

Network Tasman Limited

Annual Price Setting Compliance Statement

Electricity Distribution Services Default Price-Quality Path Determination 2020

[2019] NZCC 21

Assessment Period 01 April 2020 to 31 March 2021

Network Tasman Limited
Annual Price-setting Compliance Statement 01 April 2020 – 31 March 2021

Electricity Distribution Services Default Price-Quality Path Determination 2020

Schedule 6

Certification for Annual Price Setting Compliance Statement

I, Michael John McCliskie, being a director of Network Tasman Limited certify that, having made all reasonable enquiry, to the best of my knowledge and belief, the attached annual price-setting compliance statement of Network Tasman 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.



Director

27 March 2020

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.

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1 Introduction

Network Tasman's electricity distribution business is subject to regulation under the Commerce Act 1986 (the Act). Pursuant to the requirements of the Act, Network Tasman must comply with the Electricity Distribution Services Default Price-Quality Path Determination 2020 (the Determination) which comes into force on 01 April 2020. Before the start of each assessment period in the regulatory period 1 April 2020 to 31 March 2025, Network Tasman is required provide an 'Annual price-setting compliance statement' as per section 11 of the Determination.

The Annual price setting compliance statement must:

- state whether or not Network Tasman has complied with clause 8.3 of the Determination
- state the date on which the statement was prepared
- include director certification

The statement must include:

- Network Tasman's calculation of forecast revenue from prices with supporting information for all components of the calculation;
- Network Tasman's calculation of forecast allowable revenue with supporting information for all components of the calculation;
- if Network Tasman has not complied with the price path, the reasons for the non-compliance; and any actions taken to mitigate any non-compliance and to and to prevent similar non-compliance in future assessment periods.

As required, this Statement confirms that in respect of the first assessment period of the DPP regulatory period, Network Tasman has complied with clause 8.3 of the determination for the assessment period 01 April 2020 to 31 March 2021

2 Compliance With Assessment

2.1 Summary

Clause 8.3 of the Determination states that:

In respect of the first assessment period of the DPP regulatory period, to comply with the price path for an assessment period of the DPP regulatory period, a non-exempt EDB's forecast revenue from prices for that assessment period must not exceed the forecast allowable revenue for that assessment period.

Network Tasman has complied with the price path requirement 8.3 of first assessment period of the Determination as demonstrated below in Table 1.

Table 1. Demonstrating compliance with price path requirement 8.3.

Forecast allowable Revenue (\$000)	Forecast Revenue from prices (\$000)	Compliance test result
40,362	38,147	Compliant Forecast revenue from prices ≤ forecast allowable revenue

Following is more detail in support of this forecast.

2.2 Calculating forecast allowable revenue

The 2020-21 year is Network Tasman's first assessment under DPP3. The forecast allowable revenue is calculated as per Schedule 1.5 of the Determination:

forecast allowable revenue = forecast net allowable revenue
+ forecast pass-through and recoverable costs
+ opening wash-up account balance.
+ pass-through balance allowance

Table 2 Calculation of forecast allowable revenue 2020-21

Calculation Component	Amount \$
forecast net allowable revenue	26,452,000
forecast pass-through and recoverable costs	13,909,613
opening wash-up account balance	0
pass-through balance allowance	0
forecast allowable revenue	40,361,613

The four components of forecast allowable revenue are described in more detail below;

Forecast net allowable revenue

The forecast net allowable revenue for the first assessment as per Schedule 1.4 of the Determination is \$26,452,000

Forecast pass-through and recoverable costs

The forecast pass-through and recoverable costs for the first assessment as per the Determination is \$13,909,613
This is Network Tasman's forecast of pass-through costs and recoverable costs for the year. More details are provided below in section 2.4.

opening wash-up account balance.

The opening wash-up account balance for the first assessment as per Schedule 1.7 of the Determination is \$0 (nil)

pass-through balance allowance

Network Tasman's estimate of pass-through balance allowance for the first assessment as per the Determination is \$0

2.3 Calculating forecast revenue from prices.

The forecast revenue is the sum of each price multiplied by its respective forecast quantity. For small and medium consumers (Mass-market), Network Tasman's charges are calculated from a mix of fixed and variable (per kWh) prices based on respective quantities. For larger (150 kVA +), revenue is based on kWh and demand based prices. There is a small number large connections, embedded networks and generators whose charges are calculated individually based on special characteristics, pass-through costs and specific assets.

For Groups 0, 1, 2 & 3 the quantities are based on historical volumes reported by retailers. See Attachment A for further details.

Additional "average ICPs" are added for growth to the dataset to assess the final YE March 2021 volumes.

To determine the growth ICPs/quantities, historical trends, subdivision growth and management estimates are used

The kWh growth in particular can vary considerably each year due to seasonal effects, such as variance in winter temperatures for residential space heating or dryness of summers affecting irrigation.

For Groups 1, 2 & 3, kWh quantities is still the major factor (about 65%) used in deriving network revenue.

The forecast revenue is consistent with the line business accounting budget for the 2020-21 year

See Attachment A for more detail on volume, ICP and demand growth forecasts.

See Attachment B for more detail on the revenue from prices calculation (price x quantity)

All quantity forecasts were finalised in January 2020, before it became apparent the COVID-19 virus would affect global and domestic economies.

Table 4 Summary of Revenue from Prices

Major Price Group	Revenue from prices
New Connections	399,999
Groups 0, 1, 2 & 3	32,305,883
Group 6	1,918,205
Generators	1,691,864
Embedded Network	1,831,113
Total forecast revenue	38,147,064

Note: Connection revenue consists of network connection application fees, solar PV connection fees and network development levys

2.4 Forecast pass-through and recoverable costs

Schedule 1.5 (3) of the Determination requires that all Pass-through and Recoverable costs are demonstrably reasonable. Tables 5 & 6 show detail of these costs, and more detail on how these costs are forecast is below.

Table 5

Forecast pass-through costs	Amount \$000
EA Levies	149,000
Commerce Commission Levies	76,000
UDL Levies	25,000
Utility Rates	171,864
Total pass-through costs	421,864

Table 6

Forecast Recoverable costs	Amount \$000
IRIS incentive adjustment	(461,953)
TPNZ Connection charge	1,534,067
TPNZ Interconnection charge	9,619,197
Transpower NIA	1,243,987
Distributed Generator ACOT	1,511,451
FENZ Levy	41,000
Quality Incentive ³	0
Total pass-through costs	13,487,749

Total Recoverable and Pass-through	13,909,613
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Note 3. The SAIDI Quality Incentive Adjustment for YE March 2019 resulted in the maximum incentive penalty as assessed SAIDI exceeded the SAIDI cap. However this was fully offset as the SAIFI assessed value was less than the SAIFI collar, resulting in a total Quality Incentive Adjustment of nil.

Forecasting methodology of pass-through and Recoverable costs

Forecast pass-through costs

Component	Forecasting methodology
EA Levies	Historical costs and current levy rates per NTL accounting budget
Commerce Commission Levies	Historical costs and current levy rates per NTL accounting budget
UDL Levies	Historical costs and current levy rates per NTL accounting budget
Utility Rates	Historical costs and current levy rates per NTL accounting budget

Forecast Recoverable costs

Component	Forecasting methodology
IRIS incentive adjustment	As per Commerce Commission IRIS calculation model
TPNZ Connection charge	As per Transpower's 2020-21 pricing schedule
TPNZ Interconnection charge	As per Transpower's 2020-21 pricing schedule
Transpower NIA	As notified by Transpower's pricing team
Distributed Generator ACOT	Based on demands and Transpower's 2020-21 interconnection rate
FENZ Levy	Historical costs and current levy rates per NTL accounting budget
Quality Incentive	As per DPP period 2 Assessment 4, adjusted for the time value of money

3 Compliance with the Determination requirements and sections of this document that addresses them

Table 4.1 Price Path Summary

Determination Clause	Requirement	Section of this Document
8.3	In respect of the first assessment period of the DPP	2.1

Table 4.2 Annual price-setting compliance statement

An annual price-setting compliance statement provided to the Commerce Commission must consist of:

Determination Clause	Requirement	Section of this Document
11.2 (a)	State whether or not in the first regulatory period Network Tasman has complied with the price path in section 8.3.	1
11.2 (b)	State the date on which the statement was prepared	Coverpage
11.2 (c)	Include a certificate in the form set out in Schedule 6, signed by at least one director of Network Tasman	2
11.3 (a)	Include Network Tasman's calculation of its forecast revenue from prices together with supporting information for all components of the calculation	2.2 Attachment A Attachment B
11.3 (b)	Include Network Tasman's calculation of its forecast allowable revenue together with supporting information for all components of the calculation	2.3
11.3 (c)	If Network Tasman has not complied with the price	n/a

Attachment A. Quantity Forecasting

Calculating forecast revenue for Network Tasman requires a forecast of quantities for the year based on prices for that year.

Network Tasman's prices are a mix of fixed and variable quantities, with most revenue from kWh metered at the consumers connection point.

Group 1 connections have fixed/daily charge and kWh prices.

Group 2 connections have prices based on capacity and kWh

Group 3 connections have historical demand-based and kWh prices.

Group 6 connections have a fixed charge and pass through transmission charges

Embedded Generators have a fixed asset charge and transmission charges on a pass-through basis.

The embedded network has Transmission charges only on a pass-through basis

Methodology in forecasting volumes.

Groups 0

These are unmetered streetlights (kW capacity) and small unmetered connections such as phone boxes, communications cabinets and electric fences.

The most recent billed quantities are used to determine the the forecast volumes.

Volume forecasts are based on historical trend and knowledge of consumer intentions

Groups 1 & 2

Historical volumes of each price category and price code is adjusted using the historical growth (ICP count, kWh, kVA etc) over the past 4 years to determine the total quantities for the forecast year.

A price restructure of Group 1 (15kVA capacity) in April 2019 resulted in all 15kVA connection moving from one pricing structure to 3 categories;

Low-user residential, standard residential and general (non-residential)

This has meant that while the total forecast ICPs and kWh volumes are based on the 4 year history, the data we have by these 3 new categories is only about 18 months old.

In April 2019 Retailers assigned consumers to the appropriate Low-user or Standard or non-residential price category within Group 1. However

there is been some volatility in this are as individual retailers take staged steps to correctly assign consumers to their most appropriate price plan.

So we have used the latest known split of price category to assign price codes/tariffs - recognising some retailer will be more

proactive than others in assigning/encouraging the best network price plan for their consumers into the future.

Group 3

Similar to Groups 1 & 2, we use historical GWh volumes for forecasting

Demand charges (Anytime kVA and RCPD kW) are all based on an ICPs actual demands the previous year.

We use the Group 3 ICP growth to assess the additional demand quantities for the forecast year, and

this is added to the total quantities for the current Group 3 ICPs

Group 6

The kW/kVA volumes that used for determining their share of transmission charges are based actual/known data.

Transmission and Electricity Authority costs are billed to Group 6 on a pass-through basis, reflecting as close as possible Transpower's connection and

Interconnection charges, and the EA levy is a pass-through based on monthly MMWh volumes.

Embedded Network - Nelson Electricity

Nelson Electricity is charged only transmission charges, mirroring Transpower charges in the same manner as we do for Group 6 transmission charges

Embedded Generators

The charges for these connections are fixed only, and include Transpower pass-through charges. No new connections are forecast for April 2020 to March 2021.

Quantities for minor charges

For very small charges such as new connection and solar connection fees, the same

revenue is used for the forecast. There has been no price change.

Quantity Growth. Connections, Capacity, kWh and demand.

In determining the forecast volumes, the most up-to date retailer supplied data is used.

Fixed Charge Connections Growth

Customer Price Group, Description	Group/Code	Units	Growth				YE Mar 2021 forecast		Comment
			2017	2018	2019	2020	Growth	Quantity	
Group 1, 15 kVA connection	1	Conn	1.4%	1.4%	1.5%	1.6%	1.4%	5,384,427	historical trend
Group 2, 15 - 150 kVA (kVA Capacity)	2	kVA	1.1%	1.7%	0.9%	1.1%	1.2%	130,308	consistent with historical trend
Group 3 Anytime Demand (kVA)	3	Anytime kVA	1.3%	1.3%	1.3%	5.3%	1.4%	55,707	Actual +forecast ¹
Group 3 RCPD demand (kW)	3	RCPD	3.8%	-0.6%	2.0%	5.5%	11.2%	25,760	Actual
Large Industrial Connection	6	ICP	0%	0%	0%	0%	0%	2	No growth expected
Embedded Network	NEL	Connection	0%	0%	0%	0%	0%	1	No growth expected
Individual Generation Connection	CB	ICP	0%	0%	0%	0%	0%	1	No growth expected
Individual Generation Connection	MAT	ICP	0%	0%	0%	0%	0%	1	No growth expected

Note 1. Group 3 billing demands each year are based on the previous years actual demand plus a growth factor to allow for

new connections growth during the year. The 2020 year had a particularly high Anytime kVA growth in 2 industries we do not expect to flow into the forecast year.

The RCPD demand in particular is affected by the seasonal nature of USI demand timing.

Variable Quantities

Customer Price Group, Description	Group/Code	Units	Growth				YE Mar 2021 forecast		Comment
			2017	2018	2019	2020	Growth	GWh	
15 kVA connection	1	GWh	3.7%	(0.7)%	4.1%	(1.5)%	1.4%	256	consistent with historical trend
15 - 150 kVA connections	2	GWh	(1.0)%	2.0%	4.2%	(1.7)%	1.3%	111	consistent with historical trend
Greater than 150 kVA	3	GWh	1.1%	2.7%	3.7%	1.0%	2.1%	156	consistent with historical trend

Attachment B Prices, Quantities and Revenue for Pricing year 01 April 2020 to 31 March 2021

Category/Description	Unit of Measure	Code	Transmission & Pass Through			Final Price	Billing Quantity	Total Revenue
			Distribution Price	Price	Discount Price			
Unmetered Connections								
Unmetered Streetlight	kW Capacity	0STL	0.0009	0.00026	0	0.00116	429,417	181,815
Low Capacity Connection	Connection	0UNM	0.3996	0.1227	0	0.5223	78	14,937
Unmetered Streetlight Connection	Connection	0S	0	0	0	0	0	0
Low-Use 15 kVA Residential (<8,000 kWh pa)								
Daily price	Connection/day	1RL	0.1185	0.0315	0	0.15	18,834	1,031,149
Uncontrolled	kWh	1RLANY	0.0751	0.0228	0.0288	0.0691	71,551,043	4,944,171
Day (of day/night)	kWh	1RLDAY	0.0851	0.0234	0.0324	0.0761	692,917	52,731
Night	kWh	1RLNIT	0.0146	0.0071	0.0096	0.0121	1,529,606	18,507
Controlled water	kWh	1RLWSR	0.0221	0.0097	0.0132	0.0186	27,494,176	511,386
Export	kWh	1RLGEN	0	0	0	0	1,237,960	0
Standard 15kVA Residential (>8,000 kWh pa)								
Daily price	Connection/day	1RS	0.6705	0.18	0	0.8505	15,493	4,809,619
Uncontrolled	kWh	1RSANY	0.0429	0.0147	0.0288	0.0288	99,096,351	2,853,970
Day (of day/night)	kWh	1RSDAY	0.0494	0.0176	0.0322	0.0348	1,295,281	45,076
Night	kWh	1RSNIT	0.0107	0.0053	0.0098	0.0062	2,372,846	14,710
Controlled water	kWh	1RSWSR	0.0147	0.0073	0.0133	0.0087	32,739,440	284,831
Export	kWh	1RSGEN	0	0	0	0	834,509	0
Non-Residential 15 kVA connections								
Daily price	Connection/day	1GL	0.6705	0.18	0	0.8505	3,182	987,704
Uncontrolled	kWh	1GLANY	0.0429	0.0147	0.0288	0.0288	17,348,599	499,636
Day (of day/night)	kWh	1GLDAY	0.0494	0.0176	0.0322	0.0348	478,705	16,659
Night	kWh	1GLNIT	0.0107	0.0053	0.0098	0.0062	367,268	2,277
Controlled water	kWh	1GLWSR	0.0147	0.0073	0.0133	0.0087	1,380,745	12,012
Export	kWh	1GLGEN	0	0	0	0	48,761	0
General (20-150 kVA), 2,716 connections.								
Daily capacity price	kVA-day	2	0.063	0.017	0	0.079996605	125,919	3,676,669
Uncontrolled	kWh	2ANY	0.0534	0.0151	0.027	0.0415	70,540,163	2,927,417
Day (of day/night)	kWh	2DAY	0.0611	0.0167	0.0304	0.0474	18,853,853	893,673
Night	kWh	2NIT	0.0215	0	0.0079	0.0136	8,273,050	112,512
Controlled water	kWh	2WSR	0.0298	0.0004	0.0118	0.0184	3,483,597	64,098
Export	kWh	2GEN	0	0	0	0	270,398	0
Residential Low Fixed (20 and 30 kVA capacity)								
Daily capacity price	Connection/day	2LLFC	0.1281	0.0219	0	0.15	49	2,678
Uncontrolled	kWh	2LANY	0.1266	0.0224	0.027	0.122	259,327	31,638
Day (of day/night)	kWh	2LDAY	0.1508	0.0242	0.0317	0.1433	21,515	3,083
Night	kWh	2LNIT	0.0461	0.0124	0.0106	0.0479	16,628	796
Controlled water	kWh	2LWSR	0.0479	0.0141	0.0112	0.0508	48,925	2,485
Export	kWh	2LGEN	0	0	0	0	22,886	0
Residential Low Fixed (40 to 150 kVA capacity)								
Daily capacity price	Connection/day	2HLFC	0.1281	0.0219	0	0.15	5	276
Uncontrolled	kWh	2HANY	0.2218	0.0312	0.025	0.228	18,473	4,212
Day (of day/night)	kWh	2HDAY	0.222	0.033	0.03	0.225	0	0
Night	kWh	2HNIT	0.1265	0.0211	0.011	0.1366	0	0
Controlled water	kWh	2HWSR	0.1574	0.0226	0.017	0.163	9,226	1,504
Export	kWh	2LGEN	0	0	0	0	22,886	0
High Load Factor (Up to 150 kVA)								
Daily capacity price	kVA	HLF	0.376	0.0595	0.0922	0.3433	3,240	405,959
Uncontrolled	kWh	HLFANY	0.0183	0.0041	0.0071	0.0153	4,426,180	67,721
Day (of day/night)	kWh	HLFDAY	0.0199	0.0045	0.0074	0.017	3,850,361	65,456
Night	kWh	HLFNIT	0.0057	0.0014	0.0029	0.0042	1,472,318	6,184
Controlled water	kWh	HLFWSR	0.0083	0.0019	0.005	0.0052	28,402	148
Export	kWh	HLFGEN	0	0	0	0	3,428	0
Category 3.1								
Anytime Demand	kVA-day	AnyDem31	0.1083	0.0312	0.0119	0.1276	2,216	103,208
Summer Day kWh	kWh	SD31	0.005	0	0.0019	0.0031	4,063,246	12,596
Summer Night kWh	kWh	SN31	0.0026	0	0.001	0.0016	1,677,785	2,684
Winter Day kWh	kWh	WD31	0.0089	0	0.0032	0.0057	2,823,115	16,092
Winter Night kWh	kWh	WN31	0.0026	0	0.001	0.0016	1,212,104	1,939
Generation export	kWh	3.1GEN	0	0	0	0	0	0
Category 3.3								
Anytime Demand	kVA-day	AnyDem33	0.1301	0.0312	0.0153	0.146	2,515	134,018
Summer Day kWh	kWh	SD33	0.015	0	0.0055	0.0095	4,277,029	40,632
Summer Night kWh	kWh	SN33	0.008	0	0.0029	0.0051	1,828,230	9,324
Winter Day kWh	kWh	WD33	0.0386	0	0.0141	0.0245	2,349,544	57,564
Winter Night kWh	kWh	WN33	0.008	0	0.0029	0.0051	957,083	4,881
Generation export	kWh	3.3GEN	0	0	0	0	1,507,367	0
Category 3.4								
Anytime Demand	kVA-day	AnyDem34	0.1389	0.0312	0.0164	0.1537	47,226	2,649,399
Summer Day kWh	kWh	SD34	0.015	0	0.0055	0.0095	50,470,771	479,472
Summer Night kWh	kWh	SN34	0.008	0	0.0029	0.0051	17,786,149	90,709
Winter Day kWh	kWh	WD34	0.0386	0	0.0141	0.0245	39,513,198	968,073
Winter Night kWh	kWh	WN34	0.008	0	0.0029	0.0051	14,284,339	72,850
Generation export	kWh	3.4GEN	0	0	0	0	10,112	0
Category 3.5								
Anytime Demand	kVA-day	AnyDem35	0.1301	0.0312	0.0153	0.146	3,750	199,838
Summer Day kWh	kWh	SD35	0.0102	0	0.0037	0.0065	5,324,617	34,610
Summer Night kWh	kWh	SN35	0.0063	0	0.0024	0.0039	2,370,870	9,246
Winter Day kWh	kWh	WD35	0.0329	0	0.0121	0.0208	4,773,782	99,295
Winter Night kWh	kWh	WN35	0.0063	0	0.0024	0.0039	2,116,890	8,256
Generation export	kWh	3.4GEN	0	0	0	0	10,112	0
RCPD Charge Categories 3.1 - 3.5								
Reactive Charge Categories 3.1 - 3.5	kVAr-day	kVAr	0.2845	0	0	0.2845	180	18,743
Large or Special Connections								
Generator	pa	MAT	7,600	1,534	0	9,134	1	9,134
Generator	pa	CobbLine	1,398,680	284,049	0	1,682,729	1	1,682,729
Special	pa	6.1	226,727	1,249,340	26,645	1,449,422	1	1,449,422
Special	pa	6.2	242,998	265,217	39,432	468,783	1	468,783
Embedded Network	pa	NEL	0	1,831,113	0	1,831,113	1	1,831,113
Network Applications Fee								
NCA Admin G0	per application		125	0	0	125	8	1,000
NCA Admin G1	per application		250	0	0	250	740	184,950
NCA Admin G2	per application		325	0	0	325	90	29,250
NCA Admin G3	per application		400	0	0	400	12	4,800
Solar Connections Fee								
SSDG < 10kW	per application		0	0	0	0	0	0
Part 1	per application		200	0	0	200	141	28,200
Part 1a	per application		100	0	0	100	3	300
SSDG > 10kW and < 100	per application		500	0	0	500	3	1,500
SSDG > 100 and < 1000	per application		1000	0	0	1000	0	0
SSDG > 1000	per application		5000	0	0	5000	0	0
Network Development Levy								
NDL - Group 1 uncapped	kVA*km		7.44	0	0	7.44	5,870	43,690
NDL - Group 1 Capped	per application		3,250	0	0	3,250	0	0
NDL - Group 2	kVA*km		18.32	0	0	18.318	4,500	82,431
NDL - Subdivision	per application		2,170.75	0	0	2,170.75	11	23,878
Network Tasman Forecast Revenue from Prices 2020-21								38,147,064