Aurora Energy Limited

Submission to the Electricity Authority

on its

Consultation Paper

on

Criteria for assessing alignment against the Information Disclosure Guidelines and Pricing Principles

17 October 2011

1. INTRODUCTION

The Electricity Authority (EA) has recently released its Consultation paper for Criteria for assessing alignment against the Information Disclosure Guidelines and Pricing Principles.

The discussion paper is significantly influenced by the results of a review by Concept Consulting Group Ltd on behalf of the Electricity Authority. This review focussed on the pricing methodology documents published by nine distributors which included the four largest distributors and two smaller distributors from the North Island and three smaller distributors from the South island. Aurora Energy Ltd was not included in the review process.

Aurora now welcomes the opportunity to comment on the draft criteria for assessing Pricing Methodologies with the Information Disclosure Guidelines and the Pricing Principles.

2. SUMMARY

2.1. Alignment with Commerce Commission and AMP disclosures

The EA needs to ensure that its Pricing Disclosure work does not duplicate or conflict with the Pricing and other Information Disclosures administered by the Commerce Commission. There is a real risk that readers or analysts could be confused if similar material is repeated in different Disclosures. Some pricing information by load group is required under the Commerce Commission Information Disclosure regime and that is the appropriate place for such comparison data. The Asset Management Plan (AMP) is the appropriate document for the 10 year forecasts of operational and capital expenditure.

2.2. No changes to the Pricing Principles or addition of evaluation criteria

Aurora agrees that there is no need to change the Pricing Principles as these have been developed over several years of consultation. In addition the EA has suggested evaluation criteria against which to measure performance against the Pricing Principles however most of the suggested material is repeated in the Appendix A - Criteria to measure alignment with the Information Disclosure Guidelines. Aurora's responses to this particular section are set out in Q1 to Q3 in Section 3.1.

2.3. Proposed Assessment Criteria Relating to the Guidelines

As Aurora was not involved in the initial trial exercise that the EA carried out on the nine selected EDB Pricing Methodologies, Aurora agrees that it is beneficial for the EA to publish its assessment criteria in advance of the assessment process so that all EDBs are aware before they finalise the first of their Pricing Methodology documents which will undergo formal assessment. It is noted that this will be an iterative process much like the one undertaken for the Asset Management Plans and that the quality of the documents is expected to evolve over time.

A key concern is the suggestion in the consultation paper that EDBs should forecast how prices are expected to change over the next 20 to 30 years. This is a ridiculous suggestion as such projections would purely be crystal ball gazing. In addition transmission costs are a large part of delivery prices and EDBs only receive 4 months' notice of price changes let alone 20 to 30 years' worth of price projection. Over the past four years, Aurora has experienced annual transmission charge changes in the range of -5% to +20% which demonstrates the difficulty of such a projection exercise.

Aurora's responses to this particular section are set out in Q4 to Q12 in Section 3.2.

For detail on the wording changes to each of the assessment criteria for each guideline Aurora refers the EA to the suggested word changes in the ENA submission.

3. RESPONSES TO QUESTIONS

3.1. Key Recommendations from the Concept report

Q1	**Do you consider the type of analysis suggested is appropriate given the pricing principles, and are there important aspects which have been omitted?**	Section 3.4.6(a) No – the analysis suggested in (a) whereby distributors are required to predict over 20 to 30 years as to how costs are likely to change for changes to various cost drivers would serve no purpose. Using a 20 to 30 year timeframe would require significant crystal ball gazing and would be outside the normal analysis period such as the 10 year EDB's Asset Management Plan or the investment horizon considered for most commercial developments. It is uncertain as to who would utilise such vague information given that it would be notional and subject to many caveats. With regular on going changes to the regulatory environment it is very difficult to predict how delivery prices will vary in the next 5 years let alone the next 20 to 30 years. Section 3.4.6(b) Aurora is comfortable with the section regarding consideration of customer grouping and cost allocation approaches for the four areas listed. However similar material is required in the Guidelines and so this section is not required. Section 3.4.6(c) No - Aurora fails to see why the EA would require this information. Aurora is aware that delivery costs are essentially fixed (on an annual basis) however an EDB does need some flexibility in deciding what proportion is recovered from fixed versus variable charges and as long as economic outcomes are achieved then the EA should be satisfied that the Pricing principles are being followed. Section 3.4.6(d). Aurora understands that this section would only be required if the EDB is transitioning line charges from the current structure to a new structure. Whilst ideally changes in price structure should be implemented over as short a period as possible, limiting price shock is a real issue for the EDB to resolve – the costs associated with delaying sending efficient price signals or the lack of consistency of price (signals) would be extremely difficult to calculate. Again similar assessment criteria are covered in the main Guidelines.

Q2	**Do you consider that the Commerce Commission's template for gas distribution businesses would be an appropriate guide for the Pricing Methodology Report?**	The template for the gas distribution businesses was written in the realisation that the gas businesses were in a control phase and that marked changes in pricing for each load group was likely. Aurora does not believe that the template is appropriate for EDBs. In particular as a minimum the following changes would be required. Remove references to; 1. Comparisons of service class prices with service class prices in prior years. EDBs are already required to publish these comparisons through Information Disclosure Requirements. 2. Excluded services 3. Description of the framework for reviewing cost data, cost allocations and other elements that contribute to costs decisions. This is an annual review process and business as usual. 4. The requirement to obtain an auditor's report for the cost of supply model. At this stage there is no evidence to support that such a task is warranted.
Q3	**To what extent do the constraints listed in paragraph 3.2.10 impact on your ability to align your pricing methodologies with the pricing principles.**	By maintaining separate pricing areas on a per GXP basis, Aurora has recognised that its main cost driver is demand. To date Aurora has continued to recognise the former Government Policy Statement regarding the level of price changes for urban / rural domestic charges. At present in the interests of simplicity Aurora has not introduced higher charges for small rural or remote customers. To a certain extent the general lower supply reliability experienced by rural customers due to the greater length of overhead line per connection offsets in part any cross subsidy by urban customers. The Low Fixed Charge regulations definitely do limit Aurora's ability to implement fully its preferred pricing structure. By adopting a low fixed charge with variable charges, the structure forces a cross subsidy from high domestic users (larger families) to small domestic users. Aurora is not presently proposing any major structural changes to its pricing so the difficulties associated with implementing major structural changes within the Price Path rules is not an issue. The Commission needs to ensure that it minimises any barriers to enable EDBs to introduce new pricing structures which may lead to further efficiencies in energy delivery. The introduction of advanced metering infrastructure is likely to lead to further refinements to the existing price structures.

3.2. Appendix A Assessment Criteria for alignment with the Information Disclosure Guidelines

Q4	**Do you agree with the assessment criteria for Guideline (a)**	Refer to the ENA submission for improved wording. If the archive mentioned in 4(b) is retained then it should only require the current document and the documents relating to the previous 6 years to be retained on the EDB website.
Q5	**Do you agree with the assessment criteria for Guideline (b)(i)**	Aurora is concerned with the wording in 6(b) as this is likely to add significant additional cost especially if the EA is expecting auditors to audit such material. There is no cost / benefit information provided in the EA paper which demonstrates that publication of such material would be useful. It takes several years to educate consumers as to how they can change their usage patterns to reduce their line charges and in some cases make investments at the installation level before results at a network level become apparent. Structural stability is an important aspect during discussions with retailers. Additional guidance should be added specifying that where the non-compliance occurs due to say the Low fixed charge Regulations then 7(b) is not required.
Q6	**Do you agree with the assessment criteria for Guideline (b)(ii)**	Refer to the ENA submission for improved wording. Aurora trusts that the metrics listed in 8(b) are a sample list only. For some of the listed metrics it is more costly to collect these metrics at a load group level and they are not necessarily cost drivers for the EDB.

Q7	**Do you agree with the assessment criteria for Guideline (b)(iii)**	Refer to the ENA submission for suggested wording improvements. Aurora is unsure why the focus is on the difference between costs and revenues. Revenues would match costs in a perfect world where load group metrics / cost drivers do not change. The load group metrics are a snap shot in time of the load group parameters. During a year, ICPs move between load groups, new ICPs are commissioned, others are de-energised or decommissioned, the weather is abnormal - either reducing energy deliveries or increasing them and external factors influence consumers behaviour around their usage of electricity. Aurora does not agree with 10(c) which requires analysis of how cost drivers may change for different scenarios over periods up to 30 years. This is simply crystal ball gazing. If there are known to be material changes in costs that will occur then appropriate comment on the implications for pricing can be made. If there are known constraints in defined network areas which have been identified in the AMP then appropriate comments on the implications for future prices can also be made. Transmission charges are a major component of deliver prices and Aurora has experience annual changes in transmission charges ranging from -5% to +20% over the last four years. Aurora does not agree with 11. The EA appears to be assuming that the network is in a fixed state and that the load group metrics will not change. Prices are based upon the annual snapshot of metrics stated however the metrics for the following year will be different as a result of many changes occurring in any one year.
Q8	**Do you agree with the assessment criteria for Guideline (b)(iv)**	Refer to the ENA submission for suggested wording improvements.
Q9	**Do you agree with the assessment criteria for Guideline (b)(v)**	Refer to the ENA submission for suggested wording improvements.

Q10	**Do you agree with the assessment criteria for Guideline (b)(v)**	In general Aurora agrees however the EA needs to recognise that there are transaction costs associated with calculation of transmission or distribution benefits which are not insignificant. Therefore the DG needs to be of a minimum scale before the benefits will exceed the costs. 16(c) - It is too early to be mentioning section 54Q of the Commerce Act especially as the Commerce Commission has not indicated how this will be implemented.
Q11	**Do you agree with the assessment criteria for Guideline (c)(i)**	Refer to the ENA submission for suggested wording improvements.
Q12	**Do you agree with the assessment criteria for Guideline (c)(ii)**	Refer to the ENA submission for suggested wording improvements.