Submission by Richard McKenzie, [redacted]

General Comments

Thank you for the opportunity to have my say. And thank you for the succinct information summaries of the situation provided by the Commerce Commission.

I'm an emeritus scientist with NIWA, based at Lauder Central Otago. But it's as a resident and ratepayer in Alexandra that I make this submission. My submission is not so much about the nuts and bolts of Aurora Energy's CPP Application. Rather, it's questioning whether the current structure is the most appropriate, and suggesting a couple of alternatives. However, there are a few direct responses to the application at the end.

In 2013 I wrote an Opinion Piece to the ODT (Nov 18, 2013) questioning the wisdom of the current supply, transmission and sales model for the electricity sector. The genesis of that piece was the realization that over the previous 13 years, the price of electricity had gone up in our area by approximately 10 percent **per year** (about four times the rate of inflation), driven mainly by increases in lines charges. By the end of the period, lines charges represented over 60 percent of our pre-GST bill. At the same time, lines charges for the neighbouring Waitaki district, with similar demographics and energy supply chains, was less than half that. The main difference between the regions was that after Bradford's ill-conceived ideology-driven changes, the Waitaki District opted to retain ownership of their lines, whereas Central Otago divested them to a party that was not accountable to local interests.

The main motive of new Dunedin owner over following years was to prop up the Dunedin City Council. The dividends they received were used to fund projects like the construction of Forsyth Barr Stadium and other ill-conceived ventures outside of their area of expertise, to the neglect of what should have been their core business of maintaining the energy distribution network. As a result, while Dunedin prospered from the cash cow, the lines capital deteriorated in Central Otago/Lakes Area, and even in Dunedin itself. Looking at the bar graphs in Aurora's report, it would appear that Aurora subsidized the Dunedin City Council to the tune of about 25 million dollars per year prior to 2018. In large part, that's the core of the problem.

It's unfair to now attempt to recoup that diverted money back as a charge to another group. If the Dunedin City Council was happy enough to take the dividends in times of plenty, it should also be required to bite the bullet when things aren't going so well. To attempt to foist these additional charges back on Central Otago residents is especially egregious. It's a relatively low-income area, with many old-age pensioners. Because of its extreme climate, household demands on heating are large. And, to maintain clean-air standards, we're mandated to move away from fossil fuel burning to greener electricity. For some, the financial burden of proposed increases in cost to bail out Aurora's former incompetence will be untenable.

Aurora state on page 6 of their report that their "distribution prices (averaged across our three network regions) have historically been among the lowest in the country". That may be the case for the average, but only because most of their users are in Dunedin, which has very low lines charges (about half those in Central Otago). It is manifestly untrue for Central Otago where, because of its low population-density, lines charges are far above the average. By my calculations, they're already more than 60 percent of the bill before tax when lines charges are transparently passed on to consumers, as is the case for Trustpower. Their more expensive rates passed on in winter are just when household demands are greatest.

The arrangement in Central Otago prior to Bradford's "reforms" was far preferable to what we have now. The price of electricity was relatively low, as Central Electric was operated as a service rather than being driven by the motive of pecuniary profits to the shareholders. If Aurora can't meet its obligations, they should be required to divest themselves of the responsibility and capital, and pass it on to others who'd have accountability to the people served. This could be done at a local level, perhaps involving Pioneer Generation, the Central Lakes Trust, or even new local entities associated with the District Councils.

Consideration should also be given to nationalizing the industry, and completely reversing Bradford's changes, rather than devolving to a more local level. The reasons for this are two-fold: for reducing the price of electricity, and for increasing the flexibility between sources.

Price: Like New Zealand, Canada's electricity supply is dominated by hydro power. The price of electricity there is still low, as it was in New Zealand before Bradford's failed reforms. The difference is that Canada's energy supply is seen as an essential service for consumers, not a profit-driven exercise for the benefit of (other) shareholders. So, it remains under government control.

At the time of Bradford's reforms 20 years ago (but not now) it may have made some sense to privatize generation and sales, but they were bound to fail in the case of lines companies, as monopolies would be inevitable. It just doesn't make sense to have more than one company providing that infrastructure – in the same way as it doesn't make sense to have privatized railway lines, roads, or high voltage transmission lines. They should be public assets for the public good.

Flexibility: The difference between now and 20 years ago is the increased diversification of energy supplies, including the move to renewable sources such as solar and wind energy. Further increases in these will be required in the decades ahead to meet New Zealand's increasing energy demand associated with the de-carbonation of the economy – including the move to electrification of transport. These renewable energy sources are more intermittent, so increased agility will be needed to rapidly switch between sources at all time scales. Competing profit-driven motivations will be a serious impediment to being able to implement the successful switching between energy supplies that will be needed.

Both of those suggestions will take time. In the meantime, Aurora should be required to have meaningful board representation from both the Central Otago and Lakes District regions. These areas are outside Aurora's current area of accountability, but its consumers are directly affected by their decisions. And, because Aurora has a monopoly, they have no viable alternative.

One avenue the board could then pursue would be to eliminate lines-charge price differentials between regions within the Aurora network. The current regime is just an ideology based on the "user pays" principle, but it doesn't really get there. The network connector density where I live in Alexandra is probably quite similar to Dunedin's, where lines charges are only half mine. But my region happens to include small places like St Bathans and Cambrians, where costs per consumer are high (but probably not much more than in some isolated regions in the Dunedin core area – e.g., Tairoa Head). Why should I pay more because of such an arbitrary distinction? Rather than going down the user pays line to its logical conclusion, with different rates for each user, one could argue that it would be better to have a uniform charge for all consumers. According to the information on Aurora's web site, current (anytime winter) lines charges for Dunedin City are 13.2 cent per kilowatt hour, which is 4.4 cents less than the 17.6 cents per kilowatt hour in Central Otago. With most consumers in Dunedin city, the levelled price would be around 15.2 cents for kWhr for everybody.

Since Dunedin users were unfairly advantaged previously, the extra charge now would be a reasonable cost to pay to get the company back to solvency.

In a future utopia with government-controlled lines throughout the country, a flat charge would be feasible and equitable because the small proportion of subscribers outside metropolitan centres would mean that increases in those areas would be negligibly small. Recent experiences with Covid-19 remind us that our economy is dependent on the agricultural community. In view of that, a miniscule surcharge to city residents would be a small price to pay to maintain a flat rate for all subscribers. This is the sort of new thinking we should be pursuing in the brave new world were heading into. Hopefully that's a world where services are just that, and not merely vehicles to justify huge salaries for CEOs and their management circle and shareholders.

Specific Comments about Aurora's report.

P8. The problem of "borrowing at elevated levels" is ridiculous. Never in recent history has the price of borrowing been lower. In order to survive they may have to borrow if they can't recoup their losses from their shareholders (the ratepayers of Dunedin). The term of the repayments should be tailored to match the life span of the investment, rather than have the small current cohort of consumers pay for the entire infrastructure. That's not fair.

P24. What is meant by normalized in the plots on this page? I know what the term means, but I can't see how its applied in these graphs. Normalized to what?

P26. "We have listened …". Did nobody suggest that you borrow the money, rather than recoup it directly from this cohort of consumers?

P16, 17, 19, 22. Why do the charts go back only to 2014 or 2015? It seems the problems started much earlier than this and may in fact have been worse, as noted in my opinion piece from 2013. Why wasn't the Commerce Commission more involved back then?

Specific Comments about Commerce Commission Material

* I note with concern that as a result of past investigations, in March 2020 "Aurora was ordered by the High Court to pay a penalty of $5 million". This would disturb me greatly if the costs weren't borne by the management directly. I suspect that instead, those charges come straight back to the innocent consumers who are already suffering from past mismanagement on the part of Aurora's directors. They no doubt get sizeable salary packages and big parachute payments if their contracts are terminated. That aspect of capitalism makes me sick. There's no real accountability – even rewards - for the fat pigs at the top who cause the problems. They should be summarily fired.