



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

For prices applying from 1 April 2023
Issued 1 March 2023

Orion New Zealand Ltd
565 Wairakei Road
PO Box 13896
Christchurch 8141
+64 3 363 9898
oriongroup.co.nz



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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:

FAR = Forecast net allowable revenue (FNAR) + forecast pass-through and recoverable costs (FRPC) + opening wash up account balance (OWAB) + 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. Authority consulting on budgets with a substantial uplift in their revenue. Council strategic review and media releases on potential higher than inflation increases in rates and taxes. |
| Commerce Commission | |
| Electricity Authority levies | |
| Utilities Dispute levies | |

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 |
| l | 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 | $(\text{Capex wash-up adjustment} / (l-1) \times (1+r)^{(y+0.5)})$ | \$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 | 190,553 | 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 | 0.2933 | 75,822 | 183 | 4,070 |
| Streetlighting | \$/con/day | 0.0970 | 52,865 | 366 | 1,877 |
| Peak charge | \$/kW/day | 0.0928 | 512,836 | 366 | 17,411 |
| Weekday volume charge ¹ | \$/kWh | 0.09414 | 1,171,665,049 | | 110,301 |
| Nights & weekends volume charge ² | \$/kWh | 0.01844 | 1,318,792,568 | | 24,319 |
| Low power factor charge | \$/kVAr/day | 0.2000 | 0 | 366 | 0 |
| Irrigation Power factor correction rebate | \$/kVAr/day | (0.1083) | 21,913 | 183 | (434) |
| Irrigation Interruptibility rebate | \$/kW/day | (0.0271) | 48,015 | 183 | (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 | 0.2949 | 115,943 | 366 | 12,514 |
| Nominated maximum demand | \$/kVA/day | 0.1073 | 292,596 | 366 | 11,491 |
| Metered maximum demand | \$/kVA/day | 0.0748 | 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/day | (0.0625) | 290.5 | 366 | (7) |
| Reactive power component | \$/kVAr/day | (0.0205) | 71.4 | 366 | (1) |
| MISCELLANEOUS | | | | | |
| Monthly invoice charge | \$/invoice | 49.00 | 504 | | 25 |
| Failure to pay notice | \$/invoice | 123.00 | 6 | | 0.7 |
| Default and termination notice | \$/invoice | 100.00 | 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 |