

**WELLINGTON ELECTRICITY LINES LIMITED**

**ANNUAL PRICE-SETTING COMPLIANCE STATEMENT**

**1 April 2019 – 31 March 2020**

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# **Wellington Electricity Lines Limited**

## **Annual Price-Setting Compliance Statement 1 April 2019 to 31 March 2020**

**30 January 2019**

**WELLINGTON ELECTRICITY LINES LIMITED**  
**ANNUAL PRICE-SETTING COMPLIANCE STATEMENT**  
**1 April 2019 – 31 March 2020**

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## WELLINGTON ELECTRICITY LINES LIMITED

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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 2020.

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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 2019 to 31 March 2020 as shown in the table below.

Forecast allowable revenue (\$000)	Forecast revenue from prices (\$000)	Compliance test result
168,907	168,896	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 2019 to 31 March 2020 assessment period is provided in the table below.

Calculation Components	Amount (\$000)
Forecast net allowable revenue	107,337
Forecast Pass-through and recoverable costs	65,207
Opening wash-up account balance	-
Pass-through balance annual recovery	-3,638
<b>Total Forecast Allowable Revenue</b>	<b>168,907</b>

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The components of forecast allowable revenue for the 1 April 2019 to 31 March 2020 annual assessment period are described in more detail below.

#### Forecast net allowable revenue

Forecast net allowable revenue is the amount specified in Schedule 1.3 of the CPP Determination plus CPI calculated in accordance with Schedule 1.5 of the CPP.

#### 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
<b>Forecast Pass-through Costs</b>		
Council Rates	3,004	Based on historical costs plus CPI adjustment of 2.03%
Commerce Commission Levies	306	
Electricity Authority Levies	465	
UDL Levies	100	
<b>Total Forecast Pass-through Costs</b>	<b>3,875</b>	
<b>Forecast Recoverable Costs</b>		
Transpower Connection and Interconnection Charges	61,287	As notified by Transpower
Transpower New Investment Charges	1,175	
Avoided Cost of Transmission (ACOT) Charges	1,768	Forecast based on calculation of Transpower interconnection charges avoided in accordance with contracts with Distributed Generators. <sup>1</sup>
Quality Incentive Adjustment	-1,112	Determined for 2016/17 regulatory year (adjusted for time value of money)
Capex wash-up adjustment	518	CPP Determination Schedule 2.1(9)
IRIS Incentive adjustment	-2,304	Calculated as per Section 3.3.2 of the Electricity

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

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		Services Input Methodologies Determination 2012
<b>Total Forecast Recoverable Costs</b>	<b>61,332</b>	
<b>Total Pass-through and Recoverable Costs</b>	<b>65,207</b>	

#### Opening wash-up account balance

This is the closing wash-up account balance from the first assessment period which is nil as per Schedule 1.6(1)(b) 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  $-\$9,634,000/3 * (1 + \text{WACC})$ , where WACC means the 67<sup>th</sup> 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.

Standard Consumer Groups (excl. unmetered)	Forecast connections		Forecast Volume (GWh)	
	(% change from 2018/19)	% growth range 2016/17-2018/19	(% change from 2018/19)	% growth range 2015/16-2018/19
Residential (includes low user and standard user and EV)	+0.34%	+0.21% to +0.51%	-0.34%	-2.8% to +1.8%
General Low Voltage	-0.29%	-0.76% to +0.06%	-0.42%	-2.2% to +2.3%

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General Transformer	-1.74%	-8.86% to +2.26%	-0.42%	-2.2% to +2.3%
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For the unmetered consumer group, Wellington Electricity has forecast a 0% change relative to 2018/19 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 2019 in accordance with the conditions of the non-standard contracts.

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)	107,793
General Low Voltage	34,751
General Transformer	19,954
Unmetered	4,362
Non-standard consumers (individual contracts)	2,036
<b>Total</b>	<b>168,896</b>

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### 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 2019 to 31 March 2020

Price Code	Units	Description	Quantity 2019/20	Distribution Price 1 April 2019 to 31 March 2020	Transmission Price 1 April 2019 to 31 March 2020	Revenue 1 April 2019 to 31 March 2020
<b>Residential</b>						
RLU-FIXD	con/day	Low user daily	33,585,634	0.0900	0.0600	5,037,845
RLU-24UC	kWh	Low user uncontrolled	228,590,951	0.0730	0.0404	25,922,214
RLU-AICO	kWh	Low user all inclusive	226,179,503	0.0586	0.0324	20,582,335
RLU-CTRL	kWh	Low user controlled	17,275,117	0.0352	0.0195	944,949
RLU-NITE	kWh	Low user night only	2,489,300	0.0119	0.0066	46,052
RSU-FIXD	con/day	Standard user daily	21,331,913	0.6600	0.4400	23,465,105
RSU-24UC	kWh	Standard user uncontrolled	253,297,866	0.0457	0.0254	18,009,478
RSU-AICO	kWh	Standard user all inclusive	267,519,474	0.0315	0.0174	13,081,702
RSU-CTRL	kWh	Standard user controlled	24,871,581	0.0140	0.0077	539,713
RSU-NITE	kWh	Standard user night only	4,447,648	0.0109	0.0060	75,165
RLUEVB-PEAK	kWh	Low user electric vehicle and battery PEAK	121,476	0.0846	0.0656	18,246
RLUEVB-OFFPEAK	kWh	Low user electric vehicle and battery OFFPEAK	322,440	0.0376	0.0292	21,539
RSUEVB-PEAK	kWh	Standard user electric vehicle and battery PEAK	286,788	0.0608	0.0471	30,944
RSUEVB-OFFPEAK	kWh	Standard user electric vehicle and battery OFFPEAK	709,308	0.0138	0.0106	17,307
						<b>subtotal</b>
						<b>107,792,595</b>
<b>General low voltage connection</b>						
GLV15-FIXD	con/day	General low voltage <=15kVA daily	1,851,410	0.3948	0.2191	1,136,581
GLV15-24UC	kWh	General low voltage <=15kVA uncontrolled	43,980,238	0.0357	0.0198	2,440,903
GLV69-FIXD	con/day	General low voltage >15kVA and <=69kVA daily	3,625,376	0.9766	0.5419	5,505,133
GLV69-24UC	kWh	General low voltage >15kVA and <=69kVA uncontrolled	304,306,485	0.0247	0.0137	11,685,369
GLV138-FIXD	con/day	General low voltage >69kVA and <=138kVA daily	140,200	5.5338	3.0707	1,206,349
GLV138-24UC	kWh	General low voltage >69kVA and <=138kVA uncontrolled	51,522,645	0.0293	0.0163	2,349,433
GLV300-FIXD	con/day	General low voltage >138kVA and <=300kVA daily	125,960	7.8828	4.3742	1,543,889
GLV300-24UC	kWh	General low voltage >138kVA and <=300kVA uncontrolled	99,279,588	0.0121	0.0068	1,876,384
GLV1500-FIXD	con/day	General low voltage >300kVA and <=1500kVA daily	79,853	19.8773	11.0299	2,468,025
GLV1500-24UC	kWh	General low voltage >300kVA and <=1500kVA uncontrolled	143,677,214	0.0054	0.0030	1,206,889
GLV1500-DAMD	kVA/month	General low voltage >300kVA and <=1500kVA demand	444,439	4.8214	2.6754	3,331,872
						<b>subtotal</b>
						<b>34,750,826</b>
<b>General transformer connection</b>						
GTX15-FIXD	con/day	General transformer <=15kVA daily	667	0.3584	0.1990	372
GTX15-24UC	kWh	General transformer <=15kVA uncontrolled	42,134	0.0332	0.0185	2,178
GTX69-FIXD	con/day	General transformer >15kVA and <=69kVA daily	6,398	0.8863	0.4917	8,817
GTX69-24UC	kWh	General transformer >15kVA and <=69kVA uncontrolled	529,775	0.0233	0.0129	19,178
GTX138-FIXD	con/day	General transformer >69kVA and <=138kVA daily	6,052	5.0213	2.7863	47,248
GTX138-24UC	kWh	General transformer >69kVA and <=138kVA uncontrolled	2,837,222	0.0274	0.0152	120,866
GTX300-FIXD	con/day	General transformer >138kVA and <=300kVA daily	35,894	7.1528	3.9691	399,209
GTX300-24UC	kWh	General transformer >138kVA and <=300kVA uncontrolled	49,024,508	0.0113	0.0063	862,831
GTX1500-FIXD	con/day	General transformer >300kVA and <=1500kVA daily	93,582	15.4332	8.5639	2,245,697
GTX1500-24UC	kWh	General transformer >300kVA and <=1500kVA uncontrolled	368,703,070	0.0044	0.0024	2,507,181
GTX1500-CAPY	kVA/day	General transformer >300kVA and <=1500kVA capacity	71,875,594	0.0105	0.0059	1,178,760
GTX1500-DAMD	kVA/month	General transformer >300kVA and <=1500kVA demand	1,012,025	4.0526	2.2487	6,377,109
GTX1501-FIXD	con/day	General transformer >1500kVA connection daily	14,243	0.0343	0.0191	761
GTX1501-24UC	kWh	General transformer >1500kVA connection uncontrolled	167,790,917	0.0009	0.0006	251,686
GTX1501-CAPY	kVA/day	General transformer >1500kVA connection capacity	32,492,905	0.0186	0.0104	942,294
GTX1501-DOPC	kVA/month	General transformer >1500kVA connection on-peak demand	400,959	7.6356	4.2370	4,760,426
GTX1501-PWRF	kVA/month	General transformer >1500kVA connection power factor	26,809	5.5135	3.0595	229,834
						<b>subtotal</b>
						<b>19,954,446</b>
<b>Unmetered</b>						
G001-FIXD	fitting/day	Non-street lighting daily	567,480	0.0272	0.0151	24,004
G001-24UC	kWh	Non-street lighting uncontrolled	5,571,062	0.0883	0.0491	765,464
G002-FIXD	fitting/day	Street lighting daily	15,751,966	0.1457	0.0811	3,572,546
G002-24UC	kWh	Street lighting uncontrolled	21,955,233	-	-	-
						<b>subtotal</b>
						<b>4,362,014</b>
<b>Non standard charges</b>						
Special	Unit	Non standard charges	1	1,235,474.4400	800,807.5276	2,036,282
						<b>TOTAL</b>
						<b>168,896,163</b>

**WELLINGTON ELECTRICITY LINES LIMITED**

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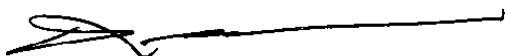
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**Appendix 2: Director's certificate**

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

Clause 11.2(c)

I, 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.



Chairman

30 January 2019

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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.