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Comment on Electricity Reform Bill

Child Poverty Action Group (Inc)

Backgrounder 01/10

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Child Poverty Action Group (Inc) (CPAG) is a non-profit group formed in 1994, and made up of academics, activists, practitioners and supporters. CPAG has a strong education and research role which enables it to contribute to better informed social policy to support children in Aotearoa New Zealand, specifically children who live in poverty. CPAG believes that our high rate of child poverty is not the result of economic necessity, but is due to policy neglect and a flawed ideological emphasis on economic incentives. Through research, CPAG highlights the position of tens of thousands of New Zealand children, and promotes public policies that address the underlying causes of the poverty they live in. **If you are not already supporting CPAG and you would like to make a donation to assist with ongoing work, please contact us at the address below or through our website:** www.cpag.org.nz.

This is part of Child Poverty Action Group's series of background papers.

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The Electricity Industry Bill is presently going though parliament. It is a lengthy and complex piece of legislation, with submissions due by 26 February 2010. According to the explanatory note to the Bill its overall aim is to improve competition in the electricity market and improve security of supply by –

- Improving the governance arrangements for the electricity industry;
- Providing for specific regulatory improvements to be made; and
- Making improvements to the overall structure of the sector.

The Bill's reliance on market mechanisms and structure to deliver affordable electricity to domestic energy users is surprising, given those same mechanisms have failed to deliver in the wake of the last reforms in 1998.

Along with others such as the Domestic Energy Users Network (DEUN), CPAG has some concerns about the proposals in this Bill. The first is the replacement of the existing Electricity Commission with a new Electricity Authority, with much reduced powers. The objectives (as noted above) of promoting competition and reliability of supply, and efficient operation of the market have been retained, while the consumer-related objectives of fairness, sustainability, and promotion of energy efficiency have been scrapped. Domestic consumers provide 46% of the industry's revenues, although they use only 33% of the energy, While Authority members may have knowledge and experience of consumer issues, it is unacceptable that there is no position on the Authority for a consumer representative. In the last 20 years, it has become all too evident that consumer protection does not come from competition.[1]

The Authority makes and administers the Electricity Industry Participation Code: observe the code drawn up by people with "capability in the electricity industry" to regulate that same industry. Those same people are also beyond the control of the Commerce Commission: clause 142 states that the Commerce Commission may not set pricing methodologies if they have been set out by industry-specific regulators. Although Authority members are nominally independent, this still

[1] See http://www.med.govt.nz/upload/69725/volume1.pdf. Note that the August 2009 **Ministerial Review of Electricity Market Performance** by the Electricity Technical Advisory Group and the Ministry of Economic Development proposed (p. 79) that the 6 members of the recommended Electricity Management Authority, appointed by the Governor-General on the recommendation of the Minister of Energy and Resources, would include, as well as one member nominated by generators and retailers, one member nominated by lines businesses including Transpower, and one member and an independent chair nominated by the Minister: two members nominated by Consumer New Zealand and Business New Zealand respectively. Clearly, the Review Committee saw benefits in consumer participation in governance of the electricity industry.

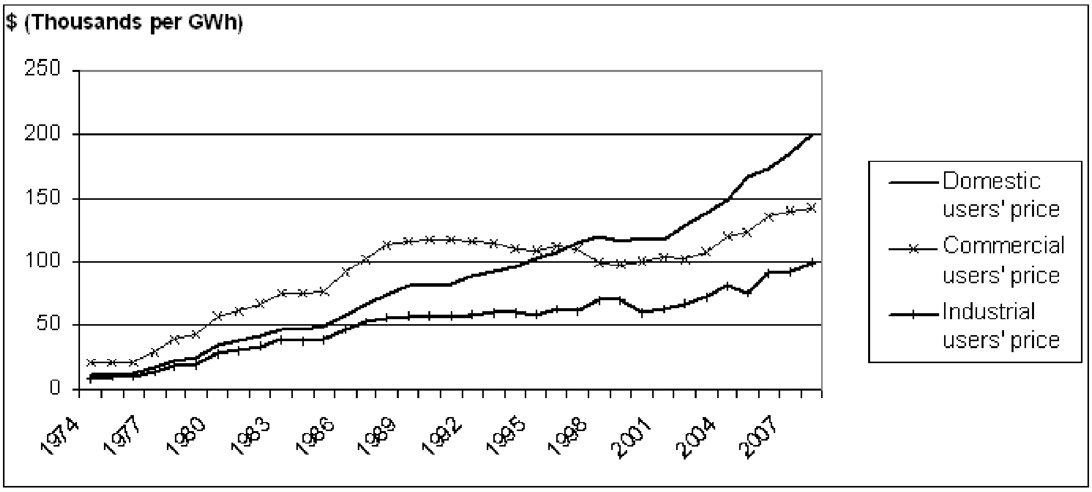
does not address the fact that the Authority and code do not have any requirement to protect the interests of domestic consumers.

It is of grave concern that the Authority is no longer being empowered to consider issues of fairness, as the Ministerial Review of the Electricity Market felt fairness issues were best considered by Ministers. However, as the government is shareholder in four major industry participants, namely the three of the country's four electricity generators and Transpower (a monopoly supplier), there clearly a conflict of interest.

Despite its claims, the Bill is unlikely to produce any long-term benefit for consumers since it does little more than tell consumers to shop around.

A key point made by DUEN is that the difference in prices paid by residential and non-residential consumers has not been addressed. Large industrial users are able to negotiate bulk contracts, whereas domestic users are subject to generators exercising considerable market power to essentially overcharge. Figure 1 shows the price differential between domestic and commercial and industrial users started to increase in the 1980s, about the time the electricity generators were corporatised into SOEs, and has continued to grow ever since. In effect, domestic users are subsidising the profits of industrial users and SOEs.

Figure 1: Price per giga-watt hour (GWh) paid by domestic, commercial and industrial electricity consumers, 1974 – 2008.



Source: Ministry of Economic Development Energy Data Files

Concerns about the Bill have also been expressed by Powershop, a subsidiary of SOE Meridian Energy. According to its CE Ari Sargent: "There is a high risk the proposed reforms for the energy sector, released today by Minister Gerry

Brownlee, will do exactly the opposite of what the Minister intends and actually raise electricity prices and reduce the security of power supply to New Zealanders." Sadly, in telling indictment on the lack of independence of SOEs, Gerry Brownlee ordered the removal of the blog in which this statement appeared.[2]

So what are the implications of the Bill for low-income families with children?

During the 2000s electricity prices rose 72% compared with general inflation of 28%. By 2008, 24% of New Zealanders were living in fuel poverty, needing to spend more than 10% of their income to maintain temperatures recommended by W.H.O. for health and wellbeing. Families reported difficulty paying power bills, and many had their electricity disconnected. This Bill as it stands delivers control of the industry to the industry, with those most vulnerable to electricity price rises being given no voice in a market where wholesalers exercise considerable market power. If power prices continue to go up at the rate they have been in recent years, families on low and fixed incomes will find themselves squeezed even further. More will get their electricity cut off, and economies will be made elsewhere, for example through cheaper accommodation and cutting back on food. In a country where thousands of children already live in overcrowded conditions or go to school hungry, this cannot be tolerated.

It is to be hoped Mr Brownlee's industry reforms will be revised to include the domestic consumers' voice in decision-making, or we will see a further transfer of wealth from the poorest families to electricity producers and industrial and commercial consumers.[3]

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[2] http://www.scoop.co.nz/stories/PA1001/S00027.htm

[3] See http://www.comcom.govt.nz//BusinessCompetition/Publications/Electricityreport/ContentFiles/Documents/Wolak%20report%20part%201.pdf.