ISBN:978-1-99-133256-1

COMMERCE COMMISSION NEW ZEALAND
Te Komihana Tauhokohoko

Aurora Energy's transition to the 2025-2030 default price-quality path

Draft decision reasons paper

29 July 2025

Associated documents

Publication date	Reference	Title
31 March 2021	ISBN 978-1-869458-78-2	Decision on Aurora Energy's proposal for a customised price-quality path – Final decision
31 August 2021	ISBN 978-1-869459-24-6	Aurora Energy Limited Additional Information Disclosure Requirements
13 December 2023	ISBN 978-1-991085-65-8	Report on the IM Review 2023: Part 4 Input Methodologies Review 2023 – Final decision
20 November 2024	ISSN 1178-2560	Electricity Distribution Services Default Price-Quality Path Determination 2025 [2024] NZCC 28
20 November 2024	ISBN 978-1-99-133201-1	Default price-quality paths for electricity distribution businesses from 1 April 2025 – Final decision

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Introduction

X.1 This reasons paper explains our draft decision to amend the 2025 – 2030 default price-quality path (DPP) to provide for Aurora Energy Limited's (Aurora's) transition from its 2021 – 2026 customised price-quality path (CPP) to the 2025-2030 DPP (DPP4).

X.2 Our role when making this decision is to provide Aurora with incentives to undertake activities that benefit consumers over the long-term, given its position as a natural monopoly. Our draft decisions in this paper aim to promote the long-term benefit of consumers by delivering outcomes that are consistent with outcomes produced in competitive markets. This includes providing the right incentives for Aurora to invest to meet consumer demands and find efficiencies, as well as ensuring Aurora is limited in its ability to earn excessive profits.

X.3 Aurora's current CPP expires on 31 March 2026 and to transition Aurora to DPP4, we will use new starting prices. These will be set using the approach from DPP4 where appropriate, supplemented by targeted scrutiny of Aurora's proposed investment plans. This approach is to give consumers confidence that the expenditure allowances are justified and only provide for what is necessary.

X.4 Our draft decision is for a four-year DPP4 revenue allowance for Aurora of $663.7 million (nominal). To minimise price shocks for consumers, we have limited the initial increase in real distribution revenue[1] to 10% per ICP (ie, per consumer) from the last year of the CPP. This is equivalent to an average increase of about $10 (ex GST)[2] to the monthly household electricity bill for Aurora consumers from April 2026.[3] Aurora has three pricing regions and actual price changes may differ in each region.

X.5 The increase in revenue allowance reflects the combination of significant increases in underlying costs and the necessary continued investment to deliver a safe and reliable network for Aurora's consumers while simultaneously meeting increases in demand. Aurora's underlying expenditure remains higher than prior to its CPP which was expected when we set the CPP. This is because it's historical baseline of expenditure was insufficient, and it was anticipated that a period of catch-up longer than the initial CPP period would be required.

X.6 To mitigate fluctuations of lines charges throughout the regulatory period, we have smoothed the rate at which Aurora recovers its DPP4 revenue over the four years. We have made these decisions to balance Aurora's ability to finance its investments with consumer interests to limit volatility in the prices they pay each year.

X.7 The estimated price increases also account for the recovery of revenue that we deferred from the CPP period to manage the price shocks faced by consumers at the time of our CPP decision.[4]

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1 We use the term 'distribution revenue' to refer to forecast net allowable revenues plus recoverable costs. This is because certain recoverable costs – incremental rolling incentive schemes (IRIS) incentives and wash-up drawdowns – will have a material effect on the revenues EDBs can recover and a flow on effect on consumer prices and EDB financeability.

2 Note this is an estimate only, and is rounded to the nearest $5.

3 This figure assumes Aurora draws down the full wash-up balance it is able to in 2027.

4 Commerce Commission, Decision on Aurora Energy's proposal for a customised price-quality path, (31 March 2021), para X69, p. 18.

X.8 The key draft decisions contained in this paper are outlined below in Chapter 1, and discussed in more detail in Chapters 2, 3, 4 and 5. We are seeking submissions on these draft decisions to inform our final decision for Aurora's DPP4 revenue path.

X.9 As part of this process, we are inviting feedback on whether to amend or maintain the additional information disclosure requirements Aurora is currently subject to as part of its CPP. These were designed to enable stakeholders to more closely and comprehensively scrutinise Aurora's performance during the CPP period. This is discussed in Chapter 6.

X.10 If you would like to make a submission, please see the instructions on how to submit in Chapter 7.

X.11 We will publish our final decision by the end of November 2025.

Chapter 1 Overview of Draft Decisions

Summary of the DPP4 price-quality path draft decisions for Aurora Energy

- For Aurora, DPP4 will cover the four-year period from 1 April 2026 to 31 March 2030.

Starting prices (see Chapter 2)

- Our draft decision is to not allow Aurora's CPP prices to roll-over to the DPP (under s53X(2) of the Commerce Act 1986 (the Act)).
- Instead, our draft decision is to notify Aurora that different starting prices will apply and that we will be using the building blocks allowable revenue (BBAR) method, used for DPP4, to set its starting prices.

Total revenues (see Chapter 5)

- Our draft decision is to set Aurora's total forecast net allowable revenue at $663.7 million in nominal terms.
- Most of the increase in allowable revenue reflects the higher external cost pressures that Aurora is facing, including the cost of borrowing, cost of materials and other inflationary pressures. Operating expenditure (opex) and capital expenditure (capex) allowances by comparison only contribute a small proportion of the increase in forecast net allowable revenue.
- To mitigate price shocks to consumers, we have limited the initial increase in real distribution revenue per ICP[5] to 10%. This equates to a nominal increase of approximately $10 per month (ex GST)[6,7] on average for a household consumer's electricity bill from 01 April 2026.
- Revenue increases over the remainder of the period have been set to achieve a smoother year to year profile, to limit fluctuations in prices paid by consumers. This will mean each year from 1 April (starting from 2027) for the remainder of the regulatory period, household consumers will likely see the lines charge component of their monthly bill increase by about $3 (ex GST).[8] As Aurora has three different pricing regions, an individual consumer's actual increase may depend on which region they are in.
- When we set Aurora's CPP we deferred recovery of some of the revenue allowance into the next regulatory period to minimise the price shocks for consumers. This revenue will now be able to be recovered by Aurora, and as such this is factored into the estimated price increases outlined above.

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5 Installation control point (ie, a consumer).

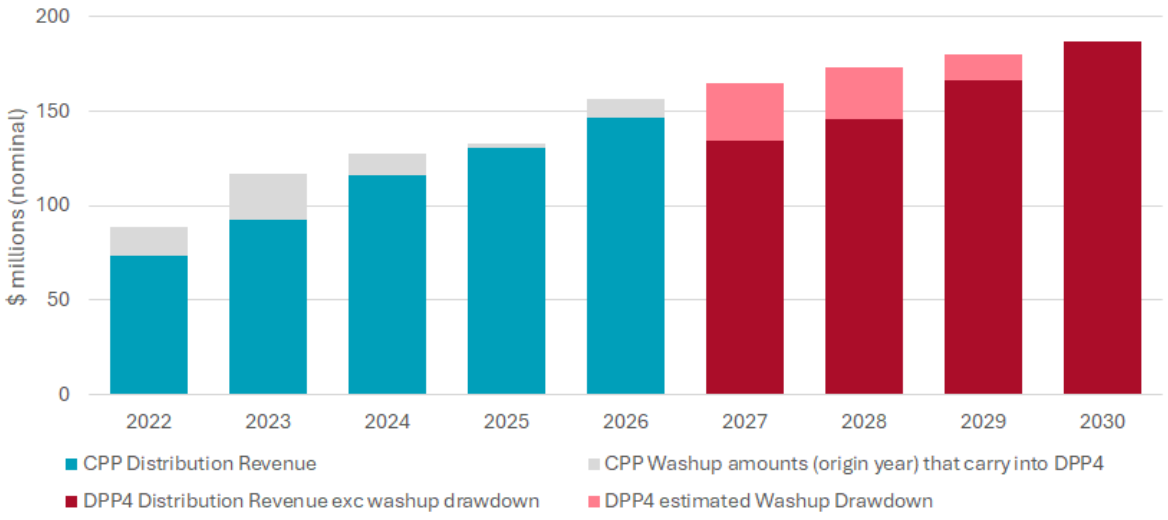
6 Note this figure is an estimate only and is rounded to the nearest $5.

7 This estimated price increase for consumers includes the deferred revenue from the CPP period, assuming Aurora chooses to draw down the full amount available. It should be noted that the forecast net allowable revenue and comparison against the CPP average actual allowable revenue did not include this deferred revenue.

8 Note this figure is an estimate only and has been rounded up to $3.

- Figure 1.1 below highlights the difference between the distribution revenue for Aurora, and how the deferred revenue (in grey) will be recovered during DPP4 (pink). Importantly, the estimated consumer bill impact numbers above include the recovery of the deferred revenue.

Figure 1.1 Annual change in distribution revenue for Aurora



Expenditure allowances

- Our draft decision is to set Aurora's total ex-ante expenditure allowances for capital expenditure (capex) and operating expenditure (opex) combined at $660.3 million (nominal, net of capital contributions) for DPP4. The allowance is $53.2 million (nominal) or 7.5% less than Aurora's 2025 asset management plan (AMP) forecasts of $713.5 million.
- The average annual expenditure allowance is 11.6% higher than the CPP allowance in real terms.

Capex (see Chapter 3)

- Our draft decision is for a capex allowance of $441.8 million (nominal, net of capital contributions) for DPP4. This includes a cost escalation based on the forecast for Capital Goods Price Index.
- The average annual capex allowance is 20.0% higher than the CPP capex allowance in real terms.
- The capex allowance is $23.8 million (nominal) or 5.1% less than Aurora's 2025 AMP forecast of $465.7 million for DPP4. One of the drivers of the reduced capex allowance relative to Aurora's forecast is our reservation about the uncertainty in some growth projections, including the potential for greater use of non-network solutions to defer projects to later in DPP4.

Opex (see Chapter 4)

- Our draft decision is for an opex allowance of $218.4 million (nominal). The opex allowance is $29.4 million or 11.8% less than Aurora's 2025 AMP forecast of $247.8 million for DPP4.
- The average annual opex allowance is 2.3% lower than the CPP opex allowance in real terms.
- The draft opex allowance includes provision for four step-changes in relation to: insurance, low voltage monitoring, cybersecurity, and software-as-a-service.
- It excludes some CPP-specific costs that we are not satisfied will continue into the DPP4 period. These costs relate to corrective maintenance, the Upper Clutha DER (distributed energy resource) project, and system operation and network support (SONS) and people costs.

Innovation and non-traditional solutions allowance (INTSA)

- Our draft decision for the maximum allowable revenue would set Aurora's innovation and non-traditional solutions allowance at $5.3 million, by applying the DPP4 INTSA framework. This is 0.8% of Aurora's allowable revenue over DPP4. 25% of that allowance is ringfenced for projects that involve Aurora collaborating with another electricity distribution business (EDB).

Quality standards and incentives

- Aurora's quality standards were set during the DPP4 reset process last year. For those final decisions, see Attachment E of the DPP4 Final decision reasons paper.[9]

[9] Commerce Commission, Default price-quality paths for electricity distribution businesses from 1 April 2025 – Final decision – Attachment E Setting quality standards and incentives, (20 November 2024).

Chapter 2 Approach to Aurora's CPP to DPP transition

Purpose of this chapter

2.1 This chapter sets out the context and our approach to Aurora's transition onto DPP4. It includes sections on:

2.1.1 a high-level overview of the DPP/CPP regime;

2.1.2 background and context for the Aurora transition onto DPP4; and

2.1.3 an overview of our draft decision to set new starting prices for Aurora, using the BBAR method we applied in DPP4.

Background and context

The Part 4 Regime in the Act – DPP and CPP incentives

2.2 Our role is to provide EDBs with incentives to undertake activities that benefit consumers over the long-term, given the position of EDBs as natural monopolies. Specifically, our regulation under the Act (including our decision-making in the DPP4 reset) aims to promote the long-term benefit of consumers by promoting outcomes that are consistent with outcomes produced in competitive markets, such that EDBs:[10]

2.2.1 have incentives to innovate and to invest, including in replacement, upgraded, and new assets;

2.2.2 have incentives to improve efficiency and provide services at a quality that reflects consumer demands;

2.2.3 share with consumers the benefits of efficiency gains in the supply of the regulated goods or services, including through lower prices; and

2.2.4 are limited in their ability to extract excessive profits.

2.3 A key tool in achieving this is price-quality regulation. Price-quality regulation limits the maximum revenues non-exempt EDBs[11] can recover for electricity lines services they supply to consumers, while imposing minimum standards for the service quality consumers receive.

[10] Commerce Act 1986, s 52A(1).

[11] EDBs meet the criteria in the Commerce Act (see sections 54G and 54H) to be considered as 'consumer-owned' and are exempt from price-quality regulation.

2.4 Price-quality regulation for EDBs comes in two forms: a default price-quality path which primarily uses already available information and more general assumptions; and a customised price-quality path which uses a detailed proposal using more business specific information.

2.5 All suppliers start on the default path. They can apply for a customised path where the default path does not meet their particular circumstances. The customised path is tailored to the company's specific plans and requires us to complete a detailed assessment of its proposal before making a decision on what its price path and quality standards should be.

2.6 Under each path, the supplier is set a revenue limit which incentivises them to be efficient. This is because they are able to retain a portion of any savings made by delivering their network plans for less than their revenue limit. By setting a revenue limit rather than approving specific expenditure, the suppliers also have the flexibility to respond to changing needs and to find new innovative solutions to problems over the period. The corresponding quality standards ensure they continue to invest and any savings made don't come at the expense of meeting consumers' quality of service needs.

Aurora's CPP application in 2020

2.7 In June 2020, Aurora applied to the Commission for a CPP to increase its allowable revenue to enable it to improve its network safety and stabilise its reliability. The application also sought to alter its minimum quality standards. The CPP application was a result of historic underinvestment that led to the quality of Aurora's network deteriorating and Aurora breaching its quality standards in DPP2 between 2016 and 2019.

2.8 Recognising the condition of its network, in 2017 Aurora began increasing its investment and maintenance spend to urgently address safety risks. It applied for a CPP as it believed the DPP at the time would not permit recovery of the spending required to continue that improvement work and operate a safe network at current levels of reliability.

2.9 Aurora originally applied for a 3-year CPP period, with a view that it would be followed by a 5-year CPP. Our final decision was to grant a 5-year CPP for Aurora (2021 – 2026). An expenditure allowance of $563.4 million (constant 2020$) was included.[12] This was made up of $327.4 million for capex and $236.0 million for opex. Our final decision was $45.9 million (7.5%) less than Aurora's CPP proposal at the time of application.

[12] Commerce Commission Decision on Aurora Energy's proposal for a customised price-quality path – Final decision, (31 March 2021), p. 39.

2.10 Our final decision for Aurora's CPP reflected our view that Aurora had largely made the case for increased investment in both capex and opex. However, we did not accept all of the expenditure proposed by Aurora: where the increased investment was not supported by sufficient evidence, or where we were not convinced the level of spend was prudent and efficient, we did not include those amounts in the final CPP decision.

2.11 In addition to the increase in allowable revenue, the Commission announced on 31 August 2021 that Aurora was also required to comply with enhanced information disclosure requirements.[13] These requirements provide a framework under the CPP for Aurora to engage with its consumers and other stakeholders, and to demonstrate that it is doing what it said it would do to improve performance under the CPP.

2.12 During the CPP, Aurora applied for, and the Commission approved, a capacity event reopener seeking additional funding to reflect significant levels of growth in some regions. In addition, the Commission reopened Aurora's CPP to apply an updated weighted average cost of capital (WACC) in early 2025 to reflect the DPP4 WACC.

CPP progress and continued investment need

2.13 Throughout the CPP we have been monitoring Aurora's performance through our information disclosure requirements. This information has been summarised and published on our website for consumers and stakeholders to engage with.[14] Additional information can also be found on Aurora's website.[15]

2.14 This monitoring has confirmed that Aurora has made significant progress on its network safety, management practices and forecasting. This reflects Aurora's focus during the CPP on firstly improving the safety of its network. During the CPP it was also met with additional challenges through COVID, high inflation and higher than anticipated growth in its regions. This has resulted in some of the planned CPP investment being deferred towards the end of the CPP and possibly into DPP4.

2.15 While Aurora has made significant progress, its investment catch up was always planned to occur over a longer period of time.[16] In Aurora's CPP application it anticipated its 'catch up' on asset replacement and renewal capex investment would not return to steady state investment levels until the end of the AMP planning period (i.e. 2030).[17] As set out in its 2025 asset management plan (AMP 2025), Aurora is now focussed on improving the reliability of its network while also continuing to meet growth demands.[18]

2.16 We outline below our approach to Aurora's transition onto DPP4 in more detail.

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[13] Commerce Commission, Aurora Energy Limited Additional Information Disclosure Requirements – Final reasons paper, (31 August 2021).

[14] https://comcom.govt.nz/regulated-industries/electricity-lines/electricity-distributor-performance-and-data/auroras-performance-alongside-the-customised-price-quality-path

[15] https://www.auroraenergy.co.nz/disclosures/delivering-our-customised-price-path-cpp

[16] Aurora Energy, Asset Management Plane April 2020 - March 2030, (12 June 2020), pp. ii – iii.

[17] Ibid.

[18] Aurora Energy 2025 – 2035 Asset Management Plan, (28 March 2025), p. 3.

Approach to the transition

Decision to set different starting prices

2.17 Section 53X(1) of the Act sets out that when Aurora's CPP ends it will become subject to the DPP that is "generally applicable" to other EDBs. In this case, the generally applicable DPP is the DPP4 determination.

2.18 Section 53X(2) then outlines how we are to set the new starting prices that will apply at the end of a CPP. Our discretion in setting starting prices involves:

2.18.1 deciding between rolling over the prices that applied at the end of the CPP or setting different starting prices (provided we give Aurora notice of this at least four months prior to its CPP ending); and

2.18.2 if we decide to set different starting prices, deciding on the starting prices that must apply.

2.19 How the starting prices are set is therefore a key decision that determines the overall approach to the transition.

Draft decision P1: Set different starting prices, using the BBAR method applied in DPP4.

2.20 Our draft decision is to:

2.20.1 not allow the starting price to roll over under s 53X(2) of the Act, but instead to notify Aurora that different starting prices will apply in DPP4; and

2.20.2 use a building blocks allowable revenue (BBAR) approach to set starting prices for Aurora under DPP4.

Analysis

2.21 In exercising our discretion under s 53X(2), we must do so in the manner we believe best meets the purpose of Part 4 of the Act (as set out in s 52A). We must also give effect to the purpose of DPP/CPP regulation (as set out in s 53K), which emphasises the desirability of keeping the cost and complexity of the transition low, including our approach to setting starting prices.[19]

2.22 Considering the context from Aurora's CPP application outlined earlier in this chapter, Aurora's investment needs, and the impact of external factors such as decarbonisation, interest rates and inflationary changes from when the CPP was set, we do not consider it appropriate to apply the starting price from the end of the CPP.

[19] See our further discussion on the regulatory framework in Attachment B.

2.23 Doing so would limit our ability to account for changes that have occurred since the CPP was set and to adjust for expenditure during the CPP that is not ongoing. It would also limit our ability to apply the additional scrutiny required for us to gain confidence that the new starting prices for DPP4 would be in the best interest of consumers for the next four years.

2.24 Instead, we are proposing to set new starting prices using the BBAR method. The BBAR approach was used to set the starting prices for the other EDBs subject to the DPP4, and as such we consider this approach aligns with s 53X(1) and s 53K as outlined above. We also consider the BBAR method better enables the Commission to assess whether an increase in revenue is justified.

2.25 Section 53P of the Act is also a relevant consideration, as it sets out the requirements for resetting the DPP at the end of a regulatory period. Importantly for this decision and the overall approach to the transition, we have some flexibility in how we set prices based on the current and projected profitability of the supplier.[20] In particular, if using the BBAR method, we are not required to undertake a full 'building blocks' analysis for Aurora's transition to DPP4.[21]

Aurora's transition from a CPP to the DPP

2.26 In setting new starting prices for Aurora, our high-level approach is to apply the relevant DPP4 decisions to Aurora where it is appropriate to do so.

Amendment to the DPP4 determination

2.27 We are proposing to make some minor amendments to the DPP4 determination to ensure that the DPP is workable and effective for Aurora.

2.28 Section 53X(1) establishes that when Aurora's CPP ends it will become subject to the DPP that is "generally applicable" to the other EDBs. In this case, the generally applicable DPP is the DPP4 determination.

2.29 However, some amendments to the DPP4 determination may be required to ensure the DPP that is "generally applicable" to other EDBs is workable for Aurora. Without these amendments, the mechanics of the DPP determination may not effectively regulate Aurora's revenue.

Application of decision-making frameworks applied in DPP4

2.30 In the context of an EDB which is transitioning to a DPP, it is appropriate to leverage existing analytical frameworks, consistent with a relatively low-cost approach. However, the s 52A purpose provides the primary objectives and considerations that we must give weight to when exercising our judgement.[22]

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[20] Commerce Act 1986, s 53P(3)(a) and (b).
[21] See Attachment B Regulatory Framework for further discussion of s 53P.
[22] See our further discussion on the regulatory framework in Attachment B.

2.31 For Aurora's transition we have leveraged the frameworks for expenditure analysis which we applied in DPP4 and made use of existing models and available information. This has allowed us to keep the cost and complexity of the transition low.

2.32 We are also mindful that Aurora applied for the CPP because it required a significant increase in expenditure to catch up on previously deferred work. Consideration needs to be given to ensure that a CPP does not necessarily create a new baseline level of forecast expenditure where aspects of the capex programme may not be enduring without strong justification.

2.33 To acknowledge the specific circumstances of Aurora's CPP, we have applied additional scrutiny to key areas where we consider further justification for forecast expenditure in the DPP is required. Our scrutiny was targeted to gain greater confidence in Aurora's capex forecasts (for both growth and reliability of existing assets) and in its baseline opex spend (focusing on non-recurring CPP-specific costs). Our approach is summarised below, with additional detail contained in Chapter 3 (Capex) and Chapter 4 (Opex).

2.34 This approach is consistent with that applied in the transition of Powerco, Wellington Electricity and Orion from their respective CPPs to the DPP.

Amendments to the DPP4 capex framework

2.35 We considered that it would be inappropriate to apply the same capex assessment framework that applied to the DPP4 reset to Aurora's transition without first considering whether that would appropriately promote the Part 4 purpose. This is consistent with what we outlined in the DPP4 Final decision reasons paper where we stated: [23]

> "We consider some adjustment of the expenditure assessment framework particularly for capex may be required, dependent on the extent of change forecasted in Aurora's 2025 AMP."

2.36 The context for Aurora is different to the process which applied to other EDBs as part of the DPP4 reset process, given we have greater knowledge of Aurora's network and asset management practices.[24, 25, 26, 27] During the DPP4 reset process we found that it challenging to use EDB AMPs in a mechanistic way to gain assurance on the reasonableness of EDB expenditure forecasts. This is due to EDBs' AMP forecasts being prepared using a variety of assumptions and approaches with significant uncertainty about the timing, scale, and location of forecast demand increases.

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[23] Commerce Commission, DPP4 Reasons Paper – Attachment H – Other Matters, (20 November 2024).
[24] Aurora Energy, Customised Price-Quality Path Application, (12 June 2020).
[25] WSP, Independent review of Aurora Energy Network, (21 November 2018).
[26] https://comcom.govt.nz/regulated-industries/electricity-lines/electricity-distributor-performance-and-data/auroras-performance-alongside-the-customised-price-quality-path
[27] Energy Networks Consulting, CPP mid-period review: Independent expert report - Aurora Energy Limited, (February 2024).

2.37 As a result, in the DPP4 approach we applied a cap set at 125% of net capex over a historical reference period.

2.38 Rather than applying a net cap approach to setting capex allowances for Aurora, we have assessed the appropriateness of Aurora's capex forecast against each expenditure category by reviewing information contained within its AMP and information provided in response to requests for information (RFIs) to establish the reasonableness of the capex forecast.

2.39 Where we considered Aurora's capex forecast was not sufficiently justified or was subject to a higher level of uncertainty, we removed specific project or programme components. We also re-assessed the appropriateness of the cost escalator which applies to convert constant dollar forecasts into nominal values.

Amendments to the DPP4 Opex framework

2.40 We are applying the same method to set Aurora's opex as we did for the other EDBs on DPP4. This is known as the base, step and trend approach.

2.41 To ensure this approach is appropriate for a transition from a CPP to a DPP, we have also included an assessment of the base opex spend to exclude any non-recurring CPP-specific opex costs. This is consistent with the approach applied for Powerco's transition from its CPP onto DPP3.

Revenue path framework

2.42 We are applying the same method of setting Aurora's revenue path and assessing financeability as we used when setting DPP4.

2.43 Considering the amount of deferred revenue from the CPP period, we have used the multiple revenue smoothing mechanisms available to mitigate the risk of the deferred revenue creating in-period price volatility during DPP4.

DPP4 decisions not considered in this transition

2.44 Decisions covering quality standards and the design of the INTSA have not been considered as part of this process. Those decisions were made during the DPP4 process last year, and will apply to Aurora once it transitions to DPP4 from 1 April 2026.

2.45 It should be noted that while the design and framework for the INTSA regime is not being reconsidered, we have indicated in this paper what Aurora's INTSA amount will be, as it is calculated using its maximum allowable revenue for DPP4.

Incentive framework overview

2.46 Our price-quality regime provides incentives for efficient investment by EDBs. These incentives are explained here as they are relevant to our consideration of expenditure allowances. Further detail on the incentive framework which applies under DPP4, and for Aurora, is available in the DPP4 Final decision reasons paper.[28]

Expenditure incentives

2.47 While we determine opex and capex allowances separately given their different drivers, EDBs have the flexibility under our regime to substitute between opex and capex responses where it is efficient to do so. In addition, EDBs have the flexibility to overspend or underspend their total allowances, subject to the Incremental Rolling Incentive Scheme (IRIS). These features are central to the regime, and are of increasing importance in DPP4 given the uncertainty in elements of EDBs' forecasts and the opportunities offered by emerging technologies.

2.48 Our DPP4 Final decision maintained equivalent IRIS incentive rates between capex and opex, to promote financial neutrality for spending decisions. With opportunities to substitute between traditional and non-traditional solutions expected to rise, we consider that financial neutrality between expenditure categories (opex vs capex) is important to provide suppliers with incentives to innovate and implement the most efficient solution.

Innovation

2.49 The IRIS also provides EDBs with incentives to innovate and implement non-traditional solutions where these are lower cost than traditional solutions. For example, if the solution allows an EDB to defer or avoid capital investments it can retain a share of the savings that are made.

2.50 In the DPP4 reset we introduced the INTSA. It is an additional incentive to encourage an EDB to try out new solutions that might benefit its consumers, either on its own or working together with other EDBs.

2.51 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. Our intention for the INTSA is to provide EDBs with an additional incentive to trial new solutions through DPP4 to find alternative ways to adapt their networks to new technologies, resilience expectations and changing consumer preferences.

[28] Commerce Commission, Default price-quality paths for electricity distribution businesses from 1 April 2025 – Final decision reasons paper, (20 November 2024).

Quality

2.52 Aurora's quality standards were set during the DPP4 reset process last year. The starting point for our approach to quality is that there should be no material deterioration in reliability, as assessed using the quality standards. The quality incentive scheme (QIS) encourages EDBs to make appropriate trade-offs about the level of quality they deliver, and the cost incurred in doing so.

2.53 These quality standards and incentives are a crucial part of promoting the purpose of Part 4 of the Act. They are important for ensuring EDBs have incentives to provide services at a quality that reflects consumer demands. Just as EDBs' revenues are constrained by the price path, quality standards are important for ensuring EDBs have incentives to invest and are constrained in their ability to earn excessive profits at the expense of quality.

Chapter 3 Capital Expenditure

Purpose of this chapter

3.1 This chapter explains our rationale for the draft decisions which relate to setting Aurora's capital expenditure (capex) allowances for the DPP4 period.

3.2 It includes draft decisions on:

3.2.1 The source of forecast capex information for the purposes of setting capex allowances;

3.2.2 Aurora's nominal capex allowance; and

3.2.3 The cost escalator applied to Aurora's nominal capex allowance.

Background on setting capex allowances

3.3 Under the EDB Input Methodologies we must set a "forecast aggregate value of commissioned assets" for each EDB so that we can set starting prices and apply the capex IRIS incentive during the DPP4 period.[29] In practice, we set a capex allowance which incorporates the forecast expenditure on assets alongside other cost components.[30, 31] The capex allowance is provided in nominal dollars, consistent with the overall approach to setting revenue paths in nominal terms.

3.4 The capex allowance is an input to determining the revenues Aurora may earn; affecting its profitability, incentives to invest, and ability to deliver electricity lines services. Although the capex allowance is not the biggest contributor to the regulated revenue path within a regulatory period (e.g. DPP4), it is important to long-term consumer outcomes. Once an asset is built, the cost recovery for the asset is spread over many years (both the return of assets – depreciation, and the return on assets) and requirements for ongoing maintenance.

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[29] Commerce Commission "Input methodologies review 2023 - [Final] Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023 [2023] NZCC 35" (13 December 2023), clause 1.1.4(2) defines "forecast aggregate value of commissioned assets".

[30] These cost components are cost of financing, value of vested assets and value of capital contributions. Cost of financing and value of vested assets are added, and value of capital contributions is deducted from the forecast expenditure on assets. We do not account for timing differences between forecast expenditure on assets and assets being commissioned.

[31] Aurora can choose to spend more or less than this allowance and use the flexibility under the DPP to substitute opex and capex freely. It can also spend higher than its allowances whilst incurring IRIS penalties or sharing the savings of spending lower than its allowances with its consumers.

Decisions and Analysis

Assessment of Capex Forecasts

Draft decision C1: Use Aurora's 2025 Asset Management Plan as a source for forecast capex information.

3.5 To set the capex allowance we need to establish the most appropriate forecast expenditure information source in the context of a relatively low-cost regime. The secondary consideration of how much reliance can be placed upon this information to set capex allowances is considered within other decisions.

Analysis

3.6 We consider it is appropriate to use Aurora's most recent AMP information (2025) to set the capex allowance, rather than a previous AMP (2024). Our view is that the AMP forecasts are the most complete information available and are a suitable source for EDB forecast expenditure information.

3.7 Our reasons for using Aurora's AMP as the source of forecast expenditure information are the same as the rationale outlined in the DPP4 reset.[32]

3.8 Whilst the AMP provides supporting capex forecasts and some level of information to support the forecasts, there are instances where it has been insufficient to make our draft decision. We have accordingly provided a targeted series of requests for information (RFIs) to Aurora where additional information was required.[33]

Draft decision C2: Set the capex allowance (net of capital contributions) in constant dollars based on Aurora's forecast capex minus $16.6m for uncertain projects in Upper Clutha.

3.9 This draft decision sets the total capex allowance (in nominal dollars, net of capital contributions) for Aurora for the remaining DPP4 period (RY 2027 – RY 2030) at $441.8 million. This includes a cost escalation based on the forecast for the Capital Goods Price Index.

3.10 Our draft decision has been based on an assessment of Aurora's forecast capex assessed at a category level, leveraging information within the AMP and provided in response to RFIs to establish the reasonableness of the forecast.

[32] Commerce Commission, Default price-quality paths for electricity distribution businesses from 1 April 2025 – Final decision – Attachment B Capital Expenditure, (20 November 2024), paras B59 – B71.

[33] Given that some responses to the RFIs contained confidential and/or commercially sensitive information, these have not been published.

3.11 The reductions in allowances relative to Aurora's forecast have been made where there is higher uncertainty on the timing and deliverability of the project. This decision is in the context of Aurora having opportunities to apply for higher allowances, through reopeners or another CPP, during the regulatory period as the need for investments becomes clearer.

3.12 The analysis supporting this draft decision is structured into the following sections:

3.12.1 Context in which Aurora's capex allowances are set.

3.12.2 Approach to setting Aurora's capex allowance.

3.12.3 Consideration of the growing role of non-network and distributed energy solutions.

3.12.4 Role of other flexibility mechanisms.

3.12.5 Outcome of specific category assessments (Asset replacement and renewal, Growth, Consumer Connection, Minor categories).

Analysis

Context in which Aurora's capex allowances are set

3.13 Aurora's capex allowances have been established within the context of an energy sector that is undergoing change and continues to be fluid. Where, when and the scale of investment required will depend on a number of factors that are continuing to evolve, including:

3.13.1 changing consumer demand;

3.13.2 how Aurora' strategies for meeting demand for electricity lines services adapt with increasing availability of non-network solutions, including demand response and distributed energy resources (DER);

3.13.3 expected improvements to investment information (eg, network risk modelling and demand forecasts); in particular, by incorporating better information on low voltage networks into investment planning, and how this information is reflected in renewal and growth/enhancement investment decisions; and

3.13.4 what investments are needed to enhance network resilience.

3.14 The scale and timing of actions required to respond to these factors will not be uniform across Aurora's network, particularly given this is operated in two distinct regions with different economic and environmental drivers.

Approach to setting Aurora's capex allowances

3.15 In undertaking our review of Aurora's capex forecasts, we sought to establish how we could get assurance on the reasonableness of its forecasts in a relatively low-cost way.

3.16 Consistent with our view in the DPP4 Final decision, we have not identified metrics and thresholds that can provide an assessment of forecast capex in a relatively low-cost way.[34]

3.17 Instead, our approach to setting the capex allowances for Aurora for the DPP4 period was based on applying targeted scrutiny to Aurora's capex forecasts. Our scrutiny has focussed on an assessment of the underlying information which supports Aurora's proposed expenditure, with a particular focus on the areas with the most material levels of expenditure - being asset replacement & renewal (ARR), and system growth.

3.18 Our aim was to identify whether Aurora's approach to preparing its forecast was likely to yield capex forecasts that were not unreasonable, and to identify specific expenditure that may not be appropriately justified.

3.19 To support our analysis, where relevant, we requested additional information from Aurora that was not provided in its AMP or in previously published documents. Further detail on a category-by-category basis is provided in the sections below.

3.20 Our concern about the deliverability of increased capex work programmes was a significant focus of our DPP4 capex framework. We have also considered this within and across capex categories when undertaking our analysis of Aurora. This should be viewed in the context that the scale of the forecast increase in Aurora's capex programme is significantly lower than that forecasted by other EDBs. For example, Aurora forecasts for Expenditure on Assets for 2027 – 2030 exceeds its 2021 – 2024 expenditure by 23% in real terms. For the other 15 non-exempt EDBs, the comparison between the same years (using AMP 2024 forecasts) is a 78% increase; or a 51% increase using the DPP4 allowances instead of the AMP forecasts.

Consideration of the growing role of non-network and distributed energy solutions

3.21 The quantum of investment required on Aurora's network will be impacted by the growing role of non-network solutions. Meeting demand for electricity lines services with non-network solutions including demand response and DER has the potential to better utilise existing capacity in EDB networks instead of building networks to increase network capacity.

3.22 This is a continued focus of our engagement programme with all EDBs. Whilst we consider our disclosure requirements (under Information Disclosure) and expenditure incentives appropriately encourage the consideration of non-network solutions, we acknowledge this is a change in practice for businesses and will need to be a continued focus for EDBs over the remainder of the DPP4 regulatory period.

[34] Commerce Commission, Default price-quality paths for electricity distribution businesses from 1 April 2025 – Final decision – Attachment B Capital Expenditure, (20 November 2024), paras B94 – B99).

3.23 As a part of our targeted scrutiny of Aurora's forecast expenditure, we considered whether Aurora had appropriately assessed the potential for non-network solutions to defer the investments it planned within the DPP4 period. To test this, we focussed on Aurora's system growth capex forecast, discussed within section "Outcome of specific category assessments - System Growth" of this chapter. This includes both an assessment of whether the underlying growth forecasted appropriately reflects the ability to manage network peaks, and the availability of opex based flexibility solutions as opposed to network build.

Role of other regime flexibility mechanisms

3.24 In determining an appropriate allowance we have also considered the risk to consumers of capex forecasts being too low or too high, including because they are too ambitious to deliver or are subject to significant uncertainty.

3.25 The DPP4 expenditure allowance represents a base allowance for the purpose of setting the revenue limit. It does not set expenditure limits or restrict Aurora in its extent of spending. If Aurora forecasts a need to incur additional expenditure that it may not be able to accommodate within the settings of the current price-quality path through reprioritisation or substitution of expenditure, there are other mechanisms (reopeners and CPPs) available where appropriate, that enable that expenditure to be assessed separately. We consider it is in the long-term benefit of consumers that planned investment, that cannot be met from the base allowance, is subject to additional assessment under these other mechanisms.

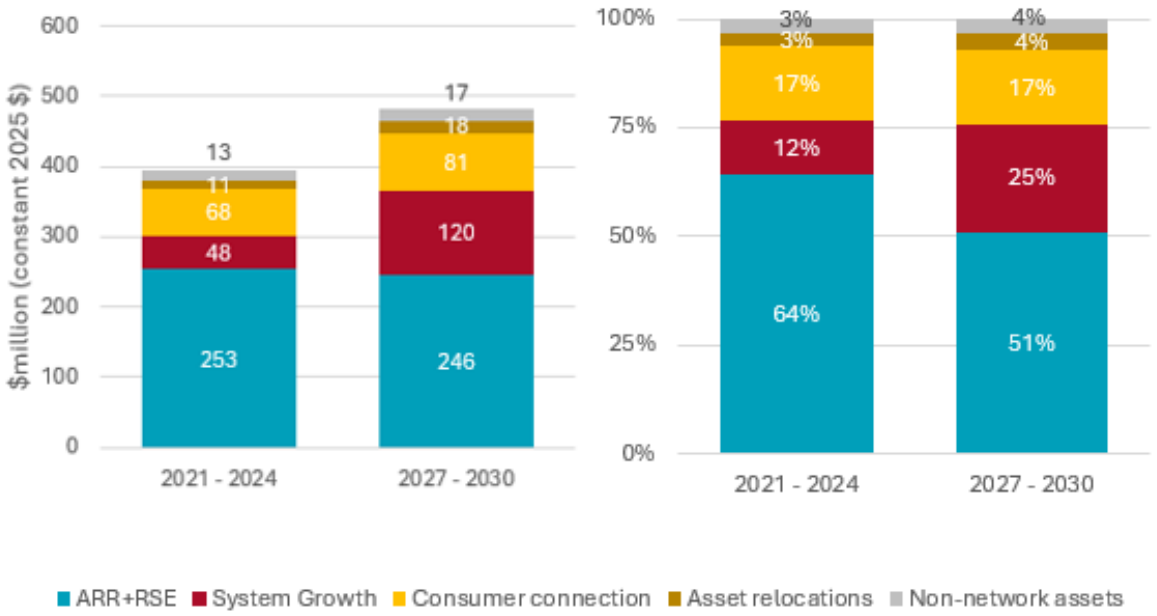
3.26 We acknowledge that Aurora has been mindful to the availability of these flexibility mechanisms and has therefore prudently not included $54.8m in potential expenditure within its forecast.[35]

Outcome of specific category assessments - overview

3.27 Figure 3.1 below represents the change in forecast capex and the change in composition compared to the four-year period ending 31 March 2024.

[35] Aurora Energy, Asset Management Plan April 2025 – March 2035, (28 March 2025), pp. 8 and 103.

Figure 3.1 Composition of capex for forecast (2027 – 2030) and actual (2021 – 2024) in constant 2025$, and as a percentage of total capex



3.28 We note the value for ARR + RSE (Asset replacement and renewal, and Reliability, safety and environment) is broadly consistent with expenditure levels being incurred during the CPP, and is consistent with Aurora's original CPP application which considered an extended period of increased expenditure of this nature was required.

3.29 System growth expenditure is another core driver of Aurora's overall capex forecasts in DPP4. This continues a trend that Aurora experienced throughout its CPP, and saw it returning to the Commission in 2024 to seek additional capex via a reopener.[36]

3.30 Further detail on our assessment of these categories is contained below. We note that whilst our assessment is based on categories of expenditure, the allowance provided is fungible between different categories of expenditure during the remainder of the DPP4 regulatory period.

Outcome of specific category assessments – Asset replacement and renewal

Assessment outcome

3.31 For our draft decision we have included within the capex allowance the value which Aurora has forecasted for ARR capex in its 2025 AMP.

Analysis

3.32 Our assessment of ARR focused on reviewing the asset class expenditure, fleet strategy, asset condition and asset age data.

[36] Commerce Commission Aurora CPP Reopener (Capacity Event) 2025.

3.33 We used a variety of information to undertake the assessment including Aurora's Asset Management Plans 2024 & 2025 (and 2020 for comparison),[37] original CPP documents,[38] delivery reports and mid-period reviews,[39] Information disclosure and specific targeted requests.

3.34 Our analysis observed that:

3.34.1 over the CPP period Aurora has developed its condition assessment practices across key asset classes and improved its knowledge on asset condition;

3.34.2 replacement models have been developed to a mix of age based and condition based. For age-based assets models, Aurora is progressing with obtaining and improving condition data where the assets can be assessed. For some asset classes the condition data is not technically possible to obtain, and so Aurora's continued use of age-based models for these assets is consistent with good industry practice;

3.34.3 Aurora's fleet strategies are well documented. These strategies identify the asset failure modes, age of assets, type of assets within each class and the condition. Investment for each fleet is considered against managing current and future health of the assets; and

3.34.4 fleets that materially contribute to the increase in expenditure are cables and conductors. The strategy for replacement of these assets is consistent with good industry practice.

3.35 Our review of the investment required for different fleets identified that Aurora is focussed on replacing assets that either have known age-based failures or condition data shows deterioration will continue, while balancing investment that is not currently required.

3.36 Our review did not identify capex that should be removed on the basis it is not sufficiently justified or that Aurora applied practices or approaches which were likely to result in systematic over-forecasts of required capex.

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[37] Aurora Energy Limited, Asset Management Plan April 2025 – March 2035, (28 March 2025); Aurora Energy Limited, Asset Management Plan April 2024 – March 2034, (31 March 2024); Aurora Energy Limited, Asset Management Plan April 2020 – March 2030, (12 June 2020).

[38] Commerce Commission Decision on Aurora Energy's proposal for a customised price-quality path – Final Decision, (31 March 2021); Aurora Energy Customised Price-Quality Path Application, (12 June 2020).

[39] Aurora Energy Limited, Annual Delivery Report 2024, (31 March 2024); Energy Networks Consulting, CPP mid-period review: Independent expert report - Aurora Energy Limited, (February 2024).

3.37 Given Aurora's forecasting approaches have matured over the CPP, our view is that we can accept this element of its forecast. This is consistent with the approach applied for the Powerco transition from a CPP to DPP3[40] and on the basis that mature asset health models make it much more likely than not that asset replacement and renewals capex forecasts can be relied upon, rather than using historical expenditure to predict future expenditure needs.

Outcome of specific category assessments - System Growth

Assessment outcome

3.38 For our draft decision we have included within the capex allowance the value which Aurora has forecasted for System Growth in its 2025 AMP, excluding $16.4 million related to projects which we think have less certainty of proceeding (and the associated cost of finance).

3.39 This uncertainty is why the DPP is part of a wider price-quality toolkit. When combined with in-period adjustments, such as price-quality path reopeners and Large Connection Contracts, a DPP should enable EDBs to respond to prioritise their activities amidst an uncertain environment rather than relying purely on ex-ante forecasts.

Analysis

3.40 Similar to our work on ARR, we have assessed Aurora's system growth capex forecast by reviewing a collection of information including Aurora's 2024 & 2025 AMPs and its application for a Capacity Event reopener[41] (which we approved in January 2025).[42]

3.41 Forecasting system growth is challenging, particularly in the context of an energy transition. This sees EDBs balancing a complex range of factors, from potentially significant decarbonisation activities to economic and population growth. In this context, Aurora's forecasting manages this complexity by considering different scenarios for each network area. These regional forecasts include: solar uptake, residential electric vehicle uptake, decarbonisation, economic activity, residential growth and management of distributed generation.

3.42 As noted earlier, Aurora also has a significant list of potential reopener projects (totalling $54 million over nine projects potentially occurring in the next 10 years) identified within its AMP 2025. Identifying these as potential reopeners due to their uncertainty means Aurora has not included values related to these within its capex forecast, but can subsequently apply for future funding if it becomes more clear these projects will be required. This demonstrates Aurora has considered the use of reopener mechanisms to manage uncertainty when proposing the forecast expenditure to be included in DPP4.

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[40] Commerce Commission, Powerco Limited's transition to the 2020-2025 default price-quality path final reasons paper, (30 November 2022), para 3.123.

[41] Aurora Energy Limited, Application for Reconsideration of its Customised Price-quality Path Capacity event application, (22 December 2023).

[42] Commerce Commission, Reconsideration of customised price-quality path for Aurora Energy (Capacity Event) 2025 – Final Decision, (14 January 2025).

3.43 The Aurora networks in Central Otago and Wanaka have experienced significant growth over the last four years, with expectations of continued growth needed to be considered within Aurora's expected levels of security of supply.

3.44 In our view Aurora's overall approach to forecasting and modelling its network is consistent with good electricity industry practice. It has considered different growth scenarios, including potential for growth in solar and other non-network solutions. In addition, Aurora's AMP notes that the 'options analysis' stage of projects includes considering non-network alternatives. It has also made recent upgrades to its internal systems to improve its ability to manage non-network solutions on its network.

3.45 However, when we undertook a targeted review of growth projects against the forecast, we considered that an RFI was required to provide more supporting detail. Within the RFI we requested Aurora provide:[43]

3.45.1 a reconciliation of growth projects forecast in DPP4 and the capex associated with each project included in Aurora's total growth capex forecast;

3.45.2 further information on the Upper Clutha Upgrade project; and

3.45.3 examples of how flexibility and non-network solutions were considered as part of the options analysis process it sets out in its AMP.

Analysis - Upper Clutha upgrade project

3.46 Aurora have included in its forecast an Upper Clutha Upgrade project totalling $65 million (with $55.6 million of this forecast over DPP4). [44] This project is to address a step change in demand in the region and represents a material amount of Aurora's system growth forecast being 46.3% of the total.

3.47 Due to the materiality of expenditure, and uncertainty around the proposed solution, we requested further information from Aurora and undertook additional scrutiny of the capex forecast for this project over DPP4.

3.48 Aurora have noted in its 2025 AMP that its "biggest challenge today is the need for a step change in supply to the Upper Clutha Region." However, the AMP provides little detail on the proposed upgrade, stating in the detailed project description that:[45]

> "No solution has been identified at this stage. We are still undergoing cost benefit analysis of the shortlisted options. The cost indicated is an estimate from one of the options."

3.49 The AMP also noted the investment need 'still has associated levels of uncertainty around the solution, the cost, and the timing'.[46]

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[43] Request for information Q201 Growth and security projects, issued 6 May 2025.
[44] Aurora response to RFI Q201 – Growth and Security Projects, (23 May 2025).
[45] Aurora Energy Limited, Asset Management Plan April 2025 – March 2035, (28 March 2025), p. 326.
[46] Ibid, p. 101.

3.50 We requested additional information from Aurora regarding the Upper Clutha Upgrade project, including:

3.50.1 a cost breakdown of the $65m capex forecast for the Upper Clutha Upgrade project;

3.50.2 whether the forecast capex for this project changed or has become more certain since the publication of the 2025 AMP (noting at the time of the publication, Aurora was still assessing short-listed options);

3.50.3 the potential impact of large developments on the scope, cost or timing of the upgrade; and

3.50.4 how non-network solutions were considered as alternatives to address demand growth.

3.51 Aurora's response indicated that:

3.51.1 The preferred solution has been confirmed since the publication of the 2025 AMP, and the forecast capex reflects this solution;

3.51.2 Delays or withdrawals of a single major development will not impact the need to invest over DPP4; and

3.51.3 Non-network solutions will not be of sufficient scale to defer the early stages of this project, but it has launched an open call for expressions of interest to provide flexibility solutions in the upper Clutha Area to seek to defer upgrades during the later stages.[47] It also noted that non-network solutions and pricing signals continue to be actively explored as a way to address capacity constraints until upgrades are delivered.

3.52 Whilst the scope of the project, and resulting forecast, have become more certain since the 2025 AMP - we still consider that there may be some uncertainty around the timing of the project stages. Table 3.1 below shows a breakdown of the proposed Upper Clutha upgrade into stages.

Table 3.1 Stages of the Upper Clutha Upgrade project[48]

Stages	**Regulatory Year (RY)**	**Description**	**Cost** (constant $ RY 2025)
Stage 1 (DPP4)	RY27	Build two 66kV circuit (Circuit 1 & 2) from proposed new GXP (near Tarras) to Lindis Crossing zone substation (ZS). Connect Circuit 1 to Lindis Crossing ZS.	$7.9M
Stage 2 (DPP4)	RY28	Extend Circuit 1 to SH8A Extend Circuit 2 to Luggate area	$21.6M

[47] Aurora Energy, Upper Clutha Flexibility Solutions Expression of Interest Guide 2025,
[48] Response to request for information Q201 Growth and Security projects, received 23 May 2025, p. 4

Stage 3 (DPP4)	RY29	Extend Circuit 2 from Luggate area to Camp Hill ZS	$9.8M
Stage 4 (DPP4)	RY30	Extend Circuit 1 across Clutha River to Queensberry ZS. Build 66kV Circuit 3 from proposed new GXP and cross Clutha River to Queensberry ZS.	$16.4M
Stage 5 (DPP5)	RY31	Convert 33kV line to 66kV from Camp Hill Zone Substation to Riverbank	$9.8M

3.53 This uncertainty around timing, combined with the potential for non-network solutions to defer Stage 4 means we consider there is not sufficient certainty that this should be provided for within the DPP4 capex allowance. If the Stage 4 portion of project is required during DPP4, and Aurora is unable to reprioritise expenditure to undertake the work, it may apply to reopen its price path.

3.54 Our draft decision is therefore to not provide an allowance for Stage 4 of the project, totalling $16.35m (constant 2025$). The draft decision also includes an additional adjustment to reflect the cost of finance for this stage of the project of $0.187m (see **draft decision C4**).

3.55 We have not made a subsequent adjustment for changes in forecasted levels of capital contributions, as there are no capital contributions associated with this project.

Outcome of specific category assessments – Consumer connection

Assessment outcome

3.56 Set the capex allowance related to consumer connections expenditure consistent with the forecasted values within Aurora's 2025 AMP.

Analysis

3.57 Aurora's forecasts for consumer connection capex reflect its anticipation that the growth in demand for consumer connections during the CPP will continue, and this is supported by recent connection activity.[49] Aurora also notes the strong growth in Central Otago is compounded by decarbonisation occurring across the entire network region.[50]

3.58 Aurora employs a base-step approach to forecasting consumer connection capex, which establishes a base level by averaging the spend over the past five years and normalising for large one-off projects. It then provides for potential step changes in consumer connection capex related to electrification projects such as boiler conversions and EV charging stations. This step change is quantified based on large known projects that have been forecast to occur within the next two years.

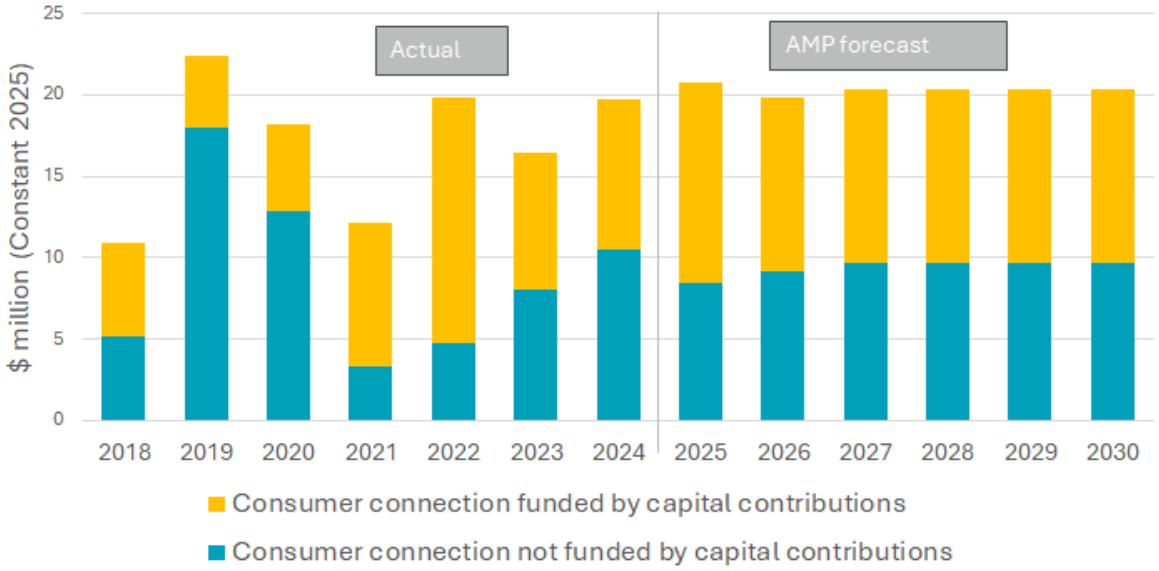
[49] Aurora Energy Limited, Asset Management Plan April 2025 – March 2035, (28 March 2025), p. 263.
[50] Ibid, pp. 16 and 107.

3.59 Aurora acknowledges that there can be significant volatility in consumer connection capex and appropriately assess the reasonableness of its forecast against historical volumes of consumer connection as well as through discussions with consumers.

3.60 We consider Aurora's approach to forecasting consumer connections capex is appropriate, the forecasted levels are broadly consistent with historical values with an uplift to account for growth which is occurring in the Queenstown and Upper Clutha region and increased decarbonisation activities.

3.61 Figure 3.2 below compares consumer connection capex forecast compared to historic levels which shows relatively significant volatility in this expenditure category, noting the 2021 expenditure was likely particularly impacted by COVID-19.

Figure 3.2 Consumer connection forecast (2025 AMP) compared to historic levels



3.62 Our capex allowances are set net of capital contributions. Capital contributions are a substantial funding source used by many EDBs to meet part of the requirement for expenditure on assets. Changes in the forecasted level of capital contributions can have a material effect on the overall funding available for capex.

3.63 An EDB's level of capital contributions can change over time for one or both of two reasons:

3.63.1 a change in policy adopted by EDBs (including due to potential changes in requirements by the Electricity Authority (EA)); or

3.63.2 a change in capex composition ie, the nature of capital works delivered changes so the portion of costs recoverable through capital contributions changes

3.64 Aurora is forecasting slightly lower levels of capital contributions when compared to most recent data.[51]

3.65 Given the forecast by Aurora is relatively similar to historical levels we have relied on its forecast capital contribution information as these provide the only available information on expected levels of capital contributions during the remaining period of DPP4.

3.66 We also acknowledge that the EA has an on-going programme of work which may impact the level of capital contributions which Aurora can recover over the regulatory period. The EA has engaged with us under s 54V(1) of the Commerce Act 1986 and we will continue to engage with the EA on its connection pricing work programme. Section 54V(5) of the Commerce Act enables us to accommodate Electricity Industry Participation Code (the Code) changes, or decisions made under the Code that relate to, or affect, pricing methodologies if asked to by the EA.[52]

Outcome of specific category assessments – Minor expenditure categories

Assessment outcome

3.67 Our draft decision is to set the capex allowance to reflect capex forecast in Aurora's 2025 AMP for the following minor expenditure categories:

3.67.1 Asset Relocations;

3.67.2 Reliability safety & environment; and

3.67.3 Non-network assets.

Analysis

3.68 We have reviewed information contained within Aurora's 2025 AMP related to these expenditure categories but have elected not to undertake further scrutiny on these expenditure categories due to the low level of materiality (combined they only total 9% of the overall capex allowance).

3.69 We also note the level of expenditure forecasted to be incurred by Aurora is broadly consistent with historical levels when adjusted for inflation, and that smaller expenditure categories can be subject to volatility. We did not expect a material reduction in these expenditure categories following the completion of Aurora's CPP.

[51] Aurora forecasts 52% of Consumer Connection expenditure for 2027 – 2030 is linked to capital contributions compared to 61% for 2021-2024.

[52] Commerce Act 1986, s 54V.

Other Allowances

Draft decision C4: Include an allowance for the cost of finance, scaled in proportion to the capex allowance.

3.70 For Aurora, this will result in a negative adjustment of $0.187m (constant 2025$), compared to the AMP 2025 forecast. This reflects the cost of finance associated with Stage 4 of the Upper Clutha upgrade project which has not been included in Aurora's DPP4 draft decision allowance.

Analysis

3.71 We have decided to retain the approach taken in the DPP4 reset of including forecast cost of financing scaled for any adjustment applied to the EDB forecasted capex. For further reasons on this approach, see the DPP4 Final decision reasons paper.[53]

3.72 We note that the cost of finance represents 1.0% of Aurora's capital expenditure forecast. This is consistent with the other non-exempt EDBs.

Draft decision C5: Include an allowance for the value of considerations for vested assets and specifically identified spur assets.

3.73 Our draft decision is to include an allowance for the value of consideration for vested assets equal to AMP 2025 forecasts.

3.74 For Aurora, this will result in no change to its capex allowances as it is not forecasting any vested assets to be received during the period or purchase of spur assets.

Analysis

3.75 Vested assets enter the regulatory asset base at a nil value. To the extent nominal considerations are expected to be provided for vested assets it is reasonable that these (low value) amounts are provided for in the capex allowance as per forecasts with no adjustment, given that the values are immaterial based on how the asset class is defined in the Input Methodologies (IMs).

3.76 Our draft decision includes an allowance for specifically identified spur assets equal to 2025 AMP forecasts given these purchases have a different treatment under our regulatory regime. However, specifically identified spur assets are applied at zero as none were identified in our review of Aurora's AMP.

[53] Commerce Commission, Default price-quality paths for electricity distribution businesses from 1 April 2025 – Final decision – Attachment B Capital Expenditure, (20 November 2024), paras B306 – B312.

Cost Escalation

Draft decision C6: Use the All-Groups CGPI forecast to escalate the constant price capex allowance to nominal terms.

3.77 The capex forecast needs to be escalated from constant to nominal dollars using an appropriate cost escalation index.

Analysis

3.78 There are several price indices that can be used to escalate the capex allowances in constant 2025 dollars to nominal dollars. In DPP4 we decided to use the All-Groups CGPI forecast with an additional adjustment of 0.8% to escalate the constant price capex allowance to nominal terms.

3.79 Our view is that the All-Groups CGPI remains an appropriate basis for cost escalation given the complexities and volatility of other more narrowly defined indices (i.e. metals indices and the sub-indices of PPI and LCI). This approach was supported in submissions on DPP4.[54]

3.80 We have separately considered the on-going appropriateness of the 0.8% additional adjustment. In DPP4 we provided for an additional adjustment of 0.8% beyond the All-Groups CGPI because we considered this to be a reasonable proxy of future EDB input price pressures above the average for capital goods.[55]

3.81 Aurora forecast its approximated capex price inflation from 2025 constant dollars to nominal over the period within Schedule 11a. Aurora's approach to cost escalation estimation is outlined in its 2025 AMP which includes forecasting of input price indices that reflect the various costs it faces, including material, labour, and overhead components sourced from an economic consultancy firm.[56]

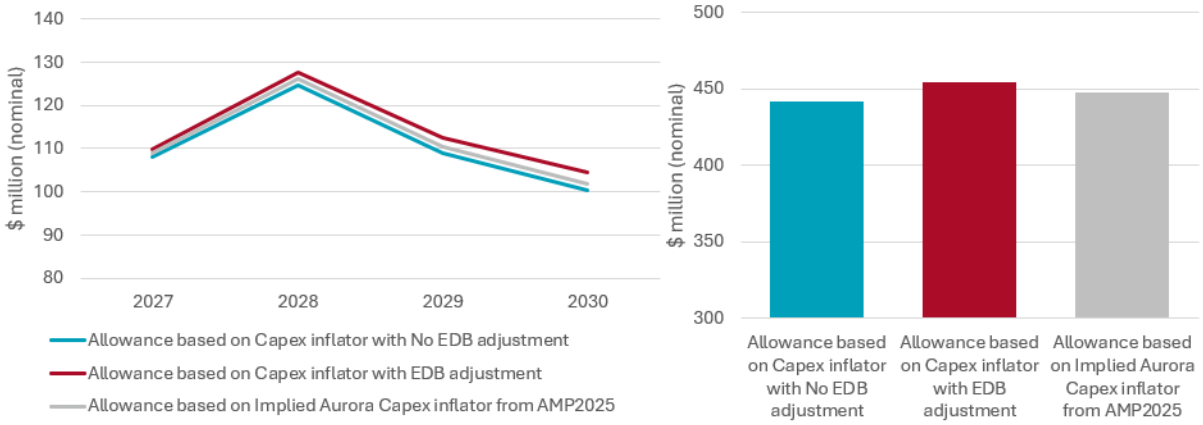
3.82 Figure 3.3 below shows the Aurora capex allowance based on each of the All-Groups CGPI, All-Groups CGPI + 0.8% and Aurora's estimated increase.

[54] Commerce Commission, Default price-quality paths for electricity distribution businesses from 1 April 2025 – Final decision – Attachment B Capital Expenditure, (20 November 2024), paras B324 – B338.

[55] Commerce Commission, Default price-quality paths for electricity distribution businesses from 1 April 2025 – Final decision – Attachment B Capital Expenditure, (20 November 2024), paras B339 – B368.

[56] Aurora Energy Limited, Asset Management Plan April 2025 – March 2035, (28 March 2025), p. 268.

Figure 3.3 Comparison of impact of different capex inflators



3.83 We have reviewed representations provided by Aurora within its AMP on the underlying drivers of cost escalation to consider whether it would be appropriate to apply the 0.8% adjustment to Aurora.

3.84 Aurora's AMP 2025 states within Section 15.5.1 "Approach to escalation" that cost escalation has been a primary driver in the increased forecast requirements:[57]

> "We expect that the input price increases we face over the planning period will be greater than CPI due to factors such as the need to attract and retain skilled staff and the global demand for commodities used in our assets. This cost escalation between AMP24 and AMP25 is the predominant driver of our increased forecasts. We will continue to prioritise our renewals to best manage the impact of cost escalation on our planned risk reduction targets."

3.85 Similar statements are reflected within the AMP in the section "Capex forecast variance from previous AMP"[58]

> "The primary factor contributing to the increase in our forecasts is the cost escalation between AMP 2024 and AMP 2025. As mentioned in Section 15.2.1, our capex graphs and Table 15-5 reflect RY25 forecasts as at November 2024. We have since updated our schedules to reflect higher than expected capex expenditure. Our analysis of the CPP annual delivery report unit rates, along with insights from the recent major field service agreement (FSA) tender round, indicates that a 10–15% increase accurately reflects the current as-built costs."

3.86 We further engaged with Aurora to confirm that forecasted increases in costs had been reflected into increases in nominal cost escalation, and had not been built into the constant price increase.

[57] Aurora Energy Limited Asset Management Plan April 2025 – March 2035, (28 March 2025), p 268.
[58] Ibid, p. 263.

3.87 Aurora advised that:

> "Historical increases in input costs, such as the most recent price increases from our suppliers, have been incorporated in our RY25 constant $ forecasts. Increased unit rates between AMP24 and AMP25 were a predominant driver of our increased constant $ AMP25 forecast.
>
> We did experience significant cost escalation in the lead-up to the preparation of AMP25. These historical increases in costs are reflected in the constant $ forecast."

3.88 Aurora's representations suggest that the expected increase in cost beyond the All-Group CPI provided for by the 0.8% increase across the DPP4 regulatory period may have largely already occurred for Aurora as a 'step-change' in price levels between the 2024 AMP forecasts and the 2025 AMP forecasts. That means the "EDB adjustment" that we smoothed into other EDBs' cost escalators over 5 years may be reflected in Aurora's 2025 AMP Constant price forecasts.

3.89 This could be attributed to Aurora's recent FSA tender round which has been built into building block unit rate estimation process used to set constant prices.

3.90 Given a significant but non-quantifiable amount of the 0.8% increase may already be accounted for in Aurora's 2025 constant prices we do not consider a further 0.8% adjustment is required.

3.91 Accordingly, in this draft decision for Aurora, when escalating the constant price capex allowance to nominal terms, we have:

3.91.1 Retained the use of the All-Groups CGPI forecast; and

3.91.2 Not applied an additional adjustment.

Chapter 4 Operating Expenditure

Purpose of this chapter

4.1 This chapter outlines and explains the rationale for our draft decisions on forecasting Aurora's operational expenditure (opex) allowances for the DPP4 period.

4.2 It includes decisions on:

4.2.1 determining Aurora's base opex (including the removal of non-recurring CPP opex);

4.2.2 assessing new step changes; and

4.2.3 how the base opex is trended forward over the DPP4 period.

Background on setting opex allowances

4.3 Opex allowances enable EDBs to fund recurring activities that are not capex, including activities essential to the network operation such as maintenance and planning.

4.4 Opex has an immediate effect on the revenue EDBs can earn. Revenue limits are set to allow recovery of opex allowances directly via revenue over the regulatory period, whereas capex is added to the RAB and recovered over the life of the asset. EDB's are incentivised to improve efficiency as they are able to retain a proportion of any under-spend relative to their opex allowance.

Decisions and Analysis

Decisions on the high-level approach to opex

Draft decision O1.1: Use the base, step and trend method as applied in DPP4 for setting Aurora's opex allowance.

4.5 The base, step and trend approach to setting opex allowances is focussed on identifying an EDB's current level of operating expenditure, then making reasonable adjustments to represent what a prudent and efficient EDB would be expected to spend over the regulatory period.

4.6 The general approach for the method to be applied to Aurora is shown in the formula below. This differs slightly from the DPP4 approach as our draft decision is to make base-year and step change adjustments to account for non-recurring CPP opex spend.

Analysis

4.7 Our view is that the base, step and trend approach is the most appropriate approach in the context of a DPP reset as it achieves the relatively low-cost intent of DPP/CPP regulation while also promoting the Part 4 purpose.[59, 60] For setting Aurora's opex allowance, there is no clear rationale to depart from this approach, as applied to other EDBs in the DPP4 process last year. For a full analysis of the base, step and trend approach see page two in Attachment C of the DPP4 Final decision reasons paper.[61]

4.8 In DPP4 we considered, but decided against, using EDB AMPs for setting forecast opex. For the full analysis of alternatives considered see pages two to ten in Attachment C of the DPP4 Final decision reasons paper.[62]

Draft decision O1.2: Use Regulatory Year 2025 as Aurora's base year.

4.9 When applying the base, step and trend approach our draft decision is to use RY 2025 as the base year, rather than RY 2024 (which was applied to other EDBs for DPP4).

Analysis

4.10 We are proposing to use RY 2025 as Aurora's opex base year to reflect the timing of the transition (one year after the start of DPP4). This will enable us to use the most recent information for setting Aurora's DPP4 opex allowance, likely giving the best forecast for Aurora's future opex costs.

4.11 As we don't yet have the RY 2025 actuals from Aurora's 2025 Information Disclosure (ID) data, we are using AMP 2025 forecasts in the draft decision. We will update these to use the 2025 ID data for the final decision.

Non-recurring CPP specific opex

4.12 As the DPP4 opex allowance will be set using RY 2025 as the base year, this will lock in spend on non-recurring costs from this year and trend those upwards across the DPP4 period. To mitigate the risk of consumers paying for costs that are no longer occurring, we have assessed the base year spend to identify any CPP specific costs that we think should be removed.

4.13 We based this on:

4.13.1 Aurora's CPP application;

4.13.2 our final decision on the CPP; and

4.13.3 Aurora's AMP 2025 and Aurora's ID disclosures.

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59 Commerce Act 1986, s 53K.
60 Commerce Act 1986, s 52A.
61 Commerce Commission, Default price-quality paths for electricity distribution businesses from 1 April 2025 – Final decision - Attachment C Operational Expenditure, (20 November 2024), p 2.
62 Ibid, pp. 2 – 10.

4.14 We have outlined the following areas below where we recommend making negative adjustments. This level of scrutiny is consistent with the approach used when assessing Powerco's opex allowance, before its transition onto DPP3.[63]

Draft decision O2.1: Remove opex costs from the base year, to reflect CPP specific costs that we do not expect to recur in DPP4.

4.15 Our draft decision is to remove the following opex costs from the base year, to reflect CPP specific costs that we do not expect to recur in DPP4.

4.15.1 Corrective maintenance: $1.86 million (constant 2025$).

4.15.2 Upper Clutha DER solution: $115,000 (constant 2025$).

Analysis

Corrective maintenance

4.16 A focus of Aurora's CPP was to address safety concerns on its network. As progress has been made on fixing its assets, Aurora has forecast for its corrective maintenance opex to peak in RY 2026 and then reduce significantly to a steady state amount in RY 2027.[64]

4.17 To reflect the forecast reduction of these costs, our draft decision is to apply a negative base year adjustment for the difference between the RY 2025 and RY 2027 values (plus the adjustment to account for the two years of scale growth that occurs in the modelling). This results in a negative adjustment of $1.86 million (constant 2025$).

Upper Clutha DER solution

4.18 Our final decision for Aurora's CPP approved $3 million for an Upper Clutha DER project to provide additional capacity to meet forecast demand growth. The allowance was to make payments to use a third-party owned small scale distributed generation and battery system.

4.19 Since the CPP was approved, Aurora has made additional capex investments in the area, and as such the contract with the third party will reduce and finish during DPP4. From the ID schedules attached to its AMP 2025[65], we can see that its "non-network solutions provided by a related party or third party" opex will reduce from $145,000 in RY 2025 to a 'normal' value of $31,000 in RY 2027 (constant 2025$). We have therefore applied a negative base year adjustment of $115,000 to reflect this reduced cost (this includes the adjustment to account for the two years of scale growth that occurs in the modelling).

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63 Commerce Commission, Powerco Limited's transition to the 2020-205 default price-quality path, (30 November 2022), pp. 22-23.

64 Aurora Energy Limited Asset Management Plan April 2025 – March 2035, (28 March 2025), p. 157.

65 Ibid, p. 286.

Draft decision O2.2: Apply negative step changes for reducing CPP specific costs.

4.20 Our draft decision is to apply negative step changes for system operation and network support (SONS) and Business support (people costs) of 6% per annum from the base level in RY 2025.

Analysis

4.21 Aurora significantly increased its opex spend prior to the CPP period. While part of this reflected the historic underspend by Aurora, some of the uplift was to prepare for and deliver the CPP itself. Our final decision for Aurora's CPP recognised this, and set a SONS and people allowance with an annual real reduction of 6% per year from RY 2023 onwards, continuing beyond the end of the CPP period. This was modelled using analysis from Strata,[66] and additional analysis completed in response to submissions on the CPP draft decision.[67] It projected that Aurora's SONS and people allowance should reach a steady state for a prudent and efficient EDB between RY 2029 and RY 2032.

4.22 In our Aurora CPP final decision, we noted that we would refer back to the SONS and people costs decision when setting the next CPP or the DPP for Aurora.[68] In determining reductions for non-recurring opex, we have therefore considered this CPP decision and the analysis that supported it at the time.

4.23 The analysis undertaken by Strata found that Aurora's proposed SONS and people opex was significantly higher than other similar EDBs in a steady state[69]. Our final decision noted that if Aurora's opex remained at the proposed level it was unlikely to be prudent and efficient, as it did not account for reductions due to transitional and one-off costs from the CPP or for ongoing efficiencies developed throughout the CPP process[70]. Strata noted that by the end of the CPP period, Aurora should have matured as a business and as such should not require the same level of SONS and people costs required to set up / uplift the business prior to the CPP application.

4.24 Aurora's SONS and people costs for RY 2025 align with the forecast used when setting the CPP.[71] We consider that the reasoning and analysis applied then is still applicable to Aurora, and their SONS and people costs should continue to reduce in line with that initial forecast trajectory towards a more prudent and efficient steady state in RY 2030.

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66 Strata Energy Consulting, Report on Aurora Energy's CPP Application, (November 2020).

67 Commerce Commission, Decision on Aurora Energy's proposal for a customised price-quality path – Final decision, (31 March 2021), pp. 326 – 346.

68 Ibid, para E167, p. 346.

69 Ibid, para E130, p. 334.

70 Ibid, para E131 – E133, p. 335.

71 Note we have estimated the RY 2025 people costs by assuming the same proportion of Business Support costs as was used for the CPP decision in 2021.

Opex step change decisions

Draft decision O3.1: Use the same decision-making approach for assessing opex step changes as applied in DPP4.

4.25 Our draft decision is to assess the individual step changes using the same decision-making approach applied during the DPP4 process last year. This approach was to assess each step change against a set of factors, applying judgment. The factors are whether the step change is:

4.25.1 significant;

4.25.2 adequately justified with reasonable evidence in the circumstances;

4.25.3 not captured in the other components of the DPP allowance;

4.25.4 due to drivers outside the control of a prudent and efficient supplier; and

4.25.5 widely applicable.

Analysis

4.26 We amended this decision-making framework from the DPP3 approach following significant feedback from stakeholders that the previous method was too restrictive. The new framework was well received, with many EDBs, including Aurora, expressing support in their submissions.[72] Considering this analysis was undertaken only one year ago to amend the decision-making framework, and the positive support received through submissions, our draft decision is to retain it for Aurora's transition.

Draft decision O3.2: Approve the low-voltage (LV) network monitoring step change.

4.27 Aurora submitted for a step change to cover:

4.27.1 access to LV network data (cost to purchase the data from smart meter companies);

4.27.2 software to store and analyse the data; and

4.27.3 additional staff for the assessment and application of the data.

Analysis

4.28 Similar LV network monitoring step changes were approved for other EDBs in the DPP4 process last year, in addition to all EDBs receiving an independently 'specified' cost for access to the data. Aurora submitted for this step change during the DPP4 process last year and, in response to our information request for this process, resubmitted for this step change with updated cost estimates.

[72] Commerce Commission, Default price-quality paths for electricity distribution businesses from 1 April 2025 – Final decision - Attachment C Operational Expenditure, (20 November 2024), p. 15.

4.29 From the evidence supplied by Aurora, we are satisfied that the step change meets all the factors to be considered when assessing step changes. For an analysis of this step change category against the decision-making factors see pages 36 and 37 of Attachment C from the DPP4 Final decision reasons paper.[73]

Draft decision O3.3: Approve the insurance step change.

4.30 Aurora submitted for a step change to cover:

4.30.1 the general increase in insurance costs above inflation; and

4.30.2 new insurance to cover cybersecurity risks.

Analysis

4.31 Insurance step changes were approved for all EDBs in the DPP4 reset last year. Aurora submitted for this step change during the DPP4 process last year, and in response to our information request resubmitted for this step change with updated cost estimates.

4.32 While this step change for Aurora is relatively small (their larger increase occurred between RY 2023 – RY 2024), the step change meets the remaining decision-making factors. Our draft decision is, on balance, to approve this step change for Aurora in line with all other EDBs for DPP4 as it will enable Aurora to appropriately insure its network. For a full analysis of the insurance step change category against the decision-making factors, see pages 32 and 33 of Attachment C from the DPP4 Final decision reasons paper.[74]

Draft decision O3.4: Approve the cybersecurity step change.

4.33 Aurora submitted for a step change to cover:

4.33.1 cybersecurity costs increasing at a greater rate than overall opex trends; and

4.33.2 increasing costs to protect its technology-based systems.

Analysis

4.34 Aurora did not submit for this step change last year during the DPP4 process, however ten EDBs applied for and had approved a cybersecurity step change in DPP4. This step change meets all of the decision-making factors. It is important for EDBs to have adequate cybersecurity in place due to increasing threats and the amount of consumer data they may be storing. For a full analysis of this step change category against all of the decision-making factors see pages 37 and 38 of Attachment C from the DPP4 Final decision reasons paper.[75]

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[73] Commerce Commission, Default price-quality paths for electricity distribution businesses from 1 April 2025 – Final decision - Attachment C Operational Expenditure, (20 November 2024), pp. 36-37.
[74] Ibid, pp. 32 – 33.
[75] Ibid, pp. 37-38.

Draft decision O3.5: Approve the Software as a Service (SaaS) step change.

4.35 Aurora submitted for a step change to transition current IT systems to cloud-based SaaS systems. This covers:

4.35.1 licensing / subscription fees;

4.35.2 implementation costs; and

4.35.3 monitoring/administration costs.

Analysis

4.36 Aurora did not submit for this step change last year during the DPP4 process, however many EDBs signalled they were intending to transition their capex IT systems to opex solutions (cloud-based SaaS systems). Thirteen EDBs applied for and had approved a SaaS step change in DPP4. We consider that the step change applied for by Aurora meets all of the decision-making factors. We expect EDBs to continue to find efficient solutions that are in the long-term best interests of consumers. For a full analysis of this step change category against the decision-making factors, see pages 38 and 39 of Attachment C from the DPP4 Final decision reasons paper.[76]

Draft decision O3.6: Cap the increases from opex step changes at 5% of aggregate opex, excluding specified costs for insurance and low voltage monitoring.

4.37 In the DPP4 Final decision reasons paper, we applied a 5% aggregate cap on opex step changes, excluding specified costs for insurance and low voltage monitoring. This cap was applied to reflect the level of scrutiny we were able to apply to each step change under a low-cost DPP approach.

Analysis

4.38 Consistent with our DPP4 decision, our draft decision is to apply the same cap to Aurora. We have not applied greater scrutiny to Aurora's step change requests than what was applied during the DPP4 process last year. Instead, our focus has been on assessing and removing non-recurring CPP specific opex costs from the base year spend and scrutinising the capex allowance.

4.39 We consider that a 5% cap represents an appropriate threshold. Any costs exceeding this level should undergo further assessment to determine whether they are prudent and efficient, and ultimately in the long-term benefit for consumers. The cap did not include specified values calculated for insurance increases and access to low-voltage data, reflecting costs that we have independent evidence to support. For the full analysis of the step change cap amount see pages 47 to 53 of Attachment C in the DPP4 Final decision reasons paper.[77]

[76] Ibid, pp. 38-39.
[77] Ibid, pp. 47-53.

4.40 Based on the draft decisions in this paper, the cap will bind for Aurora by a small amount. The total step change will be higher than 5% due to the LV monitoring and insurance amounts that are exempt from the 5% cap.

Opex trends decisions

4.41 This section sets out our decisions on opex scale growth, cost escalation and opex partial factor productivity.

Draft decision O4.1: Escalate all opex costs (network and non-network) using the same cost escalator.

4.42 In deciding how to escalate costs, we need to determine how to group opex for escalation purposes, and whether different categories of expenditure have different input cost drivers.

Analysis

4.43 We have decided to group all opex costs together for the purpose of cost escalation. This is the same decision as applied in DPP4. In the DPP4 Final decision reasons paper, we noted that we lack detailed information about the kinds of input costs (labour, materials, services etc.) that make up EDB opex. As such, we do not know whether the drivers of network and non-network opex are sufficiently different to justify different escalators.

4.44 In addition, the relative proportion of these categories has been reasonably static over time, with network opex amounting to between 38-41% of total opex each year since 2014, and non-network opex 59-62%. This suggests that disaggregation would have limited effect in practice. For the full analysis on this draft decision, see pages 89 to 91 of Attachment C in the DPP4 Final decision reasons paper.[78]

Draft decision O4.2: Escalate opex using the all-industries labour cost index (60% weighting) and all industries producers' price index (40% weighting) plus a 0.3% pa adjustment to reflect EDB-specific inflation.

Analysis

4.45 Our draft decision is to escalate opex allowances using the same indices and weightings as in DPP4, but with updated values (see draft decision M6). Our draft decision is to escalate all opex costs using a 60/40 split of all industry LCI and PPI indices, and to apply a 0.3% per annum adjustment to reflect historical higher inflation in the electricity, gas, water, and waste sector that we consider is likely to persist in the medium-term.

4.46 For a full analysis of this split, including alternatives considered, see pages 91-97 of Attachment C of the DPP4 Final decision reasons paper.[79]

[78] Ibid, pp. 89-91.
[79] Ibid, pp. 91-97.

Draft decision O4.3: Forecast opex scale growth separately for network and non-network opex.

Analysis

4.47 Our draft decision is to apply the same decision as in DPP4, forecasting opex scale growth separately for network and non-network opex. This same approach was used for DPP2 and DPP3, and we are unaware of any issues or concerns with it. We therefore do not consider there is a justified reason to deviate from this decision specifically for Aurora. For the full analysis of this draft decision, see pages 61 and 62 of Attachment C of the DPP4 Final decision reasons paper.[80]

Draft decision O4.4: Use 2018-2024 as the reference period for scale growth elasticities.

4.48 Our regression analysis requires choice of the reference period or date range of data for modelling opex scale trends.

Analysis

4.49 The DPP4 decision used 2018-2024 as the reference period. Our draft decision is to use the same reference period for Aurora. We considered updating it to be include 2025. However, this would provide minimal (if any) impact to Aurora's final decision. Under a low-cost DPP approach, we did not consider the additional work to update the reference period by one year was justified. Using the same decision as DPP4 will also mean that all EDBs have the same scale growth elasticities applied to them for DPP4.

4.50 For the full analysis on the reference period choice, see pages 57 to 60 in Attachment C of the DPP4 Final decision reasons paper.[81]

Draft decision O4.5: Forecast network opex scale growth with ICPs (elasticity 0.44) and line length (elasticity 0.53).

4.51 As we have applied the same reference period used in DPP4, we then apply the same elasticities.

Analysis

4.52 For the full analysis and process for determining these elasticities, see pages 62 to 81 of Attachment C in the DPP4 Final decision reasons paper.[82]

Draft decision O4.6: Forecast non-network opex scale growth with ICP count (elasticity 0.20), line length (elasticity 0.35) and capex (elasticity 0.31)

4.53 As above for network opex, the DPP4 non-network opex elasticity decisions apply to Aurora since the reference period is the same.

[80] Ibid, pp. 61-62.
[81] Ibid, pp. 57-60.
[82] Ibid, pp. 62-81.

Analysis

4.54 For the full analysis and process for determining these elasticities, see pages 62 to 81 of Attachment C in the DPP4 Final decision reasons paper.[83]

Draft decision O4.7: Forecast lines length is extrapolated using the trend in the growth rate over the period of 2021- 2024.

4.55 Our draft decision is to use the trend in growth rate over the period of RY 2021 to RY 2024, as the data for RY 2025 is not available yet. We intend to use values from RY 2021 to RY 2025 for the Final decision.

Analysis

4.56 Our draft decision is to follow the same approach as DPP4, with the reference period updated for the final decision. In this case, there is minimal effort to update the reference period, and therefore we consider it is justified to produce the most accurate forecast for Aurora. For the full analysis of the DPP4 decision, see pages 81 to 84 in Attachment C of the DPP4 Final decision reasons paper.[84]

Draft decision O4.8: Forecast ICP count is extrapolated using the growth rate trend between 2021- 2024.

4.57 Our draft decision is to use the trend in growth rate over the period of RY 2021 – RY 2024, as the data for RY 2025 is not available yet. We intend to use values from RY 2021 to RY 2025 for the Final decision.

Analysis

4.58 Our draft decision is to follow the same approach as DPP4, with the reference period updated for the final decision. In this case, there is minimal effort to update the reference period, and therefore we consider it is justified to produce the most accurate forecast for Aurora. For the full analysis of the DPP4 decision, see pages 81 to 84 in Attachment C of the DPP4 Final decision reasons paper.[85]

Draft decision O4.9: Forecast capex growth rate based on the average annual growth in the Expenditure on Assets from the reference period (2021-2025) to the DPP4 allowance (2027-2030).

Analysis

4.59 We are proposing to follow the same approach as DPP4, with the reference period updated for the final decision. In this case, there is minimal effort to update the reference period, and therefore we consider it is justified to produce the most accurate forecast for Aurora. For the full analysis of the DPP4 decision, see pages 81 to 88 in Attachment C of the DPP4 Final decision reasons paper.[86]

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[83] Ibid.
[84] Ibid, pp 81-84.
[85] Ibid.
[86] Ibid, pp 81-88.

Draft decision O4.10: Apply an opex partial productivity factor of 0%.

4.60 Productivity is a measure of volume of outputs for a given set of inputs. Total factor productivity (TFP) captures the volume of outputs that cannot be explained by the use of inputs (a residual). Partial factor productivity (PFP) is the part of the TFP explained by a subset of inputs, in the case those relating to opex.

Analysis

4.61 Our draft decision is to apply the same decision as DPP4. The same partial productivity factor is applied to all EDBs, and there is no strong rationale for why we would apply a specific factor just to Aurora during DPP4. For the full analysis on the partial productivity factor being 0%, please see pages 97 to 111 in Attachment of the DPP4 Final decision reasons paper.[87]

[87] Ibid, pp. 97-111.

Chapter 5 Revenue Path and Financeability

Purpose of this chapter

5.1 This chapter outlines our draft decisions to setting Aurora's revenue path for DPP4. These decisions cover:

5.1.1 assessing price shocks;

5.1.2 notional financeability checks;

5.1.3 smoothing the recovery of revenue; and

5.1.4 whether to specify a base revenue wash-up draw down amount.

Background on setting the revenue path

5.2 Investment in distribution networks is made by EDBs, and paid for by their consumers over time as they benefit from the network. Each reset or transition must manage the tension between consumers' interests in:

5.2.1 having access to a network that can deliver the energy services they need at the quality they expect; and

5.2.2 avoiding paying more than is necessary to maintain and expand the network.

5.3 This includes seeking to minimise price shocks to consumers on the one hand while avoiding undue financial hardship to EDBs on the other.

5.4 To address this balance, we have assessed the impact of revenue smoothing mechanisms alongside notional financeability assessments. This has included analysis to consider whether Aurora has a reasonable prospect of recovering its full DPP4 revenue as well as the deferred revenue from the CPP period over the next four-year regulatory period.

Decisions and Analysis

Price path decisions

Draft decision P4: Assess price shocks on a real revenue per-ICP basis, incorporating wash-ups and IRIS.

5.5 This is the same as our DPP4 decision. This draft decision means that we have assessed consumer price shocks:

5.5.1 on a distribution revenue basis – that is including forecast net allowable revenues and major recoverable costs (IRIS and forecast wash-up drawdowns);

5.5.2 in real terms (net of forecast CPI); and

5.5.3 on a per ICP basis, as a proxy for end consumer price impact.

Analysis

5.6 IRIS amounts and wash-up drawdowns can have a substantial impact on distribution revenues in any given year and so contribute to the potential for consumer price shocks. Our draft decision is to include it and other recoverable costs when considering price shocks.

5.7 Our draft decision to measure price shocks in real terms (net of forecast CPI) reflects the learnings from DPP3. Assessing price shocks in nominal terms risks suppressing EDBs' real revenues, which could lead to substantial future wash-up balances. While this would be present-value neutral to EDBs consistent with the FCM principle[88], substantially deferring the timing of cashflows in this way may cause financeability concerns in the future.

5.8 During the DPP4 process last year, we considered a few alternatives for assessing consumer price shocks as suggested in submissions. These were:

5.8.1 adjusting for changes in energy volumes (kWh), using either forecast or historic data;

5.8.2 analysing retail customer-switching behaviour; and

5.8.3 adjusting for network growth, i.e. the number of connections (ICPs) – this was the DPP4 approach.

5.9 We maintain the position from our DPP4 analysis that considering price shocks on a "per ICP" basis is the best approach that achieves the purpose of the Act under a low-cost regime. For the full analysis on this approach, see pages 23 to 32 of Attachment F in the DPP4 Final decision reasons paper.[89]

Draft decision P5: Assess notional financeability using FFO/Debt and Debt/EBITDA ratios.

5.10 This is the same approach as applied in DPP4. We applied this 'sense check' to address concerns from the sector about the profile of regulated cashflows, and the impact of this on EDBs.

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[88] As we have noted elsewhere because the wash-up mechanism for EDBs includes a time-value of money adjustment (Commerce Commission "Input methodologies review 2023 - [Final] Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023 [2023] NZCC 35" (13 December 2023), clause 3.1.4(1)(b))

[89] Commerce Commission, Default price-quality paths for electricity distribution businesses from 1 April 2025 – Final decision reasons paper – Attachment F Revenue Path (20 November 2024), pp. 23 – 32.

Analysis

5.11 Our draft decision is to apply a financeability sense check to assess notional financeability drawing on metrics from the Standard & Poor's (S&P) methodology. The DPP4 approach focused on the core S&P ratios FFO/Debt and Debt/EBITDA with reference levels consistent with a BBB+ credit rating, and considered leverage and FFO interest cover ratio. To clarify, this approach is to apply a sense check to support decision-making. It is not intended to be a 'binding test' for which the result prescribes certain responses or outcomes.

5.12 In establishing the approach to the financeability sense check in DPP4, we considered various assessments and tests from other jurisdictions (including Australia and the UK). Our approach is based on the S&P Methodology[90] considered in relation to regulated electric and gas networks by NERA[91] and overviewed by IPART.[92] The use of an S&P framework, rather than one based on other ratings agencies, is supported by S&P being the rating agency most relevant to the NZ distribution businesses and was supported in submissions on the DPP4 process. We therefore consider it is appropriate to apply the same approach to Aurora.

Draft decision P3: Set the alternate x-factor to -8.90%, to limit the initial price shock to 10% in real per-ICP terms.

5.13 Section 53P(1) of the Act requires us to determine a "rate of change", which is used to determine net revenue for each year after year 1 of the regulatory period. The rate of change comprises:

5.13.1 the rate of increase in forecast CPI, the treatment of which is determined in the specification of price IMs[93]; and

5.13.2 a default rate of change relative to forecast CPI (ie, the default X-factor).[94,95]

5.14 Section 53P(8) of the Act then enables the Commission to set alternative rates of change (alternate x-factor) for a particular supplier if it is necessary or desirable to minimise any undue financial hardship to the supplier or to minimise price shocks to consumers.[96]

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90 S&P Global, General: Corporate Methodology, (19 November 2013, updated 2019)

91 NERA, Financeability considerations under the DPP: Appendix D - Submission on IM Review CEPA report on cost of capital, report prepared for Electricity Networks Association, (16 January 2023).

92 Independent Pricing and Regulatory Tribunal (IPART), Review of our financeability test, (November 2018).

93 Commerce Commission, Input methodologies review 2023 - [Final] Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023 [2023] NZCC 35, (13 December 2023), clause 3.1.1(5)(b).

94 Commerce Commission, Input methodologies review 2023 - [Final] Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023 [2023] NZCC 35, (13 December 2023), clause 3.1.1(5)(c).

95 Section 53P(5) states that we must set only one rate of change per type of regulated service, and therefore the default x-factor for Aurora must be 0% as applied to other EDBs in DPP4.

96 Commerce Act 1986, s 53P(8).

Analysis

5.15 To determine both whether it is necessary to minimise any undue financial hardship to the supplier or to minimise price shocks to consumers and, if so, to determine the alternate x-factor, we considered the associated price-shock of Aurora's transition onto DPP4. In undertaking this analysis, we considered price increases over the whole regulatory period as well as the price increases already faced by Aurora consumers during the CPP. We have modelled three scenarios below, showing:

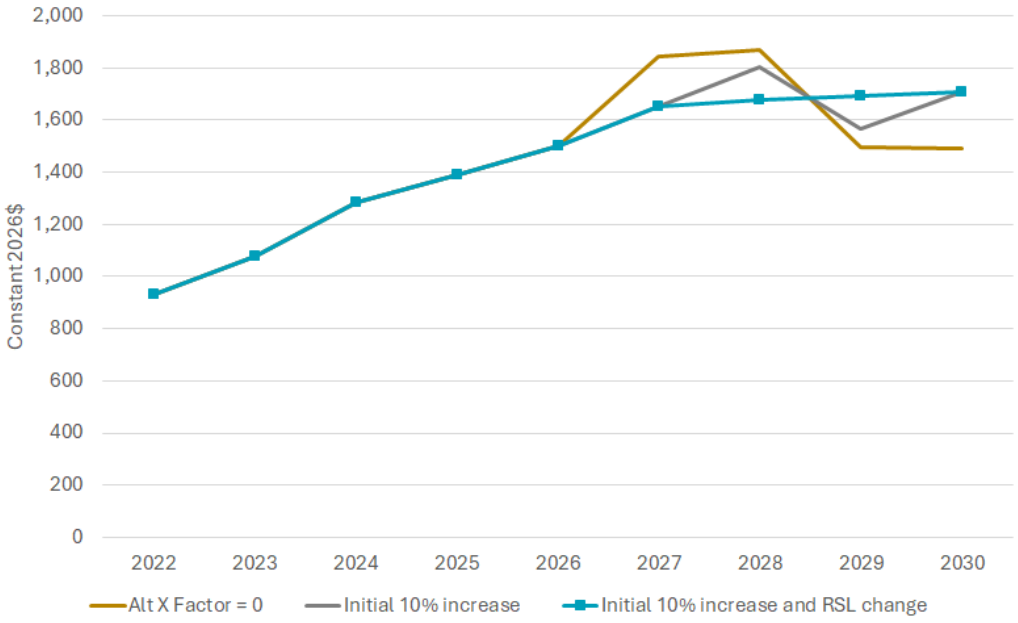
5.15.1 the revenue path if we applied no smoothing mechanisms (brown colour line);

5.15.2 the revenue path smoothed by an alternate x-factor only, to limit the initial price impact to 10% in real per-ICP terms (grey colour line)[97]; and

5.15.3 the revenue path smoothed by an alternate x-factor, to limit the initial price impact to 10% in real terms per-ICP, followed by additional smoothing from the revenue smoothing limits to remove fluctuations across the period (blue colour line).

5.15.3.1 For the discussion on revenue smoothing limits that is modelled below, see **draft decision R2.2** below at paragraph 5.40.

Figure 5.1 Real Distribution revenue per ICP



[97] The volatility seen in the grey line is due to the impact of Aurora's wash-up balance being high from the CPP period. This is discussed in more detail in draft decision R2.2 below.

5.16 To assess potential undue financial hardship for the supplier (in this case, for Aurora), we have assessed all options against our notional financeability sense check in Table 5.1 below. The table shows the applied x-factor and revenue smoothing limit alongside the outcomes of the notional financeability assessments. From this analysis, we do not consider there is potential undue financial hardship for Aurora that would influence our decision between the three options presented.

5.17 Applying the draft decision to our notional financeability sense check, Aurora meets the BBB+ reference level for the primary metric (FFO/Debt > 13%) and meets the BBB+ reference level for the second metric (Debt/EBITDA < 4).

Table 5.1 Assessment of options against the notional financeability checks

Option	Alt X-Factor	Initial "price" change	On-going "price" change (Y3-Y5)	Debt/EBITDA (target <4.0) Ave 2027-2030	Debt/EBITDA worst year	FFO/Debt (target >13%) worst year
Option 1: No alternate x-factor	0%	22.7%	-6.3%	3.8	4.7 (in 2030)	15% (in 2030)
Option 2: 10% initial increase	-8.90%	9.9%	1.6%	3.8	4.2 (in 2029)	16% (in 2029)
Option 3: 10% initial increase and further smoothing through revenue smoothing limits	-8.90%	9.9%	1.1%	3.8	3.9 (in 2030)	18% (in 2030)

5.18 We then considered whether there was a need to minimise price shocks for consumers. As shown above in Figure 5.1, the brown line (option 1) shows the revenue increase if no alternate x-factor was applied (ie, no smoothing). This would create an initial increase of 22.7% in real terms per ICP.

5.19 While this would be close to the DPP4 decision (20% initial price increase), we have considered it within the context of the price increases already faced by Aurora consumers over the CPP period. In DPP3 most consumers serviced by other EDBs experienced stable, or reduced prices (in real terms) across the period. However, Aurora's consumers experienced substantial price increases as Aurora's distribution revenue[98] per ICP (a proxy for consumer lines charges) increased by an average of 18% each year from RY 2022 to RY 2026 due to increased expenditure.

[98] We use the term 'distribution revenue' to refer to forecast net allowable revenues plus recoverable costs. This is because certain recoverable costs – IRIS incentives and wash-up drawdowns – will have a material effect on the revenues EDBs can recover and a flow on effect on consumer prices and EDB financeability.

5.20 In addition, a large driver behind the revenue increases for DPP4 was a higher WACC compared to DPP3. This WACC change has already been applied to Aurora for the final year of its CPP via a WACC change reopener.[99] This means that the price increases assessed above already include the new WACC for DPP4, and as such we consider it is appropriate to apply a lower initial increase for Aurora.

5.21 Given the volatility (ie, reduction in prices) later in the regulatory period, and the analysis above, we consider that Option 1 (22.7% initial price increase) would provide an unnecessary price shock to Aurora consumers in RY 2027. By comparison, options 2 and 3 provide an initial price increase for RY 2027 (9.9%) that is in line with increases already experienced by Aurora consumers over the CPP. This can be seen in Figure 5.1 above.

5.22 We therefore consider a 10% initial increase in real per ICP terms (alternate x-factor of -8.90%), combined with draft decision R2.2, will best give effect to s53P(8)[100] while still promoting the overall purpose of Part 4, because it:

5.22.1 best balances the desirability of mitigating the initial price shocks in the transition from year 5 of Aurora's CPP to year 2 of DPP4, and the potential for large increases and/or decreases in the following years;

5.22.2 provides room for growth in year-on-year revenue in the out years should reopeners be allowed;

5.22.3 maintains consistency with the CPP price path (helping to smooth price fluctuations); and

5.22.4 takes into account the price increases Aurora customers have already faced during the CPP period.

[99] Commerce Commission "Reconsideration of customised price-quality path of Aurora Energy Limited following change to weighted average cost of capital – Final decision" (25 February 2025).

[100] (8) The Commission may set alternative rates of change for a particular supplier—
(a) as an alternative, in whole or in part, to the starting prices set under subsection (3)(b) if, in the Commission's opinion, this is necessary or desirable to minimise any undue financial hardship to the supplier or to minimise price shock to consumers; or
(b) as an incentive (under section 53M(2)) for the supplier to improve its quality of supply.

Revenue path decisions

Draft decision R1.1: Apply a revenue cap with wash-up as the form of control.

Analysis

5.23 As a result of the IM Review in 2016, we changed the form of control for distributors from a weighted average price cap to a revenue cap, including a washup for over and under-recovery of revenue. This form of control was implemented for the DPP3 regulatory period, and was retained in the 2023 IM Review.[101] This was applied again in DPP4 and our draft decision is to also apply it to Aurora.

Draft decision R1.2: Forecast CPI based on the four-quarter average change in CPI between the first year of the regulatory period and the current year.

5.24 This is an implementation draft decision that gives effect to the IMs.

Analysis

5.25 This is the approach we have used in DPP3 and DPP4. We consider this method for calculating forecast CPI remains appropriate for modelling current and projected profitability for each supplier using the "building blocks" approach. Our draft decision is to retain this DPP4 decision for Aurora.

Draft decision R1.3: Apply a 90% "voluntary undercharging" limit.

5.26 The IMs provide for an 'undercharging limit' (UCL) as part of the wash-up mechanism. In setting the DPP4 determination, the Commission is required to specify the level of that undercharging limit.

Analysis

5.27 Our draft decision is to set the undercharging limit for Aurora for DPP4 as 90% of forecast allowable revenue for a year (subject to the application of the revenue smoothing limit). This is the same as the DPP4 Final decision for the other non-exempt EDBs.

5.28 The purpose of the 'undercharging limit' is to set a floor on the amount by which EDBs can voluntarily accrue as under-recovered revenue to the wash-up balance in a given year. This limits the potential for an EDB to accrue a large wash-up balance by substantially under-recovering allowed revenue in one year, with the revenue being recovered (on a NPV-neutral basis) through the wash-up mechanism in future years. In DPP4 we considered 90% struck an appropriate balance between providing EDBs with some flexibility to smooth their own revenue path and the desire to limit accrual of large wash-up balances.

[101] Commerce Commission, Input methodologies review decisions: Report on the IM review, (20 December 2016), p. 78; Commerce Commission, Default price-quality paths for electricity distribution businesses from 1 April 2020, (27 November 2019), p. 91.

5.29 We consider this rationale similarly applies to Aurora our draft decision is to apply the same DPP4 decision. For the full analysis on the 90% undercharging limit for DPP4, see pages 53 to 56 in Attachment F of the DPP4 Final decision reasons paper.[102]

Draft decision R1.4: Include a large connection contract (LCC) wash-up term in the wash-up accrual formula, to avoid recovery of LCC under-recovered revenue from other consumers and correct over-allocation to LCC revenue from non-qualifying LCCs.

5.30 This is the same as the DPP4 decision.

Analysis

5.31 The 2023 IM Review introduced an optional mechanism for large new customer-initiated and funded connections that meet certain criteria (large connection contracts, or 'LCCs')[103].

5.32 Revenues received under LCCs are incorporated in the revised wash-up mechanism. Clause 3.1.4(11) of the IMs requires us to specify in the DPP determination the calculation of allowable revenue in respect of an LCC, for the purpose of the wash-up. This avoids under-recovered LCC revenue being inappropriately recovered from other consumers and correct over-allocation to LCC revenue from nonqualifying LCCs through the operation of the wash-up.

5.33 There is no reason to treat Aurora any differently for this draft decision from DPP4. For the full analysis on this draft decision, see page 57 in Attachment F from the DPP4 Final decision reasons paper.[104]

Draft decision R1.5: Require Aurora to determine a reasonable reallocation of revenue following an asset transfer.

5.34 This is the same as the DPP4 decision.

Analysis

5.35 Our draft decision is to require Aurora to determine a reasonable reallocation of revenue following an asset transfer without introducing a minimum financial threshold. Our approach is based on the principle that, in aggregate, consumers should not be worse off due to a transaction. While we remain mindful of administrative burden, we consider calculating the revenue impact to be less complex than reallocating quality metrics. We believe that maintaining flexibility without a fixed threshold ensures that all transactions, regardless of size, are assessed based on a case-by case basis.

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[102] Commerce Commission, Default price-quality paths for electricity distribution businesses from 1 April 2025 – Final decision reasons paper – Attachment F Revenue Path (20 November 2024), pp. 53 – 56.

[103] Commerce Commission, Input methodologies review 2023 - Final decision - CPPs and in-period adjustments topic paper, (13 December 2023), Chapter 8.

[104] Commerce Commission, Default price-quality paths for electricity distribution businesses from 1 April 2025 – Final decision reasons paper – Attachment F Revenue Path (20 November 2024), p. 57.

5.36 There is no reason to deviate from the DPP4 decision for Aurora. For the full analysis of this draft decision, see pages 10 to 12 in Attachment H of the DPP4 Final decision reasons paper.[105]

Draft decision R2.1: Apply the revenue smoothing limit based on forecast net allowable revenue for the current year and CPI-adjusted recoverable costs from the prior year.

Analysis

5.37 Draft decision R2.1 is to specify the revenue smoothing limit with reference to the sum of forecast net allowable revenue FNAR(t) and forecast recoverable costs for the previous year FRC(t-1), with adjustments to preserve the revenue path for CPI. This is consistent with the DPP4 approach.

5.38 Using forecast net allowable revenue for the current year, plus real (CPI adjusted) forecast recoverable costs for the previous year, as the reference for the RSL will smooth volatility in recoverable costs, without deferring recovery of forecast net allowable revenue. For the full analysis on this draft decision, see pages 38 to 49 in Attachment F of the DPP4 Final decision reasons paper.[106]

Draft decision R2.2: Apply revenue smoothing limits between DPP4 years to produce the most uniform real per-ICP increases as possible.

5.39 This draft decision applies the following revenue smoothing limits:

5.39.1 RY 2027: Not applicable

5.39.2 RY 2028: 95.5% of (FNAR + FRC(t-1)). In effect, this will likely constrain Aurora to drawing down only part of the wash-up account balance that is available. The remaining balance will carry forward into the subsequent year/s.

5.39.3 RY 2029: 110% of (FNAR + FRC(t-1))

5.39.4 RY 2030: 110% of (FNAR + FRC(t-1))

[105] Commerce Commission, Default price-quality paths for electricity distribution businesses from 1 April 2025 – Final decision reasons paper – Attachment H Other Matters (20 November 2024), pp. 10 – 12.

[106] Commerce Commission, Default price-quality paths for electricity distribution businesses from 1 April 2025 – Final decision reasons paper – Attachment F Revenue Path (20 November 2024), pp. 38 – 49.

Analysis

5.40 The annual 'forecast revenue from prices' an EDB is allowed to earn comprises forecast net allowable revenue plus forecast recoverable costs, forecast passthrough costs, and revenue forecast to be received under large connection contracts.[107] The Input Methodologies (IM) provide that the Commission may specify a revenue smoothing limit in a DPP or CPP determination,[108] to smooth year-on-year fluctuations in these annual revenues.

5.41 As a result of our decisions in the 2023 IM Review, the revenue smoothing limit smooths the sum of forecast net allowable revenue and forecast recoverable costs.[109] As forecast net allowable revenue is already smoothed through the revenue path mechanism (see **draft decision P3** above), in effect the revenue smoothing limit only smooths fluctuations in recoverable costs.

5.42 There is no explicit statutory requirement to consider price volatility outside the s 53P(8) discretion to determine alternative rates of change when resetting prices. However, price stability and predictability is generally valued by consumers. To the extent that we can achieve the Part 4 Purpose without creating volatility, we consider it worthwhile to do so.

5.43 While **draft decision P3** limits the initial price shock by applying an alternate x-factor, the resulting revenue path profile still shows some volatility by decreasing in RY 2029 before increasing again in RY 2030. This reduction is caused by the large wash-up balance that Aurora accrued due to deferred revenue from its CPP period.

5.44 To mitigate this reduction in RY 2029 and avoid consumer price volatility, our draft decision is to apply a lower revenue smoothing limit for RY 2028. This will have the impact of deferring ~$13 million of the forecast ~$40 million 2028 wash-up drawdown to be recovered in 2029 instead. This amount was chosen to produce the most uniform RY 2027 to RY 2030 real price per ICP increases possible.

5.45 The impact of the revenue smoothing limits are shown in Figure 5.2 below.

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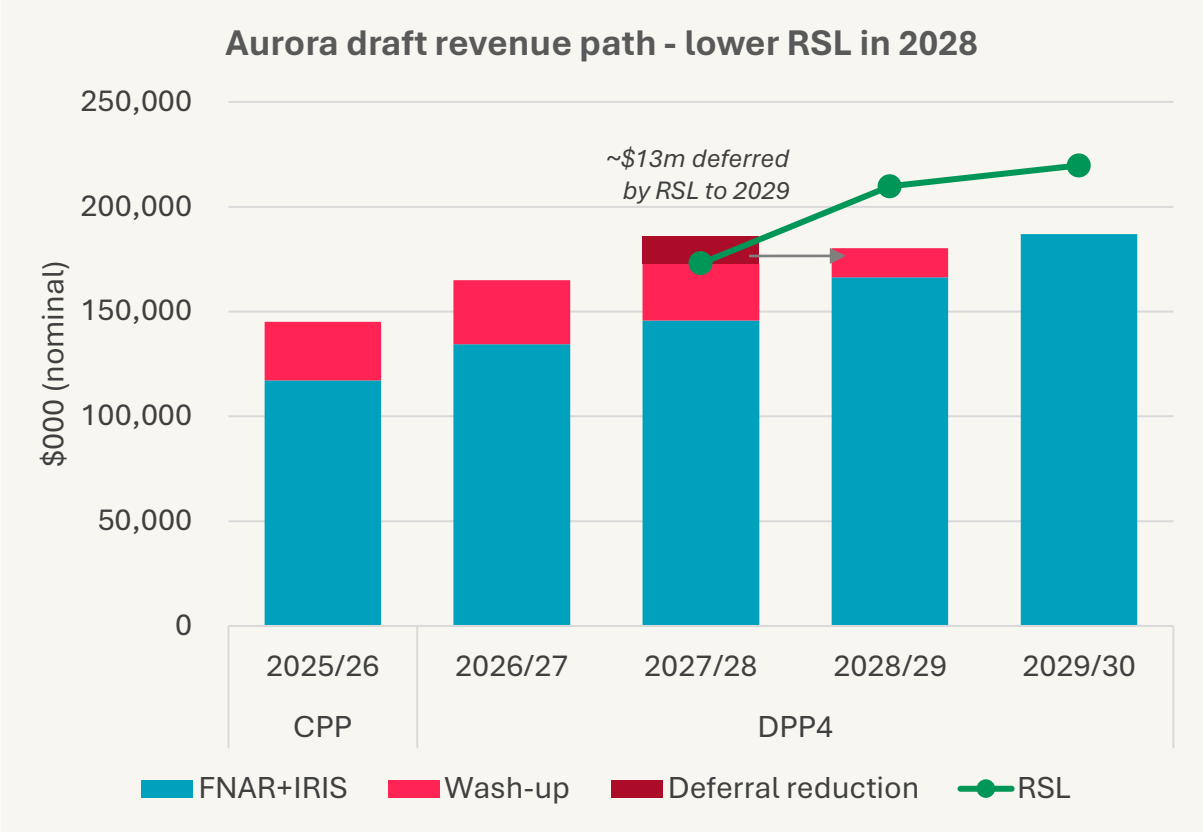
[107] Commerce Commission, Input methodologies review 2023 - [Final] Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023 [2023] NZCC 35 (13 December 2023), clause 3.1.1(3).

[108] Commerce Commission, Input methodologies review 2023 - [Final] Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023 [2023] NZCC 35 (13 December 2023), clause 1.1.4(2) & 3.1.1(1)(b). The 'revenue smoothing limit' is defined as: "a maximum limit on revenue (excluding recovery of pass-through costs) specified by the Commission in a DPP determination or CPP determination".

[109] This is because pass-through costs, including transmission charges, and revenue received under large connection contracts are now excluded from the revenue smoothing limit for EDBs. Commerce Commission, Input methodologies review 2023 - [Final] Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023 [2023] NZCC 35, (13 December 2023), clause 3.1.1(1)(b).

Figure 5.2 Aurora's revenue path showing the impact of variable revenue smoothing limits (nominal $000)



Draft decision R2.3: Implement the revenue wash-up by specifying a re-run of the DPP4 financial model.

5.46 This is the same as the DPP4 decision.

Analysis

5.47 During the DPP4 process, submitters identified that there was no 2024 washup account balance (WAB) term, which would prevent EDBs from drawing down the accrued balance in RY 2026 as intended. We published IM amendments alongside the DPP final decision to address this issue and allow EDBs to draw down their accrued balance in line with the policy intent.[110] We then also published a demonstration washup model to assist understanding and compliance with the revised wash-up mechanism during DPP4. Our draft decision here retains the DPP4 decision, analysis of which can be found on pages 49 and 50 in Attachment F of the DPP4 Final decision reasons paper.[111]

[110] Commerce Commission "Amendments to input methodologies for electricity distribution businesses - washup amounts - Final decision reasons paper" (20 November 2024).

[111] Commerce Commission, Default price-quality paths for electricity distribution businesses from 1 April 2025 – Final decision reasons paper – Attachment F Revenue path (20 November 2024), pp. 49-50.

Draft decision R2.4: Calculate the Y1 inflation wash-up based on the four-quarter average change in inflation between Y0 and Y1.

5.48 Note that "Y1" is defined in this context as RY 2027. This draft decision is the same as DPP4.

Analysis

5.49 As part of the 2023 IM Review, we amended the EDB IMs to wash-up the allowable revenue for the first year of a regulatory period, to account for any variation between predicted and outturn inflation for the first year of a regulatory period.[112] To implement this IM provision, the DPP4 determination must specify the 'forecast CPI change' and 'actual CPI change'. There is no rationale to treat Aurora differently for this draft decision compared to DPP4. For the full analysis supporting this draft decision, see pages 50 to 52 in Attachment F of the DPP4 Final decision reasons paper.[113]

Draft decision R2.5: Do not specify base revenue wash-up draw down amounts for DPP4.

5.50 This is the same as the DPP4 decision.

Analysis

5.51 The IMs provide discretion for us to specify for each year of the regulatory period an amount to be drawn down by the EDB, for the purpose of returning the wash-up account balance towards zero over time. The DPP4 decision was to not specify a base wash-up drawdown amount for non-exempt EDBs. This was because we had no specific concerns that an EDB would 'stockpile' its wash-up balance, potentially leading to a situation that could cause a price-shock if the EDB was to then draw it down.

5.52 We consider the same rationale applies to Aurora. It will be incentivised to draw down its wash-up account balance as soon as it is able to, and we do not see the need to require that via this mechanism.

Financial model inputs and IRIS

Draft decision S1: Set the IRIS retention rate for capex equivalent to the opex rate.

5.53 This is the same as the DPP4 decision. The draft decision is to set the capex incentive rate at 32.16%.

[112] Commerce Commission, Financing and incentivising efficient expenditure during the energy transition topic paper - Part 4 Input Methodologies Review 2023 – Final decision, (13 December 2023), Topic 4b paras 4.79.2 and 4.111-4.116.

[113] Commerce Commission, Default price-quality paths for electricity distribution businesses from 1 April 2025 – Final decision reasons paper – Attachment F Revenue path (20 November 2024), pp. 50 – 52.

Analysis

5.54 We consider that equivalence between opex IRIS and capex IRIS is a core tool in ensuring EDBs have incentives to innovate and invest in solutions that reduce the overall cost to consumers, in line with the s 52A(1)(a) limb of the Part 4 purpose. We do not consider there is any rationale to treat Aurora differently from DPP4. For the full analysis supporting this draft decision, see pages 5 to 9 in Attachment D of the DPP4 Final decision reasons paper.[114]

Draft decision S2: Determine IRIS opex and capex forecasts in real terms (inflated by CPI).

5.55 This is the same as the DPP4 decision. However, as our draft decision is to set Aurora's expenditure allowances on 2025 information, we will need to implement a separate inflator for Aurora's IRIS allowances to account for this difference.

Analysis

5.56 As part of our final decisions on the 2023 IM Review, we amended the IMs to set inflation-adjusted IRIS allowances (based on actual CPI) for the purposes of calculating opex and capex incentive amounts. The draft decision here implements inflation adjusted IRIS allowances by providing an adjustment term to the IRIS allowances set in the determination. This term adjusts each year's allowances by the difference between forecast CPI and actual CPI with respect to the base year.

5.57 We do not consider there is a strong rationale to apply a different draft decision to Aurora. For the full analysis supporting this draft decision, see pages 58 and 59 of the DPP4 Final decision reasons paper.[115]

Draft decision M2: Include an allowance for disposed assets, based on historical levels.

5.58 This is the same as the DPP4 decision.

Analysis

5.59 A disposed asset is an asset that is sold or transferred or irrecoverably removed from a distributor's possession (but is not a lost asset). We are required to forecast disposed assets because disposed assets are removed from the RAB when rolling forward the RAB value.

5.60 For our draft decision, the forecast value of disposed assets in each year of the regulatory period has been forecast as equal to the historical average real value of disposals. The real forecast time series has then been converted to a nominal time series by adjusting for forecast CPI changes.

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[114] Commerce Commission, Default price-quality paths for electricity distribution businesses from 1 April 2025 – Final decision reasons paper – Attachment D Innovation and section 54Q incentives (20 November 2024), pp. 5 – 9.

[115] Commerce Commission, Default price-quality paths for electricity distribution businesses from 1 April 2025 – Final decision reasons paper – Attachment F Revenue path (20 November 2024), pp. 58-59.

Draft decision M3: Forecast depreciation on existing assets based on information provided by Aurora.

5.61 This is the same approach as DPP4. For Aurora, the reference period of data used here is RY 2020 – RY 2024 in our draft decision. This will be updated to RY 2021 – RY 2025 for our Aurora final decision as RY 2025 ID data will become available.

Analysis

5.62 As part of the 2023 IM Review, we amended the asset valuation IMs to change the way forecast depreciation on existing assets is calculated.[116] This change was to ensure depreciation attributable to fully depreciated assets was not incorrectly included in depreciation forecasts.

Draft decision M4: Use base year data from 2025 Information Disclosures in our final decisions.

Analysis

5.63 For DPP4 we used data from 2024 Information Disclosures. Updating to the most recent information for Aurora will provide the most accurate information for Aurora's DPP4 revenue path.

Draft decision M5: For CPI forecasts that are used for Revaluations and Disposals, use the most recently available RBNZ MPS forecasts from when the WACC was determined.

Analysis

5.64 The revenue path is determined on a nominal basis (consistent with the CPI-X DPP/CPP regime outlined in Subpart 6 of the Act). When using a BBAR/MAR model to determine starting prices, we require a forecast of CPI to project annual revenues for each year of the DPP4 period. Because the asset valuation IMs requires the RAB to be revalued at the rate of change of CPI, we also require a forecast of CPI to determine BBAR.

5.65 For the rate of change of forecast CPI for RAB revaluations and disposals, the forecasts are based on the Reserve Bank of New Zealand's (RBNZ) forecasts of inflation issued as part of the Monetary Policy Statement immediately prior to the determination of the WACC for the DPP: the August 2024 Monetary Policy Statement. The CPI forecasts are the same as those used in last year's DPP4 decision and are set out in Table 5.2.

Draft decision M6: Update the opex inflators, capex inflators, and CPI used for converting BBAR into a price path with the latest information (as at early May 2025). This includes updated index forecasts from NZIER and the Reserve Bank.

5.66 The inflators and index forecasts will be updated for the final decision.

[116] Commerce Commission – Input methodologies review 2023 - Final decision - Report on the Input methodologies review 2023 paper, (13 December 2023), Decision AV16, p.38.

Analysis

5.67 Our draft decision is to use the most recent information in place of the information used when setting DPP4. Updating these numbers will enable us to use the most up to date information to set Aurora's revenue path, likely giving the best forecast possible with available information. This is the same approach as applied in DPP4.

5.68 The CPI forecasts for converting the BBAR into a price path are based on the RBNZ February 2025 Monetary Policy Statement. These forecasts are not consistent with those used for the WACC determination (whereas the CPI forecasts used for revaluations *are* consistent with those used for the WACC determination).

Table 5.2 CPI forecasts used for Aurora's Transition

Pricing year ending in calendar year	CPI used for revaluations and disposals	CPI element of the price path
2025	2.20%	n/a
2026	2.10%	2.45%
2027	2.00%	2.20%
2028	2.00%	2.02%
2029	2.00%	2.00%
2030	2.00%	2.00%

Consumer bill impact

5.69 Our draft decision is for an increase in Aurora's allowable revenue for DPP4. To mitigate price shocks and volatility throughout the regulatory period, we have smoothed the revenue recovery across the four years through the use of an alternate X factor and the revenue smoothing limit (to effectively limit the draw down of the RY 2028 wash-up balance).

5.70 These draft decisions mean the likely impact on monthly household electricity bills for Aurora consumers will increase by an average of $10 (ex GST)[117] for the first year Aurora transitions to DPP4 (ie, 1 April 2026 to 1 April 2027). Following that, the monthly lines component of the average household electricity bill will increase by about $3 (ex GST)[118] each year for the remainder of the regulatory period. As Aurora has three different pricing regions, an individual consumer's actual increase may depend on which region the consumer is in.

[117] Note this is an estimate only and is rounded to the nearest $5.
[118] Note this is an estimate only and is rounded up.

Chapter 6 Aurora's enhanced information disclosure requirements

Purpose of this chapter

6.1 This chapter seeks feedback from stakeholders on our proposal to retain some of Aurora's enhanced information disclosure (ID) requirements.

Background

6.2 Enhanced ID requirements were introduced when Aurora commenced its CPP. These requirements were specifically designed to enable stakeholders to more closely and comprehensively scrutinise Aurora's performance, particularly during a period of significant expenditure increases and corresponding rises in line charges aimed at addressing critical safety and reliability issues within its network.

6.3 We have grouped Aurora's enhanced ID requirements into two categories:

6.3.1 **Time-bound requirements** – these are tied to specific, hard-coded dates within the CPP period or, in the case of the project and programme delivery plan, can only logically be read in context of the CPP period expenditure content of that plan; and

6.3.2 **Unbound requirements** – these are not tied to specific dates and may apply beyond the CPP period.

6.4 This chapter focuses on the unbound requirements that may continue into DPP4.

Proposed approach to Aurora's enhanced ID requirements

6.5 In our final decision on Aurora's CPP-enhanced ID requirements, we stated that our policy intent was for some of Aurora's enhanced ID requirements to continue beyond the CPP period.[119]

6.6 Consistent with the policy intent of that final decision, we are proposing to continue these unbound ID requirements for Aurora into DPP4. We do not expect Aurora to have fully developed all of the topics in the development plan, regional pricing disclosures, and safety delivery plan to a mature state by the end of the CPP. We intend to undertake a future ID review of these requirements to assess their ongoing impact and value.

[119] Commerce Commission, Aurora Energy Limited Additional Information Disclosure Requirements – Final reason paper (31 August 2021), paragraph 3.88.

Overview of Aurora's key unbound ID requirements

6.7 The table below summarises Aurora's unbound ID requirements. To see the full scope of Aurora's enhanced ID requirements, please see the determination.[120]

Table 6.1 Key Aurora unbound ID requirements

Requirements	Due by
Annual delivery report	31 August
Annual public meetings to present key features of the annual delivery report	31 October
Annual disclosure of pricing methodology, including regional pricing differences	31 March
Additional Asset Management Plan disclosure requirements	31 March

We seek your feedback on our proposed approach

6.8 While we plan to undertake a broader review of Aurora's enhanced ID requirements in the future to assess their ongoing value and impact, we welcome feedback now from stakeholders and consumers on our proposed approach to continue Aurora's unbound ID requirements into DPP4. Specifically, we are interested in your views on:

6.8.1 the value of the unbound ID requirements;

6.8.2 whether these requirements should continue into DPP4; and

6.8.3 the reasons for your views.

6.9 We will assess the feedback received in this process when making our decision on the future of Aurora's enhanced ID requirements.

[120] Commerce Commission, Electricity Distribution Information Disclosure (Aurora Energy Limited) Amendment Determination 2021, [2021] NZCC 12, (31 August 2021).

Chapter 7 How to make a submission

Purpose of this chapter

7.1 This chapter:

7.1.1 details how to provide your views on the draft decisions in this paper; and

7.1.2 outlines the process to the final decision.

Instructions for how to submit

7.2 We welcome your views on the draft decisions outlined in this paper:

7.2.1 Submissions are due by 5pm on **Friday 22 August 2025**.

7.2.2 Cross submissions are due by 5pm on **Friday 5 September 2025.**

7.3 Please email your submission to:

Ben Woodham, Electricity Distribution Manager,
c/o infrastructure.regulation@comcom.govt.nz

7.4 Please include 'Aurora CPP to DPP4 draft decision' in the subject line of your email.

Format for submissions

7.5 We prefer submissions in both a format suitable for word processing (such as Microsoft Word document) as well as a 'locked' format (such as a PDF) for publication on our website.

Confidential submissions

7.6 While we discourage requests for non-disclosure of submissions so all information can be tested in an open and transparent manner, there may be cases where submitters wish to provide information in confidence.[121] We offer the following guidance:

7.6.1 if it is necessary to include confidential material in a submission, the information should be clearly marked, with reasons why it is confidential;

[121] Parties can also request that we make orders under s 100 of the Act in respect of information that should not be made public. Any request for an s 100 order must be made when the relevant information is supplied to us and must identify the reasons why the relevant information should not be made public. We will provide further information on s 100 orders if requested by parties. A key benefit of such orders is to enable confidential information to be shared with specified parties on a restricted basis for the purpose of making submissions. Any s 100 order will apply for a limited time only as specified in the order. Once an order expires, we will follow our usual process in applying the Official Information Act 1982 in respect of any request for information provided to us in relation to this matter.

7.6.2 where commercial sensitivity is asserted, submitters must explain why publication of the information would be likely to unreasonably prejudice their commercial position or that of another person who is the subject of the information;

7.6.3 both confidential and public versions of the submission are required to be provided;

7.6.4 the responsibility for ensuring that confidential information is not included in a public version of a submission rests entirely with the party making the submission; and

7.6.5 we request that you provide multiple versions of your submission if it contains confidential information or if you wish the published electronic copies to be 'locked'. This is because we intend to publish all submissions on our website. Where relevant, please provide both an 'unlocked' electronic copy of your submission, and a clearly labelled 'public version'.

7.7 Please note that all submissions and cross-submissions we receive, including any parts that we do not publish, can be requested under the Official Information Act 1982. This means we would be required to release material that we do not publish unless good reasons existed under the Official Information Act 1982 to withhold it. We would normally consult with the party that has provided the information before any disclosure is made.

Timeline to a final decision

7.8 As we are proposing to set different starting prices for Aurora rather than rolling over its CPP prices, we must publish our final decision by 30 November 2025[122] to enable Aurora to transition onto DPP4 on 1 April 2026. The table below outlines the key dates:

Date	Publication / Event
July 2025	Draft decision published
22 August 2025	Submissions on this paper due
31 August 2025	Information disclosure data for the year ended 31 March 2025 available
5 September 2025	Cross-submissions on this paper due
By 30 November 2025	Final Aurora CPP to DPP4 decision and determination published

[122] Commerce Act 1986, s 53X(2).

Attachment A Glossary

Term/Abbreviation	Definition
ADR	Annual Delivery Report
AMP	Asset Management Plan
ARR	Asset Replacement and Renewal
BBAR	Building Blocks Allowable Revenue
Capex	Capital expenditure
CEPA	Cambridge Economic Policy Associates
CGPI	Capital Goods Price Index
CPI	Consumer Price Index
CPP	Customised Price-quality Path
Debt/EBITDA	Debt over Earnings Before Interest, Tax, Depreciation and Amortisation
DER	Distributed Energy Resources
DPP	Default Price-quality Path
DPP2	DPP that applied from 1 April 2015 to 31 March 2020
DPP3	DPP that applied from 1 April 2020 to 31 March 2025
DPP4	DPP that applies from 1 April 2025 to 31 March 2030
EA	Electricity Authority
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EDB	Electricity Distribution Business
FCM	Financial capital maintenance
FFO/Debt	Funds From Operations over Debt
FNAR	Forecast Net Allowable Revenue
ICP	Installation Control Points
ID	Information Disclosure
IM	Input Methodologies
INTSA	Innovation and non-traditional solutions allowance
IPART	Independent Pricing and Regulatory Tribunal (NSW, Australia)
IRIS	Incremental Rolling Incentive Scheme
LCC	Large Connection Contract
LCI	Labour Cost Index
LV	Low Voltage
NPV	Net Present Value
NTS	Non-traditional solutions

NZIER	New Zealand Institute of Economic Research
Opex	Operational expenditure
Part 4	Part 4 of the Commerce Act 1986
PFP	Partial Factor Productivity (the phenomenon)
PPI	Producers Price Index
PPF	Partial Productivity Factor (parameter in models)
PQ	Price-quality
PV	Present Value
RAB	Regulatory Asset Base
RBNZ	Reserve Bank of New Zealand
RSL	Revenue smoothing limit
S&P	Standard & Poor's
The Act	Commerce Act 1986
WACC	Weighted Average Cost of Capital

Attachment B Regulatory Framework

Purpose

2.1 This chapter sets out the legal framework relevant to our draft decision for Aurora's transition from its CPP to DPP4.

Section 52A Purpose of Part 4

7.2 Part 4 of the Act provides for the regulation of the price and quality of goods or services in markets where there is little or no competition, and little or no likelihood of a substantial increase in competition.

7.3 Section 52A sets out the purpose of Part 4 and states:

> **52A Purpose of Part**
>
> (1) The purpose of this Part is to promote the long-term benefit of consumers in markets referred to in section 52 by promoting outcomes that are consistent with outcomes produced in competitive markets such that suppliers of regulated goods or services—
>
> (a) have incentives to innovate and to invest, including in replacement, upgraded, and new assets; and
>
> (b) have incentives to improve efficiency and provide services at a quality that reflects consumer demands; and
>
> (c) share with consumers the benefits of efficiency gains in the supply of the regulated goods or services, including through lower prices; and
>
> (d) are limited in their ability to extract excessive profits.

7.4 In deciding whether to roll over the prices that applied at the end of the CPP, or to set different starting prices, the primary consideration is which option will better promote the objectives in the s 52A purpose.

Section 53K – Purpose of default/customised price-quality regulation

7.5 Section 53K establishes that "the purpose of default/customised price-quality regulation is to provide a relatively low-cost way of setting price-quality paths for suppliers of regulated goods or services, while allowing the opportunity for individual regulated suppliers to have alternative price-quality paths that better meet their particular circumstances."

7.6 This purpose emphasises the desirability of keeping the cost and complexity of a transition low, including in our approach to setting starting prices.

Section 53X – What happens when a customised price-quality path ends

7.7 Section 53X(2) of the Act gives the Commission two options for determining prices for the CPP-to-DPP transition. Section 53X states:

> **53X What happens when customised price-quality path ends**
>
> (1) When the customised price-quality path of a supplier of goods or services ends, the supplier is subject to the default price-quality path that is generally applicable to other suppliers of those goods or services.
>
> (2) The starting prices that apply at the beginning of the default price-quality path are those that applied at the end of the customised price-quality path unless, at least 4 months before the end of the customised price-quality path, the Commission advises the supplier that different starting prices must apply.
>
> (3) The supplier remains subject to the default price-quality path until—
>
> (a) the end of the period for which it applies to other suppliers; or
>
> (b) a new customised price-quality path begins to apply to the supplier.
>
> (4) To avoid doubt, a supplier who is or was subject to a customised price-quality path may apply in accordance with section 53Q for another customised price-quality path

7.8 Section 53X(1) and 53X(2) contain the most relevant considerations and are explored in more detail below.

Section 53X(1) – Making the supplier subject to the DPP

7.9 Section 53X(1) establishes that when Aurora's CPP ends it will become subject to the DPP that is "generally applicable" to the other EDBs. In this case, the generally applicable DPP is the DPP4 determination.

7.10 Under clause 3.3 of the DPP4 determination, the determination does not apply to Aurora until 1 April 2026.

7.11 However, some amendments to the DPP4 determination may be required to ensure the DPP that is "generally applicable" to the other EDBs is workable for Aurora. Without these amendments, the mechanics of the DPP determination may not effectively regulate Aurora's revenue.

Section 53X(2) – Setting the transitioning supplier's starting prices

7.12 Section 53X(2) establishes a default position whereby Aurora's CPP starting prices will be applicable when it transitions to DPP4. However, it also gives the Commission the discretion to apply alternative starting prices provided we give Aurora notice of this at least four months prior to its CPP ending (ie, by 30 November 2025).

7.13 We have previously considered how we should set a transitioning EDB's starting prices under s 53X(2). We did this when Orion New Zealand Limited transitioned from its CPP to the EDB DPP for the last year of the 2015-2020 regulatory period, when Wellington Electricity Limited transitioned from its CPP to the EDB DPP one year into the 2020-2025 regulatory period, and when Powerco transitioned from its CPP to the EDB DPP three years into the 2020-2025 regulatory period.

7.14 Our discretion in setting starting prices under s 53X(2) involves:

7.14.1 choosing between rolling over the starting price that applied at the end of the CPP or setting different starting prices; and

7.14.2 if we choose to set different starting prices, deciding on the starting prices that will apply.

7.15 In exercising our discretion under s 53X(2), we must do so in the manner we believe best meets the purpose of Part 4 of the Act (as set out in s 52A), and the purpose of DPP/CPP regulation (as set out in s 53K) which emphasises the desirability of keeping the cost and complexity of the transition low, including our approach to setting starting prices.

7.16 However, the s 52A purpose provides the primary objectives considerations that we must give weight to when exercising our judgement.

Section 53P – Resetting starting prices and rates of change

7.17 If we decide to set different starting prices, s 53P (which sets out the requirements for resetting the DPP at the end of a regulatory period) is a relevant consideration. Section 53P requires that the starting price at the start of a DPP:

7.17.1 be either the starting price that applied at the end of the preceding regulatory period (s 53P(3)(a)), or based on the current and projected profitability of the supplier (if the starting prices are being reset, s 53P(3)(b));

7.17.2 must not seek to recover any excessive profits made during any earlier period (s 53P(4)); and

7.17.3 must not be derived from comparative benchmarking (s 53P(10)).

7.18 We have some flexibility in how we set starting prices based on the current and projected profitability of the supplier. In particular, we are not required to undertake a full 'building blocks' analysis. Nor are we required to accommodate all of a supplier's specific circumstances, given the low-cost nature of DPP regulation. See our commentary on s 53K above which highlights the desirability of keeping the cost and complexity of transitions low.

7.19 Our view is that it is appropriate for us to apply the s 53P restrictions on setting starting prices when making decisions under s 53X. This is unless particular circumstances lead us to consider that this would be inconsistent with s 52A or s 53K.

7.20 Price shocks are also a relevant consideration we refer to in Chapter 5, and we note that s 53P(8)(a) states:

> (8) The Commission may set alternative rates of change for a particular supplier—
> (a) as an alternative, in whole or in part, to the starting prices set under subsection (3)(b) if, in the Commission's opinion, this is necessary or desirable

to minimise any undue financial hardship to the supplier or to minimise price shock to consumers.

Section 52Q – Amendment of a s 52P determination

7.21 Any amendments to the DPP determination made under s 52P must be made under s 52Q of the Act. Section 52Q(1) requires the Commission to consult with interested parties on any material amendments to the DPP determination.

7.22 We are consulting on the draft DPP4 determination alongside this draft decisions reasons paper. We will consider all submissions received when reaching our final decisions.