

WELLINGTON ELECTRICITY LINES LIMITED

ANNUAL PRICE-SETTING COMPLIANCE STATEMENT

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Wellington Electricity Lines Limited

Annual Price-Setting Compliance Statement 1 April 2018 to 31 March 2019

15 May 2018

WELLINGTON ELECTRICITY LINES LIMITED

ANNUAL PRICE-SETTING COMPLIANCE STATEMENT

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1 Introduction

Wellington Electricity Lines Limited (Wellington Electricity) owns and operates the electricity distribution network in the Wellington region, covering Wellington, Porirua, Lower and Upper Hutt cities, connecting electricity infrastructure to more than 165,000 homes and businesses. Wellington Electricity recovers the cost of owning and operating the network through a combination of standard (published) and non-standard prices for electricity lines services, and capital contributions for new connections.

Wellington Electricity is regulated by the Commerce Commission (“Commission”) under the Commerce Act 1986. Pursuant to the requirements of the Act, the Commission has set a customised price-quality path (CPP) which applies to Wellington Electricity for the three year period from 1 April 2018 to 31 March 2021.

The Wellington Electricity Lines Limited Electricity Distribution Customised Price-Quality Path Determination 2018 (CPP Determination) requires Wellington Electricity to provide an Annual Price-Setting Compliance Statement to the Commission demonstrating compliance with the CPP Determination. This Annual Price-Setting Compliance Statement must include Wellington Electricity’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 CPP Determination, this Annual Price-Setting Compliance Statement confirms that Wellington Electricity has complied with the price path in clause 8 of the CPP Determination for the 12 month period ending 31 March 2019.

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2 Compliance Assessment

2.1 Summary

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

Wellington Electricity has complied with the price path for the assessment period 1 April 2018 to 31 March 2019 as shown in the table below.

Forecast allowable revenue (\$000)	Forecast revenue from prices (\$000)	Compliance test result
172,658	172,603	Complies because forecast revenue from prices is \leq forecast allowable revenue

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

2.2 Forecast Allowable Revenue

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

$$\begin{aligned} \text{Forecast allowable revenue} = & \text{Forecast net allowable revenue} \\ & + \text{Forecast pass-through and recoverable costs} \\ & + \text{Opening wash-up account balance} \\ & + \text{Pass-through balance annual recovery} \end{aligned}$$

The calculation of Wellington Electricity's forecast allowable revenue for the 1 April 2018 to 31 March 2019 assessment period is provided in the table below.

Calculation Components	Amount (\$000)
Forecast net allowable revenue	105,206
Forecast Pass-through and recoverable costs	70,870
Opening wash-up account balance	-
Pass-through balance annual recovery	-3,418
Total Forecast Allowable Revenue	172,658

The components of forecast allowable revenue for the 1 April 2018 to 31 March 2019 annual assessment period are described in more detail below.

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Forecast net allowable revenue

Forecast net allowable revenue is the amount specified in Schedule 1.3 of the CPP Determination.

Forecast Pass-through and recoverable costs

This is Wellington Electricity's forecast of pass-through cost and recoverable costs for the annual assessment period. These costs must be demonstrably reasonable. The following table provides a breakdown of these forecast costs and more information about the approach Wellington Electricity has applied to determine these forecasts. In Wellington Electricity's opinion, the forecasts are reasonable.

Component	Amount (\$000)	Basis for forecast
Forecast Pass-through Costs		
Council Rates	2,822	Based on historical costs plus CPI adjustment of 1.8%
Commerce Commission Levies	180	
Electricity Authority Levies	451	
UDL Levies	95	
Total Forecast Pass-through Costs	3,548	
Forecast Recoverable Costs		
Transpower Connection and Interconnection Charges	61,720	As notified by Transpower
Transpower New Investment Charges	1,182	
Avoided Cost of Transmission (ACOT) Charges	2,737	Forecast based on calculation of Transpower interconnection charges avoided in accordance with contracts with Distributed Generators. ¹
CPP Proposal Application Fee	23	CPP Determination Schedule 2.1(3)
CPP Assessment Fee payable to Commission	337	Commission charges invoiced to date as per CPP Determination Schedule 2.1(4)
CPP Auditor's costs	71	CPP Determination Schedule 2.1(6)
Quality Incentive Adjustment	-1,112	Determined for 2016/17 regulatory year (adjusted for time value of money)

¹ Refer to Wellington Electricity's pricing methodology for further information on the calculation of ACOT payments

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Capex wash-up adjustment	489	CPP Determination Schedule 2.1(9)
IRIS Incentive adjustment	1,875	Calculated as per Section 3.3.2 of the Electricity Services Input Methodologies Determination 2012
Total Forecast Recoverable Costs	67,323	
Total Pass-through and Recoverable Costs	70,870	

Opening wash-up account balance

This is nil for the first assessment period as per Schedule 1.6(1)(a) of the CPP Determination.

Pass-through balance annual recovery

The calculation of the Pass-through balance annual recovery for the first assessment period is specified in the Schedule 1.7 of the CPP Determination as $-\$9,634,000/3 * (1 + WACC)$, where WACC means the 67th percentile estimate of post-tax WACC. The 67% percentile estimate of post-tax WACC used by Wellington Electricity in the calculation is 6.44%.

2.3 Forecast Revenue from Prices

Wellington Electricity'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 CPP determination requires that these forecasts are demonstrably reasonable.

Prices have fixed and variable components so revenue forecasts require forecast of the number of connections as well as volume. Wellington Electricity has based forecasts for Residential, General Low Voltage and General Transformer Standard Consumer Groups on trends over the past four years as summarised in the table below. Note that Wellington Electricity is introducing new price categories for owners of Electric Vehicles and Batteries within the Residential Consumer Group. Forecast consumption for these price categories is based on the consumption of existing EV customers.

Standard Consumer Groups (excl unmetered)	Forecast connections		Forecast Volume (GWh)	
	(% change from 2017/18)	% growth range 2015/16-2017/18	(% change from 2017/18)	% growth range 2014/15-2017/18
Residential (includes low user)	+0.35%	+0.21% to	-0.5%	-2.8% to

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and standard user and EV)		+0.53%		+1.1%
General Low Voltage	-0.51%	-0.83% to +0.06%	-0.7%	-2.2% to +2.3%
General Transformer	-3.24%	-8.86% to +2.26%	-0.7%	-2.2% to +2.3%

For the unmetered consumer group, Wellington Electricity has forecast a 0% change relative to 2017/18 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).

Wellington Electricity 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 2018 in accordance with the conditions of the non-standard contracts.

For Standard Customers, Wellington Electricity deferred its annual price change to be effective from 1 July 2018 rather than 1 April 2018 in order to allow for the impacts on pricing arising from the CPP Determination to be assessed. As a result, in calculating Forecast revenue from prices, two sets of prices need to be used, those that apply to the period 1 April 2018 to 30 June 2018 and those that apply for the period 1 July 2018 to 31 March 2019.

A summary of Wellington Electricity's forecast revenue from prices is in the table below. Further information is in Appendix 1. In Wellington Electricity's opinion, the forecasts are reasonable.

Consumer Group	Forecast revenue from Prices (\$000)
Residential (includes low user and standard user and EV)	110,843
General Low Voltage	35,765
General Transformer	19,813
Unmetered	4,178
Non-standard consumers (individual contracts)	2,003
Total	172,603

3 Compliance References

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

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

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 Wellington Electricity 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 Wellington Electricity	Appendix 2
11.3 (a)	Wellington Electricity'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)	Wellington Electricity'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

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Appendix 1: Forecast Volumes and Revenue for period 1 April 2018 to 31 March 2019

Price Code	Units	Description	Quantity 1 April 2018 to 30 June 2018	Quantity 1 July 2018 to 31 March 2019	Quantity 2018/19	Distribution Price 1 April 2018 to 30 June 2018	Transmission Price 1 April 2018 to 30 June 2018	Distribution Price 1 July 2018 to 31 March 2019	Transmission Price 1 July 2018 to 31 March 2019	Revenue 1 April 2018 to 31 March 2019
Residential										
RLU-FIXD	con/day	Low user daily	8,248,411	25,046,153	33,294,564	0.1500	-	0.0900	0.0600	4,994,185
RLU-24UC	kWh	Low user uncontrolled	66,119,373	162,710,847	228,830,220	0.0468	0.0690	0.0740	0.0418	26,498,539
RLU-AICO	kWh	Low user all inclusive	66,750,986	163,970,159	230,721,145	0.0367	0.0562	0.0594	0.0335	21,433,994
RLU-CTRL	kWh	Low user controlled	4,876,114	12,735,741	17,611,855	0.0219	0.0339	0.0357	0.0201	982,742
RLU-NITE	kWh	Low user night only	773,266	1,767,043	2,540,309	0.0080	0.0109	0.0121	0.0068	48,012
RLU-EVNITE	kWh	Low user electric vehicle night only	18,798	-	18,798	0.0080	0.0109	0.0121	0.0068	355
RSU-FIXD	con/day	Standard user daily	5,422,455	16,152,813	21,575,268	1.1000	-	0.6600	0.4400	23,732,795
RSU-24UC	kWh	Standard user uncontrolled	75,205,071	182,706,349	257,911,420	0.0316	0.0409	0.0463	0.0262	18,698,578
RSU-AICO	kWh	Standard user all inclusive	80,399,656	195,617,939	276,017,595	0.0228	0.0271	0.0319	0.0180	13,773,278
RSU-CTRL	kWh	Standard user controlled	7,309,347	18,766,935	26,076,281	0.0107	0.0115	0.0142	0.0080	578,893
RSU-NITE	kWh	Standard user night only	1,582,244	3,246,192	4,828,436	0.0071	0.0102	0.0111	0.0062	83,532
RSU-EVNITE	kWh	Standard user electric vehicle night only	13,862	-	13,862	0.0071	0.0102	0.0111	0.0062	240
RLUEVB-PEAK	kWh	Low user electric vehicle and battery PEAK	-	45,860	45,860	-	-	0.0858	0.0678	7,044
RLUEVB-OFFPEAK	kWh	Low user electric vehicle and battery OFFPEAK	-	55,432	55,432	-	-	0.0381	0.0302	3,786
RSUEVB-PEAK	kWh	Standard user electric vehicle and battery PEAK	-	55,651	55,651	-	-	0.0616	0.0487	6,138
RSUEVB-OFFPEAK	kWh	Standard user electric vehicle and battery OFFPEAK	-	42,074	42,074	-	-	0.0140	0.0110	1,052
subtotal										110,843,163
General low voltage connection										
GLV15-FIXD	con/day	General low voltage <=15kVA daily	459,106	1,384,461	1,843,567	0.6268	-	0.4002	0.2264	1,155,271
GLV15-24UC	kWh	General low voltage <=15kVA uncontrolled	11,932,493	33,105,707	45,038,200	0.0207	0.0360	0.0362	0.0205	2,553,666
GLV69-FIXD	con/day	General low voltage >15kVA and <=69kVA daily	906,938	2,726,643	3,633,581	1.5504	-	0.9901	0.5600	5,632,686
GLV69-24UC	kWh	General low voltage >15kVA and <=69kVA uncontrolled	80,864,744	228,609,116	309,473,861	0.0143	0.0250	0.0142	0.0142	12,139,462
GLV138-FIXD	con/day	General low voltage >69kVA and <=138kVA daily	34,586	104,777	139,363	8.7851	-	5.6101	3.1732	1,224,130
GLV138-24UC	kWh	General low voltage >69kVA and <=138kVA uncontrolled	13,216,744	38,434,315	51,651,059	0.0170	0.0295	0.0297	0.0168	2,401,774
GLV300-FIXD	con/day	General low voltage >138kVA and <=300kVA daily	30,371	93,180	123,551	12.5144	-	7.9916	4.5202	1,545,923
GLV300-24UC	kWh	General low voltage >138kVA and <=300kVA uncontrolled	24,022,555	72,718,617	96,741,172	0.0070	0.0123	0.0123	0.0070	1,867,105
GLV1500-FIXD	con/day	General low voltage >300kVA and <=1500kVA daily	20,335	60,578	80,913	31.5561	-	20.1516	11.3980	2,552,914
GLV1500-24UC	kWh	General low voltage >300kVA and <=1500kVA uncontrolled	36,117,033	109,601,409	145,718,442	0.0031	0.0055	0.0055	0.0031	1,253,179
GLV1500-DAMD	kVA/month	General low voltage >300kVA and <=1500kVA demand	110,283	339,132	449,416	2.7627	4.8915	4.8879	2.7647	3,439,375
subtotal										35,765,484
General transformer connection										
GTX15-FIXD	con/day	General transformer <=15kVA daily	88	391	479	0.5690	-	0.3633	0.2056	272
GTX15-24UC	kWh	General transformer <=15kVA uncontrolled	9,510	29,940	39,450	0.0201	0.0328	0.0337	0.0191	2,084
GTX69-FIXD	con/day	General transformer >15kVA and <=69kVA daily	1,350	4,653	6,003	1.4069	-	0.8985	0.5081	8,444
GTX69-24UC	kWh	General transformer >15kVA and <=69kVA uncontrolled	136,538	451,574	588,112	0.0140	0.0229	0.0236	0.0133	21,701
GTX138-FIXD	con/day	General transformer >69kVA and <=138kVA daily	1,321	4,343	5,664	7.9715	-	5.0906	2.8793	45,140
GTX138-24UC	kWh	General transformer >69kVA and <=138kVA uncontrolled	540,971	2,069,712	2,610,682	0.0166	0.0269	0.0278	0.0157	113,565
GTX300-FIXD	con/day	General transformer >138kVA and <=300kVA daily	8,227	25,821	34,048	11.3555	-	7.2515	4.1016	386,571
GTX300-24UC	kWh	General transformer >138kVA and <=300kVA uncontrolled	11,973,799	36,557,165	48,530,963	0.0069	0.0111	0.0115	0.0065	873,557
GTX1500-FIXD	con/day	General transformer >300kVA and <=1500kVA daily	22,009	67,040	89,049	24.5009	-	15.6461	8.8497	2,181,439
GTX1500-24UC	kWh	General transformer >300kVA and <=1500kVA uncontrolled	84,185,218	257,281,171	341,466,390	0.0026	0.0044	0.0045	0.0025	2,390,265
GTX1500-CAPY	kVA/day	General transformer >300kVA and <=1500kVA capacity	17,542,283	53,114,493	70,656,776	0.0063	0.0104	0.0106	0.0061	1,179,968
GTX1500-DAMD	kVA/month	General transformer >300kVA and <=1500kVA demand	243,391	759,048	1,002,439	2.4243	4.0093	4.1085	2.3238	6,448,305
GTX1501-FIXD	con/day	General transformer >1500kVA connection daily	3,503	10,480	13,983	0.0545	-	0.0348	0.0197	762
GTX1501-24UC	kWh	General transformer >1500kVA connection uncontrolled	41,158,044	123,743,641	164,901,685	0.0006	0.0009	0.0009	0.0006	247,353
GTX1501-CAPY	kVA/day	General transformer >1500kVA connection capacity	8,077,979	24,144,456	32,222,435	0.0119	0.0177	0.0189	0.0107	953,784
GTX1501-DOPC	kVA/month	General transformer >1500kVA connection on-peak demand	99,297	292,556	391,853	4.8536	7.2683	7.7410	4.3784	4,749,271
GTX1501-PWRPF	kVA/month	General transformer >1500kVA connection power factor	5,748	18,302	24,050	3.5047	5.2483	5.5896	3.1616	210,477
subtotal										19,812,959
Unmetered										
G001-FIXD	fitting/day	Non-street lighting daily	123,609	407,369	530,978	0.0432	-	0.0276	0.0156	22,938
G001-24UC	kWh	Non-street lighting uncontrolled	1,369,369	4,038,465	5,407,834	0.0549	0.0854	0.0895	0.0507	758,315
G002-FIXD	fitting/day	Street lighting daily	3,947,802	11,402,685	15,350,487	0.1246	0.0938	0.1385	0.0838	3,397,017
G002-24UC	kWh	Street lighting uncontrolled	6,298,286	14,603,073	20,901,359	-	-	-	-	-
subtotal										4,178,270
Non standard charges										
Special	Unit	Non standard charges	0.25	0.75	1	1,243,852	758,838	1,243,852	758,838	2,002,691
TOTAL										172,602,567

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Appendix 2: Director's certificate

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

Clause 11.2(c)

I, Andrew Hunter, 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.



Director

15 May 2018

Date

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.