



20th August 2020

Via email: feedbackauroraplan@comcom.govt.nz

Dear Sir / Madam,

AURORA ENERGY INVESTMENT PLAN - COMMERCE COMMISSION KEY ISSUES PAPER FEEDBACK

Thank you for the opportunity to present feedback on the Aurora Energy Investment Plan - Commerce Commission Key Issues Paper Feedback.

The Queenstown Lakes District Council (QLDC) is writing to express its concern that Aurora's proposed approach is placing its community's wellbeing at significant risk.

This feedback will address the following key points:

- a) The proposal is unaffordable and will be detrimental to community wellbeing
- b) The proposal does not accurately reflect residential population growth
- c) The proposal does not accurately reflect visitor demand
- d) The proposal does not clearly quantify the inevitable economic and social impact of increased outages

In light of this, QLDC recommends to the commission that:

- i. Aurora increases its Customised Price Path(CPP) from a three year, to a five year plan.
- ii. A viable way to reduce the financial impact on QLDC's communities be found, as the current plan is simply not affordable.
- iii. Part of Aurora's \$5m fine be reinvested in the Queenstown Lakes District Community, in a way that helps the community mitigate the effects of the price rises.
- iv. An effective Customer Panel for Aurora to hear the community voice and engage effectively be established.
- v. The commission considers how it might be able to compel all distributors to undertake a periodic independent review of its asset management maturity.

Please note that this feedback was ratified at an extraordinary council meeting on Thursday 20th August 2020.

Thank you again for the opportunity to comment.

Yours faithfully,



Jim Boulton
Mayor



Mike Theelen
Chief Executive

Introduction

Queenstown Lakes District has historically been an area of high growth, with resident numbers growing at a higher rate when compared to other areas in New Zealand. It has also been a district that has consistently seen lower than average wages than the rest of the country, and higher than average land and house prices. Having taken the likely impact of COVID 19 into account in its projections, this situation remains unchanged beyond the next three years.

Queenstown Lakes District requires an investment plan from Aurora that will take into account high living costs, low wages and higher than average growth and visitor numbers.

This feedback addresses a number of key concerns that the Queenstown Lakes District Council has with the proposal provided. These will be addressed in turn and followed with a series of recommendations for the Commission.

1.0 The proposal is unaffordable and will be detrimental to community wellbeing

- 1.1 The Council finds itself caught between trying to advocate for the community's need for a safe, reliable and future-facing power supply, whilst also trying to avoid further economic hardship. An extraordinary projected increase of 48-66% in monthly distribution charges for residential customers is unaffordable and untenable. Notwithstanding this dilemma, the Council is committed to advocating for a strong, resilient and future-focussed investment plan that places the district and region on a sound future footing, as a first goal. How that gets equitably paid for is the second.
- 1.2 QLDC's 2019 Quality of Life Survey demonstrated that 15% of the community were either unable to heat their homes or only able to do so some of the time. Of those respondents, 70% cited affordability of heating as a reason for inability to heat homes.¹ Projected increases will severely impact Aurora's projected revenue as more members of our community are forced to occupy cold, dark homes.
- 1.3 QLDC is deeply concerned about the impost that major increases deliver to significant parts of the community. Prior to COVID-19, the average salary in the district in 2019 was 12% below the national average². Post COVID-19, many are grappling with extreme financial hardship, ongoing uncertainty and greatly reduced fixed income. With a projection of 18.5% unemployment (more than double the national average)³, the impact on economic, social, cultural and social wellbeing will be exponential⁴.

2.0 The proposal does not accurately reflect residential population growth

- 2.1 Despite COVID-19, QLDC's population projections continue to show that the district will continue to be one of the fastest-growing districts in the country. As such, QLDC expects the Commerce Commission to require Aurora to invest in a future-facing network that transcends a short term safety reset.

¹ Queenstown Lakes District Council, *Quality of Life Report 2019*, 2019, p.15. <https://www.qldc.govt.nz/media/yuginy3u/quality-of-life-report-2019-final-report.pdf>

² Infometrics, *Queenstown-Lakes District Economic Profile*, <https://ecoprofile.infometrics.co.nz/queenstown-lakes%2Bdistrict/StandardOfLiving/Earnings>

³ Infometrics, *Economic Impacts of COVID-19 on the Queenstown-Lakes Economy – Early Estimates*, May 2020, p.6. <https://www.qldc.govt.nz/recovery/data-reports>

⁴ Infometrics has projected an 18.5% unemployment rate in the Queenstown Lakes District by March 2021, in comparison to a forecast national rate of 9.0%.

2.2 QLDC would ask the Commission to probe the efficacy of a plan that is playing catch up, effectively taking the community to ground zero as opposed to a right-sized, future-facing investment plan that aligns with anticipated growth in the district. QLDC’s draft population projections continue to predict nearly double the amount of residents (Fig.1) and visitors over thirty years. However this takes place over the medium to long term rather than, as previously modelled, having a high growth phase within the first 10 years.



Figure 1. Resident population growth scenarios within the Queenstown Lakes District⁵

3.0 The proposal does not accurately reflect visitor demand

3.1 This Council, the communities, the government and essential utility providers cannot rely on what is projected to be a short-term challenge. Queenstown Lakes District, as experienced in the recent school holidays, will continue to be a destination of choice to the domestic market. Peak times will endure (note the electricity demand at peak during this period was on a par with 2019) and clearly both the resident population and visitors must be catered for.

3.2 Although the Trans-Tasman bubble is on hold, this will eventually significantly load and spread visitor numbers. As a growth council QLDC is in partnership with the government to deliver a Spatial Plan in 2020. QLDC can provide robust future growth projections that amply demonstrate that the existing approach is fundamentally inadequate.

3.3 QLDC would ask for scrutiny around the prioritisation of projects to ensure that challenges like the required electricity draw of ski fields in the peak winter months will be accommodated. Outages would have major implications on the reputation of the industry and the reputation of NZ Inc, especially once the Trans-Tasman bubble becomes a reality. Aurora should not be incentivised to invest in ways that leave the district forever on the brink of losing resilience; nor should it be allowed to create scenarios where future power-poverty hampers continued economic investment. QLDC urges the Commission to interrogate this issue further with regard to targeting the right assets.

⁵ Queenstown Lakes District Council, *QLDC Demand Projections (draft)*, 2020.

4.0 The proposal does not clearly quantify the inevitable economic and social impact of increased outages

- 4.1 QLDC believes Aurora should release additional detail about the vulnerability of customers to elevated unplanned outages over the coming years. At risk locations should be specified, along with the types and durations of outages over recent times so that customers can understand the true risk they are facing rather than average outage durations. For example, the recent outage in neighbouring Clyde left vulnerable residents dealing with minus 10 degree temperatures for an unacceptable period of time.
- 4.2 This is a scenario with unacceptable implications for Lake Hayes Estate and Shotover Country which have a current population of approximately 4,500 residents, (over 10% of residents of the district)⁶. These neighbouring communities are large-scale residential areas almost entirely reliant on electricity and gas for heating (noting that open fires are prohibited and gas fires often require electric ignition). References to projected average outages that will increase over the next two years should be an unacceptable bottom line to the company and the commission.
- 4.3 Furthermore, the business sector must be engaged by Aurora on the potential impact of outages on their operations. Some form of compensation framework needs to be agreed, particularly in the post COVID 19 environment where many are already facing severe challenges.

5.0 Recommendations for the Commerce Commission

QLDC acknowledges that the Commission has limited powers, but notes that the primary issue is historic under-investment in the district by Aurora's owner. As highlighted by the Commission's Issues Paper, customers have faced hardship through elevated outages over recent years, and now face steep price increases in the face of a major recession.

QLDC recommends that:

5.1 Aurora increases its Customised Price Path(CPP) from a three year, to a five year plan.

- 5.1.1 While it is understood that Aurora may be challenged by lack of data for years four and five, on balance QLDC seek a five-year CPP. There is a known 'true' investment cost that does not deliver a complete picture to our communities if the plan is confined to three years. The district's communities deserve to understand the price rises more fully.
- 5.1.2 The challenge will remain beyond years one to three. A longer range CPP gives certainty to any investment decisions e.g. insulation, efficiency or self-generation (solar). Given the relatively long payback on some of these investments, consumers need to be able to invest with confidence.

5.2 A viable way to reduce the financial impact on our communities be found, as the current plan is simply not affordable.

- 5.2.1 QLDC does not accept that the quid pro quo has been that its communities historically enjoyed 'lower than national average' line charges. No community would advocate for underinvestment leading to an unsafe network, unacceptable outages and resulting in a massive and untenable financial burden for future generations. However, this is what Aurora and its parent company have delivered to the community under the guise of

⁶ Ibid. (In 2020 Shotover Country and Lake Hayes Estate have 4,548 residents. The total district population in 2020 stands at 40,903.)

cheaper lines charges. Similarly, the principles of timely asset management and investment fast outweigh the impact on household budget of having to play catch up to 2020 prices alone.

- 5.2.2 The only tool within the Commerce Commission's remit is to try to smooth and mitigate the cost of the investment plan. QLDC's view on this is simply and bluntly expressed - the plan is not affordable. A way to reduce the impact on communities must be found.
- 5.2.3 QLDC supports any mechanism to this end, be it loan funding with additional interest costs (as suggested) or some form of government intervention. Alternatively, the tricky question around the profile of price rises needs to be answered. Due to COVID-19, deferring price rises by a year (in what is possibly going to be one of the toughest years in the community's history) is probably preferable, even if it means steeper price rises later. QLDC wishes to be clear that should there be a pathway for mitigation of costs to the community, QLDC would support this route, and would not support the simple deferral of the same high, unaffordable costs to the community.
- 5.2.4 The government has recently announced its direction for three waters reform and spreading costs across metropolitan and rural communities is a clear part of that agenda. The impact of the changes needed across Aurora's network are being borne disproportionately by smaller communities with older and more disparate networks. There should be some incentive for Aurora to spread these charges more equitably.
- 5.2.5 QLDC will also continue to pursue Aurora's owner to seek some form of cost offset. To fail to remediate a legacy of its own making is unacceptable.

5.3 Part of Aurora's \$5m fine be reinvested in the Queenstown Lakes District Community, in a way that helps the community mitigate the effects of the price rises.

- 5.3.1 QLDC reiterates that the \$5m Aurora fine should be re-invested in the communities affected by the increased charges. QLDC does not accept that it is appropriate for Aurora to influence or control how this fine should be applied. It would be a perverse outcome if the fine (intended to be punitive) was channelled directly toward the investment that Aurora had failed to undertake historically. Most appropriately, this money must be invested in ways that assist Aurora's customers mitigate the higher charges, e.g., through increasing assistance for insulation and other forms of energy efficiency. There is continued support from QLDC for some form of hardship fund to be governed independently of Aurora and its owner.

5.4 An effective Customer Panel for Aurora to hear the community voice and engage effectively be established.

- 5.4.1 . Aurora ran a proactive customer consultation process in the development of this proposal. However, its original intention of providing the Customer Panel with options for investment never materialised in any meaningful way (due to the constrained nature of what Aurora could realistically put forward as an investment proposal).
- 5.4.2 Such a panel (perhaps with a revision of membership to act more in a governance or steering capacity) should not just be convened for the preparation of options for the CPP, but also to oversee its implementation. This is particularly important when it is going to cause customer hardship (economic and social). Had a panel representative from the

communities been involved historically, this situation would not have arisen. QLDC seeks some form of assurance here that this position will not be repeated in future.

5.4.3 This might be the body to oversee some form of delivery accountability as you have outlined. Given the history and given the current situation, the community should be able to have visibility of some clear and accessible metrics for reporting outages and investment programme delivery. Other ideas that complement this solution include:

- Some form of KPIs or indicators that are published quarterly in local publications customised for local consumption and overall programme context may be one suggestion.
- Regular reporting to Local Authorities with a higher degree of detail would be another (at least six monthly).
- Quarterly meetings with some form of steering panel, not only around performance in terms of delivery but performance in terms of future facing strategic master planning. Aurora must become more responsive to and better plan for projected growth. QLDC expects and seeks a partnership approach in this regard.

5.4.4 Aurora must engage very openly and transparently with communities and retailers on the likelihood and consequences of outages. This should include some proactive messaging around resilience, mitigation and alternative power sources.

5.5 The commission considers how it might be able to compel all distributors to undertake a periodic independent review of its asset management maturity.

5.5.1 QLDC is concerned that the fundamental issues that led to the present situation could be repeated in the future – either for Aurora or for other distribution customers. On the issue of under investment some form of regulatory oversight by the commission could be a preventative measure to ensure asset management is driving the correct outcomes rather than e.g., sweating assets at the discretion of a governing body. QLDC recommends that the commission considers how it might be able to compel distributors to undertake a periodic independent review of its asset management maturity, such as that that many councils (including our own) undertake. QLDC is of the view that only an independent review will materially reduce the risk of a repeat of the Aurora situation, as described by Deloitte’s 2016 review.

6.0 Conclusion

QLDC provided feedback to Aurora in January 2020 in relation to the Customised Price Path (CPP) application to the Commerce Commission. Much has changed in the months following this original feedback, however QLDC’s position has not. Underinvestment over the last 25-30 years has led to a situation where unaffordable and inequitable solutions are being tabled to a community that has subsequently been disproportionately hit by the financial implications of the COVID-19 pandemic.

QLDC finds the potential situation of more than 10% of our district being without the ability to heat and light their homes for significant periods due to outages totally unacceptable. Council and communities need to be able to plan for these types of scenarios through greater data and transparency to mitigate the effects to home and businesses.

Despite the hardship that COVID-19 has brought to the district, this community will continue to grow. This means that a right-sized, future-facing investment plan is essential for communities to thrive and survive.

QLDC understands that delivering a long-term, competently-run network comes at a cost, but as a local authority with an eye to long-term sustainability, it's accepted that establishing this network needs to be the core commitment. Notwithstanding this, as leaders in our community QLDC also recognises that this directly impacts on residents and ratepayers. It is simply too easy to say that the costs simply need to be borne.

The Commission, the company and the company's owners all have a duty to ensure that the fairness and affordability of the proposal is foremost in the decision-making of those bodies. As such, QLDC urges the Commission to make decisions that hold the company accountable not only for the quality of what it provides but also for the cost impost placed on consumers , who have no choice but to bear this burden.