

Media Release: Disclosure rules for gentailer profits

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Are big electricity companies making excess profits? New disclosure rules don't tell us.

New disclosure rules intended to shine a light on whether big electricity companies are making excess profits are failing to deliver.

The Consumer Advocacy Council commissioned research to find out whether the disclosure rules were fit for purpose and delivering good information to consumers about profits being made in the electricity sector.

“Consumers have a right to know if the companies that provide such an essential service are inflating their profits so it’s disappointing we are none the wiser,” said Council Chair Deborah Hart.

The analysis, carried out for the Council by the New Zealand Institute of Economic Research (NZIER), found the disclosure regime was not providing robust information.

The disclosure rules were introduced by the Electricity Authority, following recommendations from the Electricity Price Review in 2019 that called for changes to shed light on whether, and the extent to which, gentailers were making excess profits.

Under the rules, gentailers - companies that both generate and sell electricity - are required to disclose their internal transfer price. This is the price they use internally to “sell” power to their retail arms.

Internal transfer prices can show how gentailers allocate costs and revenue between their generation and retail businesses.

“While this information can be used to gauge whether companies are artificially inflating prices and earning excess revenue, NZIER found the current disclosure regime was unlikely to tell consumers whether this was the case.”

The NZIER report found shortcomings with the disclosure regime, which limited the usefulness of the information provided.

“A key problem is that the revenues earned by gentailers are not being compared with a model of generator costs and profitability in a working competitive market. Without a robust baseline for comparison, the disclosure rules are limited in what they can tell consumers.”

The rules also require both gentailers and electricity retailers with at least 1% market share to publish their retail gross margins. This information can provide

an indication of whether gentailers and independent retailers face a similar or different cost structure for the wholesale cost of electricity.

However, retail gross margin data have been disclosed for one year only - 2022 - making it difficult to draw conclusions, NZIER found.

The Electricity Authority plans to carry out a post-implementation review of the disclosure rules.

“The Authority review needs to look carefully at how to ensure consumers get reliable information about whether gentailers’ profits are excessive or not. Without this information, consumers will continue to raise legitimate questions about whether the price they’re paying for power is fair and whether the market model we have needs to be reformed.”

Potential limitations of the disclosure regime were previously noted by the Ministry of Business, Innovation and Employment. In an August 2023 report, the ministry stated that “any definitive conclusion about retail competition [was] difficult” based on the approach used to analyse gentailers’ internal transfer prices.

“We need to get this right if consumers are to have confidence their bills are not being inflated by companies making excessive profits,” said Deborah Hart.

Background

In its final report in 2019, the Electricity Price Review (EPR) recommended rule changes to shed light on whether, and the extent to which, vertically integrated gentailers were making excess profits.

The EPR report stated:

Generator-retailers are considered by some to be making excessive profits and favouring their retail arms to undermine competition, but we lack the information to properly test this belief. At a minimum, expanded reporting will fill the information gap that fosters suspicion and undermines market confidence. If there is a real competition problem that requires correcting, separate reporting should help uncover it.

In response to the EPR’s recommendation, in August 2021 the Electricity Authority mandated the disclosure of:

- internal transfer prices by gentailers
- retail gross margins by gentailers and retailers with at least 1% market share.

This year, the Consumer Advocacy Council commissioned NZIER to analyse whether the disclosure rules were providing adequate information for consumers.