

Achieving policy goals for the New Zealand electricity industry



What we were asked to do	We were commissioned to assess the outcomes from the 2009 reforms to the New Zealand electricity sector and compare them with the likely outcomes of the NZ Power (NZP) proposal(s) released by the Labour Party and Green Party in May 2013.
How we approached the project	<p>Our approach was based on the premise that enduring reforms provide a path to better outcomes across all of the relevant public policy goals, and, that an undue focus on one or a few goals risks counterproductive policy swings.</p> <p>We drew on five enduring public policy goals for the electricity sector that we had identified previously (i.e. we did not limit our assessment to solely the electricity market). These public policy goals for the electricity sector were:</p> <ul style="list-style-type: none">• Security of supply• Efficient operation of the wholesale and retail sectors• Efficient use of, and investment in, long life assets• Meeting community or social minimums, and• Integrating environmental objectives into all facets of sector decision making. <p>We assessed likely achievements under current arrangements, and NZP, against these five goals.</p>
Our findings	<p>We concluded that there has been major progress:</p> <ul style="list-style-type: none">• Improved security of supply – record low inflows managed without public concern• Generation investment (overwhelmingly renewable) has kept ahead of demand <p><i>continued over</i></p>

Our findings

- Significantly diminished ability and incentives to use market power in wholesale market because of asset swaps and increased liquidity in forward markets, and
- The retail market has become more competitive with varied retail offerings and high churn rates.

We observe that more can and should be done in the electricity sector, in particular:

- Increases in retail prices have not been fully explained – consumers are not convinced industry is competitive with fair prices reflecting reasonable costs, and
- Fuel poverty appears to be a significant problem for some New Zealand households and this problem will not be solved by lower wholesale prices or increased retail competition.

We found that the NZP proposal cannot achieve its stated goals because:

- Costs and prices are more likely to increase than fall
- Similar contracting arrangements overseas are associated with outages and taxpayer bailouts, and
- Retail competition will diminish – no country has retail competition with a single buyer model.

Read the final report

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