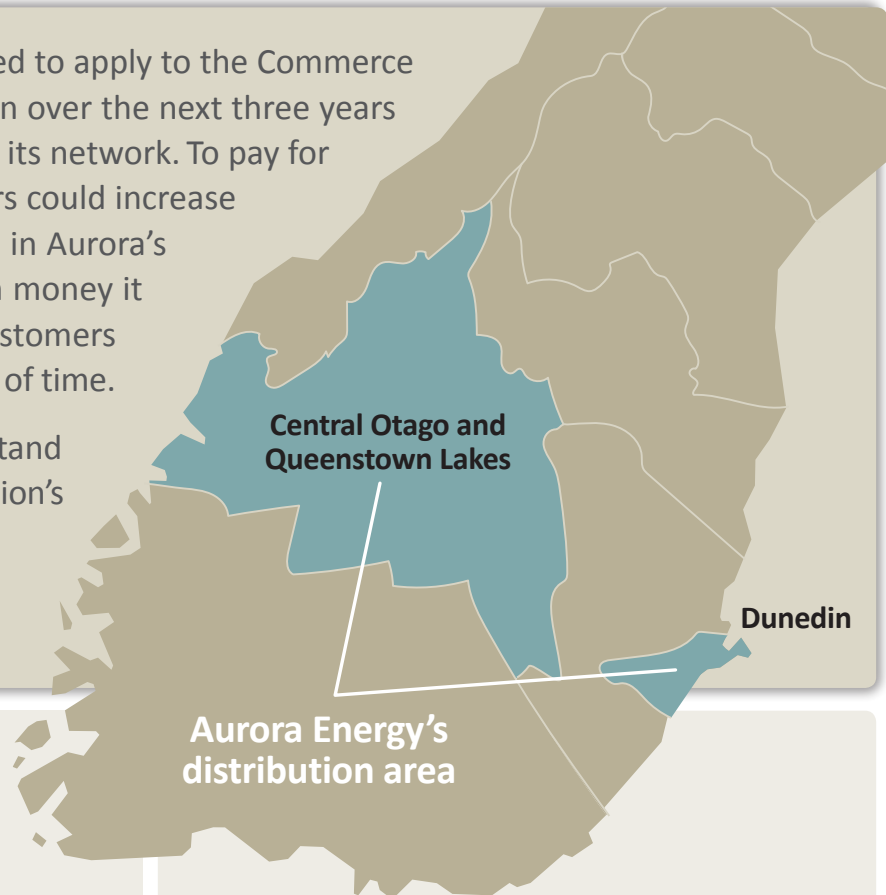


Our assessment of Aurora Energy's investment plan

In June, Aurora Energy (Aurora) is expected to apply to the Commerce Commission to spend around \$400 million over the next three years to address safety and reliability issues on its network. To pay for this the power bills of Aurora's consumers could increase significantly. Major investment is needed in Aurora's network. Our role is to decide how much money it should be allowed to recover from its customers to carry out its plan and over what period of time.

This paper is designed to help you understand what has led to this situation, the Commission's role in helping to fix Aurora's network and what it means for you.



The Commission's role

The Commerce Commission is New Zealand's competition, consumer and regulatory authority. Our role in the electricity sector is to regulate monopoly providers like Aurora so they operate in the long-term interest of their consumers.

For Aurora's investment plan, we will decide the maximum amount Aurora will be allowed to recover from its consumers to fix its network and what quality of service it must deliver. Aurora has the ability to price as it chooses below the cap, including how much different groups of consumers pay.

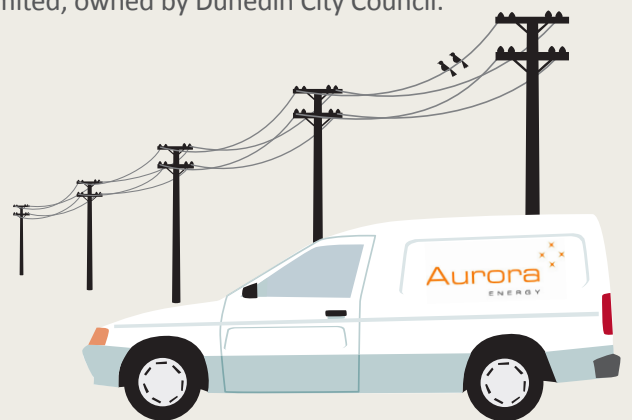
While the Commission is responsible for setting the maximum revenue Aurora can earn from its consumers and the quality of service it must deliver, we do not regulate Aurora's owners, set electricity prices, or get involved in the day-to-day management of the company.

We are also not the safety regulator for Aurora's network. Health and safety regulator WorkSafe is engaging with Aurora on the safety of its network for its workers and consumers. However, in considering Aurora's proposal we will take into account the need to invest for safety reasons.



About Aurora

Aurora owns and operates the poles, lines and other equipment that distribute electricity from Transpower's national grid to 90,000 homes, farms and businesses in Dunedin, Central Otago and Queenstown Lakes. Aurora is a wholly owned subsidiary of Dunedin City Holdings Limited, owned by Dunedin City Council.



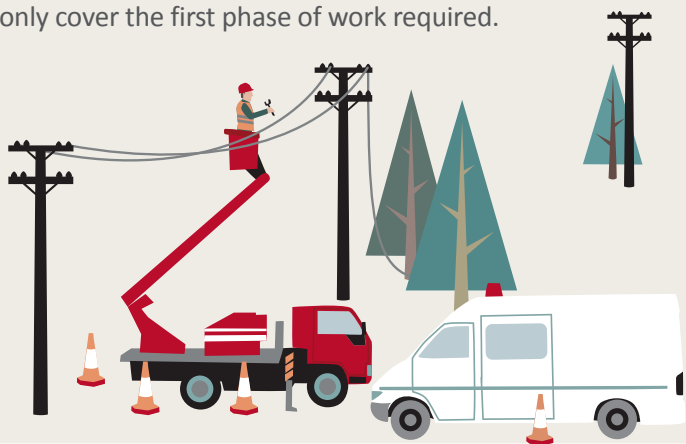
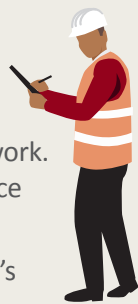
Aurora's charges are built into your power bill and are something you are required to pay no matter which power company you are with. Typically, electricity distribution charges make up about a quarter of an average residential consumer's power bill. The rest of your bill is made up of the costs of generating the electricity, transmitting it via Transpower's national grid and your power company's costs.

Why is investment needed in Aurora's network?

Historically, Aurora has under-invested in its network. It did not keep up with the necessary maintenance and replacement of its ageing equipment.

While this under-investment helped keep Aurora's lines charges lower than the national average, it has resulted in a gradual deterioration of its equipment, including lines, poles and transformers. The consequence has been a higher number of safety incidents, including poles supporting live lines falling over and an increasing number of unplanned power cuts across Aurora's network. Without additional investment consumers could expect more power cuts and decreased safety levels.

However, it could take 10-15 years to resolve many of the issues on Aurora's network and this investment plan will only cover the first phase of work required.



What options are there for managing price shocks for consumers?

We understand that now, more than ever, household incomes will be strained, especially in light of COVID-19. Many consumers will be struggling to pay their bills while needing a reliable electricity supply.

Options for how price increases might be managed include considering whether any spending or projects can be reduced or delayed and examining whether price increases could be spread over a longer period. These options will be weighed up against the impact the delay in recovering revenues might have on Aurora and its ability to fix its network, including addressing known safety issues, as well as what is needed to meet or manage expected demand.



What does Aurora's expected plan mean for you?

- A safer and more reliable electricity network in the longer term
- there is likely to be significant increases in your power bills from April 2021 as Aurora seeks to recover the costs of the investment. We will know Aurora's final proposed price increases in June when it submits its application to us. However, under its draft plan which it consulted its consumers on, it estimated that an average household's monthly power bill would increase by 18%. That equates to increases in residential line changes of up to \$21 a month in year one, followed by up to an additional \$10 more a month in both years two and three
- more power cuts in the short term while the replacement and maintenance work is carried out.



What we would like to see in Aurora's plan

- It addresses the priority risks on the network, shows how it will improve its asset management performance for the long term, and has the interests of its consumers at heart



- it provides updated information to explain simply and clearly the price impact for the different regions in its network (Dunedin, Central Otago and Queenstown Lakes), along with how each will benefit from the proposed investment
- it reflects consultation with consumers in its area
- it shows how it has considered options to manage price shocks to consumers
- it describes how it will be accountable to its consumers for delivering on its investment plan.

What has been done to date?

June 2014

The Commission warned Aurora for breaching its quality standards in 2012. As part of this we commissioned engineering consultancy Strata to review Aurora's quality performance. Strata's report expressed a number of concerns with Aurora's asset management and recommended changes for Aurora to implement.



October 2016

A former Delta employee publicly raised concerns about the state of Aurora's network.

December 2016

A Deloitte report commissioned by Dunedin City Holdings Limited revealed under-investment in Aurora's network over a 25-30-year period. This report found that Aurora was aware of the state of its network and was trying to improve it while balancing money constraints and the requirement to provide a short-term return to its shareholder.



2016/17

Aurora appointed a new Chair, Board and CEO. Aurora and Delta structurally separated from 1 July 2017.

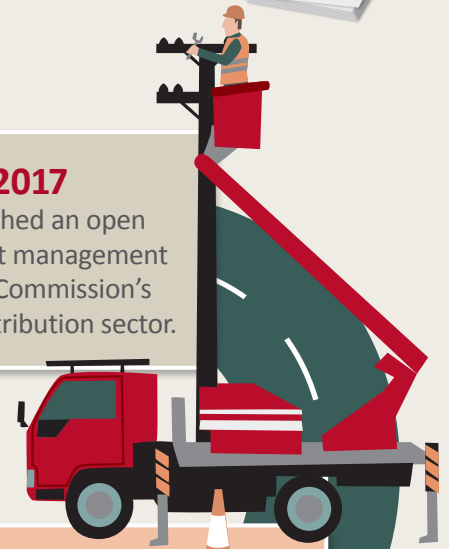


Early 2017

The Commission started investigating Aurora for breaching its quality standards in 2016 and 2017.

November 2017

The Commission published an open letter outlining how asset management is a key priority for the Commission's work in the electricity distribution sector.



September 2018

The Commission announced it would file proceedings in the High Court against Aurora for breaching its quality standards from 2016. We alleged Aurora's under-investment in asset maintenance and renewal led to significant proportions of its assets – such as poles, cables and transformers – being in a deteriorated condition. We consider this resulted in an increased level of power cuts across its network.

We also encouraged Aurora to undertake an independent assessment of the state of its network. This provided a high-level view of the key risks on its network and the areas where future investment should be prioritised.



2017

Aurora started a large catch-up programme of investment funded by its shareholder and consumers.



2019/2020

Aurora had its draft investment plan examined by an independent expert and consulted with its consumers ahead of submitting it to the Commission in June 2020.



March 2020

Aurora was ordered by the High Court to pay a penalty to the Government's coffers of almost \$5 million for breaching its network quality standards through an excessive level of power cuts in the 2016-19 years.

We want to hear from you

Your opinion matters to us. We will review the findings from Aurora's consultation with consumers and are committed to undertaking our own consultation to ensure your views are considered.

Due to COVID-19, we anticipate being unable to hold face-to-face public meetings. However, we are exploring alternative options to get your views.

We also acknowledge that some stakeholders may face a range of challenges as a result of COVID-19 which may affect your ability to engage with our consultation process in a meaningful way. We are looking at ways to make it as easy as possible for you to have your say.

Have your say

We will be inviting your feedback as part of our consultation process later this year, once we have received Aurora's final investment plan.



We want to hear your views

Some likely questions we may be asking as part of our consultation on our issues paper and draft decision include:

What do you care most about in Aurora's investment plan and why? (For example, the affordability of electricity, the management of power outages to undertake the work, or the safety and reliability of the network).

.....

How well has Aurora communicated its investment plan to you?

.....

How would you like to see Aurora held to account for delivering on its investment plan? (For example, should Aurora be required to publish annual status reports or hold public meetings?)

.....

How do you want the Commission to engage with you to ensure your views are reflected in our decision-making?

.....

Is there anything else you think we should consider in making our decisions?

Proposed timeline

June 2020

Aurora submits its investment plan to us for consideration.



Mid 2020

Commission releases paper outlining the key issues we intend to focus our review on and consults with consumers.



Late 2020

Release of draft decision and consumer consultation.



March 2021

Release of final decision.



April 2021

Aurora's new revenue limits, quality standards and monitoring regime come into effect. Aurora consumers can expect increases in their power bills from this date.



Find out more about the project at
www.comcom.govt.nz/aurora

Email us at
feedbackauroraplan@comcom.govt.nz