

Default Price-Quality Path

Annual Price Setting Compliance Statement

1 April 2023 – 31 March 2024 Assessment Period

31 March 2023

(Revised 10 June 2023)

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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 fourth assessment period, commencing 1 April 2023 and ending 31 March 2024.

2. Date Prepared

This statement was prepared on 31 March 2023. Table 2 was revised on 10 June 2023 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 fourth assessment period.

Table 1

Compliance with price path RY24		
<i>Forecast revenue from prices ≤ Forecast allowable revenue</i>		
Forecast revenue from prices (\$000)	Forecast allowable revenue (\$000)	Compliance result
8,354	8,409	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

This revised Table 2 amended 10 June 2023 due to Previous Assessment Forecast Revenue error shows the derivation of forecast allowable revenue, consistent with the requirements of 8.4 of the 2020 DPP Determination.

Table 2

Forecast allowable revenue RY24		
8.4(a) - Forecast Allowable Revenue Calculation as per Schedule 1.5		
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 2024</i>	5,837
Forecast pass through costs	<i>Forecast pass-through costs and forecast recoverable costs</i>	126
Forecast recoverable costs	<i>Forecast recoverable costs, excluding any recoverable cost that is a revenue wash-up drawn down amount</i>	2,336
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>	110
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>	
Total		8,409
8.4(b) - Forecast revenue from prices for the previous assessment period x (1 + limit on annual percentage increase in forecast revenue from prices)		
Term	Description	Value (\$000)
Previous assessment forecast revenue	Forecast revenue from prices, Assessment Three	8,694
Maximum allowable increase	Limit on annual percentage increase in forecast revenue from prices	10%
Max allowable revenue increase		9,563
Forecast allowable revenue RY24		
Term	Description	Value (\$000)
Forecast Allowable Revenue	Lesser of 8.4(a) or 8.4(b)	8,409

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 RY24		
Term	Description	Value (\$000)
$\Sigma P_{2022/23} * Q_{2022/23}$	<i>Forecast prices between 1 April 2023 and 31 March 2024 multiplied by forecast quantities for the period ending 31 March 2024</i>	8,354

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 RY24		
Forecast pass-through costs	\$000	Forecasting methodology
Rates on system fixed assets	41	Based on Council media Release by 5.4%
Commerce Act levies	33	Based on historical costs multiplied by 5%
Electricity Authority levies	46	Based on historical costs multiplied by 8.4% as per EA Consultation
Utilities Disputes levies	6	Based on historical costs multiplied by 5%
Total forecast pass-through costs	126	

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 2023 year forecast of 5.0% based on historic changes was deemed appropriate.

Forecast recoverable costs

Table 5

Forecast Recoverable Costs RY24		
Forecast recoverable costs	\$000	Forecasting methodology
IRIS incentive adjustment	(211)	Commerce Commission IRIS Model
Transpower transmission charges	2,488	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	2	From 2022 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	35	Based on historical costs multiplied by 5%
Capex Washup	21	Commerce Commission Capex Washup Template
Innovation project allowance	-	
Total forecast recoverable costs	2,336	

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 2022.

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 RY24		
Term	Description	Value (\$000)
WU2022	<i>Washup Amount RY22</i>	101
67th percentile estimate of post-tax WACC	<i>As per Clause 4.2</i>	4.23%
Opening Wash-up Account Balance	$WU_{2022} \times (1 + WACC)^2$	110

Appendix B – Forecast Prices and Quantities

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

Total Revenue Table using 31 March 2024 Prices and 2023/2024 Quantities

Number of Days: 366											
Tariff or Fee	Number of ICPs at 31/03/2024	Billed kWh at 31/3/2024	Billed kVA at 31/3/2024	Billed Days at 31/3/2024	Distribution Charges			Variable (c/kWh)	Notional Distribution Revenue (\$)		Total Revenue (\$) P ₂₀₂₄ Q ₂₀₂₄
					Fixed				Fixed	Variable	
					\$/day	c/kVA/day	Other				
Group 0											
Streetlights	1	570,205	-	366	225.00	0.00	0.00	0.00	82,350	-	82,350
Unmetered Fixed	37	-	-	13,542	0.15	0.00	0.00	0.00	2,031	-	2,031
Unmetered Capacity	0	-	9,889	-	0.00	100.00	0.00	0.00	9,889	-	9,889
Builders Temp	9	-	-	3,172	0.80	0.00	0.00	0.00	2,537	-	2,537
BT-kWh		2,168	-	-	0.00	0.00	0.00	8.10	-	176	176
Group 1 (Standard)											
Fixed	563	-	3,081,000	-	0.00	3.00	0.00	0.00	92,430	-	92,430
Anytime		2,067,079	-	-	0.00	0.00	0.00	5.70	-	117,824	117,824
Controlled		859,985	-	-	0.00	0.00	0.00	3.30	-	28,380	28,380
Nightrate		55,702	-	-	0.00	0.00	0.00	2.80	-	1,560	1,560
DG		36,893	-	-	0.00	0.00	0.00	0.50	-	184	184
Group 1P (Peak/Off-Peak)											
Fixed	3,771	-	20,618,999	-	0.00	3.00	0.00	0.00	618,570	-	618,570
Peak		6,418,759	-	-	0.00	0.00	0.00	6.30	-	404,382	404,382
Off Peak		4,648,067	-	-	0.00	0.00	0.00	4.80	-	223,107	223,107
Controlled		5,755,285	-	-	0.00	0.00	0.00	3.30	-	189,924	189,924
Nightrate		372,773	-	-	0.00	0.00	0.00	2.80	-	10,438	10,438
Default		2,766,706	-	-	0.00	0.00	0.00	5.70	-	157,702	157,702
DG		246,902	-	-	0.00	0.00	0.00	0.50	-	1,235	1,235
Group 2 (Standard)											
Fixed	874	-	7,008,991	-	0.00	7.10	0.00	0.00	497,638	-	497,638
Anytime		8,846,749	-	-	0.00	0.00	0.00	3.00	-	265,402	265,402
Controlled		1,334,740	-	-	0.00	0.00	0.00	0.60	-	8,008	8,008
Nightrate		144,849	-	-	0.00	0.00	0.00	0.20	-	290	290
DG		67,348	-	-	0.00	0.00	0.00	0.50	-	337	337
Group 2P (Peak/Off-Peak)											
Fixed	3,980	-	31,929,850	-	0.00	7.10	0.00	0.00	2,267,019	-	2,267,019
Peak		18,700,062	-	-	0.00	0.00	0.00	3.30	-	617,102	617,102
Off Peak		13,541,424	-	-	0.00	0.00	0.00	2.40	-	324,994	324,994
Controlled		6,080,481	-	-	0.00	0.00	0.00	0.60	-	36,483	36,483
Nightrate		659,865	-	-	0.00	0.00	0.00	0.20	-	1,320	1,320
Default		8,060,372	-	-	0.00	0.00	0.00	3.00	-	241,811	241,811
DG		306,809	-	-	0.00	0.00	0.00	0.50	-	1,534	1,534
Group 2R (Remote - Fringed Hill)											
Fixed	4	-	21,900	-	-	10.60	-	-	2,321	-	2,321
Anytime		73,197	-	-	-	-	-	3.00	-	2,196	2,196
Time of Use											
Metered Installation Charge	88	-	-	31,769	1.45	0.00	0.00	0.00	46,065	-	46,065
Energy		32,304,076	-	-	0.00	0.00	0.00	1.00	-	323,041	323,041
Winter Demand		-	3,675,952	-	0.00	13.50	0.00	0.00	496,253	-	496,253
Capacity Supply (Sum of kVA)		-	10,197,728	-	0.00	6.00	0.00	0.00	611,864	-	611,864
Power Factor (kVAr)		-	2,979	-	0.00	0.00	6.50	0.00	19,366	-	19,366
DG		600	-	-	0.00	0.00	0.00	0.50	-	3	3
TOU Sealord											
Fixed	1	13,576,842	-	-	0.00	0.00	380,000.00	0.00	380,000	-	380,000
Power Factor (kVAr)		-	-	-	0.00	0.00	6.50	0.00	-	-	-
					0.00	0.00	0.00	0.50			
Direct Connection											
Energy		9,274,986	-	-	0.00	0.00	0.00	0.20	-	18,550	18,550
Installation	2	-	-	732	1.45	0.00	0.00	0.00	1,061	-	1,061
Winter Demand		-	626,615	-	0.00	10.80	0.00	0.00	67,674	-	67,674
Capacity Supplied		-	1,244,400	-	0.00	4.00	0.00	0.00	49,776	-	49,776
Power Factor (kVAr)		-	-	-	0.00	0.00	6.50	0.00	-	-	-
Transpower Cold Storage		-	1	-	0.00	0.00	45,199.19	0.00	45,199	-	45,199
Transpower NMDHB		-	1	-	0.00	0.00	86,202.01	0.00	86,202	-	86,202
DG		-	-	-	0.00	0.00	0.00	0.50	-	-	-
Σ II, 2024 @ 2024	9,330	136,668,683							5,378,248	2,975,982	8,354,230

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.

The introduction of Peak/Off-Peak categories in Load Groups 1 and 2 has meant that total quantities were allocated to each pricing category based on the proportion of ICP's with HHR metering compared to NHH metering. The proportion of ICP's with HHR metering is 87%, these ICP's will be shifted onto Peak/Off-Peak pricing category codes 1P and 2P.

The Peak/Off-Peak kWh split for Pricing Category 1P and 2P is based on the 12 months half hour quantity assessment for the year ending 31 August 2022 for the combined Load Groups 1 and 2 and then split into Peak and Off-Peak times. It is assessed that 58% of Load Group 1 and 2 consumption was in Peak times and 42% in Off-Peak times. Given that the pricing differential between Peak and Off-Peak is low in 2023/24 and that retailers may take time to transparently pass the pricing through to their customers, the quantities for Groups 1P and 2P do not factor in any consumption shifting in the first year. It is also assessed that 20% of uncontrollable load will be reported against the Default uncontrolled pricing codes where retailers are unable to provide Peak/Off-Peak quantities for billing.

2023 Assessment Period

Actual price category level billed quantities for the 2023 assessment period was available from April 2022 to December 2022 when setting 2024 prices. The remaining months of the 2023 assessment period is estimated by using the actual 2022 price category quantity trends given that consumption has remained relatively flat throughout the year.

2024 Assessment Period

For the 2024 assessment period estimated quantities have been assessed based on the billed quantity assessments for the period 1 January 2021 to 31 December 2022. 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 2024.

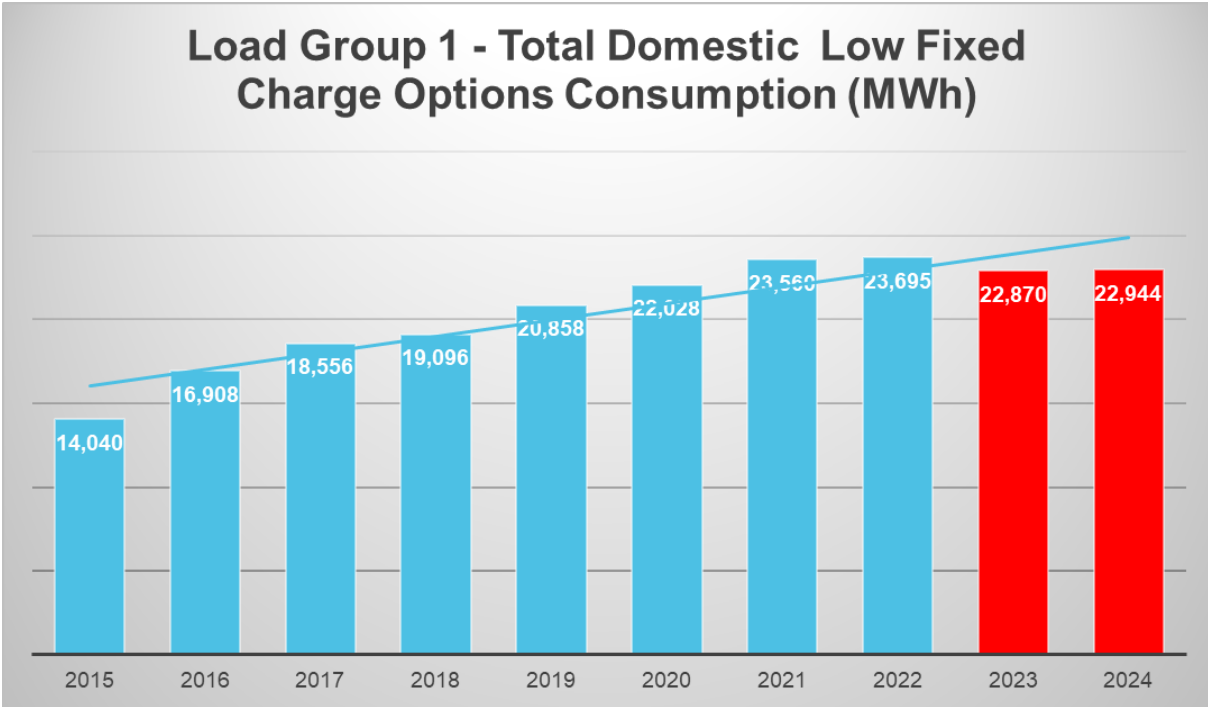
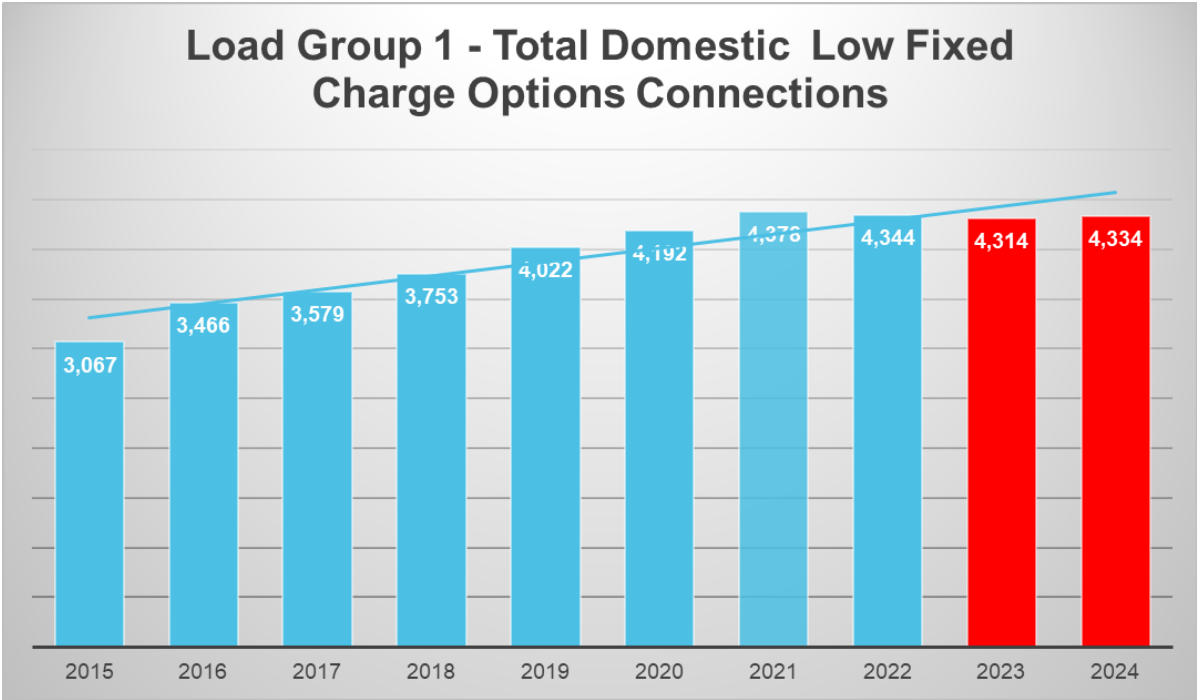
Other adjustments compared to previous years are:

- 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 since 2021. The number of consumers switching from Load Group 2 to Load Group 1 is being 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.

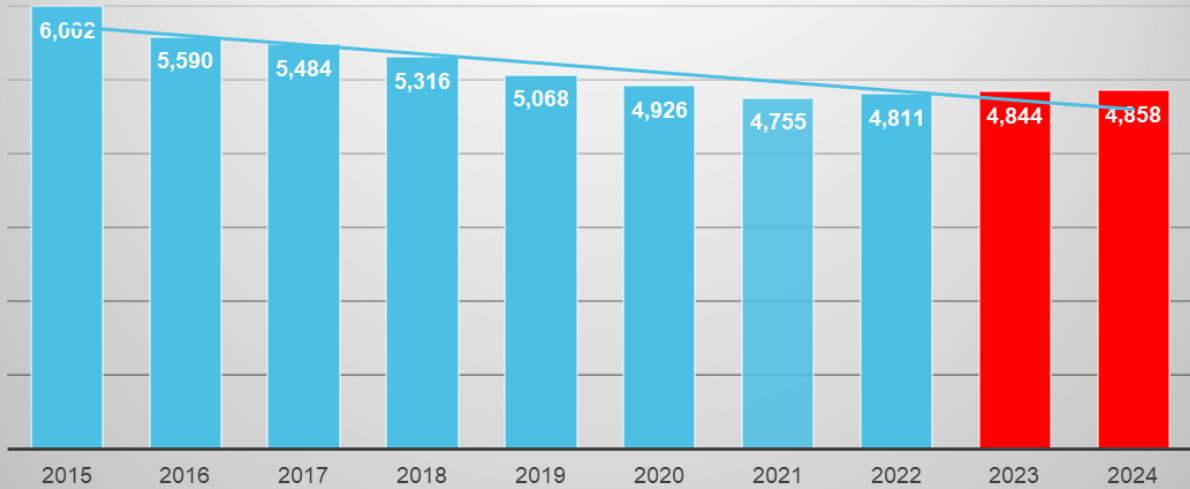
The following graphs demonstrate the Load Group quantity changes. All quantities are in alignment with expectation when considering the 2 factors above with Load Groups 1 and 2.

It shows the flattening of connection number changes and total quantities for Load Groups 1 and 2.

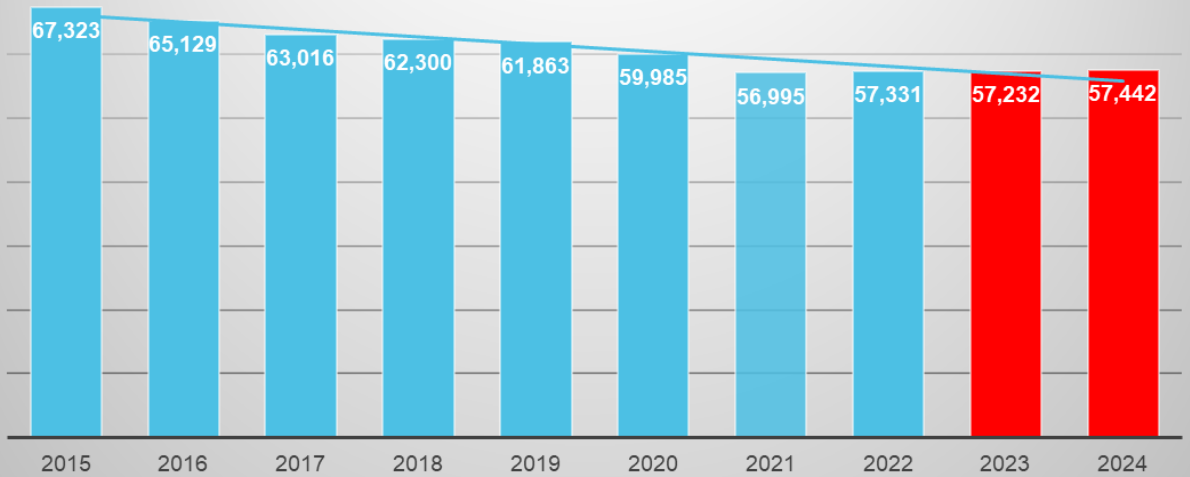
Quantity Graphs



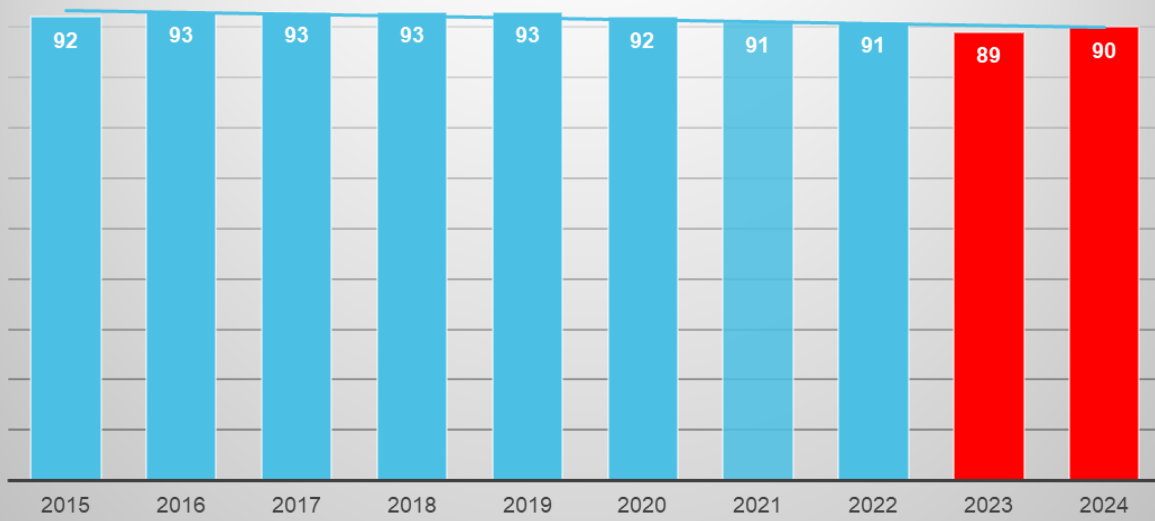
Load Group 2 - Total Domestic and Business Connections



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



Load Group 3 - Large Business Connections



Load Group 3 - Large Business Consumption (MWh)

