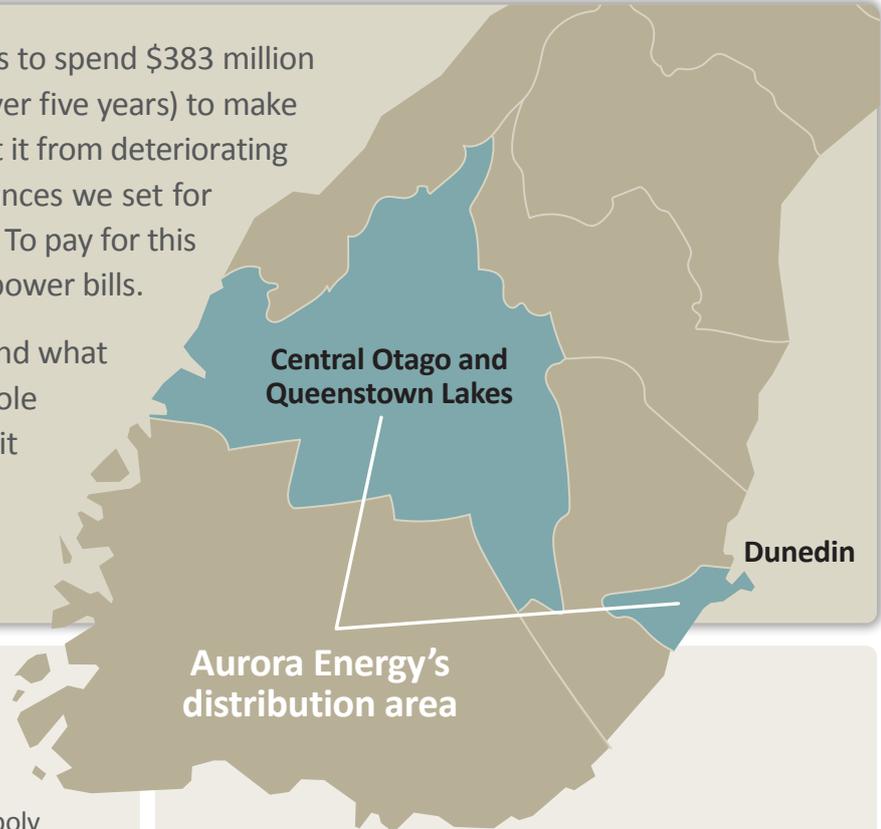


Our assessment of Aurora Energy's investment plan

In June, Aurora Energy (Aurora) applied to us to spend \$383 million over the next three years (or \$609 million over five years) to make its electricity lines network safer and prevent it from deteriorating further. This is more than double the allowances we set for Aurora for the previous comparable periods. To pay for this Aurora is proposing significant increases to power bills.

This paper is designed to help you understand what has led to this situation, the Commission's role in helping to fix Aurora's network and what it means for you.



The Commission's role

The Commerce Commission is New Zealand's competition, consumer and regulatory authority. Our role in the electricity sector is to regulate monopoly providers like Aurora so they operate in the long term interests of their consumers.

For Aurora's investment plan, we will assess whether it has demonstrated the investment is justified to address network safety and reliability issues. We will also consider the preferences of its customers in regards to things like the timing and extent of planned power cuts. We will then decide the maximum amount Aurora will be allowed to recover from its customers to fix its network and what quality of service it must deliver.

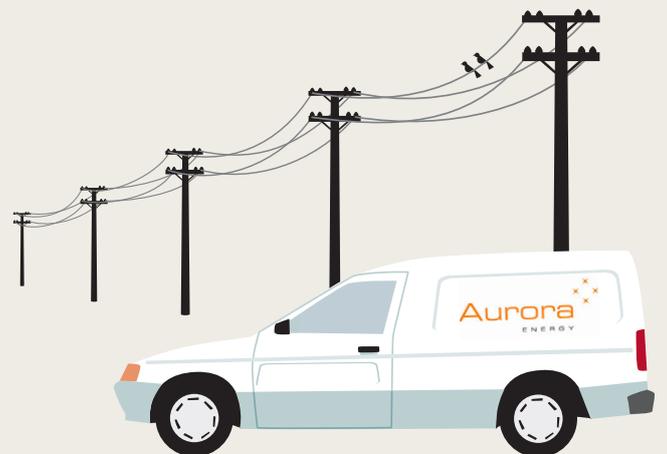
It is up to Aurora to decide how much different groups of customers pay (eg, residential, commercial and industrial customers and across its three pricing regions of Dunedin, Central Otago/Wanaka and Queenstown).

The Commission does not regulate Aurora's owners, set electricity prices, or get involved in the day-to-day management of the company. It is also not the health and safety regulator for Aurora's network. WorkSafe is engaging with Aurora on the safety of its network for its workers and the public. However, in considering Aurora's proposal we will take into account the need to invest for safety reasons.



About Aurora

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 your power bill and are something you are required to pay no matter which retail power company you are with. Typically, electricity distribution charges make up about a quarter of an average residential consumer's power bill. The rest of your bill is made up of the costs of generating the electricity, transmitting it via Transpower's national grid and your power company's costs.

Why is investment needed in Aurora's network?

Historically, Aurora has under-invested in its network. It did not keep up with the necessary maintenance and replacement of its ageing equipment.

While this under-investment helped keep Aurora's lines charges lower than the national average, it has resulted in a gradual deterioration of its equipment, including lines, poles and transformers. The consequence has been a higher number of safety incidents, including poles supporting live lines falling over and an increasing number of unplanned power cuts across Aurora's network. Without additional investment consumers could expect more power cuts and decreased safety levels.



How will Aurora's proposed plan affect me?

→ There is likely to be significant increases in your power bills from April 2021 as Aurora seeks to recover the costs of its investment. Aurora estimates the three-year increase in the total average monthly residential power bill will be approximately:

- \$20 more for Dunedin
- \$30 more for Central Otago/Wanaka
- \$24 more for Queenstown customers.

If we approve a default five-year investment period, Aurora's proposal would result in a further increase in years four and five of between 2.6 and 3.2%, or approximately \$5-\$6 more a month depending on where you live.

→ Slightly more frequent and longer unplanned power cuts due to the continued failure of old equipment, and about the same level of planned power cuts as Aurora works to fix its network.



Aurora has also signalled it will make a second investment application to the Commission near the end of this investment period to address longer term issues on its network to deal with growth and reliability (subject to support from its customers).

What options are there for managing price shocks for consumers?

We understand that now, more than ever, household incomes will be strained, especially in light of COVID-19. Many consumers will be struggling to pay their bills while needing a reliable electricity supply. Options for how price increases might be managed include considering whether any spending or projects can be reduced or delayed and examining whether price increases could be spread over a longer period.

However, in making this decision we also need to consider what impact it will have on Aurora's financial stability and its ability to fix its network.



Where will the money be spent?

Aurora says the proposed spending will be used to:

- Improve the safety of the network
- Address historic under-investment, especially replacing equipment including poles, crossarms, conductors, cables, circuit breakers and zone substations
- Improve its asset management strategy, systems and processes
- Stabilise the network's reliability (frequency and duration of power outages) around current levels
- Prepare the network for the uptake of future technologies
- Ensure the network can support expected growth in demand and customer connections.



What has been done to date?

June 2014

The Commission warned Aurora for breaching its quality standards in 2012. As part of this we commissioned engineering consultancy Strata to review Aurora's quality performance. Strata's report expressed a number of concerns with Aurora's asset management and recommended changes for Aurora to implement.



October 2016

A former Delta employee publicly raised concerns about the state of Aurora's network.

December 2016

A Deloitte report commissioned by Dunedin City Holdings Limited revealed under-investment in Aurora's network over a 25-30-year period. This report found that Aurora was aware of the state of its network and was trying to improve it while balancing money constraints and the requirement to provide a short-term return to its shareholder.



2016/17

Aurora appointed a new Chair, Board and CEO. Aurora and Delta structurally separated from 1 July 2017.



Early 2017

The Commission started investigating Aurora for breaching its quality standards in 2016 and 2017.

November 2017

The Commission published an open letter outlining how asset management is a key priority for the Commission's work in the electricity distribution sector.



September 2018

The Commission announced it would file proceedings in the High Court against Aurora for breaching its quality standards from 2016. We alleged Aurora's under-investment in asset maintenance and renewal led to significant proportions of its assets – such as poles, cables and transformers – being in a deteriorated condition. We consider this resulted in an increased level of power cuts across its network.

We also encouraged Aurora to undertake an independent assessment of the state of its network. This provided a high-level view of the key risks on its network and the areas where future investment should be prioritised.



2017

Aurora started a large catch-up programme of investment funded by its shareholder and consumers.



2019/2020

Aurora had its draft investment plan examined by an independent expert and consulted with its consumers ahead of submitting it to the Commission in June 2020.



March 2020

Aurora was ordered by the High Court to pay a penalty of almost \$5 million for breaching its network quality standards through an excessive level of power cuts in the 2016-19 years.

We want to hear from you

Your opinion matters to us. We will review the findings from Aurora's consultation with consumers and are undertaking our own consultation to ensure your views are considered. We are currently consulting on the following key issues:

- Whether Aurora's investment plan is focused on the right areas
- Your preferences for managing price shocks for consumers
- Your preferences in regards to planned and unplanned power cuts
- The effectiveness of Aurora's consumer consultation
- Aurora's ability to deliver on its plan and how it should be held to account for completing it
- The impact of the COVID-19 pandemic.

Read our key issues summary paper and download our consumer submission form at www.comcom.govt.nz/aurora

Consultation closes on 20 August 2020

Key steps to get power to your place

Generation – Most of our electricity is generated from hydro-electric power stations. Generation charges make up about a third of an average residential consumer's power bill. Generators are regulated by the Electricity Authority.



Transmission – Transpower owns and operates the national grid which moves electricity from where it's generated to where it's needed. Transmission charges make up about 10% of an average power bill. Transpower is regulated by the Commission as it has no competitors.

Distribution – Local lines companies, including Aurora, connect to the national grid and deliver power to your place through a network of poles and wires. Distribution charges make up about a quarter of an average power bill. Local lines companies are regulated by the Commission as they face no competition.



Retailers – Retailers sell electricity to you and send you your monthly bills. Retail charges, GST and other charges make up about a third of an average power bill. Retailers are regulated by the Electricity Authority.

Proposed timeline

June 2020

Aurora submitted its investment plan to us for consideration.



July/August 2020

Commission releases paper outlining the key issues we intend to focus our review on and consults with consumers.



November 2020

Release of draft decision and consumer consultation.



March 2021

Release of final decision.



April 2021

Aurora's new revenue limits, quality standards and monitoring regime come into effect. Aurora customers can expect increases in their power bills from this date.



Find out more about the project at
www.comcom.govt.nz/aurora

Email us at
feedbackauroraplan@comcom.govt.nz