlled night price plan as well as day/night price differentials for Commercial and Industrial consumers, MLL believes that the urgency to introduce more complete time of use pricing is currently not present and that it is better to observe outcomes from other EDBs who are implementing this pricing structure.

Of MLL's approximately 26,500 connections, approximately 70% are AMI/HHR (advanced metering/half hourly) metered with the balance non-half hourly (NHH). MLL does not actively seek to get routine metering data from retailers (or their MEPs).

7.2.1.2 Consideration for SSDG

Solar photovoltaic small-scale distributed generation (SSDG) is installed at approximately 3.3% of MLL's consumer connections as of December 2022. SSDG installations do not reduce MLL's costs of operating its business and managing the network. The reduction in electricity consumption at connections with SSDG, does reduce revenue generated from variable price

components (as revenue for variable price components directly relates to the amount of electricity consumed). Shifting the balance of fixed to variable prices will help to negate this impact, through minimising cross subsidy from consumers without SSDG to those with SSDG.

However, with a large number of consumers with SSDG installed being eligible for the low user residential price plan, MLL's ability to negate this impact is somewhat limited by the LFC regulations, as is outlined earlier in this section.

7.2.2 Location based pricing

Due to the nature of MLL's network, there are many consumers connected that are uneconomic to supply. Indeed, the variability in costs to supply an equivalent residential consumer (or other consumer type) in urban Blenheim, is vastly less than those in areas such as D'Urville Island, Forsyth Island, or the upper Wairau and Awatere Valleys.

Cost reflective pricing for MLL therefore should include an element of location-based pricing to offset the effective cross-subsidisation that occurs.

From 1 April 2021, MLL introduced a price differential between remote residential and non-remote residential consumer equivalents. In DY23, MLL introduced General remote price plans to be more cost reflective which demonstrates continued progress in greater cost reflectivity. Two new higher costs price categories – residential and general extreme remote – have been introduced for DY24 to better recover revenue for the very high costs incurred in supplying these connections.

MLL has incurred significant cost increases from boat and helicopter contractors which are regularly used to undertake works in remote areas. Following the significant flood events of July 2021 and August 2022 respectively – which resulted in significant damage to Marlborough's remote roading networks– MLL expects to see further cost increases due to additional areas of the network being even more challenging to access for the undertaking of works.

7.2.3 Transmission cost pass through

MLL will pass through transmission costs to consumer groups on the basis set out under section 4.1.1.

7.2.4 Alignment of Residential and General consumers

As part of its distribution pricing reform, MLL will further consider aligning the smaller (lesser capacity) general price plan consumers, to the equivalent residential price plans (with respect to the fixed price component).

7.2.5 Discount payments

MLL will continue to use discount payments (to eligible consumers, which excludes those in Remote areas) to demonstrate the benefits of consumer ownership. MLL intends to continue its policy of making discount payments to eligible consumers connected to its network.

For DY24, an eligible "average" domestic consumer would receive a discount payment of \$241.40 (including GST).

The amount of the discount payment received by each consumer is dependent on eligibility, the nature of the connection, the number of days connected, and, the amount of energy consumed across the qualifying discount payment period.

7.2.6 Impacts on consumers

MLL's price changes carefully consider impacts on consumers. While the minor price increases being introduced for DY24 will apply to most consumers, the largest price increases are applied to the relatively high cost and uneconomic connections in remote areas, which are a relatively small number of consumers.

7.3 Pricing reform timeline (indicative)

A summary of MLL's distribution pricing reform timeline is presented in Table 5. This includes key milestones targeted for discrete activities.

During DY24, MLL will undertake a fulsome review of its pricing structure and pricing, and subject to this review, may develop a new roadmap for further pricing reform.

Table 5: Update to DY2021 timeline for discrete distribution pricing reform activities

Objective from DY21 Pricing Methodology		Status	Comments (updated for this Pricing Methodology)
Location based pricing	1 April 2020 – Introduction of remote residential consumer price plan.	✔	Completed. Remote residential price plans introduced on 1 April 2020.
	Throughout DY2021 – undertake economic assessment of ‘remote’ consumers, including potential impacts on consumers of price changes.	✔	Completed. Analysis confirms significant under-recovery from remote consumers.
	Throughout DY2021 – formalise public strategy and communicate with consumers.	✔	Completed (but ongoing). Customer Satisfaction Surveys undertaken Aug 21 and 22. Communications to accompany DY24 price changes to explain rationale for changes in local newspapers and website.
	1 April 2021 – confirm line delivery prices for DY2022 including price changes for remote consumers.	✔	Completed (price changes notified to retailers, published to newspapers, effective from 1 April 2022.
	DY2022 to DY2024, target alignment (subject to further analysis) of remote residential prices with that of equivalent (capacity) general consumers prices.	—	Subject to further review during DY24.
	DY2025 (to be confirmed), include remote General consumer price plan as per residential consumer equivalents.	✔	Completed. General remote price plans introduced DY23, with extreme remote options added for DY24
Time of Use pricing	1 April 2021 – Commence discussions with electricity retailers regarding possibility of including time of use pricing option in pricing from 1 April 2022.	⚠	MLL is not introducing further time of use pricing in DY24 but will review this during DY24 and assess the merits of introducing this in DY25 (also based on discussions with other EDBs and their experiences implementing time of use pricing). MLL’s focus has been on addressing location-based pricing.
	Reviewing findings from other EDBs’ experiences from introducing ToU pricing.	⚠	
	Engage with consumers, pending outcomes on discussions with retailers, to further determine appetite for time of use pricing and to assist with their understanding of this pricing approach.	—	
	1 April 2022 - Introduce time of use price option for consumers (subject to above outcomes).	—	
	DY2023, monitor uptake of TOU pricing and change in consumption behaviour of consumers.	—	
	1 April 2023, adjust TOU prices if and where appropriate following monitoring/analysis work.	—	
Fixed	As and when price changes are introduced, look to adjust prices such that fixed price components increase relative to variable price components.	⚠	Price changes for DY23 included a material shift from variable to fixed prices. Further rebalancing undertaken for DY24 and will be reviewed again for DY25.

✔ Objective/milestone achieved — Yet to be actioned ⚠ Objective/milestone partially complete and further work to do.

Appendix 1 – Information Disclosure Requirements

From Electricity Distribution Information Disclosure Determination 2012 (Consolidated April 2018).

2.4 PRICING AND RELATED INFORMATION

Disclosure of pricing methodologies

2.4.1 Every EDB must publicly disclose, before the start of each disclosure year, a pricing methodology which-

- (1) Describes the methodology, in accordance with clause 2.4.3, used to calculate the prices payable or to be payable. **Refer to section 4.**
- (2) Describes any changes in prices and target revenues. **Refer to section 1.2, 4 to 6 and [MLL's line delivery price schedule](#).**
- (3) Explains, in accordance with clause 2.4.5, the approach taken with respect to pricing in non-standard contracts and distributed generation (if any). **Refer to section 6.2.**
- (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. **Refer to section 2.**

2.4.3 Every disclosure under clause 2.4.1 must-

- (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. **Refer to section 4.**
- (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. **Refer to Appendix 2 – Consistency with Pricing Principles.**
- (3) State the target revenue expected to be collected for the disclosure year to which the pricing methodology applies. **Refer to sections 1.2.1, 6 and Appendix 3 – Target revenue by price component.**
- (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 component. **Refer to sections 4 to 6.**
- (5) State the consumer groups for whom prices have been set, and describe-
 - (a) the rationale for grouping consumers in this way;
 - (b) the method and the criteria used by the EDB to allocate consumers to each of the consumer groups. **Refer to section 3.**
- (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. **Refer to section 1.2 and [MLL's line delivery price schedule](#).**

(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. **Refer to section 4.**

(8) State the proportion of target revenue (if applicable) that is collected through each price component as publicly disclosed under clause 2.4.18. **Refer to section 4, 6 and Appendix 3 – Target revenue by price component.**

2.4.4 Every disclosure under clause 2.4.1 must, if the EDB has a pricing strategy-

(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. **Refer to section 7.**

(2) Explain how and why prices for each consumer group are expected to change as a result of the pricing strategy. **Refer to section 7.**

(3) If the pricing strategy has changed from the preceding disclosure year, identify the changes and explain the reasons for the changes. **Refer to section 7.**

2.4.5 Every disclosure under clause 2.4.1 must-

(1) Describe the approach to setting prices for non-standard contracts, including-

(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 nonstandard contracts. **Refer to section 6.2.**

(b) how the EDB determines whether to use a non-standard contract, including any criteria used. **Refer to section 6.2.**

(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. **Refer to section 6.2.**

(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-

(a) the extent of the differences in the relevant terms between standard contracts and non-standard contracts; **Not applicable.**

(b) any implications of this approach for determining prices for consumers subject to non-standard contracts; **Not applicable.**

(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-

(a) prices; and

(b) value, structure and rationale for any payments to the owner of the distributed generation **Not applicable.**

Appendix 2 – Consistency with Pricing Principles

The Electricity Authority will assess the consistency of MLL’s pricing and pricing methodology with the pricing principles through the publication of their distribution pricing scorecards, as part of its drive for EDB’s to reform their distribution pricing.

In considering the pricing principles, MLL has utilised the Electricity Authority’s “Distribution Pricing: Practice Note, Second Edition, 2021”.

The following provides a summary of the distribution pricing principles and MLL’s adherence to them.

A) Prices are to signal the economic costs of service provision, including by:

- (i) being subsidy free (equal to or greater than avoidable costs, and less than or equal to standalone costs);

MLL understands that to satisfy this principle, the forecast total revenue for a consumer group should be subsidy free, i.e., fall between standalone and avoidable costs.

- Standalone costs are those that would solely be required to service any one of the consumer groups on its own (based on the network costs attributable to each consumer group as outlined in this Pricing Methodology – a non-network solution is impractical due to the spatial diversity of consumers within any consumer group); and
- Avoidable costs are estimated by considering how costs could reduce if electricity was not supplied to a consumer group.

MLL determined standalone and avoidable costs (and the subsidy free test) and provided detail in its DY22 pricing methodology referencing the Electricity Authority’s Distribution Pricing Practice Note¹⁴. MLL considered consumer group-level analysis and illustrated that the subsidy free test is satisfied, with costs for each consumer group lying within the limits of avoidable and standalone costs.

- (ii) reflecting the impacts of network use on economic costs;

MLL has price plans and pricing that reflects the impacts of network use on economic costs, including:

- Passing through of transmission charges based on allocation approach outlined in this pricing methodology;
- Lower prices for energy consumption that can be controlled by MLL;
- Night only energy consumption prices which are lower than other prices;
- Day and night price differentials for commercial and industrial consumers;
- Removal of the seasonal irrigation price differential;
- Shifting the balance of prices from variable to fixed, this better reflects the costs which are primarily fixed, and negates the potential future impact if there is higher SSDG penetration on the network;

¹⁴ <https://www.ea.govt.nz/assets/dms-assets/25/25528Distribution-Pricing-Practice-Note-August-2019.pdf>

- A power factor price to encourage consumers to manage power factor (to prevent impacts on quality of supply and to optimise network capacity); and
- Different price plans based on the installed capacity (fusing) of connections and maximum demand prices for Commercial and Industrial consumers (also for irrigation consumers relating directly to irrigation pump size). Prices increase with maximum demand to act as a price signal to consumers that increasing maximum demand results (cumulatively) in increased network costs through the provision of additional capacity.

(iii) reflecting differences in network service provided to (or by) consumers

MLL's prices allow for consumers to elect for different service provisions, including:

- The option of having hot water and now from DY23 electrical vehicle chargers connected to a controlled (lower price) price;
- DY2021 introduced an uncontrolled irrigation price plan, giving irrigation consumers the option to elect a controlled vs uncontrolled price plan. MLL signals to irrigation consumers on the controlled price plan that it may elect to control their load if network demand is high, particularly if those times are coincident with high upper South Island transmission load; and
- Allows consumers to connect load to a night only energy price, lower than other alternative prices, giving them the option to shift (some of) their consumption to times of low network load.

(iv) encouraging efficient network alternatives

This pricing methodology has highlighted that SSDG installed on the network may not be efficient (at least from MLL's perspective), and as such, MLL will consider further shifting the balance of prices from variable to fixed to negate this inefficiency. SSDG (particularly solar) is considered inefficient (from an MLL network cost perspective) generally as it generates at times typically when network demand is not high.

The potential introduction of time of use pricing may encourage more efficient investments in SSDG, if for example the variable price component was considerably lower when SSDG (solar) generates, relative to peak demand periods (typically still early mornings and evenings over winter months).

The approach to passing on transmission charges and the maximum demand (capacity) price signals to consumers (especially commercial and industrial) that network alternatives could be considered to manage their peak demands at times coincident with network peaks.

B) Where prices that signal economic costs would under-recover target revenues, the shortfall should be made up by prices that least distort network use.

Target revenue does not meet forecast costs for residential remote and general remote consumers. MLL has increased prices for these consumers to bridge that gap, and, has applied the increase to the fixed charge component as MLL considers that will be less distort network use (noting that network usage can be very limited in the case of remote residential consumers, many of whom are holiday homes in the Marlborough Sounds and so too many general remote

consumers, such as communications sites in the outer Marlborough Sounds). For DY24 to further address (recover more revenue to offset the high costs incurred) the highly uneconomic extremely remote connections, MLL has introduced additional residential and general extreme remote price categories.

Other consumer groups where there is anticipated to be revenue shortfall are for general and irrigation consumers. Price plans for these consumers relate to the installed capacity of the connection (i.e. kVA capacity bands for general and pump size (kW) for irrigation pumps installed), with higher prices for higher available capacity. MLL to least distort network usage and make up shortfall is increasing the fixed price component for these consumer groups

C) Prices should be responsive to the requirements and circumstances of end users by allowing negotiation to:

(i) reflect the economic value of services

MLL's standard prices are below standalone costs, as outlined earlier in this appendix. MLL can enter into non-standard contracts, if and where required, particularly if consumers would not connect on the basis of standard pricing.

MLL has no evidence to suggest that consumers are not connected (or are disconnecting) due to its standard prices.

(ii) enable price/quality trade-offs

MLL has previously indicated its intention to introduce time of use pricing for DY24, subject to further review. MLL has not introduced time of use pricing this year, but will again consider this further during the year and will seek to learn from the experiences of other EDBs such as Network Tasman Limited and Nelson Electricity Limited who are both introducing time of use pricing during DY24. Time of use pricing would give a price signal to consumers, allowing them to shift the timing of their electricity consumption – effectively a price/quality trade off. However, MLL is not introducing that yet as it does not believe the drivers are there yet to do that, nor has it seen evidence that time of use pricing structure introduced by other EDBs is impacting the consumption behaviour of consumers (it is of course subject to electricity retailers passing through that pricing structure, which is not always the case).

Most of MLL's price plans offered are based around the capacity (kVA) available for connections, this is a price/quality trade off – allowing consumers to elect the capacity that they require, consistent with their needs but also their willingness to pay.

Prices for residential and general consumers also include options for controlled and uncontrolled energy (and also for irrigation consumers as of 1 April 2020), allowing consumers to choose to pay a higher price if they are willing to in order to have an uninterrupted supply of energy.

D) Development of prices should be transparent and have regard to transaction costs, consumer impacts, and uptake incentives.

MLL publicly publishes its pricing methodology, line delivery price schedule, and a line delivery pricing guidelines document on an at least annual basis. Prior to confirming any structural changes to its pricing, MLL consults with electricity retailers trading on its network.

As has been outlined in this pricing methodology, MLL has engaged with consumers on distribution pricing to better understand consumers understanding of pricing, and their views on some pertinent distribution pricing matters relevant to MLL. By way of example, following irrigation consumer's feedback that they do not want to be controlled (MLL reminds irrigation consumers that the irrigation tariff is controllable ahead of irrigation season), MLL offered an uncontrolled irrigation price plan equivalent.

MLL's engagement with consumers has shown that consumers are generally satisfied with their electricity distribution prices, and the levels of service provided by MLL. There has also been broad support for MLL's approach to location-based pricing.

When making price changes, MLL carefully considers the impacts of price changes on consumers. For the DY24 prices, for each consumer price plan, MLL considered the price impacts on a low, average and high consumption consumer from within each price plan. Those consumers who will face the largest price increases, are generally those that MLL has been "under-recovering" from for many years and are low consumers of electricity – typically bachs in the Marlborough Sounds, and communications sites for example. Those consumers being placed on the new residential and general extreme remote price plans are relatively few (<0.5% of total consumers) and largely comprise remote communications sites and holiday homes, where electricity consumption is typically very low.

MLL has not yet introduced time of use pricing (excepting the existing day vs night energy rates for Commercial and Industrial consumers). Both Network Tasman Limited and Nelson Electricity Limited (with whom MLL has a strong relationship) are introducing time of use pricing for DY24. MLL will continue engaging with these EDBs to understand their experiences with this change in pricing structure before further considering whether there will be benefits in introducing time of use pricing to MLL's consumers. MLL, if looking to introduce time of use pricing in future (or any other pricing structure change) will consult with retailers to ensure that any transaction costs incurred by retailers as a result of structural pricing changes are minimised where possible.

Appendix 3 – Target revenue by price component

Price plan	Price plan description	Price units	Target revenue (\$)	% of Total
DS15	Daily fixed price up to 15kVA capacity	\$/con/day	5,690,891	11.30%
DS30	Daily fixed price 16kVA to 30kVA	\$/con/day	1,775,328	3.53%
DT	Daily fixed price 31kVA to 50kVA	\$/con/day	962,342	1.91%
DSR15	Daily fixed price up to 15kVA remote	\$/con/day	1,784,272	3.54%
DSR30	Daily fixed price 16kVA to 30kVA remote	\$/con/day	156,816	0.31%
DTR	Daily fixed price 31kVA to 50kVA remote	\$/con/day	133,242	0.26%
DXR	Daily fixed price up to 50kVA extreme remote	\$/con/day	158,167	0.31%
10	Uncontrolled energy	\$/kWh	4,598,710	9.13%
12	Controlled energy	\$/kWh	567,590	1.13%
18	Night only energy	\$/kWh	43,117	0.09%
DL	Daily fixed price up to 15kVA capacity Low User	\$/kWh	1,530,060	3.04%
11	Uncontrolled energy	\$/kWh	4,499,964	8.94%
16	Controlled energy	\$/kWh	1,284,350	2.55%
17	Night only energy	\$/kWh	77,239	0.15%
NS	Daily fixed price up to 15kVA capacity	\$/con/day	860,724	1.71%
NH	Daily fixed price 16 to 30kVA	\$/con/day	641,215	1.27%
NT	Daily fixed price 31 to 45kVA	\$/con/day	2,598,344	5.16%
NSR	Daily fixed price up to 15kVA remote	\$/con/day	177,454	0.35%
NHR	Daily fixed price 16kVA to 30kVA remote	\$/con/day	54,742	0.11%
NTR	Daily fixed price 31kVA to 50kVA remote	\$/con/day	87,810	0.17%
NXR	Daily fixed price up to 50kVA extreme remote	\$/con/day	120,323	0.24%
RT	Daily fixed price 46 to 70 kVA	\$/con/day	1,376,501	2.73%
RV	Daily fixed price 70 to 105kVA	\$/con/day	863,813	1.72%
RX	Daily fixed price 106 to 140kVA	\$/con/day	633,697	1.26%
23	Uncontrolled energy 0 to 45kVA	\$/kWh	2,202,261	4.37%
31	Uncontrolled energy 46 to 70kVA	\$/kWh	828,080	1.64%
40	Uncontrolled energy 70 to 140 kVA	\$/kWh	1,089,466	2.16%
22	Controlled energy 0 to 140kVA	\$/kWh	50,771	0.10%
28	Night only energy 0 to 140kVA	\$/kWh	2,947	0.01%
20	20 hour controlled 0 to 45kVA CLOSED	\$/kWh	496	0.00%
30	20 hour controlled 46 to 70kVA CLOSED	\$/kWh	739	0.00%
US	Unmetered	\$/con/day	49,467	0.10%
TS	Temporary supply	\$/con/day	91,120	0.18%
71	Temporary supply energy	\$/kWh	8,109	0.02%
BF/BHM/BHC	Daily fixed price	\$/con/day	329,559	0.65%
51	Day energy LV	\$/kWh	1,465,312	2.91%
50	Night energy LV	\$/kWh	133,751	0.27%
61	Day energy HV	\$/kWh	397,348	0.79%
62	Night energy HV	\$/kWh	35,838	0.07%
AL	Capacity charge C&I	\$/kVA/day	6,359,921	12.63%
AM	Capacity charge HV ML equipment	\$/kVA/day	989,522	1.96%
AH	Capacity charge HV consumer owned	\$/kVA/day	579,164	1.15%
WL, WM, WH	Transmission charge (residual, connection, BBC)	\$/kVA/day	2,523,122	5.01%
PM and PMU	Daily fixed price 7.5 to 23kW capacity	\$/con/day	268,250	0.53%
PK and PKU	Daily fixed price above 23kW capacity	\$/kW/day	949,594	1.89%
PH	Daily fixed price capacity CLOSED	\$/kVA/day	116,827	0.23%
96/97	Seasonal energy	\$/kWh	504,012	1.00%
80	SL energy	\$/kWh	14,269	0.03%
MDCFC	MDC streetlight fixed charge	\$/con/day	141,172	0.28%
NZT AFC	NZTA streetlight fixed charge	\$/con/day	79,361	0.16%
PMFC	Port Marlborough fixed charge	\$/con/day	8,036	0.02%
RNZAF	RNZAF fixed charge	\$/con/day	4,115	0.01%
PSLT1/2	Private SL less than 150W fixed charge	\$/fitting/day	531	0.00%
PFT	ToU	\$/kVAr/day	223,143	0.44%
PFI	Non-ToU	\$/kVAr/day	136,403	0.27%
DG	Imported Energy (Generation)	\$/kWh	15,639	0.03%
Waihopai	Non-standard contract for Waihopai Gen	\$/con/year	83,394	0.17%
Total			50,358,450	100.00%

Appendix 4: Methodology for pass through of Transpower settlement residual rebates

In November 2022, the Electricity Authority published a decision to amend the Code to require MLL to pass through settlement residual rebates (otherwise known as *losses and constraints excess* payments) received by Transpower to MLL's customers (both retailers and any direct connected customers).

The Code requires that settlement residue is allocated to customers in proportion to the transmission charges that are paid by customers in respect to each network location (GXP). The locational aspect of this is not relevant to MLL as its network is only connected to one GXP.

MLL must allocate the settlement residual it receives on a monthly basis to customers that pay lines charges directly. Distributors must develop a methodology for allocating settlement residue to its customers that gives effect to the purpose of the Code amendment. MLL's methodology for passing-on monthly settlement residues received from Transpower for any trading period on or after 1 April 2023 is set out as follows:

1. Monthly settlement residual received by MLL will be allocated to customers in proportion to the transmission charges paid by each customer to MLL for that respective month.
2. A customer's transmission charges will be calculated by multiplying the transmission prices published on MLL's line delivery price schedule by the equivalent billing quantities used by that customer for the month.
3. The settlement residual received by MLL will be allocated to customers in proportion to their contribution to the total transmission charge received from all customers at that connection location.

The formula below summarises the methodology to be used:

$$\begin{aligned} & \text{Monthly settlement residual payment}_{x,y} \\ &= \text{Monthly settlement residual} \times \left(\frac{\text{Monthly transmission charge paid}_x}{\sum_x \text{Monthly transmission charge paid}} \right) \end{aligned}$$

Where:

- x = customer
- Monthly settlement residual = Monthly settlement residual payment MLL receives from Transpower
- Monthly transmission charge paid_x = Transmission charge paid by customer x to MLL

To avoid unnecessary complexity, payments will be based on initial billing quantities and will not be subject to adjustments (washups). Payments to customers will be made monthly.

Note: pass-through of settlement residual rebates is subject to regulation under 12A.3 of the Electricity Industry Participation Code 2010 and is not regulated under Part 4 of the Commerce Act 1986 (Part 4).

Appendix 4 – Copy of Directors’ Certification

Certification for Year-Beginning Disclosures

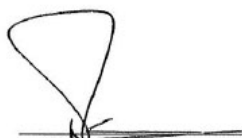
Asset Management Plan 2023 - 2033

Pursuant to Electricity Distribution Information Disclosure Determination 2012,
Schedule 17, Clause 2.9.1

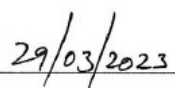
We, Philip Ian Robinson and Christopher Jonathan Ross, being directors of Marlborough Lines Limited certify that, having made all reasonable enquiry, to the best of our knowledge:

- a) the following attached information of Marlborough Lines Limited prepared for the purposes of clauses 2.4.1, 2.6.1, 2.6.3, 2.6.6 and 2.7.2 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.
- c) The forecasts in Schedules 11a, 11b, 12a, 12b, 12c and 12d are based on objective and reasonable assumptions which both align with Marlborough Lines Limited’s corporate vision and strategy and are documented in retained records.

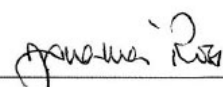
Signed by:



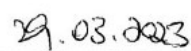
PI Robinson



Date



CJ Ross



Date