



MAJOR ELECTRICITY USERS' GROUP

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Debate over rates of return for electricity line monopolies has lacked rigour

"The announcement by the Commerce Commission of its intention to declare control of the Vector electricity lines business has provoked considerable debate on whether 7.35% is a reasonable return on investment. Vector, its shareholders and shareholders of other electricity lines businesses having been working overtime to undermine confidence in the Commission estimate of 7.35%. That theme continued with comments by a spokesman from Babcock & Brown Infrastructure (BBI) in today's NZ Herald.

"It's time to get a bit more balance in the debate," said Ralph Matthes, Executive Director of the Major Electricity Users' Group (MEUG).

"The NZ Herald article this morning quotes a spokesman from BBI highlighting the small margin between the Commission 7.35% return on capital for electricity line monopolies with the return on government stock. This comparison is misleading because the Commission quoted return is after tax whereas the return to investors from government stock is before tax. After accounting for tax, there is a handsome margin between the two returns.

"This isn't the first time financial journalists and commentators have confused pre and post-tax returns. The Dominion Post on 21 August compared the Commission's 7.35% with Christchurch City Council securities bearing 7.45%. What the reporter didn't take into account was the latter is a pre-tax return. On a post tax basis the Christchurch City Council securities returns 4.92% to an investor.

"The debate on the appropriate return to electricity line monopolies cannot be left to the monopolies or their owners to decide. Neither can politicians decide otherwise political gain rather than economic efficiency will steer decisions. Only an independent regulator such as the Commerce Commission can decide. The electricity line businesses and their shareholders should spend less time bleating to the media and making misleading comparisons and more time putting some facts and evidence on rates of return. We have an open mind should evidence be tabled that 7.35% is too low or even too high; but until that time the best empirically and independently derived estimate is that by the Commerce Commission," concluded Mr Matthes.

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