wellington electricity™

Annual Price-Setting Compliance Statement

Prepared 1 March 2024

For the assessment period ending 31 March 2025

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

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Stakeholder Relationship Manager

Wellington Electricity Lines Limited

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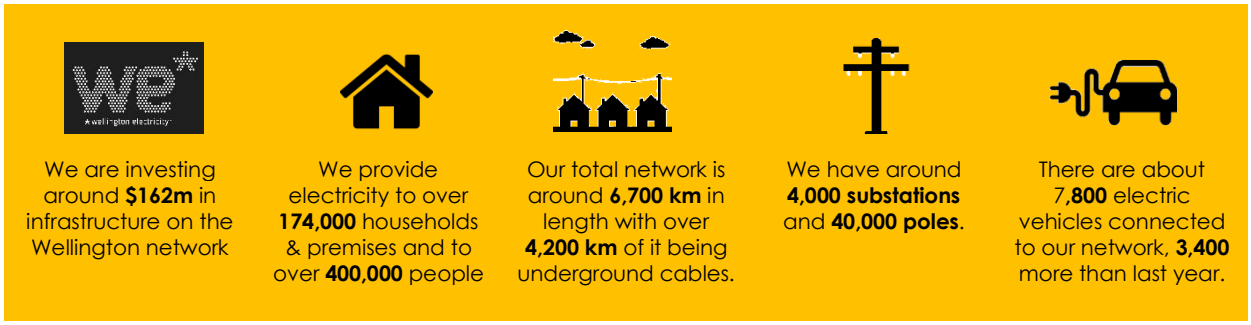
1 Introduction

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 consumers in the Wellington, Porirua, Lower Hutt and Upper Hutt areas. We will be investing $162m between April 2021 to March 2025 (the current regulatory period) on the network to maintain a modern network and to build new capacity to meet Wellingtons growing electricity use.



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 competitive market, are faced by distributors so that consumers will benefit in the long term.

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 and the quality levels that we must perform to. To demonstrate that WELL has met these performance targets, we are required to provide two compliance statements, the *Annual Price-Setting 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 2025 have been set at a level to collect the allowances determined by the price–quality path set by the Commission. The *Annual Price-Setting Compliance Statement* was submitted to the Commission and published on our website in March 2024 (www.welectricity.co.nz/disclosures/price-quality-path-annual-compliance-statements/).

The *Annual Compliance Statement* confirms that WELL has met its revenue and quality expectations set out by the price-quality path. WELL submits the *Annual Compliance Statement* to the Commission and publishes it on our website within five months of the end of the regulatory year (the end of the regulatory year being 31 March).

1.1 2020 DPP Determination requirements

The requirements of the *Annual Price-Setting Compliance Statement* are provided in the *Electricity Distribution Services Default Price-Quality Path (Wellington Electricity transition) Amendments Determination 2020* (**DPP Determination 2020**). The DPP Determination 2020 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 DPP Determination 2020, this *Annual Price-Setting Compliance Statement* confirms that WELL has complied with the price path in clauses 8.3-8.5 of the DPP Determination 2020 for the assessment period ending 31 March 2025.

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 clauses 11.1-11.3 of the DPP Determination 2020. The *Annual Price-Setting 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

WELL transitioned to the DPP Price-Quality Path one year after the DPP Price-Quality Path started[1]. WELL's fourth year in the DPP Price-Quality Path is the fifth assessment period of the DPP regulatory period. The relevant price path compliance requirement is provided in clause 8.4 of the DPP Determination 2020. Clause 8.4 applies to Annual Price-Setting Compliance Statement assessments that are in the second to fifth assessment periods of the DPP regulatory period and states that the forecast revenue from prices for each assessment period must not exceed the lessor of:

a) The forecast allowable revenue for that assessment period; and

b) The forecast revenue from prices for the previous assessment period x (1+ the limit on annual percentage increase in forecast revenue from prices (which is 10%)).

WELL has complied with the price path for the assessment period ending 31 March 2025 (assessment period five of the DPP regulatory period) as shown in the table below. The table confirms that forecast revenue from prices for the assessment period ending 31 March 2025 does not exceed forecast allowable revenue and is below the limit of annual price increases.

Forecast revenue from prices ($000)	**Forecast allowable revenue ($000)**	**Forecast revenue from prices for the previous period x (1 + 10%) ($000)**	**Compliance test result**
157,242	157,251	161,242	Complies because forecast revenue from prices is < forecast allowable revenue **and** forecast revenue from price for the previous period x (1 + limit on annual percentage increase in forecast revenue from prices)

Sections 2.2, 2.3 and 2.4 provide more detail about the assumptions and calculations that support these forecasts.

[1] WELL's three year CPP programme overlapped with the five year DPP regulatory period. The CPP programme finished 31 March 2021, one year after the start of the DPP regulatory period.

2.2 Forecast allowable revenue

WELL's forecast allowable revenue for each annual assessment period is determined in accordance with the formula as per Schedule 1.5 (5) of the DPP Determination 2020.

Forecast allowable revenue = Forecast net allowable revenue

\+ Forecast pass-through and recoverable costs

\+ Opening wash-up account balance

\+ Pass-through balance allowance

The calculation of WELL's forecast allowable revenue for the assessment period ending 31 March 2025:

Calculation components	**Amount ($000)**
Forecast net allowable revenue	96,709
Forecast pass-through and recoverable costs	58,206
Opening wash-up account balance	2,335
Pass-through balance allowance	0
Total forecast allowable revenue	**157,251**

The components of forecast allowable revenue for the assessment period ending 31 March 2025 are described in more detail below.

2.2.1 Forecast net allowable revenue

The forecast net allowable revenue is provided in schedule 1.4 of the DPP Determination 2020. The forecast net allowable revenue for the assessment period ending 31 March 2025 is $96,709,000.

2.2.2 Forecast pass-through and recoverable costs

WELL forecasts the pass-through and recoverable costs for the annual assessment period. The DPP Determination 2020 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	3,592	Based on historical costs, combined with the latest information, plus CPI adjustment of 8.5% for local council rates and 2.0% for non-council pass-through costs. Local councils have indicated above inflation increases for the upcoming year. Non-council costs are inflated at the mid-point of the Reserve Bank's monetary policy target inflation.
Commerce Commission levies	476	
Electricity Authority levies	467	
UDL levies	117	
Total forecast pass-through costs	**4,652**	
Forecast recoverable costs		
Transpower charges	49,953	As notified by Transpower
Transpower new investment charges	912	
Quality incentive adjustment	-142	Determined for 2022/23 regulatory year (adjusted for time value of money)
Capex wash-up adjustment	-261	Calculated as per Section 3.1.3(1)(p) of the Electricity Services Input Methodologies Determination 2012
IRIS Incentive adjustment – operating expenditure	2,910	Calculated as per Section 3.3.2 of the Electricity Services Input Methodologies Determination 2012
IRIS Incentive adjustment – capital expenditure	115	Calculated as per Section 3.3.10 of the Electricity Services Input Methodologies Determination 2012
Innovation project allowance	0	
Fire and Emergency New Zealand (FENZ) levies	67	Based on historical costs plus CPI adjustment of 2%. Inflation set at the mid-point of the Reserve Bank's monetary policy target inflation.
Total forecast recoverable costs	**53,555**	
Total forecast pass-through and recoverable costs	**58,206**	

2.2.3 Opening wash-up account balance

This is the closing wash-up account balance of the previous assessment period, as per Schedule 1.7 (2)(a) of the DPP Determination 2020. The previous assessment period was WELL's third year of the DPP Determination 2020. The closing wash-up account balance is calculated as per Schedule 1.7 (3):

Opening wash-up account balance	Definition	Amount ($000)	Reference to supporting calculation/ information
Wash-up amount for the previous assessment period	Difference between actual allowable revenue and actual revenue less revenue foregone from the third assessment period of the DPP3 Determination (WELL's second year of the DPP3).	2,149	As provided in WELL's *2022-23 Annual Compliance Statement*[2]
less voluntary undercharging amount foregone for the previous assessment period	WELL did not voluntarily undercharge in the previous assessment period.	$0	
multiplied by (1 + 67th percentile estimate of post-tax WACC)[2]	(1+ 4.23%) [2]	1.0864	67th percentile estimate of post-tax WACC provided in clause 4.2 of the DPP Determination 2020.
Total opening wash-up account balance		**2,335**	

2.2.4 Pass-through balance allowance

As per clause 4.2 of the DDP Determination 2020, the pass-through balance allowance for WELL is nil for each assessment period in the DPP regulatory period.

[2] Submitted to the Commission and publicly disclosed on WELL's website July 2022

2.3 Forecast revenue from prices for the previous period + annual limit on price increases

As per clause 8.4 (b) of the DPP Determination 2020, forecast revenue from prices for the previous assessment period x (1 + the limit on annual percentage increase in forecast revenue from prices) is calculated as:

Previous forecast revenue + price increase limit	Definition	Amount ($000)	Reference to supporting calculation/ information
Forecast revenue from prices for the previous assessment period	Forecast revenue from prices for the previous assessment period refers to the Forecast revenue from prices for the third year or fourth assessment period of the DPP3 Determination.	$146,584	As provided in WELL's *2023 -24 Annual Price-Setting Compliance Statement*[3]
(1 + the limit on annual percentage increase in forecast revenue from prices)	= (1 + limit on annual percentage increase in forecast revenue from prices) = (1+10%) = 1.1	1.1	Limit on annual percentage increase in forecast revenue from prices provided in clause 4.2 of the DPP Determination 2020.
Total previous forecast revenue + price increase limit		$161,242	

2.4 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 DPP Determination 2020 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 (kWh). WELL has based forecasts for Residential, General Low Voltage and General Transformer Standard Consumer Group Connections by applying historic trends to the latest actual volume forecast[4]. The forecast for energy volumes captures changes in energy consumption behaviour post the Covid-19 pandemic and the impact of the electrification of transportation.

Residential volumes are forecast to increase due to EV related demand increases. EV numbers in Wellington increased by 55% in the 12 months to September 2023 are expected to continue to increase in 2024. Commercial volumes have declined on average by -1.1% for the last 5 years. However, commercial volumes are forecast to slowly recover on the back of the Covid-19 pandemic. The table below summarises the volume trends and the resulting forecast.

[3] Submitted to the Commission and publicly disclosed on WELL's website April 2023

[4] The latest actual volume forecast is the last full year of actual volumes that have had all of the retailer reconciliations applied.

Standard consumer groups (excl. unmetered)	Forecast connections		Forecast volume (kWh)	
	Annual % change from 2022/23 base year	Forecast base	Annual % change from 2022/23 base year	Forecast base
Residential (includes low user, standard user and EV)	0.9%	5-year historic average	1.0%	1-year historic average +0.5% to exclude Covid impacts, +0.5% EV related increase
General Low Voltage	0.3%	5-year historic average	0.4%	Continued Covid recovery (in line with 1-year average commercial volume growth)
General Transformer	1.2%	1-year historic average (5-year historic average of 2.2% appears high)	0.4%	Continued Covid recovery (in line with 1-year average commercial volume growth)

For the unmetered consumer group, WELL has forecast a 0% change in connections and volume from 2023/24. 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 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. Prices for customers on non-standard contracts will change from 1 April 2024 in accordance with the terms and conditions of their 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 and standard user)	100,088
General low voltage	33,823
General transformer	17,591
Unmetered	3,800
Non-standard consumers (individual contracts)	1,941
Total	157,242

3 Compliance references

The following tables describe the DPP Determination 2020 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 an assessment period in the second to fifth assessment periods must not exceed the lessor of: a) The forecast allowable revenue for that assessment period; and b) The forecast revenue from prices for the previous assessment period x (1+ the limit on annual percentage increase in forecast revenue from prices (which is 10%)).	2.1, 2.2 & 2.3

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 A – Forecast volumes and revenue for period 1 April 2024 to 31 March 2025

Price Code	Units	Description	Quantity 1 April 2024 to 31 March 2025	Distribution Price 1 April 2024 to 31 March 2025	Pass-through & Recoverable Price 1 April 2024 to 31 March 2025	Revenue 1 April 2024 to 31 March 2025
Residential						
RLU-FIXD	$/con/day	Residential low user daily	1,667,879	0.3600	0.2400	1,000,728
RLU-24UC	$/kWh	Residential low user uncontrolled	12,119,194	0.0462	0.0211	815,622
RLU-AICO	$/kWh	Residential low user all inclusive	9,232,706	0.0393	0.0176	525,341
RLU-CTRL	$/kWh	Residential low user controlled	580,646	0.0321	0.0123	25,781
RLU-NITE	$/kWh	Residential low user night only	126,552	0.0141	0.0049	2,404
RSU-FIXD	$/con/day	Residential standard user daily	1,822,041	0.5314	0.7229	2,285,386
RSU-24UC	$/kWh	Residential standard user uncontrolled	28,901,548	0.0341	0.0035	1,086,698
RSU-AICO	$/kWh	Residential standard user all inclusive	14,017,948	0.0257	0.0025	395,306
RSU-CTRL	$/kWh	Residential standard user controlled	1,451,152	0.0146	0.0015	23,364
RSU-NITE	$/kWh	Residential standard user night only	389,377	0.0084	0.0006	3,504
RLUTOU-FIXD	$/con/day	Residential low user time of use daily	32,172,315	0.3600	0.2400	19,303,389
RLUTOU-UC	$/kWh	Residential low user time of use uncontrolled	78,344,244	0.0462	0.0211	5,272,568
RLUTOU-AICO	$/kWh	Residential low user time of use all inclusive	54,674,113	0.0393	0.0176	3,110,957
RLUTOU-P-UC	$/kWh	Residential low user time of use peak uncontrolled	55,754,987	0.0750	0.0456	6,724,051
RLUTOU-OP-UC	$/kWh	Residential low user time of use off-peak uncontrolled	127,048,249	0.0300	0.0106	5,158,159
RLUTOU-P-AI	$/kWh	Residential low user time of use peak all inclusive	39,802,754	0.0670	0.0368	4,131,526
RLUTOU-OP-AI	$/kWh	Residential low user time of use off-peak all inclusive	87,770,176	0.0259	0.0099	3,142,172
RLUTOU-CTRL	$/kWh	Residential low user time of use controlled	15,075,716	0.0321	0.0123	669,362
RLUTOU-NITE	$/kWh	Residential low user time of use night boost	2,276,024	0.0141	0.0049	43,244
RSUTOU-FIXD	$/con/day	Residential standard user time of use daily	22,283,929	0.5314	0.7229	27,950,732
RSUTOU-UC	$/kWh	Residential standard user time of use uncontrolled	90,649,189	0.0341	0.0035	3,408,410
RSUTOU-AICO	$/kWh	Residential standard user time of use all inclusive	76,555,063	0.0257	0.0025	2,158,853
RSUTOU-P-UC	$/kWh	Residential standard user time of use peak uncontrolled	64,512,006	0.0792	0.0116	5,857,690
RSUTOU-OP-UC	$/kWh	Residential standard user time of use off-peak uncontrolled	147,002,768	0.0101	0.0007	1,587,630
RSUTOU-P-AI	$/kWh	Residential standard user time of use peak all inclusive	55,732,086	0.0657	0.0092	4,174,333
RSUTOU-OP-AI	$/kWh	Residential standard user time of use off-peak all inclusive	122,896,395	0.0064	0.0005	847,985
RSUTOU-CTRL	$/kWh	Residential standard user time of use controlled	21,415,771	0.0146	0.0015	344,794
RSUTOU-NITE	$/kWh	Residential standard user time of use night boost	4,176,327	0.0084	0.0006	37,587
RLUEVB-FIXD	$/con/day	Residential low user electric vehicle and battery daily	-	-	-	-
RLUEVB-PEAK	$/kWh	Residential low user electric vehicle and battery peak	-	-	-	-
RLUEVB-OFFPEAK	$/kWh	Residential low user electric vehicle and battery off-peak	-	-	-	-
RLUEVB-CTRL	$/kWh	Residential low user electric vehicle and battery controlled	-	-	-	-
RSUEVB-FIXD	$/con/day	Residential standard user electric vehicle and battery daily	-	-	-	-
RSUEVB-PEAK	$/kWh	Residential standard user electric vehicle and battery peak	-	-	-	-
RSUEVB-OFFPEAK	$/kWh	Residential standard user electric vehicle and battery off-peak	-	-	-	-
RSUEVB-CTRL	$/kWh	Residential standard user electric vehicle and battery controlled	-	-	-	-
					subtotal	100,087,576
General low voltage connection						
GLV15-FIXD	$/con/day	General low voltage <=15kVA daily	1,958,957	0.3381	0.7220	2,076,690
GLV15-24UC	$/kWh	General low voltage <=15kVA uncontrolled	41,923,934	0.0306	0.0029	1,404,452
GLV69-FIXD	$/con/day	General low voltage >15kVA and <=69kVA daily	3,634,140	0.8363	2.0361	10,438,703
GLV69-24UC	$/kWh	General low voltage >15kVA and <=69kVA uncontrolled	277,794,708	0.0212	0.0023	6,528,176
GLV138-FIXD	$/con/day	General low voltage >69kVA and <=138kVA daily	164,787	4.7392	6.1964	1,802,046
GLV138-24UC	$/kWh	General low voltage >69kVA and <=138kVA uncontrolled	50,580,804	0.0250	0.0029	1,411,204
GLV300-FIXD	$/con/day	General low voltage >138kVA and <=300kVA daily	137,310	6.7509	11.3351	2,483,392
GLV300-24UC	$/kWh	General low voltage >138kVA and <=300kVA uncontrolled	96,187,002	0.0105	0.0012	1,125,388
GLV1500-FIXD	$/con/day	General low voltage >300kVA and <=1500kVA daily	76,965	17.0233	36.8507	4,146,397
GLV1500-24UC	$/kWh	General low voltage >300kVA and <=1500kVA uncontrolled	128,012,448	0.0047	0.0006	678,466
GLV1500-DAMD	$/kVA/month	General low voltage >300kVA and <=1500kVA demand	378,718	4.1291	0.4333	1,727,863
					subtotal	33,822,777
General transformer connection						
GTX15-FIXD	$/con/day	General transformer <=15kVA daily	-	-	-	-
GTX15-24UC	$/kWh	General transformer <=15kVA uncontrolled	-	-	-	-
GTX69-FIXD	$/con/day	General transformer >15kVA and <=69kVA daily	-	-	-	-
GTX69-24UC	$/kWh	General transformer >15kVA and <=69kVA uncontrolled	-	-	-	-
GTX138-FIXD	$/con/day	General transformer >69kVA and <=138kVA daily	-	-	-	-
GTX138-24UC	$/kWh	General transformer >69kVA and <=138kVA uncontrolled	-	-	-	-
GTX300-FIXD	$/con/day	General transformer >138kVA and <=300kVA daily	43,438	6.1259	12.6063	813,690
GTX300-24UC	$/kWh	General transformer >138kVA and <=300kVA uncontrolled	48,585,331	0.0098	0.0012	534,439
GTX1500-FIXD	$/con/day	General transformer >300kVA and <=1500kVA daily	106,716	13.2173	1.3866	1,558,467
GTX1500-24UC	$/kWh	General transformer >300kVA and <=1500kVA uncontrolled	330,319,011	0.0038	0.0006	1,453,404
GTX1500-CAPY	$/kVA/day	General transformer >300kVA and <=1500kVA capacity	79,541,618	0.0090	0.0458	4,358,881
GTX1500-DAMD	$/kVA/month	General transformer >300kVA and <=1500kVA demand	943,173	3.4707	0.3641	3,616,880
GTX1501-FIXD	$/con/day	General transformer >1500kVA connection daily	14,626	0.0294	0.0029	472
GTX1501-24UC	$/kWh	General transformer >1500kVA connection uncontrolled	166,954,368	0.0008	-	133,563
GTX1501-CAPY	$/kVA/day	General transformer >1500kVA connection capacity	34,349,010	0.0159	0.0463	2,136,508
GTX1501-DOPC	$/kW/month	General transformer >1500kVA connection on-peak demand	396,056	6.5393	0.6860	2,861,623
GTX1501-PWRF	$/kVAr/month	General transformer >1500kVA connection power factor	23,626	4.7218	0.4954	123,262
					subtotal	17,591,189
Unmetered						
G001-FIXD	$/fitting/day	Non-street lighting daily	433,560	0.0192	0.0973	50,510
G001-24UC	$/kWh	Non-street lighting uncontrolled	4,070,287	0.0622	0.0082	286,548
G002-FIXD	$/fitting/day	Street lighting daily	16,113,599	0.1801	0.0348	3,462,812
G002-24UC	$/kWh	Street lighting uncontrolled	18,530,305	-	-	-
					subtotal	3,799,870
Non standard charges						
Special	Unit	Non-standard contracts	1	1,461,831	478,730	1,940,562
					TOTAL	**157,241,974**

5 Appendix B – 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 Lines Limited 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 Lines 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 the relevant requirements, and all forecasts used in the calculations for forecast revenue from prices and forecast allowable revenue are reasonable.

Richard Pearson
Chairman

01 March 2024

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.