



# **Aurora Energy Limited**

**Submission to the Commerce Commission**

**on its**

**Draft Decisions Paper (July 2011)**

**on**

**2010-15 Default Price Quality Path for Electricity Distribution**

**24 August 2011**

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## **Executive Summary**

The regulatory process followed in this regulatory period has been a unique one. Not only is the regulatory determination being made partway through the period but the process of developing and applying the regulatory methodology to make a regulatory determination has been undertaken simultaneously. This is very unusual and leads to a lack of clarity and stability from the perspectives of EDBs.

The process followed by the Commission in this regulatory period was necessary because the Commission did not have a well-developed and documented regulatory methodology at the commencement of the regulatory process for this period.

Aurora would suggest that, for the next regulatory period, the Commission invest a significant amount of time and effort in developing and documenting a detailed regulatory methodology before the process of regulatory determination commences. In addition, the Commission should publish a detailed regulatory road map and timeline for the entire regulatory determination process. This will give the required clarity and certainty from the EDBs' perspectives.

Aurora believes the Commission has followed the correct process for setting starting price adjustments.

Aurora supports the regulatory methodology followed for determining the starting price adjustments. Aurora has some reservations on the detailed application of the methodology, in particular, in regard to the procedures for determining the input parameters. These are discussed in Section 3.

Aurora supports the Commission's approach to determining alternative rates of change (being the X factor) for four EDBs to manage the price shock to customers.

## **1 Introduction**

On 19 July 2011, the Commerce Commission released its Draft Decision paper in relation to the default price quality path (DPP) that applies to non-exempt electricity distribution businesses (EDBs). The Draft Decision Paper focuses on the starting price adjustments for each EDB for the remainder of this regulatory period (1 April 2012 to 31 March 2015).

The Commission has sought feedback from interested parties on the issues and views set out in the Draft Decisions Paper.

Aurora's submission focuses on regulatory methodology, specific elements of the Draft Decisions and the process in the future.

The remainder of this submission is set out as follows:

**Section 2:** Regulatory approach and methodology: Aurora's review with its comments and suggestions for the future process

**Section 3:** Commission's Draft Decisions: Aurora's comments on the specific elements

**Section 4:** Other Amendments to the 2010-15 DPP: Aurora's comments

**Section 5:** Key conclusions

## 2 Regulatory Approach and Methodology

### 2.1 High Level Comments

In this section, Aurora provides a high level review of the Commission's regulatory approach and methodology and then offers a constructive critique with a view to ensuring that the regulatory approach and methodology can be **significantly improved** before the Commission's processes commence for regulatory determination for the next regulatory period (2015 – 2020).

Aurora's review and critique of the Commission's regulatory approach and methodology are based on the following key criteria:

- i) Promote outcomes that are consistent with those produced in competitive markets:
  - a. promote efficient investment and innovation;
  - b. provide incentives for improved efficiency and quality;
  - c. ensure the sharing of efficiency gains with customers;
  - d. limit excessive profits.
- ii) Provide clarity and certainty for business operation and investment decisions.
- iii) Provide EDBs and other stakeholders with confidence in the regulatory process and outcomes.
- iv) Provide a low cost option.
- v) Be consistent with the best international regulatory practices:

Aurora's review of the Commission's regulatory approach and methodology leads to the following key conclusions:

- The Commission's regulatory and methodology score
  - A high rating on criteria (i), (iv) and (v); and
  - A low rating on criteria (ii) and (iii).

We will expand on our key conclusions in the remainder of this section. However, at this stage, we wish to emphasise that the Commission's regulatory methodology and, in particular, its application has been moving a great deal from the November 2009 Initial Reset Decisions Paper to August 2010 Discussion Paper, the April 2011 Update Paper and the July 2011 Draft Decisions Paper. The Commission can justifiably argue the following:

- Such movements were inevitable, indeed necessary, given that there was not an agreed and documented methodology at the commencement of the regulatory process for this period;
- The Commission had to develop the details of the methodology, in particular, the application aspects;
- The Commission had to consult EDBs and other stakeholders in the process of developing the detailed methodology; and

- Given the time constraints, the Commission had to concurrently undertake the development of the regulatory methodology and the implementation of the regulatory determination process.

And for reasons noted above, Aurora's comments should not be seen as criticisms of the Commission's approach or its management of the regulatory process.

Nevertheless, the fact remains that in the midst of such significant changes in the regulatory methodology and its application, it has been very difficult for Aurora, and presumably other EDBs, to use the regulatory process and its outcomes in planning its operation and investment decisions.

However, what is most important, in Aurora's view, is that the Commission should now place a major effort and emphasis on developing and documenting the details of the regulatory methodology and its application for the next regulatory period. Aurora would suggest that this becomes the first task for the Commission and EDBs together in the regulatory process for the next regulatory period before the commencement of the implementation of the regulatory process. Aurora would welcome an opportunity to contribute to this process.

## **2.2 Aurora's Review of Regulatory Methodology**

### **2.2.1 Fundamental Regulatory Methodology**

Aurora agrees with and supports the fundamental basis of the Commission's regulatory methodology reached in its Draft Discussion Paper (July 2011).

The fundamental elements of the regulatory methodology are:

- Starting price adjustments for each EDB should be based on an assessment of the EDB's current and projected profitability
- Modelling of the current and projected profitability is based on calculating allowable revenue an EDB would require in 2012/13 so that it could earn a normal return over the remaining three years of the regulatory period. This three-year approach has been used instead of a full-five year approach because two years of the regulatory period have already elapsed.
- The allowable rate of change is expressed in the form of CPI-X. The Commission had, in November 2009, set the X factor of 0% for all suppliers based on the long run productivity. The Commission has now altered X for some EDBs to ensure that annual increases in prices charged to their customers are less than 10%.
- The quality standards for all EDBs have been set on the basis that there should be no material deterioration in reliability performance.

Aurora agrees with the fundamental elements of the regulatory methodology. Aurora also believes that the regulatory methodology (in broad terms as noted above) is consistent with Part 4A of the Commerce Act.

We have reservations on some aspects of the application of the regulatory methodology, in particular, the procedures for determination of some parameters. These are discussed in more detail in Section 3.

## 2.2.2 **Commission's Regulatory Methodology and its Application: Major Movements and the Need for Consolidation**

As discussed at the beginning of this section, some of the key attributes of a sound regulatory methodology are its clarity, consistency and stability so that all stakeholders can place a high level of confidence in the regulatory process and its outcomes. This section provides a brief summary of the changes in the regulatory methodology, in particular, its application and then makes key observations on what would be necessary before the regulatory process commences for the next period.

In the past two years, the Commission has published four key Papers in relation to the setting of starting prices for DPP. These are: the November 2009 Initial Reset Decisions Paper, the August 2010 Discussion Paper, the April 2011 Update Paper and the July 2011 Draft Decisions Paper.

The following review provides a brief outline of the regulatory methodology and its application as proposed in the four Papers mentioned above. From this review, Aurora demonstrates the substantial and, indeed, fundamental extent of movement in the regulatory methodology.

### i) **November 2009 Initial Reset Decisions Paper**

On 30 November 2009, the Commission published the section 52P determination and its decision for the DPP applying EDBs for 1 April 2010. Starting prices were specified as the actual prices for a non-exempt EDB that applied at 31 March 2010. The Commission stated its intention to adjust these starting prices during the regulatory period but after the publication of Input Methodologies (IMs). At that stage, the Commission had expressed its preference to base starting price adjustments for an EDB on its current and projected profitability. The Commission had deferred a decision on the detailed approach until after the publication of IMs.

### ii) **August 2010 Discussion Paper**

The Commission released a Discussion Paper for Starting Price Adjustments in August 2010.

The Commission stated its central thrust of comparing an EDB's ROI against an industry-wide WACC estimate and then deciding an EDB's starting price adjustment. The Commission provided some detail on the implementation of its approach for calculating the starting price adjustment. However, even with these details, the Commission's methodology for determining the starting price adjustment remained at a conceptual level. While the Commission provided an Illustrative Worked Example and Illustrative Adjustments (in Chapter 6), few concrete details for the application of the methodology were available.

In particular, the Commission provided few details for the determination of parameters relating to initial conditions and other industry-wide and EDB-specific parameters (e.g. opex, capex, real revenue growth etc).

In summary, an EDB could not place a high level of confidence on the available details of the methodology and its application. A lot remained to be decided, presumably under analytical development by the Commission.

iii) **April 2011 Update Paper**

The Commission published its Update Paper for DPP Starting Price Adjustments in April 2011. While the fundamental thrust of calculating the ROI of an EDB and comparing it with the industry-wide WACC and, hence, determining the ROI differential and starting price adjustments remained unaltered, the Commission made a significant departure in the application of this approach.

In the August 2010 approach, each EDB's profitability (specified as a ROI) was to be assessed for the 2009/10 disclosure year and a supplier's starting price adjustment was based on the ROI differential calculated from the 2009/10 EDB ROI and industry-wide WACC.

In its Update Paper published in April 2011, the Commission, in the light of the submissions received and further work that was undertaken, set out a new approach. This included explicit consideration of the potential effect of starting price adjustments on the profitability of each supplier over the entire regulatory period. The modeling of this approach was based on calculating allowable revenue in the first year and each year of the regulatory period so that the EDB is allowed, on a NPV basis, to cover its cost and earn an expected ROI (equal to the industry-wide WACC on a 75 percentile basis). Allowable revenue on a NPV basis was used to determine the starting price adjustments.

While Aurora agrees with the new approach presented by the Commission and considers it to be an improvement over the earlier approach, Aurora believes that the new approach presented in April 2011 was a **significant departure** from the approaches presented earlier.

The Commission also presented significant details for the application of its regulatory methodology for the following inputs:

- Supplier-specific information of the initial conditions; and
- Industry-wide assumptions on real revenue, opex, capex and CPI.

(As we will see, the Commission changed its procedures for determining real revenue, opex and capex in a fundamental way in its July 2011 Draft Decisions Paper.)

iv) **July 2011 Draft Decisions Paper**

In its July 2011 Draft Decisions Paper, the Commission's fundamental approach to calculating the maximum allowable revenue for an EDB over the entire regulatory period and then using the calculated revenue in NPV terms to determine starting price adjustments remained unchanged from the approach presented in the April 2011 Update Paper.

However, significant changes were made in the procedures for the determination of input parameters such as real revenue, opex and capex growth. The Commission decided that these parameters should be EDB-specific (as against the decision to make them industry-wide in its April 2011 Update Paper). In addition, the Commission developed new procedures for determining values of these parameters.

2.3 **Aurora's Conclusions on the Development of the Regulatory Methodology and What Needs to be Done for the Next Regulatory Period**

The primary objective in presenting a history of the development of the regulatory methodology and application details from 2009 Reset Paper through to the July 2011 Draft Decisions Paper was to demonstrate the scale of changes that have occurred over this period.

The scale of changes the Commission presented in the four Papers over the last two years amounts to a fundamental and significant shift in the regulatory methodology and its application.

Aurora accepts that the Commission had little choice but to go through this development process given that the Commission did not have a well-developed methodology at the commencement of the regulatory process. However, Aurora should emphasise that it would be impossible for an EDB to plan and manage its business operations and investment decisions in the midst of such high regulatory uncertainty.

Therefore, Aurora would like to urge the Commission to allocate a Regulatory Methodology Development and Documentation phase in its process for the next regulatory period and ensure that a detailed Regulatory Methodology (including its application) is documented before the implementation of the regulatory process is initiated. In addition, Aurora would also suggest that a detailed Regulatory Process Road Map is presented at the commencement of the next regulatory period so that both the Commission and the EDBs have certainty and clarity over the process, methodology and timetable.

### **3 Commission's Draft Decisions for 2010-15: Aurora's Comments**

In this section, we comment on the specifics of the Draft Decisions published on 19 July 2011.

#### **3.1 Commission's Ability to Reset the 2010-15 DPP**

Aurora believes that the Commission has followed the correct process to set the maximum prices for EDBs for the regulatory period 2010-15. Part 4A of the Commerce Act states that the starting prices for each supplier must be either:

- The prices that applied at the end of the previous regulatory period s 53P(3)(a); or
- Prices based on an assessment of the current and projected profitability of that supplier, s 53P (3) (b).

Starting prices were initially determined in November 2009 under s 53P (3) (a) as those prices that applied at the end of the previous regulatory period. These starting prices took effect from 1 April 2010.

The other key parts of the s 52P determination for a DPP are the restriction on the annual rate at which EDBs' maximum allowed prices can increase and the minimum service quality standards that must be met. For the annual rate of change the Commission determined that X should be 0. For the quality standards the Commission set them on the basis that there should be no material deterioration in reliability performance.

Following the publication of the Input Methodologies (IMs), the Commission took the view that a materially different price would have been set if IMs had been applied at the time (November 2009) the Commission determined the 2010-15 DPP because the availability of IMs would have impacted on the choice between s 53P (3) (a) and s 53P (3) (b).

The Commission decided to reset the DPP on the basis of s 53P (3) (b) using s 54K (3).

Aurora believes that it is at the Commission's discretion to reset the DPP on the basis of s 53P (3) (b) under s 54K (3) and that the Commission has followed the right process to exercise this discretion.

#### **3.2 Aurora's Comments on the Draft Decisions**

We comment on the Commission's Draft Decisions in the following six parts:

- Maximum allowable revenue;
- Price path compliance issues;
- Three-year approach, no clawback and change in the calculation of revenue and tax costs;

- Input parameters (real revenue growth, opex growth, capex growth and WACC);
- Alternative rates of change to manage price shocks; and
- Initial conditions and information requests.

### 3.2.1 Maximum Allowable Revenue

The fundamental approach for calculating starting price adjustments is to calculate maximum allowable revenue for each of the years of the regulatory period, which will allow an EDB to cover its costs including earning a ROI that equals the industry-wide WACC at the 75 percentile level. If the EDB's forecast revenue is higher than the maximum allowable revenue, there will be a negative price adjustment. On the other hand, if the EDB's forecast revenue is lower than the maximum allowable revenue, there will be a positive price adjustment.

On this basis, the Commission has calculated indicative levels of the maximum allowable revenue for each EDB for 2012/13 in order to earn a normal return (i.e. a ROI that equals the industry-wide WACC at the 75 percentile level) for the remaining three years of the regulatory period. This information is given in Figure 2.1 of the Commission's Paper.

The Commission further states that it cannot determine maximum allowable prices (charged to EDB's customers) directly because each EDB is also allowed to recover the value of transmission and avoided transmission charges plus a set of pass-through costs. These amounts need to be estimated by each EDB when they post new prices. The Commission's draft determination, therefore, specifies maximum allowable revenue net of these costs as well as the formula each EDB must use to determine the maximum prices the EDB is allowed to charge.

Aurora generally agrees with the regulatory methodology the Commission is using. Aurora has some reservations on the procedures for calculating some of the input parameters including WACC. These are discussed in section 3.2.4 below.

### 3.2.2 Price Path Compliance Issues

The Commission's proposed approach to price path compliance is as follows:

- Because the Commission will assess compliance under the price path for 2012/13 by using a quantity term that is lagged by two years, i.e. 2010/11, the Commission advises that they have reduced the allowable maximum revenue for 2012/13 by the Real Revenue growth projection for 2011-13 for each EDB. The price path compliance test is expected to be the only compliance test following the reset. However EDB's should be able to retain the revenue adjustments term for  $R_{2013}$ . Aurora when calculating prices for 1 April 2011 has allowed headroom in the price path compliance given the uncertainties associated with estimating pass through costs. This headroom should be allowed to be recovered for 2013 as it is for 2014 and 2015.

- Therefore reported ROIs under Information Disclosure will vary as actual revenues and costs will vary from the projections used in the Starting Price Reset model. Such results should not influence any starting price adjustments for the next regulatory period as these may have arisen due to unforeseen errors in the modeling.

Aurora believes that the Commission may need to allow some flexibility in enforcing the compliance requirements at least for the remainder of this regulatory period. This will allow both the Commission and the EDBs to more accurately assess how the match between maximum allowable revenue and posted prices using forecast real revenue growth work in practice.

### 3.2.3 **Three-Year Approach and No Clawback**

The Commission has stated that the starting price adjustments will apply from 1 April 2012 (not backdated to 1 April 2010). In other words, each EDB will be set maximum allowable revenue for 2012/13 and for the following two years that will allow the EDB to earn a normal return over the remaining three years of the regulatory period. The use of the three-year approach instead of a five-year approach means that no clawback will be applied.

Aurora supports this approach. A clawback is not a forward-looking approach and beyond the ability of any EDB to manage. Therefore, it should not be resorted to. It is also inconsistent with best international regulatory practices.

The Commission has further argued that it has refined its regulatory model in two key aspects by:

- More accurately calculating present values by modelling revenue as being received throughout the year and
- Adopting revenue and cost projections, as far as practicable, to each EDB.

We comment on these below.

In terms of modeling present value for revenue, this has been modelled by assuming that the timing of revenue is equivalent to it all being received in the middle of the year. Operating expenditure has also been modeled as occurring at mid-year. The Commission believes that this should reduce much of the modelling bias towards EDBs.

Aurora has analysed these changes in modelling and note that the Commission has attempted to add an additional level of precision to its discounting approach by making assumptions around cash flows without providing any supporting evidence. Aurora submits that more work on the timing of all these revenues and costs should be researched more fully prior to the 2015 Reset.

### 3.2.4 **Input Parameters (Real Revenue Growth, Opex Growth, Capex Growth, WACC and ROI)**

In this section, Aurora provides comments on the procedures used by the Commission for projecting values of input parameters over the regulatory period. Before presenting our views on these procedures, we would like to comment on the general approach.

Aurora notes that the Commission has made a significant departure in the overall approach to determining values of input parameters such as real revenue growth, opex growth, and capex growth. The Commission has specified these parameters in the Draft Decision Papers as EDB-specific (they were specified as industry-wide parameters in the Update Paper published in April 2011). Aurora welcomes this move on the Commission's part. Aurora supports the principle that key inputs should be EDB-specific to the maximum extent possible, subject to the regulatory process remaining an efficient and low cost approach. This will considerably improve the accuracy of the outcomes from the regulatory process.

**i) Real Revenue Growth**

Electricity distribution revenue is recovered through a combination of variable charges, fixed charges and capacity or demand-based charges. The Commission states that, conceptually, each class of tariff is subject to a different driver. The Commission has used regional data for each of these drivers to make them EDB-specific to the extent that is practical, constrained by the availability of data.

The Commission has used the following drivers for each of the components of the revenue growth:

- Variable charges, which is forecast using the Electricity Authority's regional throughput projections;
- Fixed charges, which is forecast using Statistics New Zealand's regional population growth projections; and
- Demand or capacity-based charges, which are forecast using NZIER's regional real GDP projections.

Aurora has reviewed the model used by the Commission and the data used for the projection of the three components of revenue growth. Aurora is satisfied with the integrity of the model. In the time available, Aurora has not been able to analyse the appropriateness of the drivers for the three components of revenue. At this stage, Aurora does not have any suggestions for better alternative drivers and would like to analyse this in greater details for application in the next regulatory period.

It should be noted that Aurora does have some concerns with the Electricity Authority's regional throughput projections however we would be more concerned if there was a change to using EA or Transpower GXP throughput data for each EDB because Aurora has a considerable amount of embedded generation and the GXP throughput data can vary considerably on a year to year basis depending on hydro inflows plus greater amounts of wind generation is being embedded each year.

**ii) Opex Growth**

The Commission has used the following formula to project opex growth:

$$\Delta \text{Opex} = \Delta \text{Opex Price} - \Delta \text{Opex Partial Productivity} + \Delta \text{Opex Quantity}$$

## **Opex Price**

The Commission developed an opex price index forecast consisting of a weighted average of both a labour cost index and a producer price index for all industries. The labour cost index forecast is obtained from NZIER and the producer price index is obtained from Statistics NZ. The relative weightings are 60:40.

Aurora has the following comments:

- As much as possible, the Commission should investigate the feasibility of obtaining forecasts of an appropriate labour cost index for electric, gas and water sectors. Even if such an index was available for Australia, it was likely to have a greater correlation than an index based on all industries as the labour costs are very skill-specific.
- It is not clear if the labour cost index projected by NZIER has taken into account the likely shortage of labour in the next three years in infrastructure industries on account of the Canterbury earthquakes and a major emphasis in the next few years for infrastructure projects such as fibre rollouts, plus Transpower and the EDB's capex programs.
- Aurora believes there is an error in the labour cost data for 2014/15 which has resulted in forecast opex growth for that year being significantly lower than the previous one.
- A one-off adjustment for a much larger increase in insurance costs over the regulatory period should be made. Aurora's insurance cost is currently \$168,933 for the year ending June 2012. This is projected to increase to \$194,376, \$223,294, \$241,958 and then \$262,855 for the June years 2013, 2014, 2015 and 2016, respectively. This represents a much larger growth rate in insurance costs compared with the growth rate in producer price index provided by Statistics NZ.

Aurora recommends that the Commission obtain a revised labour cost index incorporating the key changes suggested above and use the revised data to project required revenue for EDBs.

## **Opex Partial Productivity**

The Commission has decided on a value of zero for Opex Partial Productivity.

Aurora believes this is a reasonable assumption.

## **Output Quantity**

The Commission has used the regional real revenue growth for the forecast of Output Quantity.

Aurora believes this is a reasonable proxy.

Aurora has checked the integrity of the Opex model and concluded that with the exception of faulty data for the labour cost index for 2014/15, the model performs fine.

iii) **Capex Growth**

The Commission considers that the growth in forecast system Capex from suppliers' AMPs is a suitable source to use in proxy for developing a Capex growth assumption.

Aurora supports this approach and is satisfied with the modeling integrity.

iv) **WACC and ROI**

The Commission has made, in its Draft Decisions Paper, starting price adjustments on the basis of ROI being 8.77% in nominal terms. This figure is based on deriving WACC at a 75 percentile of EDBs and using data (for the risk-free rate and debt premium etc) from November 2009. The Commission argues that the risk-free rate at present is lower and, on this basis, EDBs require returns which are about 1 percentage point lower than 8.77%. The Commission also uses this argument to conclude that there was no need for a 1% margin around the 75 percentile WACC figure while deciding ROIs for EDBs.

Aurora agrees with the Commission that the present risk-free rate and debt premium are lower than in November 2009 and if these were used to calculate a WACC figure, it would be lower than that derived in November 2009. However, it should be noted that the present interest rate environment in NZ is unique on account of a very weak economy over the last four years and the recent earthquakes in Christchurch. This is unlikely to continue over the next several years. There are indications that the economy has started to grow again and several economic commentators have noted that the Reserve Bank would start the OCR tightening cycle as early as December 2011. Therefore, from a three-year perspective, it is quite likely that the risk-free rate and debt premium would be higher than what they are now and be at least as high, if not higher, than what they were in November 2009.

In addition, the recent global economic volatility (in particular, in the United States and Europe) and the credit rating downgrade of the USA suggest that while the risk-free rate may remain low for a while, the debt premium is likely to be much higher due to increased risks. Hence, from a three-year perspective, WACC is unlikely to be lower than what the Commission estimated in 2009.

3.2.5 **Alternative Rates of Change to Manage Price Shocks**

While the Commission had set  $X = 0$  for all EDBs in its determination in November 2009, it has discretion to set alternative rates for change for individual EDBs to assist with managing financial hardships or for other reasons such as managing price shocks.

The Commission's draft determination indicates that some EDBs will need to earn revenue (and, therefore, set prices to customers) for the remainder of this regulatory period which could cause price shocks to customers. The Commission considers that an increase in net revenue greater than 10% in the year of reset could be considered a price shock to customers.

Based on the Commission's Draft Decisions, four EDBs (Alpine Energy, Central Lines, the Lines Company and Top Energy) will have maximum allowable revenues in

2012/13, which could mean one-off adjustments ranging from 21% to 32% if the 'X = 0' approach was applied to them for the entire regulatory period. The Commission believes that the four EDBs could earn their maximum allowable revenues over the regulatory period by reducing their starting price adjustments and by changing X as shown in Table 4.1 (in Chapter 4) of the Commission's Draft Decisions Paper.

Aurora supports the Commission's approach.

### **3.2.6 Initial Conditions and Information Requests**

The Commission used each EDB's costs in 2009/10 to project future costs. The base RAB value used for projection was also the EDB's RAB for 2009/10.

S 532D Notices required EDBs to disclose information relating to regulatory income and expenses along with their RAB value and regulatory tax for the 2009/10 base year.

The Commission states that the use of 2009/10 data was justified because it was the most recent information available for all EDBs that predates the start of the regulatory period.

Aurora agrees with the Commission with the use of 2009/10 data for the initial conditions and, in particular, that they were obtained from each EDB pursuant to the issue of a s 532D Notice.

In general, Aurora supports the principle that EDB-specific data be used to the maximum extent possible for projecting future costs and revenue in the regulatory period. This will improve the accuracy of the regulatory process and its outcome. Aurora also supports the use of 2009/10 data, being the latest year before the start of the regulatory period for which data is available.

## **4 Other Amendments to the 2010-15 DPP**

Aurora has analysed the 'Other Amendments' as discussed in Section 5 of the Commission's Draft Decisions Paper and supports them.

## 5 Key Conclusions

- The regulatory process followed in this regulatory period has been a unique one. Not only is the regulatory determination being made partway through the period but the process of developing and applying the regulatory methodology to make a regulatory determination has been undertaken simultaneously. This is very unusual and leads to a lack of clarity and stability from the perspectives of EDBs.
- The process followed by the Commission in this regulatory period was necessary because the Commission did not have a well-developed and documented regulatory methodology at the commencement of the regulatory process for this period.
- Aurora would suggest that, for the next regulatory period, the Commission invest a significant amount of time and effort in developing and documenting a detailed regulatory methodology before the process of regulatory determination commences. In addition, the Commission should publish a detailed regulatory road map and timeline for the entire regulatory determination process. This will give the required clarity and certainty from the EDBs' perspectives.
- Aurora believes the Commission has followed the correct process for setting starting price adjustments.
- Aurora supports the regulatory methodology followed for determining the starting price adjustments. Aurora has some reservations on the detailed application of the methodology, in particular, in regard to the procedures for determining the input parameters. These are discussed in Section 3.
- Aurora supports the Commission's approach to determining alternative rates of change (being the X factor) for four EDBs to manage the price shock to customers.