

Summary

Current State



Strategy



Outcomes



Status - detail

Circumstance



Strategy



Principles



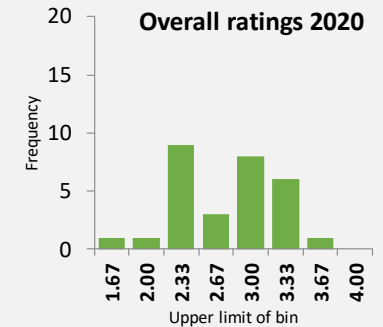
Roadmap



Efficiency



Consumer impact



Current State

- Provides good context when read with AMP and CPP application. Dunedin region has a static customer base. Subdivisions and irrigation drive growth in Central Otago. Could draw out implications for efficient pricing.
- Clearly explains pricing regions and customer groups – unchanged since 1999.
- Allocates distribution costs on basis of each region's share of asset values. This is reasonable as long as the actual pattern of spending reflects these shares over time. But there are likely to be better allocators for non-network opex.

Strategy

- Pricing methodology has no pricing strategy or current roadmap, with Aurora focused on the CPP. The CPP increases the importance of efficient pricing.
- Aurora has identified the need to review cost allocation and pricing and has already completed some steps to inform that work.

Outcomes

- All residential consumers get low fixed charges. Scope to differentiate high users in residential tariffs, and urban vs rural costs in the Dunedin region.
- Would benefit from detail on how variable charges reflect economic costs.
- Pricing methodology could address recent cost growth's impact on consumer bills and whether, why, and how this has been managed or needs managing.

Key messages

- Aurora needs to prioritise the review of its use of optimised replacement cost for regional allocation of distribution costs:
 - the potential for mismatches with the actual operating expenditure and depreciation in regions may become significant given rising network costs
 - a different allocator is likely needed for non-network costs.
- Aurora could test if its variable charges reflect economic cost of network use. Given network circumstances, it may be that the main task of prices is to recover revenue in a least distorting manner, rather than signal economic cost. The pricing structure seems appropriate for larger general/commercial consumers.
- The pricing methodology could be improved by discussing how consumer impacts were considered, noting that it appears that without the IRIS penalty network charges would have been \$18.5m higher this year.

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