



YOUR SAY ON THE PRICES YOU PAY

OUR FUTURE DISTRIBUTION PRICING STRATEGY AND PROPOSAL EXPLAINED

OUR CONSULTATION SUMMARY DOCUMENT

NOVEMBER 2021

AN INTRODUCTION

Aurora Energy is New Zealand's seventh-largest electricity distribution company, supplying power to more than 92,000 homes, schools, farms and businesses across Dunedin, Central Otago and Queenstown Lakes. We operate a major and essential part of the region's infrastructure, delivering around 1,300 gigawatt hours of electricity each year through a local network of poles, power lines, underground cables, substations and other equipment.

We are responsible for taking the power from

Transpower's national grid and distributing it to customers in their homes, on their farms, or to their businesses. There are several companies that work together to supply your electricity, from generation and transmission, to those companies that send you your power bill. The below infographic shows you where we fit in.

Because we are a monopoly, there are two industry regulators that set rules to ensure we run our business in a way that is fair and equitable for customers. The Commerce Commission determines

how much revenue distribution companies like us can earn by ensuring the revenue we receive only reflects the costs of operating and maintaining the network. The Electricity Authority determines how much of that revenue is paid by customers, by setting guidelines for structuring distribution prices and the requirements for the pricing approaches used.

We are proposing to make some changes to the way our prices are set in the future, to improve transparency and fairness of how costs are allocated, and to reform our pricing approach so it supports

New Zealand's drive towards electrification and decarbonisation.

This summary provides a useful background to distribution pricing and outlines the changes we are proposing, together with the rationale behind these changes. We would love your feedback so we can consider your views and insights before we make changes to the way we set prices in the future. Our full Consultation Document, with details on how you can provide feedback, is available at yoursay.auroraenergy.co.nz

HOW ELECTRICITY GETS TO YOU AND HOW YOU PAY FOR IT



THE TRANSPARENCY OF PRICES ON YOUR BILL AND CPP PRICE IMPACTS POINTS TO CLARIFY

Our proposed Pricing Strategy outlines why we think distribution pricing needs to change, how we're proposing to change it, and who the changes will impact.

It's important however to clarify two key aspects to our proposal - the transparency of distribution prices on your bill, and the financial impacts of our pricing strategy as a result of our Customised Price-Quality Path (CPP) work programme.

Here we explain this some more.



THE TRANSPARENCY OF DISTRIBUTION PRICES ON YOUR BILL

Our proposed Pricing Strategy outlines how customers can benefit from future distribution pricing if they are able to see and react to new price signals. We are mindful, however, that Aurora Energy has no control over the price signals that customers actually see, as our charges are billed to Electricity Retailers who then choose how those charges are passed on.

Retailers combine several costs, including wholesale energy costs and distribution costs. Some Retailers transparently pass through our charges and some Retailers repackage our charges in different ways.

Our proposed Pricing Strategy assumes that our future prices will be transparently passed through to you, and that you will receive a price signal that allows you to understand the cost implications of using electricity at different times and react accordingly, if you choose to do so.

In our Consultation feedback questions online at yoursay.auroraenergy.co.nz, we ask for your views on how important you think it is for Electricity Retailers to transparently identify Aurora Energy's prices on your electricity bill. We welcome your feedback on this.



THE FINANCIAL IMPACTS OF OUR PRICING STRATEGY AS A RESULT OF OUR CPP WORK PROGRAMME

Our Pricing Strategy explains that providing price signals which incentivise customers to change the way they consume electricity may mean we are able to defer or even avoid some growth-related network investments.

If we can avoid investment, then our prices will be lower than they otherwise would have been. This is because the cost of our investments are recovered through our distribution charges that get passed on to customers as part of their electricity bill.

We need to be very clear, however, that our prices are on an upward path, as a result of the significant investments we need to make in asset renewals, and

which were approved by the Commerce Commission earlier this year (as part of our Customised Price-Quality Path application and consultation process).

Our Pricing Strategy, and the new way of pricing our services that we are proposing as part of this Consultation, will not reverse the price increases that are to come over the next few years.

We are confident that our proposed Pricing Strategy can offer customers savings - but those savings are relative to what costs would otherwise be if our pricing remained unchanged and did not offer incentives to change the way electricity is consumed.

THE FUTURE OF DISTRIBUTION PRICING AND THE PRICES WE CHARGE

1 FOR OVER 100 YEARS OUR RESIDENTIAL PRICES HAVE LARGELY BEEN BASED ON THE AMOUNT OF ELECTRICITY YOU CONSUME, REGARDLESS OF WHEN YOU USE IT

2 BUT, WE NEED TO BUILD OUR NETWORK TO MEET THOSE TIMES OF DAY WHEN EVERYONE NEEDS ELECTRICITY THE MOST

3 TYPICALLY, THOSE TIMES WHEN YOU'RE COOKING YOUR BREAKFAST IN THE MORNING, OR HEATING YOUR HOME IN THE EVENINGS

4 BUT, THE FUTURE OF ENERGY IS CHANGING...

I WANT TO HELP CREATE A ZERO-CARBON FUTURE...

5 EMERGING TECHNOLOGIES AND THE CHOICES CUSTOMERS MAKE WILL HAVE AN IMPACT ON THE WAY WE MANAGE OUR NETWORK & THE INVESTMENT DECISIONS WE MAKE

6 SO RATHER THAN JUST BUILD MORE POLES AND WIRES TO MEET DEMAND, WE'RE PROPOSING PRICING INCENTIVES FOR YOU BASED ON THE TIME OF DAY YOU USE ELECTRICITY. BECAUSE LOWERING PEAK DEMAND WILL DELAY NETWORK INVESTMENT!

MY HOT WATER IS ALREADY ON A CONTROLLED PRICE, SO IF I CHARGE MY EV WHILE I SLEEP & SET THE DISHWASHER FOR 11PM, I'LL SAVE MORE...

7 THERE WILL BE OPTIONS TO PAY LESS IF YOU USE POWER AT OFF-PEAK TIMES, OR PAY MORE WHEN YOU USE IT DURING PEAK TIMES

8 AND BECAUSE WE STILL HAVE TO OPERATE AND MAINTAIN THE ASSETS WE HAVE NOW, WE'LL RECOVER THE REST OF OUR COSTS THROUGH FIXED CHARGES. THAT WILL MEAN EVERYONE PAYS THEIR FAIR SHARE

WE'RE PROPOSING SOME CHANGES THAT, PROVIDED THEY ARE SHOWN TRANSPARENTLY ON YOUR RETAIL BILL, WILL SEND YOU BETTER PRICE SIGNALS IN THE FUTURE, SO YOU'RE IN CONTROL OF THE CHOICES YOU MAKE!

WE WANT YOUR FEEDBACK ON OUR FUTURE PRICING PROPOSAL

A mix of time-of-use prices, fixed prices and controlled supply discounts for residential customers, shared overhead costs across pricing regions, and a new option for how we allocate capital investment-related costs are all part of what we are proposing in our Consultation with you.

For details on each new aspect proposed to the way distribution prices could be structured in the future, and to provide feedback, take a look at our full Pricing Consultation document available at yoursay.auroraenergy.co.nz

OUR PROPOSAL IN SUMMARY

In line with our Pricing Strategy and Roadmap (as published on our website at www.auroraenergy.co.nz) we are proposing gradual pricing transitions to help customers understand the changes, to mitigate bill shock, and to enable careful implementation.

The changes we are proposing do not increase the total revenue we receive from customers or change the relative proportion of revenue recovered from each price area.

HERE'S WHAT WE ARE PROPOSING

TECHNOLOGY CHANGE IS MAKING WELL-DESIGNED DISTRIBUTION PRICING INCREASINGLY IMPORTANT, WITH THE MOST IMPORTANT ROLE BEING TO SIGNAL FUTURE INVESTMENT COSTS.

THE WAY IN WHICH WE STRUCTURE AND ALLOCATE PRICING THEREFORE NEEDS TO CHANGE TO BETTER SUPPORT CUSTOMERS WITH THEIR FUTURE ENERGY CHOICES.



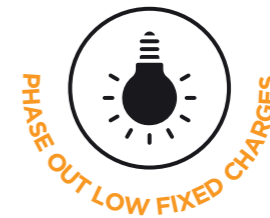
For residential customers, we are proposing to phase in Time-of-Use (ToU) pricing, starting from 1 April 2023. ToU pricing will help customers have more control over the way they use electricity, and consequently, the prices they pay. ToU pricing sends better price signals to customers for the cost of electricity depending on the times of day it is used. It creates pricing incentives for customers to shift some of their electricity use to off-peak times and ultimately minimises the level of infrastructure required to manage network demands, resulting in lower prices for all.



Like all distribution companies, Aurora Energy has costs that are largely fixed and independent of the amount of electricity that is transported through the network. That means currently network costs are being over-recovered from high users, and under-recovered from low users, leading to a degree of subsidisation happening across customers - and that creates cost inequities. To address this, we are proposing to recover a greater proportion of revenue from fixed charges, so that fixed network charges become more uniform across customers.



We are proposing to retain our controlled supply discounts offered to those customers who let us manage things like their hot water during peak times on the network. Keeping control prices in place will mean in future we may be able to enhance it through access to discounts for load control across a wider range of storage technologies - like electric vehicles and storage batteries.



In line with regulation changes, we are proposing to phase out the Low Fixed Charge in support of our move towards more cost-reflective pricing.

This further supports everyone paying their fair share of network costs and avoids cross-subsidies occurring across customer groups.



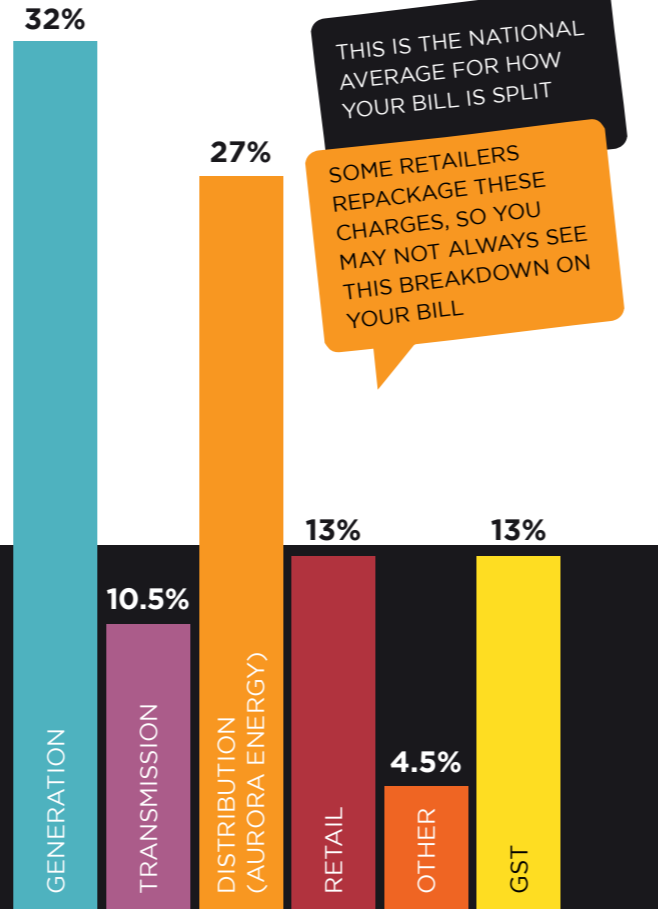
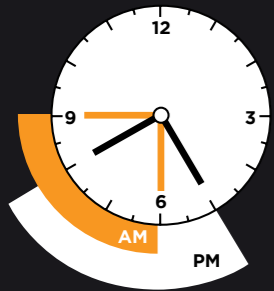
Our regional pricing areas make sense, but we're proposing minor improvements to how costs are allocated to pricing areas. We think the costs of delivering electricity (through network assets) to a particular region should lie where they fall and not be subsidised by customers that do not use those assets or benefit from them. We are proposing however that overhead costs (those costs needed to run our business) should be spread across the entire customer base, where scale benefits can be realised.

We are also proposing a new option for how we allocate capital investment-related costs to better reflect actual network values.

ELECTRICITY PRICING AND HOW YOU'RE BILLED

The distribution component of your bill makes up around 27% of the **national average** household bill.

MOST RESIDENTIAL DISTRIBUTION PRICING IS CURRENTLY BASED ON HOW MUCH ENERGY YOU USE, REGARDLESS OF WHEN YOU USE IT. BUT, OUR COSTS ARE BASED ON BUILDING OUR NETWORK TO MEET PEAK DEMAND TIMES.



THIS IS THE NATIONAL AVERAGE FOR HOW YOUR BILL IS SPLIT

SOME RETAILERS REPACKAGE THESE CHARGES, SO YOU MAY NOT ALWAYS SEE THIS BREAKDOWN ON YOUR BILL

SOURCE: www.ea.govt.nz/consumers/my-electricity-bill/

WHERE YOU LIVE AND HOW COSTS ARE ALLOCATED

The national average for the distribution component of your bill can differ depending on where you live, how many people share the network, and how the network is spread out across your area.

As part of our pricing methodology, we are proposing some changes to how we allocate costs to better support a transition to cost-reflective pricing. To provide feedback, go to yoursay.auroraenergy.co.nz



- DUNEDIN PRICING AREA
- CENTRAL OTAGO PRICING AREA
- QUEENSTOWN PRICING AREA

OUR PRICING AREAS:

- We're not proposing to change our regional pricing areas
- As part of our cost reflective approach, we're proposing that the costs of providing network assets in a pricing area should lie where they fall
- We are also proposing that our overhead costs (for those things needed to run our business) should be spread across the entire customer base, where scale benefits can be realised.

HOW WE ALLOCATE COSTS:

- To support cost-reflective regional pricing, we need to ensure that our cost allocations are as accurate as we can make them
- We made significant improvements to allocating operational and maintenance costs earlier this year
- We are now proposing to change our allocation basis for capital investment-related costs to regional regulated asset base values.

OUR PRICING METHODOLOGY:

- We want to ensure our pricing methodology is easy to understand
- We are proposing to publish a single delivery price, instead of separating the distribution and passthrough price components
- We'd like to understand what other improvements to our pricing methodology you'd like to see us make.

OUR FUTURE ENERGY SYSTEM AND MANAGING DEMAND

Our pricing proposal makes use of different pricing structures so we can manage the varying demand needs on our network in the future. It's a proposal that supports a future of more choice, where we all play a part and contribute to a sustainable, low emissions future.

WE'RE ENCOURAGING UPTAKE OF NEW TECHNOLOGIES AND PROPOSING BETTER PRICE SIGNALS TO HELP MANAGE FUTURE DEMAND



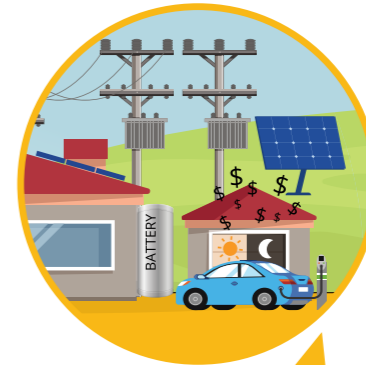
THIS IS FOR EXAMPLE PURPOSES ONLY

- No emerging congestion issues
- Future growth could see mild congestion
- Continued growth could result in congestion



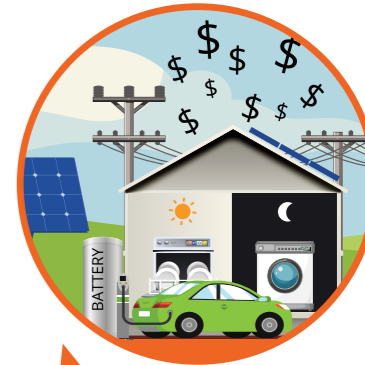
OUR PRICING PROPOSAL CATERS TO THOSE AREAS OF OUR NETWORK WHERE THERE'S NO EMERGING NEED FOR EXTRA INVESTMENT

IN THESE AREAS, YOU MAY SEE US RECOVER THE COSTS TO MANAGE THE NETWORK THROUGH A GREATER PROPORTION OF FIXED CHARGES THAT ARE MORE COST-REFLECTIVE OF OUR NETWORK COSTS, AND MORE UNIFORM FOR ALL. THAT MAKES IT FAIR FOR EVERYONE!



OUR PROPOSED PRICING STRUCTURE ALLOWS FOR AREAS WHERE GROWTH COULD MEAN WE NEED TO MANAGE DEMAND MORE CAREFULLY

IN CASES LIKE THIS, YOU MAY SEE US USE A GREATER PROPORTION OF TIME-OF-USE PRICE SIGNALS (RATHER THAN FIXED CHARGES) AND OFFER YOU PRICING INCENTIVES BASED ON THE TIME OF DAY YOU USE ELECTRICITY. TRANSPARENT PRICES THAT SUPPORT THE CHOICES YOU MAKE!



OUR PRICING PROPOSAL ENCOURAGES UPTAKE OF NEW TECHNOLOGIES TO HELP US MANAGE FUTURE DEMAND NEEDS

IN THESE INSTANCES, YOU MAY SEE US OFFER CONTRACTS TO FLEXIBILITY TRADERS TO USE THE STORED ENERGY AT YOUR PLACE, TOGETHER WITH USING A GREATER PROPORTION OF TIME-OF-USE PRICES, RATHER THAN BUILD MORE COSTLY INFRASTRUCTURE. THAT ENSURES WE MANAGE THE NETWORK EFFICIENTLY AND CAN REDUCE COSTS OVER TIME!

YOU, YOUR NEIGHBOURS, AND THE PROPOSED CHANGES

A SNAPSHOT OF THE IMPACT



PROFILE:

A large family living in Dunedin.

CONSUMPTION SUMMARY:

Annual usage of 15,000 kWh. 75% of their electricity usage is during peak times. They have opted for the most common, all-inclusive price option.

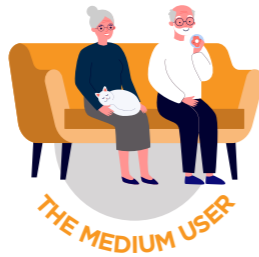
CONSUMPTION PATTERN: Typical usage pattern, with two daily peaks.

IMPACT ON NETWORK: Usage coincides with the network peaks that drive the level of network infrastructure required.

IMPACT OF PRICING CHANGES: Overall, this family should expect a slight reduction in their charges. They will see a decrease in their consumption-based charges, partially offset by an increase in their fixed charges.

OPPORTUNITY TO REDUCE FUTURE DISTRIBUTION CHARGES:

The introduction of ToU prices may provide an opportunity for this family to save money by shifting a portion of their usage to off-peak times if they are able to.



PROFILE:

A retired couple living in Clyde, at home during the day.

CONSUMPTION SUMMARY:

Annual usage of 9,000 kWh. Approximately 30% of their electricity usage is for hot-water which is subject to control and billed at a lower rate.

CONSUMPTION PATTERN: This couple uses electricity throughout the day, with half of their usage outside of peak times.

IMPACT ON NETWORK: Because this couple has opted to let their hot-water be controlled, in exchange for a reduced price, Aurora Energy has more ability to manage network peaks.

IMPACT OF PRICING CHANGES: Overall, this couple should expect to pay about the same. They will pay more for daily fixed charges, which will be offset by lower consumption charges.

OPPORTUNITY TO REDUCE FUTURE DISTRIBUTION CHARGES:

The introduction of ToU prices may provide an incentive for this couple to save money by further shifting their usage to off-peak times if they are able to.



PROFILE:

A working couple living in Queenstown. They use electricity for their heating and appliances only. They use gas for their cooking and hot-water needs.

CONSUMPTION SUMMARY:

Annual usage of 5,000 kWh. They are charged an uncontrolled price.

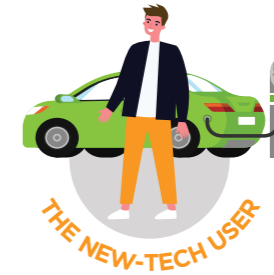
CONSUMPTION PATTERN: This couple consumes 75% of their electricity during the evening and morning peak times.

IMPACT ON NETWORK: This couple's usage mostly coincides with our network peaks which drive the level of network infrastructure required. While this couple opt to use gas as an alternative for some of their energy needs, this does not reduce the mostly fixed costs of distributing electricity to their house.

IMPACT OF PRICING CHANGES: Overall, this couple should expect an increase in their charges due to an increase in fixed charges.

OPPORTUNITY TO REDUCE FUTURE DISTRIBUTION CHARGES:

The introduction of ToU prices may provide an incentive for this couple to save money by shifting their usage to off-peak times if they are able to.



PROFILE:

A working couple in Wanaka who have an Electric Vehicle (EV).

CONSUMPTION SUMMARY:

Annual usage from the grid of 10,500 kWh, including 2,500 kWh for their EV. They are charged an uncontrolled price.

CONSUMPTION PATTERN: This couple consumes 75% of their household electricity during peak times, and 100% of their EV charging during off-peak network times.

IMPACT ON NETWORK: Most of this couple's household consumption coincides with our network peaks.

IMPACT OF PRICING CHANGES: Overall, this couple should expect a decrease in their consumption-based charges, off-set by an increase in fixed charges. Given they already charge their EV at off-peak times, they will also be rewarded by lower off-peak ToU prices.

OPPORTUNITY TO REDUCE FUTURE DISTRIBUTION CHARGES:

By continuing to charge their EV at off-peak times, they will benefit from lower ToU prices.

We know that electricity pricing is complex, and that the impact of bill changes can be unsettling. We want to introduce changes slowly, to help our customers understand and adjust. Below is what our proposed changes could mean for some different types of customers.

Because Electricity Retailers combine a number of costs, including wholesale energy costs and distribution costs, there is no guarantee that our new distribution prices would pass transparently through to your electricity bill. Retailers may still choose to repackage our charges in other ways.

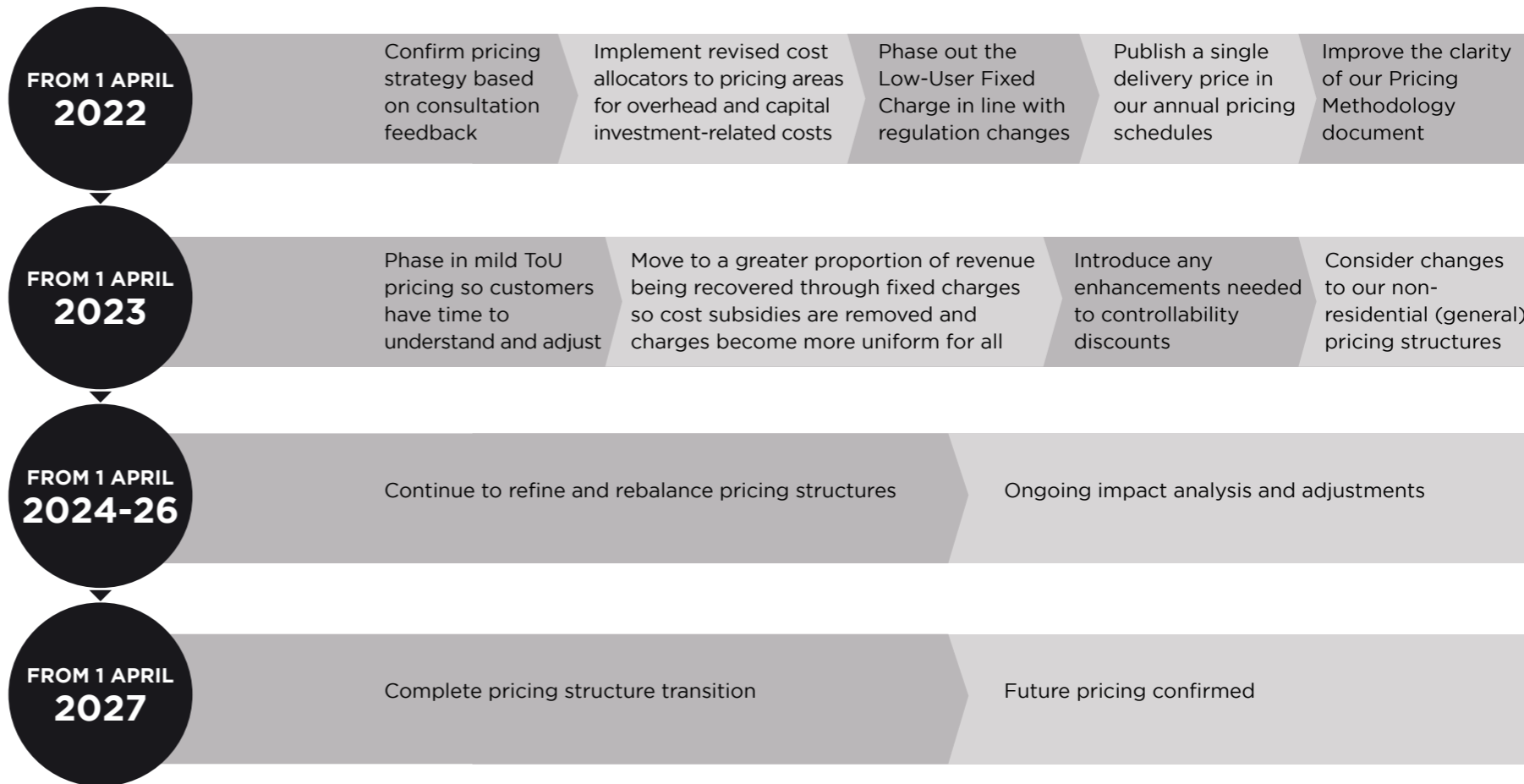
THE ROADMAP IMPLEMENTATION TIMELINE

We know it's important to introduce pricing changes slowly - to help you understand what the impact will be, and to give you time to adjust. That's why part of our strategy is to implement the changes gradually, and work with you to further refine the structure of our prices over a five-year period. Here's how we are proposing to introduce the changes, as part of our consultation with you.

We want to hear what you think of our proposed changes, and our timeline for implementing them. Let us know what you think by providing your feedback at yoursay.auroraenergy.co.nz

TELL US WHAT
YOU THINK

YOURSAY.AURORAENERGY.CO.NZ



While our Roadmap covers the next five years, we expect that further technological developments and decarbonisation initiatives are likely to mean further changes to price approaches will be required beyond 2027.

[YOURSAY.AURORAENERGY.CO.NZ](https://yoursay.auroraenergy.co.nz)

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Aurora
ENERGY

sea and
clothing
& decor

HAVE YOUR SAY

We'd love to hear what you think of our proposed changes.
To view Aurora Energy's full Pricing Consultation document,
and to provide feedback, go to yoursay.auroraenergy.co.nz

Golden
• Fine Hairwork
• Quality Leather
• Sewing