

23 December 2020

Alec Findlater
Aurora Energy
By email: Alec.Findlater@auroraenergy.co.nz

Dear Alec

RE: Aurora's 2021-22 Pricing

1. We are in receipt of your letter of 21 December 2020, and the correspondence to which it refers. This letter responds to your request for pricing guidance.

The concern you raised

2. Your letter, and earlier correspondence, indicates that Aurora is considering what level of allowable revenue it should factor into pricing for the 2021-22 assessment period (ie, the first CPP pricing year), given we will not make our final decision on the CPP until late March 2021.
3. We understand the immediate issue faced by Aurora is the need to advise its prices to the retailers on its network within the required timeframes of its agreements with those retailers, should Aurora decide to set new prices under the CPP to take effect from 1 April 2021.

Pricing for 2021-22

4. Aurora is presently subject to the DPP3 determination until a CPP comes into force. On the face of the DPP3 determination, Aurora is required to set prices for the 2021-22 assessment period in accordance with clause 8.4 of the DPP3 determination; that is to price on the basis that the DPP will continue into 2021-22. It is also required to provide an annual price-setting compliance statement under clause 11 of the DPP3 determination before the start of the assessment period confirming that it has priced in accordance with the DPP3 price path.
5. However, given that Aurora is likely to be subject to a CPP from the beginning of the 2021-22 assessment period, we do not intend to enforce these price setting provisions of DPP3.

6. Instead, we intend to consult in early 2021 on changes to the draft CPP determination which would allow Aurora to comply with the CPP by making changes to its pricing during the 2021-22 assessment period, so long as its revenue for the assessment period does not exceed that allowed for by our CPP determination.¹ We are also likely to consult on a change that would require Aurora to provide a price-setting compliance statement to demonstrate compliance with the 2021-22 price path within 90 days of the commencement of the CPP period.²
7. The prices that Aurora chooses to notify to its retailers for 2021-22 is a matter for itself. However, we expect our proposed changes will allow Aurora to set (or reset) prices following the release of our final CPP determination such that it complies with the price path over the course of the full 2021-22 year. This leaves Aurora with a range of options for setting prices at the start of the CPP, including setting interim prices during this assessment period or not setting prices until the final CPP is determined.
8. We anticipate that Aurora will have consumers' interests and the impact on retailers in mind when it sets prices, and that it will seek to avoid unnecessary price volatility.
9. With respect to your query regarding the CPP assessment fee, the draft CPP determination is broadly consistent with the approach referred to in your letter. It provides for a demonstrably reasonable forecast of the fee to be included in Aurora's forecast allowable revenue (refer Schedule 1.4 of the draft CPP determination and clause 3.1.3(1)(i) of the EDB IM determination), and this will eventually be washed up under Schedule 1.5 when the final actual fee is rendered by the Commission.

Process

10. Given that there is an ongoing consultation on the draft CPP decision, and in the interests of transparency, we have published this letter as well as the foregoing correspondence on our website for the information of stakeholders.
11. We hope this is of assistance to you. If you have any further queries, please contact Dane Gunnell in the first instance.

Yours sincerely,



Sue Begg
Deputy Chair

¹ In the draft, this would be the amounts provided for in clauses 8.4 and 8.5.

² As the CPP determination is given effect by an amendment to the DPP3 determination, the requirement to provide a price-setting compliance statement under the CPP would be in lieu of the current requirement in clause 11 of the DPP3 determination for the 2021-22 assessment period.