

CONSUMER COALITION ON ENERGY (CC93)

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Jenny Walton
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Delivered by email to info@electricitycommission.govt.nz

Dear Jenny

Market Design Review Issues Paper Consultation

The Consumer Coalition on Energy (CC93) appreciates the Electricity Commission briefings on this important Issues Paper. The Commission's various work streams have steadily been working on improving the market since the Commission was first established in September 2003. The Issues Paper and feedback from interested parties should assist the Commission identify any gaps or overlaps with other government agencies and rank priorities for future work.

One issue that continues to be raised by consumers is whether the very large reported profits of electricity suppliers are reasonable. To put this into context, the aggregate operating revenue of the five largest suppliers for the last complete financial year (apart from Trustpower which was 30 March 2006, all the rest are for 30 June 2006) was \$8.2 billion. Some of this revenue was also for gas sales and other business activities. The aggregate Operating Surplus before interest and tax for the five largest suppliers was \$1.4 billion. The latter excludes one-off profits from non-recurring activities such as the wind fall gain by Meridian Energy for sale of assets in Australia.

These are capital intensive businesses and CC93 acknowledge profits sufficient to cover investments need to be reasonable. Innovation in meeting the needs of consumers and efficiency gains can also lead to short term super profits. Equally companies that fail to meet the needs of consumers and are inefficient should struggle to make a reasonable return.

Occasionally reported electricity supplier profits have dipped but overall the trend has been for increasing profits and increased revaluations of assets for all five large suppliers. In commodities markets, and electricity is a commodity, a more pronounced cycle of high and low profits might have been expected. It's the perception of almost continuous year on year rises in profits and asset revaluations since the market commenced in 1996 that undermines confidence by consumers that the market is truly competitive.

CC93 recommend that the Commission analyse profits by suppliers since the market commenced in 1996 to test the proposition that the companies have made excessive profits. This isn't a trivial exercise for a number of reasons including the complexity of having to unbundle revaluation gain effects and assess if those have also been reasonable. Suppliers published accounts also bundle electricity and gas activities making it difficult to assess the profitability of the electricity portion of the business only. Consumers are not equipped to undertake this work but the Commission could.

Yours sincerely



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