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20 August 2020

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Manager, Price-Quality Regulation
Commerce Commission
44 The Terrace
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By email only: feedbackauroraplan@comcom.govt.nz

Dear Dane

AURORA ENERGY'S SUBMISSION IN RESPONSE TO THE COMMISSION'S CPP ISSUES PAPER

1 We welcome the opportunity to submit our views on the Commerce Commission's paper, *Discussion of key issues and questions for consumers and stakeholders* (Issues Paper).

2 The Appendix to this submission provides a brief response to each of the questions raised by the Commission in the Issues Paper but we have not sought to address all matters comprehensively. We instead refer to the company's CPP proposal, which sets out our views and evidence to support the investment and service outcomes proposed and we would encourage interested parties to seek further information from this source.

3 There are five specific issues that we have expanded on in this covering letter. These are.

3.1 proposals for reducing prices and price smoothing;

3.2 length of regulatory period;

3.3 operational expenditure base-year and efficiency;

3.4 our ability to deliver our CPP

3.5 Covid-19; and

3.6 CPP reporting.

Proposals for reducing prices and price smoothing

4 In several areas, the Issues Paper seeks views on whether price increases should be reduced by either deferring investment or by extending price increases across multiple regulatory periods. For the reasons summarised below, we consider that there is little scope to further defer investment beyond the CPP period without running a real risk of reducing the company's investment to a level that is not considered prudent. The high level of verification of our plan supports this view.

5 Equally, seeking to further defer revenue recovery by pushing out cashflows beyond the CPP period is also untenable and would have significant adverse financial impacts on the business. This is particularly the case given that the company has already deferred around $50m of revenue to beyond the CPP period. Further cashflow deferral would result in an outcome that

runs contrary to the economic objectives of the Commerce Act; being to ensure that a company has an incentive to efficiently invest and can finance its functions.

Deferring investment

6 The Independent Verifier was able to verify most (in the order of 97% of reviewed expenditure) of the forecast expenditure proposed by Aurora in our CPP application (page 13 verification report). The Independent Verifier also noted that "*Aurora Energy is addressing specific network safety and reliability needs, is on an asset management journey, and is preparing its network for the future.*"[1] The Independent Verifier noted that: "*Aurora Energy also appears to have gone through a rigorous internal review and moderation process*"[2] (p 17). The Independent Verifier was required to assess Aurora's proposed CPP investment against a standard, based on prudence and efficiency, as specified by the Commerce Commission in its 'expenditure objective'.[3]

7 Given that the company's proposed increased investment has already been moderated and is required to reduce safety risk, stabilise asset performance, improve asset condition through addressing a rising backlog of asset renewals and maintenance, any significant deferral of expenditure will necessarily result in customers bearing an increased risk of adverse safety and network performance outcomes, which the company thinks is unacceptable. Both the company and our customers are currently wearing the consequences of having deferred investment in the past, and this is a situation no-one wants repeated.

Avoiding price shocks

8 It is a fact that Aurora's expenditure over the past three years has exceeded the Commission's expenditure allowances. This over-spend, to date, was prudent considering the safety issues identified by the Commission, Deloitte (in its 2016 report)[4] and then WSP in its 2017 independent review of the state of Aurora's network and Aurora's asset management maturity[5].

9 To date, Aurora's prices have not been adjusted to reflect the increased investment and, in fact, a large part of this already committed investment will never be fully recovered and will be to the cost of Aurora's shareholder. The consequence of this overspend has been to put significant financial pressure on the business which cannot continue, and one of the objectives of the CPP process is to appropriately realign the company's cashflows, matching the costs of appropriate expenditure outflows with incoming revenue from lines charges, so that the company, as a regulated supplier, has an *ex ante* expectation of earning an appropriate (normal) rate-of-return, and maintaining its financial capital in real terms.

10 We have been clear from the outset that our CPP investment plan will impact the prices customers pay for our distribution services. If our plan is approved, our revenue will need to increase to recover the additional expenditure. This cannot be avoided if we are to undertake the necessary investment.

11 Following very clear feedback on the proposed price increases, received from customers during our own comprehensive consultation, we took steps where possible to reduce the price shock to customers. We did this by:

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1 Farrier Swier. (2020). *Verification Report: Aurora Energy CPP Application*, p13.

2 Farrier Swier. (2020). *Verification Report: Aurora Energy CPP Application*, p17.

3 Commerce Commission. (2020). *Electricity Distribution Services Input Methodology Determination 2012*. Para 1.1.4(2), p28.

4 Deloitte. (2016). *Review of Aurora Energy Limited / Delta Utility Services Limited – Network Safety Concerns*

5 WSP. (2018). *Aurora Energy: Independent Review of Electricity Networks*. Retrieved from https://www.auroraenergy.co.nz/assets/Independent-Review-Mar-2018/WSP-Final-Report-PS109832-ADV-REP-003-RevD.PDF

11.1 moderating our plans and removing any non-essential investment from our proposal (as noted by the Independent Verifier);

11.2 extending the price increases across multiple regulatory periods by deferring a significant amount of required revenue recovery (in the order of $50m associated with the IRIS incentive wash-up allowance) to after the CPP period; and

11.3 smoothing the annual rate of price increase during the CPP period itself to reduce any initial price shock.

12 It is worth elaborating further on the steps we have already taken to extend the price increase over multiple regulatory periods, to better manage price shocks. The impact of regulatory incentives on our prices during the CPP period is significant (this is a feature of applying the regulatory rules), and we have proposed to the Commission that instead of the incentive being recovered within the CPP period, we spread it over eight years (the CPP period plus a further 5 years) to manage the impact on prices. This has meant deferral of approximately $50 million over five years, reducing price increases by circa 11% (compared with non-deferral).

13 We know that the resulting price increases during the CPP period, even after the deferral we've applied, remains significant; but in deferring this revenue, we have sought to achieve a balance between prioritising customer affordability with the need to finance the business.

14 Any further deferral of cashflow outside of the regulatory period would have a material adverse financial impact on Aurora.

Length of the regulatory period

15 The Commerce Act allows the Commission to set a CPP regulatory period of less than 5 years, but not less than 3 years, if it considers this would better meet the purpose of Part 4 of the Act.

16 The Commission is seeking views on whether customers prefer a three or five-year CPP period. For the reasons set out below, Aurora has requested that the Commission set an initial CPP regulatory period of three years, with a view to then setting a subsequent five-year CPP period.

17 We proposed a three-year CPP period (followed by a second five-year CPP) recognising the current maturity of the business (post separation from Delta in 2017), and in the knowledge that our elevated levels of investment will extend out at least over the next 8 years. As such, the company would be under enhanced regulatory and stakeholder scrutiny for a number of years.

18 It made sense to us to focus our efforts on the essential work before us over the next three years, demonstrate efficient delivery of this priority plan, and then present and consult on an investment plan for the subsequent five-year period.

19 We foresaw two main risks associated with asking the Commission, at this stage, to lock-in and fix a five-year CPP, noting that these risks flow through to customers, the Commission, and the company:

- Firstly, as is generally the case with other EDBs, the accuracy and granularity of investment forecasts become less certain the further out in the period the forecasts are considering. In Aurora's case, this was perceived to be a particular risk given the maturity of the business and the journey we are on to lift asset management maturity over the next few years. Our view was that meeting the Commission's rigorous expenditure objective via the verification process in the later years of a five-year CPP would be less certain and run the risk of allowances being set either too high or too low; neither case being in the long-term interests of customers nor the company.

This perceived risk has been partly mitigated by the fact that the Independent Verifier was in fact able to substantially verify both our three and five-year expenditure forecasts to an equal level, which was gratifying for the Aurora team.

- Secondly, and again related to the current state of the company's maturity, we have concerns around the setting of quality path targets for a full five years. As part of a CPP determination, the Commission is required to set both a price and quality path for the duration of the regulatory period. Given the company's history with breaches of the quality (reliability) path, we have considerable concern and see some significant risks with locking into a fixed reliability target for a full five-year period.

  Over the past few years, we have made considerable progress in developing our understanding of the drivers of network reliability but despite this, the maturity of the company's quality modelling, particularly in the context of the later years of a five-year regulatory period, would remain a major concern. Our view is that quality standards must be reasonably capable of compliance, and that it would be inappropriate to set limits that could essentially 'force' a future breach of the price-quality path. Further, given the ongoing scrutiny of the $5 million fine levied on the company for previous breaches, as well as consultation feedback, a further quality path breach resulting in a similar outcome would be detrimental to both the reputation and credibility of Aurora and the Commission.

  If a five-year CPP was to be determined by the Commission, some way of mitigating the quality breach risks for the company in the later years would be required. This may, in fact, be possible given the safety (as opposed to reliability) focus of the CPP investment, and it is an area we can give further thought to depending on the feedback from the Commission's consultation.

<u>A five-year CPP does not drive lower prices</u>

20 It is perhaps worth clarifying that were the CPP period to be extended from three to five years, this will not necessarily result in lower prices; for example, by spreading three years' investment over five years. Our recently published asset management plan signals the need for annual investment to continue broadly at current levels for the next 8 years or so, and therefore moving to a five-year CPP period would lock an additional 2 years of investment into the CPP period.

21 It is acknowledged that a five-year CPP period would provide more certainty for customers, and potentially result in lower transaction costs, were a second CPP application to be avoided.

Operational expenditure base-year and efficiency

22 The Issues Paper seeks comment on the overall appropriateness of Aurora's operational expenditure (opex) proposal, and whether it delivers better outcomes for customers. The Independent Verifier reviewed approximately 90% of our proposed CPP opex and verified approximately 97% of this. Prior to us finalising our proposal, the Independent Verifier identified areas where it considered our operating expenditure forecasts could be adjusted, and areas where further analysis may be required. We noted their feedback and adjusted our forecasts accordingly. We also included several efficiency-based reductions. The Commission appears to have adopted the Independent Verifier's recommendations for further analysis, and we are assisting with this review. To ensure the credibility of the Independent Verification process, we believe the Commission should rely on the Independent Verifier's guidance.

23 Our proposed opex is necessary, and is linked to the network safety, asset health, and network performance outcomes we are targeting. The Aurora team charged with delivering the plan compares well against other EDBs both in terms of capability, capacity and cost.

Our ability to deliver our CPP

24 In 2017, Aurora separated from Delta Utility Service Limited, and was established as a standalone company. Since then, we have significantly enhanced our capability and capacity to efficiently deliver large programmes of work. In 2018, we undertook a major reform of our contracting model and shifted from one to three principal field service providers, supported by further approved contractors. This introduced competitive tendering and panel arrangements and ensures access to skilled resources while providing a framework for improved service delivery and competitive tension to deliver efficient outcomes.

25 Our ability to successfully deliver our work programme has been a key consideration during the development of our proposal. Our delivery capability was rigorously tested by the Independent Verifier, who concluded that "*…the work proposed in the capex and opex forecasts over the CPP and [five-year] review periods does not appear undeliverable, notwithstanding some risks…Aurora Energy has identified these risks and has an appropriately advanced delivery plan across the opex and capex programs.*"[6].

Covid-19

26 We agree with the concept of introducing a demand-driven mechanism to deal with the uncertainty driven by the Covid-19 pandemic. If specified and implemented appropriately, such a mechanism would allow us to revise our investment plans over time. This will be important during a period likely to see significant economic uncertainty.

27 We are reasonably confident that Covid-19 will have an impact on growth-related projects. We used this opportunity to defer uncertain growth projects; removing the impact of this capital expenditure (capex) on prices.

28 When developing our CPP investment plans, we assumed that Covid-19 would set back growth by two years; but beyond that period, growth would continue at historical levels. However, during this year's July school holiday period, demand in the Queenstown Lakes District was higher than the equivalent period last year. This underlines the uncertainty we face when forecasting demand over the next one-to-two years.

29 A streamlined contingent project mechanism should be put in place to better manage this uncertainty. We believe it is important that we can support a return to economic growth if that occurs earlier than expected. We are happy to engage further on how this might be achieved.

CPP reporting

30 We are committed to ensuring that the Commission and interested parties have access to information that provides transparency on the delivery of our CPP programme. We support providing periodic updates on the delivery of the programme to give assurance to stakeholders that we are meeting our targets. Consideration should be given to the relative immaturity of some of our systems and reporting processes when specifying the required information and level of detail.

31 We believe that there are lessons to be learned from existing CPP reporting regimes, and we hope to engage with the Commission on how best to balance stakeholder information preferences with the resources required to compile and communicate these. We propose to work with the Commission over the coming months to develop an appropriate reporting framework.

32 The remainder of our response addresses the individual questions raised in the issues paper. We have provided our views where appropriate, noting that some of the questions are primarily directed at interested parties.

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6 Farrier Swier. (2020). *Verification Report: Aurora Energy CPP Application*, p19.

Yours sincerely

Alec Findlater
General Manager, Regulatory & Commercial

Appendix: Responses to Issue Paper Questions

Our responses below should be considered together with our CPP application and supporting material.

1.1	**We would like to hear your views on Aurora's proposed price increases and how best to manage price shocks for consumers. For example, would you prefer prices to increase immediately followed by inflationary adjustments, or would you prefer prices remain steady initially to give you time to adjust, but then be adjusted at a faster rate?**

Our CPP proposal was developed and shaped by our consultation with consumers, in which they told us that they would prefer that the price impact was managed by being smoothed throughout the CPP period (neither front-loaded nor back-loaded). Our key focus has been to manage the impact of the opex IRIS incentive adjustment which, as we explained in section K.3.4. (p209) of our CPP Application, operates differently under DPPs and CPPs, and in our case swings from being a very significant negative incentive adjustment (-$18.5 million in RY21) to strongly positive.

When regulatory incentive adjustments are ignored, the change in Maximum Allowable Revenue (MAR) from the DPP to the CPP is just 0.8%, with MAR changing thereafter by CPI+10% annually. This was a conscious decision to hold the starting revenue as flat as possible to temper the regulatory incentive impact. Despite this, the impact of regulatory incentives is such that a large revenue change (~ 41%) is all but unavoidable.

1.2	**Would consumers be willing to pay more in order to smooth price shocks by shifting them into the future? (Note that this means the total amount recovered from consumers will be higher as a result of the interest expense to reflect the cost of financing, which in this case is 4.6% per annum.)**

In developing our CPP proposal, we have been mindful that the most significant contributor to consumer price shock is the impact of regulatory incentives, as described in 1.1, above. To manage this impact, our CPP application proposed to spread the impact of regulatory incentive adjustments over eight years. This deferral aligns with our strategy of an initial three-year CPP, designed mitigate key safety risks and stabilise network performance, followed by a subsequent five-year CPP aimed at consolidating safety improvements and starting to introduce network performance improvements (subject to consumer support).

1.3	**What are your views on extending the price increases across multiple regulatory periods to better manage price shocks for consumers? (Note this could cause Aurora to have to borrow further to fund its investment.)**

We are mindful of the price shock impact to customers and have taken prudent steps to mitigate these, to the extent that we are able to, as described in 1.1 and 1.2, above. That notwithstanding, we must balance consumer price shock with the cashflow we require to operate the network and make the renewal investments needed to ensure consumers receive an electricity delivery service that is safe, and which meets customers' reliability expectations.

Aurora's expenditure has been well above its regulatory allowances, as outlined in paragraph Table 1 (p8) of our CPP Application. This overspend has been supported and funded by our shareholder and has placed significant financial pressure on the business; however, the overspend was prudent considering the issues identified by the Commission, Deloitte (in their 2016 report) and WSP in their 2018 independent review of the state of Aurora's network and Aurora's asset management maturity.

Deferring price increases across multiple regulatory periods would extend the significant cash shortfalls we have experienced to-date and would have a material adverse financial impact on Aurora.

We remind the Commission that Aurora's financial position was explained in a confidential annex to our submission on the Commission's updated draft DPP3 decision, dated 9 October 2019. The financial projections in that annex have not changed materially in the intervening period.

2.1	**Would you prefer a three or a five-year CPP period and what do you think the Commission should consider in making its decision on the length of the CPP period that will apply to Aurora?**

Our CPP proposal was developed, and its terms specified, on the premise that it would be a three-year period. We proposed a three-year period to ensure our investments and quality standards are as well specified as possible. Similar to other EDBs, the accuracy and granularity of our forecasts becomes increasingly uncertain over time. Given the limited state of some of our asset information and associated systems, our forecasts are materially more robust over the initial three years compared with years four and five (RY25 and RY26).

Notwithstanding the findings of the Independent Verifier, we retain our view that the prudence and efficiency of our investments in years four and five would be improved were they part of a second CPP application. In simple terms, we would make better investment decisions for years four and five as part of a second CPP application. A three-year CPP would therefore facilitate an optimised balance of opex and capex in the subsequent period, to address risks identified through the three-year CPP, and result in better outcomes for customers in the medium to long-term.

In terms of CPP reporting, we would expect delivery reporting to be more resource intensive and of less use to stakeholders under a five-year CPP due to increased variation from our proposed plans.

The increased uncertainty is particularly relevant to our proposed quality standards, which were proposed on the basis of a three-year period. A five-year period increases the potential for breaches and financial penalties. We would therefore seek to adjust our proposal to reflect this increased risk.

It should be noted that our commitment to a second, follow-up CPP application was predicated on the first being a three-year period. We would need to reconsider the merits of a second application if the first period was five-years.

We note the Commission's view (*Issues Paper para 2.5.3*) that the Commerce Act precludes a second CPP application prior to 2026. We do not share this view, based on specialist legal advice. We expect to explore this point with the Commission prior to its draft determination.

In summary, <u>we believe a three-year CPP would deliver better outcomes for customers in the medium to long-term.</u>

3.1	**Do you agree that, given Aurora's present asset management maturity, improving its understanding of safety risk and associated costs over the CPP period should be a priority?**

We would like to reiterate that our focus has been, and will continue to be, on improving our understanding of safety risks on our network. This includes ensuring that investments and initiatives to address these risks are effective, while managing their associated costs. Improving our asset management maturity will help ensure that our understanding of safety risk is improved and allow us to make more optimal investment decisions as we progress towards addressing moderate level risks, requiring improved data and analytics to inform our decision making.

We would like the Commission to expand on its advice in Paragraph 3.12 of the Issues Paper. While we don't disagree with the overarching point, it is unclear what the Commission expects, practically speaking, from our proposal in this respect. We expect that the vast majority (if not all) EDBs in New Zealand would have significant difficulties undertaking the "safety risk cost trade-offs" analysis described. In reaching any reasonable conclusion on our capability, and to enable a transparent review of our proposed investments, we would appreciate the Commission clarifying its expectations in this area.

We note the following view of the Independent Verifier on our approach in relation to ALARP (emphasis added):

> *"Although Aurora Energy has only explicitly considered the ALARP principle when forecasting expenditure for some asset fleets (e.g. zone substation related), the age and condition based modelling used for other fleets are based on assumptions that are consistent with those adopted by other NZ EDBs – suggesting that the* ***forecasts themselves are consistent with the principle****, even if the approach used to generate them may not consider it directly."*[7]

In summary, we believe our forecast expenditure to address safety risk is founded on good industry practice for a New Zealand EDB.

4.1	**Do you consider that a safe, reliable, and resilient network and clear communication about outages capture the main features of quality that you expect to be included given the proposed increase in Aurora's prices?**

As set out in our CPP proposal, our main aim is to improve the safety-risk position of the network and we have used the following priorities to guide our investment decision-making:

- our primary, short-term focus is on investing to reduce the level of safety risk on the network;

[7] Farrier Swier. (2020). *Verification Report: Aurora Energy CPP Application*, p460.

- reflecting customer feedback, we will not actively or deliberately pursue reliability improvements;
- we will continue to address replacement 'backlogs' resulting from historical underinvestment;
- we will target improvements to our asset management capability and align with good practice;
- we will pursue improvements in our delivery capability and supporting processes;
- we will ensure we can continue to connect new customers; and
- we will improve our processes to deliver better and more streamlined customer services.

In terms of reliability, we explored customer preferences when developing our CPP proposal.[8][9] In summary, customers told us:

- our least expensive investment plan, based on the lowest reliability improvement, was preferred over the other alternatives;
- most customers are satisfied with the current reliability of their power supply and very few want to pay more for improved reliability; and
- additional service improvements were not well-supported, as customers were unwilling to pay more than was essential.

While we have not included specific investments to improve reliability and resilience, our safety-driven investments will reduce the likelihood of asset failures, which will (over the medium-term) lead to some degree of consequential improvement in our reliability performance. These works will also improve the overall resilience of our network.

We expect to report against metrics relating to safety, reliability, network resilience, and outage communication under our CPP reporting framework.

4.2 Are there other quality features that you consider should be considered as part of the assessment?

We explored customer preferences in relation to service quality as part of our consultation process. We summarised customer feedback and described how it helped shape our CPP proposal in Section 7 and Appendix E of the Consultation Report.

Optional expenditure to improve customer service was not well-supported; however, customers had clear expectations around what aspects of customer service mattered most. Customers told us their priorities were:

- **Outage communications**: how we communicate planned and unplanned outages, provision of call centre and outage notification services with further enhancements to real-time updates for unplanned outages with cause and restoration times;

8 Aurora Energy. (2020). *CPP Application*. section 1.5.3, para 113-115, p25.

9 Aurora Energy. (2020). *CPP Consultation Report*. pp 42-43.

- **New connections process:** improvements to the process for new connections and establish service level targets; and
- **Customer Charter credit scheme:** continuing compensation for unmet service levels and review of our complaints process and compensation policy.

We have a strategic focus on enhancing customer experience and have a customer and engagement plan in place to assess our current capability and deliver customer service improvements during the CPP period.

To ensure that customers have ongoing input and can guide our approach to customer service, we will continue our customer panels and enhance our broader community engagement. We have established a community relations framework to support engagement at regional and local levels.

4.3 What information should Aurora share with its consumers to show how it is addressing and mitigating these risks?

As outlined in our responses to 4.1 and 4.2, customers have indicated that they value outage communications but are less interested in engagement on network risk or related investment planning[10]. One submitter, MEUG, suggested there would be benefit in having a reconciliation between WSP's asset risk assessment and our CPP work programme. We are providing (publicly available) progress reports to the Commission on our progress addressing these risks. As indicated in our annual update, we will continue WSP-related reporting in the coming months before transitioning to CPP reporting.

We expect our CPP delivery reporting regime will extend beyond WSP-related reporting and set out how our investments are targeting safety risk and ensuring our assets do not pose avoidable risks to the public.

4.4 Do you think Aurora should report publicly on any safety-related targets and if so, what should these targets be? These might include Aurora's performance targets at Table 4.1 above.

We currently report on actual harm to public and TRIFIR in our annual reports (in accordance with our Statement of Intent performance measures) and in our Asset Management Plans. We propose to continue to report on these two measures.

As set out in our response to question 4.3, we expect our CPP delivery reporting to include asset health targets in high 'inherent' risk fleets that may go beyond our current reporting.

10 Aurora Energy. (2020). *CPP Consultation Report*. pp 6-7.

4.5 Are you satisfied with the reliability you have experienced in recent years?

We consider it useful to summarise some of the relevant feedback we've received to date. Also, see our response to Question 4.6.

During early engagement and formal consultation, we explored customers' views on our reliability performance. We sought to understand customers' own experience of reliability and their level of satisfaction.

Most respondents accepted current levels of reliability, with 86% of households and 76% of businesses preferring no change in the level of unplanned power cuts or would accept more unplanned power cuts for lower prices.[11] Feedback from our Customer Advisory Panel suggested that things were getting better, and current experiences were not judged 'unreasonable'. Our past reliability performance (planned and unplanned outages) compared favourably with our peers.[12]

4.6 If not, what improvements would you like to see and how much would you be willing to pay for it?

In addition to customers' experience of our service (see Question 4.5), we explored a wider range of customer preferences on reliability including:

- **price/quality trade-offs:** seeking their views on the price/quality trade-off for future network investment
- **targeted improvements**: seeking their view on specific reliability improvements.

We explored price/quality trade-offs with customers for different levels of investment, both before and during consultation. Our initial planning culminated in a set of three different CPP investment scenarios that we asked customers to consider. While customers generally accepted the need for essential work, especially for safety reasons, there was little appetite for improving reliability if that meant prices would go up.

Very few customers (8% of households and 13% of businesses) wanted better reliability (based on our alternative investment options) if this meant paying more. There was little support for paying more for higher reliability. There was little support for any option that would see prices increase. Customers told us their investment preference was for the lower cost option with the lowest reliability improvement. An option to improve reliability for worst-served customers gained little support in submissions or customer panels.[13]

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11 Aurora Energy. (2020). *CPP Consultation Report*. p39, p58.

12 Aurora Energy. (2020). *CPP Application*. Figures 10 & 11, p22.

13 Aurora Energy. (2020). *CPP Consultation Report*. p70.

4.7 **Bad weather can cause unexpected outages as well as vulnerabilities on Aurora's network. What would you like to see Aurora do differently to manage unexpected power outages?**

During our CPP consultation (see Questions 4.5 and 4.6), most customers indicated that they were satisfied with their current level of reliability. Given concerns around affordability, they indicated there was little appetite for improving reliability if this meant prices would need to go up. We expect that the investments we make to address safety risk will reduce the likelihood of asset failures in some fleets and regions of the network, which will lead to some degree of consequential improvement in reliability performance. Balancing this small improvement with the ongoing deterioration of aging elements of our overall network, we expect unplanned outages to stabilise as outlined in our CPP proposal.

It is important to note that our CPP period commences at a time of deteriorating asset performance and that reversing this trend can be expected to take some years, as there is likely to be a lag between our increased investment and enhanced maintenance and seeing the results. In this context, stabilising current levels of performance is a considerable challenge for us during the CPP Period.

Later in the CPP period, we will consult with customers on preferred levels of reliability and additional reliability improvements that could be achieved through targeted investment if customers prefer this outcome.

Reflecting customer preferences for minimising spend on reliability, we will improve our approach to managing unexpected power outages that can be delivered for little or no cost. This includes progressing aspects of our reliability management plan[14], and some of these initiatives may be subject to reprioritisation based on the availability of resources and outcomes of the CPP determination process.

When unplanned outages do occur, we will seek to minimise their impact by increasing the availability of real-time information during and after the outage. We will also trial new communications channels, including text alerts.

4.8 **Aurora is proposing investment to enhance real-time updates for unplanned power outages with cause and restoration times. Please explain how communications about unexpected power outages can be valuable to you and what good communications look like.**

Customers and our customer panels told us that no single communication method would suit all customers when communicating about outages, and a range of communication channels would be required to keep customers informed.[15] Customers told us their customer service priorities included effective communication of unplanned outages. They want us to continue to provide call centre and outage notification services, and to make enhancements to real-time updates for unplanned outages with cause and restoration times.[16]

We plan to implement improvements to outage communications, including increasing the availability of real-time outage information. We also plan to trial new communication channels and to provide community updates following major unplanned outages.

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14 Aurora Energy. (2020). *Asset Management Plan: April 2020 – March 2030*. Appendix C.

15 UMR. (2019). *Quantitative Research – Topline Tables*. p23, p62.

16 Aurora Energy. (2020). *CPP Application*. para 113-115, p25.

4.9 Reflecting on the unplanned power outages and safety concerns that Aurora's network has experienced in recent years, are you comfortable with the frequency and duration of planned power outages over the CPP period?

Our reliability performance has deteriorated in recent years and we have been unable to meet our quality standards. In our view, this is to be expected given the underlying deterioration in asset health, which was not factored into our compliance limits.

Given that our level of investment will remain elevated, we expect that current levels of planned outages will persist over the medium term. Feedback from consultation indicates that customers generally accept the need for planned work to maintain, replace and upgrade our network assets if notification and communications is well-managed.

Allowing for sufficient planned outages is important, as it removes constraints on the delivery of our required work programme. A multi-year allowance provides scope to be more efficient, as allows optimisation of field workforce utilisation by reducing constraints on annual work levels and allowing more flexible multi-year work scheduling.

We believe we can manage our CPP work programme within our proposed planned outage limits. At times this will present a challenge; however, we are confident we can achieve it given our planned delivery and outage planning improvements.

4.10 Do you have any preferences that Aurora should consider when scheduling or notifying you of a planned power outage?

Through our engagement with customers, we know that no single communication method suits all customers. When notifying planned outages, we will employ a range of communication channels to ensure customers get adequate notice. In addition to existing services (e.g., retailer notifications, website, and social media information), we plan to trial further approaches (discussed in our response to Question 4.11).

When scheduling outages, our main aim is to ensure safe access to the network assets being worked on. We are conscious of the inconvenience planned outages cause, particularly if they overrun or are rescheduled at short notice. To improve our performance in this area we are:

- optimising our work planning to bundle works effectively;
- investigating service provider metrics and incentives for minimising planned outages;
- undertaking analysis of cancellations and overruns to capture improvement opportunities;
- improving contractor training around our requirements; and
- increased engagement with communities on their preferences.

We note that the DPP3 planned outage framework encourages accurate and timely notification of outages. This is consistent with what customers have told us they want, and we are developing improved processes with our contractors to ensure that planned outages are communicated accurately and in a timely manner.

We propose that we would report against planned outage communication in our CPP delivery reporting.

4.11	**How do you prefer to receive information about planned power outages (e.g., social media, texts, mail drops) and how much advance notice do you expect to receive?**

In addition to the points made in our response to Question 4.10, we will maintain current approaches and plan to investigate further options for planned outage communications. These include working with retailers on improved outage update processes, improving our social media platforms, and trialling new channels (for example; text alerts, Interactive Voice Response for inbound calls to our freephone service).

4.12	**Do you think we should retain the quality incentive scheme for Aurora in its current form? Please explain why/why not.**

Our CPP application proposed a reliability-based Quality Incentive Scheme (QIS) consistent with the DPP3 approach. Reliability performance has consistently been the key component of the 'quality' metric in DPP and CPP resets and determinations. For this reason, our default position when developing our CPP quality proposal was to include an equivalent scheme.

However, as we progressed through consultation, and further developed our proposal, it became clear that while reliability performance is important to customers, it should not drive our network investment in the short term (which is targeted at safety risk reduction). Notwithstanding this, we elected to retain the QIS with a view to testing its appropriateness with the Commission, and through the post-submission consultation process.

We are increasingly conscious that the current form of the QIS could lead to outcomes that are not fully aligned with the underlying objectives of our CPP proposal.

For **unplanned SAIDI**, a QIS could, in theory, lead to a diversion of expenditure to deliver reliability performance improvements where the expenditure would be more prudently directed to safety risk reduction.

Customers have told us that they do not want to pay more for improved reliability at this time. That is, stabilisation of deteriorating reliability consequential to safety-related renewals is sufficient during the CPP period. Taking account of this feedback, we withdrew reliability expenditure associated with remotely operable switches and auto-reclosers, and our renewals programme focusses on fleets where 'end-of-life' assets present a safety risk. In our view, an unplanned reliability QIS could be seen as inconsistent with customers' short-term preferences to reduce expenditure where possible. Furthermore, given the uncertainty in forecasting reliability at the present time, there is a high likelihood that any incentive or penalty would include a component that was directly related to the accuracy band around forecasting, rather than underlying improvements which would be mainly as a consequence of safety-related asset renewals.

For **planned SAIDI**, the QIS may lead to a reprioritisation of safety related work, deferring outage intensive work in response to the incentive. We also note that an overly constrained limit could have the same impact (to reduce the risk of breaching the quality standard itself). We expect levels of planned SAIDI during the CPP Period to be mainly driven by asset renewals to address safety risk on our network. We consider there is a risk that the QIS could lead to a commercial incentive to defer expenditure 'at the margin' or even push the boundaries of safe working practices. While we would never knowingly compromise safety-related work in this way, we believe it would be unhelpful if a QIS mechanism created a perception that such an incentive existed and was impacting our decision-making, or that we would be financially penalised for making essential safety investments.

We recognise that the incentives play a role in underpinning an EDB's reliability performance, particularly under a DPP. Customers' preference for us to defer investment in reliability performance was based on our consultation communication indicating that safety investments in the network would lead to reliability stabilisation, or a very slight improvement in the later part of the CPP period. In this context, it is appropriate to have some assurance that we will stabilise reliability. We are of the view that the reliability limit provides the required reliability performance protection for customers and the QIS is not appropriate for our CPP.

4.13	**Do you consider there may be other financial incentives that may be more suitable given Aurora's proposal? For example, a penalty only scheme is possible. Its design would need to provide Aurora with an ex-ante expectation of receiving a normal return.**

It is worth noting that we already have in place service level payments under our customer charter compensation scheme.

In seeking an alternative to the reliability performance incentive scheme for our CPP, a potential metric (given the focus of our investments) is safety. We have considered whether it would be possible to develop a safety metric around risk reduction. To do this effectively requires accurate asset health data, probability of failure and associated consequence modelling, and a common safety risk scoring method across a range of fleets.

We anticipate that during the CPP period, the investment in our assets will reduce risk but we also anticipate that new inspection results will lead to revised risk positions. In some cases, this will lead to better than expected health and in other cases poorer health. This creates uncertainty in the current risk assessments and therefore makes consistent performance monitoring difficult to implement effectively.

Furthermore, we do not plan at this stage to monetise safety risk. While criticality is useful to prioritise investment within a fleet, it is not quite so useful when calibrating risk across fleets.

We believe that implementing an effective safety-related incentive scheme would be difficult. In our view, it is important that we lift our capability to report risk before considering the possible introduction of any safety- or risk-related incentives.

4.14 **Under its customer charter, Aurora offers consumers $50 credit when power is not restored within four to six hours. Do you think this policy provides affected consumers with reasonable compensation?**

Aurora is one of very few New Zealand electricity distribution businesses that provide a guaranteed service level compensation scheme for customers; a scheme that has been in place since the late 1990s. Under our scheme, we paid out $637k in charter credits in the last three years, primarily to compensate customers for delayed restoration after an unplanned outage. As noted in our CPP application, we have identified areas for improvement in customer service and that will include monitoring our performance against our customer charter commitments. These could be supplemented by a reporting framework to give better visibility of their effectiveness.

4.15 **Are there any changes you would like to see Aurora make to its customer charter?**

Our existing customer charter was published on 1 July 2017. We are in the process of reviewing and updating it in light of feedback from customers during our CPP consultation and other engagements. The main purpose of the current review is to ensure that our commitments to customers are clear and reflect customer priorities. We will increase our communications on the customer charter to customers and improve our monitoring and reporting of performance against its commitments.

We intend to carry out further review of the customer charter with input from customers in future. This will form part of our wider customer experience improvement programme.

4.16 **How should compensation be funded when certain standards are not met. Would you prefer lower prices across all consumers in future as is done through the revenue linked incentive scheme or by providing direct credits to affected consumers and funding those credits through higher prices across all consumers in future?**

As it stands, both of these mechanisms are in place. As set out in our response to Question 4.12 we believe the continued use of a reliability-based incentive scheme is inappropriate given the circumstances of our CPP application.

We expect to continue our customer charter scheme providing direct credits to affected customers, with costs being socialised across all customers.

5.1 **Is there anything Aurora did not properly consider in its investment application or consult with you on that you want to bring to the Commission's attention?**

An important part of the Commission's CPP framework is having an independent expert, the Independent Verifier, peer review our submission before we make our application. The Independent Verifier worked on behalf of the Commission.

Having reviewed our consultation, the Independent Verifier concluded that we had undertaken substantial consumer consultation in preparing our CPP application, and had prepared and made available significant material, consistent with the regulatory requirements. Much of our consultation was in line with best industry practice in New Zealand and other jurisdictions, such as Australia. We also note that the Commission has deemed it compliant with relevant Input Methodologies (as part of its compliance review of our application).

> *"Aurora Energy has undertaken substantial consumer consultation, and has prepared and made available material, consistent with clause 5.5.1 of the IM. Aurora Energy's approach to consultation is in line with precedents set by other New Zealand networks recently seeking a CPP and is consistent with consultation undertaken by other network businesses in other jurisdictions, such as Australia."*[17]
>
> *"Aurora Energy completed rigorous53 consultation with its stakeholders which include the CAP, QLDC, Major Users Electricity Group (MEUG), Retailers, CODC, Dunedin City Council and the Commission. The material prepared and presentations made by Aurora Energy included:*
>
> - *educating stakeholders on matters currently being faced by Aurora Energy on its network – including recognition that Aurora Energy has underspent on its network in the past*
> - *educating and seeking stakeholder views on future technology expectations – e.g. solar and electric vehicles – and what role Aurora Energy's network could play in facilitating customer preferences*
> - *service level expectations*
> - *price impacts for the three network areas and pricing transitioning options – noting that specific consumer feedback on transitioning and pricing impacts are for the Commission to consider*
> - *advice on what matters the most to consumers.*
>
> *The consultation appears open and honest and genuinely seeks stakeholder input to assist Aurora Energy in finalising its positions in its CPP."*[18]

In addition, we would like to underline our support for ongoing customer engagement during the process, and we welcome feedback on our investment plans and on customers' service preferences. We expect to take stakeholder submissions into account as part of this process to determine the final terms of our CPP.

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17 Farrier Swier. (2020). *Verification Report: Aurora Energy CPP Application*, p41.

18 Farrier Swier. (2020). *Verification Report: Aurora Energy CPP Application*, p46.

5.2 Aurora's substantive consultation was undertaken prior to the COVID-19 pandemic. Has your feedback on Aurora's proposal changed as a result of COVID-19?

We are preparing this submission at a time when lockdowns are being reintroduced in New Zealand. Collating views from a broad range of stakeholders at a time of unprecedented uncertainty is likely to continue to prove challenging.

While the long-term implications of Covid-19 are unclear, we expect them to impact the local economy, especially the tourism and hospitality sectors. To reduce price impacts on customers when finalising our CPP proposal, we reduced growth-related investments, including deferring major growth projects in Central Otago and a resilience project in Dunedin. We reduced our consumer connections forecast to reflect a likely reduction in new applications, and deferred distribution reinforcement work.

We intend to monitor the impacts of Covid-19 on regional growth and economic activity in collaboration with our local Council partners, major customers and developers. We believe it is important that we can support a return to growth across the regions we serve.

We are committed to providing ongoing opportunities for stakeholders to provide feedback on our investment plans and any implications of Covid-19 on customers.

We support mechanisms to manage uncertainty around future demand due to the impacts of Covid-19. We expand on this in our response to Question 10.1.

5.3 How will Aurora's proposal affect you and what would you like Aurora to do to help reduce the impact (eg, they are advocating for a regional energy efficiency fund for vulnerable households in collaboration with local Councils).

Customers told us in consultation and via research that they wanted us to do something to help vulnerable customers deal with the impact of price increases. In a representative survey, doing nothing on affordability was strongly rejected by 80% of respondents.[19] We are open to considering initiatives to support vulnerable customers, providing these can be adequately resourced through appropriate structures.

We have committed to exploring potential options for a regional energy advice initiative. One option, a region-wide energy advice service (EnergyMate) was not possible previously, however we are revisiting this option in case eligibility has shifted as a result of Covid-19.

Since our CPP application was made, the Government has announced a $56 million boost to its Warmer Kiwi Homes[20] fund, through the Covid-19 response and recovery fund. The programme boost will allow more people to access support for insulation and heating retrofits, independent of any initiative that we support.

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19 Aurora Energy. (2020). *CPP Consultation Report*. p39, p62, p65

20 EECA. (2020). *More Warmer Kiwi Homes*. Retrieved from https://www.eeca.govt.nz/about/news-and-corporate/news/more-warmer-kiwi-homes

6.1	**We welcome your views on the overall appropriateness of Aurora's opex proposal and whether you consider it will deliver better outcomes for consumers. We are also interested in whether you agree with the focus areas we have identified for our review or whether there are other issues you think deserve our scrutiny?**

Prior to our CPP proposal being submitted in June, the rationale and need for our investment plan had already been subject to considerable advance scrutiny and review by an Independent Verifier; a mandatory requirement of the CPP process. The Commission has reviewed the Independent Verifier's report and has confirmed that the review was thorough and undertaken to a high standard.

The independent verification process is intended to improve the overall quality of an applicant's CPP proposal by rigorously testing the investment scenarios and options considered, and the resulting customer benefits, prior to an application being submitted. This is intended to enable the Commission's post-application assessment to be more focused and targeted.

In our view, the independent verification process was comprehensive. Taking place over 12 months, the Independent Verifier reviewed over 800 documents, and we responded to over 450 questions posed by the Independent Verifier.

Our Customer Advisory Panel (CAP) emphasised the essential role of the Independent Verifier in testing our engineering assumptions, as they involved complex and technical assessment beyond the CAP's level of expertise as consumer representatives. When considering this view, it is worth noting that many CAP members are generally involved in the wider infrastructure sector, or in organisations with a significant energy focus, and have more specialised knowledge than most stakeholders.

The Independent Verifier reviewed our proposed opex in detail. The Independent Verifier's team was able to verify most of our proposed opex (circa 97% of the opex reviewed). It concluded that our forecasts met the expenditure objective, deeming it prudent and efficient. It identified areas where our opex could be adjusted and set out areas where further analysis and evidence may be required to justify our proposal. Noting the Independent Verifier's feedback, we made a number of adjustments to our plan. The Commission appears to have adopted their recommendations for further analysis and we are assisting with this review. In our view, the Commission should rely on the Independent Verifier's findings in completing its review.

Some overarching points to note in relation to our opex proposal:

- To assess whether our current and proposed expenditure is efficient, we undertook cost benchmarking against New Zealand EDBs. This benchmarking was tested by the Independent Verifier and found to be appropriate.
- Key components of our proposed opex include maintenance and vegetation management activities. The WSP report concluded that shortfalls in historical maintenance had led to increased levels of asset risk. Our proposed plan addresses these shortfalls and includes expanded and improved approaches to these critical activities.
- We have included efficiency adjustments in both our capex and opex forecasts; however, these efficiencies are predicated on asset management improvements being delivered across our system operations and network support (SONS) portfolio. We expect

these asset management improvements to change our cost structures over the long-term, and the efficiencies are expected to not only persist but increase after 2025.

- These improvements, and the efficiencies they drive, will deliver better outcomes for customers. We are happy to demonstrate these improvements as part of our CPP reporting.

Approval of our CPP opex proposals will enable us to undertake required work on our network so that we can continue to ensure our network is safe and does not pose avoidable safety risks to the public. Our proposal sets out the work we need to do to deliver the outcomes we are targeting. We have also identified a number of areas where we require opex to further improve our asset management practices (e.g., asset information, asset management information systems) and delivery capability improvements.

7.1 Do you agree that Aurora's expenditure appears to be targeting the right assets for renewal at the right time?

Please see our response to Question 6.1 where we set out our general views on the role of the Independent Verifier and how these should be taken into account.

Our renewal investment plans, the underlying needs case, and our approach to determining these have had several independent expert review and challenges:

- the fundamental needs case for increased renewals investment was set out by the WSP independent risk review in 2018;
- Sapere consulting on behalf of DCC, in 2019, reviewed whether Aurora was "*doing what a reasonable and prudent operator would be doing in late 2019 given the situation that they found themselves in*" and found that "*they are doing what they can and should be doing notwithstanding the enormity of the task, the limited information they have available to them and the palpable frustration with the situation from several quarters.*"[21].
- asset management analysis and supporting models have been tested by the Independent Verifier and deemed appropriate given the existing asset management system maturity, and data availability.
- the Independent Verifier reviewed our proposed renewals capex in detail and was able to verify most (circa 97% of the capex reviewed) met the expenditure objective deeming it prudent and efficient.

All the above reviews supported our broad approach to addressing the renewal needs of our network assets.

It is worth noting the 'dashboard' included on page vii of our AMP Executive Summary, which depicts the outcomes of our renewals prioritisation approach. For example, it shows that we are targeting overhead assets and those with safety issues (e.g., protection and indoor switchgear) over subtransmission cables and power transformers, allowing the latter's health to deteriorate. The latter fleets have lower levels

21 Sapere. (2020). *2019 review of Aurora: Report prepared for Dunedin City Council*. Retrieved from https://www.dunedin.govt.nz/__data/assets/pdf_file/0003/757452/2019-Aurora-Review-19-February-2020.pdf

of safety risk and we have deferred these works to constrain price increases to customers. Given the inherent safety risk of the fleets we have prioritised, we are confident we are targeting the right assets at the right time.

We believe the focus of our network expenditure should be clear and transparent to stakeholders. We are happy to engage on how this can be demonstrated through our CPP reporting requirements.

7.2 If not, what do you think Aurora should focus its network expenditure on over the CPP period?

See our responses to Questions 6.1 and 7.1.

Our CPP proposal clearly sets out the needs case for network expenditure during the CPP period. The focus of this plan has been challenged and prioritised through a number of processes.

As signalled in our CPP proposal, we need to increase the level of investment in our network. With low levels of historical investment, the health of our assets has deteriorated. The detailed planning and analysis we have undertaken to support our investment plans clearly shows a continuing need to lift maintenance and renewal expenditure in targeted asset fleets across our network.

In terms of canvassing stakeholder views on the focus of our network expenditure, it is worth reiterating the findings of our CPP consultation. Customers were quite clear throughout on where we should focus our expenditure:

- they understood the need for essential renewals;
- safety should not compromised; and
- reliability improvements should not be progressed where these require increased investment.

As set out in our application we have reflected their views when finalising our investment plans. For example:

- removal of expenditure targeting reliability improvements;
- reducing the scale of price increases by deferring growth investments and applying efficiency factors to our forecasts; and
- removing optional investments to improve services to worst-served customers.

While we value the views of stakeholders on how we should prioritise our network expenditure, there is a need for certain expenditure to be effectively 'ring-fenced'; for example, critical safety investments need to be our focus. These make up a significant proportion of our forecast and will be our top priority during the CPP Period.

7.3 Do you think there are any other capex issues raised in the Verifier's report that we should investigate further?

No. As discussed above, in our view the outcomes of the independent verification process should be relied upon. Relitigating the outcomes of the review undermines the important role of the Independent Verifier and the year-long verification process itself.

8.1 Do you consider Aurora has sufficiently established a case to recover additional costs incurred prior to submitting its CPP proposal to us for our evaluation? Please state your reasons

Since lodging our CPP proposal, we have undertaken further analysis of the impact of recovering the costs that we have prudently incurred in advance of our CPP application being submitted and we are currently reviewing the need to proceed with this variation request.

We observe that the Commission has noted, at paragraph 8.1 (p31) of the Issues Paper, that we have applied to extend the timeframe for cost recovery from that stated within the input methodologies (from 12 June 2020 to 1 April 2020); however, the Commission did not appraise interested parties of the length of extension that we have applied for.

For the benefit of interested parties, we advise that the extension we have sought is an additional ten weeks and two days, so that a full regulatory year is covered by the urgent project allowance.

8.2 Do you think we should permit the IM variation to allow Aurora to recover these additional costs in the CPP?

As advised in 8.1, above, we are currently reviewing the need to proceed with this variation request. However, we consider that the nature of the work we are undertaking, and the resulting benefit to consumers through enhanced safety and stabilised performance, renders the inclusion of additional costs for RY21 appropriate. Our view is supported by the fact that the needs case and prudence of our work programme has been substantiated by WSP (in its independent review of our network) and the Independent Verifier. Further, the significant timeframe required to determine a CPP, coupled with legislative restrictions that prevented us from presenting our CPP application any earlier, reinforces the appropriateness of the urgent project allowance mechanism.

9.1 In Appendix W of its CPP proposal, Aurora included a letter of comfort from its owners confirming funding availability for the proposed investment. Does this letter provide you with assurance or satisfaction on Aurora's access to funding to deliver its investment programme?

The Commission has appropriately identified, at paragraph 9.11 (p36) of its Issues Paper, that the ability to finance our investment proposal is an important component of assessing its deliverability. To this end, we included the letter confirming funding availability in Appendix W of our CPP Application to assist the Commission in its deliberations. The letter of comfort that we included in our proposal confirms that funding will be made available for the investment proposed over the CPP period.

9.2 Do you consider that Aurora will be able to deliver on its proposed work programme? Do you have any specific concerns relating to non-delivery, late delivery or inferior delivery? What other factors do you think may impact on the delivery of its proposal?

Significant work went into assessing our ability to deliver our investment plan as it was developed. Deliverability has been a key consideration throughout the development of our CPP proposal and led us to dismiss alternative investment profiles that would have been harder to deliver in full. Our capability in this regard was also tested by the Independent Verifier, who concluded that we were in a position to manage delivery risk. The Independent Verifier identified that the CPP programme of works should be deliverable and has noted that, where there are delivery risks, these have been identified and a delivery plan is being advanced.

> *"In our view, the work proposed in the capex forecasts over the CPP and review periods does not appear undeliverable, with some limitations. … However, we consider that Aurora Energy can manage the [identified delivery] risks."*[22]

Since becoming a standalone business, we have significantly enhanced our capacity to deliver a larger work programme by implementing a major reform of our contracting model. As a result, we have three principal field service providers, supported by further approved contractors, competitive tendering and panel arrangements. From 1 April 2019, we implemented new field services agreement with Delta, Unison Contracting and Connetics. Those arrangements ensure access to the skilled resources required to deliver our CPP programme, while providing a framework for improved service delivery and competitive tension to deliver efficient outcomes.

9.3 How would you like to see Aurora held to account for delivering on its work programme? For example, should Aurora have to report each year on progress against delivering its plan. We are also keen to hear what level of detail you would like to see in these reports and how often you would like to receive progress updates.

We are committed to ensuring that the Commission and interested parties have access to information that provides transparency on the delivery of our CPP programme. We support providing periodic updates on the delivery of the programme to give assurance to stakeholders that we are meeting our targets.

However, when specifying the types of information and level of detail, consideration needs to be given to the relative immaturity of some of our systems and reporting processes. Our planned upgrade of asset information systems will occur early in the CPP period and may require transitional processes that constrain our reporting capabilities. We also believe there are lessons to be learned from existing CPP reporting regimes and we hope to engage with the Commission on how best to balance stakeholder information preferences (the subject of this question) with the resources required to compile and communicate these.

22 Farrier Swier. (2020). *Verification Report: Aurora Energy CPP Application*, pp72-73

It is worth noting that most customers (80%) had little interest in receiving further information about Aurora Energy, and only 4% expressed an interest in receiving information relating to our network investments.[23,24] As our Customer Advisory Panel highlighted in relation to testing the engineering assumptions in our proposal, they would look to expert advice (in this case the Independent Verifier) when decisions involve assessment of complex, technical information.

We believe it is important that we maintain the transparency we have built into our CPP process to date. This can be best achieved by open engagement and consultation through the delivery phase of our CPP. We propose to work with the Commission over the coming months to develop an appropriate framework for reporting our progress in delivering our CPP plan.

10.1 Do you agree with our preferred approach to dealing with demand driven project uncertainty associated with COVID-19?

In principle, we agree with the concept of introducing a demand-driven uncertainty mechanism to deal with unforeseen projects and foreseeable projects that have uncertain timing. If specified and implemented appropriately, such a mechanism would allow us to revise our investment plans over time. This will be important during a period likely to see significant economic uncertainty.

In the context of Covid-19, we consider that certain growth-related projects/programmes have sufficient uncertainty to be considered contingent projects. The majority of our capex programme is related to safety driven renewals work (largely unaffected by Covid-19). As such, the proportion of growth-related capex is relatively small and would not meet the very high contingent project threshold specified in the Input Methodologies.

We think the Covid-19 situation deserves special consideration. We have relatively high confidence that Covid-19 will have an impact on growth-related projects, creating a greater than normal case for lowering the contingent project threshold. Furthermore, in the context of a significant price rise, we want to create an opportunity to defer growth projects as much as possible, deferring the impact of Capex on prices.

When developing our CPP investment plans we undertook some preliminary analysis to look at the implications of Covid-19 on growth, especially in the Central Otago / Queenstown Lakes region. We concluded that a cautious view was most appropriate, resulting in an assumption that Covid-19 would set back growth by two years, but beyond that period growth would continue at historical levels.

Since submitting our proposal we have been monitoring demand across our network to better understand the potential impacts of Covid-19. While we believe our original assumptions remain valid, during the July school holiday period demand in the Queenstown Lakes District was higher than the equivalent period last year. This was unexpected and may have been due to atypical volumes of local tourism post-lockdown. Whatever the direct cause, it underlines the uncertainty we face when forecasting demand over the next one to two years.

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23 UMR. (2018). *Customer perception benchmark for Aurora Energy*. p21.

24 Aurora Energy. (2020). *CPP Consultation Report*. p6.

To manage this uncertainty, our preference would be to utilise our existing major project economic analysis framework to seek approval for relevant growth or connection related projects. This could be facilitated by an independent verifying party on a case-by-case basis. We do not expect this to be more than ten projects and the additional overhead associated with this is relatively small given our assessment framework is already in place.

In summary, we consider that a streamlined contingent projects arrangement could be put in place to better manage the uncertainty and risks in our growth-related work programmes. Any such mechanism should be implemented in a way that prioritises transparency and simplicity. A streamlined approval mechanism with clear 'triggers' is likely to be most effective. We are happy to engage further on how this might be achieved.

11.1 Do you agree that, given Aurora's present asset management maturity, improving its data processes over the CPP period should be a priority?

We retain our position that this should be a key area of focus for the business. in our view:

- good, reliable asset information is essential for effective asset management;
- we are committed to making significant investments in new systems and process to improve our performance in this area;
- reliable, timely information is essential if we are to provide meaningful progress updates to stakeholders; and
- improving our asset information is a key enabler of our wider asset management improvement initiatives, it will be a cornerstone in our roadmap to ISO 55001 certification.

We would like to reiterate that improving our asset management capability will be a priority for us in coming years, including during the CPP period. This is necessary if we are to ensure that investments and initiatives to address safety risks are successful and cost-effective. Improving our asset information will help improve our understanding of safety risk and allow us to make more optimal investment decisions.