

By email

26 June 2014

Grady Cameron
Chief Executive Officer
Aurora Energy Limited
10 Halsey Street
PO Box 1404
DUNEDIN 9054
Email: [REDACTED]

Dear Grady

Aurora Energy Limited – warning for non-compliance with the DPP quality standards and for late submission of compliance statement for the 2012 assessment period

Purpose

1. The purpose of this letter is to advise you of our decision on Aurora Energy Limited's (Aurora) 2012 non-compliance with the quality standards under the Electricity Distribution Services Default Price-Quality Path Determination 2010 (Determination).

Warning for failing to comply with the quality standards

2. You advised us in Aurora's 2012 compliance statement that Aurora was non-compliant with the quality standards for the 2012 assessment period.
3. Rather than seeking a penalty, we have decided to issue this warning letter. We reached this decision after assessing Aurora's non-compliance against our enforcement criteria.

Our expectations regarding Aurora's future performance

4. It is Aurora's responsibility to comply with the quality standards and to decide what actions to take in order to do so.
5. Our engineering advisors, Strata Energy Consulting (Strata), expressed a number of concerns about Aurora's asset management practices as they relate to Aurora's quality performance.
6. We acknowledge that following Aurora's failure to comply with the quality standards for the 2012 assessment period, it has complied with the quality standards for the 2013 and 2014 assessment periods.

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7. Notwithstanding its 2013 and 2014 compliance, if Aurora fails to comply with the quality standards again, its 2012 non-compliance will be a relevant factor that may lead us towards a stronger enforcement response. Particularly relevant would be the extent to which the concerns raised following Aurora's 2012 non-compliance contributed to the second non-compliance.
8. We expect that electricity distributors' network performance and asset management will be the subject of increasing summary and analysis in future. The extent to which Aurora has addressed the concerns raised following its 2012 non-compliance may be considered as part of this process.

Our decision to issue a warning letter

9. We consider that Aurora has contravened a price-quality requirement applying to regulated goods or services as described in section 87(1)(a) of the Commerce Act 1986 (Act). We may take Court proceedings seeking a financial penalty and compensation under the Act for this type of contravention.
10. We analysed Aurora's non-compliance using our enforcement criteria:
 - 10.1 extent of detriment;
 - 10.2 seriousness of conduct; and
 - 10.3 public interest.
11. Based on our assessment of the non-compliance against these enforcement criteria, we decided to exercise our enforcement discretion not to seek a penalty from Aurora.
12. In terms of conduct, having assessed the circumstances of the non-compliance, we considered that there was no serious fault on Aurora's part.
13. While any network outage causes inconvenience for consumers, we did not identify any significant specific detriment to consumers on Aurora's network as a result of the non-compliance, or any over-riding public interest in seeking a penalty.
14. In responding to the non-compliance, we are seeking to deter Aurora from failing to comply with the quality standards again in the future.
15. We have decided against seeking a penalty because, having considered the circumstances of the non-compliance, we consider that a warning ought to be sufficient to deter Aurora from failing to comply with the quality standards again.

Strata's report about Aurora's quality performance

16. To assist in our assessment of the circumstances of Aurora's non-compliance with the quality standards, we engaged Strata to review Aurora's quality performance. We also considered Aurora's response to Strata's report, as well as other material provided by Aurora, before reaching a decision on our enforcement response.

17. In addition to Strata's findings on the circumstances of the 2012 non-compliance, Strata expressed a number of concerns and recommendations relating to Aurora's asset management. Strata's concerns and recommendations are set out in detail in its report.
18. Aurora responded to Strata's report by a letter dated 7 August 2013. Aurora indicated that it agreed with Strata's recommendations and that Strata's findings largely confirmed the view that Aurora had already formed. Aurora also provided a small number of suggested amendments to the Strata report, which Strata considered but decided there was no need to revise its report to account for.
19. We acknowledge Aurora's positive response to Strata's report and that Aurora has already initiated work streams aimed at addressing Strata's concerns. For example, Aurora is targeting significant capital expenditure at improving the reliability of its worst performing feeders.
20. We expect Aurora to continue to take appropriate steps to mitigate the risk of future non-compliance with the quality standards.
21. There are a number of concerns that we would particularly like to draw to Aurora's attention, which might contribute to future non-compliance with the quality standards if not addressed by Aurora. These concerns are:
 - 21.1 Aurora's vegetation control has been insufficient to prevent significant tree encroachment on lines, which has likely contributed to the frequency and duration of outages during periods of high winds;
 - 21.2 Aurora has had an increase in defective equipment incidents;
 - 21.3 there seem to be shortcomings in Aurora's knowledge of its asset condition; and
 - 21.4 Aurora's reliance on its 6.6kV network as a back up to its aging 33kV cables in Dunedin could lead to major power outages.

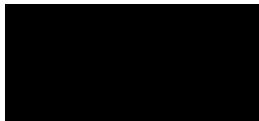
Warning for submitting 2012 compliance statement late

22. Aurora is also warned for failing to submit its 2012 compliance statement within 50 working days of 31 March 2012, as required by the Determination. Aurora's compliance statement was due on 14 June 2012 but not provided until 3 August 2012.
23. Aurora advised that its failure to submit its compliance statement on time was due to a loss of archived SAIDI and SAIFI data, which in turn delayed the issuance of the audit report.
24. We understand that Aurora has since addressed the system issue that caused the loss of archived SAIDI and SAIFI data.

Further information

25. We enclose a summary of our enforcement decisions, which explains the process and reasons behind our response to the four electricity distributors that failed to comply with the quality standards for the 2012 assessment period.
26. This warning letter, the summary of our enforcement decisions, Strata's report, and Aurora's response to Strata's report will be published on our website. We may also issue a media release or make public comment about our decision.
27. Please contact Simon Wakefield on [REDACTED] or by email at [REDACTED] if you have any questions about this letter.

Yours sincerely,



Sue Begg
Deputy Chair

Encl.

- Summary of the Commission's enforcement decisions in response to non-compliance with the default price-quality path quality standards for electricity distributors for the 2012 assessment period, Commerce Commission, 26 June 2014.
- Report on the reliability performance of Aurora Energy Limited, Strata Energy Consulting Limited, 24 June 2013.