

SUBMISSION ON THE ELECTRICITY PRICE REVIEW 2018/2019

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THE NEW ZEALAND ELECTRICITY INDUSTRY

Historically New Zealand had a well-engineered, integrated electricity system, developed and operated in the National Interest and with potential for improvement.

However, the post-1980s restructuring process was an unmitigated disaster. Politicians and officials exhibited little understanding of the important issues they were making decisions on. The electricity industry experts (with some enthusiastic/naive support) seemed generally committed to outcomes which placed the supply side of the industry in a dominant position, with weak/ineffective regulation, no obligation to act in the National interests, the ability to game/distort the market and ultimately extract excessive profits; and offered much better employment opportunities.

Importantly, many otherwise sensible people appear to lose their critical faculties when they become involved with electricity issues!

This disastrous process fundamentally munted (“ a state of disastrous disintegration; broken or ruined”) the Industry and is the root cause of many problems still besetting the industry. The critical over-riding orientation to National Interest has gone.

THE PRICE REVIEW REPORT - OVERVIEW

The report has little merit. It is superficial, ignores numerous critical ongoing problems and lacks insightful and informative analysis.

It is a clear warning that current industry leaders have generally responded positively to it - in their shoes I would be celebrating dodging a big fast bullet. Many are now from a generation later than those who were complicit in the restructuring disaster - and they prosper from it while also distancing themselves from it, which the hapless, long-suffering electricity consumers (the victims) are not able to do.

The Review has an obligation to do a much more thorough and insightful analysis of the industries major problems, and recommend meaningful and fair solutions.

KEY ISSUES

- The Industry restructuring broke up the single generator into a number of separate, competing generators, yet this was a National system with major interdependencies. Incredibly, these competing generators were not required to act in the National Interest or collaborate to achieve better overall outcomes for consumers when the system faced abnormal stresses or risks. To the contrary they were able to “game” the system in or in anticipation of such abnormal times and often did - increasing their profits, generally to the detriment of consumers.

How much did this arrangement and behaviour unreasonably increase the cost of electricity to consumers and the profits of the industry?

- Without the obligation to collaborate or act in the National Interest, individual generators planned their supply capability positions to maximise their profits, which is what the rules allow! Consequently reliable supply at minimum sustainable costs to consumers was rejected in favour of maximising profits to shareholders and incentive - linked benefits to employees! And this is the National electricity system we are talking about here.

How much did this arrangement and behaviour unreasonably increase the cost of electricity to consumers and the profits of the industry?

- The Report takes a naïve and simplistic approach to profitability. In particular it does not identify the excess profits gained from allowing the continual inflation of asset values, even though these are sunk costs. This is against all normal commercial practice and was strongly opposed during the restructuring. The related gains should be separately identified as abnormal profits to the supply industry and abnormal costs to consumers.

How much did this arrangement and behaviour unreasonably increase the cost of electricity to consumers and the profits of the industry?

- When prices are subject to regulation good practice is to mandate for productivity gains - in other words annual productivity gains of at least 2% and preferably 5% pa or more in the cost base for pricing. Why is that issue not addressed in this report.

How much did this arrangement and behaviour unreasonably increase the cost of electricity to consumers and the profits of the industry?

- New Zealand regulators, in all fields have a very bad track record. The electricity regulators are amongst the worst. They seem to sink without trace in the morass of rules and regulations, the complexity of the industry and politics and the vested interests of the major players. The price review needs to fully address the performance of the regulators, their failings, and recommend improvements.

CONCLUSIONS

This report is useless. It is superficial and does not address a number of serious issues embedded in the industry which are damaging the legitimate interests of consumers. While large consumers can defend their positions and interests small consumers (households) cannot - and are dependent on processes such as this review to protect their interests. In that important context this report has clearly failed.

***Relevant Personal Experience:**

Previously: Director NZ Institute of Economic Research, a Managing Director of Comalco/CRA/Rio Tinto working in NZ, Australia, SE Asia, Japan, Canada, USA Venezuela on numerous studies, projects and operations related to electricity supply arrangements (generation and transmission) and major power uses, including with BPA, NY Power Pool, Hydro Quebec, NZ & Australian (Queensland, Tasmania, Victoria, NSW) electricity authorities, Norske Hydro, etc. Closely involved with the restructuring of electricity systems, including New Zealand - Deputy Chairman Transpower Establishment Board and on numerous other committees and processes; and worked closely with other consumer (business and household) interests on the New Zealand changes. Chairman Gladstone Power Station (1800MW), led Bream Bay Power Project, Brunei power/smelting development project etc.