ENA submission on Aurora Energy's transition to the 2025-2030 Default Price-quality Path, draft decision

Submission to the Commerce Commission

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1 Introduction

ENA is the industry membership body that represents the 29 electricity distribution businesses (EDBs) that take power from the national grid and deliver it to homes and businesses (our members are listed in Appendix A).

EDBs employ over 7,800 people, deliver energy to more than two million homes and businesses, and have spent or invested $6.2 billion in network assets over the last five years. ENA harnesses members' collective expertise to promote safe, reliable, and affordable power for our members' customers.

1.1 Executive summary

We welcome the opportunity to comment on the Commerce Commission's draft decision on Aurora Energy's transition to the 2025-2030 Default Price-quality Path (DPP4). We do so given the wider precedent set by aspects of the Commerce Commission's draft decision, and implications of this for the distribution sector.

Our concerns centre around the efficiency adjustment which the Commission has proposed to apply to Aurora Energy's non-network operational expenditure (opex) and with this, the effective carry-over of old analysis. Customer and EDB outcomes rely on allowable revenue being adequate to meet network requirements of the regulatory period for which they are set. Any efficiency adjustments must be strongly grounded in evidence that is robust and relevant to the here and now. We don't believe that the proposed efficiency adjustment for Aurora Energy's DPP4 meets this threshold.

In our submission we also raise concerns with: the proposed reduction in Aurora Energy's allowance for DER-related costs; the expectation that Aurora absorb cost inflation (rather than provide the adjustment to capex cost escalation as was provided to other non-exempt EDBs in DPP4); and, unnecessary regulatory burden in the decision. These aspects of the draft decisions set a concerning precedent for the sector and trend towards outcomes which are inconsistent with the requirements of our energy transition today.

2 Response to draft decision

2.1 The Commission's reliance on outdated analysis that has never been subject to review is concerning

The 6% year-on-year reduction in non-network opex stemmed from a report prepared by Strata Energy Consulting – 'Assessment and opinions on specific topics related to Aurora Energy's June 2020 Customised Price Path application' (the 'Strata report'). Commissioned by the Commerce Commission to address specific aspects of Aurora's forecast expenditure in their CPP application, this report formed the basis of the Commission's analysis for the glidepath in 2021.

We believe that there is limited value in undertaking forensic scrutiny of the Strata report as it was written five years ago, and is not the subject of the decision at hand. For these same reasons we question how appropriate it is that today's proposal to transition Aurora to DPP4 be foundationally based on its analysis.

Even if we were to grant that the 2019 benchmarking used to set the glide path in 2021 was robust[1], the assumptions and benchmarking applied by the Commission have not in any way been updated to reflect the demands and expectations of EDBs in the DPP4 period. Our economic environment (and with it inflation and cost pressure) has moved on significantly from when the 6% reduction was proposed. Given the step change in front of the sector, it is critically important that regulators base their decisions on the circumstances and evidence of today.

Elasticities within the base-step-trend (BST) forecasts already capture the impacts of economies of scale and scope. Applying a further 6% adjustment risks double-counting efficiencies that are already embedded. We recommend the Commission undertake additional analysis to make transparent which efficiency effects are incorporated through the elasticity assumption, and then consider separately whether there are any other factors that would justify further adjustments.

While it is important that the Commission ensures consumers are not paying for inefficient costs, it has an equally important responsibility to avoid underfunding efficient expenditure by applying efficiency assumptions too heavily. Where downward adjustments are based on outdated information, the Commission must take care to ensure that efficiency gains are not being effectively counted twice. Similarly, DPP settings should allow EDBs flexibility to reprioritise expenditure in line with evolving network needs, rather than reducing allowances in one area without recognising offsetting increases elsewhere.

[1] Noting previous submissions from ENA and others in relation to the 2021 decision questioned the validity of using benchmarking to override detailed assessments and independent verification work

2.2 It is important that all EDBs have sufficient allowances to deliver network services in an evolving electricity environment. *Insufficient allowances will not be in the long-term interest of consumers*

2.2.1 Non-network opex is critical for continued performance in the context of electrification

Non-network opex includes expenditure on smart asset management solutions and capability. As networks become more complex with more connected distributed energy resources (DER), and, as consumers rely even more on electricity, EDBs need to invest in the right tools and capability to continue delivering secure and reliable service. As networks becomes more digitalised, and as flexibility services have the potential to play a greater role in asset management, non-network opex is likely to increase, not reduce. Indeed this trend is evident across New Zealand's distribution sector. Non-network opex increased by ~10% from regulatory year (RY) 2022 to RY2023 and by a further ~15% from RY2023 – RY2024 across the sector.[2]

New skills are needed in control rooms and pricing arrangements are becoming more complex. Stemming from electrification and digitalisation, these new demands represent an exciting opportunity for consumers, the sector and our economy – however the Commission's allowable revenue must keep pace to unlock these opportunities. The PWC report "Building prosperity through the energy transition" forecasts an increase of 45-75% in the distribution and transmission workforce required by 2035[3]. We also note that building specialised capability takes time – the sector cannot turn people costs on and off like a tap. Ofgem also recognises applying efficiency adjustments during periods of growth can discourage necessary investment and undermines long-term outcomes.

Non-network opex captures systems as well as skills. As noted by Innovative Assets Engineering (IENgg) in their 2023 review of EDB asset management plans (AMPs) for the Commerce Commission, it is already the case that IT (non-network) spend is trending from capex to opex as more EDBs have digital management systems in place, and with the uptake of cloud based IT services more widely[4].

Whilst we do not comment on Aurora Energy's asset management specifically, we do note that the pace of technological shifts in our digital economy (and the long-term customer value of an EDB's integration of such technology) is at odds with the Commission's decision to carry forward assumptions about non-network opex requirements that were made five years ago. In their reasons paper, the Commission acknowledged the evolving nature of EDB systems and operations in the context of new technology, saying:

"We expect that technologies such as the use of batteries and managed electric vehicle charging are likely to become increasingly prevalent over the DPP4 period. This will change the way electricity networks are used and potentially how they are operated"

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[2] Source data: "Electricity Line Business 2024 Information Disclosure Compendium". Pwc. December 2024. https://www.pwc.co.nz/assets/2024-assets/pwc-nz-electricity-compendium-2024.pdf;
"Electricity Line Business 2023 Information Disclosure Compendium". Pwc. January 2024. https://www.pwc.co.nz/assets/2024-assets/insights-and-publications/pwc-electricity-compendium-2023.pdf;

[3] "Building prosperity through the energy transition". PWC. December 2022. https://www.pwc.co.nz/assets/2022-assets/prosperity-energy/prosperity-energy-deep-dive-dec-2022.pdf;

[4] Prepared for the Commerce Commission by Innovative Assets Engineering (IEAngg) "NZ EDB 2023 AMP Review". January 2024. pg80

- The Commerce Commission, "Aurora Energy's transition to the 2025-2030 default price-quality path, Draft decision reasons paper, 29 July 2025

We agree with the Commerce Commission on this point. The right funding is needed to support this evolution, including adequate levels of non-network opex.

For similar reasons we are concerned about the reduction in allowance for distributed energy resources (DER) costs and the customer implications of this. The number of ICPs with connected distributed generation has more than trebled between the beginning of 2019 to the end of 2024, according to Electricity Authority data[5]. We believe this trend of increasing customer uptake of DER across New Zealand is likely to continue. Given the role of EDBs in integrating DER into the network, it is important for EDBs to have sufficient funding to enable this.

2.3 There are further aspects of the draft decision which set an unsustainable precedent for the sector

2.3.1 The expectation that an EDB absorb cost inflation is not consistent with the investment requirements of our sector

We note that in its draft decision the Commission has not provided Aurora Energy with the same 0.8% adjustment to capex cost escalation as was provided to other EDBs in the DPP4 decision. Based on evidence of higher capital goods price inflation (CGPI) for EDBs than in the general economy (including information we collated on cost inputs experienced by members), the Commission allowed non-exempt EDBs to recover an additional 0.8% per year on top of the All-Groups CGPI in DPP4 with the commission concluding that:

"our analysis of the All-Groups CGPI and the CGPI- Construction of Electricity distribution lines (EDB-specific CGPI), showed that over the 2019-2023 period, the EDB-specific CGPI has been tracking on average 0.8% per annum higher than the All-Groups CGPI."

- The Commerce Commission "Default price-quality paths for electricity distribution businesses from 1 April 2025 – Final decision, Reasons Paper" November 2024

We query why the same adjustment has not been applied to Aurora for the same period. If advanced, this anomaly would result in Aurora absorbing cost inflation.

2.3.2 We consider there to be unnecessary regulatory burden (and cost) in this draft decision

We note the Commission's decision to retain some of the enhanced information disclosure (ID) requirements for Aurora Energy from its 2021 CPP, distinguishing these from 'time-bound requirements' (ID requirements which were 'hard-coded' to the CPP period).

However, whilst the 'unbound' requirements may not have been specifically associated with dates within the CPP period, we consider that they were still intrinsically linked with the particular context of that CPP period. That is, whilst perhaps not 'hard-coded' to the CPP period, we read the whole suite of enhanced ID requirements as being strongly 'soft-coded' to that particular period. Moving forward, we believe that any additional regulatory requirements need to be balanced carefully against the resourcing required to complete them (and the additional customer cost that this represents).

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[5] https://www.emi.ea.govt.nz/Retail/Reports/GUEHMT?DateFrom=20190101&DateTo=20241231&MarketSegment=All&FuelType=All_Total&Show=Capacity&_si=v|3;

We note the Office of the Auditor General, in its report "Electricity Distribution Businesses: Observations from the 2023/24 audits", found that:

"Electricity distribution businesses have, in the past, expressed concern about the substantial, complex, and multiple disclosure requirements. We have seen the effects of this complexity through our work (see Part 2). Our auditors also continue to raise these concerns."[6]

We agree with the Auditor General on this point and question whether the Commission's continuation of enhanced disclosure obligations for Aurora Energy into DPP4 is directionally aligned with sector needs. We also consider the imposition of unnecessary regulatory burden to be at odds with the proposed reduction in people costs included in the Commission's draft decision itself.

In proposing to retain the disclosure obligations attached to the CPP (and to apply the efficiency adjustment from it), it appears the Commerce Commission is implementing a hybrid CPP-DPP4 approach to Aurora Energy. We question whether retaining such aspects of the old CPP and its associated framework is consistent with the more standardised purpose of the DPP4, or the context facing Aurora Energy and the sector today.

We also note the Commission's expectation that Aurora Energy rely on a reopener to enable the progression of Stage Four of the Upper Clutha project. With funding for the other stages already approved, we question the benefit or purpose of requiring a re-opener for the project's completion – particularly given the cost of the re-opener process (which is an additional cost to consumers – and which would increase required non-network opex).

2.4 Conclusion

In sum, we consider the proposed reduction in non-opex to run counter to the type of expenditure that our energy transition requires of EDBs generally. Most concerningly, the draft decision reflects a failure to update analysis to the conditions and evidence of today. Given the pace of change facing the sector, and the evolving role of EDBs, we believe this is fundamentally misaligned with the long-term interest of consumers in the context of our energy transition.

We encourage the Commission to work with Aurora in building a relevant and robust picture of its expenditure requirements today. Any efficiency adjustments and expenditure reprioritisation should be carefully considered and supported by relevant evidence.

As above, we also encourage the Commission to reconsider: allowances for DER costs in the context of increasing DER integration across the sector; the retention of disclosure obligations given Aurora's shift from its CPP into DPP4; and, the application of the same adjustment to capex cost escalation as was applied to other non-exempt EDBs under DPP4, given that Aurora is not immune to the cost escalation experienced by other non-exempt EDBs.

[6] "Electricity Distribution Businesses: Observations from the 2023/24 audits". Office of the Auditor General. June 2025. https://oag.parliament.nz/2025/energy-companies/docs/energy-companies.pdf

Appendix A

Electricity Networks Aotearoa makes this submission along with the support of its members, listed below.

- Alpine Energy
- Aurora Energy
- Buller Electricity
- Centralines
- Counties Energy
- Firstlight Network
- Electra
- EA Networks
- Horizon Networks
- Mainpower
- Marlborough Lines
- Nelson Electricity
- Network Tasman
- Network Waitaki
- Northpower
- Orion New Zealand
- Powerco
- PowerNet (which manages The Power Company, Electricity Invercargill, OtagoNet and Lakeland Network)
- Scanpower
- Top Energy
- The Lines Company
- Unison Networks
- Vector
- Waipa Networks
- WEL Networks
- Wellington Electricity
- Westpower