

Presentation to :

**NZ Energy Federation Conference on the Electricity
Commission and Market Design Options**

**“The changing balance between market and
intervention in the electricity sector”**

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More market and improving intervention trends over time

- Pre 1986 the state ran everything
- 1986 to 1996 unbundling/corporatisation create efficiencies, heavy-breathing to regulate. State takes economic rents.
- 1996 to 2003 self-regulation in NZEM and MARIA dominated by supply side – dominant generators couldn't lose, end consumers lose (eg bear all dry-year risk). Self-governance didn't fail because we never had proper self-governing arrangements. MACQS was an exception
- 2003+ Electricity Commission “will provide stability and direction for the market by giving it a unified governance structure”

Opportunities and risks with the Electricity Commission

- There will be a better forum for overall strategic issues to be better debated
- The risk of pro-competitive rules for the wholesale market being delayed will be reduced
- Solutions to the hold-out and free-rider problems for the grid investment and who pays issues will be progressed
- There will be the usual risks of regulator creep, capture, unnecessary bureaucracy and bending to Ministers whims
- Unclear how governance and strategic direction role will be separated from being a player in the market with reserve generation function

The reserve generation issue

- As with any intervention there may be unintended consequences – this is not a trivial design issue
- The \$40/household/year cost number has been misunderstood. The Whirinaki proposal (150MW) costs <\$5/household/year standing costs plus <\$10/household/year if actually used. Marsden B (250MW) would have even lower standing costs
- If the risk of non-supply in winter 2004 and 2005 has been diminished by the Genesis-Solid Energy coal deal and Genesis 40MW open-cycle Huntly unit, should we leave design details and flexibility to the Electricity Commission to decide?
- While reserve generation is important, other rule making responsibilities are likely to make more of a difference
- There is no silver bullet.

Market and intervention issues from 2004

- Gas market reforms
- Climate change policy and attitude to coal as power station fuel
- Removing barriers to Dobson type developments
- Privatisation of SOEs
- How quickly will technology erode vertically integrated generator dominance?
- Removal of obligation for distributors to supply after 2013

Conclusions

- The Electricity Commission is part of the trend from a state-run industry, a focus on efficiency first and now smart regulatory oversight and intervention to manage market failures.
- Market outcomes have consistently been preferred over the last 16 years – but its been a costly and long-winded process to get this far.
- The Electricity Commission has the promise of making timely and cost effective improvements to the industry – but it also bears risks
- The Electricity Commission will not have any single silver bullet and neither is it the sole decider of key factors affecting the industry. Nevertheless it is a welcome and important aspect of the market.