From: george gibson <gibsons@kinect.co.nz>
Sent: Thursday, 12 November 2020 9:15 AM
To: Communications Team <CommerceCommissionCommunications@comcom.govt.nz>
Subject: Re: Commerce Commission media release – Commission proposes Aurora can spend $523m to fix its network

Disappointed in this result. under investment was not the problem. Issue was Dunedin City extracting large dividends from Aurora to service its Stadium to the point it could not invest in the upkeep of its infrastructure. Had there been a fatality as a result of this failure to maintain its network from a safety point of view, what occurred would likely have been seen as criminal negligence and corrupt practice on the part of both these Companies. George Gibson

On 11/12/2020 8:37 AM, Commerce Commission wrote:

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Media release

Issued 12 November 2020
Release no. 53

Commission proposes Aurora can spend $523m to fix its network

The Commerce Commission has today released for consultation a package of measures in response to Aurora Energy's plan to fix its electricity lines network in Dunedin, Central Otago and Queenstown Lakes.

In June 2020, Aurora filed its application for a customised price-quality path (CPP) in which it forecast it would need $383 million over three years, or $609 million over five years, to replace failing infrastructure and run its network.

Having assessed its plan, the Commission is proposing Aurora be allowed to recover a maximum spend of $523 million over five years – a reduction of $86 million (14%).

The package of proposed decisions released today includes:

- sticking with the default five-year period, as it better reflects the long-term interests of consumers
- reducing Aurora's proposed capital spending on new assets by $41 million (11%), from $356 million to $315 million
- reducing Aurora's proposed operational spending to maintain and run its network by $45 million (18%), from $253 million to $208 million
- setting targets for power outages and interruptions on Aurora's network at levels that reflect its actual performance over the past five years
- requirements on Aurora to improve its transparency on how it delivers against its plan and how it reports on its service quality and pricing calculations.

"Aurora's historic underinvestment in its lines network has kept its lines charges comparatively low for its customers over many years. However, more recently this underinvestment has led to its performance deteriorating, with increasing safety events matched by worsening reliability issues," Associate Commissioner John Crawford said.

"We understand the disappointment and anger Aurora's customers hold about the position the business is in. Aurora has nevertheless made its case for urgent and ongoing investment to replace old and failing assets in its network. Without it, the network will continue to deteriorate, safety incidents will increase, and its customers will experience more frequent, and longer, outages.

"We consider Aurora's proposed capital spending to be generally well-founded. The difference in our assessment is mostly attributable to the timing of when this work is required due to the impacts of COVID-19. We do however consider Aurora has overestimated the amount of money it needs to run its network, which has led us to propose a substantial reduction of $45 million in its operating spending."

In its proposal, Aurora indicated its customers could expect their electricity bills in 2024 to rise by roughly $20 to $30 a month compared to 2020/21 prices. This estimate was based on a three-year CPP period and did not include all other relevant factors (such as GST and inflation). Aurora had also indicated it would need to apply for a second CPP with further price rises required through to 2029.

"While our draft decision would lower Aurora's expenditure and substantially reduce the increase in lines charges compared to its plan, we expect the impact on electricity bills would still be significant," Mr Crawford said.

"To help mitigate the bill shock, we have proposed to smooth Aurora's revenue over the five-year CPP period. This would limit Aurora to increasing the maximum revenue it can collect from its customers by no more than 10% a year.

"Taking into account GST and forecast inflation along with our draft decisions, we estimate that lines charges alone could rise by between $3 to $13 per month for the majority of Aurora's residential customers from 1 April 2021, depending on usage and where they live. This would increase to between $20 to $73 per month by 2026.

"An alternative scenario we can consider is to cap overall revenue increases at 5% in the first year and then 10% for each of the next four years. This would cost Aurora's customers roughly an extra $10 million over time, accounting for interest and inflation. However, paying less upfront may still be preferable given the impact of Covid-19 on the local economy and we want to hear from them further on this point."

Our estimated price impacts detailed above are based on the current draft spending allowances and could change following submissions.

In its draft decision, the Commission proposes to amend Aurora's quality standards for unplanned outages to better reflect the state of its network. This would not be set at the levels Aurora requested but would allow it to meet targets that reflect its performance over the past five years. Overall, this should see the reliability of supply stabilise at current levels before gradually improving over time.

“One of the major themes from our discussions with Aurora’s customers was their lack of trust and confidence in Aurora’s ability to deliver what it says it will. We consider Aurora has taken some steps to ensure it is capable of implementing its work programme, so we have instead focused our attention on ensuring Aurora can be held to account for delivering on its plan,” Mr Crawford said.

“We are proposing requiring Aurora to publish an Annual Delivery Report, which details exactly what work it has undertaken broken down by region, and then presenting it directly to its customers in public meetings. We are also proposing that Aurora reports more clearly on service quality, such as voltage issues, and how it calculates its regional prices.

“Taken together, the package of measures we are proposing are focused on the long-term benefit to Otago communities and will help improve Aurora’s performance over time. It has taken many years for the issues on Aurora’s network to materialise, and it will take some years to fix them.”

The Commission has published a key decisions infographic and Summary Paper detailing its response to Aurora’s CPP, including more information on the estimated bill impact broken down by region.

The full reasons paper is available online under the ‘Documents’ tab, along with further details on the consumer feedback received to date and a template submission form consumers can use to provide their views on today’s draft decisions. Submissions close on 10 December 2020.

In addition, the Commission is holding a series of public meetings on the draft decision in Alexandra, Cromwell, Wanaka, Queenstown and Dunedin between 23 November and 1 December. Details are available at www.comcom.govt.nz/aurora

Separate to its CPP, Aurora has also applied to the Commission to amend its quality standards for the current regulatory year (2020/2021). The Commission has published its draft decision on this request today, in which it agrees the outage targets should be amended to better reflect Aurora’s actual achievable performance, as is being proposed for the CPP.

A copy of that draft decision can be found on our website. Submissions close on 26 November 2020.

Background

About Aurora Energy
Aurora owns and operates the poles, lines and other equipment that distribute electricity from Transpower’s national grid to more than 90,000 homes, farms and businesses in Dunedin, Central Otago and Queenstown Lakes. Aurora is a wholly owned subsidiary of Dunedin City Holdings Limited, owned by Dunedin City Council. Aurora’s charges are built into power bills and are something its customers are required to pay no matter which power company they are with.

Currently Aurora says its distribution charges account for about a quarter of an average residential customer's power bill (its rural customers can pay much more than this average). The remainder of a customer's bill is made up of the costs of generation, transmission, retail, tax, and a levy to fund the work of the Electricity Authority.

The 10% revenue cap noted in today's draft decision does not mean an Otago consumer's total electricity bill will increase by this amount much each year. It refers only to the lines charge component. The impact on the total bill will be a smaller percentage than this.

Regulation of Aurora
As Aurora is a monopoly and its customers have little choice but to connect to its network, the Commission regulates the maximum amount of revenue it can earn from its customers and the quality of service it must deliver. It does this by setting revenues and quality standards for local lines companies across New Zealand once every 5 years. However, if a lines company needs to invest substantially more in its network, it can submit an investment plan to the Commission seeking approval to increase its prices to fund the investment through a customised price-quality path (CPP.)

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