

Nelson Electricity Limited

Default Price-Quality Path

Annual Price Setting Compliance Statement

1 April 2021 – 31 March 2022 Assessment Period

24 March 2021

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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 2021.

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 2021 and ending 31 March 2022.

2. Date Prepared

This statement was prepared on 24 March 2021.

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 second assessment period.

Table 1

Compliance with price path RY21		
<i>Forecast revenue from prices ≤ Forecast allowable revenue</i>		
Forecast revenue from prices (\$000)	Forecast allowable revenue (\$000)	Compliance result
8,552	8,555	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 RY22		
Term	Description	Value (\$000)
Forecast net allowable revenue	<i>Forecast net allowable revenue as set out in Table 1.4.1 in Schedule 1.4 for the period ending 31 March 2022</i>	5,609
Forecast pass through costs	<i>Forecast pass-through costs and forecast recoverable costs</i>	94
Forecast recoverable costs	<i>Forecast recoverable costs, excluding any recoverable cost that is a revenue wash-up drawn down amount</i>	2,853
Opening wash-up account balance	<i>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)</i>	-
Pass-through balance allowance	<i>(-1) ePTB (1+ 67th percentile post-tax WACC)</i>	(0)
Total		8,555

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 RY22		
Term	Description	Value (\$000)
$\Sigma P_{2021/22} * Q_{2021/22}$	<i>Forecast prices between 1 April 2021 and 31 March 2022 multiplied by forecast quantities for the period ending 31 March 2022</i>	8,552

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	35	Based on historical costs multiplied by 2.0%
Commerce Act levies	13	
Electricity Authority levies	41	
Utilities Disputes levies	5	Based on Utility Disputes Levy Advice
Total forecast pass-through costs	94	

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 2021 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	(180)	Commerce Commission IRIS Model
Transpower transmission charges	2,912	As notified by transmission service providers
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	68	From 2020 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
Capex Washup	20	Commerce Commission Capex Washup Template
Innovation project allowance	-	
Total forecast recoverable costs	2,853	

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 2020.

Fire and Emergency NZ Levies

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

Pass-through balance allowance

Table 6

Pass-through balance allowance RY22		
Term	Description	Value (\$000)
ePTB2020	<i>An estimate of the pass-through balance as at 31 March 2020</i>	43.5
PTB2020	<i>Pass Through Balance as at 31 March 2020</i>	43.8
ePTB2020 - PTB2020		0.4
67th percentile estimate of post-tax WACC	<i>As per Clause 4.2</i>	4.23%
Pass-through balance allowance	<i>-1 x ePTB x WACC</i>	(0.4)

Explanation

The pass-through balance allowance for the second assessment period of the DPP regulatory period is the amount calculated in accordance with the formula -

$$(ePTB - \text{pass-through balance}) \times (1 + 67\text{th percentile estimate of post-tax WACC})^2$$

Where -

'ePTB' means the demonstrably reasonable estimate amount of the pass-through balance as of 31 March 2020 that was calculated for the first assessment period.

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 2022 Prices and 2021/2022 Quantities

Number of Days:		365											
Tariff or Fee	Number of ICs at 31/03/2022	Billed kWh at 31/3/2022	Billed kVA at 31/3/2022	Billed Days at 31/3/2022	Distribution Charges			Notional Distribution Revenue (\$)		Total Revenue (\$) P ₂₀₂₂ Q ₂₀₂₂			
					Fixed		Variable (c/kWh)	Fixed	Variable				
					\$/day	c/kVA/day					Other		
Group 0													
Streetlights	1	458,914		365	221.00000			80,665		80,665			
Unmetered Fixed	36			13,140	0.10000			1,314		1,314			
Unmetered Capacity	0		9,862			98.00000		9,665		9,665			
Builders Temp	10			3,650	0.60000			2,190		2,190			
BT-kWh		4,000					8.10000		324	324			
Group 1													
Fixed	4,530		24,322,248.00			1.00000		243,222		243,222			
Anytime		16,117,623					8.10000		1,305,527	1,305,527			
Controlled		7,114,481					4.72000		335,804	335,804			
Nightrate		464,596					2.09000		9,710	9,710			
DG		124,537					0.50000		623	623			
Group 2													
Fixed	4,631		37,669,837			6.58000		2,478,675		2,478,675			
Anytime		48,346,094					3.54000		1,711,452	1,711,452			
Controlled		7,809,908					2.02000		157,760	157,760			
Nightrate		825,778					0.51000		4,211	4,211			
DG		223,799					0.50000		1,119	1,119			
Time of Use													
Metered Installation Charge	89			32,775	1.17000			38,347		38,347			
Energy		33,075,258					1.10000		363,828	363,828			
Winter Demand			3,812,480			16.60000		632,872		632,872			
Capacity Supply (Sum of kVA)			10,467,547			4.47000		467,899		467,899			
Power Factor (kVAr)			3,782			0.00000	6.50000	24,582		24,582			
DG							0.50000						
TOU Sealord													
Fixed	1	14,058,731						407,039		407,039			
Power Factor (kVAr)							6.50000	-		-			
Direct Connection													
Energy		9,243,814					0.20000		18,488	18,488			
Installation	2			730	1.17000			854		854			
Winter Demand			704,550			10.20000		71,864		71,864			
Capacity Supplied			1,244,400			4.47000		55,625		55,625			
Power Factor (kVAr)			384				6.50000	2,496		2,496			
Transpower Cold Storage			1					36,352		36,352			
Transpower NMDHB			1					89,674		89,674			
DG							0.50000	-	-	-			
Σ P₂₀₂₂ Q₂₀₂₂	9,300	137,519,199						4,643,335	3,908,846	8,552,180			

Price Category Quantity Forecasts

The annual forecasts of connections, connected capacity, energy volumes and demand by consumer group 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 2022 assessment period are able to be based on the quantities used in previous assessment periods (noting that 2021 assessment period has unbilled months data estimated).

2021 Assessment Period

Actual price category level billed quantities for the 2021 assessment period was available from April 2020 to December 2020 when setting 2022 prices. The remaining month² of the 2021 assessment period is estimated by using the actual 2020 price category quantity trends.

2022 Assessment Period

For the 2022 assessment period estimated billed quantities have been assessed based on the quantity assessment for the 2019 and 2020 periods (2020 was based on April 2020 – 1 December 2020 billed quantities). These quantities have been manipulated based on historic trends.

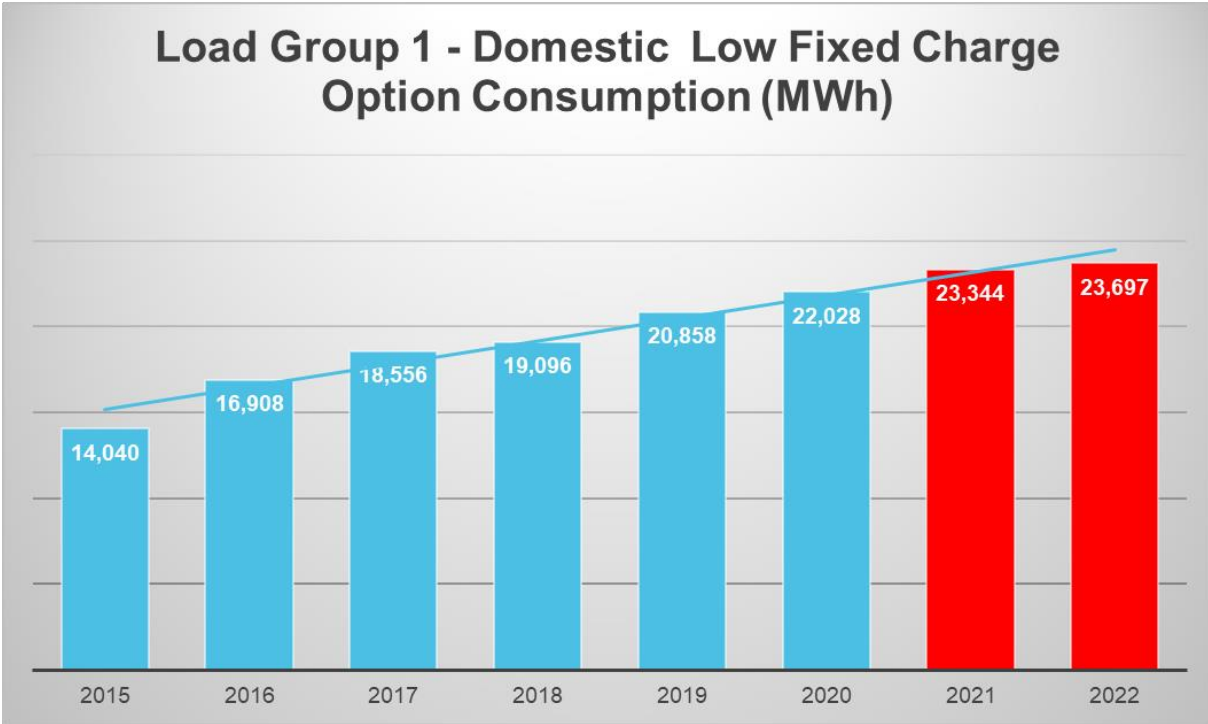
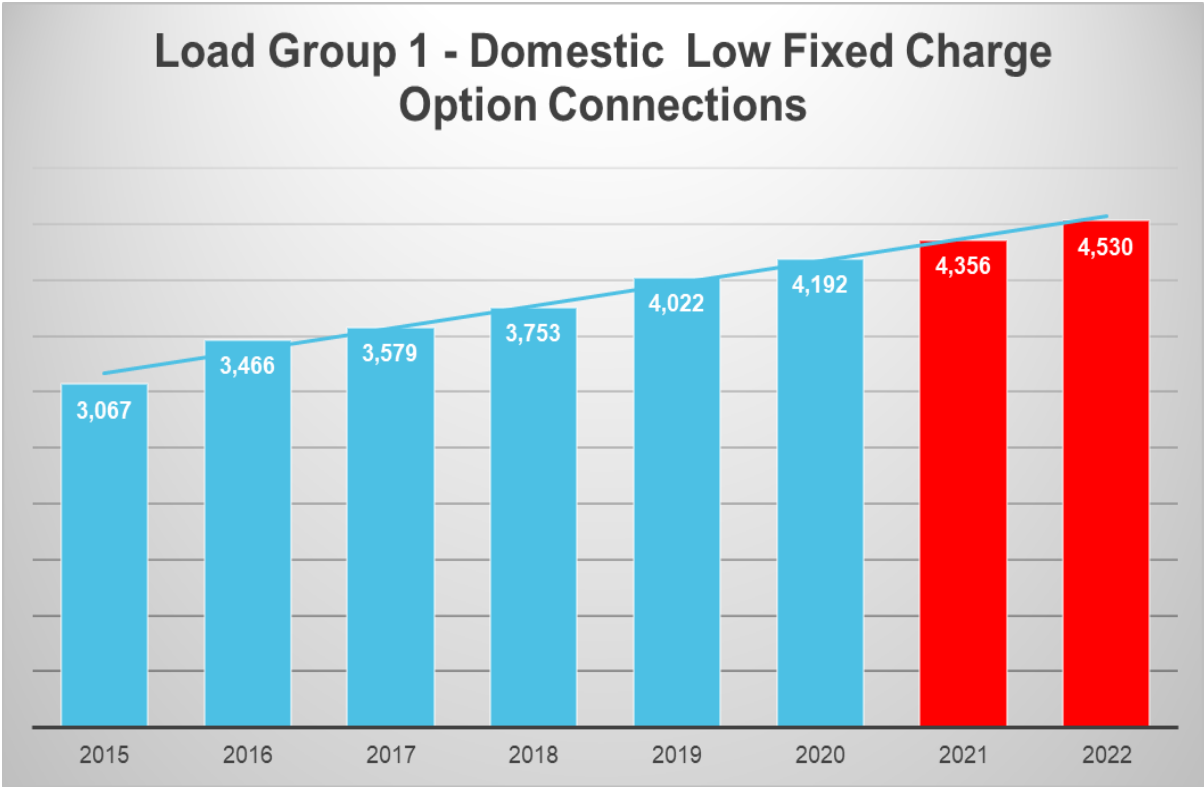
The key change to the 2022 quantity assessments, when using historic data, has been the need to adjust for the impact of Covid-19 when Nelson was under alert levels 4 and 3 in April and May 2020. Consumption levels since May 2020 have largely been back in alignment with the previous year's monthly consumption. The 2019 data was used as a basis for forecasting the April and May 2021 quantities.

Other adjustments were:

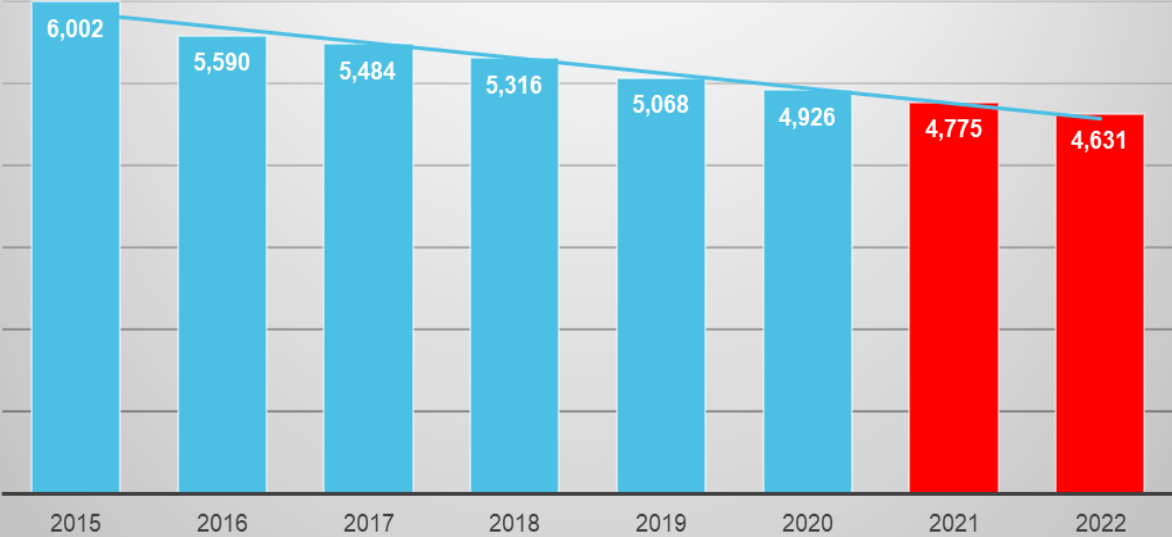
- The continued migration of 200 domestic consumers per year shifting to the Low Fixed Charge option from Load Group 2 to Load Group 1.
- The quantity assessment also accounts for changes in connection numbers. There are 30 new connections factored into this assessment in Load Groups 1 and 2. The capacity and volume 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 that are in line with historic trends (allowing for Covid-19 impacts).

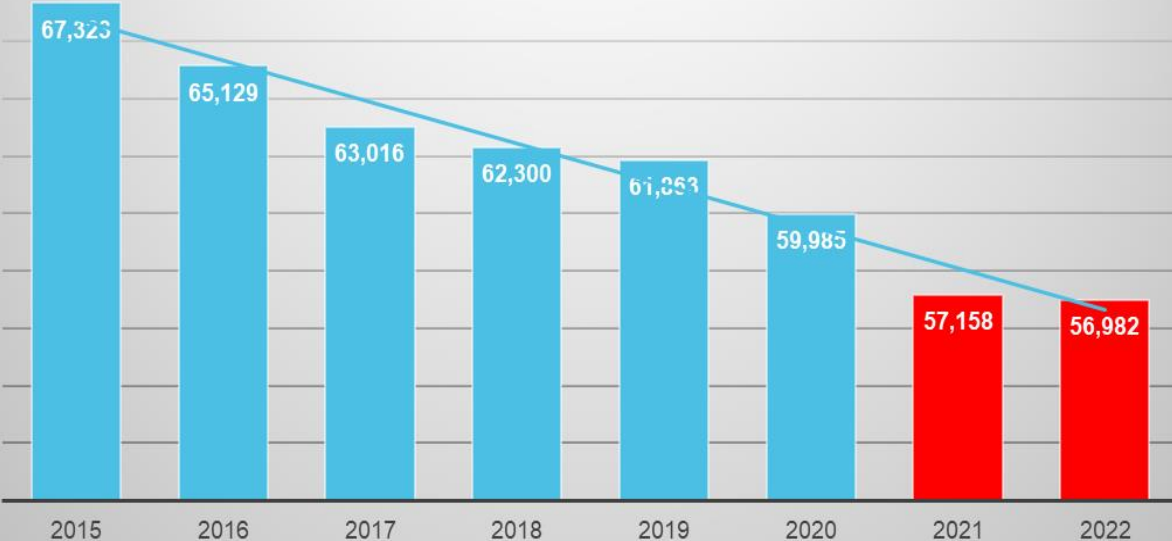
Quantity Graphs



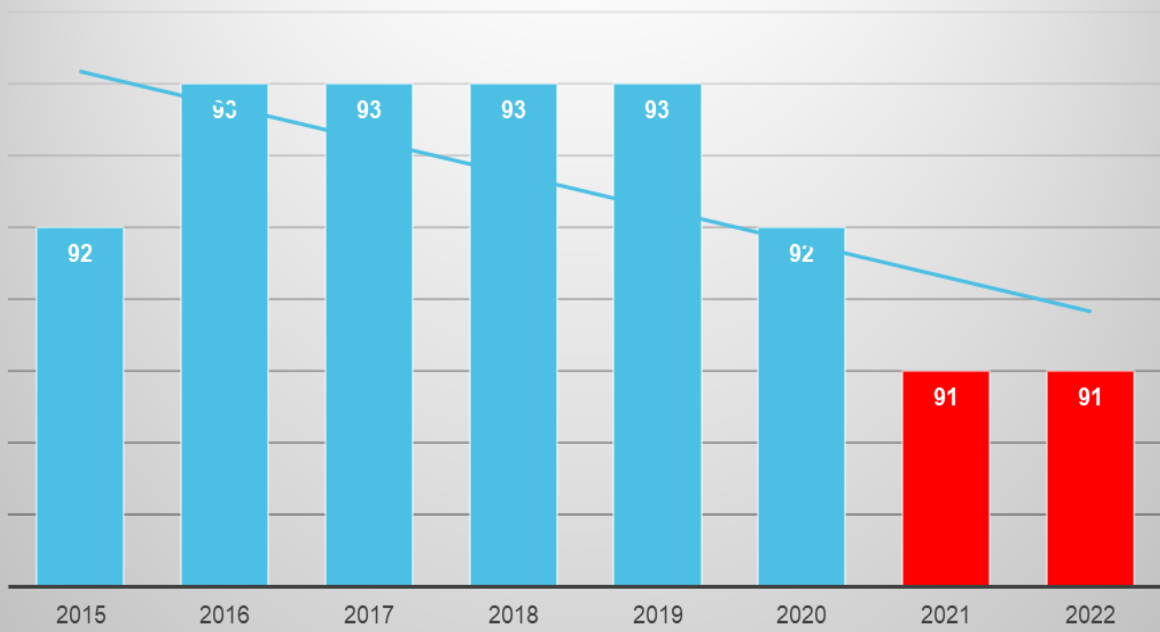
Load Group 2 - Domestic and Business Connections



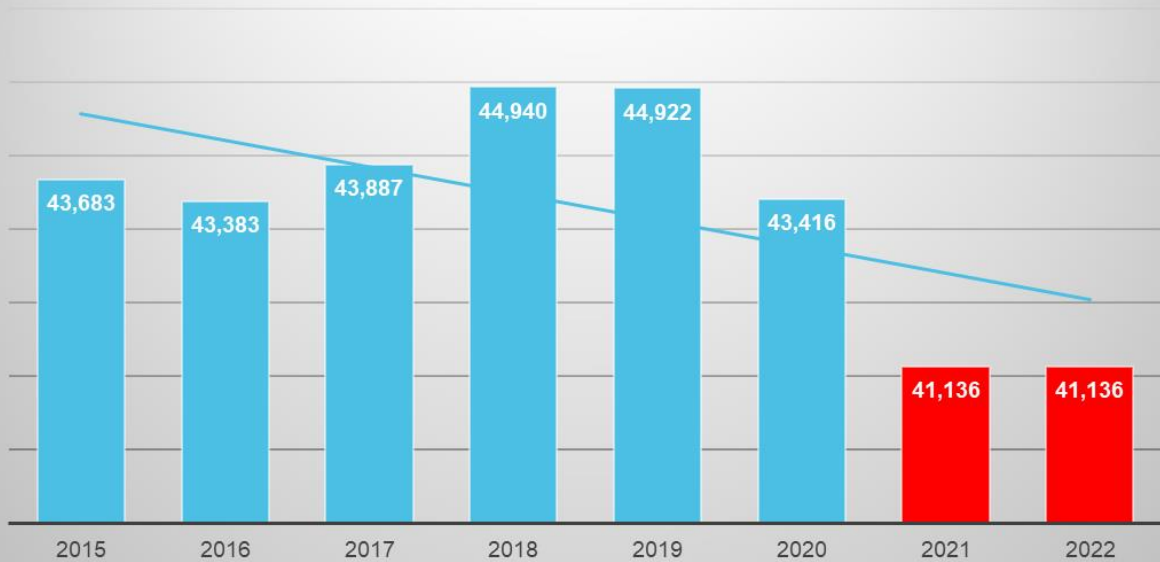
Load Group 2 - Domestic and Business Consumption (MWh)



Load Group 3 - Large Business Connections



Load Group 3 - Large Business Consumption (MWh)



Appendix C – Director’s Certificate

In accordance with the Commerce Act
Electricity Distribution Services Default Price-Quality Path Determination 2020

SCHEDULE 6

Nelson Electricity Limited - Certificate for Annual Price-Setting Compliance Statement

Clause 11.2(c)

We, Tim Cosgrove and Oliver Kewner, 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



Signed



Date

24 March 2021

Date

24 March 2021