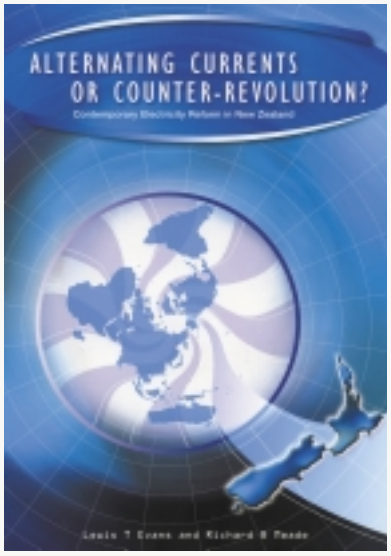
Assessing the Turmoil in New Zealand's Electric Industry

By Arthur O'Donnell

The news coming from across the Pacific Ocean over the past year seemed familiar, if at times puzzling. New Zealand's energy minister, caught in a political *faux-pas*, hastily resigns—only to be reinstated a few weeks later. Concerns about inadequate power supplies and below-average hydroelectric storage are downplayed by government regulators. Then, a harsh winter wind storm triggers a transmission failure that blacks out the major city of Auckland.



Alternating Currents or Counter-Revolution: Contemporary Electricity Reform in New Zealand, by Lewis T. Evans and Richard B. Meade (*Victoria University Press*).

In May, regulators had rejected an application by grid operator TransPower to construct a new high-voltage line into Auckland, saying the expensive upgrade does not meet legal requirements. Property owners who had banded against the massive project rejoice, but the head of the deciding Electricity Commission is soon let go for exercising too much independence from ministry policies encouraging economic development (*i.e.*, more transmission).

Meanwhile, rate regulators at the Commerce Commission issue warnings that higher gas and electric prices may trigger investigations and controls over several utilities—which counter that the price spikes are based largely on world energy markets and are not really under their control.

What to make of all this turmoil in New Zealand's energy industry?

Thankfully, we now have *Alternating Currents* from Lewis Evans and Richard Meade, of the New Zealand Institute for the Study of Competition and Regulation, to help us sort it all out.

The period covered by this detailed review of electric market reforms in the twin-island nation over the past decade does not extend into 2006. But the authors build a solid foundation for understanding how New Zealand has transformed itself from a completely state-owned power system to a complex hybrid marketplace.

BOOK REVIEW

Along the way, several models of regulation have been tried and discarded.

Today, the authors write, New Zealand's energy system is marked by "a combination of continuing state-dominated ownership of distribution, new heavy-handed regulation of transmission and distribution, and resumption—or indeed assumption—of centralized government control after a period of industry-led self-governance."

In other words, what remains is a bundle of contradictions, conflicting agencies, and competing priorities—what the authors term "an unsustainable halfway house"—that undermines the nation's desire to be in the forefront for a new paradigm of low-carbon, environmentally friendly and high-tech energy.

Americans might conceptualize New Zealand in our own terms—essentially a place of great natural beauty with the landmass of a California but the population of Oregon. Blessed with abundant hydroelectricity resources and, at least in recent years, a steady source of natural gas, the power system yet suffers from intractable problems.

The power system and the regulatory regime that oversees it, however, are distinctly British in form, and the early deregulation of its markets owes more to the UK than to U.S. models. The 1980s and 1990s brought pressures for a radical program of economic reform that soon translated into deconstruction of the state-owned grid. But not entirely, as key organizations, including TransPower and several major generation/retail players, remain state-owned entities.

Even at the supposedly deregulated distribution level, utilities are a mix of publicly traded corporations and locally owned agencies. Daily power markets set prices for generation, while utilities have the authority to set their own rates—up to a point.

The question posed by the authors is whether all the changes have brought about a net improvement to the national welfare. The record is mixed. Auckland's vulnerability to blackouts notwithstanding, system reliability has improved, they find. Profit margins for electrical corporations and dividends to the government have been trimmed substantially. Real electricity prices have decreased for commercial and industrial customers, but have proven somewhat higher for households. Investment lags but often as a result of other limiting factors, including an environmentally stringent Resource Management Act.

"To a greater extent than ever before, those bearing the costs of decisions affecting the electricity sector have enjoyed the possibility of involving themselves in the solutions," the authors conclude.

What New Zealand has created is certainly a more dynamic electric and regulatory system, which, based on the most recently proposed National Energy Strategy, now will further turn attention to greenhouse-gas reductions, renewable energy, and innovation as goals for the future.

Which means Evans and Lewis might well begin working on a sequel to *Alternating Currents* to keep us informed. F

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