

**Nelson Electricity Limited**

**Default Price-Quality Path**

**Annual Price Setting Compliance Statement**

**1 April 2022 – 31 March 2023 Assessment Period**

**31 March 2022**

**(Revised 14 November 2022)**

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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.

This price-setting compliance statement is published in accordance with clause 11.1 of the 2020 DPP Determination, and applies to the third assessment period, commencing 1 April 2022 and ending 31 March 2023.

## 2. Date Prepared

This statement was prepared on 31 March 2022. Table 2 was revised on 14 November 2022 to comply with the requirements of 8.4 of the 2020 DPP Determination.

## 3. Statement of Compliance

As demonstrated in Table 1 below, and consistent with clause 8.4 of the 2020 DPP Determination Nelson Electricity Limited has complied with the price path for the second assessment period.

**Table 1**

<b>Compliance with price path RY23</b>		
<i>Forecast revenue from prices ≤ Forecast allowable revenue</i>		
Forecast revenue from prices (\$000)	Forecast allowable revenue (\$000)	Compliance result
8,694	8,704	<b>Compliant</b>

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 (Revised Table 2)**

This revised Table 2 shows the derivation of forecast allowable revenue, consistent with the requirements of 8.4 of the 2020 DPP Determination. The original Table 2 excluded the Maximum Allowable Revenue increase calculation as per the requirements of 8.4b of the 2020 DPP Determination. The Forecast Allowable Revenue outcome remains unchanged.

**Table 2**

<b>Forecast allowable revenue RY23 Lesser of 8.4(a) or 8.4(b)</b>		
<b>8.4(a) - Forecast Allowable Revenue Calculation as per Schedule 1.5</b>		
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 2023</i>	5,723
Forecast pass through costs	<i>Forecast pass-through costs and forecast recoverable costs</i>	109
Forecast recoverable costs	<i>Forecast recoverable costs, excluding any recoverable cost that is a revenue wash-up drawn down amount</i>	2,736
Opening wash-up account balance	<i>The opening wash-up account balance for the third assessment period of the DPP regulatory period as set out in Schedule 1.7 (2)</i>	135
Pass-through balance allowance	<i>The Pass-through balance allowance for the third assessment period of the DPP regulatory period is nil as set out in Clause 4.2</i>	
		<b>8,704</b>
<b>8.4(b) - Forecast revenue from prices for the previous assessment period x (1 + limit on annual percentage increase in forecast revenue from prices)</b>		
Term	Description	Value (\$000)
Previous assessment forecast revenue	Forecast revenue from prices, Assessment Two	8,552
Maximum allowable increase	Limit on annual percentage increase in forecast revenue from prices	10%
Max allowable revenue increase		<b>9,407</b>
<b>Forecast allowable revenue RY23</b>		
Term	Description	Value (\$000)
Forecast Allowable Revenue	Lesser of 8.4(a) or 8.4(b)	<b>8,704</b>

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 RY23		
Term	Description	Value (\$000)
$\Sigma P_{2022/23} * Q_{2022/23}$	<i>Forecast prices between 1 April 2022 and 31 March 2023 multiplied by forecast quantities for the period ending 31 March 2023</i>	8,694

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 RY23		
Forecast pass-through costs	\$000	Forecasting methodology
Rates on system fixed assets	38	Based on historical costs multiplied by 3.0%
Commerce Act levies	24	
Electricity Authority levies	42	
Utilities Disputes levies	6	
<b>Total forecast pass-through costs</b>	<b>109</b>	

### 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 2022 year forecast of 3.0% based on historic changes was deemed appropriate.

### Forecast recoverable costs

Table 5

Forecast Recoverable Costs RY23		
Forecast recoverable costs	\$000	Forecasting methodology
IRIS incentive adjustment	(30)	Commerce Commission IRIS Model
Transpower transmission charges	2,692	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	20	From 2021 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	34	Confirmed MDBI plus estimate of vehicles
Capex Washup	21	Commerce Commission Capex Washup Template
Innovation project allowance	-	
<b>Total forecast recoverable costs</b>	<b>2,736</b>	

## 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 2021.

## Fire and Emergency NZ Levies

The levies for Material Damage and Business Interruption are known for the period, and accounts for \$34k of the total. A nominal amount is included for vehicles.

## *Pass-through balance allowance*

Does not apply for Assessment Period 3

## *Washup Account Balance*

Table 6

Opening Wash-up Account Balance Allowance RY23		
Term	Description	Value (\$000)
WU2021	<i>Washup Amount RY21</i>	125
67th percentile estimate of post-tax WACC	<i>As per Clause 4.2</i>	4.23%
<b>Opening Wash-up Account Balance</b>	$WU2021 \times (1 + WACC)^2$	<b>135</b>

## 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.

Total Revenue Table using 31 March 2023 Prices and 2022/2023 Quantities

Number of Day												
	365											
Tariff or Fee	Number of ICPs at 31/03/2023	Billed kWh at 31/3/2023	Billed kVA at 31/3/2023	Billed Days at 31/3/2023	Distribution Charges			Notional Distribution Revenue (\$)		Total Revenue (\$)		
					Fixed			Variable (c/kWh)	Fixed	Variable	P <sub>2023</sub>	Q <sub>2023</sub>
					\$/day	c/kVA/day	Other					
<b>Group 0</b>												
Streetlights	1	590,207	-	365	219.00	0.00	0.00	0.00	79,935	-	79,935	
Unmetered Fix	37	-	-	13,505	0.15	0.00	0.00	0.00	2,026	-	2,026	
Unmetered Ca	0	-	9,862	-	0.00	97.00	0.00	0.00	9,566	-	9,566	
Builders Temp	11	-	-	4,375	0.80	0.00	0.00	0.00	3,500	-	3,500	
BT-kWh		4,015	-	-	0.00	0.00	0.00	8.10	-	325	325	
<b>Group 1</b>												
Fixed	4,360	-	23,911,602	-	0.00	2.00	0.00	0.00	478,232	-	478,232	
Anytime		16,344,350	-	-	0.00	0.00	0.00	7.70	-	1,258,515	1,258,515	
Controlled		7,019,872	-	-	0.00	0.00	0.00	2.80	-	196,556	196,556	
Nightrate		450,336	-	-	0.00	0.00	0.00	0.80	-	3,603	3,603	
DG		244,993	-	-	0.00	0.00	0.00	0.50	-	1,225	1,225	
<b>Group 2</b>												
Fixed	4,825	-	38,523,439	-	0.00	7.10	0.00	0.00	2,735,164	-	2,735,164	
Anytime		49,303,683	-	-	0.00	0.00	0.00	3.30	-	1,627,022	1,627,022	
Controlled		7,763,381	-	-	0.00	0.00	0.00	0.80	-	62,107	62,107	
Nightrate		879,403	-	-	0.00	0.00	0.00	0.20	-	1,759	1,759	
DG		325,192	-	-	0.00	0.00	0.00	0.50	-	1,626	1,626	
<b>Time of Use</b>												
Metered Install	88	-	-	32,259	1.00	0.00	0.00	0.00	32,259	-	32,259	
Energy		32,347,929	-	-	0.00	0.00	0.00	1.20	-	388,175	388,175	
Winter Demand		-	3,686,176	-	0.00	16.80	0.00	0.00	619,278	-	619,278	
Capacity Supply (Sum of kVA		-	10,261,245	-	0.00	4.91	0.00	0.00	503,827	-	503,827	
Power Factor (kVA/r)		-	3,705	-	0.00	0.00	6.50	0.00	24,082	-	24,082	
DG		-	-	-	0.00	0.00	0.00	0.50	-	-	-	
<b>TOU Sealord</b>												
Fixed	1	14,394,754	-	-	0.00	0.00	389,214.00	0.00	389,214	-	389,214	
Power Factor (kVA/r)		-	-	-	0.00	0.00	6.50	0.00	-	-	-	
					0.00	0.00	0.00	0.50				
<b>Direct Connection</b>												
Energy		9,124,969	-	-	0.00	0.00	0.00	0.20	-	18,250	18,250	
Installation	2	-	-	730	1.00	0.00	0.00	0.00	730	-	730	
Winter Demand		-	633,275	-	0.00	10.30	0.00	0.00	65,227	-	65,227	
Capacity Supplied		-	1,241,000	-	0.00	4.91	0.00	0.00	60,933	-	60,933	
Power Factor (kVA/r)		-	384	-	0.00	0.00	6.50	0.00	2,496	-	2,496	
Transpower Cold Storage		-	1	-	0.00	0.00	35,538.00	0.00	35,538	-	35,538	
Transpower NMDHB		-	1	-	0.00	0.00	93,234.00	0.00	93,234	-	93,234	
DG		-	-	-	0.00	0.00	0.00	0.50	-	-	-	
<b>Σ P<sub>2023</sub> Q<sub>2023</sub></b>	<b>9,325</b>	<b>138,222,899</b>							<b>5,135,241</b>	<b>3,559,163</b>	<b>8,694,404</b>	



## **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 2023 assessment period are able to be based on the quantities used in previous assessment periods (noting that 2022 assessment period has unbilled months data estimated).

### **2022 Assessment Period**

Actual price category level billed quantities for the 2022 assessment period was available from April 2021 to December 2021 when setting 2023 prices. The remaining months of the 2022 assessment period is estimated by using the actual 2021 price category quantity trends.

### **2023 Assessment Period**

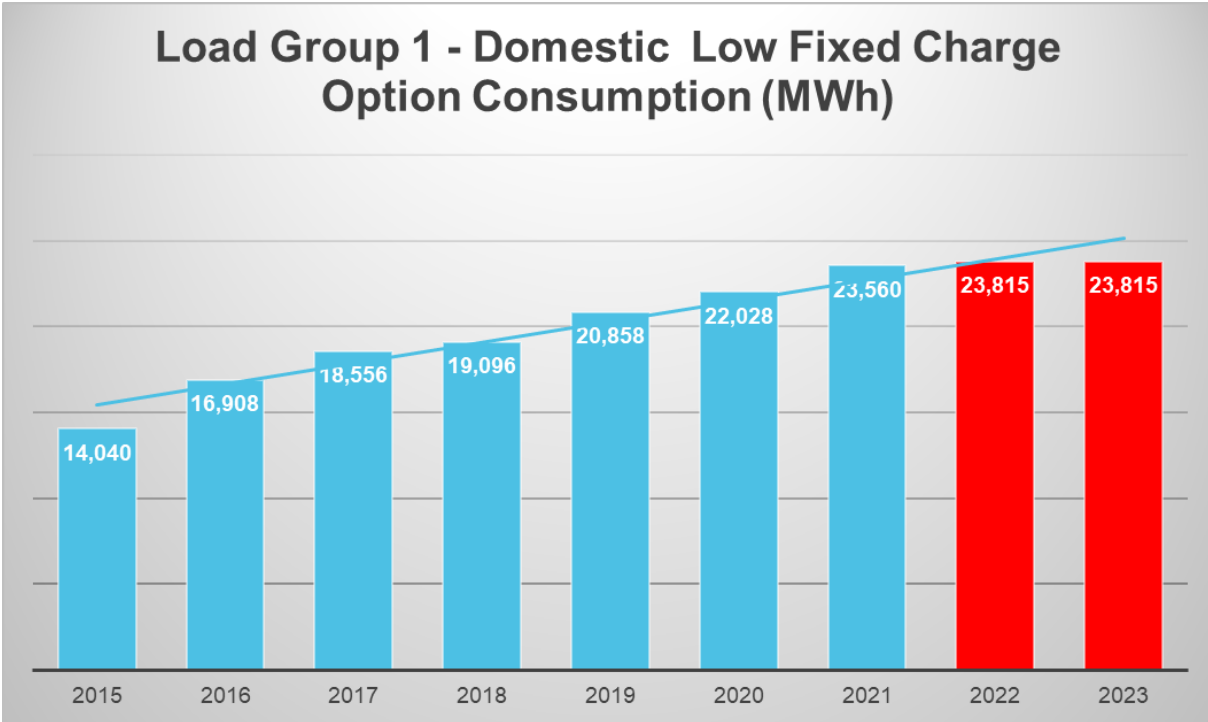
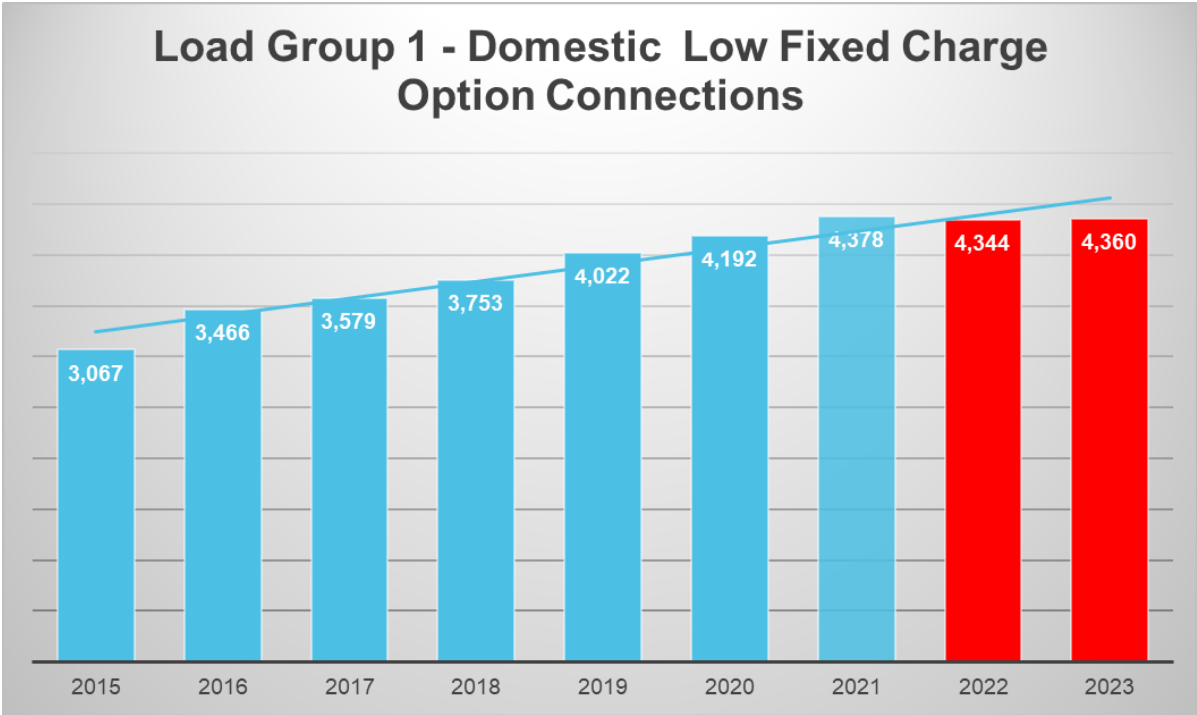
For the 2023 assessment period estimated quantities have been assessed based on the billed quantity assessments for the period 1 January 2021 to 31 December 2021. Given network load consumption has remained relatively flat overall and between Load Groups, it was deemed that utilising those quantities (with minor adjustments for new connections and minor consumption changes) was appropriate for 2023. There were no additional adjustments made to billed quantities due to Covid-19 lockdowns in 2021 as the impacts on the Nelson Electricity network were minimal.

Other adjustments compared to previous years were:

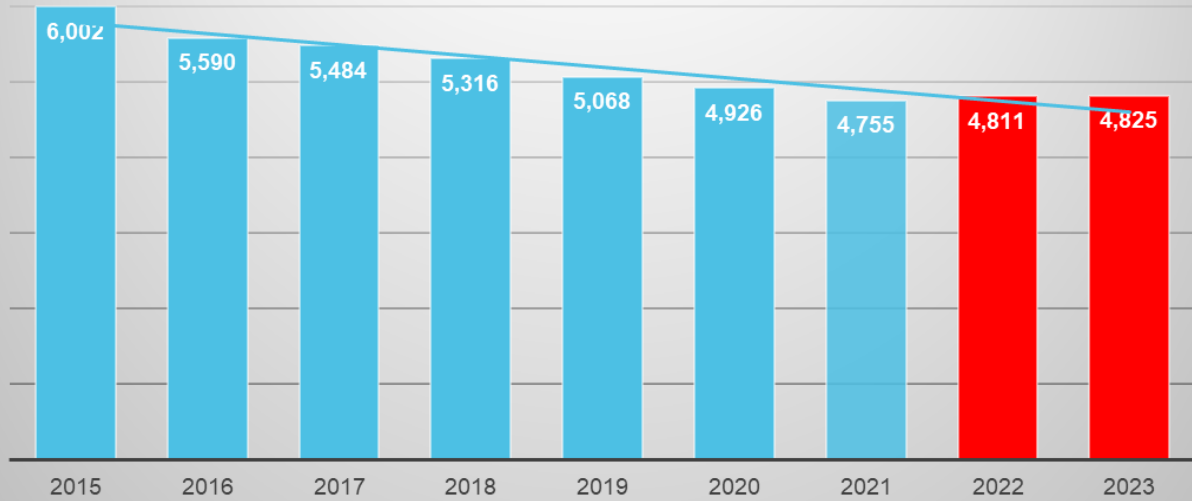
- The typical migration of 200 domestic consumers per year shifting to the Low Fixed Charge option from Load Group 2 to Load Group 1 ceased in during 2021. The number of consumers switching from Load Group 2 to Load Group 1 was offset by the same number switching from Load Group 1 to Load Group 2. The quantity forecast is based on no migration.
- 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.

**Quantity Graphs**



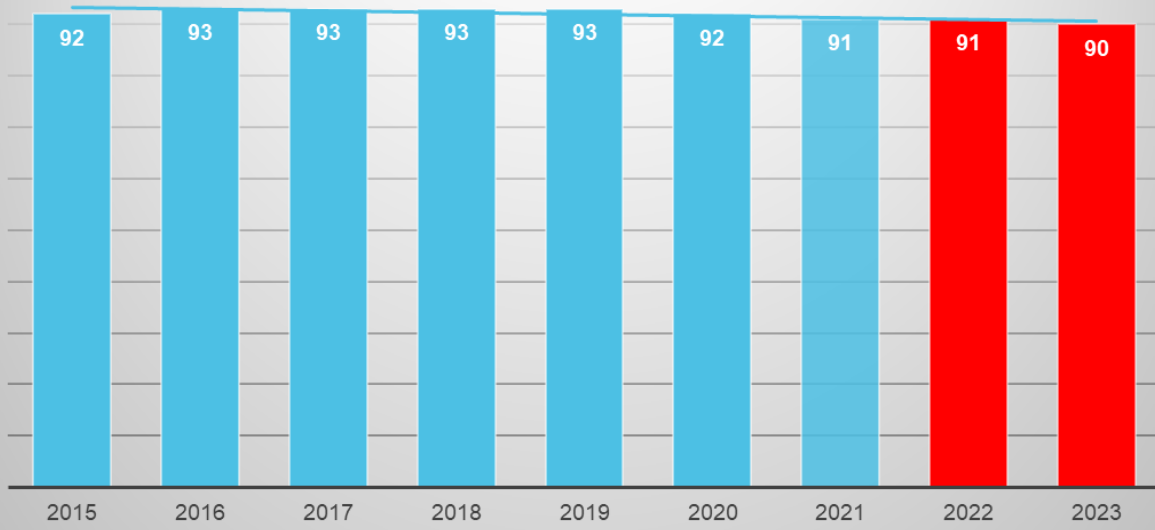
## Load Group 2 - Domestic and Business Connections



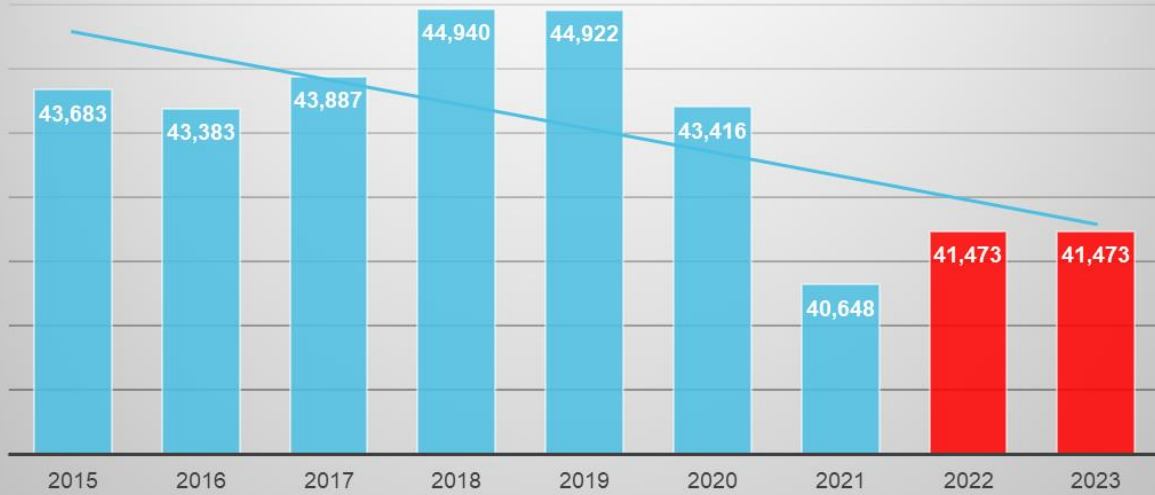
## Load Group 2 - Domestic and Business Consumption (MWh)



### 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, Philip Ian Robinson 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



Signed



Date

31 March 2022

Date

31 March 2022