



MAJOR ELECTRICITY USERS' GROUP

23 December 2009

Hon Simon Power
Minister for State Owned Enterprises

Hon Bill English
Minister of Finance

By email

Dear Messrs Power and English

Improving the financial performance of SOEs: Meridian Energy SCI and valuation error

MEUG wrote to you on 7th April 2009 about SOE performance monitoring and in particular referring to our difficulty in understanding Meridian Energy Limited's valuations. A table of contradictory valuation trends for Meridian Energy noted in that letter included a + \$1.882 billion change in the 2008 valuation.

You responded by letter dated 28th April 2009 explaining that "... differences in the Meridian valuations you referenced are to be expected."

Subsequently in October 2009 Meridian disclosed in its latest SCI that the value of the Crown's investment was incorrect. The value of \$6.5 billion should have been \$5.5 billion. "Debt" of \$1 billion had not been deducted from the enterprise value.

Vernon Small in the *The Dominion Post* on 5th November 2009 revealed: "Officials said the error had been picked up quickly ..." he quoted you as saying "I was aware of the correction, ..." and the Meridian spokesman stating that the error was picked up soon after the 2008 report was published and officials had been alerted.

We are surprised that your response to MEUG in April 2009, presumably on the advice of officials, did not reveal the error. The \$1 billion error was reflected in our \$1.882 billion valuation variance.

When we look further at the "Debt" of \$1 billion, which was not deducted from the enterprise value, we find that the amount of debt revealed in the Balance Sheet for 2008 was \$943 million. Alternately when Net Debt is considered the amount is \$878 million¹ (and corrected to \$871 million in the 2009 annual report). We would expect the valuation to be determined after deducting Net Debt following market practice.

If in fact two valuation errors have occurred then we would be concerned with governance practice demonstrated by Meridian.

MEUG has a natural interest in the performance of its suppliers and is prepared to be a responsible party in the "market monitoring" of SOEs. Our experience with new processes initiated by CCMAU earlier this year is not positive so far.

¹ Total debt \$943.034m less cash \$64.645m

The commencement of the Crown Ownership Monitoring Unit (COMU) on 23rd November to replace CCMAU should be the catalyst to provide shareholders, consumers and managers of the SOE's more relevant information to define performance standards and assess outcomes. Much work is needed because the COMU web site does not include standard approaches for monitoring enterprises such as Economic Value Added in the list of financial indicators calculated for each SOE². It may be useful if COMU were to consult with various stakeholders on indicators of performance and value.

A copy of this letter has also been referred to the Minister of Energy and Resources, Hon Gerry Brownlee, for his information.

Yours sincerely



Ralph Matthes
Executive Director

² Refer <http://www.comu.govt.nz/financial-calculations.html>