

18 December 2020

Commerce Commission  
PO Box 2351  
Wellington 6140.

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

**Re: Consultation on Aurora CPP Draft Decision**

Dear Commission

Thank you for the opportunity to provide feedback on this consultation on the Aurora CPP draft decision. We consider it important to ensure that the CPP process remains fit-for-purpose and that the outcomes are adequate for both the EDB and its local consumers.

Aurora applied for a CPP because it felt that the DPP process would not provide the necessary capex and opex funding to make good its network. The Commission accepted the Aurora application and agreed with this sentiment. Aurora followed the CPP IM process and engaged a verifier who worked alongside Aurora to review its proposal in detail from the bottom up.

As a CPP, the circumstances around, and details of, the proposal are unique to Aurora. The Orion, Powerco and Wellington CPPs were all in response to their own unique circumstances. Similarly, the DPPs for each EDB reflect its own circumstances but within a low-cost standardised process.

**The Aurora CPP process**

ENA's impression is that the Aurora CPP process has mostly followed what is set out in the IM, but it seems that it is not coming together in a coherent and timely manner. We understand that the verifier left a small number of matters for the Commission to consider further but, having reviewed more than 90% of the CPP detail, it was of the view that Aurora had done a satisfactory job with the proposal.

We were therefore dismayed to read the draft decision and very surprised at the belated release of the Strata report to justify the material cuts the Commission made in the draft decision to the 'bottom-up' resource budgets that Aurora and the verifier proposed.

We find it hard to accept that Aurora and the independent verifier did such a flawed job on the Aurora CPP proposal that warranted such large reductions, particularly to opex. Both entities can draw on considerable experience as managers and operators of distribution networks and they both have prior CPP involvement.

ENA is also struggling with the process that the Commission and Strata adopted that resulted in these reductions from the late introduction of a desk-top benchmarking exercise, seemingly by Strata in particular.

We understand the Commission's need to address the few matters that the verifier left but we were surprised at both the method used and the resulting budget cuts. As we comment above, CPPs address unique EDB circumstances and desktop benchmarking, in the manner that Strata employed, compromises the CPP process.

We also understand the Commission's desire to manage the price impacts of the CPP on Aurora's consumers, but we caution that this desire should not compromise delivery of the very benefits to consumers that the CPP is intended to realise. It is also timely to remember that Aurora consumers have had the lowest network charges in New Zealand for some time.

#### Implications of this draft decision

We have some broader concerns for the regulation of EDBs that flow from this decision. The introduction of top-down benchmarking muddies the CPP IM process, calls the use of the verifier into question, and weakens the viability of CPPs as regulatory options for EDBs. ENA members will (likely) be reluctant to commit to what is a very expensive process if they risk facing an uncertain outcome like this one.

We consider that top-down sensibility checks can be useful in particular circumstances but should not be used to make material changes to CPP budgets. The (possible) impact in this specific case will be on Aurora's ability to deliver the outcomes that are needed to make good its network. Aurora is left with a material inconsistency between the 'benchmark' opex allowances and the CPP commitments that Aurora will be held accountable for.

More immediately we see that Aurora, through the 10% annual price increase limit, now faces the risks of changes to the pass-through and recoverable costs. This will place further pressure on their ability to make good the network.

ENA has concerns with a process that results in a long and expensive CPP, designed to upgrade an ageing network, leading to a situation where annual total revenue is set at a lower level than DPP3. In that circumstance, Aurora would have been better not to apply for a CPP, which doesn't make sense to us.

In summary, the most important point at an industry level, is that the process followed by the Commission on the Aurora CPP will have a chilling effect on further CPP applications.

Kind regards



David de Boer  
Principal Advisor  
Electricity Networks Association