

Aurora CPP Draft Decision

Stakeholder Presentation

12 November 2020



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Context of Aurora's current situation

- Safety and reliability issues are well-documented – resulted in \$5m prosecution
- WSP report in 2018 attributed deterioration in Aurora's network to historical underinvestment
- Analysis indicates Otago consumers have collectively had lower lines charges than most New Zealanders – \$321 per year less than the average from 2013 – 2019
- Low level of investment likely enabled it to maintain lower prices, which has resulted in the need to urgently catch up

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Aurora's CPP proposal



- 3-year period (default is 5 years)
- \$356m in capital expenditure over 5 years (\$228m over 3 years)
- \$253m in operating expenditure over 5 years (\$156m over 3 years)
- Planned outages expected to rise, but not seeking amended quality standards
- 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 \$20 in Dunedin, \$30 in Central Otago, and \$24 in Queenstown by 2024 (excluding GST and inflation)

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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 CPP proposal against six criteria, including:
 - Criteria (d) - whether the proposed capital and operating expenditure meet the expenditure objective; and
 - Criteria (e) - the extent to which any proposed changes to quality standards reflect what the applicant can realistically achieve.

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In scope

Scope of draft decisions package	
Draft decisions on Aurora's CPP	<ul style="list-style-type: none"> • The length of the CPP period. • Aurora's expenditure allowances over the CPP period. • The quality standards and quality incentives to apply to Aurora over the CPP period. • The revenue path/cap to apply to Aurora over the CPP period, which spreads the recovery of Aurora's revenue.
Draft policy decisions on additional ID requirements for Aurora	<ul style="list-style-type: none"> • What information Aurora will be required to publicly disclose over the CPP period and beyond. • The manner and form in which this information is disclosed.

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Issues outside the CPP

Issue	Responsible
Regional pricing	Electricity Authority
Price increase for distributed generation	Electricity Authority
Ownership contribution to network rebuild	Dunedin City Holdings and Dunedin City Council
Electricity market structure	The Government (via MBIE)
Health and safety practices	Worksafe NZ

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Key draft decisions

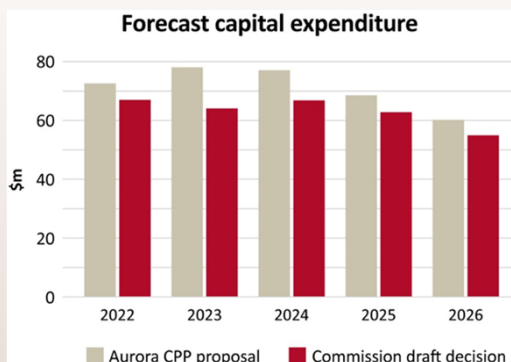
	Aurora Proposed	Draft Decision
CPP Length	3 years	5 years
Capex	\$356.4m	\$315.5m (-11%)
Opex	\$252.9m	\$207.7m (-18%)
Revenue	Full recovery within CPP period. Overspend leading up to the CPP recovered over 8 years	Maximum revenue increase of 10% each year. Some revenue to be recovered in later years
Planned outages	Standards at current levels	Accept Aurora's proposal
Unplanned outages	Relax standards to reflect state of the network	Standards should be amended to better reflect recent performance, but not to level Aurora proposed



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Capital expenditure

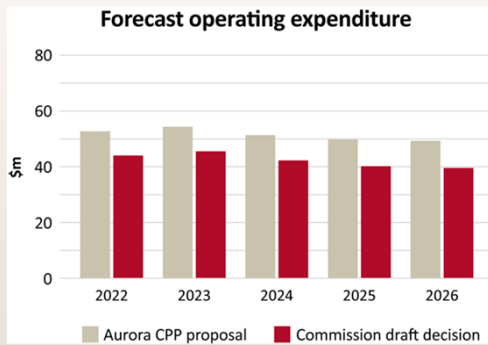


Expenditure Category	Aurora proposal \$m	Draft decision \$m
Asset renewals	281.8	258.4
Network growth and security	30.3	16.2
Other network Capex	29.1	25.6
Non-network capex	15.2	15.2
TOTAL	356.3	315.5

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Operating expenditure

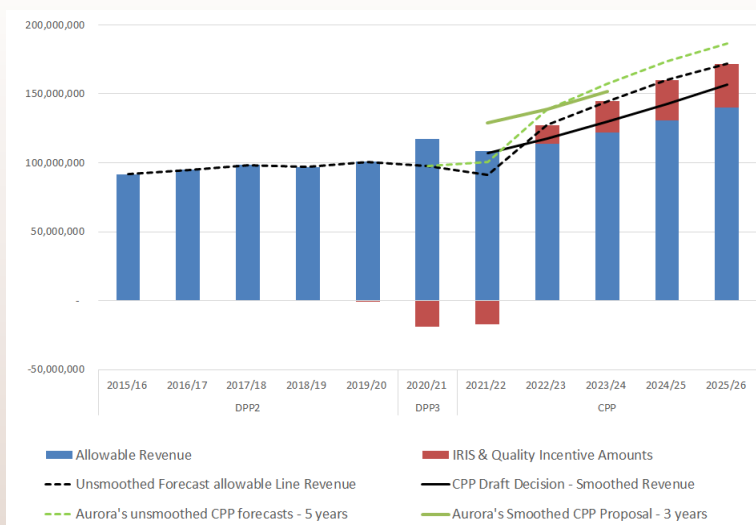


Expenditure category	Aurora proposal \$m	Draft decision \$m
Preventive, Corrective & Reactive Maintenance	70.4	69.4
Vegetation Management	21.2	16.1
System Operations and Network Support (SONS)	80.4	55.4
People costs	40.3	27.1
IT Opex	17.0	17.0
Premises, Plant and Insurance	5.1	5.1
Governance and Administration	15.6	14.5
DER Upper Clutha	3.0	3.0
TOTAL	252.9	207.7

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Allowable revenue



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Aurora's estimated bill impact



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

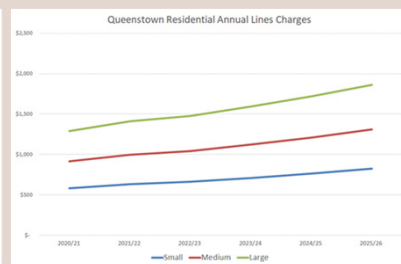
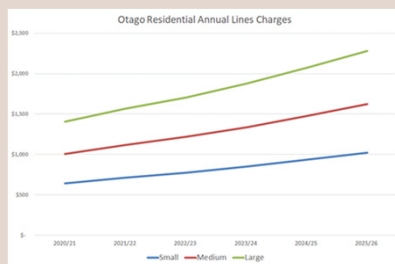
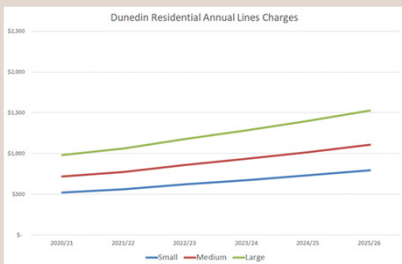
	Dunedin	Central Otago and Wanaka	Queenstown
Aurora CPP application (excl GST and inflation)	20.30	30.90	24.10
Aurora adjusted	32.70	47.30	39.80
Draft Decision	22.20	31.50	22.70
Difference	-10.50	-15.80	-17.10



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Our estimate of regional lines charge increases



Region	User Type	Year 1 (\$)	Year 5 (\$)
Dunedin	Small user	3	23
	Medium	5	32
	Large	7	45
Central Otago	Small user	6	32
	Medium	9	51
	Large	13	73
Queenstown	Small user	4	20
	Medium	7	33
	Large	10	48

Tables reflect monthly residential lines charge (distribution and transmission) increases compared to 2020/21 prices in nominal terms

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Price smoothing options

- Scenario 1: allow 10% revenue increase each year
- Scenario 2: allow 5% increase in year 1 then 10% a year

Increase in Residential Monthly Lines Component relative to 2020/21 - Medium Consumer Profile					
	2021/22	2022/23	2023/24	2024/25	2025/26
Scenario 1					
Dunedin	\$ 4.70	\$ 11.60	\$ 18.10	\$ 24.90	\$ 32.40
Central Otago	\$ 9.40	\$ 17.50	\$ 27.50	\$ 39.10	\$ 51.30
Queenstown	\$ 7.10	\$ 10.80	\$ 17.40	\$ 24.80	\$ 33.00
Scenario 2					
Dunedin	\$ 2.10	\$ 8.70	\$ 14.90	\$ 21.40	\$ 28.60
Central Otago	\$ 4.20	\$ 11.90	\$ 21.50	\$ 32.50	\$ 44.10
Queenstown	\$ 3.40	\$ 6.80	\$ 13.10	\$ 20.20	\$ 28.00



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Quality standards

- We consider with the level of investment being undertaken Aurora should be able to perform better than it has proposed
 - Amended targets for unplanned outage to reflect its current performance over past five years
 - Agree with Aurora that current standards for planned outages are achievable
- Financial penalties in place if it misses the standards, rewards if it outperforms them
- Overall expect level of reliability to stabilise before improving over time
- Also released draft decision on variation for 2020/21 today

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Accountability and delivery



- Customers have lack of confidence in Aurora to deliver its plan
- Aurora has taken steps to improve its capability to deliver, so we have focused on how to make it more accountable
- Planning series of wider measures using information disclosure, including:
 - Annual delivery report
 - Performance measures and improvements
 - Regional pricing calculations
- Also want Aurora to report on its consultation with customers on its compensation scheme

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Next Steps



- Draft decision is open to consultation
- Commission staff will be returning to Otago for a series of stakeholder and public meetings from 23 November to 1 December
- Submissions on CPP draft decision close on 10 December and cross-submissions on 23 December
- Final decision due by 31 March 2021
- Also want feedback on proposed Information disclosure measures as part of the package. This will be subject to a separate draft decision also intended for March 2021

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