

Commerce Commission
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By email to feedbackauroraplan@comcom.govt.nz

Dear Commission

UNISON CROSS-SUBMISSION ON AURORA CPP APPLICATION – DRAFT DECISION

Unison welcomes this opportunity to cross-submit on submissions on Aurora's CPP application.

In Unison's initial submission we sounded a note of caution on the Commission's reliance on Strata's analysis of non-network operating expenses based on high level desktop-based reviews conducted without recourse to Aurora. It concerned us that the intention of a CPP - to be based on detailed scrutiny of a company's expenditure plans based on the specific circumstances confronting the business - was being eschewed in favour of higher-level approaches such as benchmarking (which we note is specifically legally prohibited when setting DPPs). While desktop reviews and benchmarking might be relevant in identifying areas for a closer look, we were surprised that the Commission adopted the high-level analysis as the basis for the draft decision rather than undertaking further scrutiny of Aurora's plans or reviewing the detailed analysis of the Independent Verifier.

Review of the expert reports from PwC and WSP, as well as Aurora's detailed comments on Strata's analysis have added to our concerns. Given the delays in releasing Strata's reports and the state of the spreadsheet models, which in PwC's expert opinion do not meet standards of good practice and appear to be subject to significant numbers of errors, is of significant concern. While submissions on a draft decision offers the opportunity to ensure a robust final decision can be reached, we are alarmed that the quality control processes within Strata and the Commission have been insufficient to identify what appear to be serious flaws. Perhaps the magnitude of Aurora's application has caught the Commission off-guard and has limited the time for carrying out more intensive engagement with Aurora? The post-CPP review will be important in identifying how this state has been reached and to identify improvements in the Commission's CPP review process to provide future applicants with confidence that scrutiny of the application will be to an appropriate standard. In the interim, we hope that the Commission has been using the time since receiving submissions to engage with Aurora in detail on the major points of variance between the draft decision and Aurora's application and will not seek to rely on the high-level analysis undertaken by Strata.

Aurora's submissions also raised the issue of the proposed cap on price increases, including from pass-through and recoverable costs, to cover Aurora's costs of delivering its plans. The Commission has proposed a 10% per year cap in total price movements. While we agree the

Commission needs to consider the impacts on consumers of price increases, the reality is that Aurora is expending on the network to deliver a higher level of resilience and reliability to its consumers and should reasonably expect to be able to earn revenues consistent with its expenditures. As we understand the situation, Aurora's prices are well-below industry averages and it is unclear how this has factored into the Commission's decision about the extent of allowable annual increases. Notably, when the Commission developed its rules for Transpower's revenue recovery it provided a highly favourable revenue profile by not indexing the asset base so Transpower could earn higher cashflows to support its substantial investment programme, despite the Crown being Transpower's shareholder. It appears that Aurora is highly concerned about finance-ability of its programme and, at the very least, we would expect the Commission to act consistently with ensuring adequacy of cash-flows to support Aurora's proposals.

Thank you for considering the points raised in this cross-submission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Nathan Strong', with a stylized flourish at the end.

Nathan Strong
GENERAL MANAGER COMMERCIAL