

**AURORA ENERGY LIMITED**

PO Box 5140, Dunedin 9058

PH 0800 22 00 05

WEB [www.auroraenergy.co.nz](http://www.auroraenergy.co.nz)



18 January 2021

Dane Gunnell  
Manager, Price-Quality Regulation  
Commerce Commission  
44 The Terrace  
WELLINGTON

By email only: [feedbackauroraplan@comcom.govt.nz](mailto:feedbackauroraplan@comcom.govt.nz)

Dear Dane

**AURORA ENERGY CROSS-SUBMISSION IN RESPONSE TO THE COMMERCE COMMISSION'S DRAFT DECISION ON AURORA'S CPP PROPOSAL**

1. We welcome the opportunity to make this cross-submission on the Commerce Commission's (**the Commission's**) draft decision on Aurora Energy's CPP proposal. No part of our cross-submission is confidential.
2. We provided our views on the draft decision in our submission dated 18 December 2020. Our comprehensive submission addressed the key aspects of the Commission's draft decision in detail. Our submission was supported by expert review reports provided by PricewaterhouseCoopers and WSP Global Inc., addressing the analysis performed by Strata Energy Consulting Limited and which underpinned the proposed significant reductions to Aurora Energy's expenditure allowances.
3. We have thoroughly examined other submitters views on the draft decision. We note some helpful comments and suggestions among the submissions, which will be useful to reflect on as we reorient the business and move forward.
4. We were pleased to see the submissions made by other distributors (and the Electricity Networks Association), even though these businesses are not directly impacted by the draft decision, owing to the tailored nature of a CPP. This group of submitters has a detailed understanding of both the mechanics and consequences of regulatory decision-making, and we urge the Commission to give their submissions appropriate weight when considering them.
5. Overall, however, we did not observe anything in submissions that causes us to resile from the views we expressed in our submission.
6. It was pleasing to see that the Commission's draft decision attracted a relatively high number of submissions. Healthy and productive engagement is critical to effective regulation setting.
7. We note, across the range of submissions, that there were a significant number of comments on matters outside of the Commission's remit in general, and the CPP-setting process specifically, including matters of misconception. This is despite the Commission clearly

identifying in its comprehensive draft decision documentation, and at public meetings, those matters that were 'in scope' and those matters that the Commission could not address.

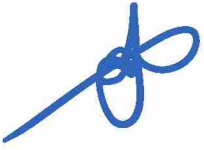
8. We responded to many of these issues in our September 2020 cross-submission on the Commission's issues paper,<sup>1</sup> and excepting the matter of regional pricing, we do not intend to make further comments at this time. We will leave it to the Commission to decide whether it will respond to out-of-scope views in its final decision.
9. We note submitters views on regional pricing, and we concur that prices should be set based on efficient costs to deliver the services that customers receive across different parts of our operating region. We also note that, ideally, any cost allocation should be dynamic and responsive to the changing mix and profile of our network investment.
10. In 2019, we sought expert advice on a range of pricing matters and, consequently, have identified two areas where we propose to modify the regional allocation approach; changes will be introduced in two stages.
11. In our next price change, effective from 1 April 2021, we will be using an updated cost of supply model that allows us to allocate operational costs to better reflect the forecast split of cost in the CPP period. This will have an effect (albeit minor) on the overall allocation and, all things equal, will result in a net increase in costs being allocated to the Dunedin pricing region.
12. The second area of change relates to how we price for the cost of specific assets that are in use in different parts of our network. From 1 April 2022, we propose to move away from our current allocation based on replacement cost (RC) and determine regional, asset-based cost allocation on basis of new regional regulatory asset base (RAB) models. This is a more complex change that would ensure that cost recovery reflects the actual investment in each pricing area, which is important given our increased capital expenditure leading up to and throughout the CPP period, coupled with high growth in some locations. We will need to consult widely on the rationale for the change as well as the resulting impact on price allocation.
13. Consultation is expected to occur in September/October this year and, at that time, we will also solicit views on our longer-term pricing roadmap and the issue of regional pricing more generally. Any change to our pricing approach, following consultation, is expected to take effect from 1 April 2022.
14. We finally note that many submissions contain allegations and assertions presented as fact, without any supporting evidence. Furthermore, some of those assertions have clearly been based on hearsay.
15. In a regulation-setting process with real and significant consequences, such as the determination of Aurora 's CPP, it is necessary that the Commission's decision-making is soundly evidence-based. The importance of evidenced-based decision-making was highlighted by the High Court in its 2013 decision on the input methodologies merits appeal - "[w]here a proposition is simply asserted ... we give it little or no weight."<sup>2</sup> We leave it to the Commission to apply an appropriate weighting to unsubstantiated claims when making its final decision on our CPP.
16. We trust that the Commission finds our comments helpful in reaching its final decision.

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<sup>1</sup> Aurora Energy Limited. (2020). Feedback on consumer submissions to the Commission's CPP issues paper. 18 September 2020. Appendix 2, p8.

<sup>2</sup> Wellington International Airport Ltd & Ors v Commerce Commission [2013] NZHC 3289 [11 December 2013], paragraph [1745].

Yours sincerely

A handwritten signature in blue ink, consisting of a series of loops and a long horizontal stroke extending to the left.

**Alec Findlater**

General Manager, Regulatory & Commercial