Aurora Sale Submission

I am concerned that the Council consultation document is heavily biased toward the selling 100% of Aurora. The data presented makes Aurora look like a poorly performing asset because it is not paying dividends to the council. The consultation document indicates it is a good time to sell and a premium price will be obtained. No evidence is provided as to why another party would be prepared to pay more than the RAB (Regulated Asset Base) value of Aurora. The consultation document assumes returns on investing in the share market will exceed returns from Aurora. This may be true in the short term but share market investing is not risk free. Typical return on investment by New Zealand line companies is around 6% which exceeds the 5% return of share market investing. If another party is prepared to pay a premium price for the Aurora network surely this indicates it is a good asset and worth keeping.

The key point of my submission is that the Council should only sell the Central Otago portion of the Aurora network (approximately 50% by value) and retain the Dunedin network. This sale would allow the reduction of Aurora debt, to a low level, allowing Aurora to invest in the renewal of Dunedin assets and eventually pay a dividend to the Council.

Dunedin Electricity Ltd purchased the Central Otago network from the Otago Central Electric Power Board (OEPB) in 1998 for $127M. The Government electricity reforms at the time, prohibited the owner of a lines company also owning generation or an electricity retailer. The OEPB decided to keep their generation and sell their network. The Council “debt funded” the purchase of the Central Otago Network. Now could be a good time to cash in on the increased value of the Central Network which could fetch at least $400M.

The electricity network is an essential service along with water and roads. I believe these services should not be owned by entities whose prime purpose is to make a profit for shareholders. When the Council began electrical reticulation in Dunedin over 100 years ago its purpose was to provide electricity to Dunedin citizens. Dunedin enjoyed the cheapest electricity in the county, thanks to the Waipori power scheme, and there were profits to reduce rates.

The Council objected to the three waters reforms proposed by the previous government because it they believe the Council would lose control of investment in water infrastructure to support development in the city. The same argument applies to electrical distribution infrastructure.

My concern is that the new owners of Aurora would seek to maximise profits by raising line charges. The consultation document contends that the Commerce Commission will ensure Aurora customers have a reliable supply and not pay excessive line charges. The Commerce Commission oversite of Aurora to date has not served us well, as they let Aurora run down its network while borrowing money to pay dividends to the Council. In the future the new owner could do the same thing, but the dividends could flow to overseas investors.

The new owners will have little incentive to convert Dunedin’s overhead network to underground. In recent years Aurora has been directed by the Council to spend an allocated proportion of income on overhead to underground conversions. The eyesore overhead lines that were down the centre of Kaikorai Valley Rd were removed under this arrangement. The climate change adaptation required in South Dunedin will affect electrical distribution assets. Having Council control of these assets is likely to result in a more sustainable outcome.

DELTA, also owned by the Council, derives significant income from work on the Aurora Network. Under new ownership this may not continue.

In Central Otago there has been significant network growth compared to Dunedin. Some of this growth was funded by developers by way of capital contributions for new subdivisions. Aurora abused its monopoly position, and charged developers much more that they had historically done in Dunedin. This price gouging allowed an alternative network to establish in the Central Otago. This alternative network, Lakeland Network Ltd, is managed by PowerNet and owned by Electricity Invercargill (EIL) and the Power Company Ltd (TPCL). Lakeland Energy have reticulated most major new subdivisions in the Queenstown/Frankton area in recent years and they have embedded networks in Cromwell and Wanaka. Lakeland Energy can cherry pick projects and undermine Aurora profits. It makes no sense to have parallel networks as it is an inefficient use of resources, the result being higher line charges overall.

I contend that Lakeland Energy would be a potential purchaser of the Aurora Central Otago network. It would eliminate the continuation of installing duplicated assets. The adjoining OtagoNet network has the same owners as Lakeland Energy and are both managed by PowerNet. There would be some benefits in being able to interconnect the Aurora network with sections of the OtagoNet network. For example, Omakau could have a 33kV supply via Naseby as well as via Alexandra.

Rapid growth in Central Otago will require significant investment within the next ten years to overcome capacity constraints. One project alone the installation of an additional Cromwell to Wanaka 66 kV line is has a budget price of $40.7M in the latest Aurora asset management plan. The proposed gold mine close to Benigo could accelerate the need for this investment.

An argument against just keeping the Dunedin Network is that there will be a loss of economy of scale in managing the network. I believe this is should not be a problem. The Dunedin network is simpler to manage compared to Central Otago and the physical work on the network is done by Contractors who would continue to operate as they do now.

If separate management of the Dunedin network is not considered economic, then I would propose the management of the Dunedin network be contracted to PowerNet who are a Network Management company already managing networks in much of Otago and Southland. Previously Aurora contracted the management of its network to DELTA.

In summary, I think the ownership of essential infrastructure is best to remain in local public ownership. All electricity distributions networks in the South Island are publicly owned, via local via local councils or consumer trusts. . Public ownership can lead to greater accountability and transparency as the network owner is directly responsible to the public and subject to democratic oversight. Public ownership may better align with social goals, such as ensuring universal access to affordable and reliable electricity, as profits can be reinvested into infrastructure and services rather than distributed to private shareholders. Publicly owned line companies may prioritize long-term planning and stability over short-term profit maximization, which can be beneficial for ensuring the resilience and reliability of the electricity network.

Selling the Central Otago network to our Southland neighbours would retain public ownership of Aurora assets and solve some of the Councils debt problems. There could be options where QLDC and/or CODC may take a stake in the Central network.