

The problem with our electricity industry

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For decades now the electricity industry has relentlessly gouged monopoly profits and functionless rents out of hapless residential consumers, while government ministers, officials, inquiries and "regulatory" agencies have acted as willing accomplices, cheerleaders and rubber-stamp providers, writes Dr Geoff Bertram.

Suddenly it has dawned on the industry and its cronies that their fat-cat status is threatened by the belated arrival in New Zealand of some serious actual competition, in the form of rooftop [solar photovoltaic panels](#) coupled with modern battery storage technology.

The new technologies offer consumers the chance to generate their own electricity, end their dependence on overpriced grid-supplied power, and (under the current pricing regime) save money in the process.

Enter the Electricity Authority, via a new report solemnly insisting that [electricity pricing](#) must be restructured to make rooftop solar uneconomic again for years to come, staving off market penetration by the the new technologies and keeping New Zealand locked into the old, increasingly obsolete electricity supply model – and preserving, in the process, the inflated asset values and profits of the incumbent generators and lines companies.

As usual with this sort of neoliberal propaganda exercise, the argument is that what's good for Meridian, Contact, Mighty River and the rest must be good for New Zealand, so any consumers thinking of investing in energy independence must be deterred from doing so for the greater

good of society.

The industry's problem runs as follows. Residential consumers pay, on average, 28 cents per unit (kilowatt-hour) to purchase retail electricity, and consumer-owned rooftop solar supply can now match or undercut this. Much of the centrally-supplied electricity is generated by the big companies from renewable sources at a cost of less than one cent per unit, while they collect nearly 17 cents per unit (including retail markup) out of the retail price, yielding the fat profits that underpin the very high asset valuations of their hydro and geothermal power stations.

If consumers move to self-generation using solar panels, this means falling demand for the big corporates' supply, forcing their prices and profits down.

(They won't be driven out of production, because the investment costs of their generating stations are sunk and cannot be recovered by closing down the plants, so they will keep operating so long as they can cover their running costs.)

One way for the big generator-retailers to protect their profits would be to cut the cost of transporting their electricity to consumers' homes over the wires of the national grid and local lines networks.

At present the grid and lines companies collect nearly 12 cents per unit from the retail price, a big chunk of which is monopoly profit that props up their inflated asset values with approval from another of New Zealand's zombie "regulators", the Commerce Commission.

Faced with competition from the new technologies, thus, there is ample scope for the industry to respond by cutting its prices and writing-down its asset valuations.

This would be the standard response in competitive markets, but not in the Alice-in Wonderland world of the New Zealand [electricity](#) industry, where the Electricity Authority worries more about the risk of "reduced shareholder value" than about giving consumers a break from remorselessly-rising prices, and the Commerce Commission swallows the lines companies' position that their asset values are "sacrosanct".

So if the competition from rooftop solar is not to be met by cutting prices, what other avenue is open for the established players to block innovation?

The Electricity Authority's solution is simple: raise the costs of the rival new technology by requiring residential consumers to pay more for the alleged "common cost" of peak capacity provided by the lines companies.

Never mind that much of this alleged "cost" is just monopoly profit cloaked in accounting jargon. Never mind that the allocation of genuine common costs on infrastructure is inescapably arbitrary.

Never mind that in the long run, pushing up peak line charges to squeeze the value out of rooftop solar simply increases the likelihood that better-off consumers will dump their lines connections altogether, and resort to strategies that combine self-generation with battery storage and local cooperative networks to achieve full energy independence, leaving the existing network assets stranded.

The Electricity Authority's firm view is that stopping consumers from saving themselves money is "for the long-term benefit of consumers".

Which bring us to the final irony. Suddenly the Electricity Authority has woken up to the existence of low-income households that have been driven into fuel poverty by 20 years of price-gouging.

Alas, they now might have to pay even more if (i) rooftop solar is installed by the rich, (ii) lines companies refuse to accept lower revenues and asset write-downs, and (iii) no regulator steps in to prevent exploitation of the poorest and weakest players in the market. How different the story could be if New Zealand had a real regulator, and if the words "long-term benefit of [consumers](#)" meant anything.

Provided by Victoria University

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