



18 January 2021

Via email: feedbackauroraplan@comcom.govt.nz

Dear Sir / Madam,

AURORA ENERGY INVESTMENT PLAN — DRAFT COMMERCE COMMISSION DECISION – CROSS SUBMISSION

The Commerce Commission New Zealand (CCNZ) published 80 submissions on its draft decision on the Aurora investment plan on the 23 December 2020. Cross submissions are due on the 18 January 2021.

Engagement process

On the 22 December Queenstown Lakes District Council (QLDC) Mayor Boulton respectfully requested that this time frame be extended, given the number of staff and elected members on leave and the need for a mandate. On the 23 December the CCNZ declined the request.

The Council highlights this matter from the outset of this cross-submission as, like all submitters, its ability to meaningfully assess and make a cross-submission on this critical decision, which will impact all our ratepayers has been compromised.

In our view CCNZ has not delivered a genuine opportunity to enable not only key stakeholders but our entire community the opportunity to meaningfully engage in this process.

The Council's ability to meaningfully cross submit has also been made more difficult by the manner in which submissions were presented on the Commerce Commission website. The majority of submissions have simply been allocated a number in lieu of a title so most of the 80 submissions required laboriously clicking on every PDF to understand their content. Further there are some key questions asked of submitters but no attempt to helpfully provide a summary or some assessment of the feedback to assist time-poor submitters. In short this presents as inaccessible, unhelpful and rushed.

We recognise that the level of public engagement on this matter has been significantly higher than in other similar processes but respectfully submit that CCNZ needs to improve its CCP engagement process.

Assessment

Firstly QLDC commends to CCNZ the concerns raised in the original QLDC submission and reconfirms its original position.

The underlying concern continues to be the impact that the proposed price shocks will have on our community. As we previously stated Council must continue to uphold the position that it has grave concerns about potential underinvestment in the network and the process. The QLDC seeks justification for the CC proposed decision to reduce the level of investment.

In June 2020, Aurora Energy (Aurora) applied to the CCNZ for a customised price-quality path (CPP) so it can spend \$383 million over the next three years (or \$609 million over five years) to address safety and reliability

issues on its network. As a result of your assessment you are proposing to allow Aurora to recover \$86m less from its customers than it had asked for on a five-year CPP.

Contained in these submissions are some deeply concerning assertions about the process undertaken by CCNZ to reach this conclusion (matters we raise in our own submission).

Council was not confident that the investment programme proposed by Aurora would meet the needs of our district before CCNZ recommended that programme be reduced.

Our community needs and deserves a fairly priced, reliable and safe electricity network that meets the current and potential future needs of growth.

It is deeply concerning to read submissions from not only Aurora, Dunedin City Holding Limited and Aurora independent commissioned reports by PWC and WSP but also from the independent Electricity Networks Association, Orion, Vector, The Lines Company, Wellington Electricity Lines Limited (WELL), Unison Networks Limited and Powerco all making the same assertion.

PWC's overarching finding is that the benchmarking approach adopted by Strata Energy Consulting has not adequately recognised the unique circumstances facing Aurora during the CPP period. It goes on to point to modelling errors and assumptions that have been relied on by CCNZ in reaching its conclusions.

WSP likewise found deficiencies in the approach, modelling, key inputs and assumptions made by Strata. Vector speaks to the commission's lack of a clear and certain approach for CCP evaluations and a significant departure by the commission from previous approaches.

WELL makes a similar point to that made by QLDC that: *"where costs are not homogenous due to differing network topography, demographics and work programme characteristics, top down techniques may provide a poor predictor of expenditure."*

Powerco, the company used by Strata to formulate desktop benchmarking in relation to OPEX has submitted itself that it is concerned with benchmarking which it notes is no longer relevant as it relates to its 2016/17 budgets.

Even more alarming is the statement made by Aurora in its submission response:

"Left unchanged, the Draft Decision on Aurora's CPP proposal will have a serious impact on the business's ability to deliver and support its essential works programme and will eliminate the possibility of our being able to make the improvements to the company's management systems and data quality required to achieve a modern standard of accepted asset management and operations practice." - Dr Richard Fletcher CE Aurora Energy

Dr Fletcher goes on to state that if left unchanged then the business will go back to where it was *"at the start"*.

There are various comments on the proposed cap on the annual rate of revenue change. In general QLDC's position is that CCNZ carefully re-assess this position based on the risk that both Aurora, its holding company and other parties have raised in terms of debt sustainability.

The Council recognise the effort of CCNZ to minimise price changes, but note, despite our opposition to the unfair incidence of price changes, that failing to ensure Aurora can develop a strong, sustainable and resilient network is equally undesirable.

Scenarios

In terms of the question as to the two scenarios proposed by CCNZ, the QLDC supported scenario 1 as being ultimately more cost effective and prudent but was open to community feedback. Council would like to acknowledge the Queenstown Greypower submission to support scenario 2, accepting that the cost is greater in the long term, because this offers a 12 month reprieve in terms of cost to consumers. As we reflected at the outset our original submission stands with this regard as we have not received a clear mandate to the contrary, notwithstanding the local Greypower position.

Reporting

QLDC supports the CODC submission proposal in relation to enhanced and accessible reporting. The concept of some form of direct engagement through a form of steering group is supported.

Pricing

QLDC supports the CODC submission 'intent' in relation to pricing and emphatically supports the introduction of a fairer pricing model. Our enquiries have led to mixed messages as to who or what agency can effect a pricing structure that is fair to all consumers across a single network. The current arrangement has punished customers in Central Otago both in terms of a lack of investment and now in terms of paying disproportionately for that catch up. We urge CCNZ to use its powers to enable a sound and robust pricing structure and to ensure a fair structure is implemented across the company.

Conclusion

QLDC does not purport to be an expert in the area of electricity supply. As outlined our ambition in this matter is to ensure a fairly costed, reliable and safe network that meets the current and potential future needs of growth in our district. Based on the information before us, QLDC concludes that the draft CCNZ decision is flawed. We request that CCNZ reviews its draft decision based on setting aside the Strat benchmarking analysis and place the appropriate weighting on the independent analysis that informed the Aurora CPP proposal. There are no winners here but this Council cannot and will not accept the risk that Aurora has outlined. We cannot place our community, our economy and our reputation at risk. Please refer to our earlier submission that CCNZ must review its Covid-based assumptions pertaining to growth in the QLDC and it must radically review its process that led it to recommend an investment reduction of \$86 million.

QLDC will continue to engage in this process to advocate for the best outcomes for the community and would welcome the chance to present this cross submission to further represent the District at any future meetings, hearings or steering groups that result from this consultation process.

Thank you again for the opportunity to comment.

Yours faithfully,



Jim Boulton
Mayor



Mike Theelen
Chief Executive