Cross-submission

Default price-quality paths for electricity distribution businesses from 1 April 2025: Draft decision

2 August 2024

1 Introduction

1.1 Aurora Energy welcomes the opportunity to cross-submit on the Commerce Commission's (the Commission's) Default price-quality path for electricity distribution businesses from 1 April 2025- Draft Decision.

1.2 No part of our cross-submission is confidential.

1.3 We generally support the views raised by the Electricity Networks Aotearoa (ENA) and would like to take this opportunity to provide additional comments on two specific issues raised in submissions.

2 Annual Delivery Reports do not deliver value for consumers

2.1 Aurora Energy does not support MEUG's submission that Annual Delivery Reports (ADRs) will benefit consumers.

2.2 As part of Aurora Energy's Customised Price-Quality Path (CPP) determination, we are required to prepare and disclose in a public forum an ADR for each year of our CPP. In our experience, the preparation of the ADR incurs significant cost, and despite our attempts to promote the ADR in public forums, there has been almost no consumer interest in the report.[1]

2.3 Consumer engagement should be a fundamental activity of any good EDB, but we believe each individual EDB is best placed to determine how to effectively communicate with its consumers and stakeholders. The imposition of an ADR requirement risks diverting resources and costs away from activities that would be more meaningful for consumers.

2.4 In addition to the customer engagement activities we already undertake, EDBs are also required to provide public information annually in the form of the Information Disclosures, Asset Management Plans, and in many cases an Annual Financial Report. If the Commission do proceed with the introduction of ADRs, then we urge careful consideration of the cost of complying with these requirements and the value that this would provide to consumers. In assessing the compliance cost of ADRs, the Commission need to consider:

- Whether the ADR information is qualitative or quantitative,
- Whether the information is already collected by EDBs, and whether additional data capture processes and resources are required,
- Whether the ADR is required to be audited,
- The method for communicating the ADR with consumers.

3 The inflationary cost escalators proposed by the Commission will likely understate the industry's real cost increases in the DPP4 period

3.1 Aurora Energy supports the findings from Oxford Economics Australia's (OEA's) report on labour and material cost escalation.

3.2 The report's findings are in line with our own experiences in the current DPP3 regulatory period, and we note that the drivers for EDB cost inflation are likely to persist in the DPP4 period. As highlighted in the OEA report, we expect cost increases for materials to continue to outpace general CGPI inflation due to the increased demand for materials from electrification.

[1] In May 2023, Aurora Energy raised specific concerns around the ADR process in a letter to the Commission: Electricity-Distribution-ID-Exemption-Aurora-Energy-Public-Forum-Presentations-25-September-2023.pdf (comcom.govt.nz)

3.3 Similarly, we anticipate inflationary pressures for electrical labour expertise to be higher than the general labour force due to the increasing demand for skilled staff to support electrification.

Our primary concern is that the proposed cost escalators will lead to opex allowances that are insufficient for EDBs to maintain safe and reliable operations without incurring IRIS penalties. We acknowledge and support the Commission's moves towards calculating IRIS on a real basis, but we note that if this calculation uses CPI as the inflation input, EDBs are likely to be financially impacted due to industry specific inflation outpacing general economy-wide inflation as measured by CPI.