COMMERCE COMMISSION NEW ZEALAND
Te Komihana Tauhokohoko

Reconsideration of Aurora Energy Customised Price-Quality path – Error event reopener

Final decision reasons paper

24 March 2026

Associated documents

Publication date	Reference	Title
24 March 2026	ISSN: 1178-2560	Aurora Energy Limited Electricity Distribution Customised Price-Quality Path (Error event) Amendment Determination 2026
17 February 2026	ISBN: 978-1-991414-56-4	[DRAFT] Aurora Energy Limited Electricity Distribution Customised Price-Quality Path (Error event) Amendment Determination 2026
25 February 2025	ISSN: 1178-2560	Aurora Energy Limited Electricity Distribution Customised Price-Quality Path (WACC Change Event Reconsideration) Amendment Determination 2025
31 March 2021	ISSN: 1178-2560	Aurora Energy Limited Electricity Distribution Customised Price-Quality Path Determination 2021

Introduction

1. This final decision reasons paper sets out our decision to reopen the Aurora Energy Customised Price-Quality Path (Aurora CPP) to correct two errors introduced by the Aurora Energy Weighted Average Cost of Capital (WACC) Change Event reopener.[1,2,3]

First Error: Actual Net Allowable Revenue (ANAR) does not reflect the increase in Forecast Net Allowable Revenue (FNAR)

2. When we amended Aurora's WACC as part of the Aurora WACC Change Event reopener, we amended only year 5 FNAR. This reflected that the change in WACC applied only to revenue in year 5. The FNAR for years 1-4, where the WACC was equivalent to the 2020-2025 default price-quality path (DPP3) WACC, was unchanged.

3. When we amended only the year 5 FNAR without also making an amendment to ANAR, we introduced an error in the ANAR calculation, where the increase in FNAR is not reflected in the ANAR for year 5.

4. In the CPP determination, ANAR is defined in two ways.[4] For the first year of the regulatory period, it is equal to the year 1 FNAR. For each subsequent year, it is equal to the previous year's ANAR multiplied by the actual change in the consumer price index (CPI) and the annual rate of change (x-factor).

5. Therefore, it is necessary to amend FNAR in year 1 so that those changes are reflected in ANAR in year 5.

Second Error: Time value of money calculations do not correctly reflect the change in WACC

6. There are two 'time value of money adjustments' in the Aurora CPP determination. One for the opening washup balance, and one for the quality incentive scheme.

7. These adjustments exist to carry forward, in real terms, the value of the washup balance and quality incentive amounts for the two years between accrual and when the value can be recognised in the price-path.

8. In both cases, the time value of money calculation adjusts the amount by

$$(1+ 67^{th} \text{ percentile estimate of the post-tax WACC})^2.$$

9. While this correctly compensates Aurora for the time value of money when there is a single applicable WACC, the formula breaks down when there are two relevant WACC's. This is because, as determined, only the original WACC will be acknowledged by the formula.

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[1]   Via the error event reopener provided by *Electricity Distribution Services Input Methodologies Determination 2012 [2012] NZCC 26* (as amended), cl 5.6.3.

[2]   *Aurora Energy Limited Electricity Distribution Customised Price-Quality Path Determination 2021 [2021] NZCC 3.*

[3]   *Aurora Energy Limited Electricity Distribution Customised Price-Quality Path (WACC Change Event Reconsideration) Amendment Determination 2025 [2025] NZCC 3.*

[4]   *Aurora Energy Limited Electricity Distribution Customised Price-Quality Path Determination 2021* [2021] NZCC 3, cl 4.2.

10. The WACC set through the Aurora WACC Change Event reopener is higher than the WACC at the time the CPP was set. Not acknowledging this higher WACC would result in Aurora being under compensated by being unable to recover approximately $290,000 of revenue.

Our draft decision was to amend Aurora's price-path to correct the errors

11. Our draft decision was to use the error event reopener provisions in the Electricity Distribution Services Input Methodologies (EDB IMs) to correct the two errors.[5] Our final decision is the same as our draft decision with a small correction to our implementation approach – see paragraphs 15 to 29 below for a more detailed description of the steps taken to correct the errors.

What we heard in submissions

12. We received one submission on our draft decision, from Aurora Energy.[6]

13. Aurora supported the intent of the error event reopener. In its submission, Aurora identified an implementation error regarding the forecast CPI used to deflate year 5 FNAR into year 1 FNAR, where the forecast CPI from DPP3 was used rather than the forecast CPI from the Aurora CPP.[7] We agree with Aurora's comment and have made this amendment in the final determination

Our final decision is to amend Aurora's price-path to correct the errors

14. Our final decision is to use the error event reopener to reopen the Aurora CPP and correct the two errors. We are satisfied that our final decision is consistent with the Part 4 purpose in the Act. The decision corrects errors over a materiality threshold to maintain incentives for Aurora to invest in its network and provide the quality of service demanded by consumers.

Correcting the errors via the error event reopener

15. The error event reopener provisions of the EDB IMs outline the circumstances under which a customised price-path can be reopened when an error has been made.[8]

16. In both errors, data (FNAR value or WACC estimate) has been incorrectly applied in setting the price-path creating a clearly unintended circumstance. These errors therefore meet the eligibility criteria in clause 5.6.3(1)(b) of the EDB IMs.

17. The materiality threshold for Aurora to qualify for an error event reopener is:[9]

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5   *Electricity Distribution Services Input Methodologies Determination 2012 [2012] NZCC 26* (as amended), cl 5.6.3.

6   The submission is published alongside this document.

7   Aurora Energy submission, p.2.

8   *Electricity Distribution Services Input Methodologies Determination 2012 [2012] NZCC 26* (as amended), cl 5.6.3.

9   *Electricity Distribution Services Input Methodologies Determination 2012 [2012] NZCC 26* (as amended), cl 5.6.3 (2)(a).

has an impact on the price-path of an amount equivalent to at least 1% of the aggregate forecast net allowable revenue for the affected disclosure years of the CPP.

18. Following the WACC Change Event Reopener, Aurora's 2026 FNAR is $113,864,000.[10] The ANAR error would have an approximately $24 million impact on Aurora's allowable revenue, while the time value of money errors have an approximately $290,000 impact. The combined $24.29 million impact of the errors represents approximately 21% of the FNAR for the affected disclosure year, exceeding the materiality threshold of 1%.

19. In our view it is appropriate to include both errors together when considering the materiality threshold as both errors arose from us processing the same reopener, so there is one error event.

20. The specific steps we have taken in this final decision to remedy each error are set out below.

Correcting the ANAR error

21. In the DPP3 reopeners we used the 'dual FNAR approach' to update ANAR in cases where FNAR changed. In this approach a second 'year 1' FNAR was created by deflating the updated FNAR by the forecast CPI used to set the price-path. This second 'year 1' FNAR value was then used to amend the FNAR and ANAR amounts for the years impacted by the reopener.[11]

22. Therefore, to correct the ANAR error, our final decision is to include a 'year 1 FNAR' to be used solely to calculate year 5 ANAR, in a manner similar to the DPP3 reopeners.[12] We consider that this drafting is understood by stakeholders, as a result of previous reopeners, and remains appropriate.

23. We have corrected the implementation issue identified by Aurora regarding the forecast CPI values found in Clause 3E of the draft Error Event Amendment determination. The values in the final determination now correctly reflect the forecast CPI for disclosure years 2023-2026 used when setting the Aurora CPP.

24. We consider that correcting the ANAR error promotes the Part 4 purpose in section 52A of the Commerce Act 1986 (the Act), particularly s52A(1)(a) by ensuring that EDBs continue to have incentives to invest in the network.

25. Correcting the error preserves the policy intent of the Aurora WACC Change Event reopener, and thus ensures that EDBs are not subject to perverse incentives when considering whether to apply for a CPP.[13]

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[10] *Aurora Energy Limited Electricity Distribution Customised Price-Quality Path (WACC Change Event Reconsideration) Amendment Determination 2025 [2025] NZCC 3*.

[11] For example, see: *Electricity Distribution Services Default Price-Quality Path (Wellington Electricity unforeseeable major capex project) Amendment Determination 2024 [2024] NZCC 13.*

[12] For example, see *Electricity Distribution Services Default Price-Quality Path (Wellington Electricity unforeseeable major capex project) Amendment Determination 2024 [2024] NZCC 13.*

[13] Commerce Commission "Input methodologies review decisions Consolidated reasons paper" (20 December 2016), Topic paper 4: Cost of capital issues para 616.

Correcting the time value of money calculations

26. To correct the time value of money errors, both equations in the CPP determination for the time value of money adjustments (outlined above at paragraph 6) need to be amended to ensure that they function as intended by applying the WACC that is relevant for each year to the calculation. These changes bring the TVOM calculations into line with their DPP4 counterparts, as intended.

27. For the washup calculation, we are adding a second formula, to be used in the years where both WACCs are relevant.[14] This second equation amends the $(1+WACC)^2$ formulation to include both relevant WACC values. A new formula is required (rather than simply updating the WACC values) as the washup calculation uses a 'blended' WACC. The blended WACC uses a weighted average of the two relevant WACC values due to revenue timing.

28. These errors are not material enough to reach the error event threshold when considered alone. However, together with the ANAR error occurring in the same event (the Aurora WACC Change Event reopener), they meet the materiality threshold to be reconsidered.

29. We consider that correcting the errors promotes the Part 4 purpose of the Act by ensuring that Aurora is appropriately incentivised to invest in its network by being appropriately compensated for costs incurred. Our decision also incentivises Aurora to improve its quality of service in line with consumer expectations by ensuring the quality incentive scheme calculations are accurate.[15]

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[14] This is to cover the years in which both the DPP3 WACC and DPP4 WACC were applicable.

[15] Section 52A(1)(b) of the Commerce Act.