

Aurora CPP Submission

Firstly, I would like to remind the Commerce Commission that they have a responsibility to the consumers and public that utilise the Aurora network. It is through no fault of the consumers that we are going through this CPP process this lies solely at the feet of the Commerce Commission, Aurora and its owners.

It is also pertinent to remind the Commission that Aurora provides an essential service that some people not only rely on to live but generally used in most aspects of the peoples lives and it is also a significant foundation stone in supporting the local economy.

Many of the users on Auroras network do not understand the nature of this complex process or its possible outcomes and would be deferring to the regulator to make decisions on their behalf that Aurora **“invest, innovate and deliver a quality of service their consumers expect, at an appropriate price.”**¹.

As part of the CPP application a Commerce Commission investigation should be initiated to understand the root causes and understand any systemic failures that need addressing that brought about this CPP application. Under a properly regulated and operated network a CPP application should not be required. There is no reason why this investigation could not be started now.

Quality Standards

Aurora has not met its quality standards for five of the past eight years¹ and now they are seeking a reduction in the standards set while charging more for their services. I believe that this does not meet the objective of delivering a **“quality of service their consumers expect, at an appropriate price”**. As consumer we do not expect to pay more for a reduced service and if we are expected to pay significantly more for a service we would also expect an corresponding increase in quality.

Since Aurora consultation closed, we have had some serious outages which have changed the public's perception of a reliable service that consumers would expect. Of note are:

- A power transformer failure at Clyde on its coldest day in years resulted in the Central Otago District Council (CODC) Mayor writing to Minister Megan Woods requesting an Electricity Authority review². Note that the standby transformer had failed in 2017 and never been repaired and from a consumer perspective is unacceptable when it comes to network

¹ [Restoring Otago and Queenstown's power network, Commerce Commission](#)

² [Timcadoganmayor Letter to Minister Woods Facebook post - 30 June 2020](#)

resilience and reliability. The compensation for business customers was insignificant compared to the costs some suffered that day.

- Power surge in Cromwell due to another transformer failure in late May damaging many consumer appliances and starting electrical fires³.
- An increasing number of planned outages are exceeding their expected outage periods as the jobs are probably more involved than originally planned/scoped. Which raises the following questions:
 - How accurate is Auroras network asset state data and its relationship to the CPP application?
 - Do these extended outages turn into unplanned outages once they exceed their programmed timings?

How does the Commerce Commission plan to ensure that Aurora meets its quality standards and what action does it take if it does not? A fine is counterproductive because ultimately the consumers end up paying it as consumers are Auroras only revenue source. A fine would take money away from the work required to restore the network.

Ultimately, there needs to be personal accountability at the Aurora Senior Management and Director level and more thorough investigation into the reasons behind failures. From an outside perspective it seems Aurora are taking the route that it is more cost effective for Aurora to pay the fine than resolve the problem/s at this time.

Capital Investment

Under the CPP Aurora are asking to raise close to 0.4 billion dollars in revenue from their consumers to invest in the network in this first CPP period, they have already indicated that there will be a second application to follow on from the first.

For a normal business under this situation they would make a capital call on their investors in return for a percentage stake in the business equity. In Aurora case, they are essentially carrying out the same capital call but not against their investors but their consumers for a 0% return in equity. In effect Auroras investors Dunedin City Holdings Ltd (DCHL) and Dunedin City Council (DCC) get a significant capital injection for no money in. If this were done outside the CPP process and it was not a charity it would probably be investigated by the Commerce Commission as a scam as people are putting money in for little to no return on investment.

³ [Cromwell and Districts News, Issue 798, 10 June 2020](#) page 10

Under Aurora Consultation report⁴ in the section E.5 Misconceptions para 169, Dividends paid at expense of network investment it say “Any investor would take a return on invested capital” so how does the Commerce Commission intend to manage the return on invested capital made by the consumers portion under this CPP process in the future?

The consumers in the past have paid their line charges in good faith that Aurora was doing the right thing. Now we must provide essentially a capital investment into Aurora for 0% equity stake and then pay a return on that investment to the shareholders DCHL/DCC in the future. This all does not stack up and the Commerce Commission needs to seriously investigate making this equitable for the consumer and breaking up this monopoly.

This can be done by giving the consumers significant equity in Aurora as Community Trusts, broken up along network boundaries. Community Trusts running lines networks seem to be successful model, for example Network Waitaki. The Community Trust model would give the community say in running the business.

I have since been told at the drop in sessions that DCHL/DCC must fund the CAPEX and the Consumer funds the OPEX plus a 4% return on Capital investment and that the Commerce Commission has written to the DCC asking for a plan to fund the CAPEX.

During the CPP periods the 4% return on Capital Investment should be removed to provided price relief to the Consumer. Is this return on Capital Investment based on full replacement cost of the assets or actual network value of the assets in their current condition.

Personally, I do not think the Commerce Commission themselves can afford to let this CPP process fail as they don't seem to have the tools to deal with a poorly performing network like Aurora on a Default Price Pathway (DPP). If DCHL/DCC do not agree to fund all the CAPEX. What are the options:

- Reject the CPP and maintain a DPP. This is what we were told would happen at the Commerce Commission drop in sessions if DCC could not fund the CAPEX.
- Does the Consumer have to pick up the difference, and be subjected to greater price increases?
- DCHL/DCC sell part/all the network. The Commerce Commission representatives at the drop in sessions said they can't force DCHL/DCC to sell any part of the network so it would have to be voluntary sale.

⁴ [Aurora Energy CPP Consultation Report](#)

Consumer Consultation and Price Shocks

Aurora's community consultation phase was ineffective only drawing 93 submissions from its consumer base of 90,000 which is 0.1%. Which is made worse still when you consider there could be more than one user for each consumer connection across the network.

It seems more attention was paid to the CAP process and its stakeholders rather than the larger community. When the issue was raised on community social media pages it was not uncommon to see comments like "Just change power companies" and this is why the Commerce Commission needs to act in the consumers interests in this complex situation.

The Aurora community drop in sessions were held during work hours which made it hard for people to attend and as a result I understand the turnout was very low.

The CAP process included community representatives that were supposedly advocating on the community's behalf. Louise van der Voort was the advocate for CODC and when queried through an Official Information Request what she was advocating for on the communities behalf she responded "I was not representing Council but was a member on the Customary Advisory Panel (CAP) as a stakeholder."⁵. This effectively means that Central Otago community had no high-level input into the Aurora consultation

Who's advocating for you

Louise van der Voort
Executive Manager - Planning & Environment
Central Otago District Council



Screen capture from <https://yoursay.auroraenergy.co.nz/customer-advisory-panel>

By and large I do not think Aurora have come to an "**agreement with consumers**" under the input methodology of section 52T(1)(d)(1) of the act. As put to me by one of the Commerce Commission representatives at the drop in Session in Cromwell "you would have to be deaf to not hear the issues" and that would be the general consensus I got from the Commerce Commission representatives at that meeting is that there are a lot of unresolved issues from the communities perspective.

⁵ Attached: CODC CAP OIA Request

During Aurora's consultation phase and including the Commerce Commissions consultation phase I have not been able to find a definition of an average user which indicate the expected price rise, currently 16.7% or \$30 more a month +GST⁶. Note that Aurora failed to declare in its Consultation Document⁷ that price rises exclude GST which is going to add an additional shock of 15% onto residential customers bills.

According to the Aurora's 2019 press website news⁸ lines charges account for a quarter of an average residential power bill. My power retailer Flick itemises my bill which has a separate section for lines charges. Line charges make up to close to 50% of my power bill, not 25%. So how accurate and applicable is Auroras claim that lines charges make up a quarter of the power bill. Ultimately how am I supposed to determine the financial implications on my household expenses. I would class my retired mother in law as a high user as she feels the cold and constantly runs a heat pump and heater, what is the bill shock going to be for her, I suspect significantly more than proposed.

Is the average price skewed by such things as low use holiday homes, absentee owners etc? Why was the price rise not presented as for example "price increase of 20c/kwh which would be \$30 a month for the average user"? Then consumer could look at their own power bills and go and use this figure to determine the amount of the increase based on their own useage.

I believe the price shocks are yet to come as Aurora assumptions and methodology cannot be relied upon and at the Commerce Commission drop in session it was advised that this was the number provided by Aurora and had not been verified by the Commission. People would have no idea if they are above, below, or average user. The Commerce Commission needs to publish Auroras proposed price schedules immediately or at least a cents per kilowatt hour increase so people can budget accordingly in this post Covid world.

The Commerce Commission is using the same methodology to present price increases⁹ based on a monthly increase instead of a real-world unit cost which can be used to calculate individual increases.

What happens if Aurora have misled the public and Commerce Commission and the real "average" price rise turns out to be significantly more?

⁶ [Commerce Commission Have your say on Aurora Energy's investment plan](#)

⁷ [Aurora Energy Your Network, Your Say Consultation Document](#)

⁸ [AURORA ENERGY CALLS FOR CUSTOMER VIEWS ON \\$400 MILLION THREE-YEAR INVESTMENT PLAN](#)

⁹ Have your say on Aurora Energy's proposal to change its prices and quality standards to fund major network investment

The Commerce Commission members at the drop-in sessions seemed oblivious to the fact that price effects would ripple through the community and more concerned about Aurora being a “profitable and viable business”, is this to be at the expense of the business they serve?

Business will have to increase their prices to cover costs which would have a flow on effect. The significant rises could even mean it could make businesses uncompetitive relative to their competition who are on other networks. As a result, this could cause the business to close and shut down. If the business was a significant power user this would result in a loss of revenue to Aurora who, then in turn increases the unit price to the remaining users putting more financial pressure on them and the vicious circle continues.

It does not have to be direct power price increases in the power bill that have an effect. The significant rise in power cost to say Central Otago District Council will force an increase in operational expenses to pay for the power used in street lighting, sewage plants, water treatment etc. This cost is then passed onto the consumer in their Rates.

The Commerce Commission under Section 53M (1)(a) of the Commerce Act has the ability to **“set the maximum price or prices that may be charged by a regulated supplier”**.

By setting a maximum price rather than revenue it would make Aurora less of a Monopoly. It could even drive them to innovate. Also, if consumers who can afford to move off grid and do, it is not going to financially disadvantage other consumers under the current system who would have to pick up the difference. Aurora would then have to get more innovative and competitive to entice consumers to stay on the network like in a unregulated market place.

Safety

There are still issues with Auroras safety management and inspection. There are still red tagged poles around here in what can be deemed high foot traffic areas. There is a red tagged pole on a significant lean near to a school bus shelter and community mailboxes and another in a high use area during public events.

Public confidence in Aurora is low and it has got to the point that we are ourselves surveying poles for condition and avoiding them by crossing the street if they do not look safe.

Poles that have been recently tested by Aurora and deemed safe, have also failed¹⁰.

My understanding is that there was significant red tagged poles through out the network which have had either some repairs made on them (nailed) or the poles have been reclassified and the red tags

¹⁰ [Otago power poles still failing due to 'prolonged under-investment'](#)

subsequently removed. Is it more cost effective and safer in the long term to replace these poles than to apply temporary/unproven repairs?

Expenditure

Section 6.5 of the Verification Report¹¹ highlights concerns that Auroras cost models are “somewhat problematic, as it is difficult to ensure a like-for-like comparison”, it continued on to say “In its report, Jacobs noted the lack of clarity on scope for many building block asset definitions.”. If Auroras costing are based off “problematic” cost models how accurate is its cost analysis. This report highlights that there needs to be a more rigorous independent review to ensure accuracy.

Have projects been sufficiently independently reviewed to ensure there is no price gouging by contractors and consumers are going to get value and quality for money. There is concern Aurora is being taken advantage of by its contractors charging them a premium to do the work as they know Aurora is desperate to have the work done. Therefore, the Commerce Commission should dictate to Aurora to take on more contractors to increase competition for its work to drive a fairer price through competition to the consumer and also ensure that high profit jobs are not given to their sister company Delta.

Of concern is that if a project comes in significantly under budget for whatever reason there will be a net gain in revenue for Aurora, for example an excessive price buffer built in. This additional revenue should then be returned to the consumer as they have paid for this work through this CPP process.

Are projects that have already been completed being retrospectively applied for under this CPP and I think this applies to “Urgent Project Allowance”. Only projects to be carried out during this CPP period should be part of this application as previous work should have been funded by previous line charges.

If Aurora have deemed that the revenue from these previous line charges was better spent in other areas (e.g. excessive salary increases, dividends etc) it should be on them to resolve, not the consumer retrospectively. Consumers have already paid these line charges in good faith to cover this work and frankly everything on this network is now urgent and this is through no fault of the consumer.

Has the work been satisfactory scoped? Currently more planned outages are going past their stipulated finish times which would indicate that there is a current lack of understanding of the work

¹¹ Farrierswier and GHD Verification Report Aurora Energy CPP

required. Is this extra work and cost going to result in higher costs which could result in other projects being deferred or cancelled?

Have Aurora significantly increased their operating expenses undesirably leading up to this CPP application. As an example, it was reported that significant pay rises were given to senior staff¹² last year and based on the company's performance seem unjustified. These and other escalated costs should then be calculated and removed from this application to relieve price pressure on the consumer.

Are Aurora borrowing money at a competitive interest rate? They are currently borrowing all their money through their sister company Dunedin City Treasury at the Commerce Commission benchmark rate (or something equivalent term that Commerce Commissions Nick Russ referred to). Nick Russ said if Aurora were able to borrow under this rate, they could keep the profits. In Auroras case they are borrowing at the max allowable rate from Dunedin City Treasury who are probably borrowing at significantly lower rate and passing the profits back to DCC at Auroras Consumers expense.

If Aurora were borrowing directly from a more competitive lender the significant savings could be passed onto the consumer or reinvested back into the network. Either way it seems that the Commerce Commission in this instance is supporting uncompetitive monopolistic behaviour at the expense of the consumer.

Oversight

The Commerce Commission has failed to regulate Aurora with regards to quality standards for at least the eight years and was the subject of a complaint to the Commerce Commission in July of this year which resulted in a fine of \$5 million which for Aurora could have been more cost effective to pay than fix the actual issues. The Commerce Commission need to have more tools to force Aurora to comply.

The Commerce Commission says they don't get involved in day to day business of Aurora but this is not day to day business. They are asking to spend significant amounts of consumer money in a process approved by the Commerce Commission. There needs to be greater oversight and involvement from the Commerce Commission other than the current disclosure reporting proposed. The Central Otago community has great mistrust in Aurora and would not be surprised if they said

¹² [Big salary hikes at under-performing Dunedin council-owned company, Stuff Sep 2019](#)

they were going to do something and they didn't and the Commerce Commission needs to ensure that all agreed outcomes are met.

Consumer price rises should not come into effect until the work has been fully completed, independently verified (because we do not trust Aurora) for cost, quality, safety and if the solution was fit for purpose i.e. not much point installing a new 10MVA transformer when network loads are currently at 9MVA with forecast increased loads.

This would mean there would be a lag in revenue to Aurora but this has already been mentioned as an option in the Issues Paper. This would mean that any work not done would not be passed onto the consumer and if the program is running ahead of schedule it allows Aurora to claim on that work early. It would allow Aurora the flexibility to change the program around if justified and approved – not used to front load higher revenue gathering projects first.

Competitive Market Litmus Test

Section 52 of the Commerce Act in relation to Part 4 of the act states its purpose is “**promoting outcomes that are consistent with outcomes produced in competitive markets**”.

If you were to take Auroras current financial position and current network state and were to place it in an unregulated competitive market and simulate what would happen you would probably see the following:

- If Aurora tries to increase prices to carry out works to prevent outages and/or drop reliability standards resulting in more outages it would start to lose consumers to other more competitive suppliers.
- Consumers leaving will cause a reduction in revenue and it would get to a point where investors would not want to put money in to invest in the network as they would be seeing diminishing and/or losing returns on their investment.
- This would have a snowball effect causing more outages and loss of more consumers and revenue to a point where the company would ultimately fail and collapse.

The Commerce Commission is effectively providing Aurora through the CPP process an artificial lifeline to keep Aurora solvent by guaranteeing revenue at its consumers expense.

Based on competitive market outcomes the Commerce Commission should let Aurora fail and go bust and let someone else come in and start again from a fresh slate.

Summary

The Aurora CPP application should be declined in full due to the inequity in the process, poor consumer consultation, consumer disagreement with the current plan and unverified costings for price rises.

There are also issues with the cost models used and current planned outages are over running which suggests that the scope of work required is not accurate.

Aurora need to go away and come back with a new application which is clearer and more transparent to the consumer and not use generalised statements like the price rise will be \$X a month for the average consumer. Include proposed price schedules or at least a kwh rate.

Aurora as a business also that fails the Competitive Market Litmus Test that proves that it is not financially viable. Aurora are relying on the Commerce Commission to keep them financially solvent with an artificial lifeline of a guaranteed revenue source from its consumer base and this is not acceptable.

Feedback to the Commerce Commission

The Commerce Commission needs to acknowledge that lines companies are an essential service and carry out a formal investigation which has led to this CPP application which covers both the Commerce Commissions role and Auroras role in the failure of the network/business.

The Commerce Commission needs to address its attitude towards the consumer and address the issues raised at the drop in sessions other than with the standard reply of “we hear you (and even agree with you in some instances) but we won’t/can’t do anything about it.”.

If it is not possible to address these issues through this CPP process it needs to take responsibility and drive systemic change, so no other consumer ends up in the same situation as the consumers of Aurora.

CODC CAP OIA Request

Trevor Tinworth

From:

Sent:

Thursday, 30 January 2020 4:47 PM

To:

Trevor Robert Haig Tinworth

Cc:

IS Service Requests

Subject:

##RE-48380## | Official Information Request: Aurora Energy Customer Advisory Panel (CAP) Sessions

Good afternoon Trevor

In response to your questions, there were no instructions and/or brief from Council on the future investment plan for the customised price-quality path. I was not representing Council but was a member on the Customary Advisory Panel (CAP) as a stakeholder. Accordingly Council did not have a position through the CAP, and there was no feedback to the Council following CAP meetings.

The only cost was my time and the cost of driving to Dunedin.

I suggest you contact Aurora Energy if you wish to obtain copies of the slides.

I trust this clarifies the matter for you.

Regards



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If you have received this email and any attachments to it in error, please take no action based on it, copy it or show it to anyone. Please advise the sender and delete your copy. Thank you.

Can you please provide the following information with regards to the Aurora Energy Customer Advisory Panel (CAP) Sessions which CODC representative/s attended:

- Pre CAP Session:
 - The instructions and/or brief which outlined CODCs position that was provided to the CODC representative/s for each session
 - Who provided/authorised these instructions/briefs
- Post CAP Session:
 - Feedback/reports from the CODC representative/s for each session
 - The Aurora Energy slide packs from the CAP Sessions
- The costs to CODC associated for each CAP Session

Ref:

<https://yoursay.auroraenergy.co.nz/customer-advisory-panel>

Thank you

Trevor Tinworth