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QUEENSTOWN LAKES DISTRICT COUNCIL

www.qldc.govt.nz

14th December 2020

Via email: feedbackauroraplan@comcom.govt.nz

Dear Sir / Madam,

## AURORA ENERGY INVESTMENT PLAN – DRAFT COMMERCE COMMISSION DECISION FEEDBACK

The Queenstown Lakes District Council (QLDC) considers the Commerce Commission New Zealand (CCNZ) to be making the 'best of a bad situation' for our communities, but the quantum of the proposed price shock continues to be unaffordable for many.

It's QLDC's position that the assumptions made by CCNZ around reduced consumption due to COVID 19 are at high risk of being inaccurate in relation to our district. We are concerned that a reduction in the investment programme will lead to risky re-prioritisation at the expense of a reliable power supply that meets the needs of our district. QLDC requires reassurance that despite the reduced programme, Aurora will still be able to make urgent investment at pace and that the community and economy will not suffer from a deteriorating level of service. We seek CCNZ to revisit its consideration of the reduced Capex budgets, noting that an increase in the Capex budget will not significantly impact the proposed prices.

In general 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. In particular we note the following statement in the Strata Energy Consulting (SEC) report that states in relation to Aurora: "*we have formed the view that its policies, planning standards and procedures were insufficiently mature to provide a robust framework on which a credible expenditure forecast could be formed."* Further the report states that Aurora's expenditure forecast is: *"unlikely to meet a reasonable and prudent threshold*." We acknowledge that these comments are the express opinion of SEC and subject to further contention by Aurora. Nevertheless, the Council has taken the position that it intends to focus on pursuing resilient, affordable alternative energy solutions for its community.

For the record, QLDC remains dissatisfied with Dunedin City Council's (DCC) lack of accountability for historical under-investment and intends to continue to pursue this avenue with the Council.

**The negative impact of the revised programme on community wellbeing remains significant.**

QLDC is deeply concerned at the deprivation and health issues which will be exacerbated by the proposed price change. As has been previously highlighted under the prevailing prices, 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, and
- of those respondents, 70% cited affordability of heating as a reason for inability to heat homes.[1]. This is a serious risk.

[1] Queenstown Lakes District Council, *Quality of Life Report 2019,* 2019, p.15. https://www.qldc.govt.nz/media/yugjny3u/quality-of-life-report-2019-final-report.pdf

There will be subsequent effects for the Government in the form of heightened utility subsidies in the district (where people can qualify) but many groups represented in the lower socio-economic element of our communities cannot (particularly migrant workers). Failing to heat a dwelling during winter in this district will have serious health and wellbeing consequences. We would add that this is equally of concern in the event of outages during winter, which the district is already experiencing on a regular basis.

Pushing the programme from three to five years and reducing the proposed spend by $86 million mitigates some of these effects, but ultimately households in the district will still be looking at adding $3-$13 per month to their power bills. This will increase every year until 2026 when they will be paying $27-$85 per month, depending on how much power is consumed. We note that power consumption is not always proportional to income, and for many fixed incomes/low income households that prospect will be inconceivable.

QLDC does acknowledge that in addition to the attempt to 'smooth' the profile of the revenue that CCNZ has proposed a scenario (scenario 2) which would initially defer cost. Given this is a short-term solution that would see customers pay more in the long run, QLDC does not support this option but is open to understanding our communities' feedback on this choice, given the impact of COVID-19.

In addition to the significant imposition of cost, we are concerned about the ongoing level of outages in the district, which today happen with concerning frequency. As already experienced in the region this year, the impact of unplanned outages in the middle of winter is serious for a large part of the community that rely solely on electricity, often due to air quality restrictions that limit access to alternative heating sources (e.g., Arrowtown, Lake Hayes Estate and Shotover Country). We welcome CCNZ tightening the quality standards, relating to unplanned outages, compared to Aurora's proposal. But we remain concerned about how long our community has to cope with an elevated rate of unplanned outages.

**There is no evidence to suggest that COVID 19 will lower electricity demand**

The CCNZ has signalled that the reduction in programme is partly based on an expectation of lower electricity demand due to COVID-19. We consider this to be a short term outcome, if it occurs at all. Although the CCNZ has further signalled this position can be revisited based on growth, QLDC is concerned about the risk the district is then exposed to, for a number of reasons:

1) QLDC does not understand how the Commerce Commission's revised demand growth expectations have been derived, nor which aspects of demand are driving the deferred capital. Prior to the Covid 19 pandemic, the Queenstown Lakes area was experiencing the fastest rate of resident and visitor growth in New Zealand. While the pandemic has created uncertainty about the future, the underlying drivers of demand to live or visit the Queenstown Lakes remain and growth is likely to return in the future.

   Over the past 30 years, the Queenstown Lakes has grown steadily from 15,000 residents to its current population of 42,000, alongside significant growth in visitors to the area. This growth has been driven by the attractive scenery and climate, clean environment, outdoor lifestyle, strong economic opportunities and improved national and international connectivity.

2) Queenstown Lakes is also a district with an extremely variable population depending on seasons and events. At certain times of the year, its population in different locations consists of as many domestic tourists than residents. Therefore, its population (and thus electricity demand) will be substantially more sensitive to a volatile tourist market than in any other part of the country (where the rate of demand change, driven by resident population growth, emerges more gradually).

The Queenstown Marathon is a good example, with approximately 20,000 domestic visitors arriving in the Wakatipu (which nearly matches its resident population2). Queenstown is unique in this regard and as such, QLDC has some concerns that the cut in capital will place too much risk on the network. Despite this request potentially adding cost, CCNZ is urged to carefully reconsider this recommendation with particular regard to the district's peak population projections.

3) In the medium term, the district has committed to a Climate Action plan that will see electricity relied on more heavily, given its lower emissions footprint. We expect to see more electric vehicles to reduce transport emissions, which will increase demand. We are also aware of parts of the network which are suffering from poor air quality (e.g., Arrowtown) where residents would need to switch from wood burners to electric heatpumps to improve environmental outcomes, again driving up demand.

4) Our final point is that Queenstown Lakes is seen by Central Government as critical to the re-invigoration of the international visitor market. The district makes a critical contribution to tourisms GDP – well above what its population share is – and is a core part of Brand NZ. That carries with it an expectation that visitors can enjoy a quality experience. The risk of outages creates a risk to not only the reputation of the district but the reputation of New Zealand as a global destination. Beyond that, our district aspires to stimulating economic investment and diversification, and it is well known that quality infrastructure is a core enabler of this. Our power company must meet the needs of the district by delivering a trusted power source not a patchy, third world, just in time product.

QLDC does not have clarity or confidence regarding the extent to which the revisiting mechanism can be adequately responsive to changes in predicted demand growth, e.g., the re-opening of international borders or the opening of electricity-intensive commercial developments. QLDC encourages CCNZ to reconsider its approach to cutting capital spend to ensure that the network can be resilient to a sudden increase in demand, or at the very least consider how a decision to revisit this could be expedited appropriately.

**Investment in the network's infrastructure needs to remain a priority**

QLDC cautiously supports CCNZ's expectation that Aurora must achieve better efficiencies in delivery as it embarks on this sizeable programme of work. It is noted however, that QLDC's experience as a major infrastructure provider shows that these efficiencies occur through having the appropriate systems and processes in place. QLDC assumes that the revised OPEX and CAPEX decisions still allow Aurora to make investments in these systems and processes with urgency, if required to achieve efficiency.

In principle we support any prudent reduction in expenditure that can enable a price reduction but we question the benchmarking process undertaken by CCNZ which appears to underpin CCNZ's belief that there is unnecessary operational expenditure in Aurora's proposal. The cost of delivery in this district is particularly high and it can be challenging to attract contractors and service providers at short notice. Also, we would expect that larger networks like PowerCo to experience scale economies not available to Aurora which is, as asserted by CCNZ, a quarter of the network size. By not comparing apples with apples this may have presented a skewed picture of cost and we would ask that CCNZ revisits this approach. We support reduced cost but not at the risk of reducing levels of service that does not meet the needs of our district.

**QLDC remains dissatisfied with DCC's lack of accountability for under-investment**

It is important for CCNZ to understand that our concerns about their proposed scaling back of Aurora's OPEX and CAPEX should not be solved by increasing Aurora's allowable revenue. It needs to be solved by the owner providing the funds that should have been made available over the last 10-15 years. For the avoidance of doubt, we do not believe Aurora paid dividends to its owner that were excessive relative to their regulated return. Our

[2] https://www.qldc.govt.nz/community/population-and-demand

contention is that their decisions around dividends and pricing were grossly imprudent relative to the necessary investment in the network that a prudently governed infrastructure owner would have made.

QLDC remains concerned that Dunedin City Holdings Limited and its owner the DCC have not previously been held to account for years of underinvestment. The CCNZ draft decision that $38 million of network investment costs already incurred by Aurora (when required to undertake safety works due to the appalling state of the network), cannot be included in what they now recover from consumers, is welcomed.

Enhanced reporting on the delivery of the programme and customer engagement is very welcome, as is the curtailment of future unplanned outages. Although not ideal, sustaining the current levels of outages is preferable to the proposed increases over the next few years.

Avenues that QLDC is keen to continue to pursue (that sit outside the CCNZ remit) include discussions with DCC around shareholder accountability and engagement with Aurora and the Electricity Authority in relation to cost parity across the region.

**QLDC will continue to pursue resilient, affordable alternatives for its communities**

QLDC anticipates that implementation of the plan will spark a potentially unprecedented consumer behavioural change which will range from conserving power, investing in efficiency, to switching to alternative sources of energy (e.g. solar). With regard to alternative sources of energy, QLDC is heavily invested in understanding how these potential changes can help its residents manage the increase in bills, and where possible advocate for positive change. QLDC is itself contemplating the impact of the price rises on its own ~$2.5m power costs, and will also be contemplating whether alternatives can reduce the impact on its residents.

Ultimately, the community can consider how they use power and whether they can reduce their energy use (switching off, solar etc). However, QLDC remains deeply concerned for those on fixed incomes who will need to contemplate the use of less or no heat during the winter period.

QLDC is keen to engage further with its communities and Aurora in relation to the potential for affordable solar and energy efficiency initiatives to be introduced in parallel with price hikes. Inevitably, Central Government will also need to pay some attention to this challenge as for some, reliance on social welfare to support utility costs will become more prevalent, as outlined.

Please note that this feedback was ratified at an extraordinary council meeting on the 10th December 2020.

Thank you again for the opportunity to comment.

Yours faithfully,

Jim Boult
**Mayor**

Mike Theelen
**Chief Executive**