



# MAJOR ELECTRICITY USERS' GROUP

23 February 2005

Mr Paolo Ryan  
Manager Network Performance  
Commerce Commission  
By email to [electricity@comcom.govt.nz](mailto:electricity@comcom.govt.nz)

Dear Paolo

## **Submission on Review of the Information Disclosure Regime discussion paper**

1. This is a submission by the Major Electricity Users' Group (MEUG) on the *Review of the Information Disclosure Regime discussion paper* released by the Commission on 24 December 2004. MEUG has not commented on all of the questions because either the direction signalled in the discussion paper is agreed by MEUG or the item is still work-in-progress by the Commission and an opportunity for further comment will be available to interested parties.

### **Question 10, Prescription of specific aspects – pass through costs**

2. Paragraph 202 suggests allowed pass through costs need not be separately disclosed because they must already be disclosed in threshold compliance statements. MEUG suggest the incremental cost of requiring disclosures to separately report pass through costs should be negligible and will outweigh the alternative cost to consumers trying to identify their line supplier costs by having to search separately through threshold compliance statements and information disclosures.

### **Question 10, Prescription of specific aspects – disclosure of investment in DG**

3. Paragraph 264 to 266 discusses investment by a line owner in distributed generation (DG). MEUG suggest this be treated as a contestable business and it should be considered under transactions between related parties.
4. DG is likely to increase as a percentage of flows over a distributor's network, hence the need to ensure terms and conditions by the line business to DG network users, including DG owned by the line owner, are transparent.

### **Question 17, Measurement of returns**

5. Return on Investment (ROI) is proposed as a "headline performance measure." MEUG suggest profits and excess profits are a better headline performance measure. ROI is a rate of profit, and it is only when multiplied with an asset base to derive profit and then compared against an ex ante Weighted Average Cost of Capital (WACC) that it has value to end consumers in understanding the materiality of any excess profits. End consumers may think an ROI of 7% for both Buller Electricity and Vector against a WACC of 6% is

excessive, but not by much. But the materiality of the excess becomes obvious when multiplied against their respective asset bases to derive excess profits.

6. Even though permissible under the thresholds regime, excess/deficit profits for monopoly line business should be reported by each line owner on an annual basis and on a cumulative to date basis since commencement of Part 4A and the commencement of the current 5 year thresholds.
7. Each lines company and Transpower should be required to disclose its cost of capital for completeness of information disclosure<sup>ii</sup>.

#### **Question 17, 18, 19 and 20, performance measures and statistics**

8. MEUG support the reference to explanatory notes to assist readers of performance measures and statistics in paragraph 314,

*"At the same time, this allows the business the opportunity, via notes, to explain any aspects of the performance measure that it considers warrants explanation."*

9. The information disclosure regime should require explanatory notes rather than leave it to the discretion of line owners. Explanatory notes will assist meeting the implementation principles set out in paragraph 132 such as "relevant and understandable" and "consistent and accurate."

#### **Question 26, Timing**

10. For consumers to effectively respond to proposed changes in line charges, timely information is needed. Continuing the existing 5 month period between the end of a disclosure year and when information must be disclosed does little to improve the potential countervailing power of consumers.

#### **Question 27, Publication of Commission's summary and analysis of information**

11. The discussion paper covers the format, content and channels for company specific and aggregated disclosures. MEUG suggest the Commission also consider the responsiveness of line owners to bona fide requests for information on costs and prices by end consumers. There may also be value in the Commission facilitating effective protocols between consumers and line businesses for exchange of information. For example by posting on the Commission web site useful examples of cost information requested and provided as precedents for others to follow, or not follow, as the case may be.

Yours sincerely



Ralph Matthes  
Executive Director

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<sup>i</sup> For example details of disaggregating revenue and cost information, paragraph 201.

<sup>ii</sup> Arguably the line businesses are already required to disclose WACC as part of the Commerce Commission's Electricity Information Disclosure Requirements 2004, published 7 May 2004, Requirement 23, as noted in paragraph 378, second bullet point of the discussion paper. That requirement has not, as far as MEUG are aware, been fully meet.