Aurora Investment Plan Comments for the Arrowtown Village Association

Prepared by Peter Robinson [redacted]

In preparing these comments we have read extensively the twenty two Commerce Commission published documents that have been placed on the website. In particular, we concentrated on reading the main report and the summary report prepared by the Commerce Commission. We have also read the comments from Aurora, the Strata Energy report which has only recently been made available and attended the public meeting and Stakeholders Meeting held in Queenstown at the end of November. Unfortunately, there is so much information that it is impossible to absorb all of it. Also, the summary reports are surprisingly lacking in information which means one must read the detailed reports, which is simply not possible in the time available.

1) Comments on the Investment Plan Review

When one looks at the media coverage of the Aurora Investment plan, it has been dominated by the more colourful, highly emotive, and factually incorrect comments made at the public meetings. It is clear that the Commerce Commission has failed in its objective of ensuring that the situation relating to Aurora and its charges is presented fairly and clearly. That so many people could make so many rash and probably slanderous statements shows that the report has not brought clarity to the situation and in this vacuum a highly charged and poorly informed debate has ensued. The real issues to be faced in the future have received little coverage other than the fact that there will be a price increase.

There are several points here:

- It is clear that Aurora failed to invest at appropriate times on the long-term maintenance of the assets under its control. The age profile of its system components was old compared with most other lines companies. As a result, there was a period of widespread and very high levels of system failures which resulted in the death of two people;
- The Commerce Commission reports show that the Aurora annual charges per consumer were the lowest of any in New Zealand. This information was presented in the main report and the summary report. However, the summary report did not include the information that Aurora made the lowest profit per consumer of any lines company in New Zealand. In other words, the consumers benefited from the under investment in the form of reduced lines charges. This conclusion is effectively buried in the main report. We would suggest that this is a fatal flaw in the Commerce Commission review. None of the vocal critics at the public meetings in Queenstown seem to be aware of this had not read it. As a result, we have had a litany of accusations that the DCC paid itself excessive dividends, that the Directors committed fraud, that the charges were excessive. Many of these issues have been around for a long time and the failure of the report to explain these issues clearly has undermined the consultation process;
- In fact, the report concludes that if Aurora charges were in line with the NZ average lines company, there would be no grounds for any issue to be raised over the management of the network. Arguably the biggest loser is the owner who are not achieving the return on investment that one would expect from a lines network of the size of Aurora. This conclusion is in the report, but it needed highlighting to ensure any future debate was about the issues Aurora faces now;

- One is left somewhat amazed that this situation could arise where investments were not made in a timely manner and where the Owner did not achieve the returns one would expect. Clearly there are questions over the governance of Aurora in the period from circa 2005 to 2015 or thereabouts. The muddled structure that confused what is now Aurora with Delta has not helped matters as well;
- The question must be asked as to how did this ever happen? One answer we have received from other sources is that in the early 2000s analysis showed that the age profile of major components such as power poles was different to other Lines Companies in NZ. The answer was to acknowledge that this was the case and to point out that the reliability targets were being met, so there was no case for investment in upgrading. This approach continued for a number of years until the reliability changed markedly. We will return to this point in discussing the reliability targets.

The other problem with the Commerce Commission review, which is not of its making, is the structure of the New Zealand power industry into Lines companies and Generator / Retailers which have the supply contract with the final consumer. The Commerce Commission review has only looked at the Aurora Charges to the Generator / Retailers. It did not look at the price structure that the Retailer Charges associated with the Lines Network and Transpower HV transmission systems passed on to the consumer. Some consumers think they can see the charges explicitly on statements from Pulse. This may or may not be correct – there is no of knowing with certainty. However, some domestic consumers are on commercial tariffs with high daily fixed charges and low variable charges. Looking at these tariffs would suggest that the Retailers may be charging considerably more than the costs set out in the Commerce Commission report in relation to the various price paths for future Aurora Charges. This complete lack of information or transparency over this is highly unsatisfactory. Are Generator / Retailers making excessive profits on the lines charges?

The problem is that what is essentially a fixed annual charge is being set to recover partly as a fixed charge and partly as a consumption based variable charge. In the Aurora area where winters are genuinely cold is this resulting in excessive variable charges? No one knows. However, here in Arrowtown a $600 bill for the coldest month is regarded as a relatively low electricity bill. Also, the low and high user consumption tariffs seem to be set to give equal charges at 9,000kWh/annum. In Central Otago this is a low power demand. Is this distorting the charges being imposed? It would seem that over a year this would result in lines payments considerably higher than those set out in either the Aurora or Commerce Commission papers. It would have been very useful if light could have been shed on this as part of the Commerce Commission Review. We note a comment that people should check the various evaluation websites before choosing a Retailer. However, this simply does not work. Their approach copes poorly with areas with large variations in power demand between summer and winter. The Generator / Retailers do not publish their full tariffs any longer so you can evaluate offers using a full year of data. If you call a Retailer for quote you may get different tariffs to those available on the websites. Also, Retailers will only quote tariff options that work with the meter installed. The Electricity Commission, when you call them, states that this is illegal and that Retailers must offer all tariff options even if it involves a meter change, however, their information systems are not set up to enable this. The result is effectively the “wild west” and no one can make an informed decision over their choice of Retailer and no one can be sure that the Network and Transmission charges they receive are fair.

The Commerce Commission has asked a number of specific questions. Our response is set out in Sections 2 to 6 that follow.

2) Revenue Smoothing

Two scenarios have been presented for charges. Scenario 1 results in higher charges compared to Scenario 2 of $3 to $5 per month in the first year increasing to $4 to $7/month in the last year (2025 / 2026). It is understood that in the years after 2026 that the charges under Scenario 2 could exceed those under Scenario 1. In this regard we are not comparing like with like. We also note from the recent correspondence that Aurora may not agree to Scenario 2.

With these reservations, there would seem to be a preference in the community for Scenario 1 on the grounds that the lower charges now are real and going out five years is entering the realms of conjecture. Some people are really struggling with power bills and the pressure to adopt measures such as heat pumps rather than using log burners in Arrowtown is increasing in intensity. However, people cannot afford to change to electric heating. The preference for Scenario 1 does not seem to be strong.

A second issue raised is that people want to be sure that if charges increase that there is a noticeable improvement in the standard of service for the extra money even if the charges are going to be in line with the NZ Lines company average. There is an understandable extreme lack of confidence in the community that this will occur. The deferment of projects that may improve reliability, including during major weather and civil emergency events, and the stabilisation of targets at the average over the last five years suggests that this expectation among consumers will not be achieved.

Extending the inquiry to determine how the retail companies pass on the Aurora charges may uncover significant savings for the consumer. One assumes it is a matter of time before this happens but the fear is it will be as effective as the inquiry into fuel prices.

3) Capital Spending

The reduction in capital expenditure owing to the impact of the pandemic on the demand for electricity may prove illusory. House construction in the QLDC area has continued virtually unabated. This includes property for offshore residents. Some commercial projects have been delayed. However, with a potential trans-Tasman bubble next year and the vaccine also now available in some countries, it seems there will be a return to a more normal level of tourist activity based on overseas tourism from some time next year, coupled with increased domestic tourism. It may take time to grow to 2019 levels but it seems that power demand increases are only going to take a pause for a year or so – not for several years.

From an Arrowtown standpoint the completion of the ring to the Arrowtown substation and the new intertie switchboard in Arrowtown are essential and it is frustrating that it is still 4 or 5 years away at best. As the Commission notes the line and switchboard are two phases of a single project. We in Arrowtown would like to see both projects finished at the same time and at the earliest possible date.

The reason for this is that the Arrowtown power supply is unreliable. There are problems with vehicles hitting poles, wind blowing down trees on lines and snow on lines. These issues are not captured in the reliability targets for the supply to Arrowtown, which a weighted towards equipment failure. However, they are common and are central in the minds of people thinking about switching away from the 950 log burners currently in use to improve air quality. Until we have a demonstrated reliable power system to meet an increasing demand in Arrowtown we will continue to have the worst air quality in Australasia during winter with no practical means of doing anything about it in the medium to long term.

Once we have a reliable supply from Frankton attention will turn to the supply from Cromwell to Frankton and the effects of large earthquakes or wildfires on the external supply. At present there are not plans to address these issues. One solution is the addition of permanent standby generators at the Arrowtown Substation. We note that in Fiji they have adopted this approach to cope with problems caused by the large cyclones to the power supply.

4) Operating Expenditure

We support any attempt to limit operating costs. However, the $41 million saving proposed by the Commerce Commission is huge and we note that Aurora does not agree with the assessment. The late completion of the Strata Energy report, which is the main reference for these savings has not helped the understanding of the situation.

We would make the following comments:

- The Strata Energy report goes into very detailed analysis of many equipment reliability issues as requested in questions by the Commerce Commission. However, the report style is to suddenly pick on a number for a saving but the reason why this number is sound is far from clear. This happens throughout the document and for a reader who has not time to analyse the report in detail it is hard to distinguish between well supported conclusions and those which seem to be assumption based;
- Strata is apparently recommending every conceivable possible analysis for any future investment which will also be scrutinised by the Commerce Commission and its advisors. This process is going to be appallingly expensive for Aurora and they may well require significantly more senior staff than they currently employ to carry out this extra work. This is not included in the cost allowances;
- The historic lack of separation and visibility between Delta and Aurora is problematic as the Commission notes. It is making it very uncertain as to where the line relating to costs should be drawn. If a low cost option is enforced, there needs to be a mechanism for the allowable costs to be corrected quickly should it be found that the allowed costs are too low. If this is not done, Aurora will simply fall behind in its maintenance and planning of new investments and it will be blaming the Commerce Commission for restricting its activities;

5) Monitoring Aurora Delivery

In many respects this objective is misleading. There is no contract between Aurora and the final consumers. It is not even known how much the Retailers will add on to the additional Aurora charges. This lack of transparency tends to reduce the financial aspects of what Aurora may be required to report to the uninformative.

It would be useful if Aurora were more transparent about the quality of its services and how it calculates the regional prices. However, without knowing how the Retailers pass on these costs this is somewhat academic.

We generally accept the reporting requirements set out in Chapter 5. However, we note that there is an additional cost to the consumer if these requirements exceed the reporting requirements of other NZ Lines Companies. Should there be a time limit on any reporting over and above that of other Lines Companies to limit the operating costs in the long term?

6) Network Outages

We generally support the approach proposed in the Draft Decision. However, we would note the following points:

- The reliability standards proposed relate primarily to equipment failure. Many consumers are most worried about the reliability owing to major weather events and other interruptions which are not part of the reliability standards.
- Aurora investment to date has been very much safety related not reliability related. Unfortunately, the supply reliability issues are just as important to the end consumer. As a result, there are examples such as Sunshine Bay in Queenstown which is fed from the Glenorchy line. When this line goes out, the Glenorchy consumers are fed from a standby generator – the hundreds of consumers in Sunshine Bay wait tens of hours without out power for a fault between Sunshine Bay and Glenorchy to be fixed. SCADA control of reclosers would limit these outages to minutes if not seconds but it is still a long way off before anything will be done about this and similar problems. It is impossible to be certain but the Commerce Commission target which affects both the capital works timing and the Network Outages may not allow sufficiently for the need to expedite expenditure on projects that are targeting reliability as distinct from safety;
- There must be a real concern that the importance of getting supply restored after an outage and limiting the impact of planned maintenance is being greatly underestimated. This means several things should be investigated and implemented
  - Using mobile generators in greater numbers to limit outages during planned maintenance for pole and equipment replacement;
  - Accelerating the use of remote controlled reclosers to allow the network to restore supply more quickly after faults;
  - Installing permanent generators at some substations to ensure reliable supply in the event of major outages;
  - Accelerating investigation of options for the supply of Queenstown and Wanaka and possibly other areas in the long term to ensure that damage to a single price of infrastructure such as the Cromwell GXP of the transmission line does not lead to a complete loss of supply;
  - Encouraging the use of embedded Solar PV systems and standby generators in the network and batteries owned by consumers to enhance supply reliability
- We note that the likely underlying cause of current situation is that Aurora for years met it s reliability targets by “sweating the assets”. However, the situation deteriorated quickly. The Commerce Commission is proposing that the current reliability levels be accepted and to limit some investment as a result. This could be the start of a slippery slope and could repeat the serious mistakes of the past. Is the Commission satisfied that the limits proposed are prudent and does not initiate a decline of standards going forward?

Have your say on our draft proposals

Use this form to have your say on key issues we have identified in our initial assessment of Aurora's investment plan. Alternatively, you can submit online at **www.comcom.govt.nz/aurora**

Submissions close on 10 December 2020

You can find a Summary detailing our draft decisions and other measures and the full reasons paper on our website.

If you are a business or organisation or you want to provide more substantive feedback you can email your submission to **feedbackauroraplan@comcom.govt.nz**.

Please provide your email address if you want to be kept up to date with our assessment:

[redacted]

Please make sure you clearly identify any confidential information as we may publish submissions on our website. If you need more space, you can staple extra pages to this form. Once you have completed this form, please put it in an envelope (you do not need a stamp) and send it back to us at this address:

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COMMERCE COMMISSION NEW ZEALAND
Te Komihana Tauhokohoko

Key issues we want your feedback on

Revenue Smoothing

One of the ways we can help manage price shocks for consumers is to 'smooth' the profile of the revenue Aurora can recover from consumers over time. In some ways this is like paying off a mortgage – you can choose to pay less up front but pay more in the future (including interest costs), or pay more upfront to reduce what you pay in the future.

We have described two particular scenarios in our draft decision.

Our draft decision is to apply Scenario 1, which would allow Aurora to increase its revenue by a maximum of 10% every year from 1 April 2021 to 31 March 2026. This would allow Aurora to recover most of its costs in the CPP period.

In comparison, Scenario 2 would allow for an initial increase of 5%, then increases of 10% a year. This would defer an additional $38m of Aurora's revenues into that later period after 2025/26, which would see customers pay less initially but more overall (approx. $10m) accounting for interest costs, and keep lines charges higher for longer.

Please indicate whether you agree with our draft decision to apply Scenario 1 and describe what you see as the benefits to consumers of this scenario.

If you instead prefer Scenario 2, please outline your reasons and describe what you see as the consumer benefits of deferring revenues, even if it means paying an interest cost later.

You can read more about our revenue smoothing scenarios in Chapter 2 and Attachment G of our reasons paper.

Increase in Residential Monthly Lines Component relative to 2020/21 – Medium Consumer Profile

	2021/22	2022/23	2023/24	2024/25	2025/26
Scenario 1					
Dunedin	$4.52	$11.23	$17.45	$23.95	$31.18
Central Otago	$9.65	$18.01	$28.36	$40.28	$52.84
Queenstown	$7.19	$10.91	$17.66	$25.22	$33.54
Scenario 2					
Dunedin	$1.90	$8.36	$14.32	$20.54	$27.46
Central Otago	$4.35	$12.27	$22.11	$33.48	$45.45
Queenstown	$3.45	$6.89	$13.30	$20.48	$28.41