



MAJOR ELECTRICITY USERS' GROUP

MEDIA RELEASE

WHAT DOES TRANSPOWER REALLY THINK ITS RETURN SHOULD BE?

Friday 24 September 2010

The Major Electricity Users' Group (MEUG) call on Transpower's directors to say what profit they really need to justify investment in more and better transmission lines for New Zealand. MEUG is puzzled by Transpower's submission to the Commerce Commission claiming they need more profit than they offer in their latest Statement of Corporate Intent (SCI) to the shareholding Ministers.

Transpower adopted a cost of capital of 7.7% in their latest SCI's 10 year business plan. This should be compared with the Transpower's submission to the Commerce Commission which argues for adjustments in the cost of capital model that could result in the rate being pushed over 9%. The SCI and submission were disclosed in the same month.¹

"Transpower risks being seen as two-faced when submitting to Government agencies" says Ralph Matthes, Executive Director of MEUG. "It's telling its shareholders that it expects to invest billions based on a return of 7.7% but at the same time is arguing to the Commerce Commission that it requires changes to lift the permitted return up to 9% to justify new investment."

"At today's Transpower public stakeholder meeting we asked on behalf of New Zealand consumers why Transpower wants the Commission to allow extra charges that will result in transmission charges being \$88m per annum more than the rate set out in the SCI. We also want to know why Transpower submissions to the Commerce Commission on cost of capital are almost equivalent with other state businesses such as the generators that appear to have more risk" says Mr Matthes. "Transpower's Chief Executive confirmed that the approved new investment of \$3.8 billion would continue even without the premium return the Company's submissions argue are justified."

"The last thing New Zealanders need is another shock on their power bills, Transpower are yet to adequately explain its inconsistency" says Mr Matthes.

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¹ See <http://www.transpower.co.nz/f3921,34919371/transpower-sci-2010-2011.pdf> and <http://www.comcom.govt.nz/assets/Pan-Industry/Input-Methodologies/Transpower-Costcapital-Sub/Transpower-Submission-Draft-Determination-Input-Methodologies-Part-3-Comments-16-August-2010.pdf>

Further information:

The submissions referred to are available from <http://www.comcom.govt.nz/input-methodologies/>

Cost of Capital (post tax)		Mid-point	75th percentile	90th percentile
Estimates				
MEUG		6.00%		
Commission		6.50%	7.30%	>7.30%
<i>Transpower</i>	(inferred from subs)	8.10%+	8.70%+	>8.70%+
Officer	for Transpower	7.90%+	8.70%+	>8.70%+
Cameron Partners	for Transpower	8.70%+		
Guthrie	for Transpower	if 6.50%	then,	>8.40%+ to 8.65%+
<i>Electricity Distribution Businesses</i>				
PwC	for 20 EDBs/ENA	8.60%	9.35%	9.35%+
LECG	for ENA	8.60%	"high" equals 11.00%	
Variance				
	in excess of CC	2.1%+ (excludes Cameron)	2.05%+ (excludes LECG)	2.05%+ (excludes LECG)
	in excess of MEUG	2.6%+	3.35%+	3.35%+
"+" indicates conservative estimation (other costs identified are excluded). Source: Commerce Commission Submissions and MEUG				