

30 April, 2024

Councillors

Thank you for this opportunity to make a submission regarding the proposed sale of Aurora Energy by DCHL.

This submission is made on my personal behalf.

Aurora Energy is easily the most valuable asset that the ratepayers of Dunedin City own. It is an intergenerational asset, the value of which has been built up over decades. Well run, the company has the market position and ability to generate consistently good profits and good capital gains for the long-term benefit of the ratepayers of Dunedin.

Aurora Energy has a monopoly position providing power transmission to over 100 000 customers in Dunedin and across the wider Otago region. Importantly the company generates revenue and profits from outside of Dunedin which benefit Dunedin ratepayers, with approximately half of Aurora's customers being outside of Dunedin.

Aurora Energy produces a product for which the demand is very inelastic. Very few customers will elect to cut the power and internet off, no matter how bleak the economy becomes. Strong growth in Dunedin and Central Otago will ensure that customer numbers and revenues will continue to grow.

The barrier to entry for anyone wanting to compete with Aurora Energy is incredibly high and it is highly unlikely that Aurora Energy will ever lose its monopoly position. This advantage currently vests with the ratepayers of Dunedin. A sale of Aurora Energy may well see this position turned around on the ratepayers of Dunedin, especially as Dunedin customers appear to currently enjoy concessional pricing from Aurora Energy. While there is some protection provided by the Commerce Commission for customers, it is also evident from history that privately owned utility companies are very good at negotiating around regulations to maximise profits. One only needs to think back to the 'Kiwi Share' assurances given by the government when Telecom was sold off.

A new owner might also look to improve short term profits and cashflows from Aurora Energy by dropping the level of service, especially to outlying areas. A corporate owner may not feel the level of social responsibility for all customers that a ratepayer owned company does. This could affect customers who are particularly vulnerable, especially rural customers. It is for sure that any buyer prepared to pay a premium will look to recover that premium, from customers.

This council may enter into a sale on the ratepayers' behalf with honourable intentions to invest the nett proceeds and reinvest the earnings for the long term benefit of ratepayers. However, there is nothing that this council can do to commit a future council to treat the nett proceeds in any particular way. Before this risk is dismissed, councillors should consider that their predecessors once thought it was a good idea to gamble ratepayers' money on a subdivision at Jacks Point, with disastrous results. No one can know what comes next, and there is nothing that this council can do about that.

Turning an illiquid, profitable, appreciating asset into a liquid cash fund is possibly the greatest reason not to sell.

The overall effect on the consolidated performance of DCHL also needs to be considered. If councillors evaluate the current financial performance of DCHL, even excluding the stadium, then without Aurora the remaining DCHL companies will barely generate enough profit to cover the on-going losses of Dunedin Railways Limited, especially if the deferred maintenance is undertaken. This is not a position that will be welcomed by the ratepayers.

The complex taxation implications for DCHL also need to be explained. My understanding is that income from investing the nett proceeds of the Aurora sale will be taxable. Interest costs on loans attributed to loss making companies, such as the stadium, can no longer be offset against income generated elsewhere. If this is the case then the ratepayers may well be better served by

the nett proceeds being used to pay down core debt. There is not enough information easily available to make this judgement, but it should be questioned.

Late last week (reported in the ODT Monday April 29<sup>th</sup>), possibly noting the conversation amongst ratepayers was not weighted towards supporting a sale, DCHL/DCC pushed the nuclear button and advised councillors and ratepayers that if Aurora is not sold then Dunedin City faced breaching its debt covenants in the short to medium term. This announcement signalled desperation to councillors and ratepayers, as well as any potential buyers, which is a curious strategy at best. The thinly veiled message from DCHL/DCC of “sell Aurora or the city risks becoming insolvent” does this council and this administration no favours. That message harms our city well beyond this conversation.

I do not support the sale of Aurora Energy.

I wish to be heard.

Thank you again.

Andrew Simms

East Taieri.