New electricity privatisation in New Zealand will lead to higher prices

A correspondent
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New Zealand's minority National Party government took the privatisation of public utilities a step further last week when it launched a share float of the major electricity supply company Contact Energy. Expected to realise a windfall of up to $NZ3 billion, it will be the second biggest privatisation since the country's telephone operator, Telecom, was sold in 1989-90 to the US companies Bell Atlantic and Ameritech for $4.25 billion.

Contact Energy is the country's second largest energy supplier, and owns significant national infrastructure on which the daily lives of the citizens depend. Included are eight power generating stations in the North Island and the major hydro-power plants of Clyde and Roxburgh in the South Island.

The first stage of the sale occurred two weeks ago when a 40 percent share of the company went to the Californian-based Edison Mission Energy for $1.2 billion, three times its anticipated price. Edison is one of the world's largest power producers, with 48 power projects in countries as diverse as Australia, Spain, Britain, the US, Indonesia, Italy, Thailand and Turkey.

The public share float now underway is expected to see the remaining shares sold initially to 175,000 small investors, boosting the government's budget surplus by $1.5 billion. This in turn, is leading to strong speculation that National, which until recently has been behind the opposition Labour Party in the polls, will be in a position to use its surplus to offer election year tax cuts to the middle class.

The sale of Contact Energy is one of the final stages of the privatisation of the electricity system, begun in 1986 under the Labour Government. The then Electricity Department was converted into Electricorp, a State Owned Enterprise, which was then divided into three separate operational units covering electricity generation, transmission supply and consumer retail. Competitive markets were intended to operate at all levels, and regional non-profit electric power boards were subsequently transformed into public companies.

In 1993, the National Party government set up a host of regionally-based power companies, with shares being offered to electricity consumers. It was only a short step to the full takeover of electricity supply by private conglomerates. The ensuing period has seen a frenzy of selling and merger activity, based on the drive for market dominance. Power retailing is now dominated by seven companies and generation by five. The last remaining part of the state system, the Electricity Corporation of NZ was split up into three companies on April 1, opening the way for a final round of privatisation.

Contact Energy, with 21 percent of the retail customer base and 27 percent of the production capacity is second only to Canadian-owned Trans Alta, which controls 32 percent of the national customer base and 11 percent of the generating capacity. Contact's profitability is expected to rise sharply in the coming two years. Energy analysts expect it to earn a minimum of $78 million in the coming year, rising to over $100 million the following year.

The public justification for the privatisation of electricity was that market "efficiencies" and competition would lead to cheaper electricity. National's Energy Minister Max Bradford has claimed that the "reforms" have brought savings of $25 million a year to household consumers and $25 million to businesses.

However, such claims were proven utterly hollow in other developments during the week. Trans Alta dropped a bombshell by unilaterally declaring that its customers in the Wellington region were facing an immediate 10 percent rise in their power bills. The company's Auckland subsidiary Power New Zealand is set to raise its power prices between 3.6 percent and 10.4 percent, while its Christchurch-based company, Southpower, is imposing a price hike of between 5 percent and 13 percent. Half a million households will be affected.

A welter of claims and counter claims over who was responsible for this state of affairs erupted in the media. Trans Alta blamed the transmission line companies for changing their pricing structures. The line companies in turn denied that they had, or were intending to, do anything to cause a price rise, and in fact offered to return to their previous pricing structures. Government spokesmen blamed the "monopoly" held by the two line companies involved--United Networks and Orion--for failing to deliver the benefits of "competition".

What is clear, however, is that the privatisation program has seen the supply of an essential service--electricity--take second place to the demands of the realisation of profit. Commenting on the apparently grossly inflated price paid by Edison for Contact Energy, Jeff Williams the chief executive of the Tauranga-based Trust Power said: "When you look at the prices companies have paid for their assets, you don't need to be a rocket scientist to know somewhere down the track all of them are going to require a commercial rate of return on their investments".

It subsequently emerged that it was a failed bid by Trans Alta to buy Contact Energy that was at the heart of the inflated price. The "retail" end of the electricity market is the least profitable. Trans Alta faces controls nearly 30 percent of the customer base, but owns only 10 percent of the generation capacity. Those companies that control the generation of electricity, such as Contact, will be able to dominate the competition and squeeze out retailers.

In order to boost profits, jobs and conditions have been systematically slashed in the industry. Under the Labour government, staff numbers were cut from over 6,000 in 1987 to 3,700 in 1990. Almost 3,000 electricity workers lost their jobs in Electricorp alone in the five year period 1987-1992. After the privatisations, many more workers were laid off as maintenance and other areas of work were contracted out. Many full-time employees were forced to become self-employed contractors.

The end result of subordinating electricity production directly to the dictates of the market, firstly through corporatisation then outright privatisation, has been job losses, rising prices and calamities such as last year's lengthy electricity blackout in central Auckland, as a result of cost-cutting and lack of maintenance.