POWER FRENZY: THE TAKEOVER OF THE ELECTRICITY INDUSTRY

Bill Rosenberg

The Electricity Reform Act 1998 was supposed to bring lower power prices through more competition in the industry. Some lower prices have been offered. But the overwhelming effect of the legislation has been to set loose an astonishing and speculative auction for power companies. This auction will end in electricity retailing and generation controlled by a very few companies, some or most of them overseas owned.

For the first time in our history, significant parts of our electricity industry will be out of New Zealand hands. The process will complete previous restructuring which demolished community and state control of this essential industry.

But most immediately, any efficiencies brought about by the Electricity Reform Act will disappear into the coffers of the victors in this auction, who will raise electricity prices to service the enormous prices they paid to gain control of the industry. To give just two examples: the Dunedin City Council's advisers valued its 42% owned electricity retailing company, United Electricity, at \$6.5 million; United was sold initially for \$42 million, and shortly after resold for considerably more. Southpower's electricity retailing was valued in 1997 by independent consultants at about \$13 million. It received \$171 million.

Two of the first overseas purchases in the auction concerned the Canadian power company, TransAlta. In October 1998, TransAlta New Zealand Ltd, which is 67% owned by TransAlta Corporation of Canada, gained Overseas Investment Commission (OIC) approval to acquire the energy supply business of Southpower Ltd. Southpower is owned by Canterbury local councils, including 88% by the Christchurch City Council, through its company, Christchurch City Holdings Ltd.

In November, TransAlta New Zealand gained approval to acquire the largely Auckland retail electricity supply business of Power New Zealand Ltd. Power New Zealand is 80% owned by Utilicorp United Inc of the U.S.A., 10.7% by Waitemata Electricity Region Territorial Local Authorities and 9.3% in small shareholdings.

The sales were forced on the vendors by the Electricity Reform Act. The Act banned any company from owning an electricity supply network (lines) operation as well as either an electricity retailing or generation operation. Most power companies chose, like Southpower, to retain their network, regarded as much easier territory, presumably because of its natural monopoly position. However, TransAlta, which owns Capital Power and EnergyDirect, selling electricity in Wellington and the Hutt, instead opted to amass as many retail supply customers as possible.

The Southpower purchase gave TransAlta 160,000 new electricity customers, and the Power New Zealand purchase bought it a further 227,000, giving it a total of 530,000 or about one third of the market (*Press*, 14/11/98, "TransAlta NZ powers ahead", p.23).

It paid \$140.4 million for the Auckland purchase and \$171 million for Southpower. That was only \$470 customer to Power New Zealand compared to \$770 for Southpower (and \$347.50 paid by Contact Energy for each of United's 130,000 customers – see below). Small surprise that it wanted Southpower's price suppressed until it had completed the Power New Zealand purchase[1].

At about the same time as it purchased Power New Zealand's retail business, TransAlta announced that it had offered \$52.5 million to Power New Zealand for its interest in the Rotokawa steam field and electricity generation station (*New Zealand Herald*, 30/11/98, "\$52.5 offered for Rotokawa station", p.D2).

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[1] The OIC suppressed the prices of TransAlta's purchase of both Southpower and Power New Zealand assets, when it released its decisions to CAFCA. Yet, by then TransAlta had made a statement to the New Zealand Stock Exchange announcing the prices – in the Power New Zealand case, a month before the OIC's 31/12/98 censored release (30/11/98). The news media had known at least two days before that.

Southpower

Southpower's first attempt to sell its retail business, after it became clear the electricity reforms were inevitable, was to sell it to a company which would be the country's biggest energy retailer, and which would still be local government controlled. It announced in June 1998 that it was selling its electricity retail operations, plus the gas retail operations of its subsidiary, Enerco New Zealand (then 69% owned), to a company jointly owned by United Electricity, Southpower, and Enerco. United was owned by Dunedin City Council's Dunedin Electricity, Invercargill City Council's Electricity Invercargill, Alpine Energy (owned by a South Canterbury local authority and trust), and government-owned The Power Company. The new company would start with 400,000 customers, including 160,000 from Southpower, 130,000 from United, and 110,000 from Enerco in the North Island. It would immediately look for more electricity customers in the North Island (*Otago Daily Times*, 19/7/97, "Dunedin Electricity to raise stake in United", by Fiona Hill; *Press*, 25/6/98, "Lower power prices promised after merger", p.1, 3; 26/6/98, "Pledges of cheaper power welcomed", p.2).

Southpower's logic was that, firstly, energy companies not selling quickly "were losing value by the week", and secondly, that "the lion's share of every energy company's profit comes from its network". Retailing represented less than 5% of Southpower's and Enerco's assets, according to their chairman, John Gray. The lines might in future carry phone and data traffic (*Press*, 8/7/98, "Money in line ownership, says Southpower", p.28). As will be seen, Southpower was emphatically proved wrong on the first rationale: prices rose rapidly in the auction for retail customers.

But almost as quickly as the sale announcement was made, it was mysteriously shelved. Instead it was announced that Southpower's retail operation was open to offers.

What happened to prevent what apparently was a marriage made in heaven? On the public record, Southpower's John Gray blamed delays arising from the Dunedin City Council's public consultation over the sale (*Otago Daily Times*, 15/8/98, "Minister angry at failed deal"). But greed seems a more likely explanation. Large profits were made from the change in plan. Last minute advice of the price they could get certainly swayed Dunedin City Councillors, according to Dunedin Mayor, Sukhi Turner (*Otago Daily Times*, 29/8/98, "Councillors fell for sales pitch: Mayor"). Perhaps Southpower received offers that made it want to take any excuse to back out.

In Dunedin's case, it was revealed that Eric Watson, wheeler-dealer chairman of the U.S.-owned Blue Star group, and Evan Christian of the Advantage Group, bought 55% of United for $23 million in September 1998 through their company Fernhill Power Ltd. That put a valuation of $42 million on the whole company – which would have appeared like mana from heaven to Dunedin City Councillors who had put on a reserve of $6.5 million after consultants' advice (*Otago Daily Times*, 28/8/98, "Waipori, United, Citigas to be sold"). To make matters worse (at least for Dunedin City and its citizens) Fernhill built up its shareholding to 100% over the next three months – at a yet to be revealed price – and then resold it three months later to soon-to-be-privatised Contact Energy, taking most of a reported $25 million capital gain. Sukhi Turner called the forced split of Dunedin's electricity assets "draconian" and said the "accounting, legal and banking industries had done very well out of the changes" (*Press*, 25/9/98, "Watson seeks Sthpower arm", p.35; *Dow Jones Newswires*, 3/12/98, "Contact Energy to buy Fernhill Stake in United Electricity", http://www.nbr.co.nz; *Press*, 4/12/98, "Alp Energy stake goes to Contact", p.15; 16/12/98, "Watson firm reaps quick $25m", p.30; 17/12/98, "Turner: local bodies advised to sell", p.35).

In the meantime, Watson was cheeky enough to put in a bid for Southpower's retail business. Another bid reportedly came from Contact Energy (which purchased Enerco's retail business for $100.5 million in October: *Press*, 28/10/98, "Enerco selling retail business to Contact", p.27).

The price paid by TransAlta for Southpower's retailing assets was astonishing at $171 million, because the operation had been valued in 1997 by independent consultants at about $13 million. That was $770 for each of the 160,000 customers, compared to $347.50 paid by Contact Energy for each of United's 130,000 customers. It left Southpower (now Orion) and its owners bathing in cash (*Press*, 18/8/98, "Trading arm under offer", p.7; 28/11/98, "Power sale brings $70m", p.1; *Dow Jones Newswires*, 23/12/98, "Electricity Sector Ends Year of Crisis, Reform, Takeover", by Tracy Withers, http://www.nbr.co.nz).

In purchasing Southpower's lines business, TransAlta also purchased the "Southpower" name, presumably to profit from the confusion and loyalty of the original Southpower's customers. The local government owned lines company is now called "Orion". Interestingly, the wording of the OIC's approval allowed TransAlta to also take over Southpower's gas retail business (owned through Enerco New Zealand), though TransAlta publicly denied any such intention and it has since been sold to Contact Energy (*Press*, 24/10/98, "TransAlta denies gas bid", p.24). In fact TransAlta paid $2.6 million for Southpower's relatively minor Port-a-Gas assets (statement by TransAlta to the New Zealand Stock Exchange 30/11/98).

Settlement date for the TransAlta takeover was 1/12/98. Yet another bidder for electricity retail dominance seized the hiatus: First Electric, owned by the Electricity Corporation of New Zealand. Completely new to the game, but with the backing of the largest electricity generator in the country (shortly to be split into three by the government), First Electric launched an offer to TransAlta's new customers in TV and full-page newspaper advertisements. It promised price reductions of at least 15%. Within a few weeks it had gained a thousand customers[2], signed up through an 0800 number which was answered by a call centre in Melbourne. In a situation likely to be a signature tune of the new structure of the industry, it bogged down in the changeover of its customers when Orion refused to offer the lower line rentals First Electric demanded, though it acknowledged Orion's charges to be among the lowest in the country. The old Southpower was a pioneer in allowing competitors (including United and TransAlta) to offer electricity sales over its network, and claimed it had settled its charges amicably with eight other retailers. While First Electric naturally played to the gallery, accusing Orion of anti-competitive behaviour, First Electric was hardly blameless in making promises it could not fulfil, as Orion pointed out.

The changeover of customers would also be a test case (see the Consumers' Institute's comments below) of the practicality of the whole complex structure. If customers could not change suppliers easily and at no cost, then the theory of competition between electricity retailers would be a fantasy.

The sale is expected to lead to redundancies amongst Southpower staff, although those who retain their jobs will retain their conditions of employment for the time being. Like First Electric, the new operation could be run from a call centre anywhere in Aotearoa – or Australia. As the *Press* recorded, (24/10/98, "S'power lay-offs expected", p.2), "TransAlta has a history of large lay-offs with other New Zealand power companies it has bought into". In June 1995 Capital Power laid off 41 of its 184 staff when TransAlta bought a 49% share (now 100%). In late 1996 it merged Capital Power and EnergyDirect, resulting in almost 200 redundancies.

TransAlta

TransAlta is no model of service. In October, the Ministry of Consumer affairs described its contracts as "onerous and harsh on customers". The contracts limited the company's liability (to $10,000 for an incident or $50,000 in a year) if negligent, which is in breach of industry standards. They also allowed the company to disconnect power for non-payment of bills, even if the power account is up to date. Its price list did not clearly specify the services covered by each charge. However, TransAlta rated sixth-best company in the survey (*Evening Post*, 30/10/98, "Harsh contracts earn rap for power firms").

This breach of standards is not just theory. "A Naenae, Lower Hutt, man got the shock of his life after receiving a power bill for nearly $12,000. To add insult to injury TransAlta then cut off Govind Susarla's power even after acknowledging the bill was a mistake. Mr Susarla received a bill from TransAlta on November 16 for $11,780.44. TransAlta corrected the mistake on the same statement, leaving Mr Susarla with a more respectable bill of $46.69. Mr Susarla then received a letter from TransAlta on December 11 saying that if payment was not made for $46.69, the company would take action to recover the outstanding bill." He had already sent a cheque for $50, but they still turned the power off. TransAlta admitted its fault and agreed to pay for food spoilt in Mr Susarla's fridge, but not for a $220 restaurant meal he had to shout friends whom he had intended to entertain at home (*Press*, 30/12/98, "Power cut follows shocking bill").

According to the Canadian Electricity Association (http://www.canelect.ca/media/-industry_background.html), TransAlta is one of three major electric utilities in Alberta which together supply about 98 per cent of Alberta's electrical energy requirements. All are linked by a transmission

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[2] Statement of interest: the author is one of those customers.

network largely owned by TransAlta. TransAlta is unusual in Canada in that it is one of only five private (the politically correct term in Canada appears to be "investor-owned") major electric utilities. In 1995, the five accounted for only 7.5 per cent of all Canadian electric utility capacity and produced about 9.4 per cent of total electricity.

> "TransAlta Utilities Corporation is Canada's largest investor-owned electric utility, operating in Alberta since 1911. TransAlta Utilities has major assets and operations for the generation, transmission and distribution of electricity in Alberta. TransAlta Utilities has a total net generating capability of 4,476 MW of electricity and owns more than 100,000 kilometres of operating transmission and distribution power lines. About 62% of the electric energy requirements of Alberta are supplied by TransAlta Utilities, to over 1.7 million people directly and indirectly in 1995. TransAlta Utilities and TransAlta Energy are the main operating subsidiaries of TransAlta Corporation. Based in Calgary, Alberta, TransAlta Corporation has interests in other parts of Canada as well as internationally."

Over 83 per cent of the electricity generated by Alberta utilities is produced by large coal-fired generating stations, and TransAlta is no exception: it has three coal-fired generating plants and 50% ownership of a fourth. Only 5% of its production is hydro based; the other 95% is thermal (coal) based, and this is mirrored by its power station interests in Aotearoa (see below). It has 13 hydroelectric plants, and two coal mines in Canada.

TransAlta is expanding rapidly outside Canada, particularly in Australia. TransAlta Energy has a joint venture with Gold Mines of Kalgoorlie in a 75-megawatt, gas-fired power plant, supplying power to Australia's largest gold mine. In November 1997 it gained a $300 million contract with ABB Power Generation to build and operate the Oakajee power generating plant in Western Australia. They won a tender let by An Feng Kingstream Steel Limited which is building a mill that will produce 2.4 million tonnes of steel annually. To do this, the plant will need nearly 325 megawatts of power. Surplus power will be sold to nearby industrial customers. Construction of the plant was expected to begin in 1998 and to begin electricity production in early 2000 (http://www.electricityforum.com/news/novnews/-trans.html). In October 1998 it took a share in the Goldfields Gas Transmission Pipeline, and in November 1998 it became the second-biggest generator in Western Australia when it formed a partnership with Australian Gas Light (one third owner of the Natural Gas Corporation in Aotearoa – see below) called Southern Cross Energy. The company, in which TransAlta has 85%, bought four gas-fired power stations, nearly 5,000 km of transmission lines and 15 diesel generators from WMC Resources Ltd, a mining company, which will continue to buy the plants' output. The natural gas will be supplied by Goldfields (*Globe and Mail*, 28/11/98, "TransAlta takes No. 2 spot in Western Australian market").

It also has interests in Argentina, where it is part owner of a corporation that holds a 30-year concession for a 1,400-megawatt hydroelectric project on the Limay River providing 10% of the country's energy needs. In the U.S.A., it has interests in wholesale energy marketing in the Pacific Northwest (see TransAlta's website: http://www.transalta.com/Website/corpinfo.nsf).

TransAlta was one of the companies that complained most loudly about the electricity reforms. It threatened to withdraw from Aotearoa if the government forced it to split its business. In an unusually blatant piece of "capital flight" blackmail, Stephen Snyder, the Canadian TransAlta group president and chief executive, wrote to the Minister for Energy, Max Bradford. He said TransAlta

> "was very concerned about the forced ownership split and that if that occurs it may only serve to tilt adversely the relative attractiveness of New Zealand as a focus for its activities. We have invested $600 million here in the last five years and it has been a good investment. But what has happened is the rules are changing. We will now rethink our investment and the worst-case scenario is that we may have to think of exiting."

He said the Corporation was looking internationally to make investments.

> "We want to double our investment in New Zealand and that is our intention but these proposed reforms, and particularly the ownership split issue, will cause us to rethink that." (*Press*, 2/6/98, "TransAlta threatens to pull out of New Zealand", p.18)

Instead, they have rethought the benefit of the reforms to them. They are likely to end up one of two or three companies dominating electricity retailing in Aotearoa, and possibly an important position in electricity generation as well.

Utilticorp

The original business of Utilicorp United was running lines networks in the U.S.A. On the basis of rulings of U.S. regulators and courts, Utilicorp has been described as "belligerent, dangerous, incompetent, litigious and given to price gouging" by Gregory Palast, a New York energy consultant who has testified as an expert against their price increases. In a recent example, it had its charges cut by a regulator in Missouri, U.S.A., instead of granting the 9.3% increase it had applied for (*Press*, 11/3/98, "UtiliCorp charges cut", p.29; Utilicorp United 1997 Annual Report, p.6). Palast's assessment matches Auckland opinion, which labelled it as "American alligators" for its tactics in engineering control of Power New Zealand.

The company was founded only in 1985, and appears, from its 1997 Annual Report, that acquisitions are as at least as much its objective as selling energy (it also sells natural gas in the U.S.A.). It describes itself as "clearly a first mover in mergers and acquisitions, international operations, non-regulated energy marketing and national branding" and boasts in large print: "We still have mergers and acquisitions in our blood". It operates in 17 U.S. states, Canada, Australia (where it is manager and 49.9% owner of United Energy Ltd) and the U.K. A major subsidiary is Aquila Energy which is a natural gas and electricity wholesaler, as well as dealing in "a wide range of related financial and risk management products." Utilicorp and its subsidiaries have interests in all areas of the two energy sectors: electricity generation, lines networks and retailing; natural gas processing plants, pipelines, and retailing. It is branching into other areas such as appliance repair, and is using its customer base to market unrelated products including security and long distance telephone services.

The Electricity Reform Act and the MAI

There was a strong irony – hypocrisy might be more accurate – to the government's actions in passing the Electricity Reform Act. If the MAI had been agreed as proposed a year ago (at the time the Act was being drafted), its expropriation provisions would have made the industry restructuring impossible without expensive and drawn-out legal challenges, likely followed by compensation to the overseas companies affected. (Those challenges and compensation would not have been available as of right to the locally owned electricity companies.)

The Minister of Energy expressly ruled out paying compensation, in an answer to a question in Parliament (15/5/98). Then when asked in Parliament whether the MAI would allow companies to claim compensation from the Crown in respect of losses of profit and/or asset value caused by government legislation or regulation, the Minister of International Trade, Lockwood Smith, was forced to fall back on the OECD Ministerial communique which began the backdown on the MAI negotiations (27-28 April 1998). That communique introduced the new concept that the MAI "must be consistent with the sovereign responsibility of governments to conduct domestic policies. The MAI would establish mutually beneficial international rules which would not inhibit the normal non-discriminatory exercise of regulatory powers by governments and such exercise of regulatory powers would not amount to expropriation." The government had previously ridiculed the need for such provisions (whose expression has yet to see the light of day).

In practice, while the transnationals would undoubtably have claimed loss of profits or asset values if compensation were available, the legislation has led to meteoric rises in asset values as speculation takes over. As Mark Reynolds commented in the *New Zealand Herald* (27/11/98, "Where to now for rationalised new-look electricity companies?", p. C2), "it is difficult to see enough expenses being stripped to justify the high prices paid for some of the line operations", and the same applies to electricity retailing.

The Electricity Reform Act: who wanted it? Who benefits?

In line operations, the government has recognised that the new structure may well lead to problems – after all, one company has a monopoly over line networks in each area of the country. The Minister of Energy has threatened to introduce price controls if the companies breach three parameters: prices, profits and service quality. He proposes giving the Commerce Commission power to investigate breaches and impose controls over the 25% worst performers (*Press*, 17/12/98, "Price control threat for line companies", p.37). That implies either permanent price controls (by definition, there must always

be a company in the bottom 25%) or ineffective ones – or so few companies that the rule becomes inoperable. None of these sounds like a well functioning "free market". Utilicorp is trying hard to achieve the last option.

The Major Electricity Users' Group, which includes companies like Comalco, and which saw the reforms as attaining "lowest possible power prices", acclaimed them. However, the group's corporate bias prevented it from conceding that many residential consumers received lower prices by other means. In many cases people received rebates (in the case of community trust-owned companies) or benefited from dividends that allowed lower local body rates or improved community amenities (in the case of local government owned companies, such as Southpower). It is likely that the loss of these benefits outweighs any price savings.

The Consumers' Institute, also a member of the group, joined in welcoming the reforms with "cautious optimism", particularly because the cost to consumers for changing supply companies was "likely to be removed". Its welcome was qualified. It was made "leaving aside questions about the wisdom of the reforms to the generation sector". The Institute warned that any falls in retail electricity prices would not impact greatly on the cost of living, so the main benefits may instead be in standards of service, and flexibility in billing options and methods. (*Press*, 10/6/98, "Power wars go to Parlt", p.9; *Consumer Online, What's News*, 20/6/98, "A better deal for electricity consumers", http://www.consumer.org.nz/-whatsnews/98apr20.html.)

Local government and consumer trusts also energetically opposed the reforms. The WEL Energy Trust (Waikato) – one that has long been battling for control of its own power company (see for example our commentary on the August 1998 OIC decisions) – commissioned an opinion poll on behalf of eight other trusts. It found 78% of the public believed power companies should be in community hands, in contrast to the expected outcomes of the reforms (*Press*, 30/3/98, "Public power ownership favoured – poll", p.6). Christchurch's mayor, Vicki Buck described the reforms as "Stalinist", disallowing anyone but the government itself to own more than one element in the industry. She said that the changes would not harm the Council as owner of Southpower, but would lead to a few large nation-wide organisations taking ownership of electricity retailing (*Press*, 6/6/98, "Power plans 'Stalinist', says Buck", p.3). A group in Dunedin announced plans to take the Electricity Industry Reform Act to the World Court to prevent privatisation (*Press*, 26/8/98, "Electricity battle heads towards World Court", p.9).

The Chief Executive of TOP Energy, Roger de Bray, pointed out the consequences to families in remote areas, who would lose the cross-subsidisation of their line charges. Charges might rise by up to $1,000 he said. Others criticised the haste with which the legislation was pushed through, and the effect on low-income consumers. The *Press* quoted government officials' advice that forced separation of ownership would result in higher costs because of loss of economies of scale (*Press*, 15/6/98, "Social costs of power reform", p.4). Electricity Analyst Hugh Barr agreed, saying it would continue the trend of the 1992 electricity "reforms", which had raised domestic prices by 17% (after inflation), but cut prices for most industrial users by 20% (*Press*, 22/6/98, Letter to the Editor: "Electricity prices", p.4).

Cheerleaders for deregulation

Both TransAlta and Utilicorp have an ideological commitment to deregulation (presumably meaning deregulation that allows them to buy in). Utilicorp's 1997 Annual Report devotes two pages (14-15) to deregulation, highlighting "Utilicorp has been a vocal advocate of deregulation", and describing it as "customer choice".

"We still have a lot of advocating to do", says its Chairman and Chief Executive Officer, Richard C. Green Jr. The company says that "about 15 states [of the U.S.A.] have either passed legislation or issued regulatory mandates to provide customers the right to choose their supplier by a certain date. Industry restructuring bills are pending in many states, and nearly *every* state is at least studying the issue" [their emphasis]. Like here, it is leading to further privatisation. Utilicorp gloats: "One issue under intense federal scrutiny is taxpayer subsidies for agencies like the Tennessee Valley Authority when investor-owned electric suppliers will be expected to compete against them. Such supports may get cut or ended altogether to 'level the playing field'". Utilicorp also notes similar developments in natural gas supply.

TransAlta Corporation is a “founding sponsor” of the Centre for Regulatory Affairs, based at the University of Calgary, Alberta, Canada. The Centre for Regulatory Affairs was created to lobby for deregulation:

> “The purpose and function of the Centre for Regulatory Affairs (CRA) is to promote education and research in regulatory theory, regulatory practice in Canada, and regulated industry management, with an emphasis on the opportunities, challenges, and consequences of introducing competition and relaxing regulatory constraints. The intent is to achieve a critical mass of expertise and academic excellence that provides a basis for influencing public policy and regulatory practice in Canada, and for the development of effective management practices in regulated industries, through research, teaching, and public advocacy. The goal of the CRA is to become a strong independent voice and play a leadership role in determining and fashioning public policy in regulated industries…. The CRA’s interest in regulatory economics is broadly defined and includes not only regulatory economics, law, and management but extends to competition policy, privatization, and public enterprise.”

The company’s president and Chief Executive Officer, Stephen G. Snyder, in March 1997 called for the acceleration of deregulation of Alberta’s electric utility sector (TransAlta press release 17/3/97) – an action and speed many Albertans now regret.

Deregulation is occurring in TransAlta’s home, Alberta, but in a very different form to that in Aotearoa. There, any power generator can sell into a “Power Pool” which is governed by an independent Council that has authority to monitor markets, investigate complaints and resolve disputes. The regime recognises the natural monopoly position of transmission and distribution systems, which remain regulated. An independent Transmission Administrator oversees the use of the transmission system. “Existing distribution utilities will continue to provide connections to customers and maintain the distribution wires. In addition, the Alberta government maintains ongoing responsibility for monitoring the market and ensuring that it is working fairly and efficiently.” From 1999, large industrial customers will be able to choose retailers, and all other customers will be able to do so by 2001. A Market Surveillance Administrator will have powers to monitor electricity markets and to investigate complaints “to ensure efficient and fair operation of the markets and compliance with all rules, laws and regulations governing the behaviour of participants in those markets”. (See “Backgrounder on the Electric Utilities Amendment Act, 1998”, http://www.energy.gov.ab.ca/electric/restruct/euaa.htm.)

Deregulation was blamed for a fiasco this (Canadian) winter. Citizens of Calgary, Alberta’s largest city and TransAlta’s home town, were “scrambling” to buy their own generators according to the *Winnipeg Free Press* (2/11/98, “Albertans prepare for winter in dark Blackouts imminent in energy-rich province”) after 15,000 homes and businesses had blackouts for 37 minutes. The newspaper asked

> “Just how did Canada’s energy province come to this? The answer is simple: deregulation. Alberta has dismantled the safeguards of a regulated system and is going through the painful birth of an open market…
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> … electricity demand is precariously close to total supply. Generation capacity within the Alberta grid is 7,640 megawatts. In a pinch, the province can draw another 850 megawatts from neighbouring provinces. With power consumption peaking at 7,222 megawatts during last year’s mild winter, the energy industry and the Alberta government agree there likely won’t be enough to go around.
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> A deep-freeze winter is forecast for Alberta, where both population and industry have been growing by leaps and bounds. Most observers agree the shortage wouldn’t be happening under the old regulated system, where utilities operating as a monopoly were responsible for building power plants to ensure a reliable supply.
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> To safeguard against an electricity shortage, a provincial body monitored population growth and energy supply, and told utilities when to build new generators. But that watchdog was put down in 1994, when the Alberta government announced dreregulation plans.”

The scene at the end of 1998
In December, ECNZ/First Electric bought the retail operations of Mercury Energy, the largest in the country, and Wairarapa Electricity. It paid between $900 and $1,300 for each of the 343,000 customers it bought in this modern type of trade in people (*Press*, 23/11/98, “Power move patience plea”, p.3; 25/11/98, “Complaint from energy trader”, p.3; 3/12/98, “ECNZ buys Mercury retail”, p.30).

The frenetic auction saw TransAlta shares rise to $2.51 from a low of $1.32 in early October; Power New Zealand to $6.25 from $4.10 in early July; and Trustpower to $2.72 from $1.55 in late August. It resulted in the following position at the end of 1998:

Electricity retailing:
According to a KPMG survey, about 90% of electricity companies have decided to sell their energy retailing operations (*Press*, 19/10/98, “Electric firms opt to sell”, p.22). The retailing sector is divided approximately as follows:

TransAlta	530,000 customers (approximately one third of the market)
ECNZ	470,000 customers
Contact Energy	430,000 customers
Trustpower	114,000 customers

In addition, the Natural Gas Corporation (which is one third owned by Australian Gas Light and one third by Fletcher Challenge) has bid for WEL Energy in Hamilton, which would bring its electricity and gas customers to 132,000.

“Virtually all New Zealand’s approximately 1.9 million electricity and natural gas consumers are being supplied from seven companies as opposed to 39 at the start of the year” according to *Dow Jones Newswires* (23/12/98, “Electricity Sector Ends Year of Crisis, Reform, Takeover”, by Tracy Withers, http://www.nbr.co.nz, which is also the source for the above share prices and market shares, except for TransAlta’s customer tally, which comes from the *Press*, 14/11/98, “TransAlta NZ powers ahead”, p.23).

However, questions remain over Contact and ECNZ. The Government has announced the sale of Contact Energy. TransAlta is almost certain to be a contender, as, according to a TransAlta news release on 22/10/98 (“TransAlta Becomes Largest Electricity Retailer in New Zealand”, http://192.139.81.46/-scripts/ccn-release.pl?1998/10/22/1022011n), it has a goal “of being the largest private generator” as well as the largest retailer in Aotearoa. TransAlta and Contact combined would have 960,000 customers or over half the market. The government has also announced the split of ECNZ into three smaller power generators. If ECNZ’s retail operation is split with them, it may become uneconomic (TransAlta reckons 400,000 customers is the minimum needed to compete – *Press*, 12/11/98, “TransAlta to lift wrap on Southpower deal price”, p.31) and lead to its sale and further coagulation of the retail sector.

Lines Networks:
Most local electricity companies have retained their lines networks for reasons stated above, Orion being one of the largest. However, Power New Zealand has made an aggressive play to become dominant in this sector. It has added to its own network that of TransAlta’s in the Wellington region, and Trustpower’s in Tauranga, giving it about 30% of the national market and making it the largest network operator in the country with 470,000 customers (*Press*, 9/12/98, “Power NZ earnings may double”, p.28). Operationally, Power New Zealand swapped its retail operations for TransAlta’s Wellington lines network, buying the lines at the same time as the sale of its retail operations. It then paid $485 million (twice book value) for TrustPower’s network (*New Zealand Herald*, 27/11/98, “Where to now for rationalised new-look electricity companies?”, by Mark Reynolds, p. C2; *Press*, 21/11/98, “Energy companies scramble for position”, p.26).

The TransAlta sale is opposed by the Hutt Mana Energy Trust which represents 83,000 people in the Hutt Mana region and “an obligation to” 200,000 Wellington residents, and has 12% ownership of TransAlta New Zealand. It says there has been inadequate consultation over the sale. The Trust wants a local regional lines business established in the Hutt Mana and Wellington region, in which it would have a 26% share to give it some influence to protect consumers. It had been “pushed by TransAlta into bidding for the lines business with a partner suggested by them”, but had been unsuccessful (*Press*,

10/12/98, “Energy trust seeks help to block sale”, p.28). The original sale of local body owned power companies to TransAlta roused bitter local opposition and a series of broken promises from the local authorities. The Trust was a last remnant of local influence, but one that seems to have been outmanoeuvred once more.

Generation:
Around 90% of power generation is still in the hands of ECNZ (66% in 1997 according to the *New Zealand Official Yearbook 1998*) and Contact (24% in 1997, though it now claims 27%). If the trisection of ECNZ goes ahead as announced, the South Island unit will have about 30%, being the largest of the three.

However TransAlta claims 12% of generation, with the offer for Power New Zealand’s stake in the Rotokawa power station (*Globe and Mail*, 28/11/98, “TransAlta takes No. 2 spot in Western Australian market”). It has one third of the 350 megawatt Stratford Combined Cycle power station in Taranaki, and 47% of the 115 megawatt Southdown plant in Auckland, with a pre-emptive right to buy Mercury’s generation assets (another third of Stratford and its share of Southdown). That pre-emptive right is significant: Mercury has decided to retain its lines network and therefore must sell its generation assets (*New Zealand Herald*, 16/11/98, “Mercury write-off to cost trust $500m”, p.D1; and our commentary on an OIC decision in July 1997, “TransAlta restructures interests in Wellington, Stratford and Southdown”).

Contact also has substantial gas interests, owning three gas fields and rights to 43% of Maui output (*Press*, 1/12/98, “Govt floats Contact”, p.23).

Government role
The government’s role in this astonishing lolly scramble must be seen as devious. There can be no doubt that without its explicit consent Contact and ECNZ could not have bid huge, possibly ruinous, sums for retail customers: when New Zealand Post wanted to expand into far more familiar territory to defend itself against deregulation, the government refused it permission. Yet the government also has a policy to privatise Contact and split ECNZ. Privatising Contact will privatise almost a quarter of the retail market. Splitting ECNZ will split another quarter into non-viable portions which are then likely to be sold – most likely to one of the big retailers and hence privatised. If they are not sold, they will likely be albatrosses around the necks of their owners. The purchase by the generators of retail market share must therefore be seen both as a means to speed the privatisation of the electricity market and to discredit the remaining state-owned generators to provide an excuse for their privatisation.

Even putting these politics aside, the prices the government is allowing its SOEs and others to pay for retail customers must inevitably lead to power price rises or bankruptcies.