

# Aurora Energy's customised price-quality path (CPP) Final Decision

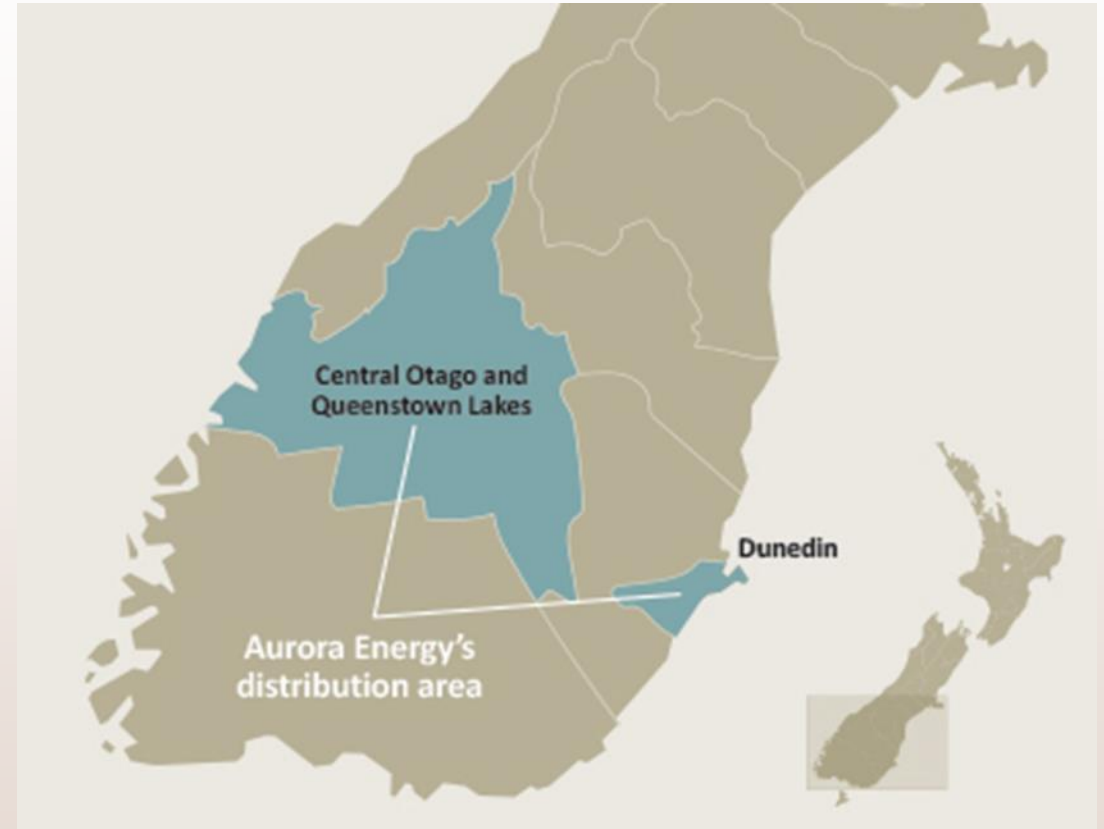
## Stakeholder presentation

31 March 2021



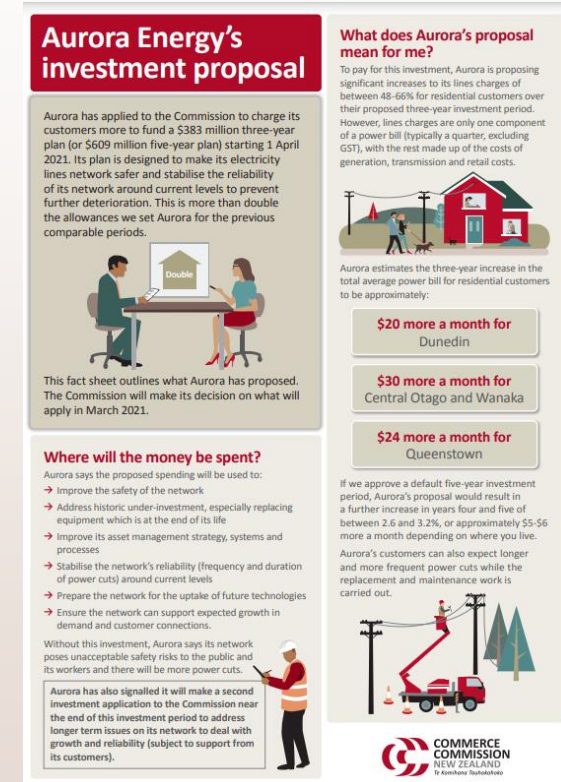
# Context of Aurora Energy's current situation

- WSP report in 2018 attributed deterioration in Aurora Energy's network to historical underinvestment
- Safety and reliability issues are well-documented – resulted in court action and \$5 million fine



# Aurora's CPP proposal

- 3-year period (default is 5 years)
- \$356m in capital expenditure over 5 years
- \$253m in operating expenditure over 5 years
- Unplanned outages will increase, requested more lenient quality standards
- Revenue recovered during CPP period. Overspend leading up to CPP recovered over 8 years
- Monthly price increases of \$33 in Dunedin, \$47 in Central Otago, and \$40 in Queenstown by 2024 (including GST and inflation)



**Aurora Energy's investment proposal**

**What does Aurora's proposal mean for me?**

To pay for this investment, Aurora is proposing significant increases to its lines charges of between 48-66% for residential customers over their proposed three-year investment period. However, lines charges are only one component of a power bill (typically a quarter, excluding GST), with the rest made up of the costs of generation, transmission and retail costs.

Aurora estimates the three-year increase in the total average power bill for residential customers to be approximately:

- \$20 more a month for Dunedin
- \$30 more a month for Central Otago and Wanaka
- \$24 more a month for Queenstown

**Where will the money be spent?**


Aurora says the proposed spending will be used to:

- Improve the safety of the network
- Address historic under-investment, especially replacing equipment which is at the end of its life
- Improve its asset management strategy, systems and processes
- Stabilise the network's reliability (frequency and duration of power cuts) around current levels
- Prepare the network for the uptake of future technologies
- Ensure the network can support expected growth in demand and customer connections.

Without this investment, Aurora says its network poses unacceptable safety risks to the public and its workers and there will be more power cuts.

Aurora has also signalled it will make a second investment application to the Commission near the end of this investment period to address longer term issues on its network to deal with growth and reliability (subject to support from its customers).

If we approve a default five-year investment period, Aurora's proposal would result in a further increase in years four and five of between 2.6 and 3.2%, or approximately \$5-\$6 more a month depending on where you live. Aurora's customers can also expect longer and more frequent power cuts while the replacement and maintenance work is carried out.



# Our role in assessing Aurora's proposal

- Purpose of Part 4 is to promote the long-term benefit of consumers
- Required to look forward, cannot relitigate past issues
- Set maximum revenues and minimum levels of quality
- Do not set prices for individual pricing regions
- Have to assess Aurora's proposal against six specific criteria

# Issues outside the Commission's powers

Issue	Responsibility
Regional pricing differences	Electricity Authority and Aurora
Price increase for distributed generation	Electricity Authority
Whether Aurora's owners should contribute more to the network rebuild	Dunedin City Holdings and Dunedin City Council
The overall structure of the electricity market	The Government (via MBIE)
Aurora's health and safety practices	Worksafe NZ



**What we heard**  
Consumer feedback summary

As a result of historic under-investment, Aurora Energy (Aurora) applied to spend heavily over the next decade to fix its electricity lines network across Dunedin, Central Otago, and Queenstown lakes. We invited stakeholders and the public to share their views twice during our assessment of this proposal, first after the release of our Issues Paper in July 2020, and then also in response to our draft decision, release in November 2020.

During our consultations we met with residents in Alexandra, Cromwell, Dunedin, Queenstown, and Wanaka. And received close to 250 written submissions, reflecting the significant public interest in the issue. These are the key themes consumers raised.

**Assets** *Capital expenditure*  
**Delivery** *Consultation*  
**Network** *Maintenance*  
**Pricing** *Outages*  
**Consumers** *Winter*  
**Accountability** *Trust and confidence*  
**Customers** *Governance* *Service quality*  
**Reliability** *Operating expenditure*

**Aurora's customers** generally accepted that money is needed to be spent on restoring the safety and reliability of the lines network, but they felt reliability standards shouldn't be relaxed

- Unplanned outages and voltage issues are having a significant impact on business activities (eg. fruit growers experiencing a power cut on frosty evenings) and many people wanted improved reliability
- Aurora's request to allow for an increase in unplanned outages while it repairs its network should be rejected given it under-invested in the network
- The Commission must ensure that Aurora prioritises work that will most improve the safety and reliability of the network first and is not just the easiest to complete
- Aurora should find another way to fund the work so consumers don't foot the bill – such as raising equity, taking on a loan, or even selling parts of or the whole network to a new owner
- Reliability was important in one of the coldest regions of the country where air-quality regulations meant more people would have to rely on heat pumps as their only source of heating

**How we responded**

- We have not relaxed reliability standards as much as Aurora requested
- Quality standards have been set so that customers will see reliability stabilise at today's levels before gradually improving over time

**Stakeholders** said Aurora's estimated price increases were significant and some residents believed the potential impact on their own power bills would actually be much higher

- The economic impact of COVID-19 had badly affected the region and increased prices would put further pressure on household finances
- Many residents were on fixed incomes and could not afford a substantial rise in their electricity bills
- Increased prices would affect local businesses competitiveness and discourage residents from switching to more environmentally friendly heating options like heat pumps
- It would be preferable to spread the cost over a longer period to reduce the bill shock

**How we responded**

- We have been conscious of the impact that increased investment by Aurora will have on electricity bills, and carefully scrutinised Aurora's proposal
- We have not approved \$40m in expenses that were not well justified
- To reduce the impact of price increases on consumers, we have limited increases in Aurora's yearly revenues to approximately 10% per year

**Regional differences** in price were difficult to understand and some felt it was unfair that Dunedin had lower charges

- Lines charges and price increases should be shared evenly across all three regions
- The Commission should review the costs and set the maximum revenue Aurora can recover from each region separately
- Dunedin City Council has benefited from dividends that should have been invested in the lines network and it is unfair for consumers in other regions to be forced to pay the price
- Aurora's owners should not be allowed to take any profit from the company for the foreseeable future

**How we responded**

- We do not have the power to control how Aurora sets its prices across its regions, the dividend it pays, or its ownership
- We acknowledge that regional price differences across Aurora's network is of significant public concern
- The Electricity Authority has recently released a review of Aurora's regional pricing, which we expect Aurora to consider in its work on reforming prices for 2022
- We have proposed to strengthen the reporting standards for Aurora to provide clear information to its customers on how these regional prices are calculated and how service quality differs across the regions

**A lack of accountability** for past failures has resulted in low trust in future delivery

- The Commission did not act early enough on Aurora's failings and needs to do more to prevent this from occurring again
- Consumers have little confidence that Aurora can or will deliver on its current plan, or do it efficiently to minimise the costs on consumers
- Aurora needs to improve its communication with the communities it serves, particularly about when and why the power will be turned off for maintenance
- There need to be strict reporting requirements on Aurora so consumers are clearly informed about what they are getting for their money and when it is being delivered by

**How we responded**

- We have released detailed proposals on new accountability and transparency measures
- Aurora would be required to publish a yearly report that details what work it has undertaken as part of the CPP, and present it to customers
- Aurora will also be required to report clearly on service quality issues and how it sets regional prices

# Key features of our final decision

	Aurora proposed	Final Decision
<b>CPP length</b>	3 years	5 years
<b>Capex</b>	\$356.3m	\$327.4m
<b>Opex</b>	\$252.9m	\$236.0m
<b>Revenue</b>	Full recovery within CPP period Overspend leading up to the CPP recovered over 8 years	Annual revenue increase capped at 10% +/- changes in forecast CPI and any increases in transmission charges \$69m revenue to be recovered in later years
<b>Planned outages</b>	Standards at current levels	Accept Aurora's proposal
<b>Unplanned outages</b>	Relax standards to reflect state of the network	Standards amended to better reflect recent performance, but not to the level proposed by Aurora

# What our decision means

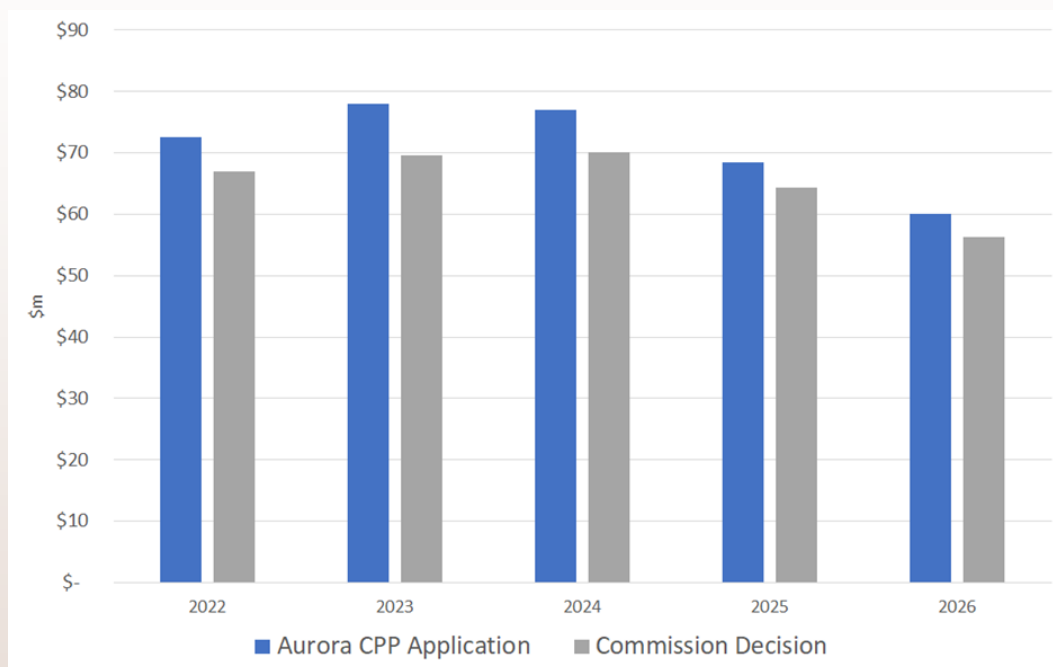
- Long-term benefits to consumers
- Price increase for consumers reduced compared to Aurora's proposal
- The price impact for consumers is the same as our draft decision
- Aurora can undertake a significant investment programme to replace failing network infrastructure
- Network reliability to stabilise at current levels before improving over time
- Aurora required to make efficient spending decisions

# Difference between our draft and final decisions

	Draft Decision	Final Decision
<b>CPP length</b>	5 years	No change
<b>Capex</b>	\$315.5 million	\$327.4 million
<b>Opex</b>	\$207.7 million	\$236.0 million
<b>Revenue</b>	<p>Maximum revenue increase of 10% each year</p> <p>Some revenue to be recovered in later years</p>	<p>Annual 10% cap that allows revenue to depart from cap for changes to inflation and any increase in transmission charges</p> <p>\$69 million revenue to be recovered in later years</p>
<b>Planned outages</b>	Accept Aurora's proposal	No change
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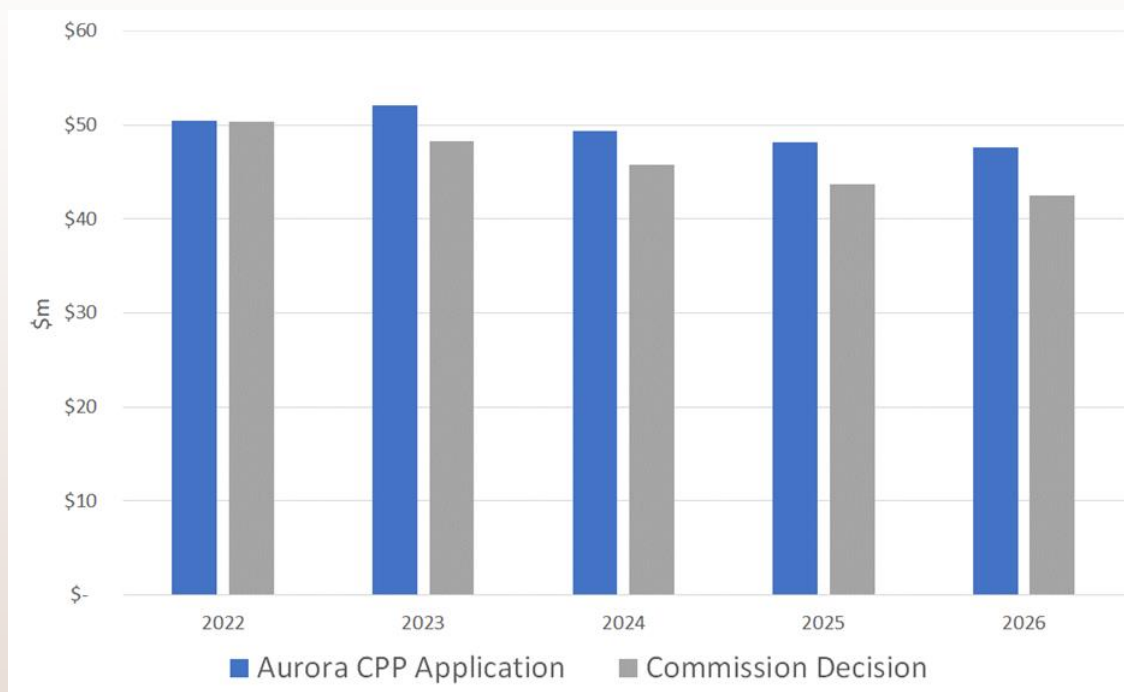


# Capital expenditure



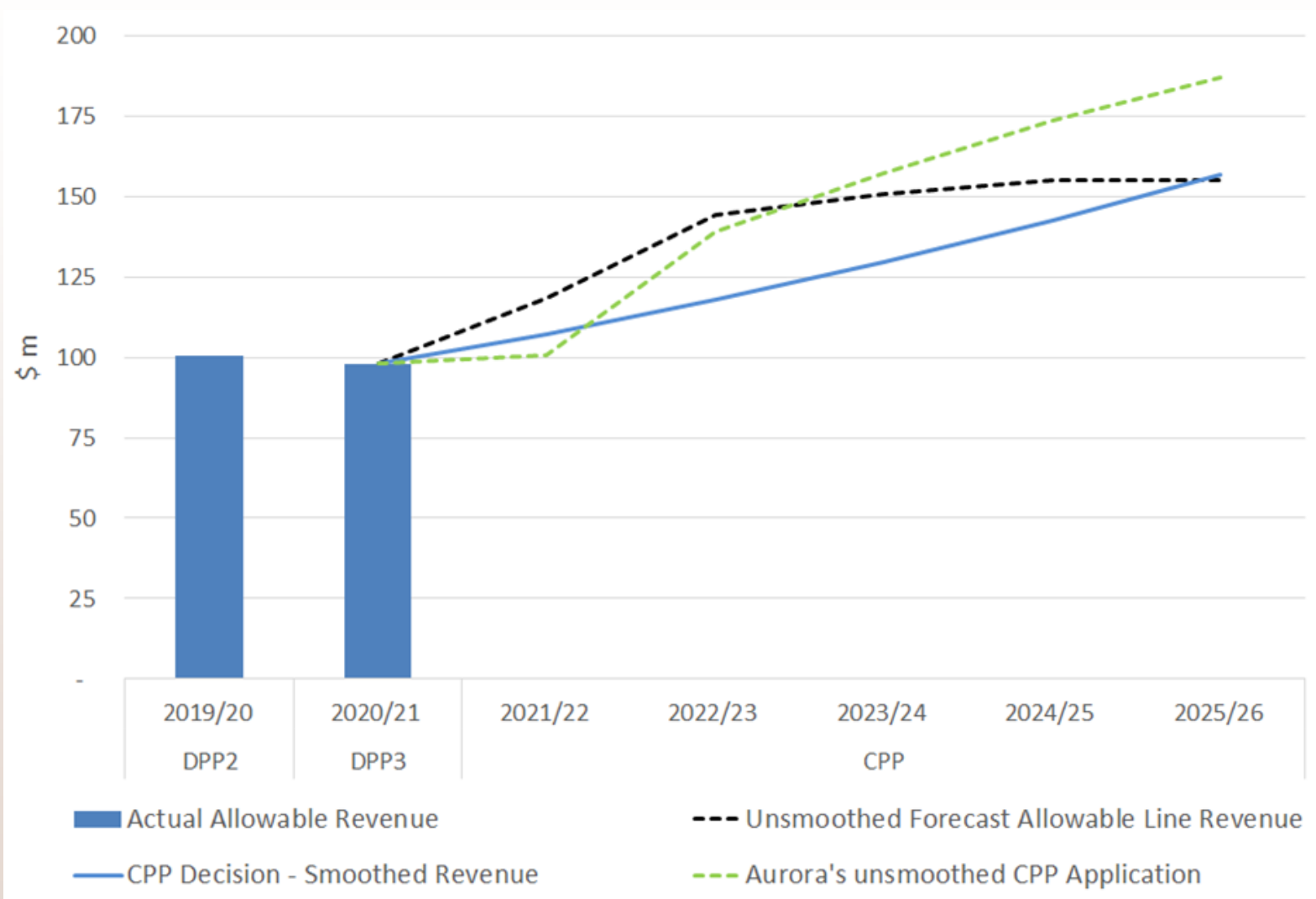
Expenditure Category	Aurora proposal \$m	Final decision \$m
<b>Asset renewals</b>	281.8	262.9
<b>Network growth and security</b>	30.3	23.8
<b>Other network capex</b>	29.1	25.7
<b>Non-network capex</b>	15.2	15.0
<b>TOTAL</b>	<b>356.3</b>	<b>327.4</b>

# Operating expenditure



Expenditure Category	Aurora proposal \$m	Final decision \$m
<b>Preventive, Corrective &amp; Reactive Maintenance</b>	70.3	69.7
<b>Vegetation Management</b>	21.2	21.2
<b>System Operations and Network Support (SONS) and People Costs</b>	120.7	104.4
<b>IT Opex</b>	17.0	17.0
<b>Premises, Plant, and Insurance</b>	5.1	5.1
<b>Governance and Administration</b>	15.6	15.6
<b>DER Upper Clutha</b>	3.0	3.0
<b>TOTAL</b>	252.9	236.0

# Allowable Revenue



# Estimated bill impact in 2023/24

(Mid-way through CPP period)

Average total monthly bill impact (\$) at 2023/24

	Dunedin	Central Otago and Wanaka	Queenstown
<b>Aurora CPP proposal adjusted</b> (includes GST and inflation)	32.70	47.30	39.80
<b>Final Decision</b> (includes GST and inflation)	<b>22.20</b>	<b>31.50</b>	<b>22.70</b>
<b>Difference</b>	<b>-10.50</b>	<b>-15.80</b>	<b>-17.10</b>

# Quality standards

- The Commission considers that, with the level of investment being undertaken, Aurora should be able to achieve fewer unplanned outages than what it proposed
  - Targets for unplanned outages reflect its current performance over past five years
  - Agree with Aurora that current standards for planned outages are achievable
- Financial incentives
- Network reliability to stabilise before improving over time.

# Draft decision on accountability measures

- We have focused on how to make its performance more transparent and Aurora more accountable to stakeholders
- Consulting on additional information disclosure requirements, including:
  - Annual Delivery Report
  - Measures on the quality of services (including voltage quality), regional pricing, improvements in asset management, project quality assurance, data collection and quality, and cost estimation processes
  - Mid-period assessments by independent experts
- Also want Aurora to report on its consultation with customers on its existing customer charter and compensation schemes
- Submissions close 10 May 2021, cross-submissions close 24 May 2021

# Next steps

- We will be finalising additional information disclosure requirements
- We now expect Aurora to get on and deliver to its plan, and improve its relationship with consumers on its network

# Final Decision – Q&A

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