

The Mixed Ownership Model cannot support sustainable energy in New Zealand

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Summary

- what I mean by sustainable energy
- how today's regulation inhibits sustainable energy development: the “rules”, the outcomes
- Solutions: short term – negotiate changes within “rules”, sign the Citizens' Referendum petition!
- long term – envisage, plan, and re-regulate for a sustainable energy landscape and equitable society



Sustainability = physical not economic

- Need sufficient energy services for population's health and well-being, and for viable businesses
- reliability of preferred energy services, and back-up
- strategy to maintain these for decades & centuries
 - must recognise climate change, depletion of materials, and external impacts and unsustainability of fossil fuels
 - Requires genuine wide consultative planning system and
 - Re-regulation of pricing and investment, to meet objectives of equity and sustainability



How Rogernomics stole the power system

- 1986, SOE and Commerce Acts
- 1991: ECNZ: “prices must rise progressively towards LRMC”
- 1991-2, forced privatisation of local power boards - valuations doubled in few yrs, prices followed
- 1993, Cabinet decided wealth transfers don't count
- 1996? Telecom's Privy C'cl case – monopoly pricing is legal
- 2000 Labour introduces new objectives: “fair”, “sustainable”, energy efficiency, “all classes of consumers”
- 2002 Commerce Commission excludes energy efficiency and alternative fuels from electricity market
- 2003-9, Electricity Commission ignores Labour's objectives
- 2010, National removes Labour's objectives, stifles domestic consumer representation - pure Rogernomics.



MOM locks in today's regulation -

- which is unique in world for protecting investors not consumers
- “As amendments to the Code can substantially affect industry participants, and **unpredictable and ill-founded amendments can undermine investor confidence**, the Authority considers there is value in stating principles that the Authority and its advisory groups must adhere to when considering Code development matters. The primary purpose of the principles is to provide industry participants with greater predictability about decision-making on likely amendments to the Code, to **maximise investor certainty**.”

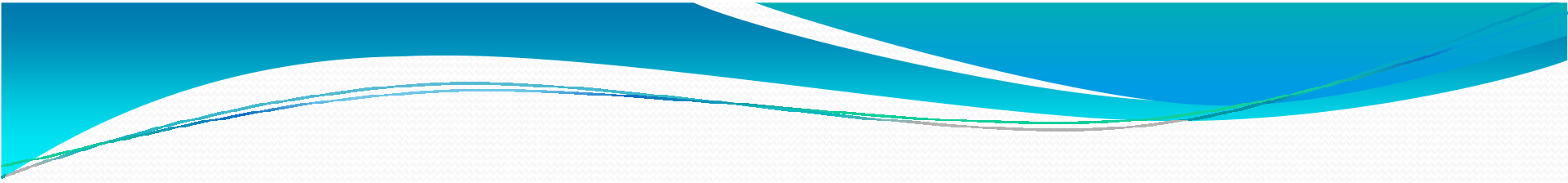
(Consultation Charter section 2.2)



Regulation is for “long-term benefit of consumers, but -

- A.5 “ . . . the Authority considers the net effects on electricity consumers and assesses the benefits to them in aggregate (the aggregate consumer approach).”
- A.7 “. . .the Authority’s decisions will be consistent with expanding the ‘size of the economic pie’, whereas if direct wealth transfers are included . . . then regulatory initiatives can be adopted even when they ‘shrink the pie’

(from Interpretation of Statutory Objective)



“A.8 At an individual consumer level, workable competition delivers benefits by keeping prices lower than they otherwise would be, and **the lower the prices are the greater the benefit to the consumer.**”

“A.9 At an economy-wide level, **however**, workable competition delivers benefits to consumers by placing **pressure on firms to set their prices close to their marginal cost of supply.**”

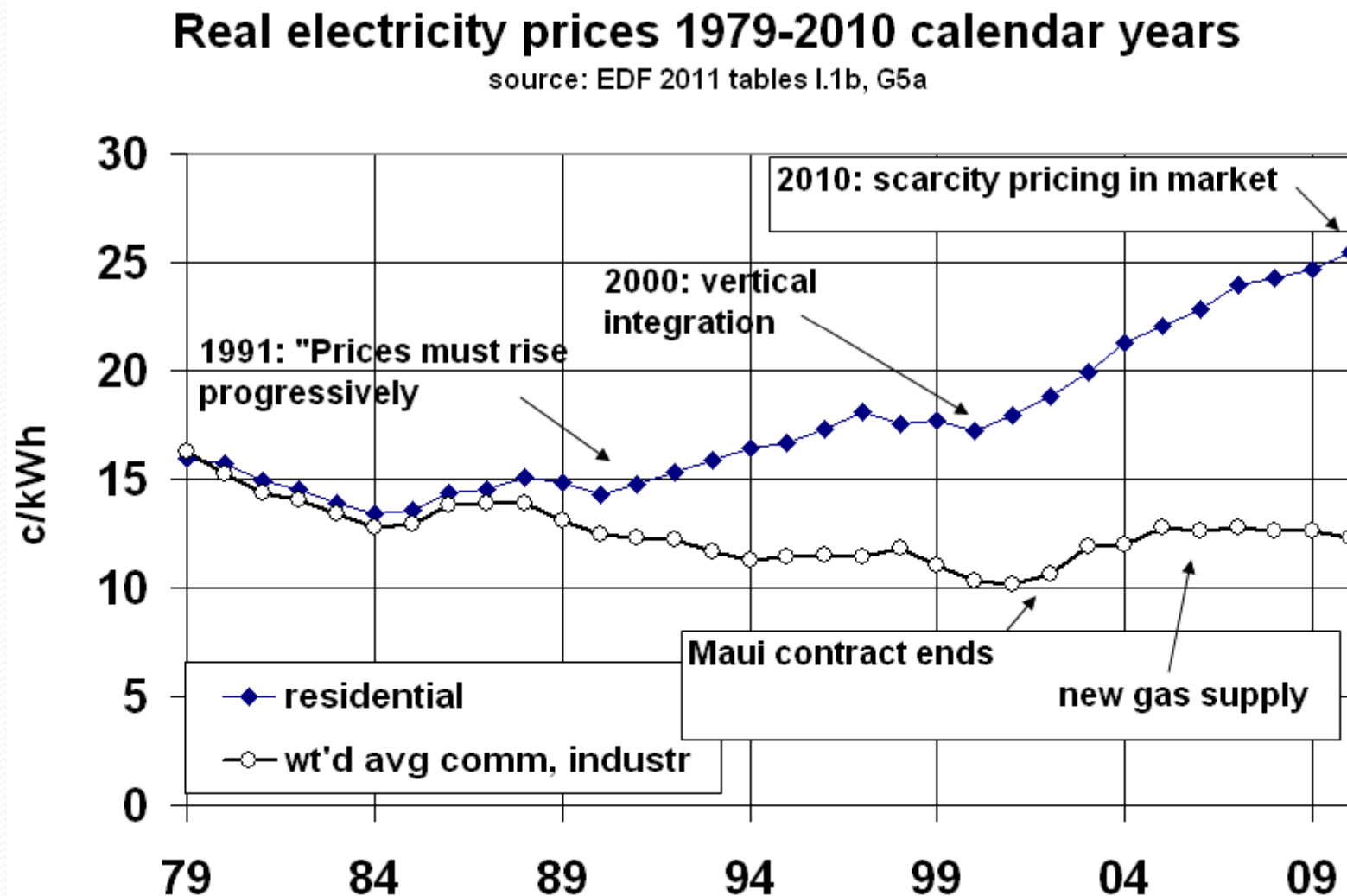
“A.10 the Authority interprets competition for the benefit of consumers to mean the efficiency benefits of competition. **This interpretation excludes wealth transfers . . .**”



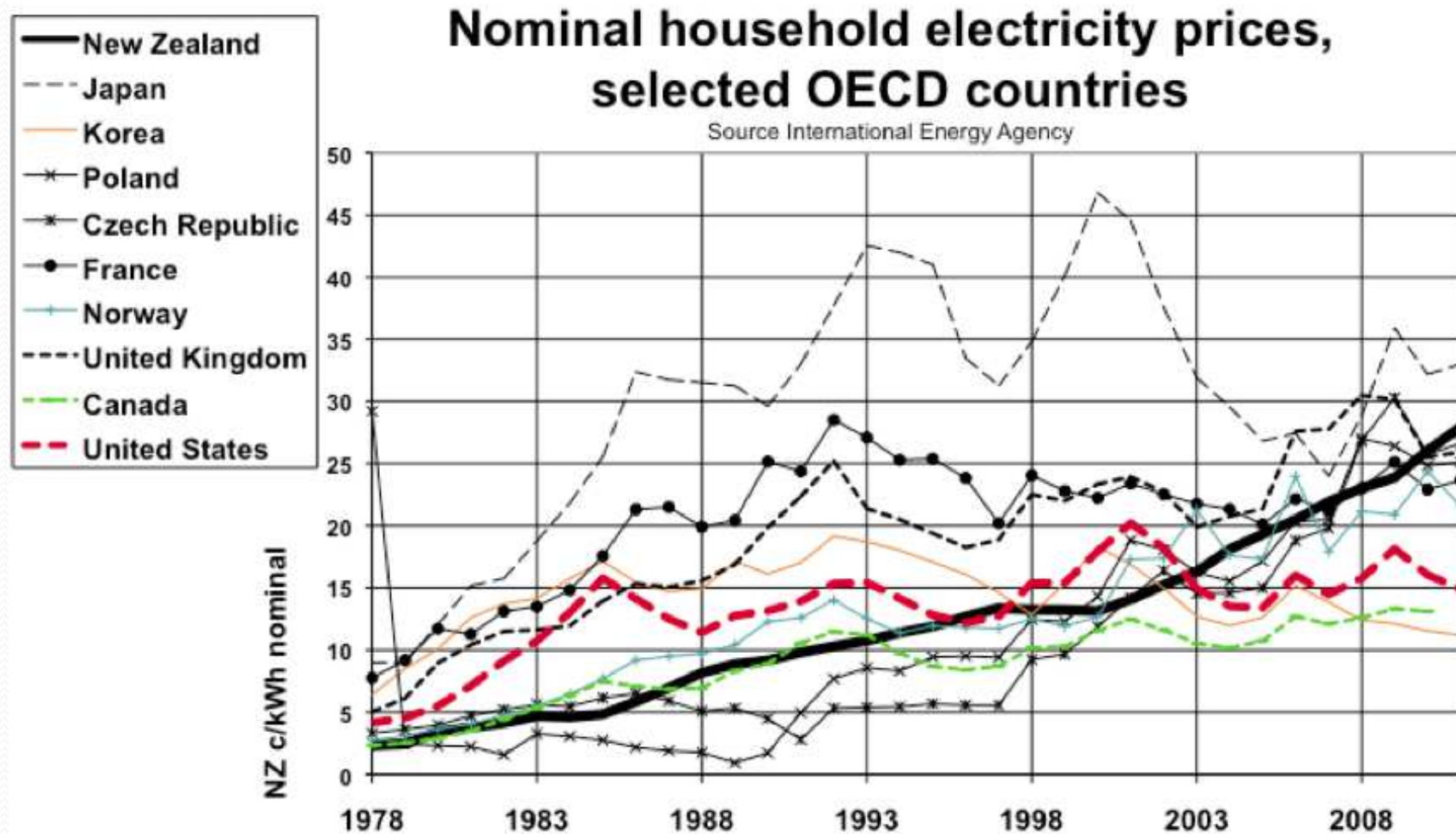
Translating:

- **“We don’t count consumer benefits from lower prices, but only benefits from more economic growth.”**
- The rhetoric says wealth will trickle down from suppliers to small consumers –
- Evidence proves the reverse: ever-increasing prices support increasing asset values, directors’ fees, managers’ bonuses – this is trickle-up to “the 0.1%”

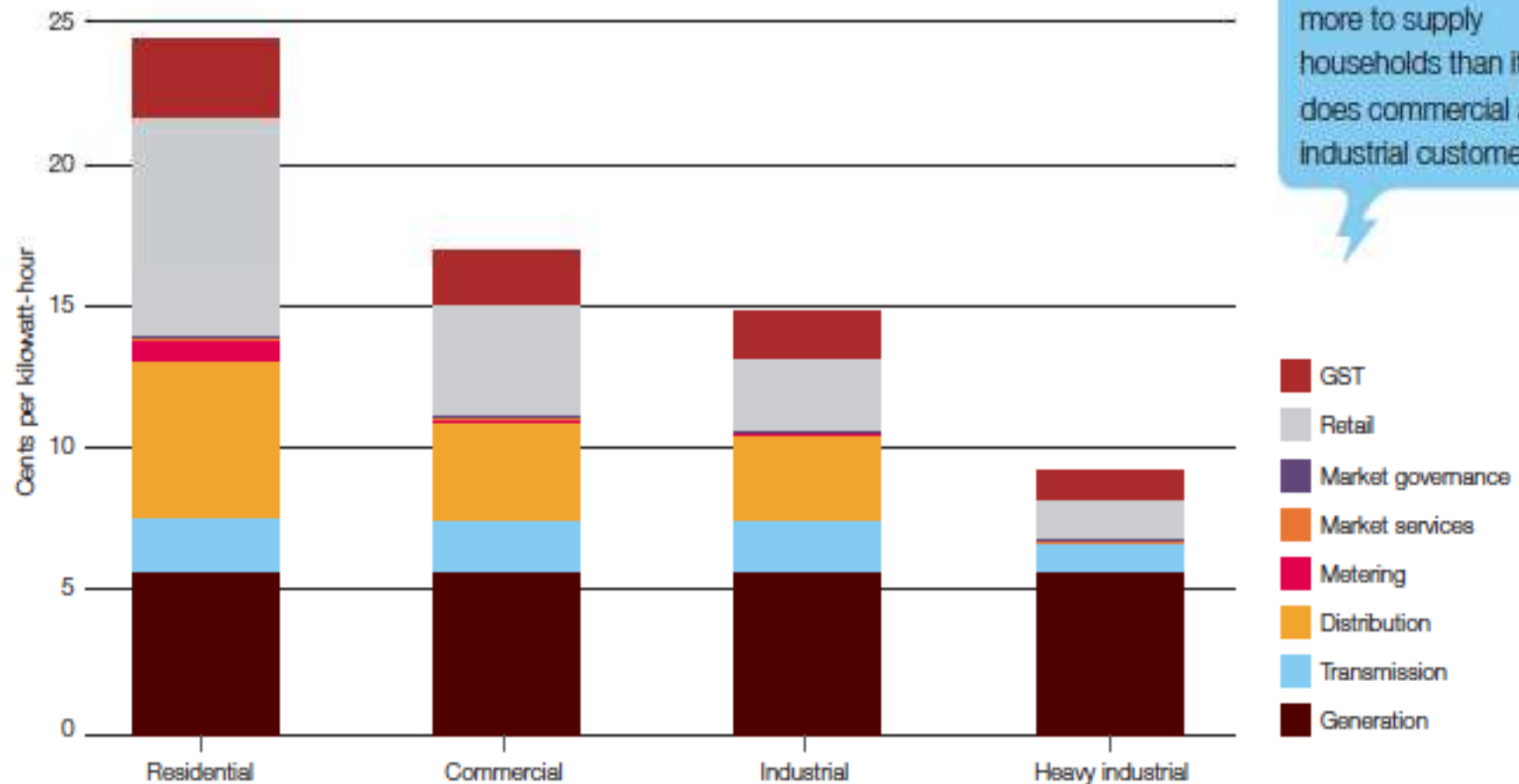
Outcomes: relentless resid. price rises



NZ price trend unique worldwide



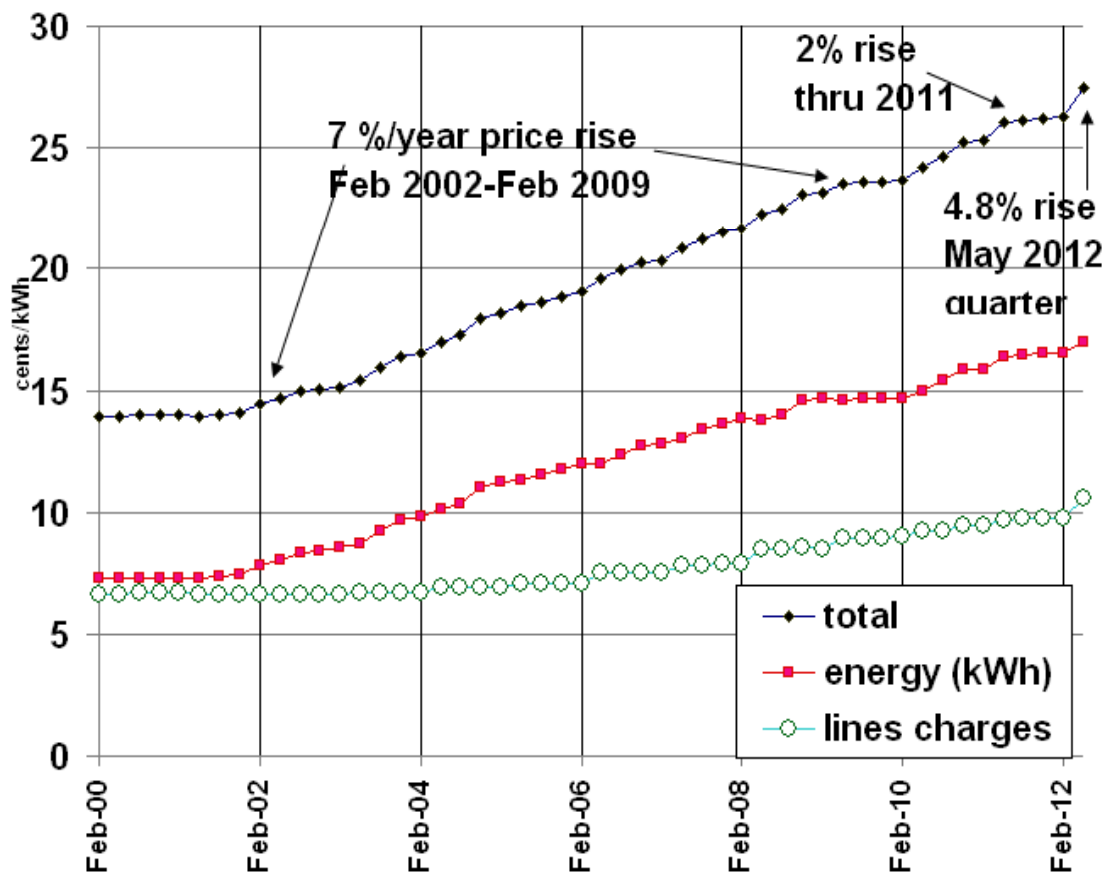
Retail services cost more than kWh!



Source:- Electricity Authority , Fact Sheet 3, "comparing prices"

Sudden price increase May 2012

QSDP May 2012 Residential retail average price
based on market share; and components



MED Quarterly Survey Domestic Electricity Prices May 2012

Graph shows prices calculated from tariff for 8000 kWh customer: all regions all retailers

Price rises slowed under National, but sharp increase after MOM bill passed

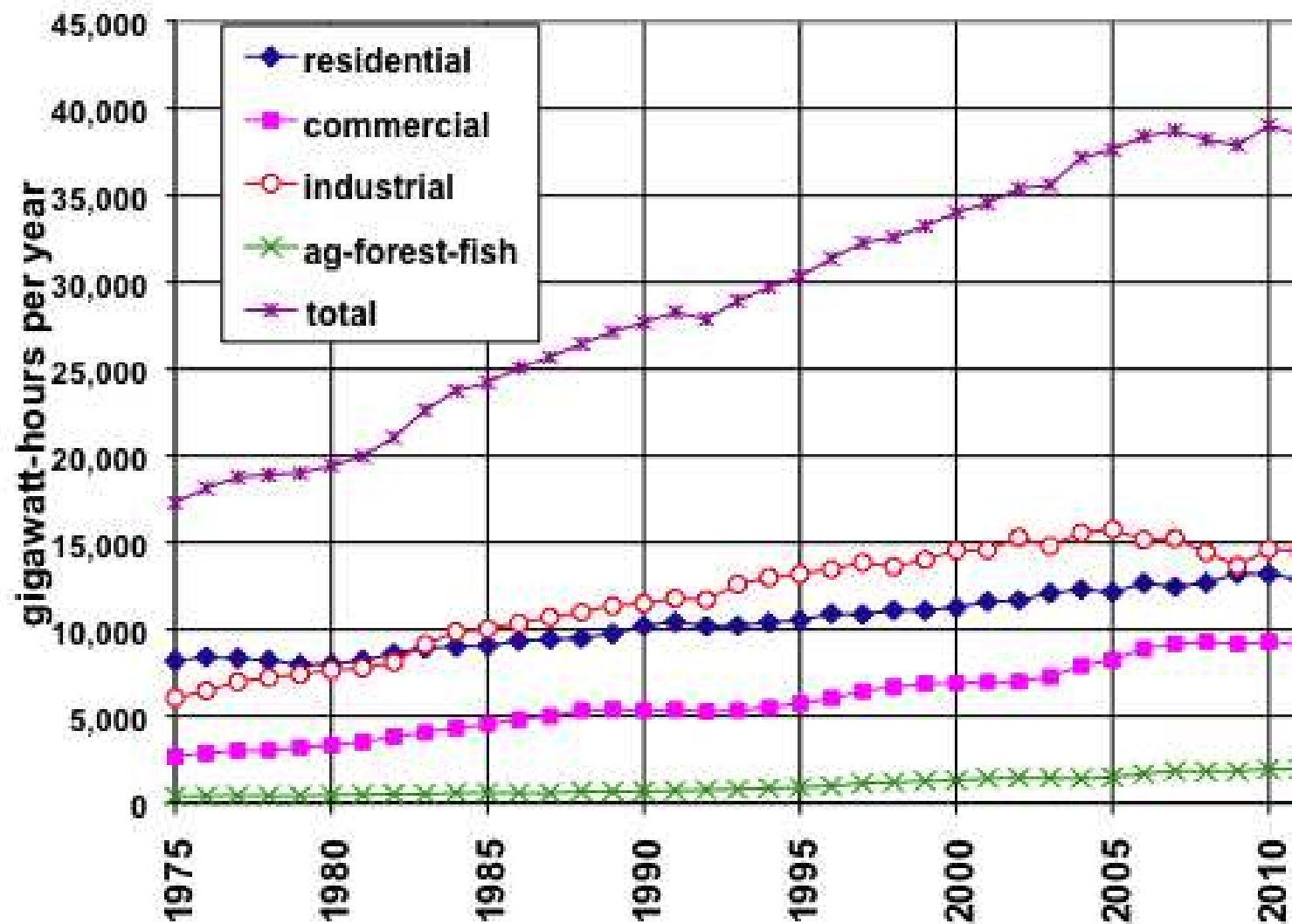
Rise caused mainly by Transpower charges: these will be high for 3 years



Conclusion, electricity prices

- Household electricity prices, relentless rise, even in real terms - householders have no say in the system
- Market pricing inflates retailing costs
- No other developed country has household prices increasing regardless of fuel or other cost changes
- Only industry and management gets the benefits – only the 0.1% are winners

Electricity demand 1975-2011



Source:- Energy Data File 2012, Table G.5a



Conclusion, electricity demand

- Christchurch quake suppressed demand, should be replaced by much more efficient household energy
- Industrial demand affected by 2008 smelter outage, and recession, newsprint being replaced by internet news, commercial demand has flattened
- Generation build schedule based on 2% growth, but demand growth in last 5 years only 0.3% per year!



Therefore - generation surplus

- This winter, generation is 1187 MW greater than expected demand
- “Most efficient” generation surplus is 780 MW
- New power stations under construction or “likely” to be completed by 2015 “will add” 2000 MW
- Gentailers building ahead of demand – why don’t they face normal commercial risks?



Reduced investment in “alternatives”

- Warm up NZ / Heat Smart - no new money, existing budget stretched over another year
- Gas and some firewood prices rising as fast as electricity, so poor returns from buying appliances
- Meridian offers buyback for solar electricity at retail price: but sold off “Right House” and “WhisperGen”
- End-user investment being swamped by supply-side



What to do: short term

- The slow-down of asset sales buys time to engage with Government to seek practical solutions
- Work within existing regulation to overcome barriers to sustainable energy in competing with traditional large-scale electricity
- Form alliances with environmentalists, Maori, consumers (DEUN/ Grey Power)



What to do, long term

- Envision a sustainable energy landscape
- Re-regulate to overcome market failure, but how?
 - What's wrong, probably not the electricity market per se
 - What is really wrong is the underlying objective of today's regulation, solely to promote economic growth
 - We need a real regulator, not a cosy industry cabal /revolving door of 0.1% insiders
 - “Only their purpose is mad!” (Bruce Jesson)



A sustainable energy landscape has -

- distributed supply, large- and small-scale
- extensive energy storage at all scales
- end-use suits energy quality (e.g. home heating)
- robust electricity networks (already happening)
- smart grid technology to integrate renewables
- example: see “Hutt Valley Transformed”



Energy storage options

- Ahuroa field: energy storage similar to SI hydro
- Very large hot water cylinders & ripple control (again)
- Firewood from forest arisings/coppicing together with efficient dual-fuel wood-fired appliances and systems
- Electric cars and bikes - batteries can maintain critical household energy services during blackouts while, together with bike paths, maintaining transport services

Hutt Valley renewable energy sources – biggest to smallest

- Solar heat and electricity (PV) quantity almost unlimited; costs coming down (but need net metering/ feed-in tariffs).
- Wind: large-scale wind 660 GWh/yr; small scale wind are proven lower cost/kWh but generate less GWh
- Wood - cheapest and third biggest:
 - thoroughly dried firewood, e.g. Akatarawa
 - customers find “own supply” - landscaping wastes
 - Plantation: 1400 ha meets likely HV firewood demand, which may be much higher than present demand which is suppressed by high heat pump promotion
 - Multiple use native plantings on streets, river margins, firebreaks for firewood, to feed bees birds, and compost
- Biogas, hydro - no large resource in Hutt



Retain electricity market but re-regulate

- Identify “windfall profits” (producer surplus)
- direct them to highest priority uses –
 - Mitigate genuine energy hardship
 - Create community-based home energy advisory services
 - Invest in long-term energy options: renewables, energy storage, end-use efficiency retrofits
 - end-use investment contestable with large-scale supply
- Progressive pricing is equitable but doesn’t address the long-term investment problem
- Define wealth-transfers to the 0.1% as fraudulent



Equitable energy access

- Energy that is inequitable is unsustainable
- Royal Commission for Social Policy, 1988, documented people's response to Rogernomics
- Submissions distilled into 3 principles, “represent a uniquely NZ statement of the good society”:
 - **Voice** (views taken into account, part of decision-making)
 - **Choice** (active choice, based on full information)
 - **Safe prospect** (plan with confidence for the future)



Electricity governance breaches “voice”

- Domestic consumers’ submissions ignored for two decades
- Regulator’s Board and Advisory Groups neutralised, then omitted domestic consumer advocates
- Almost no professional person, whether academic or paid consultant, will support DEUN’s position
- Electricity Industry Act removes role of Minister



Choice?

- Powerswitch offers choice only between near-identical gentailers
- No choice for many rural or low-income consumers
- High power bills offers “choice” between heat & eat
- Erosion of discretionary expenditure stifles choices in whole-of-life decisions



Safe prospect?

- Electricity market reduces risks to Industry Participants
- Risks devolved onto consumers who have no say or control in electricity market
- Power bills ever-more unpredictable, winter bills of \$500 or \$1000 increasingly common (anecdotal)
- Trickle-up to 0.1% erodes safety of all society



Democratic Deficit!

- To understand the purpose of asset sales: follow the money!
- Purpose - not reduce deficit, not build schools & hospitals, not allow SOEs to get “needed new capital”, not for “mum & dad” investors
- So-called mandate for asset sales had a single undisclosed purpose: transfer wealth to the 0.1%



Actions in response:

- Support all actions to slow down asset sales
 - Sign the petition!
 - Educate and form alliances with other groups
 - Challenge society's opinion-makers to recognise our evidence
- Research options for re-regulation
- Discuss with officials and political parties, now, in preparation for next election



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