



Annual price-setting compliance statement

For the first assessment period (1 April 2020 - 31 March 2021)

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1. INTRODUCTION

EA Networks is subject to regulation under Part 4 of the Commerce Act 1986. Pursuant to section 4 of the Act the Commerce Commission has given a default price path determination for non-exempt electricity distribution companies like EA Networks.

The default price path determination was published on 27 November 2019 and applies from 1 April 2020 to 31 March 2025. Under clause 11 of the determination EA networks is required by 1 April 2020 to publish an “annual price-setting compliance statement”, which has two key requirements:

Information on:

- 1) How we calculated forecast revenue, in particular:
 - The calculation of forecast revenue from prices together with supporting information for all components of the calculation.
 - The calculation of its forecast allowable revenue together with supporting information for all components of the calculation.

- 2) Compliance with the price path requirements, in particular:
 - If we have not complied with the price path, the reasons for the non-compliance
 - If we have not complied with the price path, any actions we will be taking to mitigate any non-compliance and to prevent similar non-compliance in the future.
 - A statement whether EA Networks has complied with the requirements of the price path.

2. DATE OF COMPLETION

This statement was completed on 28 March 2020 and approved for release by EA Networks Directors.

We welcome enquires concerning this compliance document, which should be sent to enquires@eanetworks.co.nz. If you have suggestions regarding how we can improve this document, please contact us.


3 DIRECTORS CERTIFICATE

We Paul Jason Munro and Philip John McKendry being directors of Electricity Ashburton Limited trading as EA Networks certificate that, having made all reasonable enquiry, to the best of our knowledge and belief, the attached annual price-setting compliance statement of EA Networks, and related information, prepared for the purpose of the Electricity Distribution Service 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.



Paul Jason Munro

28 March 2020



Philip John McKendry

4 COMPLIANCE ASSESSMENT

4.1 Summary

The price-path Compliance requirement in section 8.4 of the determination states:

“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 forecasted revenue from prices for that assessment period must not exceed the forecast allowable revenue for the assessment period.”

EA Networks complies with the price path for the assessment period 1 April 2020 to 31 March 2021 as demonstrated in Table 1.

Table 1 : Demonstrating compliance with the price path		
Forecast allowable revenue (\$000)	Forecast revenue from Prices (\$000)	Compliance test:
46,725	46,666	Complies because forecast revenue from prices ≤ forecast allowable revenue.

The remainder of this document contains more details about the costs and assumptions that underpin these forecasts. Section 4.2. summarises the components of *forecast allowable revenue*. Section 4.3 and Attachment C provide information about forecast revenue from Prices. Section 4.2 contains a more detailed breakdown of forecast allowable revenue.

4.2 Calculating forecast allowable revenue

The 2020-21 assessment period is the first annual assessment period under the Determination EA Networks ‘forecast allowable revenue’ for each annual assessment period is determined in accordance with the following:

$$\begin{aligned} \text{Forecasted allowable revenue} = & \text{Forecast net allowable revenue} \\ & + \text{Forecast pass-through and recoverable cost} \\ & + \text{Opening wash-up account balance} \\ & + \text{New connection fees} \end{aligned}$$

The calculation of EA Networks forecast allowable revenue for the 2020-21 assessment period is provided in table 2.

Table 2: Calculating EA Networks forecast allowable revenue.

EA Networks forecast allowable revenue 2020-2021 = Forecast net allowable revenue + Forecast pass-through and recoverable costs + opening wash-up account balance.	
Calculation Components	Amount (\$000)
Forecast net allowable revenue	33,259
Forecast pass-through and recoverable costs	13,466
Opening wash-up account balance	0
Forecast allowable revenue	46,725

The three components of forecast allowable revenue for the 2020-21 assessment period are described in more detail below.

4.2.1 Forecast net allowable revenue.

Forecast net allowable revenue for the first assessment period is specified in Schedule 1.4 of the determination.

For the 2020/21 assessment period, the forecasted amount is **\$33.259M**.

4.2.2 Forecast pass-through and recoverable costs

This is EA Networks forecast of pass-through costs and forecast of recoverable costs for the year. These costs must be demonstrated reasonably.

For the 2020/21 assessment period, the forecasted amount is **\$13.467M**.

Section 4.3.3 provides more detail about how these forecast values were determined.

4.2.3 Opening wash-up account balance

The opening wash-up account balances represents any under or over-recoveries of revenue resulting from differences between actual and forecast values in prior year. This balance is adjusted for the time value of money specified by the Commission.

For the 2020/21 assessment period the determination assigns a zero balance to wash-up balances. Going forward section 4.3.2 will explain how wash-up balances will be determined.

4.3 Calculating forecast allowable revenue from prices

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

Prices are made up of fixed and volume components multiplied by quantities. Quantities are made up of units consumed, number of connections, installed capacity and demand. So forecasted allowable revenue requires forecasting of the number of connections, consumption, installed capacity and demand. Forecasts are required for the next pricing year only and therefore rely on the levels and trends of recent actual data. The quantity forecasts are developed using a 'bottom-up' approach at the tariff class level.

We have used the 2018/19 financial year actual quantities as the basis for our forecasted allowable revenue. Our calculations show that expected growth for the 2020/21 year is 0.069% of allowable revenue, or \$322K.

We are forecasting that EA Networks revenue is made up of 58.5% fixed type tariffs (e.g. \$/kilowatt/day) and 41.5% volume type tariffs (e.g. kilowatt hour). Volume revenue is derived from electricity units consumed by customers on a tariff with a unit charge. Actual volume revenue that EA Networks will receive depends on several factors outside of our control and can cause actual revenue to diverge from forecast revenue. For example:

- A cold winter will increase variable revenue whereas a warm winter will decrease variable revenue since less energy is required for space heating.
- A hot summer will increase variable revenue from increased use of air conditioning and irrigation (where variable charging applies). A cooler/wet summer will result in less variable revenue from customers on the 'GS20' tariff who also irrigate

Due to this unpredictability it is likely that the volume affected revenue will result in actual revenue being different from our forecasted revenue from prices. This variance will become a wash-up adjustment in future years.

Table 3: Forecast Revenue from prices		(\$000)
Components		
Delivery Price Revenue (Distribution)		32,975
New Connection Revenue		224
Total Delivery Price Revenue (Distribution)		33,199
Delivery Price Revenue (Wash-up account balance, Pass-through and recoverable costs)		13,467
Total Forecast revenue from Prices		46,666

4.3.1 Analysis of the components and calculation of forecast revenue from price

This section provides a breakdown of the components of forecast revenue from price.

4.3.1(a) Total delivery Price Revenue (Distribution)

Total delivery price revenue or forecast net allowable revenue as it is otherwise known, is specified in schedule 1.4 of the determination so no calculation is necessary for this component of forecast allowable revenue. We have priced \$0.59M below the maximum allowable revenue under the determination to allow for error in quality forecast due to issues highlighted under section 4.3. The pricing methodology, downloadable from www.eanetworks.co.nz, gives additional details concerning how Delivery price revenue is allocated to load groups.

4.3.1(b) Delivery price revenue (Wash-up account balance, pass-through and recoverable revenue)

Table 4: Delivery Price revenue (Wash-up account balance, Pass-through and recoverable costs)		(\$000)
Components		
Wash-up account balance		0
Pass-through and recoverable costs		13,467
Total Forecast revenue from Prices		13,467

This sub-section explains how EA Networks has calculated the wash-up account balance, pass-through and recoverable revenue)

4.3.2 Wash-up account balance

Calculation of the opening wash-up account balance:

Schedule 1.7 of the determination sets the opening wash-up account balance for the first and second assessment periods of the DPP regulatory period as nil.

4.3.3 Forecast pass-through and recoverable costs

The Determination requires a forecast of pass-through and recoverable costs. Tables 5 and 6 provide a breakdown of EA Networks' pass-through and recoverable costs forecast for the year ending 31 March 2021. These total \$13.467M.

Table 5: Forecast pass-through costs		(\$000)
Components		
Commerce Commission levies		119
Electricity Authority levies		72
Utilities Disputes Levies		12
Council Rates		207
Total forecast recoverable costs		410

Table 6: Forecast recoverable costs		(\$000)
Components		
IRIS incentive adjustment		Nil
Transpower Connection Charge		286
Transpower Interconnection Charge		6,271
Transpower New Investment Charges		6,341
Quality incentive adjustment		131
Fire and Emergency New Zealand		28
Capex wash-up adjustment		Nil
Total forecast recoverable costs		13,057

Forecast pass-through and recoverable costs	13,467
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4.3.4 Demonstrating the forecasts of pass-through costs and recoverable costs are reasonable.

The Determination requires that all forecasts of pass-through costs and recoverable costs used to calculate 'forecast allowable' must be 'demonstrably reasonable'.

Table 7: Method of forecasting pass-through costs	
Components	Forecasting Methodology
Commerce Commission levies	Annual levies to April 2020 with CPI adjustment
Electricity Authority levies	Annual levies to September 2019 with CPI adjustment
Utilities Disputes Levies	Annual levies to March 2020 with CPI adjustment
Council Rates	Annual levies to March 2020 with CPI adjustment

Table 8: Method of forecasting pass-through costs	
Components	Forecasting Methodology
IRIS incentive adjustment	Not required
Transpower Connection Charge	Notified prices
Transpower Interconnection Charge	Notified prices
Transpower New Investment Charges	Estimated costs
Quality incentive adjustment	Audited FY2019
Capex wash-up adjustment	Not required

Why do we believe that a CPI adjusting approach to forecast pass-through cost is reasonable?

Where possible, we have used actual cost (notified prices). When we have not been able to source the actual cost for the 2020/21 financial year we have increased the 2019/20 actual costs by Treasury CPI forecasted (CPI adjustment).

Our internal budgeting process uses CPI forecast as a predictor of likely future costs in the absence of better information. This means our approach to determining the likely pass-through costs is consistent with our financial modeling technical on which we base business decisions.

For the disclosure year we have based our CPI adjustment on the Treasury Half Year Economic and Fiscal Update (HYEFU) 2019 Projection dated 11 December 2019, download from;
<https://treasury.govt.nz/system/files/2019-12/fsm-projections-hyefu19.pdf>

Attachment A: Compliance references

The following tables describe the Determination requirements and the section of this Statement that addresses them:

Table A:1 Price Path Summary

Determination clause	Requirement	Section of document
11.2 (a)	State whether or not the non-exempt EDB has: <ol style="list-style-type: none"> I. In respect of the first assessment period of the DPP regulatory period complied with the price path in clause 8.3 for the assessment period; or II. In respect of the second to fifth assessment periods of the DPP regulatory period, complied with the price path in clause 8.4 for the assessment period. 	4.1
11.2 (b)	State the date on which the statement was prepared.	2
11.2 (c)	Include a certificate in the form set out in Schedule 6, signed by at least one director of the non-exempt EDB.	3
11.3	The 'annual price-setting compliance statement' must include the following information:	
11.3 (a)	The non-exempt EDB's calculation of its forecast revenue from prices together with supporting information for all components of the calculation.	4.2-4.3
11.3 (b)	The non-exempt EDB's calculation of its forecast allowable revenue from prices together with supporting information for all components of the calculation.	4.3
11.3 (c)	If the non-exempt EDB has not complied with the price path, the reasons for the non-compliance.	N/A for 2020
11.3 (d)	If the non-exempt EDB has not complied with the price path, any actions taken to mitigate any non-compliance and to prevent similar non-compliance in future.	N/A for 2020