
From: Justin Anderson
Sent: Wednesday, 20 June 2012 10:03 a.m.
To: ^AssocMoF: Angus White
Cc: John Crawford; Andrew Blazey; Chris White; [Withheld under s.9(2)(a) & s.9(2)(g)(i)] Dominic Milicich
Subject: Power Prices—Comparison of State-owned Energy Companies with Private Companies

Hi Angus

An updated version of the suggested response is below, with a few changes to the wording. I have also checked my re-calculation of Ms Melhuish's numbers and confirmed it is correct.

I will also send this to MED for their information.

Q: Does he agree with Molly Melhuish's calculation that the amount charged by SOEs for electricity for an average consumer is \$265 per annum less than is charged by non-SOE retailers, and if not, what was the weighted average of the annual total retail price charged by SOEs and their subsidiaries to a residential consumer using 8,000 kilowatt hours of electricity compared with the weighted average of the price charged by non-SOE suppliers, according to the most recent data?

I assume the question refers to Ms Melhuish's submission to the Finance and Expenditure Committee on the Mixed Ownership Model Bill. Ms Melhuish made a number of errors in her calculations in that submission. Adjusting for those errors, some of which offset each other, the correct mathematical result of the calculation Ms Melhuish carried out, using MED data from February 2012, is \$242.73.

However, the calculation does not prove that State-owned enterprises charge on average less than private energy companies.

The errors included:

- stating that Mercury Energy had 19,188 customers. In fact according to the MED data the correct figure is 364,677. This error alone caused the conclusion reached by Ms Melhuish to be overstated by 9% from the correct figure
- stating that 3.31 cents times 8,000 kWh per annum equals \$240 per year. In fact 3.31 cents times 8,000 is \$264.80. However, the correct figure is 3.0342 cents not 3.31, and 3.0342 cents times 8,000 = \$242.73

Q: Does the Ministry of Economic Development's quarterly survey of electricity prices for a customer using 8,000 kilowatt hours of electricity a year show that State-owned enterprises charge on average less than private energy companies?

No, it does not. It shows that, based on the assumptions in the MED quarterly survey, the weighted average price charged by State-owned enterprises to their customers in February 2012 was less than the weighted average price charged by private companies to their customers. But this is not a like-for-like comparison. Different companies have customers in different areas. For example Trustpower and Tiny Mighty Power's customers are primarily in smaller provincial cities and rural areas. Electricity costs more in these areas regardless of who the retailer is. So the weighted average power prices calculated for Trustpower and Tiny Mighty Power are biased upwards because of this. This is the reason why Tiny Mighty Power is shown as supposedly being the one of the "most expensive" of the State-owned companies. In fact, Tiny Mighty Power's prices are usually not the most expensive in the areas in which it operates.

If you compare the current prices charged by electricity companies on a like-by-like basis, in specific areas, then in 14 out of the 21 regions surveyed by Consumer NZ's Powerswitch website, there is at least one private company currently offering a cheaper price than any of the State-owned companies or their subsidiaries.

Another issue is that the MED quarterly survey does not include electronic payment discounts in its price figures, for example the discount offered by Contact Energy. Therefore the MED quarterly survey overstates the actual average price paid by Contact Energy customers. However, since the number of Contact Energy customers who receive the electronic payment discount is unknown, it is not possible to calculate the correct average price paid by Contact Energy customers.

Q: Are the lowest prices in the electricity market, according to the Ministry of Economic Development, charged by the State-owned subsidiary Energy Online?

No. Firstly, Energy Online only offers prices in parts of the North Island, and not at all in the South Island.

Secondly, the MED data is from February 2012, and Energy Online has recently increased its prices in many of the regions where it serves customers. According to the more up-to-date Powerswitch website, in Auckland Energy Online's prices are currently higher than Pulse Energy, Contact Energy and Nova Energy, all of which are privately owned. In Wellington, according to the Powerswitch website, Energy Online's prices are currently higher than Energy Direct NZ and Trustpower. In Hamilton, according to the Powerswitch website, Energy Online's prices are currently higher than Contact Energy. In fact, in all of the regions on the Powerswitch website where Energy Online is listed as offering a price, except for Whakatane, there is at least one privately owned company that is cheaper than Energy Online.

Therefore, Energy Online is currently the cheapest retailer in only one of the 21 regions on the Powerswitch website.

And finally, even using the out of date MED data from February, Energy Online was not the lowest price retailer in the WEL Networks region, the Centralines region, the Powerco (New Plymouth) region, the Powerco (Stratford) region, the Powerco (Hawera) region, the Wellington Electricity Lines (North) region, and the Wellington Electricity Lines (South) region. In most of these regions, a privately owned company was offering a cheaper price in February, according to the MED data.

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