

27 November 2020

Steve Thompson
Chair
Aurora Energy Limited
(By email only)

Dear Mr Thompson

Request for a meeting and concerns with Aurora draft customised price-quality path decision and process

I refer to your letter of Friday, 20 November 2020 which requests an urgent meeting with Commissioners to ensure that we understand your views on the “real world consequences” and “risks of the Commission’s proposed approach”. The letter also sets out your concerns over aspects of the draft CPP process and decision – chiefly, the level of non-network opex allowed for, the availability of certain advice from Strata Energy Consulting Limited (**Strata**), the status of the verifier’s comments, and the impact on Aurora’s financeability of capping price increases at 10% per annum.

Request for meeting

In relation to your request for an urgent meeting with Commissioners to discuss the CPP draft decision, there are significant procedural impediments to such a step as a live consultation process is underway. Commissioners, as decision-makers in this matter, are not involved in meeting CPP stakeholders during the consultation window, including at the various meetings we have been holding in Otago this week.

Instead, we propose that senior Commission staff meet with Aurora early next week in Dunedin. Andy Burgess is contacting Aurora staff to discuss possible timing.

I understand from your letter that Aurora would like to use the meeting to present its views on the draft decision and information that it intends the Commission take into account in reaching its final CPP determination. As you know, the Commission has committed to a transparent process of submissions and cross-submissions on its draft decision, and with a consultation on the draft decision already underway, Aurora should put its concerns and evidence directly into that consultation process, through its formal submission. The submission remains the key formal document Commissioners will consider when making a final decision on the Aurora CPP. The Commission staff’s role in a separate meeting with Aurora will be to provide any clarifications to enable Aurora to make this submission, rather than to provide an alternative channel for Aurora to engage with the Commission. A

comprehensive submission from Aurora on the draft decision will enable other interested parties to consider and respond, should they wish, in cross-submissions.

As with other meetings with stakeholders during the consultation process, staff will take notes of the meeting with Aurora and we intend to release these publicly (subject to redaction of any confidential material).

Concerns over the process for the CPP decision

Before turning to the specific points of concern you raise over the process for the CPP decision, I should emphasise that, like Aurora, we are seeking a successful CPP (and a package of other measures) that will provide the foundation for a safe and reliable network for the long-term benefit of all of Aurora's consumers in Otago. The decision we have released is a draft, and we will have an open mind when considering all submissions from stakeholders. In particular, we welcome additional evidence from Aurora or any other stakeholder that demonstrates why specific aspects of our draft decision may or may not be consistent with that objective.

Our decision on Aurora's CPP application has followed the framework set out by statute, and by the rules set out in the Input Methodologies relating to the assessment of a CPP. We are confident that our draft decision complies with this framework, given the information we had before us. The submission process that we are now following will allow us to take into account further information that stakeholders provide us in response to our draft decision.

We would encourage you to set out any concerns you have with our draft decision, and any other information that you believe is relevant to our decision making, in a formal submission on the draft decision.

Reduction in non-network opex - Strata's advice and the status of the verifier's report

In forming a view on the appropriate level of opex for the purposes of the CPP draft decision, a range of material was considered, including Aurora's proposal and supporting information, the verifier's report, post-submission discussions with Aurora and the verifier, information from the RFI process with Aurora, submissions, and advice from Strata. I disagree with the characterisation in your letter of the role of the Commission and the verifier in the CPP process. The verifier's report is an important piece of evidence, but the conclusions in that report were subject to a number of matters raised by the verifier as requiring additional consideration by us. More generally, the report needs to be assessed by the Commission alongside the other material listed above.

The advice from Strata took the form of briefing reports on particular issues that were requested by Commission staff. Those briefing reports were sought as inputs into staff's analysis, and, at the time they were requested, we did not anticipate publishing those briefing reports. Subsequently, we decided that it was important to provide that material, along with the explanations provided by Strata during meetings with Commission staff, to stakeholders for comment. We therefore asked Strata to combine its advice into a consolidated report, including with introductions and other changes to improve readability, clarity and suitability for publication. Unfortunately, there was a delay in obtaining that

consolidated report. The original individual briefing reports, as well as the consolidated report, were released to Aurora on Friday, 20 November, as had been previously indicated by Dane Gunnell to Alec Findlater. The consolidated report has now also been published on the Aurora CPP project page on our website.

Subsequently, on 23 November 2020, Alec Findlater wrote to Dane Gunnell requesting an extension to the deadlines for submissions and cross-submissions on the CPP draft decision, to allow Aurora more time to consider the Strata material. Given that the Strata material was provided to Aurora eight days after the draft decision, we have granted an extension of eight days for submissions, until Friday, 18 December 2020, with the deadline for cross-submissions extended until Monday, 18 January 2021. This extension has now been publicly notified.

Concern over the CPP draft decision - 10% limit on annual revenue increases

Turning to the issue of the revenue cap and financeability, our reasoning in relation to the imposition of the 10% limit on annual revenue increases is set out in our draft decision reasons paper. I do not intend to add to that in this letter. However, I would note that our draft decision identified two smoothed revenue path options which would see some revenue being deferred beyond the initial CPP regulatory period. Our draft decision noted that, when modelling revenue recovery, we had regard to both the impact of this on Aurora's financeability and smoothing the price shock to consumers (at paragraphs G33, G35, and G136).

The revenue deferral beyond the initial CPP period was based on our understanding of Aurora's proposal, which also proposed some revenue deferral, and the letter of comfort from Dunedin City Treasury Limited included with the proposal. If there have been changes to the information in Aurora's proposal, or additional information is now available, those changes and/or that new information should be explained in Aurora's submission. Any confidential information should be highlighted in a confidential version and redacted in a separate version suitable for public release.

Publication of correspondence

Finally, as your letter, the letter from Alec Findlater, and this response relate to our ongoing CPP process, to ensure transparency to parties who are preparing their submissions and cross-submissions on the draft decision, we propose to release these documents on the Aurora CPP project page of our website by the end of Monday, 30 November 2020. If there are any reasons why Aurora would object to this course of action, please contact Andy Burgess urgently.

Yours sincerely



Sue Begg
Deputy Chair