Why power firms shouldn't be sold

Comment, Molly Melhuish, convenor, Domestic Energy Users' Network
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Prime Minister John stated, in the Grey Power Magazine, March 2011, that a partial float of energy state-owned enterprises would not push power prices up. He said that power prices reflect the level of competition in the market, and the ability of supply to meet demand, not the type of ownership model.

Statistics show that the Prime Minister's statement does not apply to retail power prices. His explanation applies to wholesale prices only, because all companies pay the same wholesale price every half-hour.

Investor-owned companies now charge domestic consumers 2c to 4c a kilowatt hour more than state-owned companies.

Prices charged by investor-owned companies nearly trebled since 1998, compared to those of SOE companies, which approximately doubled.

Energy component of electricity prices: Nov 2010, price rise since 1998

company	ownership	2010 kWh price	% rise since 1998
TrustPower	investor	18.88	189%
Contact Energy	investor	17.21	171%
Genesis Energy	SOE	15.46	125%
Mercury Energy	SOE	15.03	90%
Meridian Energy	SOE	14.72	120%

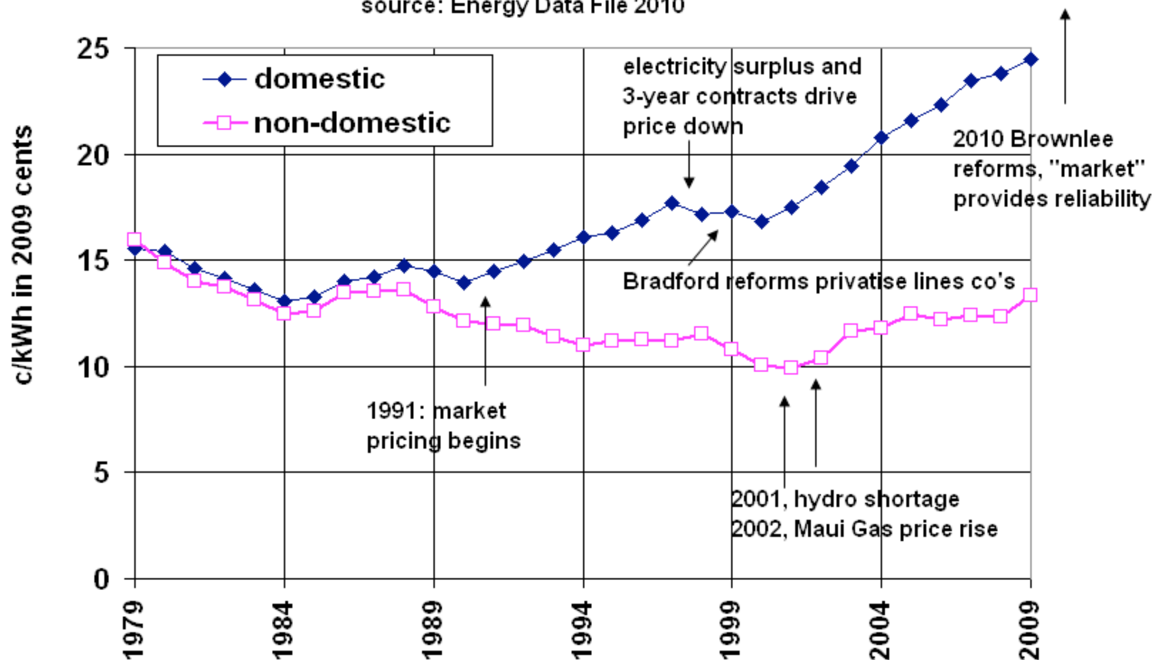
source: MED quarterly survey of electricity retail prices, "raw data" tab, calculated by Molly Melhuish
Notes: energy (KWh) prices from each company are averaged over all networks where each is the incumbent supplier
Listed in order of the 2010 energy price
Counting Trustpower's "Friends" discount for long-term customers probably drops Trustpower one place down the list.

These price rises result from the monopoly powers allowed and promoted since electricity restructuring began in the 1980s. New Zealand's regulation, uniquely in the world, provides absolutely no consumer protection against monopoly pricing.

The first price rises were at the retail level, driven by government-appointed directors who replaced the elected power boards and trusts in 1991. The new market pricing meant domestic electricity prices rose, while industrial prices fell. Privatisation of the lines companies ratcheted up asset values and locked in the high prices.

Public dissatisfaction with these prices led to the Electricity Inquiry of 2000. Afterwards, the objectives "fair" and "sustainable" were added to electricity legislation, and Government Policy Statements set out specific outcomes that should be achieved.

Despite the new objectives, wholesale prices rose rapidly after 2001, driven by shortages of hydro energy and the tripling of the Maui Gas price after 2002. Industrial prices rose also, but domestic prices rose twice as fast.



Submissions to the Electricity Commission showed how it was failing to meet the Government Policy Statements. But monopoly pricing continued.

The Commerce Commission reported in 2009 on its investigation of wholesale price rises. A report to them by Professor Frank Wolak concluded that consumers were overcharged $4.3 billion during three dry-year events. But New Zealand law allows companies to maximize their profits whenever they can.

It's practically impossible to prove abuse of market power.

The Electricity Industry Act 2010 removed the objectives "fair" and "sustainable". It provides a single statutory objective for the new regulator, the Electricity Authority: "To promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers."

Domestic consumers had asked, at several public briefings, how they would be protected. The answer was "wait and see."

In mid-March, we found out. The authority interprets its statutory Objective to exclude consideration of wealth transfers. Retailers are allowed to charge domestic consumers high prices to ensure new power stations are profitable. Industrial consumers continue to get discounted prices.

Industry participants, both suppliers and industrial consumers, don't have to "capture" the regulator, as happens overseas. They control the Authority's work plan – in effect, they own the regulator. Domestic consumers are the losers.

Wealth transfers include generators jacking up spot prices by not offering their power stations into the market during shortages – even in grid emergencies. This earns immediate profits for all generators, who are the biggest winners in the electricity market game.

Generators made some $48 million excess profits during three weeks in December.
The auhority's investigation of those high prices concluded that they were justified by the risk that the lakes might run dry next winter – six months later. Yeah, right!

A new scarcity pricing regime will justify even higher price spikes – which reached $20.00 per kWh ($20,000 per MWh) for seven hours on March 26. Consumer representatives at the Scarcity Pricing Forum said any such regime required strong safeguards. Generators, by and large, disagreed.

Without safeguards, prices will rise even faster than in the past.

The authority will only have to "have regard to" any Government Policy Statement on electricity, not "give effect" to it as in the past. Instead of working to achieve the outcomes specified in Government Policy, the authority will only follow a small set of "regulatory principles" with almost no substantive content.

The main principles are "lawful", "efficiency gain", and "quantitative assessment." This last one means authority decisions will rely on cost-benefit analyses, with assumptions chosen by the industry, and with transfers of wealth ignored.

Domestic consumers are put into the same class as industrial consumers. This treats "apples" and "oranges" as one and the same, allowing the oranges to be squeezed to fertilise the apples.

Electricity regulation has reverted to the pure ideological model of the late 1980s. Investors are protected, while consumers face rising prices and risks.

Market power is subject to little or no control. Retail "competition" is mostly between near-identical companies - it lets companies pad their costs and ratchet prices upwards.

Similarly, the ultrafast broadband regulation just introduced is expected to lead to higher bills, less choice, and no price protection.

Pure-market regulation sets up New Zealand's State-owned electricity assets for privatisation. Overseas investors, protected by "regulatory responsibility", will control prices and development of New Zealand's most strategic resource – electricity.

Instead the State-owned companies should be kept in public ownership, and regulated as essential services, as is done with Transpower today. Profits should be returned to the public and used to promote fair and sustainable development of electricity as an essential service.

Prime Minister John Key's commitment to privatisation makes this a choice the voters can make.