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21 December 2020

Dane Gunnell
Manager, Price-Quality Regulation
Commerce Commission
44 The Terrace
WELLINGTON

By email only: dane.gunnell@comcom.govt.nz

Dear Dane

RY2022 PRICING GUIDANCE

On Thursday 17 December 2020, you asked Aurora to confirm its request for guidance on its approach to RY2022 pricing, in letter form, so that it can be published alongside the Commission's guidance. We understand that Commissioners met on Thursday 17 December 2020 to discuss this matter, among other things.

The following records communication between us on matters relating to RY2022 pricing:

- I originally raise the issue of RY2022 pricing with you following the Dunedin stakeholder meeting on Tuesday 1 December 2020. I advised that, in the absence of a determination that binds Aurora to a particular approach, we needed to decide what level of pricing should reasonably apply. Options included pricing to the draft determination, or above the draft determination given our view, at the time (now confirmed by expert advice), that there were weaknesses in the assessment of Aurora's proposed non-network operating expenditure allowance.
- On Thursday 3 December 2020, I advised by email that we needed to commence our pricing process no later than Wednesday 9 December.
- On Friday 4 December 2020, you advised that the Commission was "*working towards getting something to [Aurora] as soon as possible*" and asked, "*what constraints Aurora has under its agreements with retailers on notifying and changing prices (up or down) during a pricing year, and what implications that might have, if any, for the timing of price changes for the following pricing year.*"
- I responded, the same day, that under use-of-system agreements, Aurora could only raise prices once in any 12-month period, unless (in practical terms) we had the agreement of every retailer trading on the network to do otherwise. We could decrease prices at any time.
- On Tuesday 8 December 2020 you asked Aurora to place its pricing concerns in writing for "*general framing and for the record*". You also noted the urgency of Aurora's query.
- On Tuesday 8 December 2020, I responded by email, as follows:

"As discussed, in the absence of a final decision and determination on Aurora's CPP we must decide as to the appropriate MAR to price into the for the RY2022 (passthrough and recoverable costs lying as they fall).

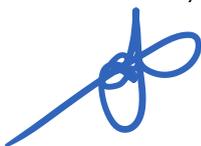
We expect to convincingly demonstrate that the proposed reductions in the opex allowance offered by the draft decision are for the most part unsupported, unreasonable and unsustainable. Accordingly, we anticipate upward movement in the allowances, close to proposal levels, with a corresponding uplift in MAR.

This causes us to consider what level of MAR should be factor into pricing, given our expectation that the draft decision MAR will change. It has been suggested that we should price on our proposal and rely on the proposed washup mechanism in draft determination."

- On Wednesday 16 December 2020, I asked if there was any update or an ETA as to when we could expect the Commissions views. I noted that Aurora was now well behind schedule on pricing activities. I also requested advice on the treatment of the Commission's assessment fee (which remains an estimate at this time). I noted that Powerco had relied upon the Commission's estimate when setting pricing for the first year of its CPP, and then reconciled the difference in its washup mechanism.

I trust that this adequately frames the issue for publication.

Yours sincerely



Alec Findlater

General Manager, Regulatory & Commercial