What has gone wrong with electricity sector reform in New Zealand?

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(1) Overview

This paper summarises the reforms in the New Zealand electricity industry since 1986, and presents an analysis of performance over the past three decades in terms of prices, operating costs, and investment. The central issue is the escalation of costs, margins, and residential prices, in the decade since the consolidation in 2001 of a vertically-integrated five-firm cartel in generation and retailing. The use of asset revaluations to put a ratchet under rising prices, the persistent lack of rigorous regulation, and the successful foreclosure of competing independent generation and retail operations, give substance to the notion of regulatory capture. Government plans to part-privatise the three state-owned members of the gentailer club, legislated in 2012 and to be completed by 2014,are analysed in the light of this preceding history.

(2) Methods

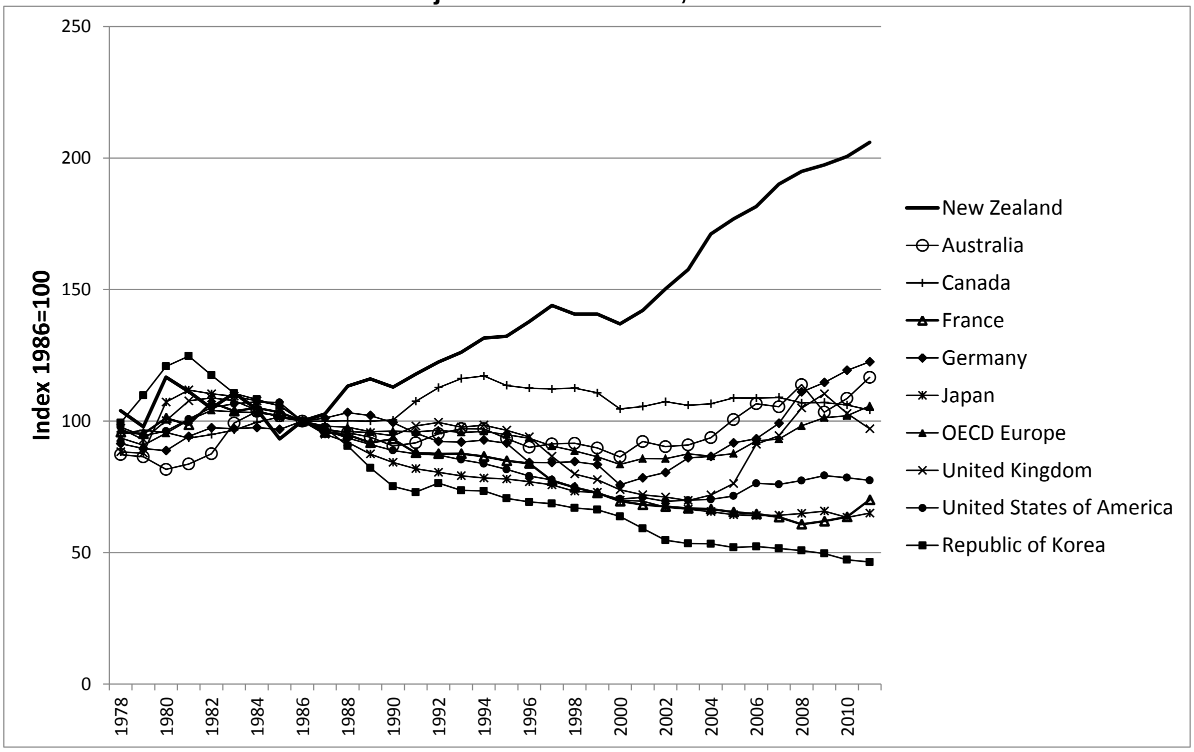
The paper is a combination of historical narrative and forensic analysis of financial reports from companies at all levels of the industry.

(3) Results

The key empirical stylized fact around which the paper hangs is the observed discrepancy between residential price trends in New Zealand relative to other developed economies. This could be explained by divergent cost trends or by the exercise of market power in the absence of a price regulator. There is no evidence that supply costs in New Zealand rose more rapidly than elsewhere in the developed world, but there is substantial evidence of the use of market power to exploit captive consumers.

Figure 1 arrays data from the IEA's online database to show this divergence.

Figure 1: Real electricity price to residential consumers: New Zealand compared with other major OECD countries, IEA data



(4) Conclusions

New Zealand’s light-handed regulatory regime since the early 1990s has failed to restrain prices charged to residential consumers. A contributing factor in the regime’s persistence has been the Government’s position as owner of three of the five generating companies, and hence a beneficiary of large cash dividends and asset revaluations. Part-privatisation provides a means of realising the revaluations.

“Weak regulation, rising margins, and asset revaluations: New Zealand’s failing experiment in electricity reform”, Chapter 21 in F.P. Sioshansi (ed), *Evolution of Global Electricity Markets: New Paradigms, New Challenges, New Approaches*, Amsterdam: Elsevier, 2013.

References

Bertram, Geoff, “Weak regulation, rising margins, and asset revaluations: New Zealand’s failing experiment in electricity reform”, Chapter 21 in F.P. Sioshansi (ed), *Evolution of Global Electricity Markets: New Paradigms, New Challenges, New Approaches*, Amsterdam: Elsevier, 2013.