CONSULTATION REPORT
OUR FUTURE PRICING

Aurora
ENERGY

EXECUTIVE SUMMARY

During November and December 2021, Aurora Energy undertook public consultation on proposed changes to its distribution pricing methodology. The consultation was in two parts:

1. Our pricing strategy, outlining our long-term approach to pricing and the steps we think are needed to make our pricing more cost reflective; and
2. Our pricing methodology, outlining the steps we proposed to improve how we allocate costs to each of our pricing areas, for recovery in prices, and to simplify how we present our prices.

CONSULTATION APPROACH

Our consultation approach involved:

- direct discussion with key stakeholders;
- a session with our customer advisory panel (CAP);
- sessions with our three customer voice panels (CVPs), each located in our regional pricing areas (Dunedin, Central Otago / Wānaka, and Queenstown); and
- public notification of our summary and detailed consultation document, via a wide range of advertising channels.

FEEDBACK

We received survey responses from 66 customers and one electricity retailer, as well as direct feedback from key stakeholders, our customer advisory panel and our Dunedin, Central Otago/Wānaka and Queenstown customer voice panels. We thank all those that provided input to this consultation.

DECISION

As a result of the consultation, we have decided to:

- **continue** with our pricing strategy, as currently published;
- **maintain** our pricing areas, as currently described;
- **adopt** disaggregated values of our regulatory asset base (RAB) to allocate capital investment-related costs to regional pricing areas, as proposed; and
- **abandon** our proposal to consolidate distribution and passthrough prices into a single delivery price, when publishing our annual price change.

PROMOTING OUR CONSULTATION

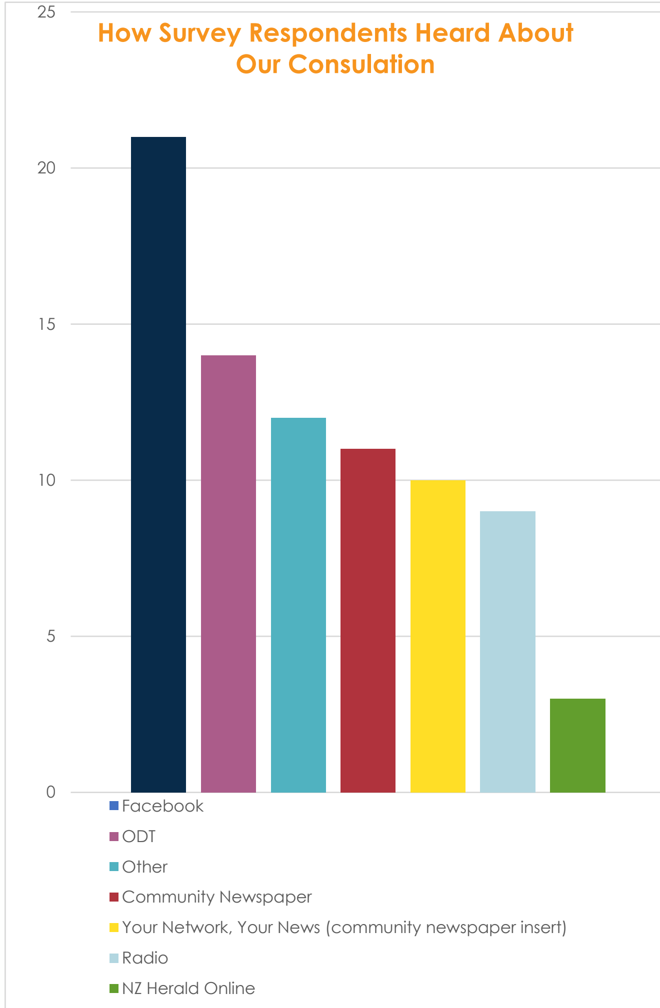
To encourage customer participation, we employed a wide range of advertising channels, as below:

Advertising channel	Advertising dates
ODT – print	Saturday, 27 November
ODT - online	Monday, 22 November to Friday,3 December
The Star	Thursday, 25 November and Thursday, 2 December
Central Otago News	Thursday, 25 November and Thursday, 2 December
Mountain Scene	Thursday, 25 November and Thursday, 2 December
The Wānaka Sun	Thursday, 25 November and Thursday, 2 December
The Southland Express	Thursday, 25 November and Thursday, 2 December
My Little Local app	Monday, 22 November to Friday,3 December
The Wanaka App	Monday, 22 November to Friday,3 December
The Central App	Monday, 22 November to Friday,3 December
The Queenstown App	Monday, 22 November to Friday,3 December
Radio – Mediaworks, The Rock, More FM, Magic, The Breeze, Radio Central	Monday, 22 November to Friday,3 December 40 x prime and 20 x anytime, 5 days a week, 6 ads a day Total of 480 ads 60 ads with Radio Central
NZME – radio Dn - Newstalk ZB, Coast, Radio Hauraki Dn and CO - The Hits, ZM, IHeart	Monday, 22 November to Friday,3 December 40 x prime ads on each station, apart from The Hits (20) and ZM (25)
NZME – digital, NZ Herald, Google	Monday, 22 November to Friday,3 December
Facebook boosted post	Monday, 22 November to Friday,3 December

HOW SURVEY RESPONDENTS HEARD ABOUT OUR CONSULTATION

Most survey respondents said they heard about the consultation through Facebook, with a high proportion seeing our print advertising in the ODT and community newspapers. Our '*Your Network, Your News*' insert in community newspapers also had good cut-through, with several people seeing the promotional article in this. Radio advertising also generated a reasonable number of responses. While the NZ Herald online did not generate many responses, the metrics provided by NZME indicated that people clicked through to the '*Your Network, Your Say*' website from the advertisement but did not engage after that.

The online metrics are helpful because we can see that while people may click through from the online ad, they did not all then engage further. This may be due to a number of factors, including people deciding they are not interested in taking the survey after finding out more about the consultation.

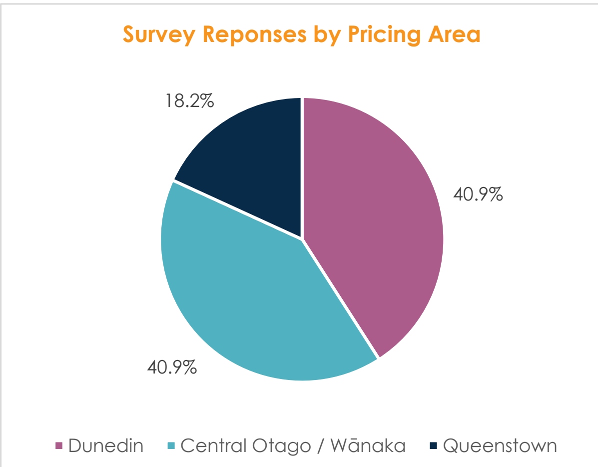


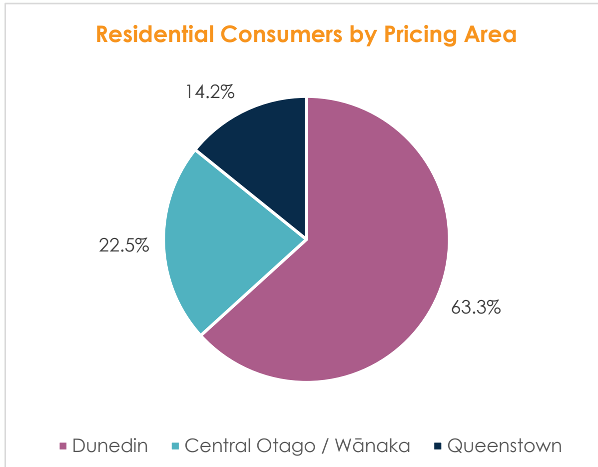
SURVEY RESPONSES

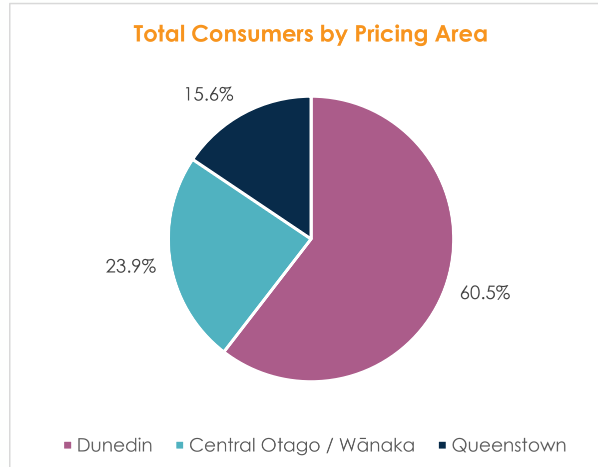
WHO RESPONDED TO OUR SURVEY

Our survey was available online through our '*Your Network, Your Say*' consultation website. Although available, no requests were made for hard copies of the survey.

A total of 66 customer responses were received. Central Otago/Wānaka customers appeared to be more engaged on pricing matters, as the proportion of responses from that pricing area exceeded the Central Otago/Wānaka proportion of Residential (and total) customers across Aurora's networks. Queenstown was also slightly over-represented and Dunedin under- represented.







While most of the survey questions were designed to provide answers that could be assessed statistically, we provided the opportunity for customers to provide their comments on the key issues we consulted on – our pricing strategy, our pricing areas, our cost allocation methodologies and how we publish our prices. Many respondents provided valuable written feedback which has aided our decision-making and will help shape the future of our pricing as we move through to the design phase. Some respondents took the opportunity to express their views on Aurora's historic under-investment in network assets, and similar related views. While we understand customers' views on this issue, historic under-investment has been addressed in many different forums over the past five years and, since the issue has no direct impact on pricing mechanisms and methodologies, we have not considered respondents' views on historic under-investment in this consultation.

OUR PRICING STRATEGY

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OUR PRICING STRATEGY

On 31 March 2021, Aurora Energy published its future pricing strategy and pricing roadmap. The strategy and roadmap cover the period 2021 to 2027, and focus initially on Residential price structures, which are not currently all that cost-reflective. Our General (non-Residential) pricing will need to be addressed in the near future; however, the current General pricing structures have a greater level of cost-reflectivity than Residential prices. It is likely that the most significant change to General pricing will be a reduction and simplification of the large number of load groups and price components, making pricing easier to understand.

Our pricing strategy and roadmap are available from https://www.auroraenergy.co.nz/disclosures/pricing/pricing-strategy-and-roadmap/

WHAT WE HEARD

We tested several aspect of our pricing strategy in our consultation survey, and provided an opportunity for customers to provide written feedback on any specific aspect of the pricing strategy that might interest or concern them.

CLARITY OF OUR PRICING STRATEGY

We asked customers whether the pricing strategy and our reasons for proposing pricing improvements were clear. Overall, most survey respondents (56%) agreed that the pricing strategy and underlying rationale were clear. Views were reasonably consistent across our three pricing areas, with agreement ranging from 56 percent to 58 percent. We noted that a relatively higher proportion of Queenstown pricing area respondents felt that the strategy was not clear.

One respondent felt that we should have been clearer that the consultation only affects distribution pricing, which is only part of a customer's electricity bill, and should have reinforced this throughout the consultation document.

Some respondents felt that the strategy was designed to benefit large customers at the expense of Residential customers. Others felt that the strategy was not customer-centric and that, for flexibility services, the benefit of deferral would only go to partner companies.

Some respondents felt that the pricing strategy did not provide them with sufficient information to understand how their electricity bills would be affected.

One respondent felt that pricing should be simplified to what is visible and manageable.

One respondent felt that Aurora makes an inadequate distinction between assets being funded (by the business or its shareholder), and customers paying for use of the assets.

OUR PRICING STRATEGY

RESIDENTIAL TIME-OF-USE-PRICING

We asked whether customers supported a shift toward Residential time-of-use pricing. Again, most respondents (55%) supported time-of-use pricing; however, majority support was not universal across our three pricing areas. The views of respondents in the Dunedin pricing area were divided, with 44 percent supporting, 44 percent opposing, and 11 percent unsure.

A number of respondents felt that time-of-use was not appropriate since some electricity usage is fixed and unable to be moved. Some respondents felt that summer/winter differential pricing was unfair because winter usage was higher, and that year-round rates would be better.

One respondent felt that price signals should be via the electricity retailer with line charges being closer to a fixed price.

Other respondents felt that time-of-use pricing would create a concern for customers that cannot install smart meters.

One respondent felt that some means of encouraging electric water heating over gas was required.

One respondent felt that customers that did not have solar generation or some other form of distributed energy resource would be very badly disadvantaged.

Electric Kiwi supported our move to time-of-use pricing as a first step, and considered that more sophisticated pricing approaches would be available in the future to support demand management, as technology evolves. Electric Kiwi would like to see time-of-use periods aligned as much as possible among all distributors across the country.

TIME-OF-USE-PRICE SIGNALS

We asked whether customers would be inclined to change their electricity consumption behaviour, and use electricity at different times of the day, as a result of price signals. Most respondents (53%) felt that they would change their behaviour. Behaviour change appeared most certain in the Central Otago / Wānaka pricing area (63%), while in the Queenstown pricing area, a majority of respondents felt that their behaviour would not change in response to price signals.

Some respondents felt that it would be important that Aurora's charges be transparent on retail bills, in order to change consumption behaviour, and that, without a visible price signal, it could take significant time and further structural reform of the industry before those price signals were visible.

One respondent felt that time-of-use price signalling placed a burden on customers to make the right decision or face a financial penalty.

OUR PRICING STRATEGY

FIXED CHARGES

As part of our pricing strategy, we indicated that we would increase the proportion of fixed charges in a manner that was consistent with the Government's staged repeal of the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004 (**LFC Regulations**).

We asked customers whether the reasons for increasing the proportion of fixed charges in our Residential pricing were clear. Most respondents (56%) considered that the reasons were clear, with respondents in the Queenstown and Dunedin pricing areas largely aligned in their views (67% and 63%, respectively). Most respondents in the Central Otago / Wānaka pricing area (52%) felt that the reasons were not clear.

Some respondents considered that increasing the proportion of fixed charges would target low occupancy households, like superannuitants, and would remove the incentive to be a low electricity user, and increase affordability issues. An opposing opinion was offered, however, that distribution costs were largely fixed, prices should be a flat fixed charge. Some respondents felt that increasing fixed charges would increase the total electricity bill.

Some respondents felt that increasing fixed charges resulted in low users subsidising high users.

Some respondents focussed only on the fixed charge increasing and did not seem to appreciate that this would be offset, at least in part, for all customers, through lower variable (consumption) prices.

Electric Kiwi said that it would have preferred a faster phase-out of the LFC regulations than the five years provided for by Government.

DISCOUNTED CONTROLLED SERVICES

We currently offer discounted pricing for services where a portion of a customer's supply is controlled by Aurora. A typical example of this arrangement is when customers opt to allow their hot water cylinders to be turned off during peak periods via Aurora Energy's ripple control system.

Our pricing strategy proposes retaining and refining our pricing for controlled services, and we asked customers whether they support retaining discounted pricing for controlled services. There was very strong support (79%) for retention of controlled services across all respondents, with support highest in the Dunedin pricing area where 85 percent of respondents favoured retention.

OUR PRICING STRATEGY

NEW TECHNOLOGIES

Our consultation document set out how customers can benefit from adoption of new technologies like solar generation, batteries and electric vehicles, and the importance of having distribution pricing signals that provide incentives for customer investment in new technologies that support more efficient use of electricity networks.

We asked customers whether the benefits of new technologies were understood. There was a very high understanding (89%) reported by survey respondents, with greatest understanding reported in the Queenstown pricing area (100%).

There were concerns amongst survey respondents that Aurora's pricing strategy, particularly introducing a higher proportion of fixed charges, would devalue existing investment in solar and electric vehicles.

SIMPLIFYING GENERAL PRICING

Our pricing strategy focusses principally on Residential pricing; however, we signaled that there were potential changes to simplify the load group categories and pricing structures applicable to General pricing, and that these would be separately consulted on in the future.

We asked customers whether they had concerns about the potential to simplify General pricing. Most respondents (52%) indicated that they had concerns with potential simplification, with concern highest in the Central Otago / Wānaka pricing area (63%).

OTHER VIEWS ON THE PRICING STRATEGY

Several respondents expressed concern that the pricing strategy and a move to new Residential pricing structures may impact on affordability for some customers.

One respondent felt that regulatory reform was required to support decarbonisation, including statutory requirements to fit distributed energy resources to new buildings, and provide subsidies and other financial incentives to retro-fit distributed energy resources.

One respondent considered that Aurora's strategy was outdated when compared to European distributors, with fixed pricing being a monopolistic approach designed to transfer risk to customers and secure income streams for the distributor. This respondent also felt that voltage control (presumably in the context of clustered distributed energy resources, as discussed on page 18 of our consultation paper) was the responsibility of distributors and shouldn't penalise customers.

OUR PRICING AREAS

OUR PRICING AREAS

One specific component of our pricing strategy was our proposal to retain our existing regional pricing areas. We asked customers whether they agreed with our proposal to retain the current pricing area construct, where network costs lie where they fall (in each pricing region), but overhead costs become shared across the entire network.

Most respondents (52%) agreed with our proposal to maintain the existing pricing area construct, while one-third did not agree. Queenstown and Dunedin views were aligned, with 75% and 74% (respectively) agreeing with our proposal. Conversely, most Central Otago / Wānaka respondents (59%) disagreed with our proposal. There was also a greater-than-average level of uncertainty about the proposal among Central Otago / Wānaka respondents.

Several respondents felt that regional pricing approaches were unfair and that a whole-of-network approach should be taken, where all categories of cost are recovered across the entire network on a single pricing plan.

Several respondents felt that proximity to generation sources should be factored into pricing decisions.

Some respondents felt that there was not enough information provided on what constitutes overhead costs and therefore they found it difficult to consider allocation options. One respondent felt there was an implicit assumption that maintenance expenditure was directly related to the value of the assets, and that urban areas should generally be less expensive to maintain than rural areas characterised by more extreme weather and access difficulties.

One respondent questioned whether Aurora's proposed approach was consistent with grid network (transmission) pricing.

One respondent felt that a use-pays approach should be taken. They did not understand why urban customers with high housing costs should subsidise more remote rural customers where housing cost pressures are lower. Another respondent had a similar opinion, noting that they considered that rural supplies are uneconomic unless subsidised by urban customers.

ALLOCATING CAPITAL INVESTMENT-RELATED COSTS

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ALLOCATING CAPITAL INVESTMENT-RELATED COSTS

Our consultation document set out a proposal to move from allocating capital investment-related costs based on an estimate of network replacement costs, to allocating those costs based on a disaggregation of our regulatory asset base.

We asked customers whether they agreed with our proposal. Most respondents (39%) indicated that they did not agree with the proposal. Opposition was particularly strong in Central Otago / Wānaka, with 52 percent against. A majority of respondents in Dunedin (41%) agreed with the proposal. There was a significant proportion (30%) that expressed uncertainty as to the merits of the proposal. Uncertainty was particularly prevalent in Queenstown (50%).

We went on to ask whether there was an alternative to RAB for allocating capital investment-related costs that would better align to our cost allocation requirements. Uncertainty prevailed in responses, with 55 percent of respondents saying that they were unsure. Just a little over one quarter (26%) of respondents felt that there was a viable alternative. The greatest uncertainty occurred among Queenstown respondents (67%), followed by Dunedin (56%), and Central Otago / Wānaka respondents least certain (48%). Central Otago / Wānaka respondents (41%) felt most strongly that there was a viable alternative, while Dunedin respondents (11%) least felt that an alternative was available.

After asking whether customers thought that there was an alternative to RAB for allocating capital investment-related costs that would better align to our cost allocation requirements, we asked what those potential alternatives were. Of the 17 respondents that felt that there was a superior alternative to RAB allocation:

- 3 declined to state their preferred alternative;
- 4 chose to provide answers that were not related to the question; and
- 10 provided a response for consideration.

Several respondents felt that the existing allocation approach, based on an estimate of pricing area replacement cost, should be maintained.

One respondent considered that new developments should bear the cost impact of investment needed to support growth and that, for growth impacts relating to electric vehicles, a road user charge, or similar, should be introduced.

One respondent considered that the revaluation mechanism within the RAB was distortionary and placed upward pressure on prices, therefore actual costs (excluding revaluation) should be used, or replacement cost annualised over the asset life.

One respondent felt that both capital and operating costs need to be considered.

ALLOCATING CAPITAL INVESTMENT-RELATED COSTS

One respondent felt that a user pays approach should be taken, and another felt that an independent audit was required to verify that costs are being allocated fairly.

We asked whether customers had any other comments about how we allocated costs. Just over a quarter (26%) of respondents provided comments. All but a few responses repeated comments made in relation to our pricing strategy and pricing areas.

One respondent asked how consistent RAB allocation was with grid network (transmission) pricing methodologies.

One respondent felt that cost allocation was complex and not easy to understand, and another felt that our attempt to communicate the issue was overly complicated. Another respondent felt that it would have been useful to see the variance in outcomes, over a 10-year period, between allocating costs on the basis of RAB and replacement cost.

HOW WE EXPLAIN OUR PRICING

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HOW WE EXPLAIN OUR PRICING

We sought to understand how useful our published pricing methodology is, and asked customers whether the current pricing methodology document clearly explains how Aurora Energy sets prices?

Overall, a majority of responses (38%) indicated that the pricing methodology provides a clear explanation, a position echoed by Dunedin respondents (44%). Opinion was evenly divided in Queenstown and Central Otago / Wānaka, with 25% and 37% (respectively) of respondents reporting that the pricing methodology was clear, and an equal number in each area saying it was not. A relatively high proportion of Queenstown respondents (50%) were unsure.

We asked whether there was any other information Aurora Energy should provide that would help explain how prices are determined?

Several respondents said that we need to simplify our explanatory information, using plain English, customer friendly language.

One respondent considered that we should itemise our distribution costs and pass-through costs from third-party providers like Transpower and city and district councils so those costs can be scrutinised by stakeholders. Another respondent said that they would like to see what Dunedin customers pay.

One respondent felt that customers need to have a clear view of the component costs on their electricity account. Another said that an example of a bill at different locations would be useful.

OUR CUSTOMER ADVISORY PANEL AND CUSTOMER VOICE PANELS

OUR CUSTOMER PANELS

We took our consultation to our Customer Advisory Panel (CAP) and Customer Voice Panels (CVP) for their input. The CAP was setup in 2019 during preparation of our Customised Price-Quality Path application to the Commerce Commission. The CAP brings together a diverse, representative group of community and customer representatives, selected as experts and influential decision-makers in their sector. CVPs were established in 2018 as focus groups where we could interact with a range of individual customers in different locations and situations on topics ranging from electricity use, network development to customer service. We have individual CVPs in the Dunedin, Central Otago/Wānaka, and Queenstown pricing areas.

AURORA'S PRICING STRATEGY

Throughout the CVP forums participants were highly engaged in Aurora's proposed pricing strategy, particularly the impacts the strategy will have on new technologies such as EVs and solar generation.

Participants unanimously agreed that retailer transparency is needed to successfully implement cost-reflective pricing, however some participants noted the challenge for retailers to balance bill accuracy (transparency), with simplicity. One representative at the CAP forum noted that people are more concerned about the total bill amount, rather than understanding the detail in their electricity bill.

Participants generally understood the need for time-of-use pricing structures, and the need to design electricity networks to meet peak demands; however, some participants noted that in the longer term a blunt time-of-use may lead to new network peaks in the future. For example, a peak period ending at 9:00pm, could lead to a new network peak at 9:01pm. In Queenstown, a participant told us about their EV which can respond to price signals to determine the best time to recharge.

Some CVP participants were concerned that some customers could experience higher prices, at a time when inflation was also impacting household costs.

At the Cromwell CVP, there was discussion about the need for more alignment across New Zealand's 29 EDBs. Greater alignment would help with customer understanding across New Zealand, and also make it easier for retailers to implement pricing reform.

In Queenstown, the group discussed the increasing solar uptake in the area and noted that solar installations without batteries would not result in lower distribution charges. However, solar customers still feel they have more 'control' over their own power. The CAP forum also discussed that the future of electricity is changing as distributed generation becomes more common, and there will likely be a growing role for flexibility traders in the future.

OUR CUSTOMER PANELS

PRICING AREAS

Aurora presented its rationale for separating pricing areas. Participants seemed to accept this explanation, with no comments made during the CVP sessions. At the CAP forum, the differences between the networks was explored in more detail with discussion around the seasonal peaks and the impact of irrigation on summer peaks in the Central Otago / Wānaka area.

PRICING LOAD GROUPS

One Queenstown participant observed that the area has many large houses that, while enjoying Residential prices, had a usage pattern more aligned to a small commercial customer.

ALLOCATION OF CAPEX COSTS

Aurora presented the impact of a change in allocation methodology, which had a greater impact on the Queenstown pricing area. There were no comments, and participants accepted the rationale.

AURORA'S PRICING DISCLOSURES

A number of participants supported the general theme of making prices simpler to understand, but there was no specific feedback on the separation of distribution and passthrough prices in Aurora's pricing disclosures.

OUR DECISIONS

OUR DECISIONS

We thank our customers for taking the time to respond to our consultation and provide their views. In this section, we outline our decisions and the reasons behind them.

OUR PRICING STRATEGY

We have decided to continue with our pricing strategy, as published. We consider that opinions expressed in opposition to aspects of the pricing strategy were not so compelling as to require abandoning or significantly modifying our strategy, especially when viewed against the decarbonisation challenge and the regulatory imperative to develop more cost-reflective pricing.

Our approach to Residential pricing will be to recover our target revenue (the revenue we are allowed to recover under price-quality regulation determined by the Commerce Commission) in two ways:

1. A proportion of revenue will be recovered through time-of-use prices that reflect the long-run marginal cost of supply (future network costs); and
2. Residual revenue will be recovered through fixed charges.

This means that:

1. If a network area is facing significant future growth investments to accommodate increased demand for electricity, then customers in that area are likely to have most of their line charges calculated through time-of-use pricing; and
2. If a network area faces little foreseeable growth investment, then customers' line charges will mainly be calculated from fixed prices.

In practice, most customers' charges will fall between these two extremes.

These changes will assist a more affordable transition toward decarbonisation for all customers. Time-of-use price signals will provide incentives for shifting discretionary electricity demand and/or customer investment in appropriate distributed energy resources; each of which will contribute toward managing demand peaks on the network and allow Aurora to defer or avoid costly network upgrades. Where deferral or avoidance can occur, this helps to keep our charges lower, for longer, as the cost of investment is ultimately recovered from customers through prices.

<u>Time-of-Use Charges</u>

We understand that some electricity use is inflexible from a time-of-use perspective. Our pricing strategy seeks to provide appropriate incentives to shift electricity use to off-peak periods where this is feasible but recognises that there will be some electricity use where it would be too inconvenient to shift. We need to provide a strong enough price signal to make it worthwhile for customers to shift discretionary demand to off-peak periods; however, that price signal should not be so strong as to prevent customers from going about their daily routine.

OUR DECISIONS

We further understand that time-of-use pricing may take customers some time to adapt to. For this reason, a key component of our pricing strategy is to set mild time-of-use prices initially and strengthen the differential between peak and off-peak prices over a five-year period. This will give customers time to understand the implications of time-of-use pricing and adapt accordingly. It should be noted, also, that the makeup of Residential line charges will be progressively changing. We will be progressively introducing a greater proportion of fixed line charges which means, all else being equal, that the proportion of variable line charges (and hence variable prices) will be lower than they are now.

We acknowledge Electric Kiwi's preference that time-of-use periods should be aligned as much a possible among all distributors across the country. However, in our view, time-of-use distribution pricing is designed to incentivise a demand response aligned to network demand characteristics, which will vary from region-to-region. We would expect that there would be some variation in definition of time-of-use periods across the country to account for those differences.

Fixed Charges

The cost of operating electricity networks is largely fixed, meaning that they don't vary depending on how much electricity is used over time (costs do vary depending on how much electricity is being consumed at any given moment (peak demand), however). The LFC Regulations, because they forced most charges to be variable, created a situation where large electricity users were subsidising low electricity users.

Unfortunately, energy hardship can occur as easily among high electricity users as low users, depending on the circumstances of the user. While we often focus on superannuitants when discussing energy affordability, many large, low-income families are equally affected. Regulated electricity distributors like Aurora are limited in the tools we can use to combat energy affordability issues; however, ensuring that cross subsidies are removed so that there is a fairer recovery of electricity network costs is an important first step.

It is important to note, however, that because Aurora Energy is price controlled, increasing fixed charges involves a rebalancing of revenues earned from fixed and variable charges. Increasing the revenue earned from fixed charges means that the revenue earned from variable charges must drop. Increasing fixed charges does not result in a windfall revenue gain.

Distributed Energy Resources

We understand that existing investment in solar generation may be impacted by the introduction of a higher proportion of fixed charges. Ideally, with the cost of running distribution networks being largely fixed, every Residential connection should fairly contribute to the recovery of those costs, including connections with generation. The presence of home generation does not automatically lower network costs and may, in some cases, increase them.

OUR DECISIONS

To-date, many Residential connections with generation have avoided their fair share of network costs through self-consumption – avoiding purchasing energy by consuming the energy they generate. This seems fair, of course – why shouldn't a customer benefit from using the electricity they produce and from avoiding buying electricity? If the charges customers received were only for the level of electricity consumed, then this would be entirely fair. However, electricity retailers' consumption charges contain a line charge component that, if avoided, creates a cross subsidy – customers without generation end up paying for the line charge shortfall from customers with generation. While the introduction of fixed charges may change the investment case for some generation, fixed charges will lead to a fairer distribution of costs for all customers.

This is not to say that some generation cannot provide, and be paid for, benefits to networks. These benefits generally involve deferring or reducing the need for network capital investments. As we stated in our consultation document, in areas where the network requires support due to load growth, there will be opportunities for some generation owners to receive compensation by participating in flexibility services markets and receive compensating payments for reducing peak demand.

We think that it is appropriate to reward owners of distributed energy resources where they contribute to reducing network peak demands; much as we reward customers with controlled services (e.g., controlled electric hot water). However, just because these customers would be rewarded for operating DER in a manner that supports the network does not mean that other customers are penalised. The absence of a reward is not a penalty. We anticipate, that over time, an increasingly large proportion of customers will be able to participate more actively in the electricity market, should they choose to do so, as the price of DER technologies comes down.

<u>Residential Customers versus Large Customers</u>

We do not consider that our pricing strategy favours any customer group. As described in our pricing methodology, the initial steps of the pricing process involve allocating revenue to pricing areas and customer groups, using objective allocators. While customer groups have different characteristics, and therefore attract higher or lower proportions of revenue for recovery in prices, the use of objective allocators prevents intentional cross subsidies, and aids cost-reflectivity.

OUR PRICING AREAS

We have decided to maintain our pricing areas, as currently described. We do not think that that the main alternative offered by customers (mainly in the Central Otago / Wānaka pricing area) – a single pricing area across the entire network – is sufficiently persuasive to warrant further consideration. Much of the opposing argument centered on fairness, but no respondent that promoted the 'single pricing area' alternative was able to describe how such an arrangement would be superior from a principled perspective, or more cost-reflective, than the status quo.

We set out the principles by which we select pricing areas in our consultation documents and in our pricing methodology. Ultimately, we do not

OUR DECISIONS

think that it is reasonable to create a cross-subsidy when recovering capital investment-related costs. Those costs, in our view, should lie where they fall, and not be recovered from customers that do not benefit from the investment.

Aurora's prices in each pricing area are set to recover the direct costs of providing distribution services in each area, and a share of overhead/operating costs. These recoveries are based on objective allocators related to the physical characteristics of each regional pricing area. Because the physical characteristics in each pricing area are different, there will be variations in pricing between regions; however, because of shared synergies in overhead/operating costs (engineering, management and administration), prices in each individual pricing area will be lower than if that pricing area was a stand-alone business operating in comparable circumstances.

ALLOCATING CAPITAL INVESTMENT-RELATED COSTS

We have decided to adopt disaggregated values of our regulatory asset base (RAB) to allocate capital investment-related costs to regional pricing areas, as proposed.

Whilst a majority of survey respondents felt that they disagreed with RAB allocation, more than half (55%) were unsure that a better option existed. Where respondents felt that a better option existed, only a small proportion offered a workable alternative (with a significant proportion favouring the status quo – allocation according to an estimate of replacement cost).

In taking the decision to move to RAB allocation, we have been mindful of the Electricity Authority's review of our (former) regional cost allocation method, conducted by Sense Partners, where it was noted that cost allocation based on replacement cost, although reasonably cost-reflective, may lead to a region being under- or over-allocated cost.

HOW WE PUBLISH OUR PRICES

We have decided to abandon our proposal to consolidate distribution and passthrough prices into a single delivery price, when publishing our pricing annually.

More survey respondents opposed the proposal (42%) than approved of it (39%). Opposition was strong in the Queenstown (50%) and Central Otago / Wānaka (52%) pricing areas. Respondents in the Dunedin pricing area mostly favoured the proposal (52%).

While we consider that consolidating the price components would help simplify our pricing schedules, we consider that customers' desire for transparency is likely to outweigh the benefits of simplicity.

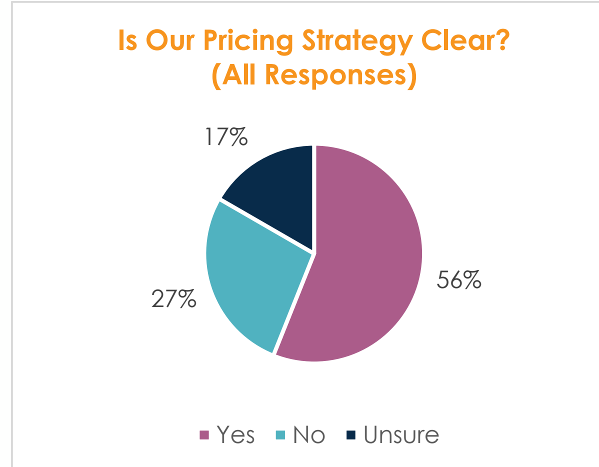
SURVEY RESPONSES

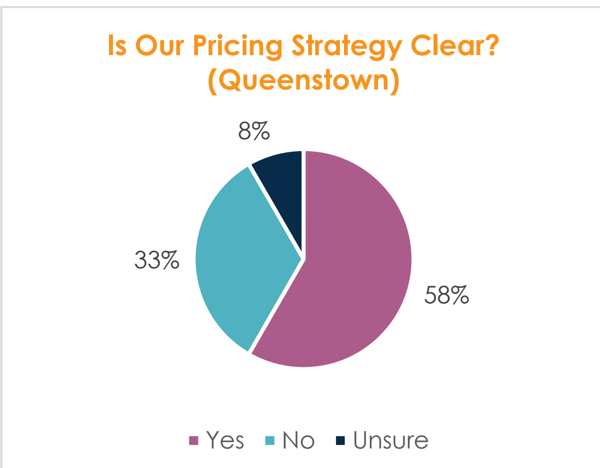
SURVEY RESPONSES

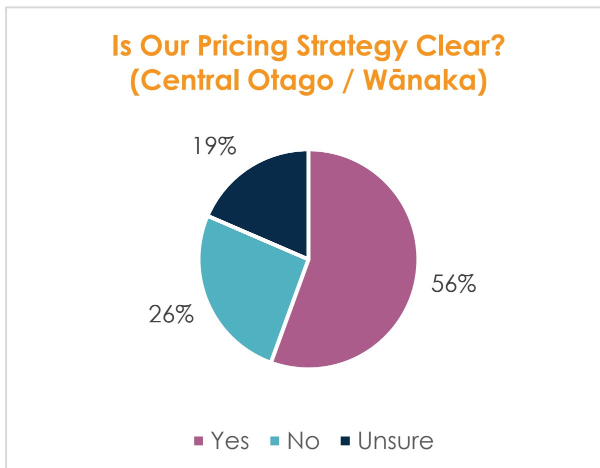
OUR PRICING STRATEGY

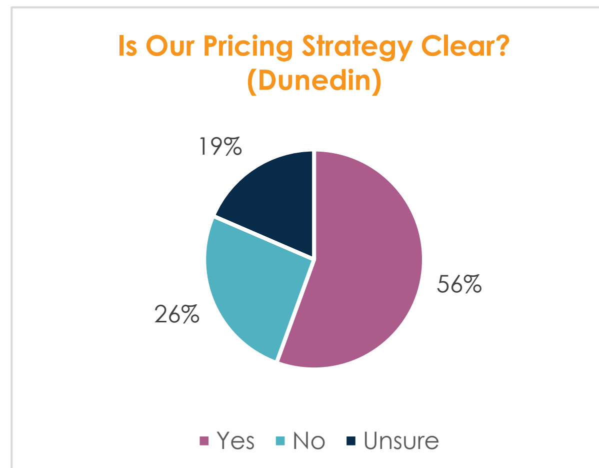
In pages 6 to 12 of our main consultation document, we explained that our pricing strategy involves moving to cost-reflective pricing. We outlined that we expect significant growth in the demand for electricity as a result of decarbonisation initiatives, and the strategy explains that by providing price signals which give customers incentives to change the way they consume electricity, we may be able to defer or even avoid some growth-related network investments. If investment can be deferred or avoided, then we can hold prices lower for longer than they otherwise would have been.

We asked **whether our pricing strategy, and the reasons we're proposing pricing improvements, are clear.** Most respondents (56%) felt that the strategy was clear, with reasonably consistent responses in each pricing area, although a greater proportion of Queenstown respondents felt that the strategy was not clear.









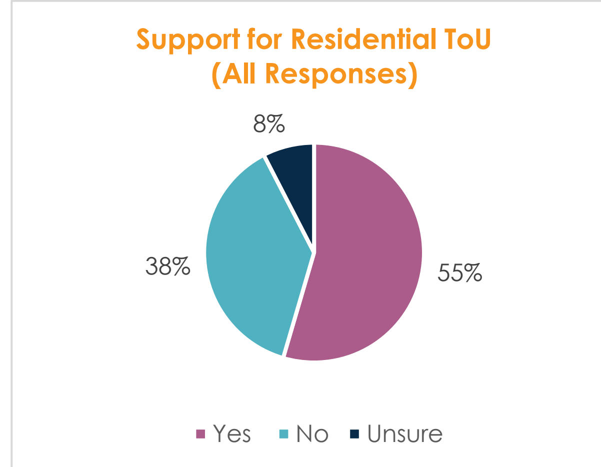
SURVEY RESPONSES

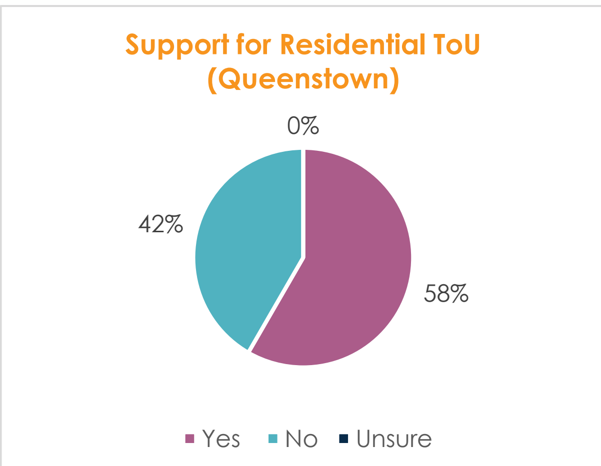
OUR PRICING STRATEGY

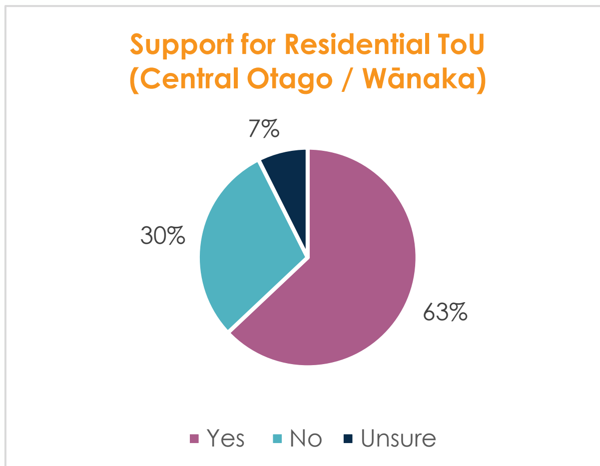
We asked whether customers **support a shift towards time-of-use pricing for Residential customers.**

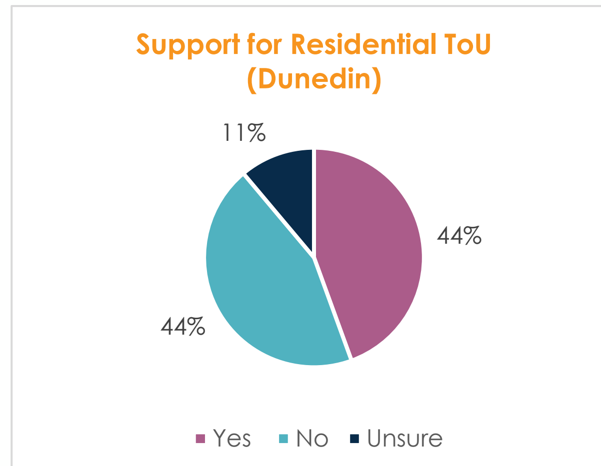
Most respondents (55%) supported a shift to time-of-use pricing, with higher-than-average support in Central Otago / Wānaka (63%), and lower-than-average support in Dunedin (44%).

38 percent of respondents did not support time-of-use pricing, with higher-than-average opposition in Dunedin (44%) and Queenstown (42%).









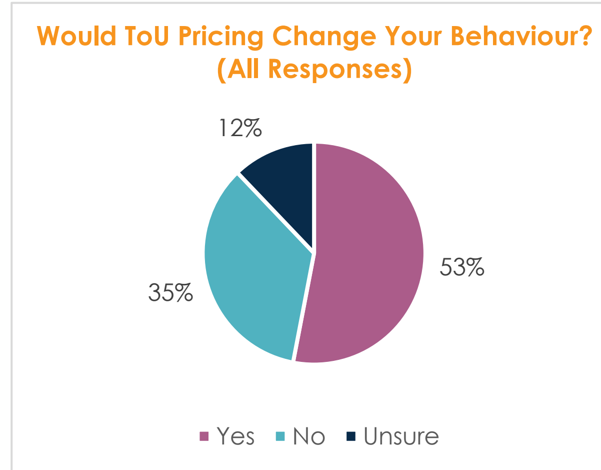
SURVEY RESPONSES

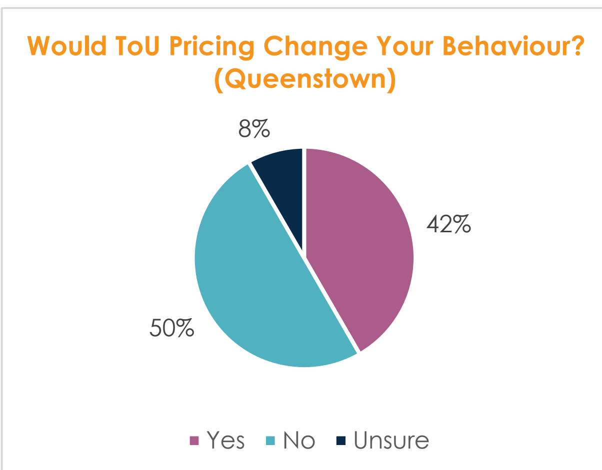
OUR PRICING STRATEGY

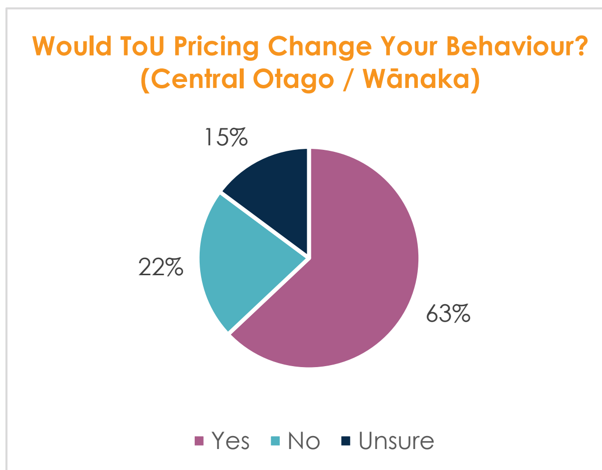
We asked whether customers **would be inclined to change their electricity consumption behaviour based on price signals and use electricity at different times of the day.**

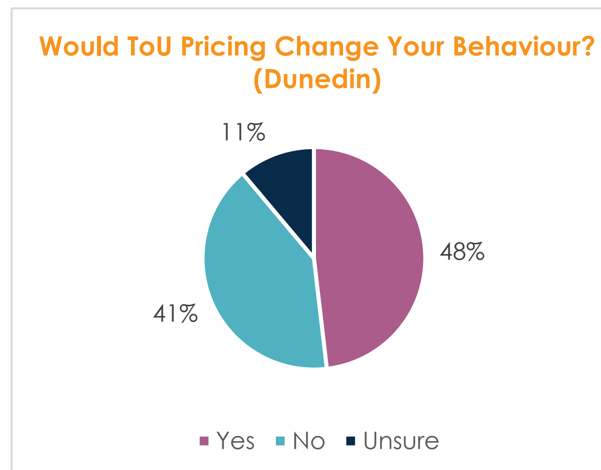
Most respondents (53%) felt that they would change their electricity consumption behaviour if provided with price signals. A greater-than-average proportion of respondents in Central Otago / Wānaka (63%) felt that their electricity consumption behaviour would change under time-of-use pricing.

Exactly half of Queenstown respondents felt that their electricity consumption behaviour would not change as a result of time-of-use price signals









SURVEY RESPONSES

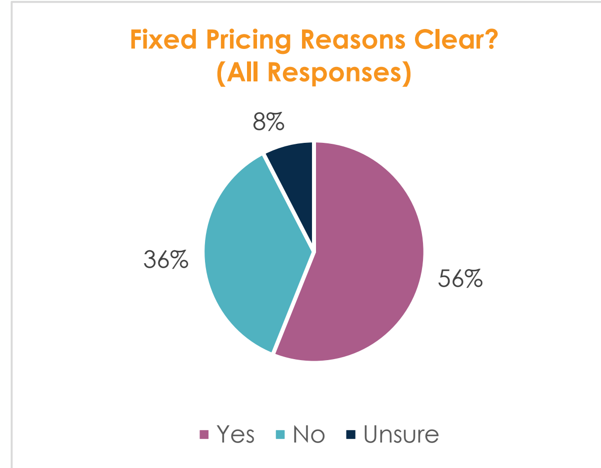
RESIDENTIAL FIXED PRICES

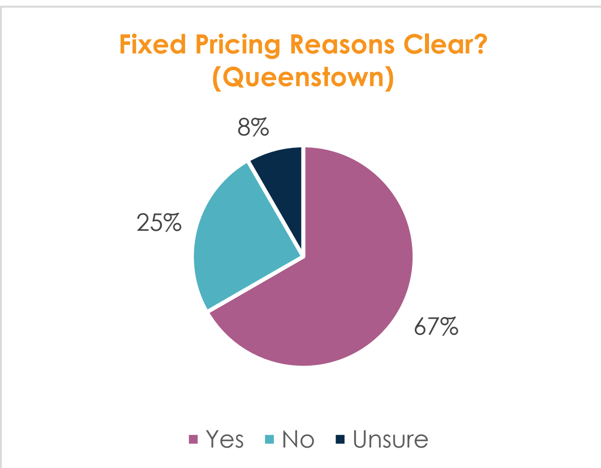
On page 15 of our consultation document, we explained that electricity distribution companies like Aurora Energy have costs that are largely fixed in the short-to-medium term, and which are independent of the amount of electricity that is transported through the network and consumed. With Residential charges based mostly on variable consumption charges, high-use customers pay disproportionately more than low-use customers despite the costs of electricity supply being relatively similar.

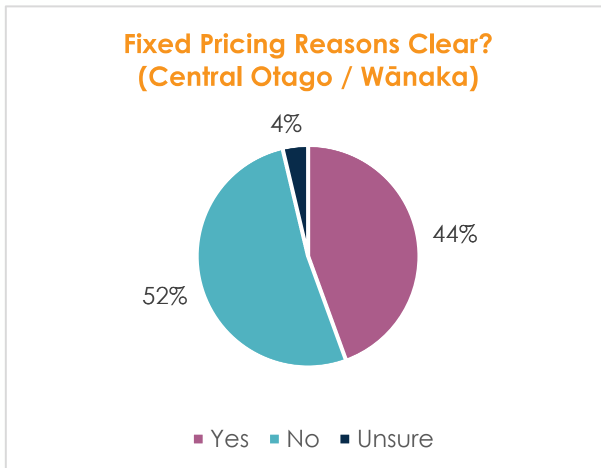
We explained that the government was progressively lifting restrictions on fixed charges and that we intended to increase our fixed charges in line with that phase-out. While fixed prices would increase, variable prices would decrease, so that Aurora's overall charges remained the same.

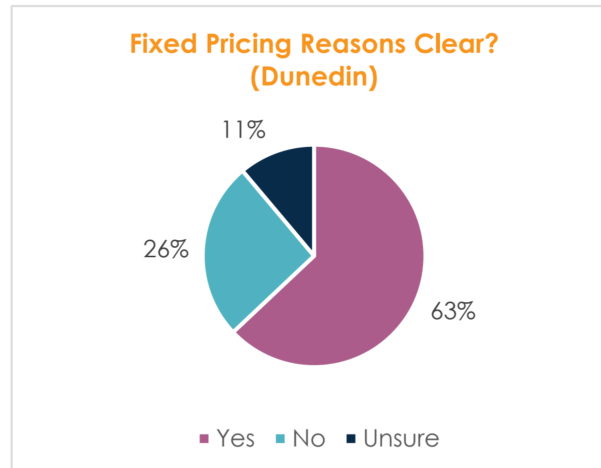
We asked whether the **reasons for increasing the proportion of fixed charges were clear.**

Most respondents (56%) considered that the reasons were clear, with Queenstown and Dunedin largely aligned in their views (67% and 63%, respectively). Most Central Otago / Wānaka respondents (52%) felt that the reasons were not clear.









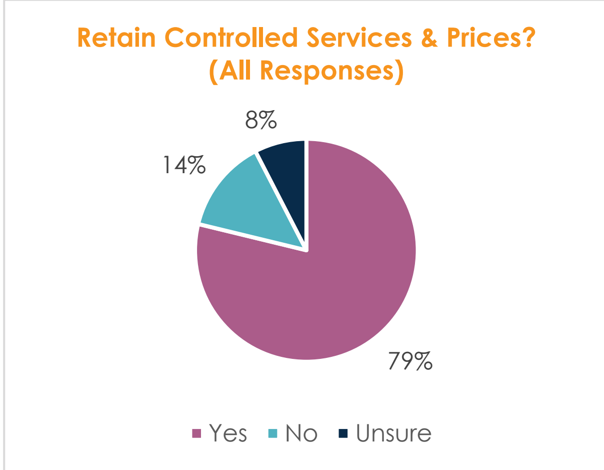
SURVEY RESPONSES

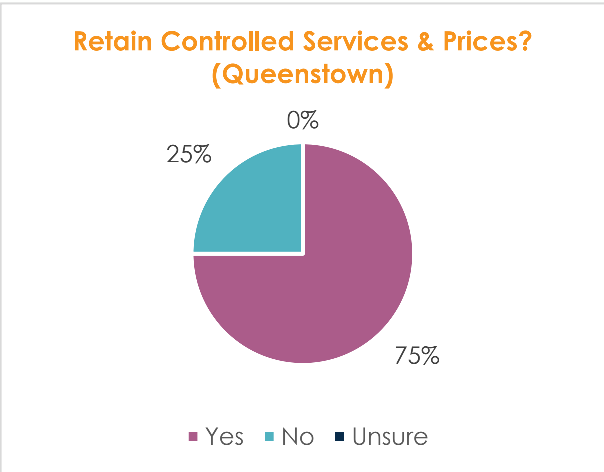
DISCOUNTED CONTROLLED SERVICES & PRICES

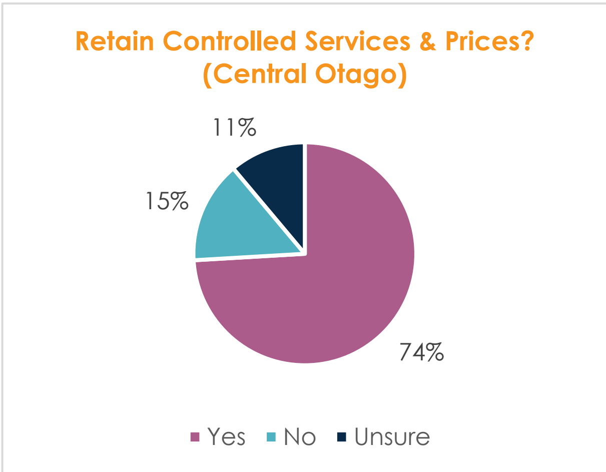
On page 15 of our consultation document, we explained that our current pricing structure allows customers to choose to have some of their supply subject to control by Aurora Energy; e.g., having their hot water cylinders turned off during peak periods. Customers that choose controlled services receive discounted prices for that part of their supply.

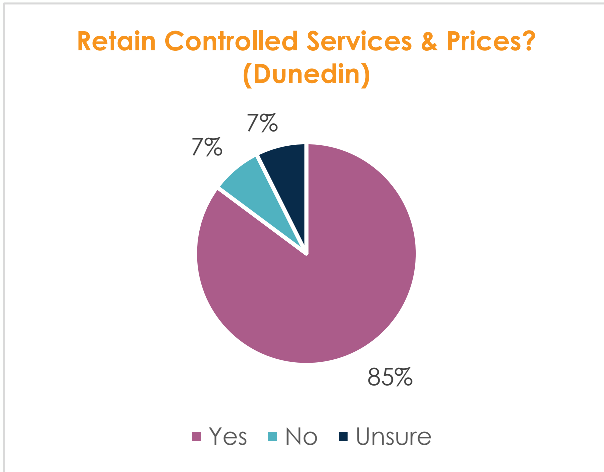
We proposed to maintain and refine our controlled services, and asked customers whether they **support retaining discounted prices for controlled services.**

There was strong support across all respondents (79%) for retention of discounted controlled services. Support for controlled service retention was strongest in Dunedin (85%).









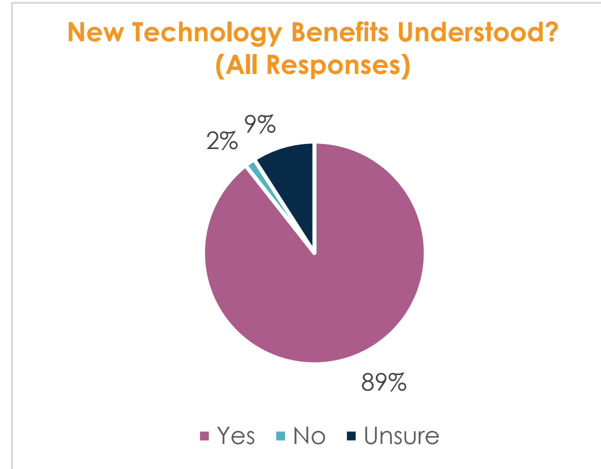
SURVEY RESPONSES

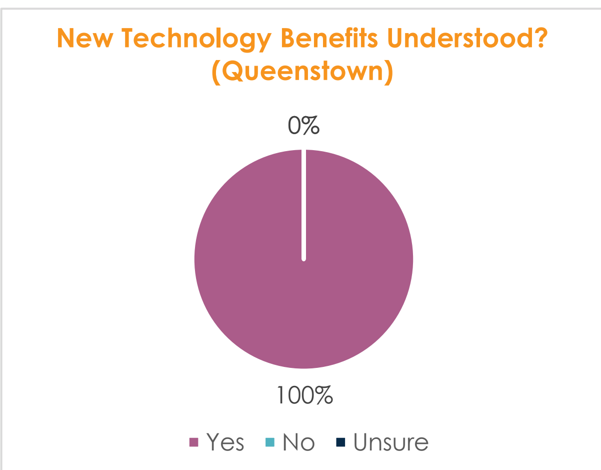
BENEFITS OF NEW TECHNOLOGIES

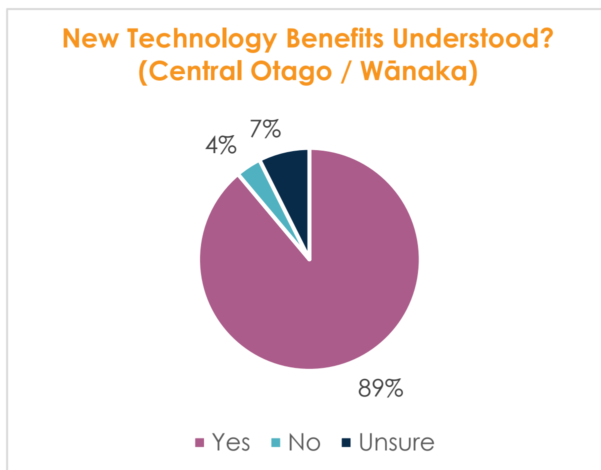
Our consultation document (p18) explained that cost-reflective pricing will be increasingly important to provide customers with incentives to invest in new technologies that support more efficient use of electricity networks.

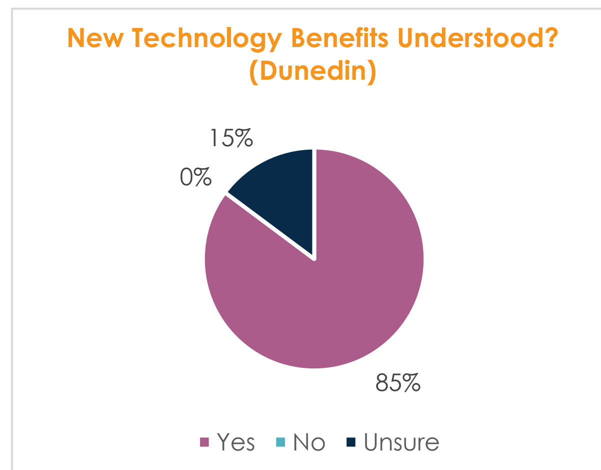
We asked whether customers **understood the benefits associated with the different types of new technologies and the way they're used.**

Most respondents (89%) stated that they understood the benefits associated with new technologies. All Queenstown respondents felt that they understood new technology benefits.









SURVEY RESPONSES

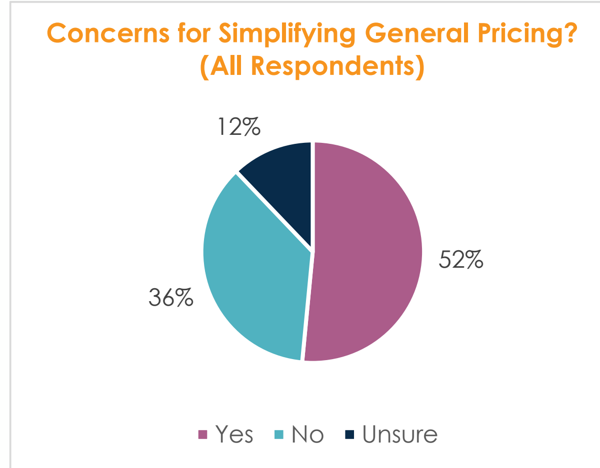
SIMPLIFYING GENERAL PRICING

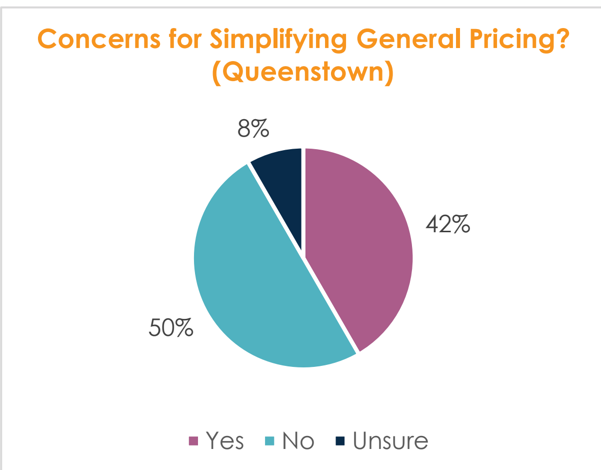
In our consultation document (p21), we advised that we were proposing no changes to our General pricing structure for now, but that we thought that there was potential, in the future, to simplify the General pricing structures so that they are simpler and easier to understand.

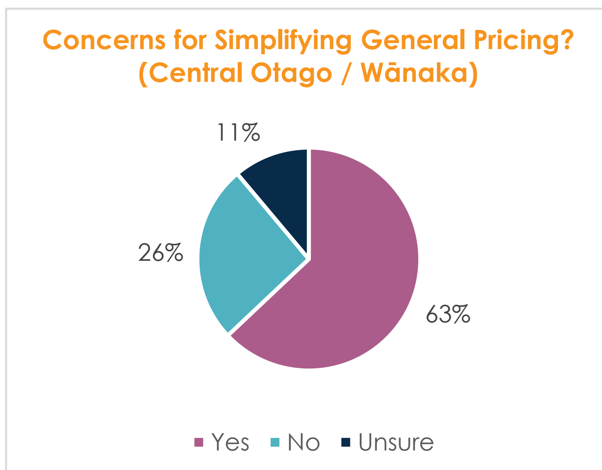
We asked customers whether they had **concerns about the potential to simplify current load group categories and prices for General connections in the future.**

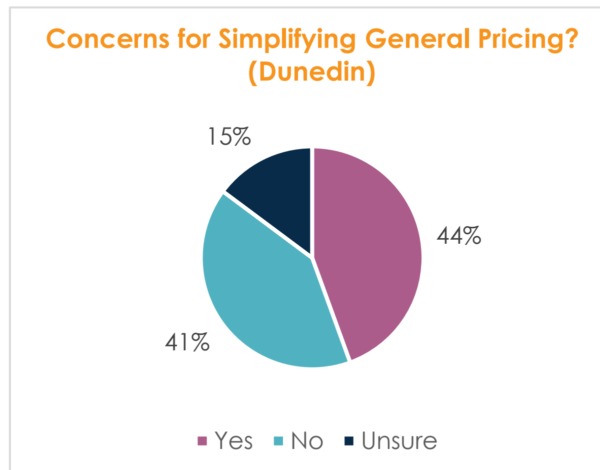
Slightly over half of all respondents (52%) stated that they had concerns with simplifying General pricing structures, with concerns most evident among Central Otago / Wānaka respondents (63%).

We will be separately consulting on changes to General pricing in the future and will take care to explain the benefits of simplifying pricing structures.









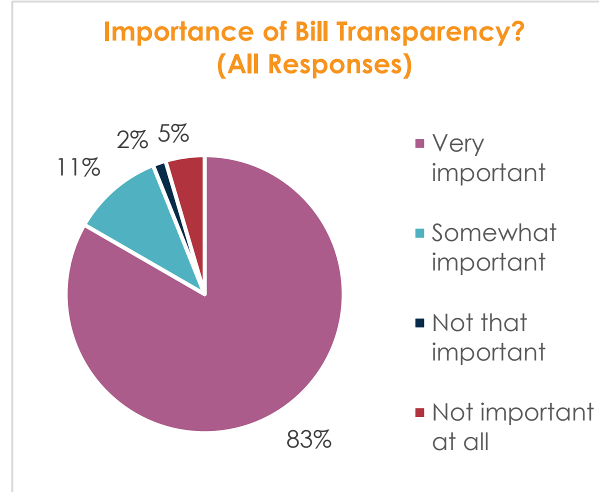
SURVEY RESPONSES

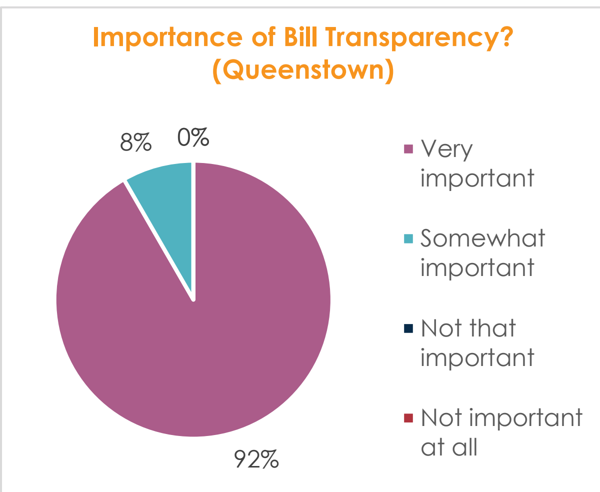
TRANSPARENCY OF DISTRIBUTION CHARGES ON RETAIL BILLS

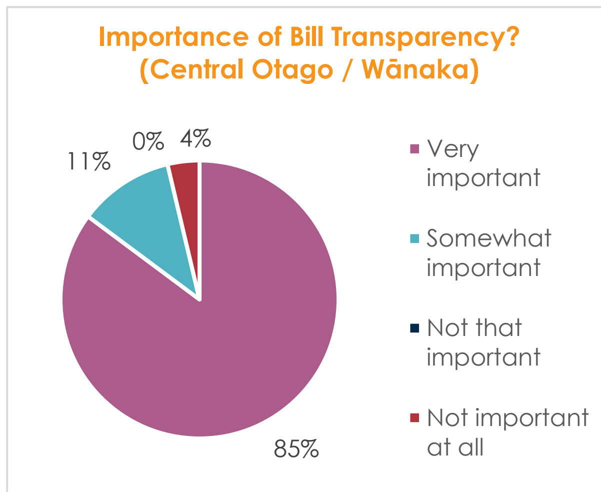
We advised customers that our pricing strategy consultation presumed that our future distribution charges would be transparently passed through to customers by electricity retailers.

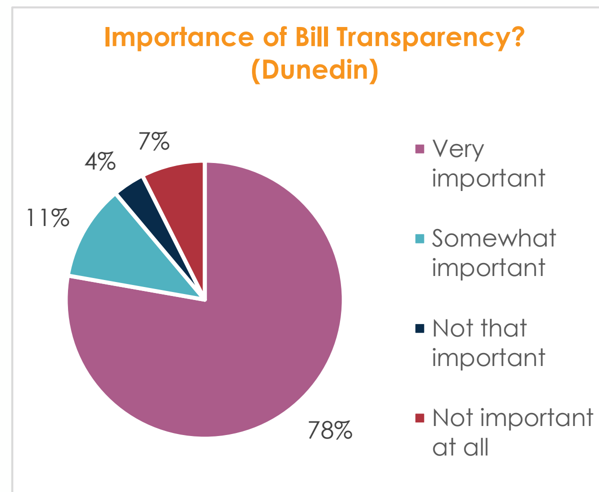
We asked customers **how important it is that electricity retailers transparently show distribution prices and charges on electricity accounts.**

Most respondents (83%) felt that bill transparency was 'very important', with a further 11% indicating that it was a 'somewhat important' issue. Queenstown respondents felt very strongly about the issue, with no respondents saying that bill transparency was 'not that important' or 'not important at all'.









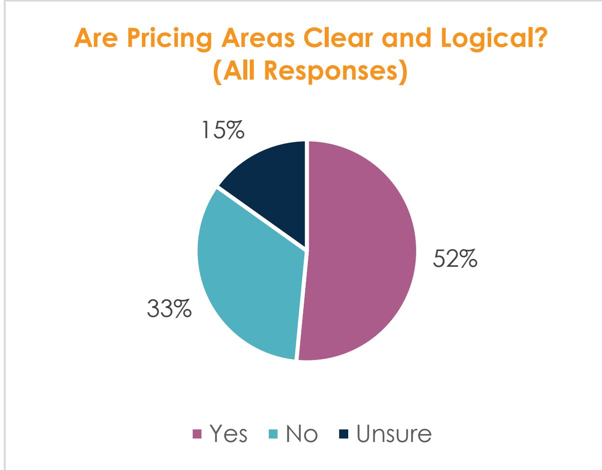
SURVEY RESPONSES

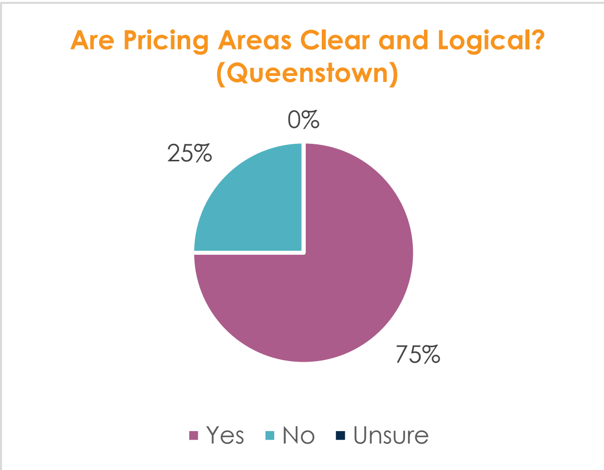
OUR PRICING AREAS

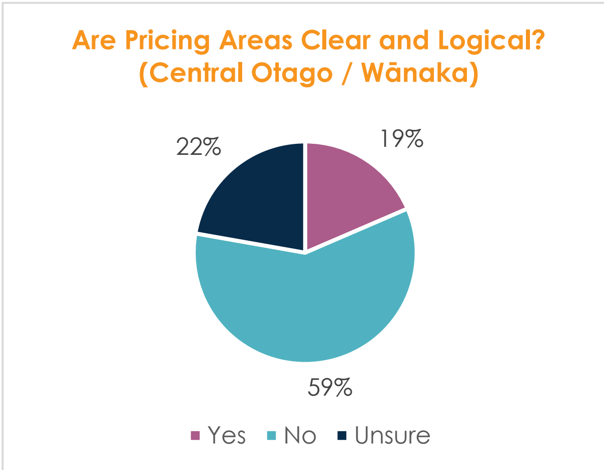
Our consultation stated that we intend to continue with our three pricing areas of Queenstown, Central Otago / Wānaka, and Dunedin. We outlined the rationale for selecting and forming pricing areas, including that we consider that the costs of providing network assets to an area should lie where they fall, but that overhead costs should be spread across the whole of the customer base, so that all customers receive the benefit of scale.

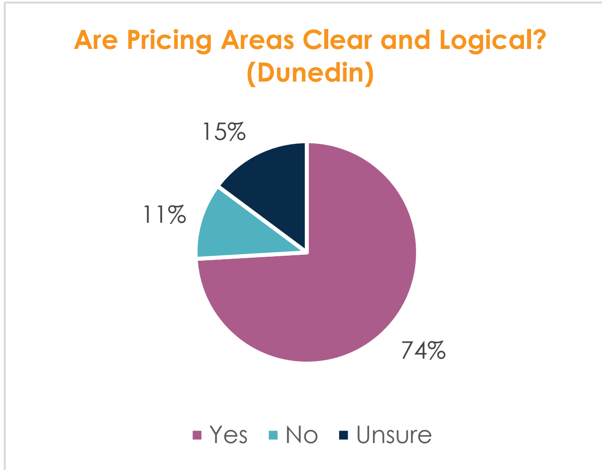
We asked customers whether our **rationale for determining pricing areas is clear and logical.**

Most respondents (52%) felt that our rational for determining pricing areas was clear and logical; however, there was a wide divergence of views among pricing areas. Most Central Otago / Wānaka respondents (59%) felt the rational was not clear and logical. Queenstown and Dunedin respondents mostly (75% and 74%, respectively) took the opposite view.









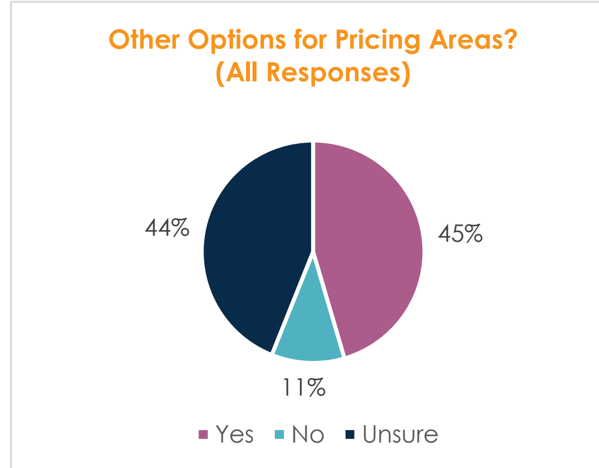
SURVEY RESPONSES

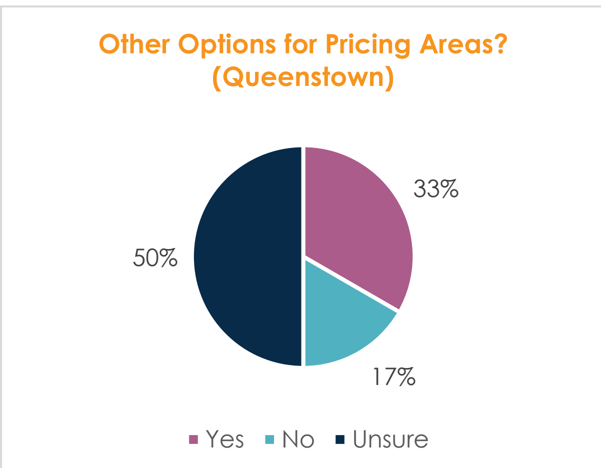
ALTERNATIVE OPTIONS FOR PRICING AREAS

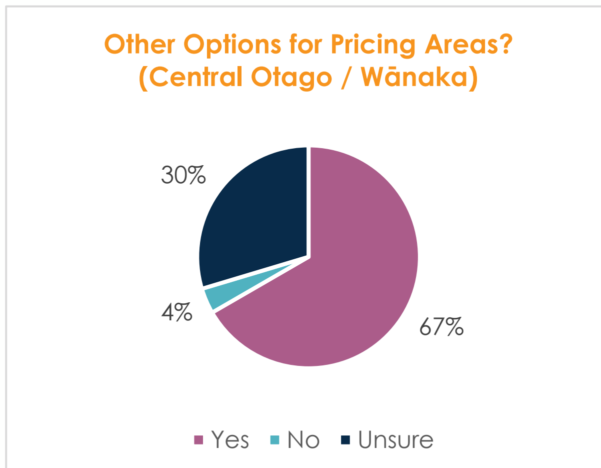
We asked customers whether there were **other options for pricing areas that would improve the cost-reflectivity of prices**

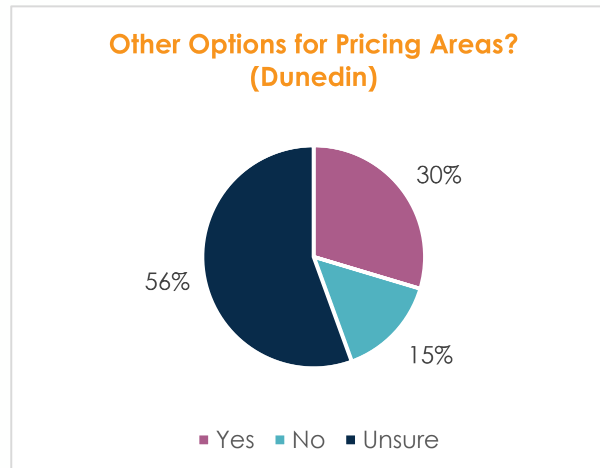
There was significant uncertainty expressed by respondents. While many (45%) felt a more cost-reflective option was available, 44 percent of all respondents were unsure.

Most Central Otago / Wānaka respondents (67%) considered more cost reflective options were available, while Queenstown and Dunedin respondents were quite uncertain.









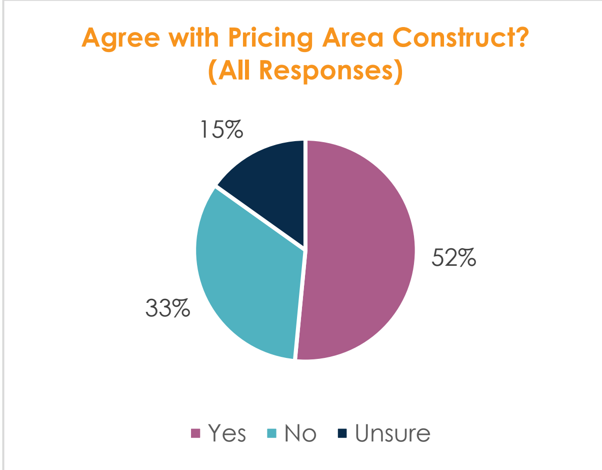
SURVEY RESPONSES

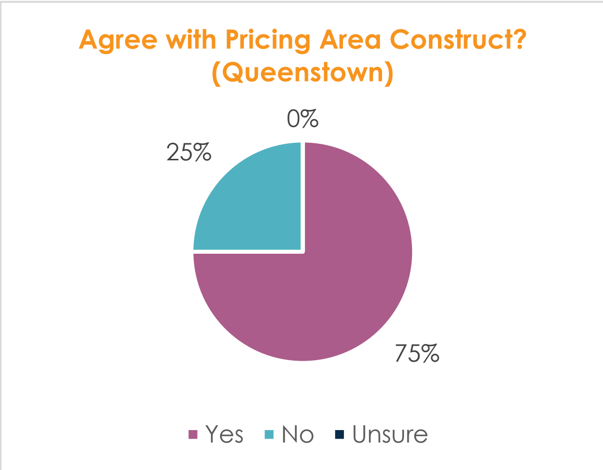
MAINTAINING OUR CURRENT PRICING AREAS

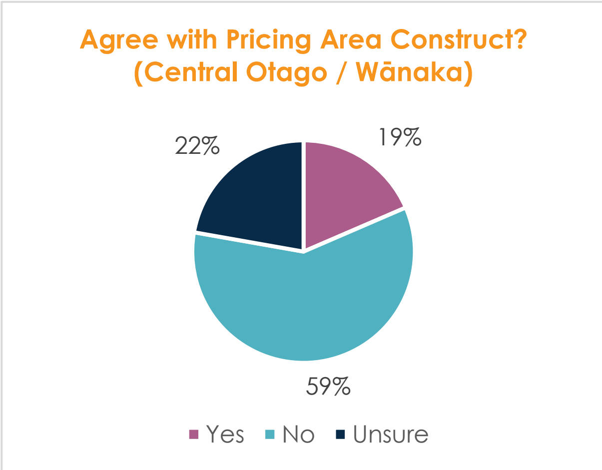
We asked customers whether they **agreed with our proposal to retain the current pricing area construct, where network costs lie where they fall (in each pricing region), but overhead costs become shared across the entire network.**

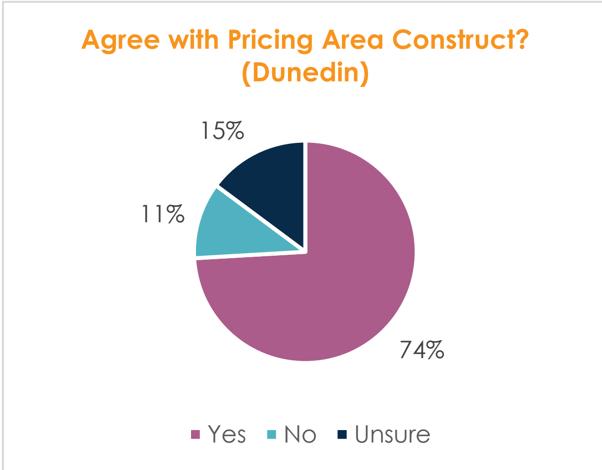
Most respondents (52%) agreed with our proposal to maintain the existing pricing area construct, while one-third did not agree.

Queenstown and Dunedin views were aligned, with 75 percent and 74 percent (respectively) agreeing with our proposal. Conversely, most Central Otago / Wānaka respondents (59%) disagreed with our proposal. There was also a greater-than-average level of uncertainty about the proposal among Central Otago / Wānaka respondents.









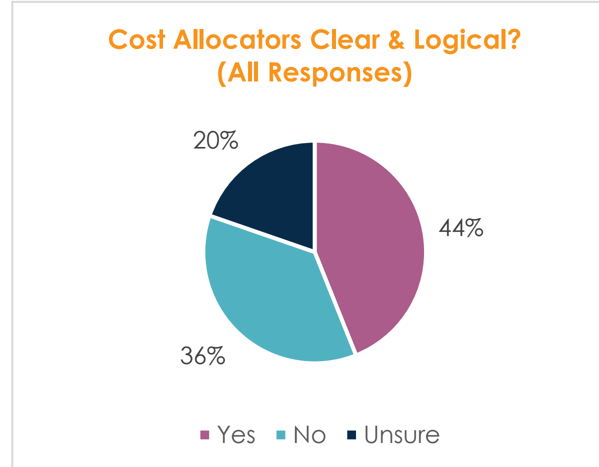
SURVEY RESPONSES

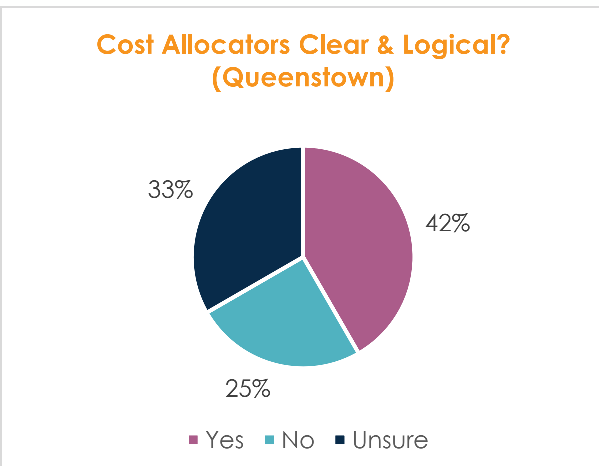
COST ALLOCATORS

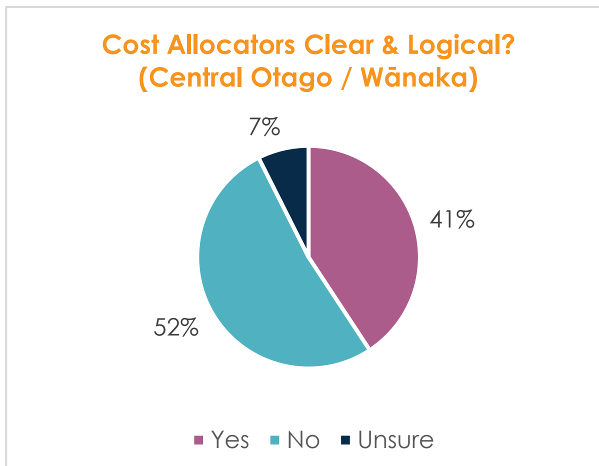
We set out our rational for selecting allocators to assign costs to pricing areas on page 30 of our consultation document, and asked customers if **our rationale for choosing cost allocators was clear and logical.**

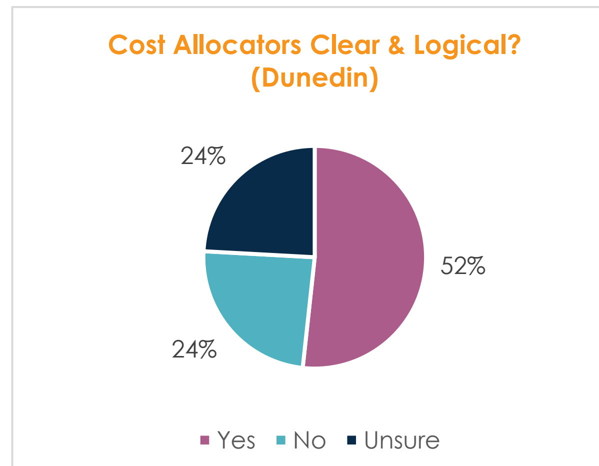
A majority of respondents (44%) indicated that our rationale was clear and logical; however, slightly more that one-third of respondents held the opposite view. Central Otago / Wānaka respondents mostly (52%) considered that our rationale was not clear and logical, with very little uncertainty expressed in responses (7%).

The results indicate to us that we need to provide a better explanation of why and how we use cost allocators in our pricing methodology.









SURVEY RESPONSES

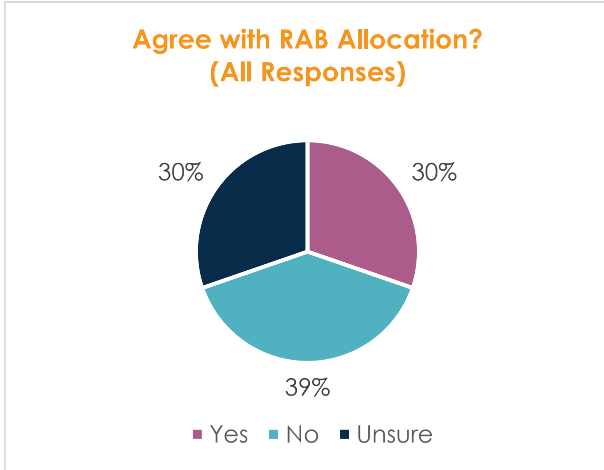
USING RAB TO ALLOCATE CAPITAL INVESTMENT-RELATED COSTS

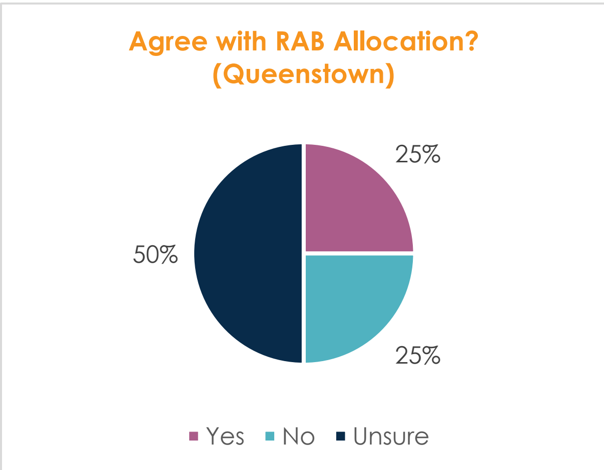
Our consultation document proposed that the basis for allocating capital investment-related costs to pricing areas be changed from an estimate of replacement cost, to the disaggregated regulatory asset base (RAB) value.

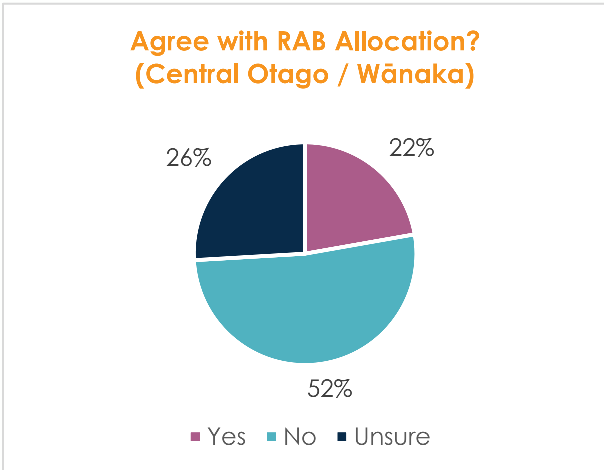
We asked customers whether they **agreed with our proposal that RAB be used as the basis for allocating capital investment-related costs from 1 April 2022.**

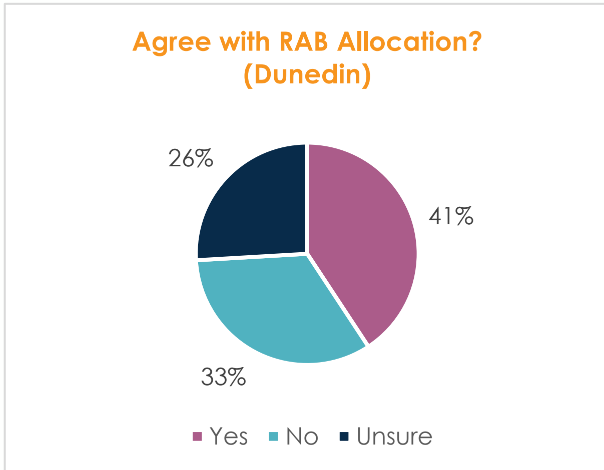
Most respondents (39%) indicated that they did not agree with the proposal. Opposition was particularly strong in Central Otago / Wānaka, with 52 percent against. A majority of respondents in Dunedin (41%) agreed with the proposal.

There was a significant proportion (30%) that expressed uncertainty as to the merits of the proposal. Uncertainty was particularly prevalent in Queenstown (50%).









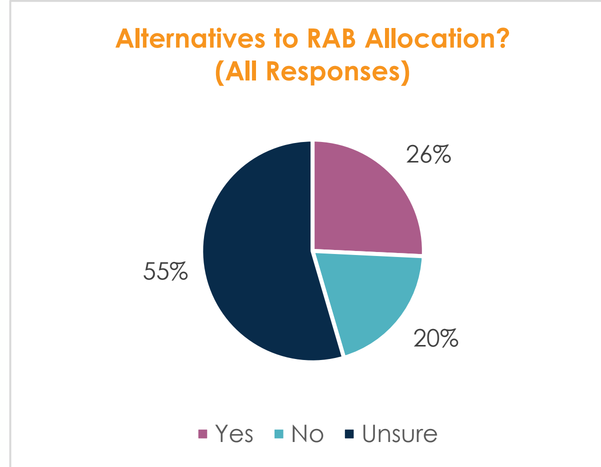
SURVEY RESPONSES

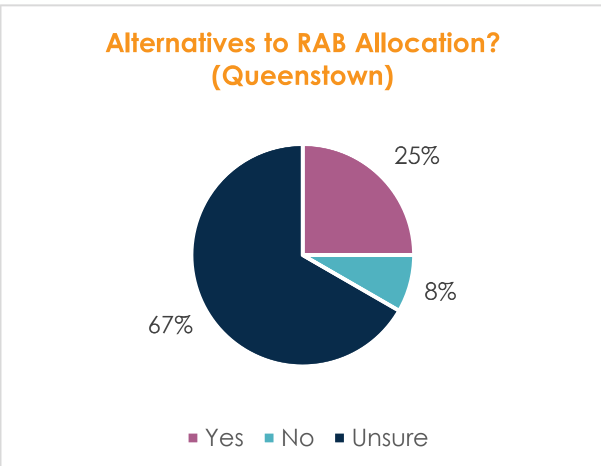
ALTERNATIVES TO RAB ALLOCATION

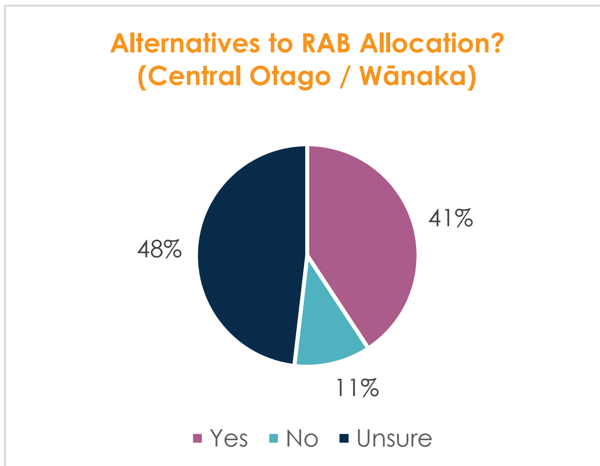
Following on from the previous question, we asked whether there was **an alternative to RAB for allocating capital investment-related costs that would better align to our cost allocation requirements.**

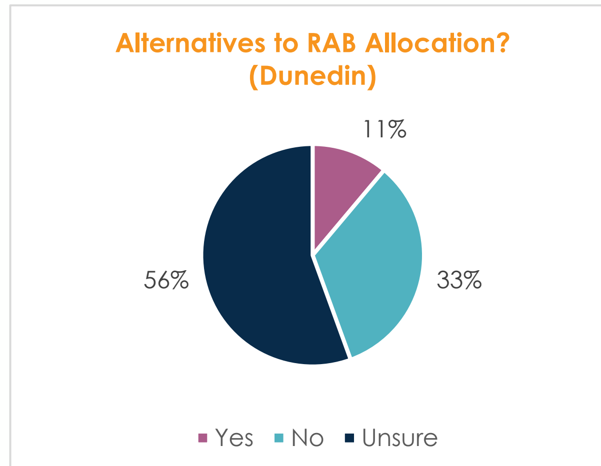
Uncertainty prevailed in responses, with 55 percent of respondents saying that they were unsure. Just a little over one quarter (26%) of respondents felt that there was a viable alternative. The greatest uncertainty occurred among Queenstown respondents (67%), followed by Dunedin (56%), and Central Otago / Wānaka respondents least uncertain (48%).

Central Otago / Wānaka respondents (41%) felt most strongly that there was a viable alternative, while Dunedin respondents (11%) least felt that an alternative was available.









SURVEY RESPONSES

ALTERNATIVES TO RAB ALLOCATION

After asking whether customers thought that there was an alternative to RAB for allocating capital investment-related costs that would better align to our cost allocation requirements, **we asked what those potential alternatives were**.

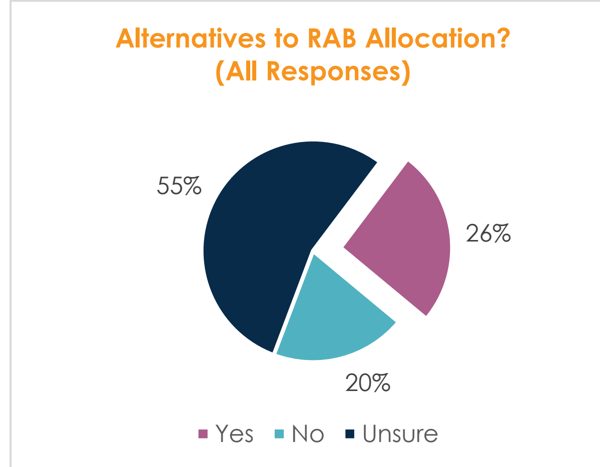
Of the 17 respondents that felt that there was a superior alternative to RAB allocation:

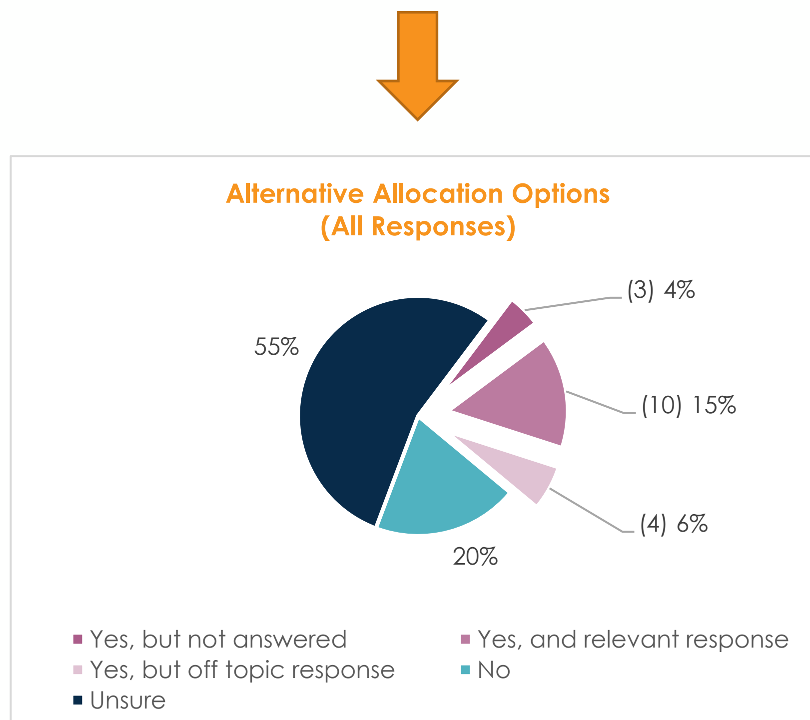
- 3 declined to state their preferred alternative;
- 4 chose to provide answers that were not related to the question; and
- 10 provided a response for consideration.

Suggested Alternative Allocators

We received the following relevant responses for consideration:

- Maintaining replacement costs allocation (4 responses);
- Recovering capital investment through development charges or, where increased demand drives investment, other forms of charging; e.g., road-user charges for electric vehicles;
- Using actual cost, excluding revaluations;
- Including both capital and operating costs (including administration) costs for allocation;
- User pays;
- Equalising costs throughout the supply chain; and
- Independent audit to ensure costs are being allocated fairly.



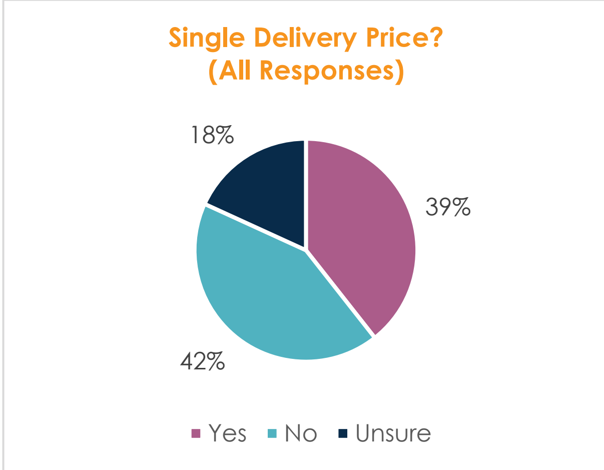


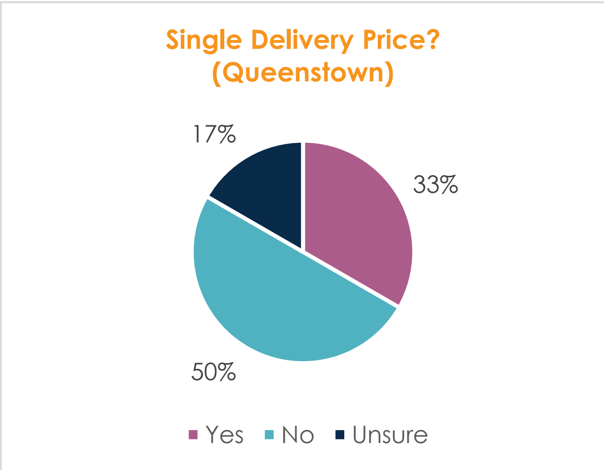
SURVEY RESPONSES

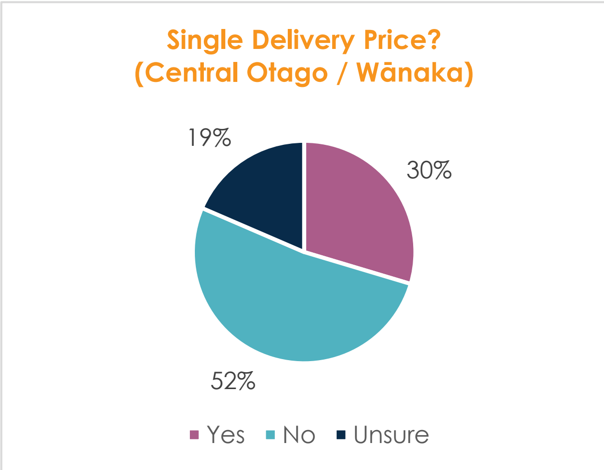
CONSOLIDATING DISTRIBUTION AND PASS-THROUGH PRICES INTO A SINGLE DELIVERY PRICE

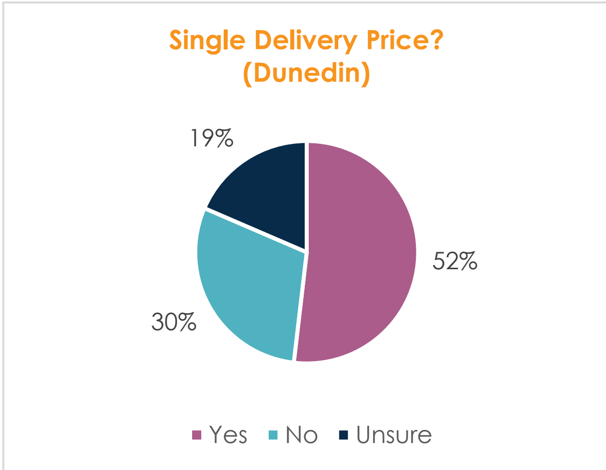
In our consultation document, we proposed simplifying our price schedules by consolidating the distribution and pass-through prices into a single delivery price. We asked customers whether they **agreed with the proposal to combine distribution and passthrough charges in the pricing schedule.**

The largest proportion of respondents (42%) were opposed to publication of a single delivery price. Opposition was greater in Queenstown and Central Otago / Wānaka (50% and 52%, respectively) than in Dunedin, where most respondents (52%) agreed with the proposal.







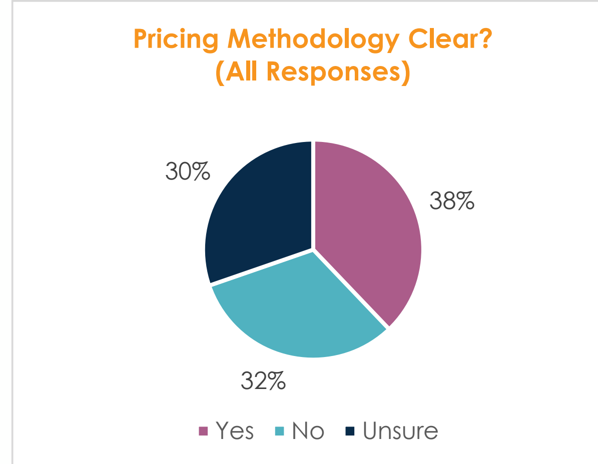


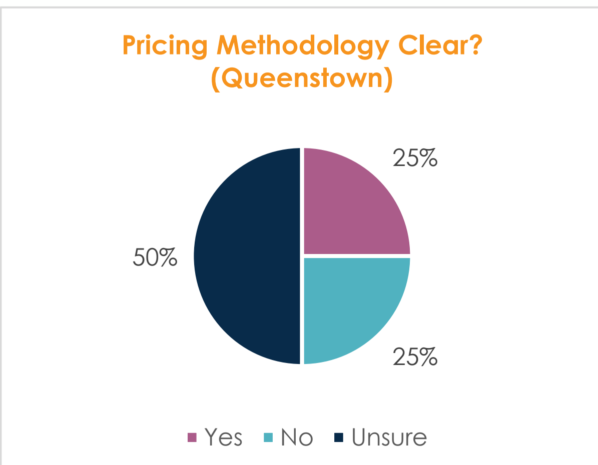
SURVEY RESPONSES

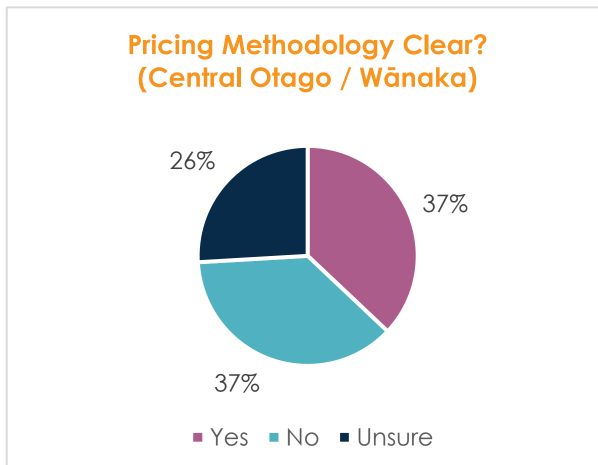
CLARITY OF AURORA'S PRICING METHODOLOGY

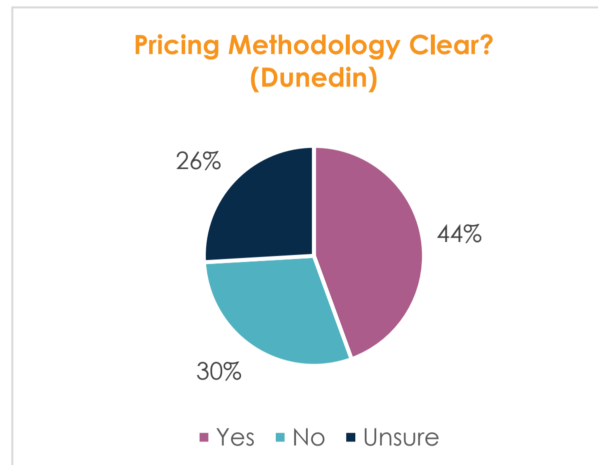
We sought to understand how useful our published pricing methodology is, and asked customers **whether the current pricing methodology document clearly explains how Aurora Energy sets prices?**

Overall, a majority of responses (38%) indicated that the pricing methodology provides a clear explanation, a position echoed by Dunedin respondents (44%). Opinion was evenly divided in Queenstown and Central Otago / Wānaka, with 25 percent and 37 percent (respectively) of respondents reporting that the pricing methodology was clear, and an equal number in each area saying it was not. A relatively high proportion of Queenstown respondents (50%) were unsure.







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