

**Annual price-setting
compliance statement**
For the assessment period ending 31 March 2024

For prices applying from 1 April 2023
Issued 1 March 2023



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1. Purpose

This annual price-setting compliance statement (Statement) states Orion New Zealand Limited's compliance with price-quality regulation as per clauses 11.2 and 11.3 of the Electricity Distribution Services Default Price-Quality Path Determination 2020 (the Determination)

1.1 Disclaimer

Information disclosed in this Statement has been prepared solely for the purposes of the Determination. The information in this Statement should not be used for any other purpose than that intended under the Determination.

1.2. Date Prepared

This Statement was prepared on 1 March 2023

2. Statement of Compliance

2.1 Compliance with the Price Path

Orion New Zealand Limited has complied with the price path in clause 8.4 of the Determination for the assessment period ending 31 March 2024.

Clause 8.4 of the Determination requires that, for the second to fifth assessment periods, to comply with the price path for an assessment period, a non-exempt Electricity Distribution Business's (EDB's) forecast revenue from prices for that assessment period must not exceed the lessor of:

- a) The forecast allowable revenue for that assessment period; and
- b) The amount determined in accordance with the following formula:

The forecast revenue from prices for the previous assessment period x (1 + limit on annual percentage increase in forecast revenue from prices)

Compliance is established in table 1 below, which demonstrates that forecast revenue from prices for the assessment period does not exceed the forecast allowable revenue for that assessment period.

Table 1 – Statement of price path compliance for the assessment period ending 31 March 2024

Calculation components	Amount (\$'000)
Forecast revenue from prices 2024	\$236,561
Forecast allowable revenue 2024	\$236,561
Forecast revenue from prices 2023 x (1+10%)	\$255,027
Result	Compliant with the price path

This statement provides the detail about the prices and assumptions that underpins Orion New Zealand Limited's forecasts.

2.2 Certification

This Statement was certified in accordance with clause 11.2(c) of the Determination on 1 March 2023. A copy of the directors' certificate is included in Appendix A.

3. Calculation of forecast revenue from prices

Forecast revenue from prices is calculated by multiplying prices as at, 01 April 2023 by the forecast quantities as at, 31 March 2024 for each of the consumer groups. The Determination requires that the forecasts are demonstrably reasonable.

The forecast quantities are derived by escalating the prior years' actual quantities by the growth assumption for each consumer group. The growth assumptions are calculated based on a 6-year linear trend percentage growth in consumption, demand, capacities, and number of ICPs for each consumer group.

A summary of Orion New Zealand Limited's forecast revenue from prices is included in Table 2 below. Supporting calculation of the forecast revenue from prices is included in Appendix B. Appendix C provides full tables of forecast revenue from prices for each consumer group.

Table 2 – Summary of Orion New Zealand Limited forecast revenue from prices

Term	Description	Amount ('000)
ΣP 2023/24*Q 2023/24	Forecast prices between 01 April 2023 and 31 March 2024 multiplied by forecast quantities for the period ending 31 March 2024.	\$236,561

The 2024 assessment period is the fourth assessment period of the regulatory period (2021-2025). In accordance with the Determination, the forecast allowable revenue (FAR) for this assessment period has been determined using the following formula:

$$\text{FAR} = \text{Forecast net allowable revenue (FNAR)} + \text{forecast pass-through and recoverable costs (FRPC)} + \text{opening wash up account balance (OWAB)} + \text{pass-through balance allowance (PTBA)}$$

Orion New Zealand Limited's FAR for the 2024 assessment period is \$236.561 million. The calculation of FAR is provided in table 3 below.

Table 3 – Calculation of the forecast allowable revenue

Term	Description	Amount ('000)
Forecast net allowable revenue	Forecast net allowable revenue as set out in Table 1.4.1 in Schedule 1.4 for the period ending 31 March 2024	\$168,158
Forecast pass-through costs	Forecast pass-through costs and forecast recoverable costs	\$8,712
Forecast recoverable costs	Forecast recoverable costs, excluding any recoverable cost that is a revenue wash-up draw down amount	\$57,599
Opening wash-up account balance	Closing wash-up account balance for the previous assessment period	\$2,093
Pass-through balance allowance	The pass-through balance allowance for the fourth assessment period	NIL
Total FAR		\$236,561

The four components of the FAR for the assessment period ending 31 March 2024 are described in more detail below.

3.1 Forecast net allowable revenue

The forecast net allowable revenue (FNAR) for the fourth assessment period is \$168.158 million. The FNAR is specified in Table 1.4.1 in Schedule 1.4 of the Determination.

3.2 Forecast Pass-through and Recoverable costs

Orion New Zealand Limited's forecast recoverable and pass-through costs (FRPC) for the assessment period ending 31 March 2024 are \$ 66.311 million. The Determination requires a demonstrably reasonable forecast of pass-through and recoverable costs. The forecast values and the methodologies that Orion New Zealand Limited has applied to forecast pass-through and recoverable costs are outline in

Table 4 below. In Orion New Zealand Limited's opinion, all the methods deliver demonstrably reasonable forecasts of pass-through and recoverable costs.

Table 4 – Forecast pass-through and recoverable costs and forecast methodologies applied.

Cost component	Amount (\$'000)
Forecast pass-through costs	
Local authority rates	\$6,371
Commerce Commission levies	\$959
Electricity Authority levies	\$1,237
Utilities Dispute levies	\$143
Forecast recoverable costs	
Transpower Connection charges	\$55,056
Transpower New Investment Contract charges	\$730
Avoided transmission charges from asset transfers	\$310
Quality incentive adjustment	\$610
Capex wash-up adjustment	\$777
FENZ levy	\$115
Total forecast pass-through and recoverable costs	\$66,311

Method of forecasting Pass-through costs

Pass-through cost components	Forecasting methodology
Local authority rates	Taking the current inflation environment and applying inflationary increases.
Commerce Commission	
Electricity Authority levies	Authority consulting on budgets with a substantial uplift in their revenue.
Utilities Dispute levies	Council strategic review and media releases on potential higher than inflation increases in rates and taxes.

Method of forecasting Recoverable costs

Recoverable cost components	Forecasting Methodology
Incremental rolling scheme	Calculated in accordance with 3.1.1(1)(a) of the Electricity Distribution Services Input Methodologies Determination 2012 (Input Methodologies)
Transpower Connections costs	As notified by Transpower
Transpower residual costs	
Transpower benefit-based costs	
Transpower Transitional cap	
Transpower New Investment Contract charges	As notified by Transpower
Avoided transmission charges from asset transfers	Calculated in accordance with Determination schedule 5.1 clause 1(a)(i). The amount determined by Transpower for the year preceding the assessment period in which the charge was first recovered.
Distributed generation allowance	Forecast as zero as Orion New Zealand Limited has not historically incurred costs, paid, nor received avoided transmission charges arising from distributed generation

Claw-back	Forecast as zero as Orion New Zealand Limited does not expect to have claw-back applied by the Commerce Commission under section 54K (3) or 53ZB(3) of the Commerce Act 1986
Catastrophic event allowance	Forecast as zero as Orion New Zealand Limited does not expect to have a catastrophic event during the disclosure year.
Extended reserve allowance	Forecast as zero as Orion New Zealand Limited has not applied to the Commerce Commission for an allowance, per Schedule 5.2 of the Determination, in the disclosure year.
Quality incentive adjustment	Calculated in accordance with Determination schedule 4. Refer to our annual compliance statement for the year ending 31 March 2022 for further details
Capex wash-up adjustment	Calculated in accordance with clause 3.3.3(1)(p) of the Input Methodologies. Refer to Table 5 below for calculations.
Transmission asset wash-up adjustment	Forecast as zero as Orion New Zealand Limited does not intend to purchase any transmission asset during the coming assessment period.
Reconsideration event allowance	Forecast as zero as Orion New Zealand Limited has not applied to the Commerce Commission for a reconsideration event allowance in the disclosure year.
Quality standard variation engineer's fee	Forecast as zero as Orion New Zealand Limited has not applied to the Commerce Commission for a quality standard variation in the assessment period.
Urgent project allowance	Forecast as zero as Orion New Zealand Limited has not had an urgent project as defined in the Input Methodologies
Fire and emergency NZ levies	Based on historical growth rates
Innovation project allowance	Forecast as zero as Orion New Zealand Limited has not applied to the Commerce Commission for an innovation project allowance, per Schedule 5.3 of the Determination, in the disclosure year

Table 5 - The capex wash-up adjustment

Term	Description	Units	Value
Capex wash-up adjustment	Difference between the revenues for DPP regulatory period using actual values of commissioned assets for a prior regulatory period and the revenues using forecast commissioned assets applied by the Commission when setting prices	\$000	\$2,809
I	Number of disclosure years in the DPP regulatory period	Years	5
r	Cost of debt applying to the DPP regulatory period	%	2.92%
y	Number of disclosure years preceding the disclosure year in question in the DPP regulatory period	Years	3
Adjusted Capex wash-up adjustment	$(\text{Capex wash-up adjustment} / (I-1) \times (1+r)^{(y+0.5)})$	\$000	\$777

3.3 Opening Wash-Up account balance

The opening wash-up account balance (OWAB) for the assessment period ending 31 March 2024 is positive \$2.093 million.

The OWAB is calculated in accordance with Schedule 1.7 of the Determination and represents the closing wash-up balance for the assessment period ended 31 March 2023, adjusted for the time-value of money. The calculations are shown in tables 6 and 7 below.

Table 6 – Closing wash-up account balance for the assessment period ending 31 March 2023

Term	Description	Value (\$000)
Wash-up amount for the previous assessment period	Wash-up amount for the assessment period ending 31 March 2022	\$1,926
Voluntary undercharging amount foregone for previous assessment period	Amount of voluntary undercharging in the second assessment period which is foregone from future revenues	-
67 th percentile estimate of post-tax WACC		4.23%
Closing wash-up account balance	(Wash-up amount for previous period – Voluntary undercharging amount foregone for previous period) x (1+67 th percentile estimate of post-tax WACC) ^ 2	\$2,093

Table 7 – Opening wash-up account balance for the assessment period ending 31 March 2024

Term	Description	Value (\$000)
Opening wash-up account balance	Closing wash-up account balance from previous assessment period	\$2,093

Appendix A Directors' Certificate for the Annual Price-Setting Compliance Statement

We, Paul Jason Munro and Michael Earl Sang, being directors of Orion New Zealand Limited New Zealand Limited certify that, having made all reasonable enquiry, to the best of our knowledge and belief, the attached annual price-setting compliance statement of Orion New Zealand Limited New Zealand 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 relevant requirements, and all forecasts used in the calculations for forecast revenue from prices and forecast allowable revenue are reasonable.



Paul Jason Munro

01 March 2023



Michael Earl Sang

01 March 2023

APPENDIX B QUANTITY FORECASTING

Price component	Basis of forecast
Streetlighting connections	
Fixed charge	Time series forecast using exponential smoothing
Peak charge (peak period demand) Volume charge	Estimates based on an historical streetlighting profile and a projection of streetlighting capacity which has been reducing by 13% per annum since 2018 as a result of CCC's ongoing LED replacement program
General Connections	
Fixed charge	
General	Time series forecast using exponential smoothing
GC1 - Small SME (<=15kVA)	
GC2 - Medium SME (<=69kVA)	
GC3 - Large SME (>69kVA)	
Peak charge (peak period demand)	The forecast for FY24 is based on last year with an ~10MW adjustment to allow for an anticipated increase in the network limit.
Volume charge	8-year linear trend. Values prior to FY20 adjusted for structural re-categorisations.
Irrigation connections	
Capacity charge	Post CPW stage 2 time series forecast using exponential smoothing
Volume charge	Estimate based on linear regression model using chargeable capacity and NIWA historical average rainfall and soil moisture deficit data.
Rebates	
Power factor correction rebate	Post CPW stage 2 time series forecast using exponential smoothing
Interruptibility rebate	

Major connections and embedded networks	
Fixed charge	Existing major customer connections plus works in progress with expected completion dates prior to April 2023
Fixed charge (additional connections)	
Dedicated equipment	Existing major customer connections plus works in progress with expected completion dates prior to April 2023
Peak charge (control period demand)	Based on HH metering data for existing major customer connections for 12 months ending Sep-22 plus estimates for new connections and anticipated re-categorisations
Nominated maximum demand	
Metered maximum demand	
Large capacity connections	Individually assessed using historical loading levels and input from the customer.
Export credits	
0 - 30kW generation	There are no connections currently approved to receive these credits and no applications have been received pending approval
30 - 750kW generation	
Control period real power	With the removal of transmission credits on 1 April 2019 following Electricity Authority rule changes we observed a large reduction in generation during our chargeable control periods in FY20. Until a clear trend is observed we have adopted the same quantity as last year for our FY24 projection
Control period reactive power	

APPENDIX C PRICES AND FORECAST QUANTITIES FOR PRICES EFFECTIVE 01 APRIL 2023

The table below provides for each consumer group:

- forecast quantities for the assessment period ending 31 March 2024
- unit prices (i.e., distribution plus pass-through and recoverable costs) for the assessment period, becoming effective 1 April 2023; and
- forecast revenue from prices for the assessment period ending 31 March 2024

Price Category	Unit	Unit price (\$)	Forecast quantity	Days applicable	Forecast revenue (\$'000)
STREETLIGHTING, IRRIGATION AND GENERAL CONNECTIONS					
General Connection	\$/con/day	0.4500	190,759	366	31,384
General Connection GC – 1	\$/con/day	0.6100	14,346	366	3,203
General Connection GC – 2	\$/con/day	0.9832	10,963	366	3,945
General Connection GC – 3	\$/con/day	1.1835	4,056	366	1,757
Irrigation capacity charge	\$/kW/day	0.2745	75,822	182	4,070
Streetlighting	\$/con/day	0.0973	52,865	366	1,877
Peak charge	\$/kW/day	0.0929	512,836	366	17,411
Weekday volume charge ¹	\$/kWh	0.09472	1,171,665,049		110,301
Nights & weekends volume charge ²	\$/kWh	0.01844	1,318,792,568		24,319
Irrigation Power factor correction rebate	\$/kVAr/day	(0.1013)	21,913	182	(434)
Irrigation Interruptibility rebate	\$/kW/day	(0.0254)	48,015	182	(238)
MAJOR CUSTOMER CONNECTIONS AND EMBEDDED NETWORKS					
Major connection	\$/con/day	15.00	416	366	2,284
Major additional connection	\$/con/day	10.00	116	366	425

¹ Weekdays (Mon to Fri, 7am – 9pm)

² Nights and weekends (Sat & Sun)

Extra switches	\$/switch/day	3.6700	112	366	150
11k Metering equipment	\$/con/day	5.0200	47	366	86
11kV Underground cabling	\$/km/day	4.4000	7.3	366	12
11kV Overhead lines	\$/km/day	3.1800	3.0	366	4
Transformer capacity	\$/kVA/day	0.0122	370,400	366	1,654
Peak charge (CPD) ³	\$/kVA/day	0.2953	115,943	366	12,514
Nominated maximum demand	\$/kVA/day	0.1076	292,596	366	11,491
Metered maximum demand	\$/kVA/day	0.0717	236,923	366	6,486
DIRECTLY BILLED CUSTOMERS					
Directly billed customer 1	\$/year				2,355
Directly billed customer 2	\$/year				1,490
EXPORT CREDITS					
Real power component	\$/kW	(0.0627)	290.5	Chargeable control period	(7)
Reactive power component	\$/kVAr	(0.0206)	71.4	Chargeable control period	(1)
MISCELLANEOUS					
Monthly invoice charge	\$/invoice	49.0000	504		25
Failure to pay notice	\$/invoice	123.0000	6		0.7
Default and termination notice	\$/invoice	100.0000	2		0.2
Forecast Revenue from Prices FY2024					236,561

³ Control Period Demand we aim to control for 80 – 100 between May and August

APPENDIX D COMPLIANCE WITH THE DETERMINATION.

This schedule demonstrates how this Statement complies with the Determination.

Determination requirement	Determination Reference	Statement Reference
Clause 1 1(2) The 'annual price-setting compliance statement' must -		
State whether or not the non-exempt EDB has:		
<ul style="list-style-type: none"> 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; 	Clause 11.2(a)(iii)	Table 1
<ul style="list-style-type: none"> State the date on which the statement was prepared; and 	Clause 11.2(b)	Section 2
<ul style="list-style-type: none"> Include a certificate in the form set out in Schedule 6, signed by at least one Director of the non-exempt EDB. 	Clause 11.2 (c)	Appendix A
Clause 11(3) The "annual price-setting compliance statement" must include the following information		
<ul style="list-style-type: none"> The non-exempt EDB's calculation of its forecast revenue from prices together with supporting information for all components of the calculation; 	Clause 11.3 (a)	Section 3, Appendix B and Appendix C
<ul style="list-style-type: none"> The non-exempt EDB's calculation of its forecast allowable revenue together with supporting information for all components of the calculation 	Clause 11.3 (b)	Section 3
<ul style="list-style-type: none"> If the non-exempt EDB has not complied with the price path, the reasons for the non-compliance; and 	Clause 11.3 (c)	Not applicable
<ul style="list-style-type: none"> 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 assessment periods. 	Clause 11.3 (d)	Not applicable