



# MAJOR ELECTRICITY USERS' GROUP

## MEDIA RELEASE

### **PRICE INCREASES OF 354 TO 531 MILLION DOLLARS PER YEAR FOR ELECTRICITY IF COMMERCE COMMISSION GIVES IN TO ELECTRICITY LINE COMPANIES**

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“New Zealand consumers could pay from 354 to 531 million dollars per year too much for electricity distribution and transmission if the Commerce Commission accepts monopolists’ arguments” says Ralph Matthes, Executive Director of the Major Electricity Users’ Group (MEUG). “That equals an increase of around 4% to 5% in power bills for the average household. That is more than the estimated increase in electricity prices as a result of the emissions trading scheme.”

Last month’s cross submissions on the Commerce Commission’s draft “Input Methodologies” determination for cost of capital are now available online. The Commission must determine the final Input Methodologies by the end of this year.

Cost of capital calculations are used to set or assess permitted revenues for monopolists such as Transpower and local lines companies. A rate set too high will flow through into the line charges. That in turn can incentivise ‘gold plating’ where firms over invest to get an over-generous return on as much capital as they can spend. Even if no new investment is made firms benefit from the higher return on past expenditure. On the other hand, a rate set too low could mean potential underinvestment in electricity infrastructure.

“There are 8 submissions arguing for a higher rate supported by their chosen economists and experts. MEUG is the only submitter sticking up for consumers” says Mr Matthes. “This is a David and Goliath battle. Despite the significant consequences of the Commerce Commission’s decision we are amazed that no government agency or other consumer interests has helped balance the battle.”

MEUG believes the Commission has proposed a flawed model to determine regulated firms’ costs of capital. MEUG’s submission explained why. Now it is clear that other submitters acknowledge the flaw. But they want the effect of the flaw to remain, or be strengthened. “We are encouraged by the consensus that the Commission’s model is flawed. But if the Commission accepts the monopolists’ suggestions returns on capital will be increased by a further 2 to 3 percent above the level the Commission’s draft would have produced and over 3% above what it should produce without the flaw” says Mr Matthes.

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"A 2% to 3% difference in cost of capital between a methodology based on what the monopolists are trying for by way of upward adjustments and what would result from the corrected model represents \$354 to \$531 million per annum. That averages a 4% to 5% increase in direct charges per household" says Mr Matthes.

"MEUG is calling on consumer groups and policy makers to take an interest in the Commerce Commission's determinations before it is too late. There seems to have been very little work by groups representing the users of regulated services" says Mr Matthes. "It is arguable that the Commission should err in favour of encouraging new investment, but the figures currently on the table are excessive."

"The Commission needs to know it will be supported by the Government if it shows the spine to resist the monopolist's 'expert' pleading" Mr Matthes concluded.

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Further information:

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

<b>Cost of Capital (post tax)</b>		<b>Mid-point</b>	<b>75<sup>th</sup> percentile</b>	<b>90<sup>th</sup> percentile</b>
<b>Estimates:</b>				
<b>MEUG</b>		6.00%		
<b>Commerce Commission (CC)</b>		<b>6.50%</b>	<b>7.30%</b>	<b>&gt;7.30%</b>
<b>Transpower</b>	(inferred from submissions)	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%+
<b>Electricity Distribution Businesses (EDBs)</b>				
– PricewaterhouseCoopers	for 20 EDBs/ENA	8.60%	9.35%	9.35%+
– LECG	for ENA	8.60%	"high" equals 11.00%	
<b>Variance:</b>				
	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				