Nelson Electricity Limited

Default Price-Quality Path

Annual Price Setting Compliance Statement

1 April 2020 – 31 March 2021 Assessment Period

26 March 2020

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1. Introduction

Nelson Electricity Limited is subject to price-quality regulation under Part 4 of the Commerce Act 1986. The Commerce Commission has set a Default Price-Quality Path (DPP) which applies to Nelson Electricity Limited from 1 April 2020.

This price-setting compliance statement is published in accordance with clause 11.1 of the 2020 DPP Determination, and applies to the first assessment period, commencing 1 April 2020 and ending 31 March 2021.

2. Date prepared

This statement was prepared on 26 March 2020.

3. Statement of compliance

As demonstrated in Table 1 below, and consistent with clause 8.3 of the 2020 DPP Determination Nelson Electricity Limited has complied with the price path for the first assessment period.

Table 1

Compliance with price path RY21		
Forecast revenue from prices ≤ Forecast allowable revenue		
Forecast revenue from prices ($000)	Forecast allowable revenue ($000)	Compliance result
9,098	9,114	**Compliant**

Further information supporting forecast allowable revenue is included in Section 5 and Appendix A.

Further information supporting forecast revenue from prices is included in Section 6 and Appendix B.

4. Director's certification

A Director's certificate in the form set out in Schedule 6 of the 2020 DPP Determination is included as Appendix C.

5. Forecast allowable revenue

Table 2 shows the derivation of forecast allowable revenue, consistent with the requirements of Schedule 1.5 of the 2020 DPP Determination.

Table 2

Forecast allowable revenue RY21		
Term	Description	Value ($000)
Forecast net allowable revenue	*Forecast net allowable revenue as set out in Table 1.4.1 in Schedule 1.4 for the period ending 31 March 2021*	5,502
Forecast pass through costs	*Forecast pass-through costs and forecast recoverable costs*	105
Forecast recoverable costs	*Forecast recoverable costs, excluding any recoverable cost that is a revenue wash-up drawn down amount*	3,462
Opening wash-up account balance	*The opening wash-up account balance for the first assessment period of the DPP regulatory period is nil as set out in Schedule 1.7 (1)(a)*	-
Pass-through balance allowance	*(-1) ePTB (1+ 67th percentile post-tax WACC)*	45
Total		9,114

Appendix A shows the components of the forecast pass-through and recoverable costs, and the pass-through balance allowance.

The methodology to derive the forecasts of the pass-through and recoverable costs is documented in Appendix A.

6. Forecast revenue from prices

Table 3 shows forecast revenue from prices.

Table 3

Forecast revenue from prices RY21		
Term	Description	Value ($000)
$\Sigma P_{2020/21} * Q_{2020/21}$	*Forecast prices between 1 April 2020 and 31 March 2021 multiplied by forecast quantities for the period ending 31 March 2021*	9,098

Appendix B shows the components of forecast revenue from prices.

The methodology to forecast the quantities associated with each price is documented in Appendix B.

Appendix A – Pass-through and recoverable costs

Forecast pass-through costs

Table 4

Forecast Pass-through Costs RY21		
Forecast pass-through costs	$000	Forecasting methodology
Rates on system fixed assets	34	2% Increase on Existing Level
Commerce Act levies	25	2% Increase on Existing Level
Electricity Authority levies	40	2% Increase on Existing Level
Utilities Disputes levies	5	Based on Utility Disputes Levy Advice
Total forecast pass-through costs	**105**	

Explanation

Where pass-through costs are not known at the time of preparing this statement, the cost estimates are set in line with annual historic changes. An increase of the 2020 year forecast of 2.0% based on CPI movement was deemed appropriate.

Forecast recoverable costs

Table 5

Forecast Recoverable Costs RY21		
Forecast recoverable costs	$000	Forecasting methodology
IRIS incentive adjustment	568	Commerce Commission IRIS Model
Transpower transmission charges	2,822	Actual Confirmed Charges
New investment contract charges	-	
System operator services charges	-	
Avoided transmission charges - purchased assets	-	
Distributed generation allowance	-	
Claw-back	-	
Catastrophic event allowance	-	
Extended reserves allowance	-	
Quality incentive adjustment	40	From 2019 Default Price Quality Path Compliance Statement
Transmission asset wash-up adjustment	-	
Reconsideration event allowance	-	
Quality standard variation engineers fee	-	
Urgent project allowance	-	
Fire and emergency NZ levies	32	Confirmed MDBI plus estimate of vehicles
Innovation project allowance	-	
Total forecast recoverable costs	**3,462**	

Explanation

All Recoverable Costs except Fire and Emergency NZ Levies are known in advance of preparing this statement.

IRIS Incentive Adjustment. This is set using the outcome of the Commerce Commission Model "Calculations-of-IRIS-recoverable-costs-for-DPP3-EDB-DPP3-final-determination-27-November-2019.xlsx".

Transpower Transmission Charge. Nelson Electricity derives transmission services through both Transpower and Network Tasman (on a transmission pass-through basis). Both parties provide Nelson Electricity with schedule of charges which are combined for this statement.

Quality Incentive Adjustment. This adjustment is derived from the outcome of the Quality Incentive assessment included in the Nelson Electricity Default Price Quality Path Compliance Statement for the Assessment Date 31 March 2019.

Fire and Emergency NZ Levies. The levies for Material Damage and Business Interruption are known for the period, which accounts for $31k of the total. A nominal amount is included for vehicles.

Pass-through balance allowance

Table 6

Pass-through balance allowance RY21		
Term	Description	Value ($000)
ePTB	*An estimate of the pass-through balance as at 31 March 2020*	(43)
67th percentile estimate of post-tax WACC	*As per Clause 4.2*	4.23%
Pass-through balance allowance	*-1 x ePTB x WACC*	**45**

Explanation

The 2021 Pass-through balance allowance is based on the outcome of the estimated Pass-through balance for the 2020 assessment period multiplied by the time value of money as determined in the Electricity Distribution Services Default Price-Quality Path Determination 2020. The calculation of the estimated 2020 Pass-through balance is included in the schedule below.

Nelson Electricity - Estimated Pass-Through Balance for Year Ending 31 March 2019 and 31 March 2020

		31 March 2019	31 March 2020
Actual Assessed Pass-Through Prices X Quantities		**$3,224,587**	**$2,715,566**
less			
Pass-Through Costs	Local Authority Rates	$32,658	$33,802.89
	Electricity Authority Levies	$40,190	$39,436.81
	Commerce Commission Levies	$23,295	$24,218.58
	Electricity and Gas Complaints Commissioner Scheme	$4,966	$5,143.97
		$101,109	$102,602
Recoverable Costs	Transmission	$3,256,983	$2,533,958
Schedule 5A	Energy Efficiency	$0	$0
Schedule 5B	Quality Incentive Adjustment	$64,348	$68,240
Schedule 5C	Claw Back	$0	$0
Schedule 5D	2013 - 2015 NPV Washup	$0	$0
Schedule 5E	Avoided transmission costs	$0	$0
Schedule 5F	Transmission Asset Wash-up Adj	$0	$0
Schedule 5G	Opex and Capex Incentive	$0	$0
Schedule 5H	Extended Reserve Allowance	$0	$0
Capex Washup		$27,000	$29,000
		$3,348,331	$2,631,198
Total		**$3,449,440**	**$2,733,800**
Equals (Over or Under Recovery)		**-$224,853**	**-$18,234**
plus			
Pass-Through Balance from Previous Period		**$189,539**	**-$23,771**
Cost of Debt	Risk Free Rate		
	Debt Premium		
	Debt Issuance Costs		
		6.09%	**6.09%**
Pass-Through Balance x Cost of Debt		**$201,082**	**-$25,219**
Pass-Through Balance (Positive is over recovery)		**-$23,771**	**-$43,453**

Appendix B – Forecast prices and quantities

Table 7 shows the forecast prices and quantities for the forecast revenue from prices for the first assessment period.

Table 7. Total Revenue Table using 31 March 2021 Prices and 2020/2021 Quantities

Number of Days: 365

Tariff or Fee	Estimated Number of ICPs at 31/03/2021	Estimated kWh at 31/3/2021	Estimated kVA at 31/3/2021	Estimated Days at 31/3/2021	Distribution Charges				Notional Distribution Revenue ($)		Total Revenue ($)
					Fixed			Variable (c/kWh)	Fixed	Variable	$P_{,2021}$ $Q_{,2021}$
					$/day	c/kVA/day	Other				
Group 0											
Streetlights	1	612,726	-	365	244.00000				89,060		89,060
Unmetered Fixed	36	-	-	4,793	0.07000				336		336
Unmetered Capacity	0	-	1,198	-		102.00000			1,222		1,222
Builders Temp	18	-	-	4,383	0.60000				2,630		2,630
BT-kWh		7,073	-	-				8.22000	-	581	581
Group 1											
Fixed	4,418	-	23,724,524.26	-		1.00000			237,245		237,245
Anytime		16,039,535	-	-				8.22000	-	1,318,450	1,318,450
Controlled		6,871,688	-	-				4.99000	-	342,897	342,897
Nightrate		492,416	-	-				3.14000	-	15,462	15,462
DG		155,636	-	-				0.50000	-	778	778
Group 2											
Fixed	4,751	-	38,627,987	-		6.70000			2,588,075		2,588,075
Anytime		50,470,938	-	-				3.63000	-	1,832,095	1,832,095
Controlled		7,869,469	-	-				2.16000	-	169,981	169,981
Nightrate		797,987	-	-				1.42000	-	11,331	11,331
DG		245,316	-	-				0.50000	-	1,227	1,227
Group 3 - Time of Use											
Metered Installation Charge	91	-	-	32,705	1.14000				37,284		37,284
Energy		33,722,528	-	-				1.32000	-	445,137	445,137
Winter Demand		-	3,815,351	-		19.00000			724,917		724,917
Capacity Supply (Sum of kVA)		-	10,464,000	-		4.90000			512,736		512,736
Power Factor (kVAr)		-	3,975	-			6.50000		25,836		25,836
DG								0.50000			
Group 4											
Fixed	1	13,992,591	-	-			411,000.00000		411,000		411,000
Power Factor (kVAr)		-	-	-			6.50000		-		-
Group 3 - Direct Connection											
Energy		10,521,915	-	-				0.27800	-	29,251	29,251
Installation	2	-	-	730	1.14000				832		832
Winter Demand		-	711,907	-		11.50100			81,876		81,876
Capacity Supplied		-	1,241,000	-		4.90000			60,809		60,809
Power Factor (kVAr)		-	886	-			6.50000		5,762		5,762
Transpower Cold Storage		-	1	-			46,113.00000		46,113		46,113
Transpower NMDHB		-	1	-			105,183.00000		105,183		105,183
DG		-	-	-				0.50000	-	-	-
$\Sigma P_{,2021} Q_{,2021}$	9,318	141,398,864							**4,930,915**	**4,167,190**	**9,098,105**

Price category quantity forecasts

The annual forecasts of connections, connected capacity, energy volumes and demand by consumer groups are apportioned into price category level quantities using historic billing splits within the consumer groups. Given there have not been any changes in pricing options, the quantities assessed used for the 2021 assessment period are able to be based on the quantities used in previous assessment periods (noting that 2020 assessment period has unbilled months data estimated).

2020 assessment period

Actual price category level billed quantities for the 2020 assessment period were available from April 2019 to December 2019 when setting 2021 prices. Actual billed quantities for the period January 2020 - February 2020 have subsequently been included in this assessment to more accurately determine the Pass-Through balance. The remaining month of the 2020 assessment period is estimated by using the actual 2020 price category quantity trends.

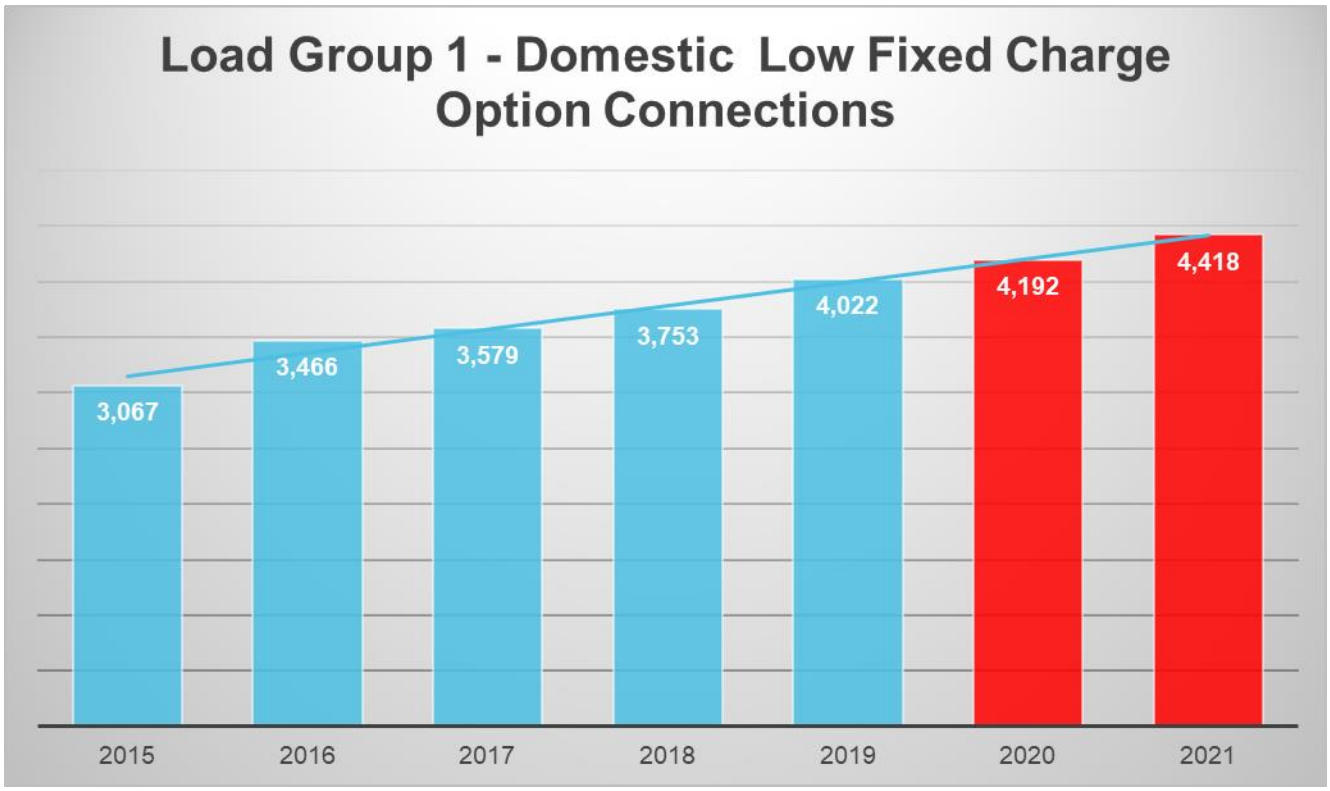
2021 assessment period

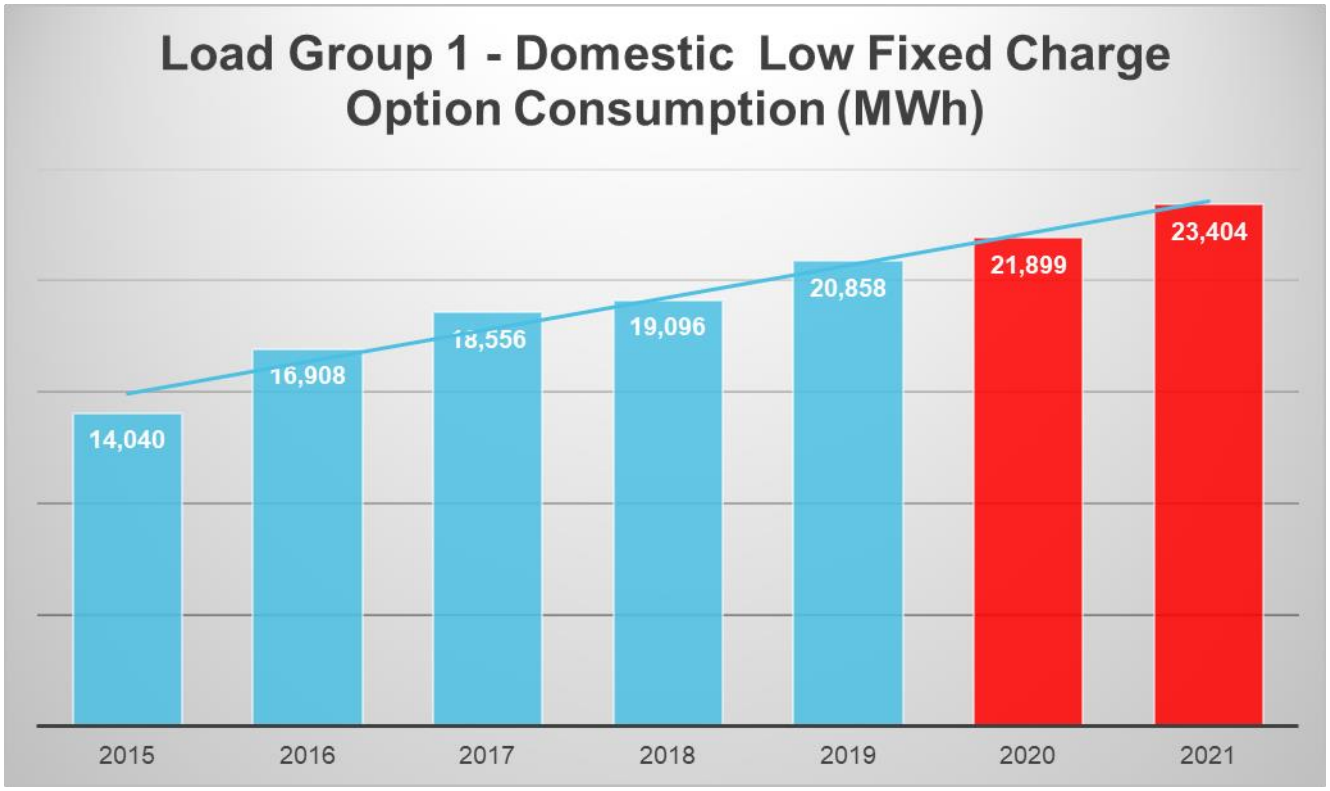
For the 2021 assessment period, estimated billed quantities have been assessed based on the quantity assessment for the 2020 period (which was based on April 2019 – 1 December 2019 billed quantities). These quantities have been manipulated based on historic trends. The key change is the continued migration of 200 domestic consumers per year shifting to the Low Fixed Charge option from Load Group 2 to Load Group 1.

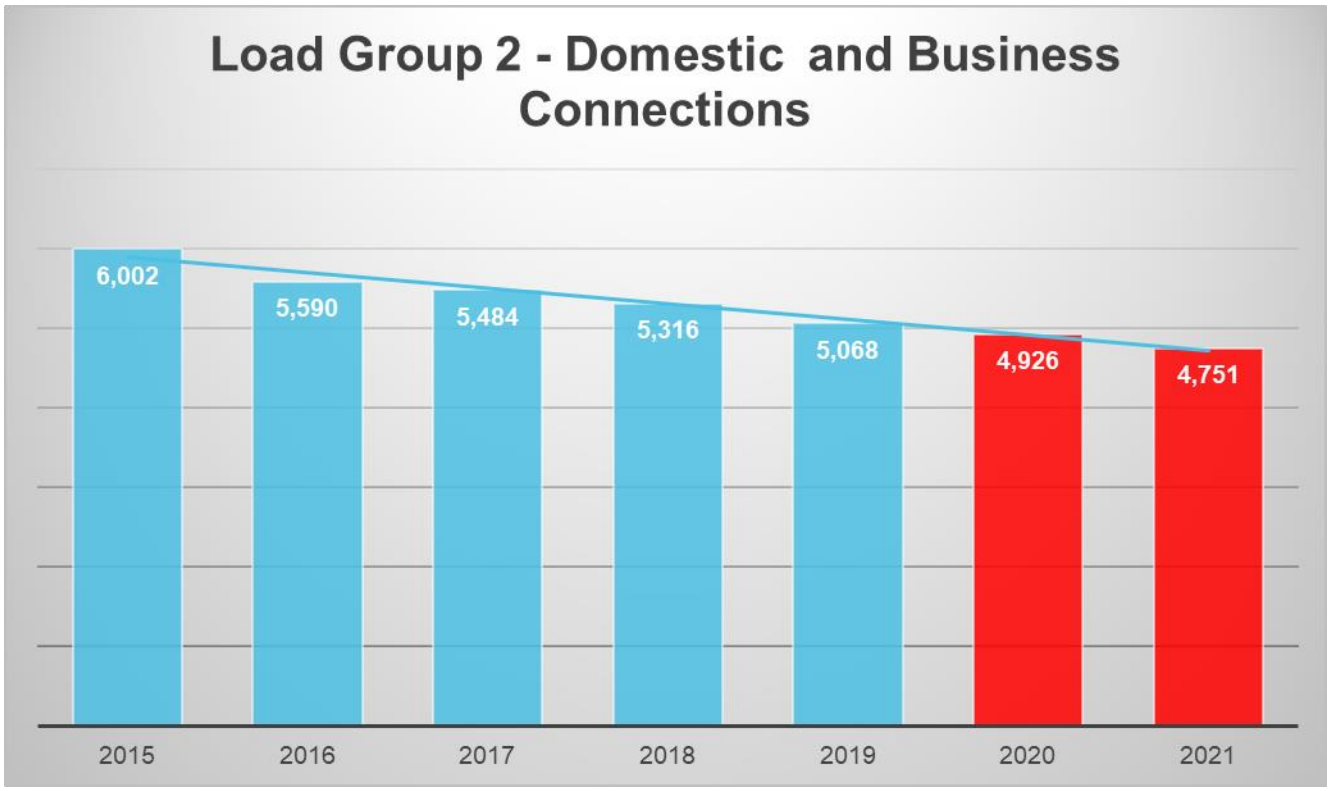
The quantity assessment also accounts for changes in connection numbers. There are 50 new connections factored into this assessment, 30 in Load Group 1 and 20 in Load Group 2. The capacity and volumes assessments used for these new connections is based on average domestic consumer connection size and consumptions for each Load Group.

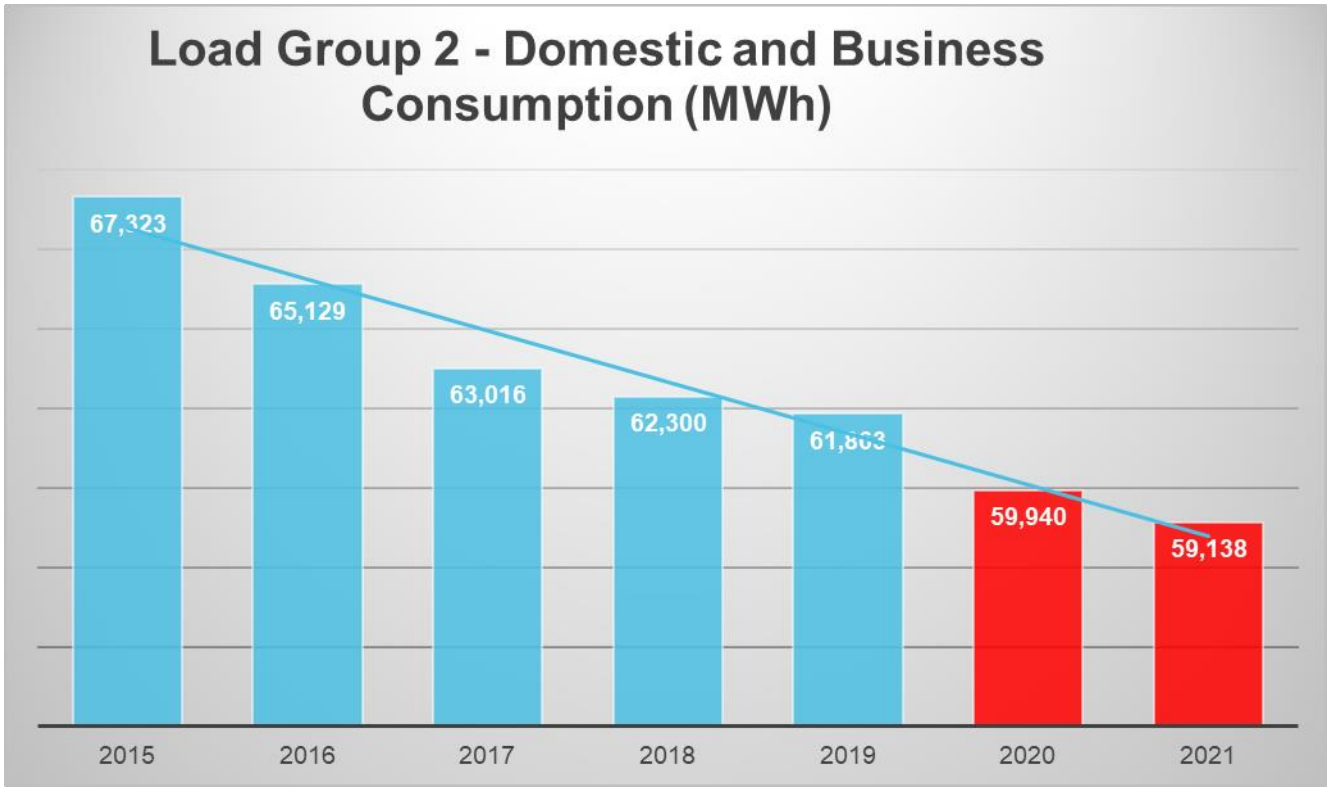
The following graphs demonstrate the consumption changes are in line with historic trends.

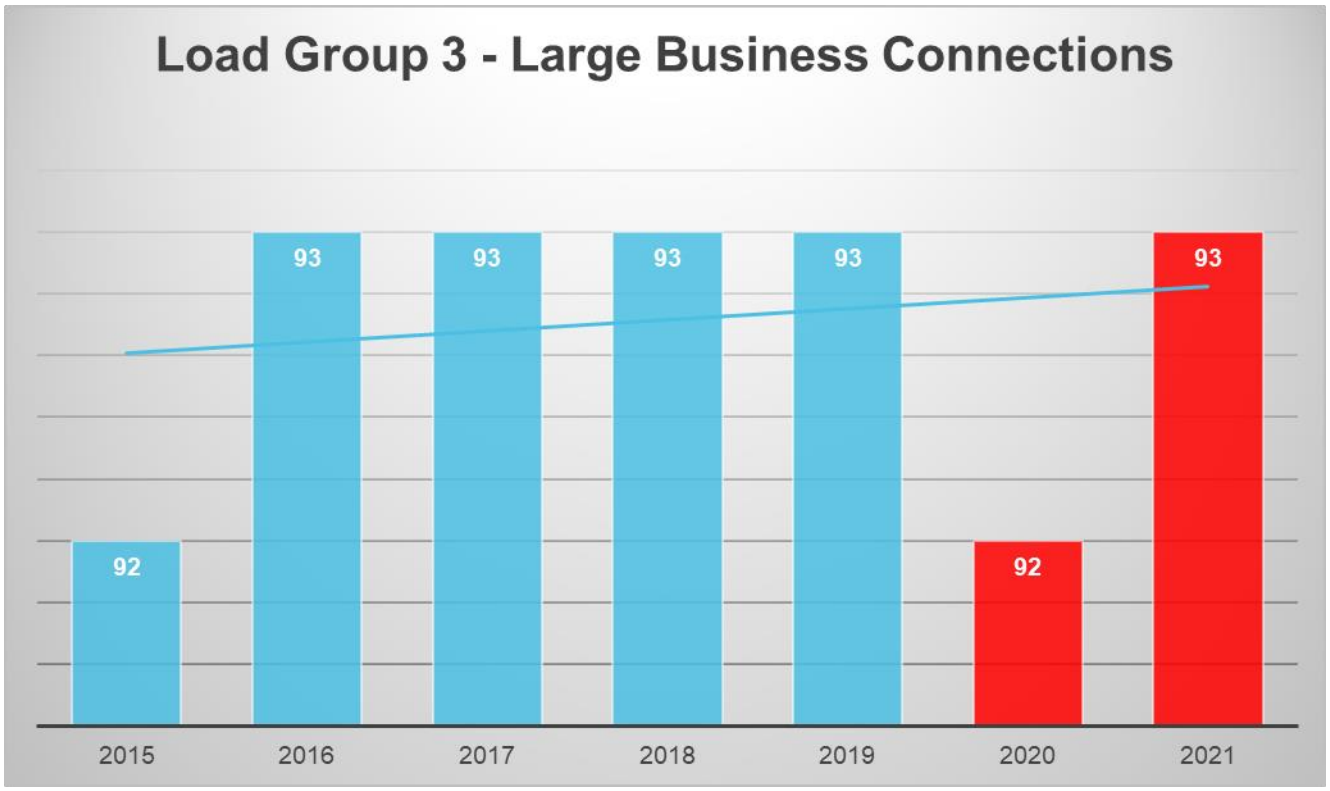
Quantity graphs

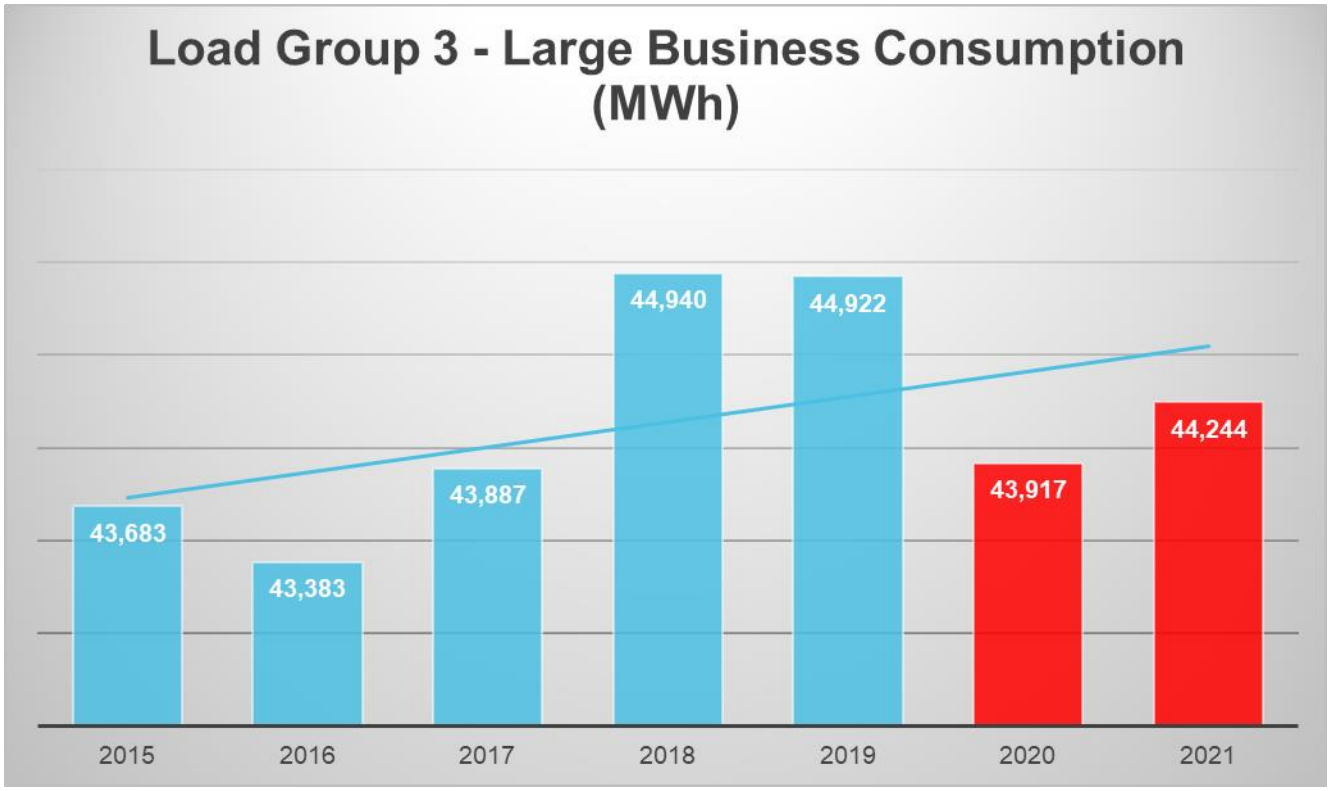





Load Group 2 - Domestic and Business Connections
6,002
5,590
5,484
5,316
5,068
4,926
4,751
2015
2016
2017
2018
2019
2020
2021


Load Group 2 - Domestic and Business Consumption (MWh)
67,323
65,129
63,016
62,300
59,940
59,138
2015
2016
2017
2018
2019
2020
2021


Load Group 3 - Large Business Connections
92
93
93
93
93
92
93
2015
2016
2017
2018
2019
2020
2021


Load Group 3 - Large Business Consumption (MWh)
43,683
43,383
43,887
44,940
44,922
43,917
44,244
2015
2016
2017
2018
2019
2020
2021

Appendix C – Director's certificate

We, Michael John McCliskie and Oliver Rupert Kearney, being directors of Nelson Electricity Limited certify that, having made all reasonable enquiry, to the best of our knowledge and belief, the attached annual price-setting compliance statement of Nelson Electricity Limited, and related information, prepared for the purposes of the *Electricity Distribution Services Default Price-Quality Path Determination 2020* has been prepared in accordance with all relevant requirements, and all forecasts used in the calculations for forecast revenue from prices and forecast allowable revenue are reasonable.

Signed 

Date 20 April 2020

Signed 

Date 20 April 2020