

2 September 2020

Mr Dane Gunnell
Manager, Price-Quality Regulation
Commerce Commission
44 The Terrace
WELLINGTON

By email only: dane.gunnell@comcom.govt.nz

Dear Dane

AURORA ENERGY CPP - INPUT METHODOLOGY (3.1.3) VARIATION APPLICATION

On 1 June 2020 we wrote to you proposing three Input Methodology (IM) variations, pursuant to section 53V(2)(c) of the Commerce Act 1986 and in connection with our CPP application.

In respect of our proposal to vary IM clause 3.1.3, which would permit Aurora to recover the prudently incurred costs of its network remediation programme in disclosure year 2021 that are above the DPP allowance, we advise that after careful consideration we have decided to withdraw that proposal.

Please note, however, that our request to vary IM clauses 3.3.2 and 5.3.5(1) remains active and unaffected by this decision.

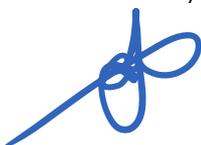
The reasons for our decision are two-fold:

1. Having had time to conduct a more detailed assessment of the merits of a varied urgent project allowance, following submission of our CPP application, we find that the benefits are not a great as we had first anticipated; and
2. While pursuing a varied urgent project allowance would allow us to recover prudently incurred expenditure in disclosure year 2021, this would place greater upward pressure on prices. We are mindful of consumer feedback that the price increases resulting from our CPP application will be difficult to manage for some consumers.

Further, we are concerned that justification and analysis of the IM variation proposal may be overly distracting for the Commission and Aurora. We would prefer not to divert focus from the core CPP application and achieving the best possible outcome for Aurora and consumers.

Despite withdrawing our proposal to vary IM clause 3.1.3, we remain firmly of the view that the elevated expenditure that will be incurred above the 2021 DPP3 allowance is being prudently incurred to remediate independently verified (WSP, Farrier Swier) network safety issues. While we have elected to forego to compensation for these additional costs, in the interest of moderating consumer price impacts, we remain concerned that Aurora will incur future penalties in the form of negative IRIS incentive adjustments. We ask the Commission to reflect on whether this is an appropriate outcome in Aurora's context, and request that the Commission consider exempting Aurora's 2021 expenditure from the IRIS.

Yours sincerely



Alec Findlater
General Manager, Regulatory and Commercial