

# Aurora CPP Draft Decision

## Stakeholder Presentation

12 November 2020



1

## 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

2

2

## 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)

3

3

## 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.

4

4

## In scope

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

5

5

## Issues outside the CPP

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

6

6

## Key draft decisions

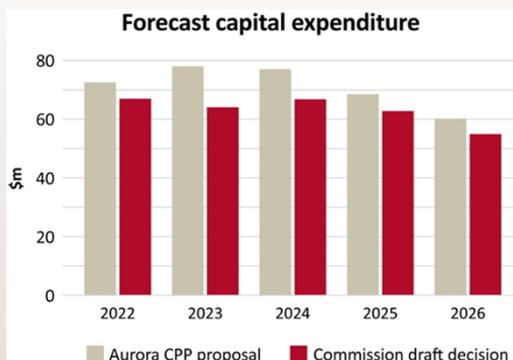
	Aurora Proposed	Draft Decision
<b>CPP Length</b>	3 years	5 years
<b>Capex</b>	\$356.4m	\$315.5m (-11%)
<b>Opex</b>	\$252.9m	\$207.7m (-18%)
<b>Revenue</b>	Full recovery within CPP period. Overspend leading up to the CPP recovered over 8 years	Maximum revenue increase of 10% each year. Some revenue to be recovered in later years
<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 should be amended to better reflect recent performance, but not to level Aurora proposed



7

7

## Capital expenditure

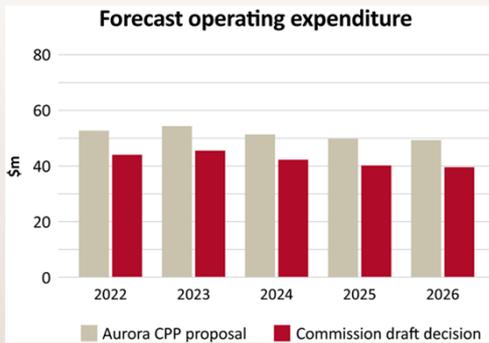


Expenditure Category	Aurora proposal \$m	Draft decision \$m
Asset renewals	281.8	258.4
Network growth and security	30.3	16.2
Other network Capex	29.1	25.6
Non-network capex	15.2	15.2
<b>TOTAL</b>	<b>356.3</b>	<b>315.5</b>

8

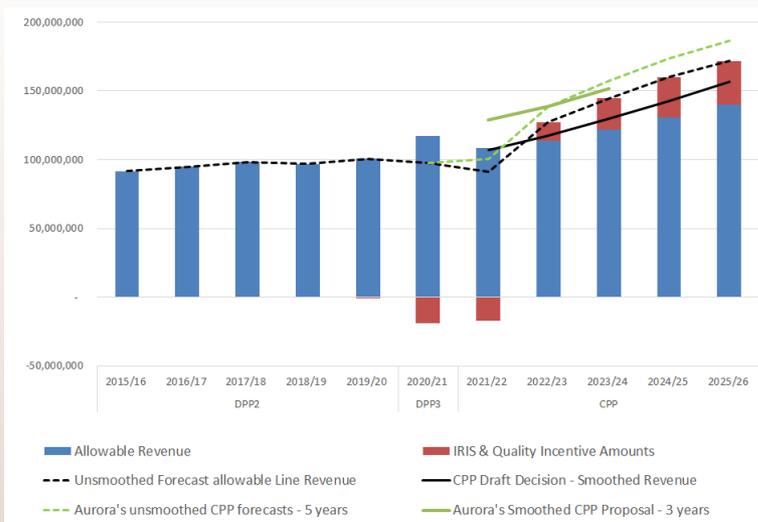
8

# Operating expenditure



Expenditure category	Aurora proposal \$m	Draft decision \$m
<b>Preventive, Corrective &amp; Reactive Maintenance</b>	70.4	69.4
<b>Vegetation Management</b>	21.2	16.1
<b>System Operations and Network Support (SONS)</b>	80.4	55.4
<b>People costs</b>	40.3	27.1
<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	14.5
<b>DER Upper Clutha</b>	3.0	3.0
<b>TOTAL</b>	<b>252.9</b>	<b>207.7</b>

# Allowable revenue



# Aurora's estimated bill impact



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

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



11

# Our estimate of regional lines charge increases



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

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

12

## 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
<b>Scenario 1</b>					
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
<b>Scenario 2</b>					
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



13

13

## 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

14

14

## 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

15

15

## 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

16

16