No power in Auckland for two months

Privatisation to proceed despite blackout

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Life in the central business district of New Zealand's biggest city, Auckland, is only beginning to get back to normal after the collapse of its electricity supply at the end of February.

For the past two months, the country's largest financial centre has been paralysed. All the infrastructure of a modern city—computer networks, elevators in office and residential towers, lighting, security systems, refrigeration, traffic lights—failed.

Businesses, shops, hotels, hospitals, apartment complexes and government offices were forced to rely on portable generators, operate without electricity, set up operations elsewhere or shut their doors completely.

More than 60,000 residents and workers in the city centre were affected, thousands of jobs were destroyed and scores of small businesses were bankrupted. Retail sales in downtown Auckland slumped by 12 percent in February compared to February 1997, and the declines in March and April are likely to be much worse.

The blackouts began on February 20 when the last of four major power cables supplying the city centre was severed, leaving only a limited stand-by cable to provide for emergency services. Three other key cables had failed over the previous month.

On March 27 the electricity supplier, Mercury Power, a semi-privatised company, confidently announced that all systems were back to normal—but hours later there was another blackout. Another announcement the following day met with the same fate, and the company later indicated that power supplies would not be restored until mid-April.

Mercury Power announced last week that a full service, complete with adequate backup, had been reestablished after a fault in one of the two substations supplying central Auckland had been finally fixed.

The repair work had been severely hampered by the lack of trained maintenance staff, including vital cable junction fitters, and the protracted rundown of the city's electricity infrastructure.

Mercury Power was established in 1992 to take over from the disbanded Auckland Electric Power Board. It sacked or contracted out half of its staff, terminating 600 workers, including its cable maintenance and other technical personnel, raised the price of electricity, increased profits up to $100 million a year and launched a $300 million takeover of a rival power company. Millions were spent on a public relations campaign to portray Mercury Power as a reliable, "no worries" power company.

The management initially tried to deny any responsibility for the blackout, ascribing it to "freakish, bad luck." Later, the company blamed everything from the El Nino weather pattern to cable damage from traffic vibration and land movement.

But two years ago Mercury Power itself predicted the blackouts. It was well aware that the existing power cables, two of which were more than 40 years old, were about to fail. In a 1996 application to build a power cable tunnel, management told Auckland City Council the cables were "unreliable" and forecast that their capacity would be exceeded by mid-to-late 1997.

So far, the company has been forced to make 2,500 compensation payouts. Another 500 claims are pending, including some by large organisations facing seven-figure losses.

Financial markets worldwide have promoted New Zealand as a model for free market reforms and privatisation. The process began under Labour governments, from 1984 to 1990, and continued under subsequent National Party governments.

Mercury Power was established as part of the breakup and privatisation of New Zealand's electricity generation and distribution. Despite the Auckland catastrophe, Mercury Power is now planning a float of 25 percent of its shares, in preparation for full privatisation.

And even in the midst of the Auckland blackouts, the National Party government of Prime Minister Jenny Shipley announced it would press ahead with the restructuring of the electricity industry and split the existing electricity producer ECNZ into three separate companies.

A government inquiry into the power failure is not due to hand down its findings until June. But the results of restructuring are completely predictable: higher prices and unreliable supplies for working class residents and small businesses, while the wealthy arrange private supplies and power companies compete to provide cheaper power for corporate users.