Aurora ENERGY

Cross-submission

Commerce Commission Part 4 Input Methodologies Review 2023 – Draft Decision

9 August 2023

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1 Introduction

1.1 Aurora Energy welcomes the opportunity to cross-submit on the Commerce Commission's (the Commission's) Part 4 Input Methodologies Review 2023 – Draft Decision.

1.2 No part of our cross-submission is confidential.

2 General comments

2.1 Having reviewed the submissions received by the Commission on the Draft Decision, our views expressed in our submission on 19 July 2023 remain unchanged.

2.2 While we generally support a number of views expressed by other submitters, there are some views from electricity retailers with which we do not agree, and which we discuss in this cross-submission.

3 Pass-through of transmission charges

3.1 Our submission supported the change to remove pass-through costs from the limit to revenue increases, and the subsequent reclassification of transmission recoverable costs to pass-through costs. We disagree with Contact Energy's submission that lines companies should manage price volatility from transmission charges within their revenue limits for two reasons:

<u>1. Financeability</u>

3.2 The electricity distribution industry is a key enabler of the energy transition required to meet New Zealand's carbon emissions goals. The scale of investment required by electricity distributors is unprecedented, creating with it cashflow concerns and financeability challenges.

3.3 It is important that the Commission balances consumer affordability concerns with financing concerns of distributors and we are disappointed that the Commission's draft decision did not consider the inclusion of a financeability test to assess impacts on distributor's cashflows. There is a real risk that removal of transmission charges from revenue limits will further add to distributor's cashflow challenges and may result in deferred investment in critical infrastructure upgrades required for the energy transition.

<u>2. Transmission costs are outside the control of distribution companies</u>

3.4 We note that Contact Energy's submission also calls on greater obligations for Transpower to share the burden of smoothing prices for consumers for example a 'revenue smoothing limit'. While Transpower will have their own cashflow and financeability challenges, it seems that this change alone would mitigate Contact Energy's concerns. There would be no need to also include transmission costs within distributor's revenue limits to further manage consumer price shock. In this scenario it would still be preferrable to remove transmission costs from distributor's revenue limits to promote greater transparency of the party contributing to any consumer price shock.

4 Large connection contract mechanism

4.1 Our submission supported the intent of the Large Connection Contract (LCC) mechanism but had some clarification questions about the application.

4.2 Contact Energy and Mercury raised concerns about the lack of bargaining power held by connecting parties. We accept these are genuine concerns, but we favour Meridian Energy's proposed solution to make the LCC mechanism optional to be negotiated between the distributor and connecting party while retaining the existing approach for new connections as a backup.

4.3 An optional LCC mechanism removes the potential for distributors to apply excessive bargaining power. Furthermore, if the potential for excessive bargaining power is removed, the rationale for applying an arbitrary 10MW threshold limit is also redundant. An optional LCC mechanism could theoretically be negotiated for connections of any size where the negotiation resulted in a beneficial outcome for both parties.

4.4 We note that many distributors already provide for non-standard pricing contracts within their Pricing Methodologies. In practice, we envisage that these non-standard pricing arrangements would complement the proposed LCC mechanism.

5 Reopeners for general growth

5.1 We share the concerns of the ENA and other electricity distributors about limiting the scope of general growth reopeners to only cover foreseen scenarios covered within the AMP planning window.

5.2 By placing unnecessary emphasis on the AMP process for determining reopeners, our concern is that this will encourage distributors to be overly conservative in the preparation of AMP forecasts to include every conceivable scenario. Ultimately this behaviour will undermine the integrity and confidence of the AMP forecasting process.

5.3 Our preference is to remove the unnecessary distinction between 'foreseeable' and 'unforeseeable' and to make reopeners available for all general growth scenarios.