



## **ELECTRICITY COMPETITION MILESTONES**

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### **1987**

Government's generation (97% market share) and transmission department was corporatised (as ECNZ Ltd.) and electricity generation deregulated. However, ECNZ's market dominance resulted in negligible new generation by others before 1996.

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### **1990**

Dunedin Electricity corporatised to prepare for impending industry restructuring.

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### **1992**

The Energy Companies Act requires all electricity activities of local government to be corporatised.

Dunedin Electricity, Energy Direct (Wellington), Valley Power (Thames Valley) and Waitemata Electricity (North Auckland) jointly form New Zealand's first wholesale electricity trader, Pacific Energy Ltd.

A voluntary industry study (WEMS) recommends to Government the creation of a wholesale electricity market.

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### **1993**

Consumers below 50,000kWh per annum become eligible for competitive supply, based on half-hourly metering. Predictably, metering/data management costs ensure that negligible competition emerges.

Dunedin Electricity and Electricity Invercargill voluntarily separate their "wires" and "retail" businesses and jointly form the world's first mass-market electricity retailer, United Electricity Ltd. Subsequently Alpine Energy (Timaru) and The Power Company (Southland) also voluntarily separate their "wires" and "retail" businesses and join United.

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### **1994**

Under growing criticism of its dominance, ENCZ separates its transmission activities into wholly-owned subsidiary Transpower NZ Ltd. All consumers become eligible for competitive supply, based on half-hourly metering. Competition proved effective for large consumers - it increased to 0.1% of all consumers and 6% of total energy sold.

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### **1995**

Following the WEMS study of 1992, Government's own study (WEMDG) took another two years and recommended creation of a wholesale electricity market.

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### **1996**

Approximately one third of government corporation, ECNZ Ltd, was split off to become Contact Energy Ltd, and an interim half-hourly wholesale electricity market commenced. Government then owned 2 generation companies, with combined market share of approximately 96%.

## **1996**

The "final" wholesale electricity market commenced, featuring full nodal pricing similar to the PJM market in the US.

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## **1997**

Retail competition remained at the 6% level achieved in 1994. Few believed that real competition existed at either the wholesale or retail levels. Dunedin Electricity and United Electricity presented Government with a blueprint for retail competition. To "prove" that it can be done, United Electricity and Christchurch-based Southpower Ltd launched a voluntary retail pilot. Government promised action "next year".

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## **1998**

Government passed the Electricity Industry Reform Act, limiting cross-ownership between "wires" and "electricity generation and retail" businesses to 10%. In the following 8 months all 34 electricity distributors sold their generation assets and retail businesses; most were bought by the soon-to-be-separated Government generation companies.

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## **1999**

The government-owned Electricity Corporation was split into three, and the earlier-separated Contact Energy was sold. Government ownership of generation reduced to approximately 60%, but its ownership of electricity retailing had increased to a similar market share.

Not two months into the new competitive industry structure Government was embarrassed by retail electricity price increase, blamed electricity distributors for them (or for lack of price decreases!), and introduced hasty price control legislation into Parliament. Other political parties refused to support the legislation, the Government was defeated in national elections, and the Minister of Energy lost his own electorate.

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## **2000**

In February the new Labour Government announced the terms of reference for an inquiry into the electricity sector. The inquiry report results in legislation being introduced to Parliament in December.

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## **2001**

The Electricity Industry Act 2001 was passed, empowering the Commerce Commission to regulate line charges, and the Minister of Energy to regulate everything else.

Low hydro inflows and storage levels were accompanied by wholesale market spot prices exceeding 20c/kWh, apparently led by Government-owned major generator Meridian Energy. The Minister of Energy called for voluntary conservation but declined to intervene. NZ's largest electricity retailer, National Gas Corporation (which had purchased the electricity retail business when Canada's Trans Alta quit New Zealand, had recently re-branded itself OnEnergy [sic] to escape the bad reputation its service had given the Trans Alta brand, and which had comparatively negligible generation and was inadequately hedged) attempted to raise retail prices. Customers began to flock to other retailers, who generally held their prices. NGC then backed down on the price increases and, being unhedged, "bled to death". It quit the retail sector after huge losses, selling its customer base to two of the Government's companies,

Meridian Energy and Genesis Energy, who then "closed their doors" to new customers because their billing systems couldn't cope with their acquired customers. A Government enquiry concluded that there was no evidence of market power. While few tears were shed for OnEnergy, it was generally agreed that the game score was: *Government 2, Competition Nil*.

Most retailers announced significant retail price increases, after refusing to raise retail prices during the winter shortage, and after the Government enquiry into the shortage had closed.

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## **2003**

Low hydro inflows and storage levels again resulted in exceptional wholesale market spot prices. As a consequence, retailers Trustpower and Freshstart abandoned market areas where they had no generation. This strengthened the already-apparent drift toward regional dominance by integrated generator-retailers. For the 2003 shortage the game score was: *Generator-Retailers 2, Independent-Retailers Nil*.

After years of preparation, the industry referendum on self governance fails, when dominant State Owned Enterprises Transpower (national grid) and Meridian Energy (the dominant generator) vote against it, preferring the governments' announced regulatory model. The Government responds, as it had previously signalled it would if the industry failed to self-regulate, by creating an industry regulator - the Electricity Commission.

After being stable since the 2002 winter, energy prices take off again, with residential energy charges increasing by 10%-15%. Government raises no significant concerns about this, after the lessons learned in California about what price intervention does to investment.

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## **2004**

The new Electricity Commission effectively takes control of the industry, though some matters of political urgency (winter 2004 security) remain directly under political management. The government contracts with Contact Energy to construct a "dry-year" gas turbine station at Whirinaki and to operate it thereafter, and transfers ownership to the Ministry of Economic Development rather than to one of its three generating State Owned Enterprises. Contact Energy had previously purchased Whirinaki gas turbine station from ECNZ in 1996, dismantled it and sold the turbines overseas.