

# **Final Version**

**of**

**Written Submission**

**to**

**Commerce Commission**

**on**

**Intention to Declare Control**

**of**

**Transpower New Zealand Ltd**

**by**

**Philip M Ward**

**of**

**72 Tait Drive  
Greenmeadows  
NAPIER**

**E-mail : [pward@xtra.co.nz](mailto:pward@xtra.co.nz)**

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## 1. Purpose of the Declaration

If we look at the 1<sup>st</sup> page of the original notice it states :

“Commerce Commission ..... Intention to Declare Control Transpower New Zealand Ltd.”

That is a definitive statement of action. It says, “We are going to take control”. Yet you call for “Interested persons to give their views on this intention.” This would appear to be a contradiction in terms. If you intend to take control the only benefit of accepting submissions is to give interested parties the opportunity to let off steam, with no acknowledgement that that views will or may be taken into account when control is taken.

It is also noted that the Commission has made no provision for interested persons an opportunity to present their submissions. This would seem to underline that the Commission is going to proceed, irrespective.

The writer could not afford to make a personal appearance before the Commission over this Declaration, as he is still recovering from his costs of the Unison Conference. However, I would like to put on record my concern for this serious omission.

## 2. Suitability of Formulae used in Reaching decisions

In the submissions and the hearings over Unison Networks Ltd., I could find no organisation or person who found all the formulae a fair and acceptable way of arriving at the figures used by the Commission. I am of the opinion that some, if not all, may have been developed by working backwards from a desired result.

Set out below is a classic example of this from my school days :

<p><b>If</b></p> <p><b>then</b></p> <p><b>and</b></p> <p><b>add - B<sup>2</sup> to both sides</b></p> <p><b>This transforms to</b></p> <p><b>Divide both by (A - B)</b></p> <p><b>Cancel the (A - B)</b></p>	<p><b>A = 1 and B = 1</b></p> <p><b>A = B</b></p> <p><b>A<sup>2</sup> = AB</b></p> <p><b>A<sup>2</sup> - B<sup>2</sup> = AB - B<sup>2</sup></b></p> <p><b>(A + B)(A - B) = B (A - B)</b></p> $\frac{(A + B)(A - B)}{(A - B)} = \frac{B (A - B)}{(A - B)}$ $\frac{(A + B)\cancel{(A - B)}}{\cancel{(A - B)}} = \frac{B \cancel{(A - B)}}{\cancel{(A - B)}}$
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The term 'suppliers' is misleading. There is only one supplier of the Nation Grid and that is Transpower. However, suppliers could well be interpreted to include all Power Generators as well as all Lines Companies.

In (c) it refers to sharing the benefits with consumers through lower prices.

If one assumes that the term "Suppliers" does in fact refer to Transpower, then the action of implementing this Declaration cannot achieve the purpose of sharing benefits with consumers.

Transpower to not bill consumers directly, prices are taken up by the Power Companies/Generators, who are the only businesses that bill consumers. The Commerce Commission, at this time has no authority to instruct the Power Companies to pass on to consumers any reduction in Transmission charges and the profit they take on Transmission charges.

It therefore becomes a question of whether the Power Companies can ride out the publicity and embarrassment of retaining any price reductions imposed on Transpower by the Commission. The answer to that is almost certainly Yes. There is a precedent for this when Unison did reduce line charges a few years ago and Contact Energy refused to pass on the reduction to consumers. This action has now been forgotten by the majority of users.

The alternative will be for the Power Companies simply to say that the reductions have been absorbed because they have come at a time when power prices were due to rise and this reduction has been offset against those planned rises.

As a side issue, the consumer can no longer ascertain the various elements that make up the power bill. I am aware this matter has been taken up with the Commission and it would appear that they have no control over this issue.

## **5. Probable Consequences of Commission implementing Price Reductions**

With the exception of Contact Energy, which is majority owned by overseas interests, any reduction will ultimately pass back to the Government through increased profits of the Power Companies/Generators, which are Government owned.

## 6. Price Increases to Pay for Line Upgrade

I have briefly covered the use of Price Increases to cover what is Capital Investment.

I am aware that Transpower is owned by the State and controlled by the Government.

As a consequence, it can be argued that the excessive profits that Transpower have generated and the dividends and company tax paid to Government are no more than another method of the Government collecting tax, without actually putting up personal tax rates.

Now if we address the proposal to increase prices to pay for “Grid Expansion Projects”, or more properly, Capital Expenditure. This again, is another way of the Government taxing the consumer. If they were to directly fund all Capital Expenditure, they then have to determine what Government spending can be reduced or how much they will need to increase taxation to provide the necessary funding. Ergo, any price increase to cover Capital Expenditure is simply a Government tax.

It is actually even worse, because any price increase will also increase the GST content that users will have to pay, thus giving a bonus to the Government.

I believe that the Commission should also consider whether the demands of Government in terms of Dividends extracted from Transpower that could have been utilised for deferred maintenance. In addition, some of it should have been withheld by Transpower, or if paid to the Government as a Dividend, specifically identified and retained as funds for future Transpower expansion.

There is a further issue regarding the use of Price Increases to fund Capital Projects. The Capital Projects will have the effect of increasing the value of Transpower. This in turn will put pressure on them to provide a reasonable return on the increased value of the company. That in turn will be used as a reason to increase prices, or at least hold the increases that were imposed to finance the Capital expansion.

## **7. My Personal Stand on the Declaration**

It might be construed from reading the above that I am in favour of the Commission in implementing its "Intention".

### **THIS IS NOT THE CASE, I AM STRONGLY OPPOSED TO THE COMMISSIONS INTENTIONS.**

This is yet a further example of Government control for the sake of Government control.

As I have illustrated, the Commission lacks the powers to implement one of its prime objectives, reducing what Consumers pay for their power.

It would better serve the Consumer by putting pressure on the Government in at least two ways.

Embarrass the Government by making public that the actions of Transpower and the Government owned Power Generators is simply the Government imposing increased indirect taxes on consumers.

It also needs to tell the Government that Targeted Control is not the way to handle the Power Utility business. There is a better way and the law needs to be rescinded. This is supposed to be Free Enterprise and a Competitive Industry. It is not a competitive industry whilst the Government owns and controls the majority of Power Companies. They dictate the acceptable 'Norms' for the industry. The very small private sector is simply happy to ride on the coat tails of excessive profits and dictatorial habits.