ANNUAL PRICE SETTING COMPLIANCE STATEMENT

DEFAULT PRICE-QUALITY PATH

1 APRIL 2023 – 31 MARCH 2024

THIRD ASSESSMENT PERIOD

CONTENTS

1. PURPOSE

This annual price-setting compliance statement (Statement) states Alpine Energy Limited's (Alpine Energy) 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.

For presentation purposes, some figures in this Statement have been rounded. This may cause minor discrepancies when aggregating some of the figures provided; however, these discrepancies do not affect the overall compliance calculations, which are based on more detailed figures.

2. DATE PREPARED

This statement was prepared on 16 February 2023.

3. STATEMENT OF COMPLIANCE

3.1 COMPLIANCE WITH THE PRICE PATH

Alpine Energy 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.

Calculation components	Amount ($'000)
Forecast allowable revenue$_{2024}$ [Section 5]	70,432
Maximum allowable forecast revenue from prices [Forecast revenue from prices $_{2023}$ x (1+10%)][1]	63,149
Forecast revenue from prices$_{2024}$ [Section 4]	63,149
Result	**Compliant with the price path**

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

This Statement provides the detail about the prices and assumptions that underpin Alpine Energy's forecasts.

3.2 CERTIFICATION

This Statement was certified in accordance with clause 11.2(c) of the Determination on 16 February 2023. A copy of the Directors' Certificate is included in Appendix A.

4. CALCULATION OF FORECAST REVENUE FROM PRICES

Forecast revenue from prices is calculated by multiplying prices as at 1 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.

[1] The forecast revenue from prices as published in the DPP Annual Price-Setting Compliance Statement for the third assessment period was $57.4 million. Refer to Alpine Energy Limited's website for details: https://www.alpineenergy.co.nz/__data/assets/pdf_file/0017/17108/AEL-Price-setting-Compliance-Statement-Apr-2021.pdf

The forecast quantities are derived by escalating the prior years' actual quantities by the growth assumption for each consumer group. The growth assumptions are based on the long-term historic growth trends of consumption, demand, and number of ICPs for each pricing category and consumer group.

A summary of Alpine Energy's forecast revenue from prices in includes in table 2 below:

Term	Description	Value ($'000)
$\Sigma P_{2023/24} * Q_{2023/24}$	Forecast prices between 1 April 2023 and 31 March 2024 multiplied by forecast quantities for the period ending 31 March 2024	63,149

Table 2 – Summary of Alpine Energy's forecast revenue form prices

Supporting calculations of the forecast revenue from prices are included in Appendix B. Appendix C provides full tables of forecast revenue from prices for each consumer group.

5. CALCULATION OF FORECAST ALLOWABLE REVENUE

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)

Alpine Energy's FAR for the 2024 assessment period is $73,432 million. The calculation of FAR is provided in Table 3 below.

Term	Description	Value ($'000)
Forecast net allowable revenue	Forecast net allowable revenue as set out in Table 1.4.1 in Schedule 1.4 of the Determination for the period ending 31 March 2024	45,252
Forecast pass-through costs	Forecast pass-through costs and forecast recoverable costs	506
Forecast recoverable costs	Forecast recoverable costs, excluding any recoverable cost that is a revenue wash-up drawn down amount	16,638
Opening wash-up account balance	Closing wash-up account balance for the previous assessment period	8,036
Pass-through balance allowance	The pass-through balance allowance for the fourth assessment period of the DPP regulatory period is nil as set out in Clause 4.2 of the Determination	-
Total FAR		**70,432**

Table 3 – Calculation of the forecast allowable revenue

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

5.1 Forecast Net Allowable Revenue

The forecast net allowable revenue (FNAR) for the fourth assessment period is $45.252 million. The FNAR is specified in Table 1.4.1 in Schedule 1.4 of the Determination.

5.2 Forecast Pass-Through and Recoverable Costs

Alpine Energy's forecast recoverable and pass-through costs (FRPC) for the assessment period ending 31 March 2024 are $17.144 million. The Determination requires a demonstrably reasonable forecast of pass-through and recoverable costs. The forecast values and the methodologies that Alpine Energy has applied to forecast pass-through and recoverable costs are outlined in table 4 below. In Alpine Energy's opinion, all the methods deliver demonstrably reasonable forecasts of pass-through and recoverable costs.

Cost component	Value ($'000)	Forecasting Methodology
Forecast pass-through costs		
Rates on system fixed assets	145	Based on the average growth in rates per council over the past 9 years.
Commerce Act levies	165	Increased the most recent levies received by 8%, which is higher than the historic growth rate of 6%, but we deem demonstrably reasonable in the light of the increased workload with current regulatory reviews underway and planned by the Commerce Commission to commence in the coming year.
Electricity Authority levies	175	Based on the proposed levy increases communicated by the Electricity Authority, we increased the 2022/2023 levies by 8.4%.
Utilities Disputes levies	22	Based on the indicative budget for the Energy Complaints Scheme (ECS) for the financial year 2023-24 received in December 2022 and the forecast average ICP numbers for 2023-24.
Forecast recoverable costs		
IRIS incentive adjustment	2,609	Calculated in accordance with 3.1.3 (1) (a) of the Electricity Distribution Services Input Methodologies Determination 2012 (Input Methodologies).
Transpower transmission charges	12,816	As notified by Transpower in December each year.
New investment contract charges	1,346	
System operator services charges	11	Based actual monthly invoices received after the price increase in June 2022.
Avoided transmission charges - purchased assets	-	Forecast as zero as Alpine Energy does not currently have any avoided transmission cost.
Distributed generation allowance	-	Forecast as zero as Alpine Energy has not historically incurred costs, paid, nor received avoided transmission charges arising from distributed generation.
Claw-back	-	Forecast as zero as Alpine Energy does not expect to have claw-back applied by the Commerce Commission under sections 54K93) or 53ZB(3) of the Commerce Act 1986.

Cost component	Value ($'000)	Forecasting Methodology
Catastrophic event allowance	-	Forecast as zero as Alpine Energy does not expect to have a catastrophic event during the disclosure year.
Extended reserves allowance	-	Forecast as zero as Alpine Energy has not applied to the Commerce Commission for an allowance, per Schedule 5.2 of the Determination, in the disclosure year.
Quality incentive adjustment	(78)	Forecast in accordance with the quality incentive adjustment set out in schedule 5B of the 2015 Determination.
Capex wash-up adjustment	(138)	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 Alpine Energy does not intend to purchase any transmission assets during the coming assessment period.
Reconsideration event allowance	-	Forecast as zero as Alpine Energy has not applied to the Commerce Commission for an allowance in the disclosure year.
Quality standard variation engineers fee	-	Forecast as zero as Alpine Energy has not applied to the Commerce Commission for a quality standard variation in the assessment period.
Urgent project allowance	-	Forecast as zero as Alpine Energy has not had an urgent project as defined in the Input Methodologies.
Fire and emergency NZ levies	72	These costs are based on the prior year levies.
Innovation project allowance	-	Forecast as zero as Alpine Energy has not applied to the Commerce Commission for an innovation project allowance, per Schedule 5.3 of the Determination, in the disclosure year.
Total forecast pass-through and recoverable costs	**16,637**	

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

The capex wash-up adjustment is calculated as set out in table 5 below.

Term	Description	Units	Value
Capex wash-up adjustment	Difference between the revenues for a 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	(498)
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	(Capex wash-up adjustment / (l-1)) x (1 + r)^(y + 0.5)	$000	(138)

Table 5 – Calculation of capex adjustment for the assessment period ending 31 March 2024

5.3 Opening Wash-Up Account Balance

The opening wash-up account balance (OWAB) for the assessment period ending 31 March 2024 is $8.036 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 2022, adjusted for the time-value of money and any voluntary undercharging. The calculations are shown in tables 6 and 7 below.

Term	Description	Value ($000)
Wash-up amount for previous assessment period	Wash-up amount for the assessment period ending 31 March 2022	(7,397)
Voluntary undercharging amount foregone for previous assessment period	Amount of voluntary undercharging in the first assessment period which is foregone from future revenues	-
67th 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+67th percentile estimate of post-tax WACC)^2	**(8,036)**

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

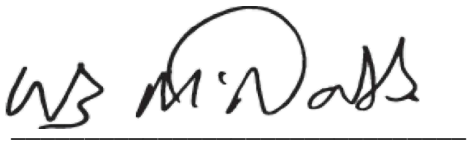
Term	Description	Value ($000)
Opening wash-up account balance	Closing wash-up account balance from previous assessment period	**(8,036)**

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

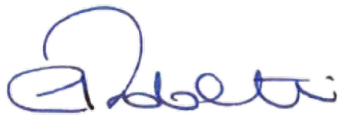
In forecasting the revenue from prices for the assessment period starting 1 April 2023, we were unable to draw down the full opening wash-up account balance. We could only draw down $752,537 due to the 10% limit on the annual percentage increase in forecast revenue from prices as restricted by the Determination. The remaining balance will be rolled forward into the closing wash-up balance account for the assessment period ending 31 March 2024 and accounted for in the price-setting for the fifth assessment period, starting 1 April 2024.

APPENDIX A DIRECTORS' CERTIFICATE FOR THE ANNUAL PRICE-SETTING COMPLIANCE STATEMENT

We, Warren McNabb and Linda Robertson, being Directors of Alpine Energy Limited certify that, having made all reasonable enquiry, to the best of our knowledge and belief, the attached Annual Price-setting Compliance Statement of Alpine Energy 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.



Warren McNabb
28 March 2023



Linda Robertson
28 March 2023

APPENDIX B QUANTITY FORECASTING

B1 Forecast Quantities as at 31 March 2024

Calculating forecast revenue as at 31 March 2024 from prices effective 1 April 2023 requires Alpine Energy to prepare a forecast of quantities for the full assessment period. Alpine Energy prices have both fixed and variable components; accordingly, prices are set on numbers of installation connection points (ICPs), consumption (kWh), and demand (kW).

Forecasts of ICPs and consumption use a top-down approach for each consumer group. The forecasts for ICPs, consumption, and demand are determined using the prior year connections and then applying an escalation factor for each variable. Alpine Energy has applied historical trends to arrive at growth rates aligned with the observed long-term growth.

B2 Installation Connection Points Growth Factor

Forecasts of connections are based on existing connections with a 1% growth on average. This is based on historical increases in network connections, analysing the trends for each pricing category, to arrive at the estimate for growth in the number of total ICPs. We estimated the average number of active ICP's on the network to be 33,869 (starting the financial year at 33,701 and ending at 34,013) when setting the fixed charges for 2023/2024.

Variable volume growth is notoriously volatile on Alpine Energy's network, with changes to agricultural irrigation volumes dominating the outcome. Our forecast is based on an analysis of volumes for each pricing category, and an expectation of average irrigation volumes, with low growth expectations for all customer categories. As a result, the volumes for 2023/24 are forecast to be 0.3% higher than the five-year average volume delivered to customers, with a monthly profile aligned with historic trends and an average irrigation scenario. A warmer winter and a wetter summer than expected could result in lower volumes than forecast, and vice versa.

B3 Fixed and Variable Charges

Aligning with the regulatory expectation of a move towards more cost reflective prices for EDBs in general, and the introduction of the new Transmission Pricing Methodology that has no variable component present, Alpine Energy has reduced the variable components in our pricing and increased the fixed prices to attain 80% of revenue from fixed and demand prices. As a predominantly fixed cost business, this pricing methodology is significantly better aligned with the cost structure of a distribution business.

The phasing out of the Low Fixed Cost Regulations will allow prices to continue to trend towards less reliance on revenue from variable charges, improving the ability of the pricing structure to generate revenue very close to budget, with less risk of variances as a result of changing rainfall patterns and warming winters. It will also result in more customers paying a distribution charge closer aligned with the actual cost of the service.

B4 Demand Charges

Demand forecasts are calculated by determining the average volume (demand) for time-of-use customers over the previous calendar year.

B5 Directly Billed Customers

Directly Billed Customer charges are based on the terms and conditions of their conveyance agreements. The new Transmission Pricing Methodology necessitated the use of an interim averaged methodology due to the abandonment of all RCPD measurements, and the conveyance agreements would require amendments for future years to accommodate this change.

APPENDIX C PRICES AND FORECAST QUANTITIES FOR PRICES EFFECTIVE 1 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 ($)	Forecast quantity	Forecast revenue ($'000)
Fixed charges				
LOWHCA Fixed	$/day	0.4500	2,364	389
LOWLCA Fixed	$/day	0.4500	11,184	1,842
LOWUHCA Fixed	$/day	0.4500	15	3
LOWULCA Fixed	$/day	0.4500	43	7
015HCA Fixed	$/day	2.7937	5,818	5,948
015LCA Fixed	$/day	2.5944	11,167	10,603
015UHCA Fixed	$/day	2.7763	39	40
015ULCA Fixed	$/day	2.5392	37	35
360HCA Fixed	$/day	9.3167	540	1,840
360LCA Fixed	$/day	8.0402	756	2,223
360UHCA Fixed	$/day	10.2945	14	53
360ULCA Fixed	$/day	7.7527	15	43
ASSHCA Fixed	$/day	9.8142	1,313	4,718
ASSLCA Fixed	$/day	7.0426	409	1,054
TOU400HCA Fixed	$/day	6.9953	36	92
TOU400LCA Fixed	$/day	6.3468	99	230
TOU11HCA Fixed	$/day	7.3245	4	11
TOU11LCA Fixed	$/day	6.3776	4	9

Price Category	Unit	Unit price ($)	Forecast quantity	Forecast revenue ($'000)
Variable day charges				
LOWHCA Variable Day	$/kWh	0.1041	9,338,169	972
LOWLCA Variable Day	$/kWh	0.0960	43,963,059	4,220
LOWUHCA Variable Day	$/kWh	0.1034	72,063	7
LOWULCA Variable Day	$/kWh	0.0938	178,087	17
015HCA Variable Day	$/kWh	0.0088	40,550,166	357
015LCA Variable Day	$/kWh	0.0088	70,708,239	622
015UHCA Variable Day	$/kWh	0.0088	354,108	3
015ULCA Variable Day	$/kWh	0.0088	251,459	2
360HCA Variable Day	$/kWh	0.0088	7,727,980	68
360LCA Variable Day	$/kWh	0.0088	14,626,481	129
360UHCA Variable Day	$/kWh	0.0088	438,017	4
360ULCA Variable Day	$/kWh	0.0088	280,258	2
ASSHCA Variable Day	$/kWh	0.0088	87,046,094	766
ASSLCA Variable Day	$/kWh	0.0088	26,250,184	231
TOU400HCA Variable Day	$/kWh	0.0075	16,081,944	121
TOU400LCA Variable Day	$/kWh	0.0095	68,861,459	654
TOU11HCA Variable Day	$/kWh	0.0098	17,857,328	175
TOU11LCA Variable Day	$/kWh	0.0096	10,295,411	99
Variable night charges				
LOWHCA Variable Night	$/kWh	0.0993	4,002,072	397
LOWLCA Variable Night	$/kWh	0.0912	18,841,311	1,718
LOWUHCA Variable Night	$/kWh	0.0986	30,884	3
LOWULCA Variable Night	$/kWh	0.0890	76,323	7
015HCA Variable Night	$/kWh	0.0040	17,378,643	70
015LCA Variable Night	$/kWh	0.0040	30,303,531	121
015UHCA Variable Night	$/kWh	0.0040	151,761	1
015ULCA Variable Night	$/kWh	0.0040	107,768	1

Price Category	Unit	Unit price ($)	Forecast quantity	Forecast revenue ($'000)
360HCA Variable Night	$/kWh	0.0040	3,311,991	13
360LCA Variable Night	$/kWh	0.0040	6,268,492	25
360UHCA Variable Night	$/kWh	0.0040	187,722	1
360ULCA Variable Night	$/kWh	0.0040	120,111	1
ASSHCA Variable Night	$/kWh	0.0040	37,305,469	149
ASSLCA Variable Night	$/kWh	0.0040	11,250,079	45
TOU400HCA Variable Night	$/kWh	0.0033	6,883,595	23
TOU400LCA Variable Night	$/kWh	0.0040	31,188,492	125
TOU11HCA Variable Night	$/kWh	0.0042	6,859,755	29
TOU11LCA Variable Night	$/kWh	0.0041	4,462,195	18
Demand charges				
ASSHCA Demand	$/kW/day	0.2057	39,938,806	8,215
ASSLCA Demand	$/kW/day	0.1625	13,569,965	2,205
TOU400HCA Demand	$/kW/day	0.5179	2,717,857	1,408
TOU400LCA Demand	$/kW/day	0.4645	8,244,926	3,830
TOU11HCA Demand	$/kW/day	0.4872	2,068,130	1,008
TOU11LCA Demand	$/kW/day	0.5620	1,489,961	837
Direct billed customers				
Direct Billed Customer 1	$/year	-	-	334
Direct Billed Customer 2	$/year	-	-	3,986
Direct Billed Customer 3	$/year	-	-	159
Direct Billed Customer 4	$/year	-	-	658
Direct Billed Customer 5	$/year	-	-	128
Direct Billed Customer 6	$/year	-	-	46
Total forecast revenue from prices (P2023/24*Q2023/24)				63,149

APPENDIX D COMPLIANCE WITH THE DETERMINATION

This schedule demonstrates how this Statement complies with the Determination.

Determination requirement	Determination Reference	Statement Reference
Clause 11(2)		
The 'annual price-setting compliance statement' must-		
State whether or not the non-exempt EDB has:		
o 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)(ii)	Table 1
o State the date on which the statement was prepared; and	Clause 11.2(b)	Section 2
o 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-		
o 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 4, Appendix B and Appendix C
o 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 5
o 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
o 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