

MINISTERIAL INQUIRY INTO THE ELECTRICITY INDUSTRY

My submission only addresses some of the fundamentals of this special industry. It does not attempt to cover specifics in the Terms of Reference but is a general comment on some of the main issues. It is hoped that the following points will be kept in mind when considering any future changes. I confirm that I do not wish to participate in the Inquiry Interview process.

1. Product and/or Service

Grid supplied electricity is essentially a non-differentiable product which has been completely standardised throughout the developed world. The consumer has no choice in the type or form of product delivered by the power supply distributor.

Electricity is also seen as a service by supply companies who artificially differentiate the product and offer their customers "budget" electricity at a lower price to suit their own wholesale contracts for a cheaper, non-secure supply. This does not apply to off-peak or night rates where demand-side management should be encouraged.

The Consumer Guarantees Act does not include grid electricity as either a product or a service which confirms its special nature in the marketplace. There is in fact no other product which exhibits the unique properties of grid supplied electricity and hence it is no surprise that market mechanisms are not achieving the desired objectives. A complete rethink on the suitability of a market for electricity is needed.

2. Competition

It is clear that in the complex numbers game of competition, which could be represented by the standard equation; $a + jb = c$, the real part "a" has been swamped by the imaginary part "jb" due to the exceptionally high value of "b" for the electricity sector. The j-factor has been grossly underestimated when setting up the market. It is unlikely that further complications and additions to the present regulatory regime will reduce this imaginary term so the goal of real competition would seem unachievable.

We are told that 5 to 6% of all consumers have changed their supply companies since the market started but about 60% are now able to choose a supplier. The 6% level is average for most developed countries at this stage. Why have not more consumers changed supplier and more importantly, do most consumers want to change anyway when it involves so much effort and there is no guarantee of cheaper prices?

3. Power Prices

Only the large consumers who participate in the wholesale market have seen any benefit through lower electricity prices. If we are to believe that electricity prices were artificially high due to cross-subsidisation of other municipal services in the past, then we should have seen a marked drop in prices by now. However private power companies managing their newly acquired assets have to make reasonable returns so prices have remained much the same or have increased in some areas.

Regulations require extensive disclosure of pricing levels and other accounting information by power companies. This can hardly contribute to an open market system where prices should be independently established to allow a wide choice for consumers so they can gain confidence in choosing the best value product for their own situation.

4. Future Scenario

The wholesale market is beyond the reach of the small consumer. There may be some merit in retaining the market for the generation sector only where competition could bring improvements in operational efficiency and resource usage. However environmental issues must also be included so that the country can meet its obligations for the future. A monopoly transmission sector could then contract for large blocks of energy over a specific time period. The transmission sector, which manages the overall network, would then sell energy to monopoly distributors and other large users supplying their own areas. Small consumers would have no choice of supplier but a transparent regulatory regime with benchmarks would effectively ensure the cheapest possible prices.

This scenario is obviously a significant step back to the old situation but in the interests of all consumers the overall system would be greatly simplified and many of the large unnecessary cost elements causing the higher electricity prices now, would be eliminated.

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