

Further Submission to the Commission's Public Hearing for Aurora Ltd Ownership

The Reasons that the Commission should decline Aurora's request for Funding

- There are 29 EDBs managing lines Networks in NZ as Govt permitted Monopolies
 - 12 are run essentially as 'Community owned ' EDBs and are not subject to regulation as they are assumed to act in the best interests of consumers.
 - 17 are subject to price quality (maximum allowed to earn plus minimum quality standards)
- COEPB Ltd sold the Lines it owned in 1998/9 to the DCC'S Dunedin Electrical Lines Company which became Aurora Lines network. The COEPD retained the Energy Generation Component and became Pioneer Energy.
- The Aurora Company, being one of the 17 privately owned Lines Companies must meet Commerce Monopoly Regulations
- In November 2020 Strata Consultants delivered a 204 page analysis of the Aurora Line Monopoly Company, Commissioned by the Commerce Commission.
- The results from Strata Consultants showed that while Aurora met some of the Regulatory requirements, a very large number of the issues raised by the Commissioners were not.
 - + P 9 "Did not present a reasonable attempt on short list options"
 - + P21/22 " A lot more justification needed"
 - + P23. " Alternatives not good enough for \$35M for strategic planning"
 - + Section 3 " Did not supply to 'Strata' any Policies , Planning Standards,or Key Assumptions as requested by the Commission"
 - + P29. " Support for CPP application not supplied"
 - + P30. "Planning standards ,and Procedures unsatisfactory to allow a robust, credible expenditure cost for-caste (even though warned in 2018)
Thus "Proposed expenditure maybe unreliable; understated or over stated ; not to be prudent , efficient or deliverable"
 - + P57. In the Summary for "Key Elements to Expenditure Forecast"
Seven of the Eight conclusions showed Flawed Management issues .
- The above are Examples of mis-management but the rest of Strata's 204 page analysis is full of further un-satisfactory management. See Pages: 97 ;100 ;106 ;107 ;116 ;118 ; 129; 130 ;150
- The Questions the Commission failed to get Strata to evaluate and find answers to are:
 - + "How did Aurora Justify tens of millions of dollars on Staffing within just a few years"? (P 130)
 - + Why did they not get inflated asset valuations presented to the Commission to be Peer Reviewed?
 - + Why was 'Strata' not tasked with an analysis of how the income from Auroras Trading since its inception in 2007 , was apportioned percentage-wise,
 - between recovery to clear debt ,
 - investment on business ventures unrelated to lines maintenance
 - and actual lines maintenance itself.

Conclusion:

I refer the Commission to the following Victoria University of Wellington Law Review of “ The ownership Split”. –Daniel Kaiderimis

The Commission needs to read the Law Review but below is Part of his conclusion:

The ownership split between Energy supply and distribution in 1998/9 ended an era of what has been proved to be the best method for the development of the partnership between local communities and the State.

The split destroyed the 1992 re-invention of this concept: the community-owned company. As successful SOE's have shown , the commercial nous of a company is dictated by its '*management*' (my emphasis) ; not its ownership structure.

The statistics show this.

Until the split, the provincial communities had cracked the problem of how to keep low provincial prices in an era of high profitability and user pays. The new solution is protection by raw market forces.

It is our Communities contention, that when all these issues are collectively considered ; when the Commission has been made aware of the huge dis-content of the customer base being served by this Company ,then the question arises that the Commission must consider the competence of this Monopoly Company . As Daniel Kaiderimis points out “ The commercial nous of a company is dictated by its management not its ownership”

The Commission has now learned from its 'Strata Report' that quite extreme mis-management is present with Aurora and should the Commission retain its current position for this Company's application a severe dis-service will continue to be foisted onto the community.

The Community believes that the Commission must Rule that this Company has failed to meet the Regulations set by the Government.

The whole point of this funding application by Aurora, to be allowed to continue to operate as a private Monopoly utility plus the comprehensive consultation process by the Commission to seek the opinion of the community being served, is to decide if the Company can be permitted to continue operating.

Considering:

The management is the main driver for efficiency.

The company management has been found to be grossly lacking as identified by the Commissions independent Strata report.

Knowing that the most cost effective , efficient energy delivery system has been proven to be via community owned or trust administered or Government owned systems (Kaiderimis paper) then the Commission has a choice :

Either

to ensure that the consumers are protected from this sole private inefficient monopoly company and redirect this utility back to its historical proven efficient structure.

Or

to allow this established poorly managed company to continue to be able to take advantage of 90,000 consumers who cannot protect themselves from the proposed huge financial increases and continued mis-management.

Is such a radical change possible to allow Central Otago to get its Lines Network back?

The answer is Yes:

The assets and liabilities of the Central Otago component of the DCC'S Aurora company would need to be valued and repaid.

The Government could do this via a free of interest loan to the Central Otago Community as it has done with organisations such as Private Environmental Schools.

Some kind of interim commissioner system to manage the Central Otago Network could be put in place until a formal administration was appointed.

An administration would have to be put in place to run the Utility whose purpose would be to act in the sole interests of the community (as the original community run network operated so efficiently in the past.) Pioneer Energy management team, while not owners of the network, could have professional advisers within the administration.

There are three private lines construction companies within the region that have the expertise upon which the Central Otago Administration could seek competitive tenders.

Instead of Aurora borrowing the \$600M and servicing that debt using the guaranteed community Lines charges to under-write the loan, the Community Administration would borrow the necessary funds and use the same under-writers that Aurora proposes to use.

However the big difference between the two approaches is that

All the lines income would be directed towards maintenance, repair and repayment of debt under a Community ownership model.

While under the Aurora model only a portion of the Lines income would be used directly on the lines with other portions continuing to be spent on other DCC's business ventures as has occurred up to now.

At the end of the upgrade The Community would own the Lines Network and could set lines charges that could not only maintain the network but set such charges to repay the debt which when completed would further allow the opportunity to decrease line charges.

Possibly some of the Central Trust funds which were created from the original sale of the OCEPB lines network could contribute to the repayment of the Government funding contribution.

Another possibility to be considered is an evaluation of the extent to which lines charges from Central Otago Consumers were redirected to such DCC projects as the Forsyth Bar Stadium complex. Money spent on such projects to the detriment of the Central Lines maintenance could be considered in the assets and liabilities valuation.

Fines, as currently utilised by the Commission, do not in any way help to resolve the problems faced by Central Otago consumers. The argument put forward by some Commissioners that Fines such as the \$5M brought against Aurora for the collective mis-management of three previous episodes does not impact on consumers is simply not true. The DCC owners only source of income is via rates and from their 'City Business Holdings' which is income from the community such as lines charges. That these fines monies are placed directly into the consolidated fund originally came from the consumer charges. This situation could also be considered when planning the proposed administrative change in the network management.

The Commission's primary concern in terms of the ACT is to protect the interests of the Consumer.

In this case the interests of the consumer is for the Commission to select a structure were all the community lines charges are spent in maintaining and extending their lines network (Not funding private company projects such as City Stadiums)

The evidence is clear:

Gross mismanagement has been identified by the Commissions independent Strata Consultants

Asset manipulation has occurred

By allowing a potentially dangerous energy transmission system to fall into a state of disrepair, the owners of the Company have put the Community they serve at lethal risk as well as jeopardising their businesses and the well being of the elderly living in a quite severe climate regime.

In the light of the evidence, that is why they must change the current operation and decline permission for Aurora to operate at least for the Central Otago Network.

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