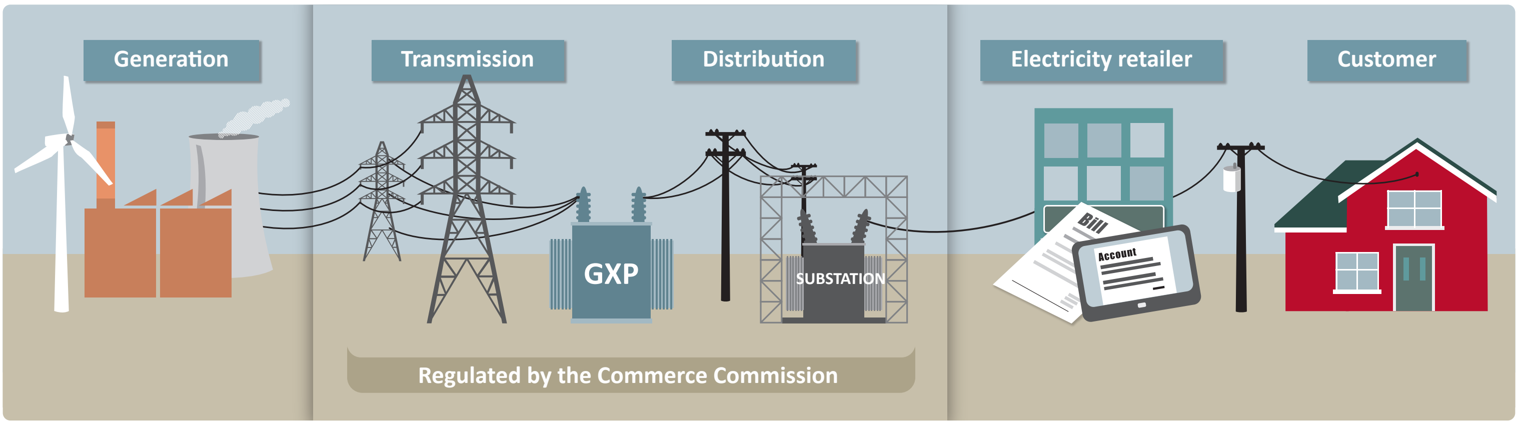
Local lines companies' performance trends

This fact sheet is a snapshot of revenue, profitability, and service reliability trends for local electricity lines companies in New Zealand. Local lines companies provide electricity 'distribution' services. They own the poles and wires around cities, towns and rural areas which deliver electricity from the high-voltage transmission system, as well as local generators, to households and businesses.

Profitability has not been excessive

We regulate certain companies in electricity, gas pipelines, telecommunications, and airports sectors because they operate in markets where there is little or no competition (and little prospect of competition).

In the electricity sector, we regulate 29 local lines companies and our national transmission network operator, Transpower. Transmission and distribution lines charges combined make up approximately 38% of the average consumer electricity bill. We require local lines companies to disclose information on their performance and, for 16 of them, we also set maximum revenue limits and minimum quality standards every 5 years.



Lines charges increased over 2008–2018 and have fallen since 2018

Lines charges increased in the 10 years to 2018 to pay for significant investment in the transmission network, growth in distribution networks, and replacing aging distribution assets.

Lines charges have decreased since then, mainly because of slower inflation and cheaper finance. They fell most noticeably in 2021, as our reset of maximum revenue limits came into effect for 17 of the 29 lines companies for the period 2021–2025 ensuring consumers benefit from lower interest rates.

The chart below shows a breakdown of lines charges.

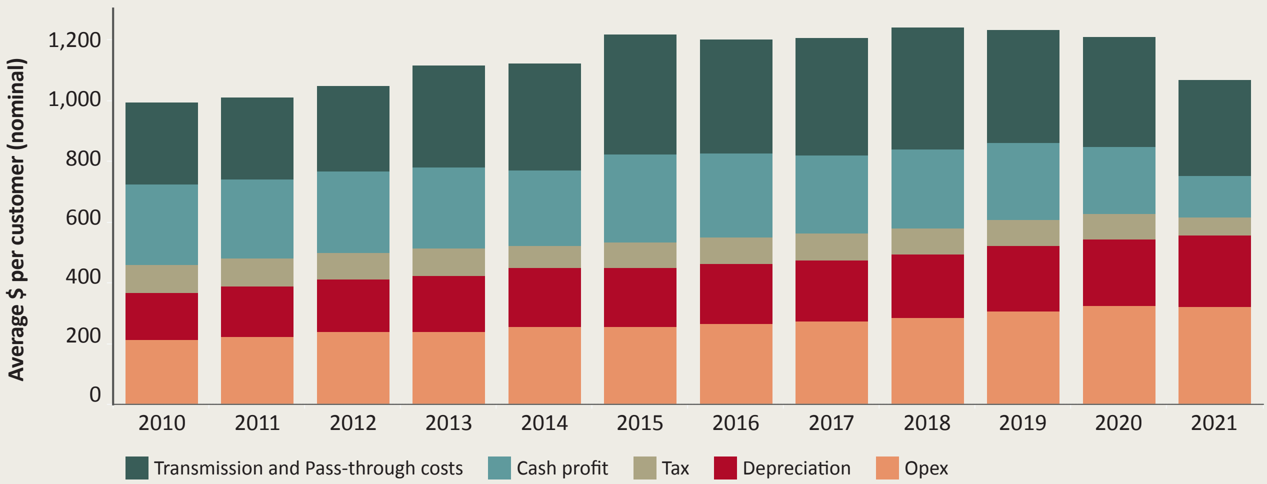
Local lines companies have grown since 2010

Industry	Size in 2021	Avg. yearly growth
Network connections	2.2M	↑ 0.9%
Peak system demand	6,718 MW	↑ 0.6%
Revenue	$2.3B	↑ 2.4%
Investment	$956M	↑ 6.8%*

Size in 2021 gives network connections, peak system demand (megawatts), revenue ($ billions) and investment expenditure ($ millions). The $ values include the effect of inflation.

Average yearly growth gives the percentage that these measures grew each year on average using a trend line.

**Excludes Vector sale & leaseback transaction in 2020.*



Little change to reliability

The average number and duration of outages that each customer experiences has remained similar over time. While there are more outages in total, each outage tends to affect fewer customers on average, but lasts slightly longer.

Outages are categorised as planned (and notified in advance) or unplanned. Planned outages allow work to be done on the network, while unplanned outages are caused by external factors like weather events. Almost all lines companies have had more frequent and longer planned outages. This reflects the high levels of investment to improve and replace assets and may also reflect changes to health and safety practices that can cause longer planned outages to improve the safety of line workers. The trends for unplanned outages are different across lines companies because of many varied factors.

Vector and Aurora lines companies have previously been penalised in Court for significantly worsening reliability. We continue to investigate other lines companies where we are concerned about poor reliability outcomes.

Average number of outages per customer per year

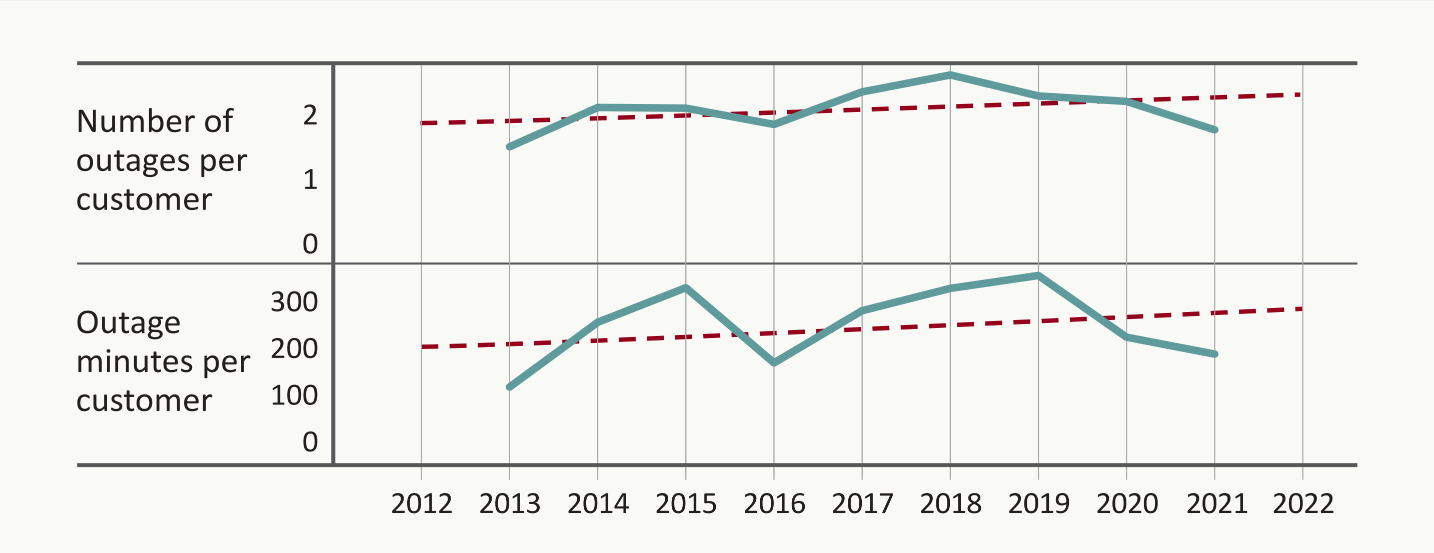
1.9

The long term trend is an annual increase of **0.3%** per year

Average total length of outages per customer per year

195 minutes

The long term trend is an annual increase of **2%** per year



Profitability has generally been lower than a reasonable return

We estimate a reasonable return on investment for local lines companies and use it when we set maximum revenue limits. Our return estimate has decreased since 2010, mainly because of slower inflation and lower finance costs (we estimated 7.8% for 2010–2015, 6.4% for 2016–2020, and 4.2% for 2021–2025).

The return on investment across the industry has generally been around 5% to 6% between 2013 and 2020 and decreased in 2021 for all price-quality regulated companies, and for most of the other companies. Profitability has been generally lower than our estimate of a reasonable return on investment, although it varies between companies.

You can learn more about the industry and your local lines company in our updated dashboard and in our report

Why did the Commerce Commission conduct this analysis?

Part of our role is to require the lines companies to disclose information about their performance and for us to share our analysis of that performance. This analysis looks at the changes in prices over time and explores the causes of those price changes. It also assesses the changes in reliability over time.

COMMERCE COMMISSION NEW ZEALAND
Te Komihana Tauhokohoko