Annual Price-Setting Compliance Statement

Prepared 12 February 2020

For the assessment period ending 31 March 2021

Contents

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A copy of this Annual Price-Setting Compliance Statement and our Asset Management Plan can be downloaded from www.welectricity.co.nz/disclosures

Any comments or suggestions regarding the Annual Price-Setting Compliance Statement can be made to:

Scott Scrimgeour

Commercial and Regulatory Manger

Wellington Electricity Lines Limited

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1 Introduction

Wellington Electricity Lines Limited (WELL) owns and operates the electricity distribution network in the Wellington region. We manage the poles, wires and equipment that provide electricity to approximately 400,000 customers in the Wellington, Porirua, Lower Hutt and Upper Hutt areas.

We are investing around **$126m** in infrastructure on the Wellington network[1]

We provide electricity to over **167,000** households and to **400,000** people

Our total network is around **6,600 km** in length with over **4,100 km** of it being underground cables.

We have around **4,000 substations** and **40,000 poles**.

We own around **2,000 km** of streetlight circuits but none of the streetlights themselves.

Under Part 4 of the Commerce Act 1986, the Commerce Commission (Commission) regulates markets where competition is limited, including electricity distribution services. Regulation for electricity distribution services includes regulation of price and quality through a price-quality path to ensure incentives and pressures, similar to those in a workably competitive market, are faced by distributors so that consumers will benefit in the long term.

WELL is currently delivering a Customised Price-Quality Path (CPP) for the three year period from 1 April 2018 to 31 March 2021. The CPP includes prices to operate the Wellington network and to deliver an earthquake readiness programme.

We have a number of known earthquake fault lines in the region. In March 2018 we were granted $31.24 million of additional funding to improve our ability to respond after a major earthquake. Our earthquake readiness programme Includes:

1. Seismically strengthening 91 of our substation buildings to ensure that they can withstand the shaking.
2. Increase our stock of spares and have them distributed around the region so that we can restore critical power quicker.
3. Upgrade our radio and phone systems to improve our communications after an event.
4. Construct three data centres to ensure we have access to vital information which is accessible should telecommunications links fail.
5. Construct two portable substations (one for Wellington and the other for the Hutt Valley) that can be deployed at any substation which may be severely impacted by an earthquake.

The price-quality path set by the Commission includes the allowances WELL has to operate the network, how much revenue we can collect from our customers, the quality levels that we must perform to and the earthquake readiness milestones we must reach. To demonstrate that WELL has met these performance

[1] WELL's customised price-quality path includes $126m in capital work programmes on the Wellington network.

targets, we are required to provide two compliance statements, the *Annual Price-Setting Compliance Statement (the Compliance Statement)* and the *Annual Compliance Statement.*

This document is the *Annual Price-Setting Compliance Statement.* The *Annual Price-Setting Compliance Statement* confirms that WELL's forecast prices for the 12-month period ended 31 March 2021 have been set at a level to collect the allowances determined by the CPP price path. The *Annual Price-Setting Compliance Statement* was submitted to the Commission and provided on our website in March 2020 (www.welectricity.co.nz/disclosures/price-quality-path-annual-compliance-statements/).

The *Annual Compliance Statement* confirms that WELL has met its revenue, quality and earthquake readiness expectations set out by the CPP price-quality path. WELL provides the *Annual Compliance Statement* in July after the end of a regulatory year.

1.1 2018 CPP Determination requirements

The requirements of the Annual Price-Setting Compliance Statement are provided in the *Wellington Electricity Lines Limited Electricity Distribution Customised Price-Quality Path Determination 2018 (2018 CPP Determination)*. The 2018 CPP Determination requires WELL to provide an Annual Price-Setting Compliance Statement to the Commission demonstrating that WELL's forecast prices are set at appropriate levels. This Annual Price-Setting Compliance Statement must include WELL's calculations of forecast revenue from prices and forecast allowable revenue. The statement must also include supporting information for all components of these calculations.

As required by clause 11.2(a) of the 2018 CPP Determination, this Annual Price-Setting Compliance Statement confirms that WELL has complied with the price path in clause 8 of the 2018 CPP Determination for the 12 month period ending 31 March 2021.

1.2 Disclaimer

The information contained in this Annual Price-Setting Compliance Statement has been prepared for the express purpose of complying with the requirements of clause 11 of the 2018 CPP Determination. The Compliance Statement has not been prepared for any other purpose. WELL expressly disclaims any liability to any other party who may rely on the Annual Price-Setting Compliance Statement for any other purpose.

Representations in this Annual Price-Setting Compliance Statement made by WELL relate solely to the services offered on the electricity distribution network in the Wellington region.

1.3 Rounding

For presentation purposes some numbers in this document have been rounded. In most cases calculations are based on more detailed numbers (i.e. to more decimal places than shown in this document). This may cause small discrepancies or rounding inconsistencies when aggregating some of the information presented in this document. These discrepancies do not affect the overall compliance calculations which have been based on the more detailed information.

2 Compliance assessment

2.1 Summary

The price-path compliance requirement in clause 8.3 of the 2018 CPP determination states that the forecast revenue from prices for each assessment period must not exceed the forecast allowable revenue for the assessment period.

WELL has complied with the price path for the assessment period 1 April 2020 to 31 March 2021 as shown in the table below. The table confirms that forecast revenue from prices for the regulatory period ending 31 March 2021 does not exceed forecast allowable revenue.

Forecast allowable revenue ($000)	Forecast revenue from prices ($000)	Compliance test result
146,225	146,212	Complies because forecast revenue from prices is < forecast allowable revenue

Sections 2.2 and 2.3 provide more detail about the assumptions and calculations that support these forecasts.

2.2 Wash-up calculation statement

WELL's forecast allowable revenue for each annual assessment period is determined in accordance with the formula as per Schedule 1.4 (5) of the 2018 CPP Determination.

Forecast allowable revenue = Forecast net allowable revenue

+ Forecast pass-through and recoverable costs

+ Opening wash-up account balance

+ Pass-through balance annual recovery

The calculation of WELL's forecast allowable revenue for the assessment period ending 31 March 2020 is provided in the table below.

Calculation components	($000)
Forecast net allowable revenue	91,708
Forecast pass-through and recoverable costs	57,996
Opening wash-up account balance	95
Pass-through balance annual recovery	-3,574
Total forecast allowable revenue	**146,225**

The components of forecast allowable revenue for the assessment period ending 31 March 2020 are described in more detail below.

2.2.1 Forecast net allowable revenue

A new forecast net allowable revenue has been calculated to reflect the revised WACC which takes effect from 1 April 2020. The Commission have provided a draft value for the updated allowance, pending receipt of a formal price path reconsideration decision from the Commission. The updated figure of $91,708 replaces the forecast net allowable revenue of $109,531 provided in schedule 1.3 of the 2018 CPP Determination.

2.2.2 Forecast pass-through and recoverable costs

WELL forecasts the pass-through and recoverable costs for the annual assessment period. The 2018 CPP Determination requires that WELL demonstrates the forecasts are reasonable. The following table provides a breakdown of these forecast costs and summarises the approach WELL has applied to determine these forecasts. In WELL's opinion, the forecasts are reasonable.

Component	Amount ($000)	Basis for forecast
Forecast pass-through costs		
Council rates	2,880	Based on historical costs plus CPI adjustment of 2.00%
Commerce Commission levies	280	
Electricity Authority levies	503	
UDL levies	99	
Total forecast pass-through costs	3,762	
Forecast recoverable costs		
Transpower connection and interconnection charges	52,698	As notified by Transpower
Transpower new investment charges	1,072	
Avoided Cost of Transmission (ACOT) Charges	1,627	Forecast based on calculation of Transpower interconnection charges avoided in accordance with contracts with Distributed Generators.[2]
Quality incentive adjustment	1,171	Determined for 2018/19 regulatory year (adjusted for time value of money)
Capex wash-up adjustment	350	CPP Determination Schedule 2.1(9)

[2] Refer to WELL's pricing methodology for further information on the calculation of ACOT payments

Component	Amount ($000)	Basis for forecast
IRIS Incentive adjustment – operating expenditure	-$2,685	Calculated as per Section 3.3.2 of the Electricity Services Input Methodologies Determination 2012
Total forecast recoverable costs	54,233	
Total pass-through and recoverable costs	**57,996**	

2.2.3 Opening wash-up account balance

This is the closing wash-up account balance from the second assessment period, as per Schedule 1.6 (1)(b) of the CPP Determination.

2.2.4 Pass-through balance annual recovery

The calculation of the pass-through balance annual recovery for the third assessment period is specified in the Schedule 1.7 of the CPP Determination, as ***-pass-through balance/3 * (1 + WACC)^3,*** where WACC means the 67th percentile estimate of post-tax WACC.

The pass-through balance is $9,470,000 and is provided in section '2.3 Pass-Through Balance' of 'WELL's 2018 Price Quality Path Annual Compliance Statement' for the regulatory year ended 31 March 2018[3].

The 67% percentile estimate of post-tax WACC for the assessment period ending 31 March 2021 is 4.23% as provided by the Commission's '*Cost of capital determination for electricity distribution businesses' 2020-2025 default price-quality paths and Transpower New Zealand Limited's 2020-2025 individual price-quality path'.*

2.3 Forecast revenue from prices

WELL's forecast revenue from prices is equal to the total of each of its prices multiplied by the forecast quantities they will apply to. The 2018 CPP determination requires that these forecasts are demonstrably reasonable.

Prices have fixed and variable components, each requiring separate quantity forecasts – the fixed component requiring a forecast for the number of new connections and the variable component requiring a forecast of volume (GWh). WELL has based forecasts for Residential, General Low Voltage and General Transformer Standard Consumer Groups on historic trends. The table below summarises the volume trends and the resulting forecast.

[3] The pass-through balance has been calculated in accordance with clause 8.6 of the 2015 DPP Determination (as provided by schedule 11 of the 2018 CPP Determination - Input Methodology variation Clause 3.1.1 (12)). The pass-through balance calculation in the 'WELL's 2018 Price Quality Path Annual Compliance Statement' has been audited and submitted to the Commission as part of its 2015 DPP Determination compliance requirements.

Standard consumer groups (excl. unmetered)	Forecast connections		Forecast volume (GWh)	
	(% change from 2020/21)	% growth range 2014/15-2018/19	(% change from 2020/21)	% growth range 2014/15-2018/19
Residential (includes low user, standard user and EV)	+0.5%	+0.3% to +0.8%	-0.4%	-2.9% to 1.3%
General Low Voltage	-0.2%	-1.2% to +0.02%	-0.5%	-2.2% to 1.9%
General Transformer	-1.3%	-13% to +4.1%	-0.5%	-2.2% to 1.9%

For the unmetered consumer group, WELL has forecast a 0% change relative to 2019/20 in connections and volume. The majority of the revenue in this consumer group arises from fixed charges, which are charged based on the number of fittings (rather than ICPs).

WELL also has certain consumers who are charged based on non-standard contracts. These customers have atypical connection characteristics. For non-standard consumers, a confidential agreement exists between WELL and the individual consumer which sets out the terms and conditions for the supply of the electricity lines services including the price.

For consumers on non-standard contracts, WELL changed prices from 1 April 2020 in accordance with the conditions of the non-standard contracts.

A summary of WELL's forecast revenue from prices is provided in the table below. Further information is provided in Appendix 1.

Consumer group	Forecast revenue from prices ($000)
Residential (includes low user, standard user and EV)	94,254
General Low Voltage	29,372
General Transformer	16,763
Unmetered	3,887
Non-standard consumers (individual contracts)	1,936
Total	**146,212**

3 Compliance references

The following tables describe the Determination requirements and the section of this Annual Price Setting Compliance Statement that addresses them.

3.1.1 Price path summary

Determination clause	Requirement	Section of this document
8.4	The forecast revenue from prices for each assessment period must not exceed the forecast allowable revenue for the assessment period	2.1

3.1.2 Annual price-setting compliance statement

Determination clause	Requirement	Section of this document
An annual price-setting compliance statement must be provided to the Commission consisting of:		
11.2 (a)	A statement indicating whether or not WELL has complied with the price path in clause 8 for the assessment period.	2.1
11.2 b)	The date on which the statement was prepared	Cover
11.2 (c)	A certification in the form set out in Schedule 6, signed by at least one Director of WELL	Appendix 2
11.3 (a)	WELL's calculation of its forecast revenue from prices together with supporting information for all components of the calculation.	2.3; Appendix 1
11.3 (b)	WELL's calculation of its forecast allowable revenue together with supporting information for all components of the calculation.	2.2
11.3 (c)	Any reasons for non-compliance with the price path.	N/A
11.3 (d)	Actions taken to mitigate any non-compliance and to prevent similar non-compliance in future assessment periods.	N/A

4 Appendix 1: Forecast volumes and revenue for period 1 April 2020 to 31 March 2021

Price Code	Units	Description	Quantity 2020/21	Distribution Price 1 April 2020 to 31 March 2021	Transmission Price 1 April 2020 to 31 March 2021		Revenue 1 April 2020 to 31 March 2021
Residential							
RLU-FIXD	$/con/day	Residential Low User daily	31,529,350	0.0900	0.0600		4,729,403
RLU-24UC	$/kWh	Residential Low User uncontrolled	216,595,095	0.0613	0.0353		20,923,086
RLU-AICO	$/kWh	Residential Low User all inclusive	214,977,783	0.0492	0.0283		16,660,778
RLU-CTRL	$/kWh	Residential Low User controlled	16,390,743	0.0296	0.0171		765,448
RLU-NITE	$/kWh	Residential Low User night only	2,394,333	0.0100	0.0058		37,830
RSU-FIXD	$/con/day	Residential Standard User daily	20,044,080	0.5545	0.3848		18,827,405
RSU-24UC	$/kWh	Residential Standard User uncontrolled	239,719,697	0.0384	0.0222		14,527,014
RSU-AICO	$/kWh	Residential Standard User all inclusive	253,462,349	0.0265	0.0152		10,569,380
RSU-CTRL	$/kWh	Residential Standard User controlled	23,041,257	0.0118	0.0067		426,263
RSU-NITE	$/kWh	Residential Standard User night only	4,211,560	0.0092	0.0052		60,646
RLUTOU-FIXD	$/con/day	Residential Time of Use Low User daily	2,421,868	0.0900	0.0600		363,280
RLUTOU-P-UC	$/kWh	Residential Time of Use Low User peak uncontrolled	5,120,222	0.0711	0.0574		657,949
RLUTOU-OP-UC	$/kWh	Residential Time of Use Low User off-peak uncontrolled	11,528,226	0.0569	0.0255		949,926
RLUTOU-P-AI	$/kWh	Residential Time of Use Low User peak all inclusive	5,141,478	0.0641	0.0480		576,360
RLUTOU-OP-AI	$/kWh	Residential Time of Use Low User off-peak all inclusive	11,365,569	0.0425	0.0194		703,529
RLUTOU-CTRL	$/kWh	Residential Time of Use Low User controlled	1,258,562	0.0296	0.0171		58,775
RLUTOU-NITE	$/kWh	Residential Time of Use Low User night boost	183,849	0.0100	0.0058		2,905
RSUTOU-FIXD	$/con/day	Residential Time of Use Standard User daily	1,513,308	0.5545	0.3848		1,421,451
RSUTOU-P-UC	$/kWh	Residential Time of Use Standard User peak uncontrolled	5,475,657	0.0511	0.0412		505,403
RSUTOU-OP-UC	$/kWh	Residential Time of Use Standard User off-peak uncontrolled	12,643,704	0.0329	0.0140		592,990
RSUTOU-P-AI	$/kWh	Residential Time of Use Standard User peak all inclusive	5,961,925	0.0420	0.0315		438,201
RSUTOU-OP-AI	$/kWh	Residential Time of Use Standard User off-peak all inclusive	13,160,588	0.0195	0.0078		359,284
RSUTOU-CTRL	$/kWh	Residential Time of Use Standard User controlled	1,738,352	0.0118	0.0067		32,160
RSUTOU-NITE	$/kWh	Residential Time of Use Standard User night boost	317,742	0.0092	0.0052		4,575
RLUEVB-FIXD	$/con/day	Residential Low User electric vehicle and battery daily	11,588	0.0900	0.0600		1,738
RLUEVB-PEAK	$/kWh	Residential Low User electric vehicle and battery peak	65,002	0.0846	0.0656		9,763
RLUEVB-OFFPEAK	$/kWh	Residential Low User electric vehicle and battery off-peak	159,217	0.0376	0.0292		10,636
RSUEVB-FIXD	$/con/day	Residential Standard User electric vehicle and battery daily	14,302	0.6600	0.4400		15,732
RSUEVB-PEAK	$/kWh	Residential Standard User electric vehicle and battery peak	138,124	0.0608	0.0471		14,904
RSUEVB-OFFPEAK	$/kWh	Residential Standard User electric vehicle and battery off-peak	308,098	0.0138	0.0106		7,518
						subtotal	**94,254,330**
General low voltage connection							
GLV15-FIXD	$/con/day	General low voltage <=15kVA daily	1,862,562	0.3317	0.1916		974,679
GLV15-24UC	$/kWh	General low voltage <=15kVA uncontrolled	43,653,638	0.0300	0.0173		2,064,817
GLV69-FIXD	$/con/day	General low voltage >15kVA and <=69kVA daily	3,605,028	0.8205	0.4739		4,666,348
GLV69-24UC	$/kWh	General low voltage >15kVA and <=69kVA uncontrolled	301,708,029	0.0208	0.0120		9,896,023
GLV138-FIXD	$/con/day	General low voltage >69kVA and <=138kVA daily	142,627	4.6495	2.6856		1,046,181
GLV138-24UC	$/kWh	General low voltage >69kVA and <=138kVA uncontrolled	51,935,421	0.0246	0.0143		2,020,288
GLV300-FIXD	$/con/day	General low voltage >138kVA and <=300kVA daily	128,219	6.6231	3.8257		1,339,732
GLV300-24UC	$/kWh	General low voltage >138kVA and <=300kVA uncontrolled	100,202,405	0.0102	0.0059		1,613,259
GLV1500-FIXD	$/con/day	General low voltage >300kVA and <=1500kVA daily	78,195	16.7009	9.6468		2,060,256
GLV1500-24UC	$/kWh	General low voltage >300kVA and <=1500kVA uncontrolled	136,286,210	0.0045	0.0026		967,632
GLV1500-DAMD	$/kVA/month	General low voltage >300kVA and <=1500kVA demand	425,992	4.0509	2.3399		2,722,430
						subtotal	**29,371,644**
General transformer connection							
GTX15-FIXD	$/con/day	General transformer <=15kVA daily	712	0.3011	0.1740		338
GTX15-24UC	$/kWh	General transformer <=15kVA uncontrolled	42,382	0.0279	0.0162		1,869
GTX69-FIXD	$/con/day	General transformer >15kVA and <=69kVA daily	6,881	0.7447	0.4300		8,083
GTX69-24UC	$/kWh	General transformer >15kVA and <=69kVA uncontrolled	491,248	0.0196	0.0113		15,180
GTX138-FIXD	$/con/day	General transformer >69kVA and <=138kVA daily	6,048	4.2189	2.4369		40,256
GTX138-24UC	$/kWh	General transformer >69kVA and <=138kVA uncontrolled	2,357,546	0.0230	0.0133		85,579
GTX300-FIXD	$/con/day	General transformer >138kVA and <=300kVA daily	35,189	6.0098	3.4714		333,638
GTX300-24UC	$/kWh	General transformer >138kVA and <=300kVA uncontrolled	46,254,388	0.0095	0.0055		693,816
GTX1500-FIXD	$/con/day	General transformer >300kVA and <=1500kVA daily	92,773	12.9670	7.4900		1,897,851
GTX1500-24UC	$/kWh	General transformer >300kVA and <=1500kVA uncontrolled	337,963,946	0.0037	0.0021		1,960,191
GTX1500-CAPY	$/kVA/day	General transformer >300kVA and <=1500kVA capacity	73,513,607	0.0088	0.0052		1,029,190
GTX1500-DAMD	$/kVA/month	General transformer >300kVA and <=1500kVA demand	1,004,429	3.4050	1.9668		5,395,592
GTX1501-FIXD	$/con/day	General transformer >1500kVA connection daily	14,325	0.0288	0.0167		652
GTX1501-24UC	$/kWh	General transformer >1500kVA connection uncontrolled	163,353,221	0.0008	0.0005		212,359
GTX1501-CAPY	$/kVA/day	General transformer >1500kVA connection capacity	33,517,208	0.0156	0.0091		827,875
GTX1501-DOPC	$/kW/month	General transformer >1500kVA connection on-peak demand	402,764	6.4154	3.7057		4,076,415
GTX1501-PWRF	$/kVAr/month	General transformer >1500kVA connection power factor	25,193	4.6324	2.6758		184,115
						subtotal	**16,762,999**
Unmetered							
G001-FIXD	$/fitting/day	Non-street lighting daily	580,121	0.0229	0.0132		20,942
G001-24UC	$/kWh	Non-street lighting uncontrolled	5,258,429	0.0742	0.0429		615,762
G002-FIXD	$/fitting/day	Street lighting daily	16,813,733	0.1224	0.0709		3,250,095
G002-24UC	$/kWh	Street lighting uncontrolled	25,877,654	-	-		-
						subtotal	**3,886,799**
Non standard charges							
Special	Unit	Non standard charges	1	1,247,123.5000	688,630.4009		1,935,754
						TOTAL	**146,211,527**

5 Appendix 2: Director's certificate

Schedule 6: Form of director's certificate for annual price-setting compliance statement

Clause 11.2(c)

I, Richard Pearson, being a Director of Wellington Electricity certify that, having made all reasonable enquiry, to the best of my knowledge and belief, the attached annual price-setting compliance statement of Wellington Electricity, and related information, prepared for the purposes of the *Wellington Electricity Lines Limited Electricity Distribution Customised Price-Quality Path Determination 2018* has been prepared in accordance with all the relevant requirements, and all forecasts used in the calculations for forecast revenue from prices and forecast allowable revenue are reasonable.

Richard Pearson
Chairman

12 February 2020

Note: Section 103(2) of the Commerce Act 1986 provides that no person shall attempt to deceive or knowingly mislead the Commission in relation to any matter before it. It is an offence to contravene section 103(2) and any person who does so is liable on summary conviction to a fine not exceeding $100,000 in the case of an individual or $300,000 in the case of a body corporate.