“History of power charges pure fiction”

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The Electricity Authority has rewritten history for its study of power charges over the last 30 years, Analysis of Historical Electricity Industry Costs.

In response to my work showing extraction of a growing amount of excess profit over the past couple of decades at the expense of residential consumers, it has published a study that treats current prices as barely covering costs (as defined by the authority) and claims that consumers in the past were hugely under-charged for their electricity.

Instead of using actual costs paid in dollars of the day to generate electricity in the years before the industry was commercialised, the authority has calculated what it thinks consumers would have been charged under a fully commercial market model, and pretended that this is a proper basis for assessing whether pre-reform prices were fair. Instead of analysing costs and prices in the current market as a regulator would do, it simply assumes that the actual wholesale price is equal to cost.

The central argument the Electricity Authority is making is that if the electricity market had been organised for the past century the way it is organised and run today, with no regulation, then consumers would always have been forced to pay higher prices for their power. It has rewritten the history of the electricity industry since 1907 on the assumption that a 10.1 per cent return on all capital ought to have been charged, and that because this was not done, consumers were supplied "below cost".

This completely misses the point. Generations of New Zealanders funded the construction of the system on a pay-as-you-go basis and enjoyed lower electricity prices than a commercial industry would have offered, without running up any unsustainable debts. There was no need for higher prices to cover a "return on capital" because that was not how the industry was run in those days.

Past Governments saw no need to make a profit on their electricity expenditure because the big payoffs came not in the form of profits collected but in the form of higher living standards and faster economic development for the mass of New Zealanders, whose interests the Government represented.

Higher incomes meant more tax revenues, so that the initial outlays were more than recouped.

The Electricity Authority now assumes, against common sense, that the identical system would have been built under commercial incentives, and that higher prices would not have short-circuited the economic development that flowed from electrification. Then it wants to re-estimate the cost of all the capital equipment as though present day financial market and accountancy practices had prevailed.

This is an exercise driven by ideological assumptions that predetermine the answer. But history can't be rewritten in this way.

At the time of corporatisation, and later privatisation, the industry was in possession of a large stock of equipment already paid for by previous generations of New Zealanders. That equipment was transferred or sold to the new companies at agreed values that were far below the Electricity Authority's fictional retrospective estimates.

The industry was financially sustainable at those values and there was no need to raise them to hypothetical commercial levels because the construction decisions lay far in the past.

Only new investment has to earn the commercial returns demanded by the post-1987 market model. But the companies have used their market power to drive up prices, and with them the value of their inherited assets, at the expense of residential consumers.

Around $14 billion of "asset revaluations", underwritten by excess profits, have been pocketed by the gentailers and distributors since restructuring began; these are simply transfers of wealth from consumers to the companies.

If the authority really took its own numbers seriously, then its first conclusion would have been that the generating companies that took over the assets of the former ECNZ massively underpaid for those assets, and now owe the taxpayer (if not consumers) many billions of dollars.

And that cuts to the heart of the matter: today's generators never paid enough for the assets to entitle them to charge consumers what the authority now says is reasonable. The generators have made huge windfall profits relative to their investment, in an essential service industry.

To square things up in the authority's world, the generators would need to pay up - either to taxpayers or to consumers. If it is undercharging that is the authority's issue, then this is the standout instance of it.

The authority also needs to be consistent with respect to water, as it criticises pre-1990 governments for "treating water as free". Indeed, water for hydro generation was treated as the collective property of all New Zealanders, the benefits of which flowed through to them via lower prices.

Water is still free for the generators - but the benefits now flow to their bottom-line profits, not to New Zealanders at large. A substantial royalty charge for water would be both efficiency enhancing and equitable, since it would transfer some of the benefits of the natural resource to taxpayers rather than generator shareholders.

By Geoff Bertram