



**YOUR SAY ON THE PRICES YOU PAY**  
 OUR FUTURE DISTRIBUTION PRICING STRATEGY AND PROPOSAL EXPLAINED



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We first established the Customer Advisory Panel in 2019, to seek feedback on, and help shape, our customised price-quality path (CPP) proposal to the Commerce Commission.

The Customer Advisory Panel is a recognition that it can be difficult to meaningfully engage with all of Aurora Energy's various customer groups and truly capture representative viewpoints.

The objectives of the Customer Advisory Panel are:

- To advise and represent to Aurora Energy the perspectives and preferences, including the service measures, that are important to consumers
- To understand Aurora Energy's business in order to provide meaningful input into Aurora Energy's proposal for a customised price-quality path application, including its future investment plans and pricing options
- To advise Aurora Energy on consumer perspectives, and perceptions, of the possible impact of new technologies on electricity users
- To provide feedback on communication and engagement strategies to enhance Aurora Energy's communication with its community, consumer groups and electricity consumers.
- To provide input into Aurora Energy's customer service process improvement ideas, to ensure Aurora Energy is able to capture systemic customer issues and improve the customer experience it provides.



To inform and seek views on:

- The way in which our pricing needs to transform in order to support electrification and decarbonisation
- Changes we have implemented, and further changes we propose, to the allocation of costs to pricing areas
- Simplification of the way in which our prices are published.

## HAVE YOUR SAY ON FUTURE PRICING

A CONSULTATION DOCUMENT ON PROPOSED DISTRIBUTION PRICING CHANGES  
NOVEMBER 2021



# RECAP – AURORA ENERGY'S PAST 18 MONTHS





On June 12, Aurora Energy submitted its customised price-quality path (CPP) to the Commerce Commission, following an intensive period of development and public consultation



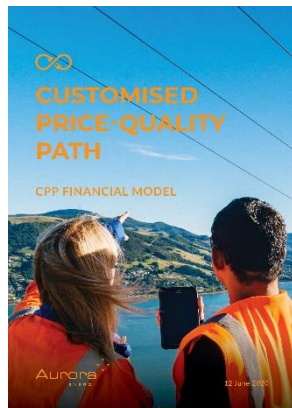
**CPP Application.** Our application for a customised price-quality path (CPP), sets out our proposal for future network investment (price path) and reliability standards (quality path) for the three years ending 31 March 2024.



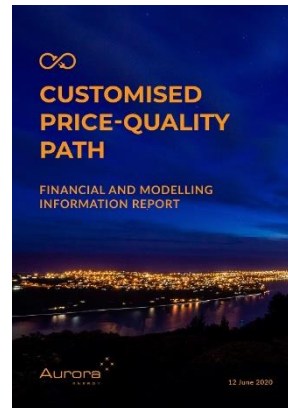
**Asset Management Plan.** Our updated asset management plan supporting the CPP Application, details how we will manage and invest in the network over the ten years from 1 April 2020 to 31 March 2030.



**Consultation Report.** Summarises how we consulted customers on our future investment plans for the CPP period, the feedback we received and how we addressed it in our final CPP proposal.



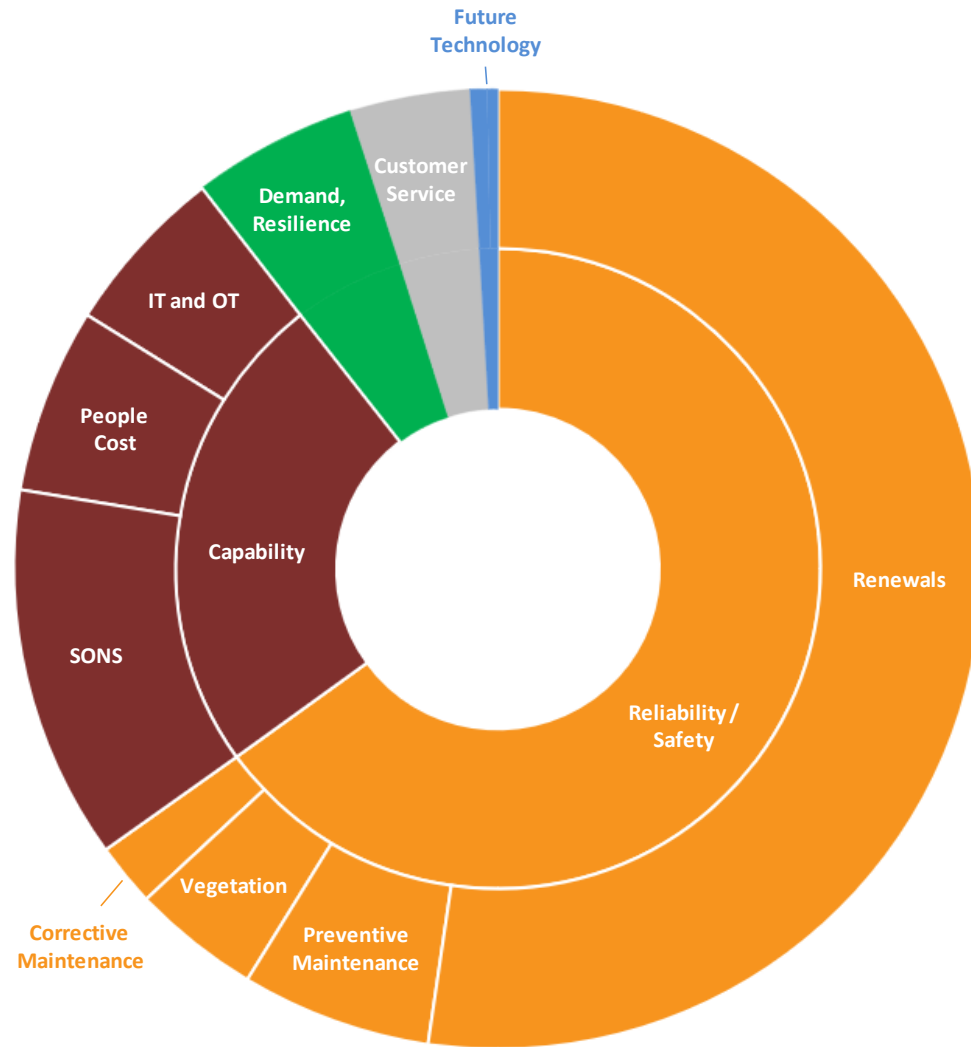
**CPP Financial Model.** Provides the Building Blocks Allowable Revenue model that the Commission uses to calculate revenues for a regulated firm based on actual and forecast costs for the CPP period.



**Financial and Modelling Information Report.** Provides context and explanation for the information provided in the CPP Financial Model.



**Independent Verifier's Report.** Independent engineering and economic assessment by Farrier Swier and GHD of our proposed expenditure to assist the Commission in making its decisions.



- A safe and reliable network requires a major renewal programme to address end of life assets
- To prepare for the future and to deliver our renewal programme efficiently we will continue to invest in business support systems and people
- As well as renewing existing infrastructure, we are meeting capacity growth in the fast-growing areas of Central Otago and Queenstown Lakes and preparing for a future shaped by new technology options and changing customer choices.



The Commerce Commission's final decision was that a substantial proportion of Aurora Energy's proposal had been justified.

	<b>Aurora Proposal</b>	<b>Final Decision</b>	<b>Variance</b>
Network capital	\$341.2 million	\$312.2 million	-\$29 million (-8.5%)
Non-network capital	\$15.2 million	\$15.2 million	\$0 million (0%)
Network operations & maintenance	\$91.6 million	\$90.8 million	-\$0.8 million (-0.9%)
Non-network operations	\$161.4 million	\$145.1 million	-\$16.3 million (10.1%)

Our focus is now on delivering our plan and ensuring that we meet our commitments.



# RECAP – PRICING 101





“Promoting competition in markets for the long term benefit of consumers.”

Approves annual revenue we can recover as part of our lines charges – and sets quality outputs

Sets the rules on the information we need to provide every year

Sets and administers the penalty / reward and enforcement framework



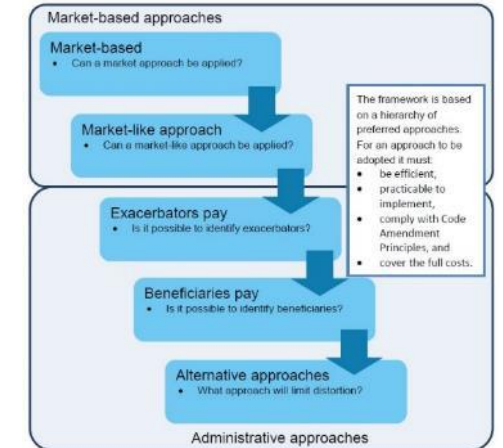
“Promoting competition, reliable supply and efficient operation in the electricity sector.”

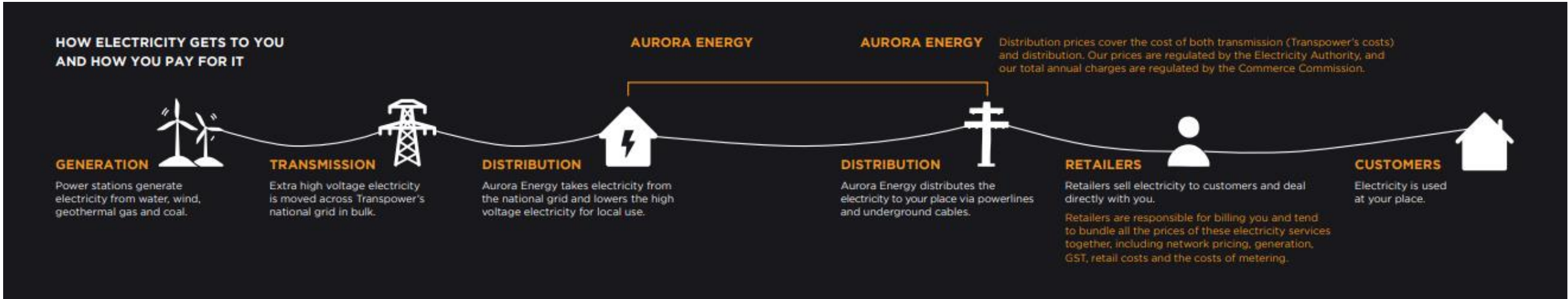
Oversees distribution and transmission pricing methodologies (how the revenue pie is divided up).

Oversees market design and market operations

monitoring and enforcing compliance with market rules.

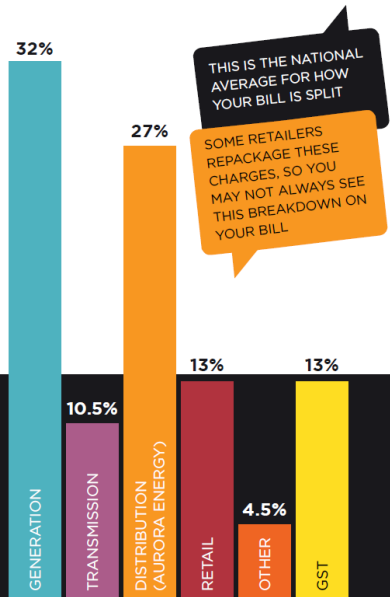
## EA decision making and economic framework





## ELECTRICITY PRICING AND HOW YOU'RE BILLED

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



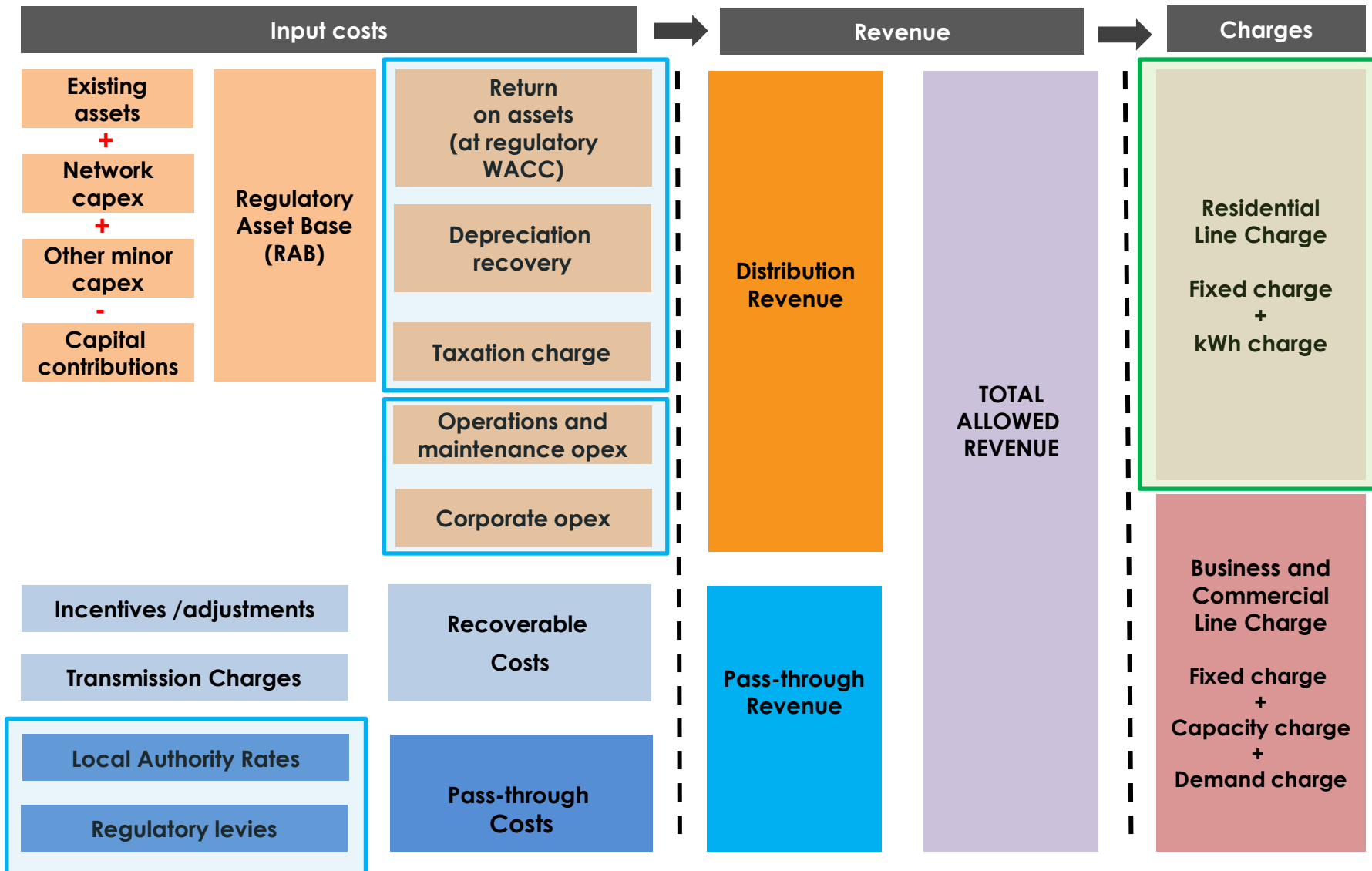
SOURCE: [www.ea.govt.nz/consumers/my-electricity-bill/](http://www.ea.govt.nz/consumers/my-electricity-bill/)

### Most retailers bundle all these costs into your bill...

Charges	Period	Rate (incl GST)	Quantity	Total
SIMPLE FLEXI				
211139900:1 Economy 24	29 Mar - 31 Mar	23.29 c/kWh	42 kWh	\$9.78
	1 Apr - 28 Apr	24.52 c/kWh	498 kWh	\$122.11
Daily charge (86.04 c/day x 31 days)				\$26.67
<b>Property charges for this period</b>			<b>540 kWh</b>	<b>\$158.56</b>

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.

# How Aurora Energy's charges are built up



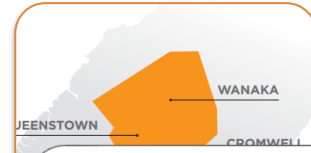
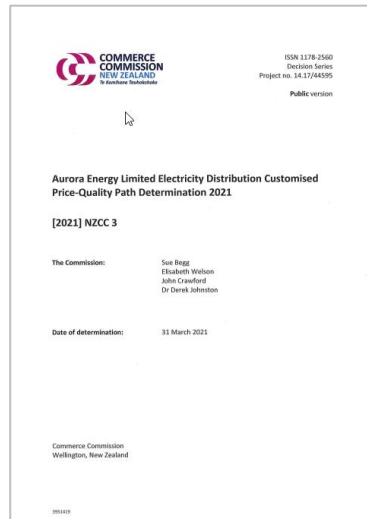
Today, we'll discuss:

- ✘ The future shape of residential distribution charges
- ✘ Cost allocations



## Calculate target revenue

Set by the Commerce Commission



## Allocate to pricing areas

- Queenstown
- Central Otago
- Dunedin



## Allocate to customer load groups

- Residential
- General (LG1 to LG5)



Prices effective	
CONNECTIONS	DISTRIBUTION
10,647	15.00
106	4.30

## Calculate customer price components

based on forecast usage & control discounts

# PART A OUR FUTURE PRICING STRATEGY

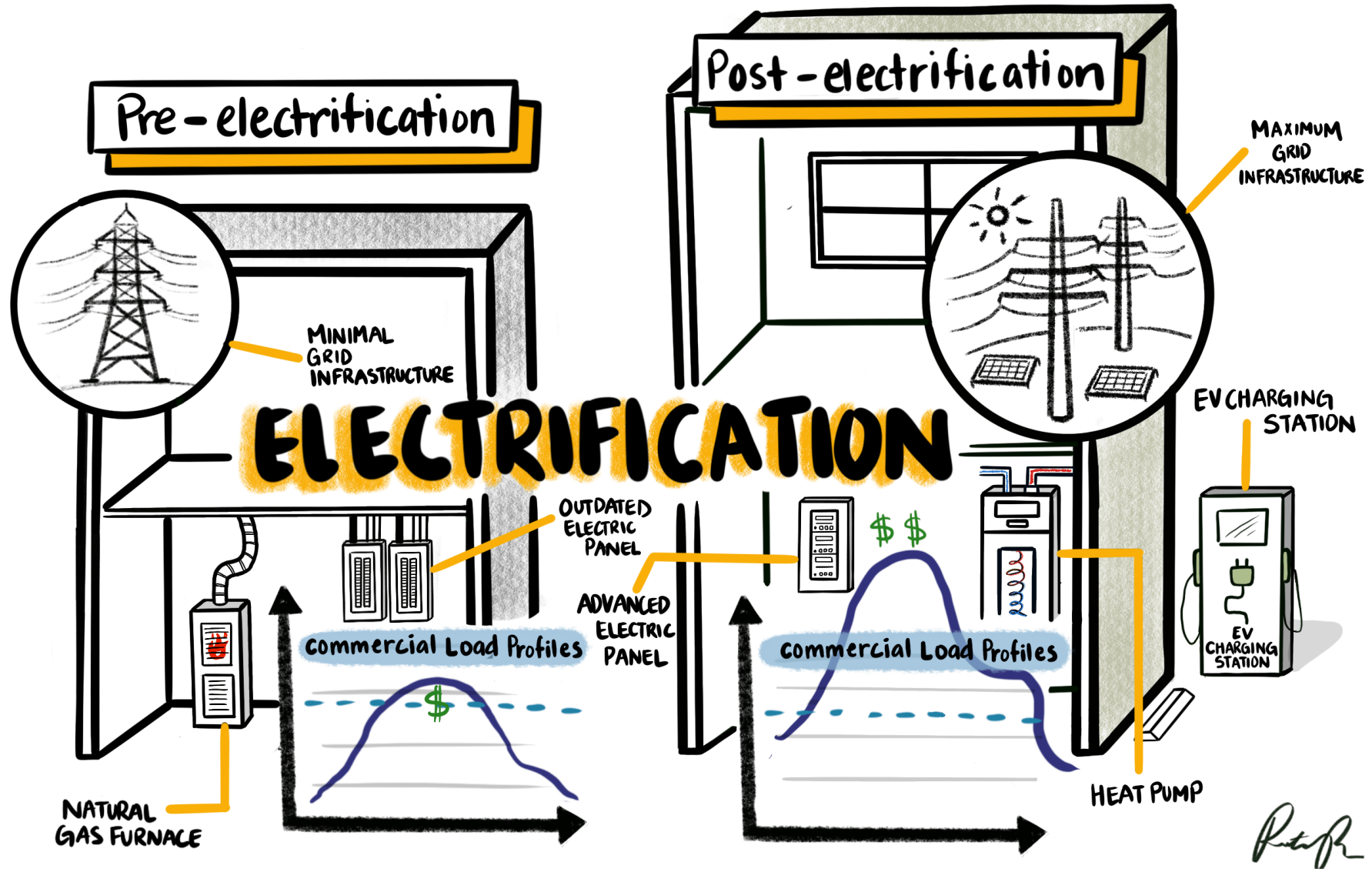
THE SHAPE OF ENERGY IS CHANGING

# We are expecting a step change increase in electricity demand



New Zealand has committed to achieving net-zero emissions by 2050, with key enablers being electrification of transport and process heat.

This has the potential to place demands that are beyond the capacity of electricity networks to deliver, resulting in the need for significant investments in growth that could exacerbate energy affordability issues, if not carefully managed

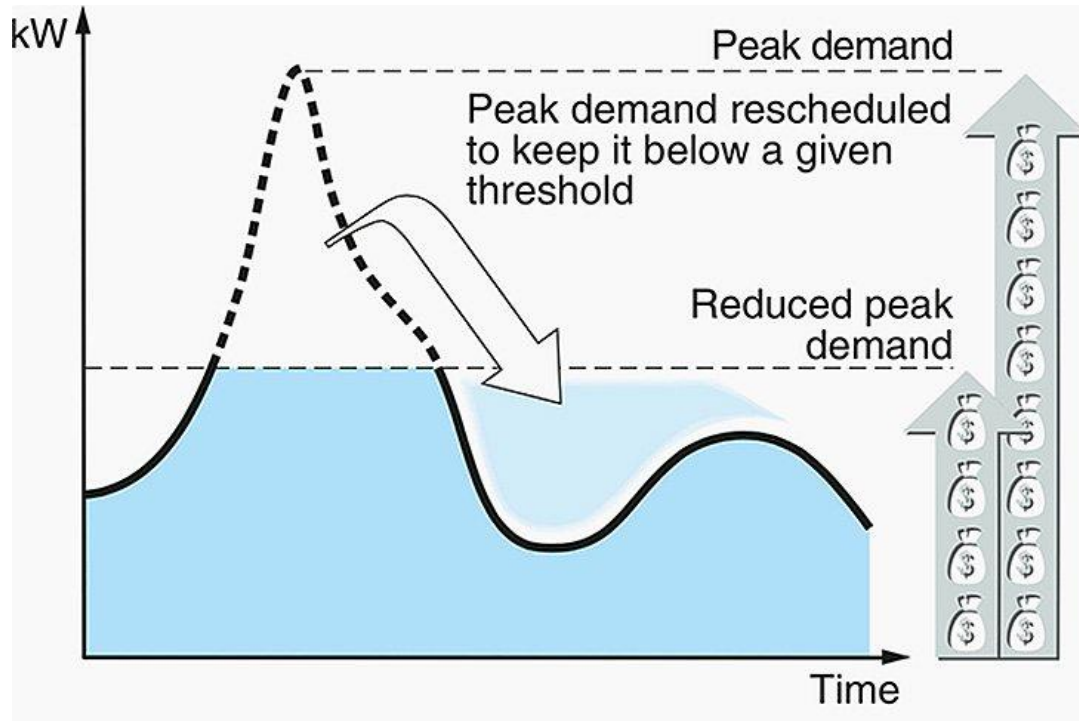






- Traditional load control:** - Restricting the use of certain appliances to specified times of the day, in return for a lower price.
- Cost reflective pricing:** - Differential pricing (peak / off-peak) that encourages discretionary energy use to be shifted to off-peak periods.
- Flexibility services:** - Contracts to deploy aggregated distributed energy resources during periods of peak demand on the network, when called upon to do so.

*These can all be used in combination.*



# Distribution pricing reform is happening across the industry



Overall Rating 4.2/5

Distribution pricing principles – Scorecard 2021: Aurora Energy



### Current state

- Excellent context in main document and supporting pricing strategy and roadmap. Clear links from context to implications for pricing in its different regions.
- Excellent discussion of extent of alignment of current pricing to pricing principles and, particularly useful, the target state.

### Strategy

- Aurora is very clear about its direction for cost allocation and pricing, the main steps, and the nature of choices it will engage on with the community.
- Achievements to date and next steps are outlined. A separate roadmap document provides more useful context and detail.

### Outcome

- Aurora has identified the potential inefficiencies of, and risks associated with, its historic pricing. These include inconsistent price signals, and price signals that may be too strong during periods when demand could be accommodated by the network.
- Recent changes to cost allocation improved the cost reflectiveness of pricing.
- Aurora has built in consumer impact considerations into its multi-year pricing strategy, including by smoothing cost allocation variations within each region.

### Key messages

- Aurora has made significant progress in setting out its pricing strategy. Its plans are linked to a clear identification of issues, risks and opportunities related to pricing. The Authority looks forward to checking-in on progress.
- The Authority acknowledges that Aurora has recently addressed some of the issues with its historic cost allocation method and has indicated further changes are in the works (in particular replacing its current use of optimised replacement cost with regulatory asset base values for assets).
- Aurora's multi-year approach is designed in part to manage bill shocks that may occur when cost allocation and pricing are reviewed. The Authority agrees this is a relevant consideration consistent with the pricing principles.
- Future methodologies could expand on how customer impacts were being managed. The Authority recognises that in the last year these matters were considered within the context of community consultation and stakeholder engagement with respect to the CPP and pricing.

For scoring, see practice note and methodology at <https://www.ea.govt.nz/operations/distribution/pricing/>.



Table 1 2021 Pricing Scorecards assessment scores

Distributor	Circumstances (1-5)	Principles (accord with) (1-5)	Strategy (1-5)	Roadmap / implementation (1-5)	Efficiency (1-5)	Consumer impact (1-5)	Overall Score 2021
Aurora Energy	5	5	5	4	2	4	4.2
Wellington Electricity	5	3	4	5	3	3	3.8
Northpower	4	3	4	4	3	4	3.7
The Lines Co	4	4	3	3	3	4	3.5
Electricity Ashburton	4	3	4	4	2	4	3.5
Top Energy	4	3	4	3	3	N/A	3.3
Marlborough Lines	4	3	4	4	2	3	3.3
Horizon Networks	4	3	3	4	3	N/A	3.3
Electricity Invercargill	4	3	4	4	2	N/A	3.2
Otagonet	4	3	4	4	2	N/A	3.2
The Power Co	4	3	4	4	2	N/A	3.2
Network Tasman	3	4	3	3	2	4	3.2
Orion	3	3	4	3	3	N/A	3.2
Powerco	3	3	4	4	2	N/A	3.0
Alpine Energy	5	3	3	1	3	N/A	3.0
Mainpower	2	3	4	3	2	3	2.8
Unison Networks	4	3	3	3	2	N/A	2.8
Buller Electricity	4	2	3	3	2	3	2.8
Centralines	4	3	3	3	2	N/A	2.8
Network Waitaki	2	3	4	3	2	3	2.8
Counties Power	3	2	4	4	2	N/A	2.8
Eastland	3	2	3	4	2	3	2.8
Electra	4	2	3	3	2	N/A	2.7
Nelson Electricity	4	2	3	2	2	N/A	2.5
Vector	2	3	3	3	2	N/A	2.5
Waipa Networks	2	4	2	2	2	N/A	2.3
WEL Networks	3	2	3	1	2	N/A	2.2
Westpower	3	2	2	1	2	N/A	2.0
Scanpower	3	2	2	1	1	N/A	1.7

— The Electricity Authority measures distributor's progress towards cost-reflective pricing annually.

— For 2021 pricing methodologies, Aurora was ranked first among its 29 peers.

— This isn't a measure of 'best pricing', but the degree to which current and future pricing is explained and communicated

# PART A OUR FUTURE PRICING STRATEGY

A NECESSARY DISCLAIMER



We need to be clear about a couple of things before we get into the detail of our future pricing strategy.

OUR PROPOSAL PRESUMES THAT OUR FUTURE DISTRIBUTION CHARGES WILL BE TRANSPARENTLY PASSED THROUGH TO YOU BY YOUR ELECTRICITY RETAILER.

- Our pricing strategy can deliver benefits if customers can react to the price signal we send.
- Currently, many electricity retailers do not transparently identify distribution charges on electricity bills
- Our proposal presumes that customers will receive a price signal that allows them to understand the cost implications of using electricity at different times and react accordingly:
  - This might be through transparent charges on electricity bills; or
  - Through the emergence of third-party intermediaries that provide innovative services to help customer manage their demand

THE PROPOSED WAY OF PRICING OUR SERVICES WILL NOT REVERSE THE PRICE INCREASES THAT ARE TO COME OVER THE NEXT FEW YEARS AS PART OF OUR CPP WORK PROGRAMME.

- Our pricing strategy can hold prices lower than they otherwise would have been, if we can manage peak demand and defer or avoid investment in growth
- However, our prices are on an upward path, as a result of the significant investments we need to make in asset renewals (these were approved by the Commerce Commission earlier this year)
- The proposed way of pricing our services as part of this Consultation will not reverse the price increases that are to come over the next few years as part of our CPP work programme.

# PART A OUR FUTURE PRICING STRATEGY

OVERVIEW



## OUR FIVE-POINT PLAN



- We are focussing on residential prices first. General prices will follow, but they are currently more cost reflective and residential prices, and can wait
- Changes will be made gradually over the next five years, in order to manage bill shock and allow customers to become used to how the new pricing structures will work.



*After allocating costs to pricing areas....*

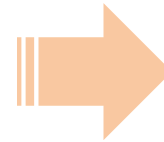
## 1. Signal future network costs.



At peak times, set prices that reflect the cost of adding network capacity to meet growing demand.



At times when there is ample capacity headroom, set low prices.



Customers pay less by using the network off-peak. That reduces investment pressure, which lowers costs for everyone longer-term.

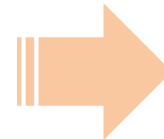
## 2. Allocate residual costs.



Prices that signal future costs of meeting new demand won't recover enough revenue to meet today's fixed costs.



Recover residual costs through prices designed to avoid deterring usage, or creating cross-subsidies between different types of consumers.



The fixed costs of the network are recovered in a way that is fair and doesn't discourage off-peak usage.



## 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



# PART A OUR FUTURE PRICING STRATEGY

TIME OF USE PRICES

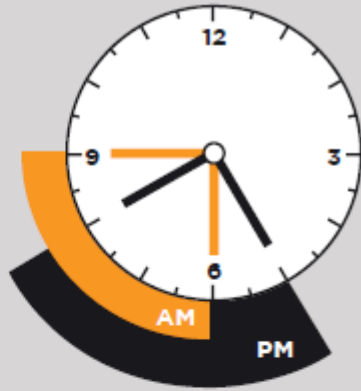


Q POWER  
MEMBERSHIP 0800 230 400  
www.auroraenergy.com.au

Aurora  
ENERGY



FOR OVER A CENTURY MOST RESIDENTIAL DISTRIBUTION PRICES HAVE BEEN BASED ON ELECTRICITY CONSUMPTION, REGARDLESS OF THE TIME OF DAY IT IS USED. YET, OUR COSTS ARE BASED ON MANAGING THE NETWORK AROUND PEAK AND OFF-PEAK DEMAND NEEDS.



- ▶ We have an early morning peak on our network as people wake up, turn on heating, have showers and cook breakfast
- ▶ We have an early evening peak on our network when people return from work, heat their homes, cook meals, and watch television.

IF THE GROWTH IN PEAK DEMAND CAN BE EFFECTIVELY MANAGED WE MAY BE ABLE TO MINIMISE COSTLY INFRASTRUCTURE UPGRADES, AND THEREFORE, THE PRICES YOU PAY.



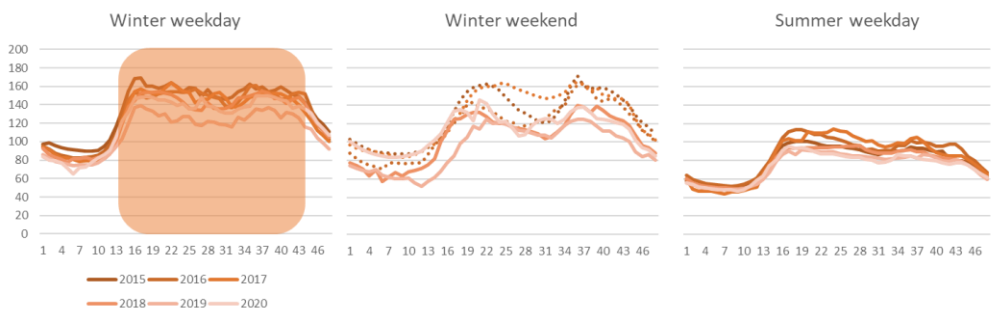
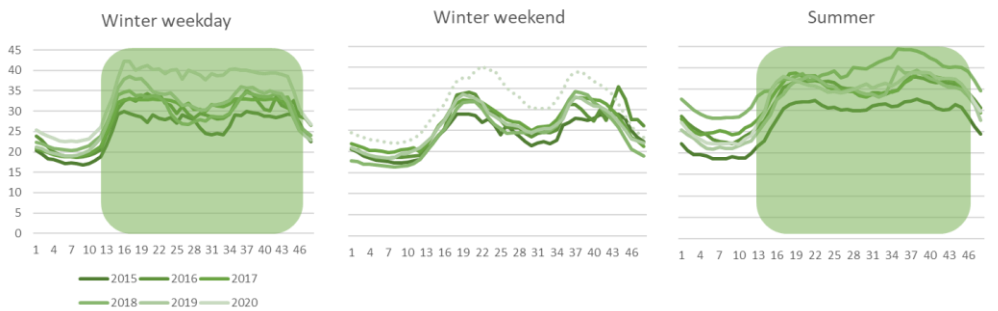
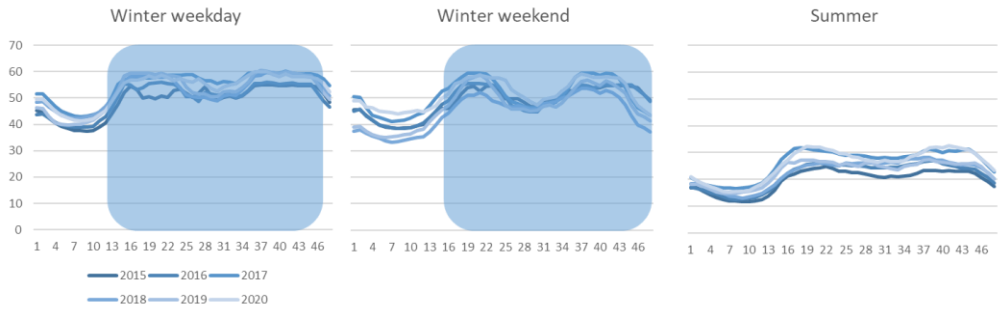
## WE PROPOSE NEW TIME-BASED CHARGES TO SIGNAL PEAK PERIODS

WE INTEND PHASING IN TIME-OF-USE CHARGES OVER A FIVE-YEAR PERIOD FROM 1 APRIL 2023.

TIME-OF-USE IS THE 'SWEET SPOT' FOR RESIDENTIAL CUSTOMERS FOR NOW. OTHER PRICING OPTIONS ARE TOO SOPHISTICATED FOR RETAILERS TO IMPLEMENT OR FOR CUSTOMERS TO OPERATIONALISE.

- We intend to implement time of use pricing with relatively weak price signals initially (the difference between peak and off-peak prices).
- Over the following five years, we will progressively increase the strength of the price signal until it is at an optimal level.
- This gives customers time to understand the implications of time of use pricing and to progressively adapt their consumption behaviour (small steps).
- We don't want to make sudden and severe changes that customers can't cope with.

# Characteristics of time of use pricing



- Electricity networks have to be designed to cope with peak demand, therefore it makes sense to align pricing to those periods (higher prices during periods of higher cost).
- If our pricing can encourage customers to shift their electricity usage to off-peak periods, where they can, we can limit the growth of peak demand and defer or avoid costly investment in more network capacity. If Aurora can avoid those costs, prices will be kept lower for longer.
- Time of use pricing also encourages customers to invest in new distributed energy resources that can be used to further limit the growth in peak demand.
- Our pricing areas have different demand curves, and so time of use pricing may look different from region-to-region

# PART A OUR FUTURE PRICING STRATEGY

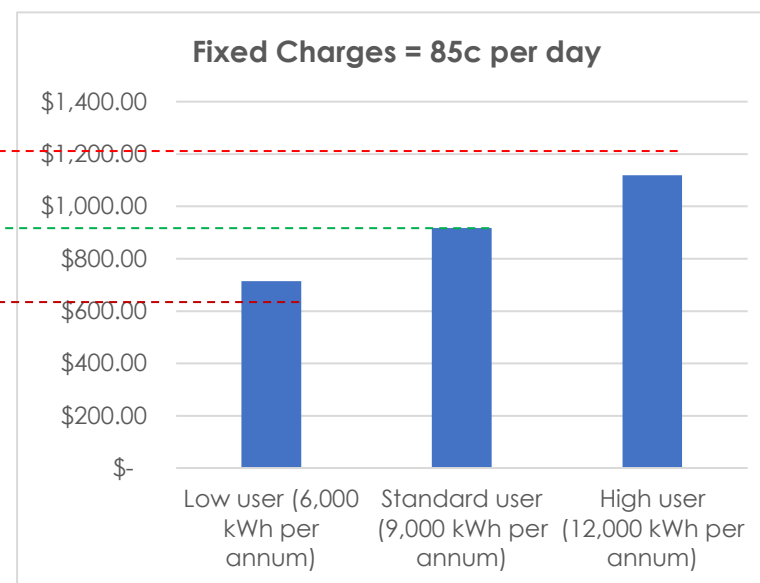
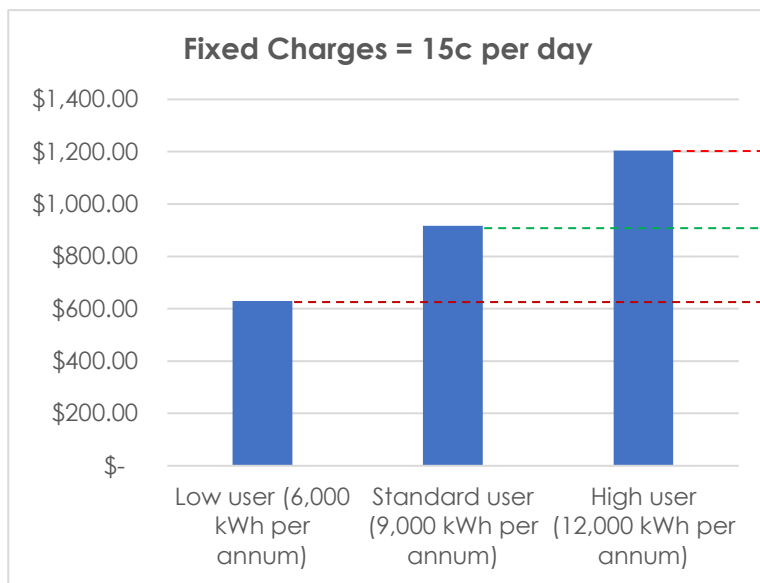
FIXED PRICES



Aurora  
ENERGY



- Time of use charges will only recover a portion of the revenue requirement.
- We are required to recover residual revenue in a way that does not distort electricity usage (provides an even incentive to use electricity at any time of day).
- Currently, the proportion of fixed charges for Aurora Energy's residential customers is limited to \$0.15 per day, by *the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004*. These regulations are being progressively revoked over the next five years, and we intend to increase the proportion of fixed charges over that time.
- Increasing the proportion of fixed charges helps to compensate for the fact that some customers pay more than their fair share of networks costs, and others pay less.



# The proportion of fixed charges will vary



- Because time of use charges are designed to signal future network costs, areas where growth is forecast to be low will see:
  - A relatively smaller proportion of their annual charge from time of use prices, and a greater proportion of their annual charge from fixed prices.
  - A weaker (smaller) differential between peak and off-peak prices.
- Because growth (and therefore network congestion) varies across the network, the proportions of fixed and time of use charges will vary from region-to-region.
- This **does not** mean that more revenue will be recovered from a congested area under our future pricing approach, compared to existing pricing. It does mean that individual incentives to adjust energy consumption behaviour will be different, however



# PART A OUR FUTURE PRICING STRATEGY

CONTROLLED SERVICE DISCOUNTS



Aurora  
ENERGY

# We will be retaining our controlled services



- We intend to retain our discounted pricing for controlled services, including:
  - Hot water
  - Night-store heating
  - Night-only service
- These services help us to manage peak demand, and already receive discounted pricing; however, we need to review those discounts to make sure that they are consistent with the peak / off-peak pricing signal.
- Controlled services could be extended in the future if customers want that. Additional services might include off-peak charging of electric vehicles and other batteries.



# PART A OUR FUTURE PRICING STRATEGY

INCENTIVES ON NEW TECHNOLOGIES





## Solar installations without battery storage

- Generation highest in the middle of the day when demand is lowest.
- Export of excess generation can create voltage issues.
- Users still require the use of the grid during peak times.

## Solar installations with battery storage

- Users can store excess generation from the middle of the day and then discharge to power their home during peak times.
- Reduces the overall demand on the network during peak times.
- Customers will minimise their time of use charges.

## Stand alone battery storage

- Allows customers to shift their electricity demand to off-peak times and reduce their time of use charges.
- Stand-alone isn't as beneficial to customers as when paired with solar panels, because customer still have to purchase their energy (albeit at lower, night rates).

## Electric vehicles

- Time of use charges will provide incentives for electric vehicle owners to charge at off-peak times.
- As technology evolves customers may be able to use their vehicle's battery to power their household during peak times and recharge at off-peak times.

# PART A OUR FUTURE PRICING STRATEGY

CUSTOMER IMPACTS



**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.

# PART A OUR FUTURE PRICING STRATEGY

## FUTURE PRICING ROADMAP



# Our roadmap for new pricing



**FROM 1 APRIL  
2022**

Confirm pricing strategy based on consultation feedback

Implement revised cost allocators to pricing areas for overhead and capital investment-related costs

Phase out the Low-User Fixed Charge in line with regulation changes

Publish a single delivery price in our annual pricing schedules

Improve the clarity of our Pricing Methodology document

**FROM 1 APRIL  
2023**

Phase in mild ToU pricing so customers have time to understand and adjust

Move to a greater proportion of revenue being recovered through fixed charges so cost subsidies are removed and charges become more uniform for all

Introduce any enhancements needed to controllability discounts

Consider changes to our non-residential (general) pricing structures

**FROM 1 APRIL  
2024-26**

Continue to refine and rebalance pricing structures

Ongoing impact analysis and adjustments

**FROM 1 APRIL  
2027**

Complete pricing structure transition

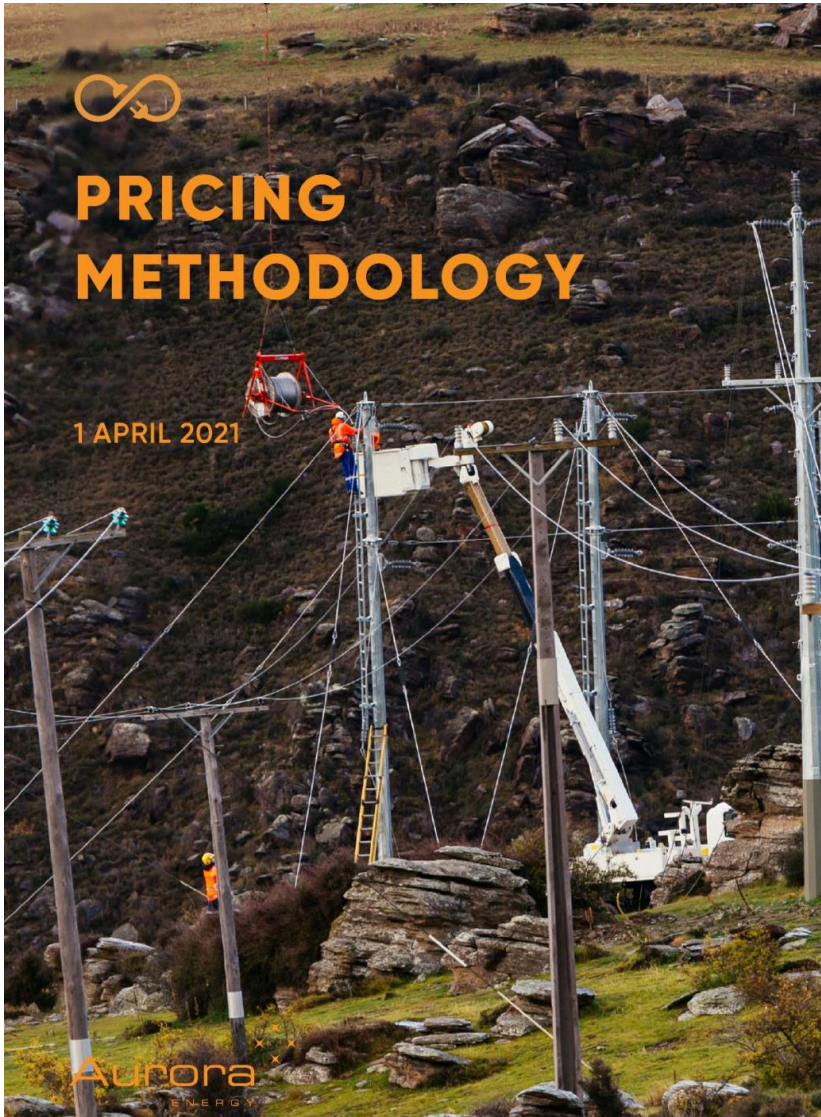
Future pricing confirmed

# PART B PRICING METHODOLOGY REFINEMENT

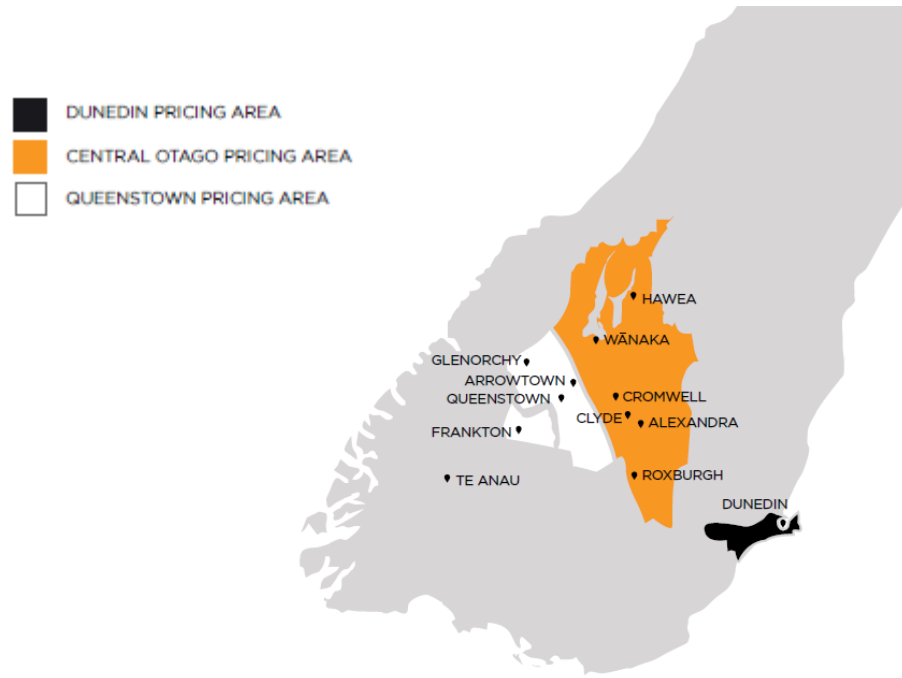
FUTURE PRICING ROADMAP







- Published annually (31 March) on our website
- Explains:
  - how costs are allocated to each of our pricing areas;
  - how costs are allocated to customer load groups in each pricing area;
  - How price components are calculated;
- Includes a summary of our pricing strategy and pricing roadmap.
- Includes some pricing policy information; e.g., seasonal loads.
- Describes the pricing methodology for large, stand-alone distributed generation connections.



Aurora Energy's network is served from five Grid Exit Points (GXPs); three in Central Otago and two in Dunedin. Feedback during our CCP Consultation in 2020 stimulated interest in pricing areas.

Currently the South Dunedin and Halfway Bush GXPs in Dunedin form a single pricing area, as do the Clyde and Cromwell GXPs in Central Otago. The Frankton GXP forms a standalone pricing area servicing Queenstown.

## Criteria for determining pricing areas:

- The network layout is clearly defined and identified, with a clear link between costs and the services provided.
- The areas are interconnected and able to support each other by transferring electrical demand.
- Adjoining areas have similar network characteristics.
- The benefits of separating out pricing areas offsets the costs of administering the additional pricing areas.

OUR CURRENT PRICING PHILOSOPHY IS THAT THE COSTS OF PROVIDING NETWORK ASSETS WITHIN A PRICING AREA SHOULD LIE WHERE THEY FALL.

WE CONSIDER THAT OVERHEAD COSTS HOWEVER SHOULD BE SPREAD ACROSS THE ENTIRE CUSTOMER BASE, WHERE SCALE BENEFITS CAN BE REALISED.



In response to feedback received during our CPP consultation, we made refinements to the way we allocate operational costs to pricing areas before we set pricing in March this year.

We are proposing further changes to refine the way we allocate capital investment-related costs to pricing areas.

## Rationale for selecting cost allocators:

We use proxy cost allocators for components of our allowable revenue, to align the revenue we collect from each pricing area with the underlying costs of supplying services to that area.

For each cost category, we consider:

- How well the allocator reflects the drivers of costs
- How reliable and straightforward the allocator is
- Whether the allocator is transparent
- Whether the allocator is predictable and stable.

We currently use an estimate of replacement cost to allocate capital investment-related costs .

COMPONENT	% OF TOTAL COSTS	RATIONALE
<b>CAPITAL RELATED COSTS:</b>		
<ul style="list-style-type: none"> <li>• Return on capital</li> <li>• Depreciation</li> <li>• Tax</li> <li>• Asset revaluations and other regulatory revenue</li> </ul>	47.5%	All capital related costs are allocated to pricing areas in proportion to that pricing area's share of the total estimated network asset replacement cost. This approach reflects the level of network investment required by Aurora Energy to provide services.
<b>PASS THROUGH AND RECOVERABLE COSTS:</b>		
Local authority rates	0.9%	Rates are levied by councils based on Regulated Asset Base (RAB) value. Some rates are directly attributable to pricing areas; however, where allocation is required, we have maintained our allocation to pricing areas based on estimated asset replacement cost.
Commerce Act levies	0.3%	Commerce Act levies are allocated to distributors based on Regulated Asset Base (RAB) value. We have maintained our allocation to pricing areas based on estimated replacement cost.
Fire Emergency New Zealand (FENZ) levies	0.0%	FENZ levies are broadly based on asset values, via insurance premia. We have allocated FENZ levies to pricing areas based on the estimated asset replacement value of each pricing area.
IRIS - Capex	(1.2%)	The capex IRIS incentive in Regulatory Year 2022 (RY22) is a penalty for overspending capital expenditure allowances in the previous regulatory period. We have allocated the capex IRIS incentive (refund) amount based on the estimated asset replacement cost of each pricing area.



THERE ARE TWO ALLOCATORS THAT WOULD BE SUITABLE FOR DETERMINING THE RECOVERY OF INVESTMENT-RELATED COSTS IN EACH REGIONAL PRICING AREA.

## 1. REPLACEMENT COST (RC)

Defined as the present-day cost of building an equivalent network that would provide a broadly equivalent level of service. Our calculation of RC is based on standard replacement cost values published in the Commerce Commission's 2004 Optimised Deprival Valuation (ODV) Handbook. The values in the ODV handbook are adjusted for inflationary effects from the date of publication to present day, and then multiplied by the corresponding quantity of assets to determine the total RC in each pricing area. RC delivers a relatively stable network valuation, with annual changes limited to inflation and addition of new assets.

## 2. REGULATED ASSET BASE (RAB)

RAB is the regulatory construct defined in the Commerce Commission's Input Methodologies that is used to value distributors' networks, and upon which they may earn a 'normal' return. Aurora Energy publicly reports its audited RAB as part of its annual regulated information disclosure. The RAB valuation changes each year to reflect asset additions and disposals, depreciation of existing assets, and asset revaluations. This means the RAB valuation is likely to fluctuate more than RC.

- RC may not reflect the actual investment occurring in a particular pricing region.
- While RC is an estimate, it applies to all pricing areas, and therefore it is the relative value in each area that is important, not the absolute value.
- RAB is valued according to the rules that are used to determine our allowable revenue under price-quality regulation.
- Total RAB is transparent reported in our annual information disclosures.
- **We are proposing to use RAB as the allocator from 1 April 2022.**

		ASSESSMENT CRITERIA			
		REFLECTS UNDERLYING COST DRIVERS	RELIABLE AND STRAIGHTFORWARD CALCULATION	ALLOCATOR IS TRANSPARENT	ALLOCATOR IS PREDICTABLE AND STABLE
ALLOCATOR OPTIONS	REPLACEMENT COST (RC)	✓	✗	✗	✓
	REGULATED ASSET BASE (RAB)	✓	✓	✓	✗

# Regional impact of moving to RAB allocation...



Changing the allocation basis will result in changes to the allocated costs and associated charges.

ALLOCATION BASIS	REGIONAL PRICING AREA		
	DUNEDIN	CENTRAL OTAGO	QUEENSTOWN
TOTAL REVENUE ALLOCATION USING RC	\$56.6m	\$31.0m	\$19.4m
TOTAL REVENUE ALLOCATION USING RAB VALUES	\$57.0m	\$30.0m	\$20.0m
CHANGE IN REVENUE ALLOCATION	+ \$0.4m	- \$1.0m	+\$0.6m

		AVERAGE MONTHLY CHARGE FOR A STANDARD CONSUMER*		
		DUNEDIN	CENTRAL OTAGO	QUEENSTOWN
ALLOCATION BASIS	INDICATIVE MONTHLY LINE CHARGE (RC)	\$69.80	\$124.10	\$97.00
	INDICATIVE MONTHLY LINE CHARGE (RAB)	\$70.30	\$120.10	\$99.80
	ESTIMATED CHANGE IN MONTHLY LINE CHARGE	+\$0.50	-\$4.00	+\$2.80



## Queenstown Network

C1. Residential Connections	Code	(D) Distribution	(P) Pass-through	(D + P) Delivery	Units
<b>Daily Price Component</b>					
Daily Fixed Price (≤15kVA)	FRSD15	15.00		15.00	¢/day
Daily Fixed Price (≤8kVA)	FRSD8	4.10		4.10	¢/day
<b>Volumetric Price Component</b>					
Uncontrolled - Summer	201	8.80	0.34	9.14	¢/kWh
Uncontrolled - Winter	201	10.71	3.64	14.35	¢/kWh
Controlled (20hr)	209	5.06	1.15	6.21	¢/kWh
Controlled (16hr)	206	2.25	0.52	2.77	¢/kWh
Night Boost (13hr)	203	3.31	0.75	4.06	¢/kWh
Night Boost (11hr)	204	2.02	0.47	2.49	¢/kWh
Night Only	208	1.44		1.44	¢/kWh



## Queenstown Network

C1. Residential Connections	Code	Delivery	Units
<b>Daily Price Component</b>			
Daily Fixed Price (≤15kVA)	FRSD15	15.00	¢/day
Daily Fixed Price (≤8kVA)	FRSD8	4.10	¢/day
<b>Volumetric Price Component</b>			
Uncontrolled - Summer	201	9.14	¢/kWh
Uncontrolled - Winter	201	14.35	¢/kWh
Controlled (20hr)	209	6.21	¢/kWh
Controlled (16hr)	206	2.77	¢/kWh
Night Boost (13hr)	203	4.06	¢/kWh
Night Boost (11hr)	204	2.49	¢/kWh
Night Only	208	1.44	¢/kWh



## GUIDE TO MAKING A SUBMISSION

We have included a series of feedback questions online to help you develop your submission, and to help us understand your feedback. Our Consultation closes on 3 December 2021. To provide feedback on our proposal go to:

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

Alternatively, if you would like to send a hardcopy submission, you can download the form at [yoursay.auroraenergy.co.nz](https://yoursay.auroraenergy.co.nz) or call us on **0800 220 005** to request a copy.

You can post or email your submission to:

Aurora Energy Pricing Consultation  
PO Box 5140  
Dunedin, 9054

Email: [yoursay@auroraenergy.nz](mailto:yoursay@auroraenergy.nz)