

*Submission by:*

*Rob Douglas  
1174 Finlayson Road  
Dunedin 9091  
[rob@energyedge.co.nz](mailto:rob@energyedge.co.nz)*

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**Submission - Aurora Energy Customised Price Path (CPP) Application to the New Zealand  
Commerce Commission June 2020**

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# SUMMARY

As a result of **historic poor management and governance**, Aurora has signalled that it requires significant investment over the next decade to fix its network.

*Sue Begg's comment in the March 2020 press release sums up the situation well:*

*"Aurora's previous management and board were well aware of the deteriorating state of its network but failed to take action"<sup>1</sup>.*

This nonfeasance by both the management and the board lead to organisational dysfunction, underinvestment and an attrition of knowledge and capability.

## KEY PRINCIPLES

I have identified five principles that should be applied when considering the CPP proposal and any DPP3 variations:

### Principle 1:

.....  
*The consumers of today should not be charged for the consequences of the **historic nonfeasance of management and the board**.*  
.....

All costs associated with the crisis, separation, breaches and the CPP process etc. should be unrecoverable (i.e. funded by debt or equity). Only costs comparable to a well managed DPP process should be recoverable.

### Principle 2:

.....  
*Consumers should only pay for the **network that they should have had**.*  
.....

A counterfactual should be costed where the recommendations in the 2010 Linetech<sup>2</sup> and 2014 Strata report<sup>3</sup> were heeded. The additional costs that have been created by crisis management (e.g. logistical issues) should not be borne by the consumers.

### Principle 3:

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*The current management and board need to be held accountable with **well defined safety indicators** and more granular **reliability indicators**.*  
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SAIDI and SAIFI are high level crude reliability indicators that are in tension with, and are poorly correlated to safety performance. The following indicators are suggested for tabulation and trending in the AMP:

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<sup>1</sup> [https://comcom.govt.nz/case-register/case-register-entries/aurora-energy-limited2/media-releases/aurora-energy-penalised-almost-\\$5-million-for-excessive-level-of-power-outages](https://comcom.govt.nz/case-register/case-register-entries/aurora-energy-limited2/media-releases/aurora-energy-penalised-almost-$5-million-for-excessive-level-of-power-outages)

<sup>2</sup> <https://www.odt.co.nz/news/dunedin/delta-ignored-warning>

<sup>3</sup> [https://comcom.govt.nz/\\_\\_data/assets/pdf\\_file/0025/91681/Stratas-report-on-the-reliability-performance-of-Aurora-Energy-Limited-24-June-2013.pdf](https://comcom.govt.nz/__data/assets/pdf_file/0025/91681/Stratas-report-on-the-reliability-performance-of-Aurora-Energy-Limited-24-June-2013.pdf)

- Earth Fault Pickups (e.g. > 5 Amps)
- Electrical Fires
- Car versus Pole (Aurora has a lot of poles with inappropriate setbacks)
- Pole Failures (where historic design load not exceeded)
- HV Line Failures (where historic design load not exceeded)
- LV Line Failures (where historic design load not exceeded)
- SAIDI/SAIFI for all Medical Dependent and Vulnerable Consumers on Network
- FAIDI (Feeder Average Interruption Duration)

**Principle 4:**

.....  
The shareholder should not benefit from the historic nonfeasance of the management and the board.  
.....

**Moral Hazard:** Aurora's past behaviour should not ultimately be a net benefit to them. Paragraph 8.9 of the Agreed Summary of Facts indicates that they might have net gain<sup>4</sup>.

**Principle 5:**

.....  
There should be no cross subsidy or wealth transfer between sub-networks.  
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Separate Maximum Allowable Revenues (MARs) should be created for each pricing area. Expenditure and replacement costs should be validated for each area and not aggregated.

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<sup>4</sup> [https://comcom.govt.nz/\\_\\_data/assets/pdf\\_file/0024/223467/Commerce-Commission-v-Aurora-Energy-Limited-Agreed-Summary-of-Facts-18-December-2019.pdf](https://comcom.govt.nz/__data/assets/pdf_file/0024/223467/Commerce-Commission-v-Aurora-Energy-Limited-Agreed-Summary-of-Facts-18-December-2019.pdf)