



CASE ASSOCIATES

Effective Regulation

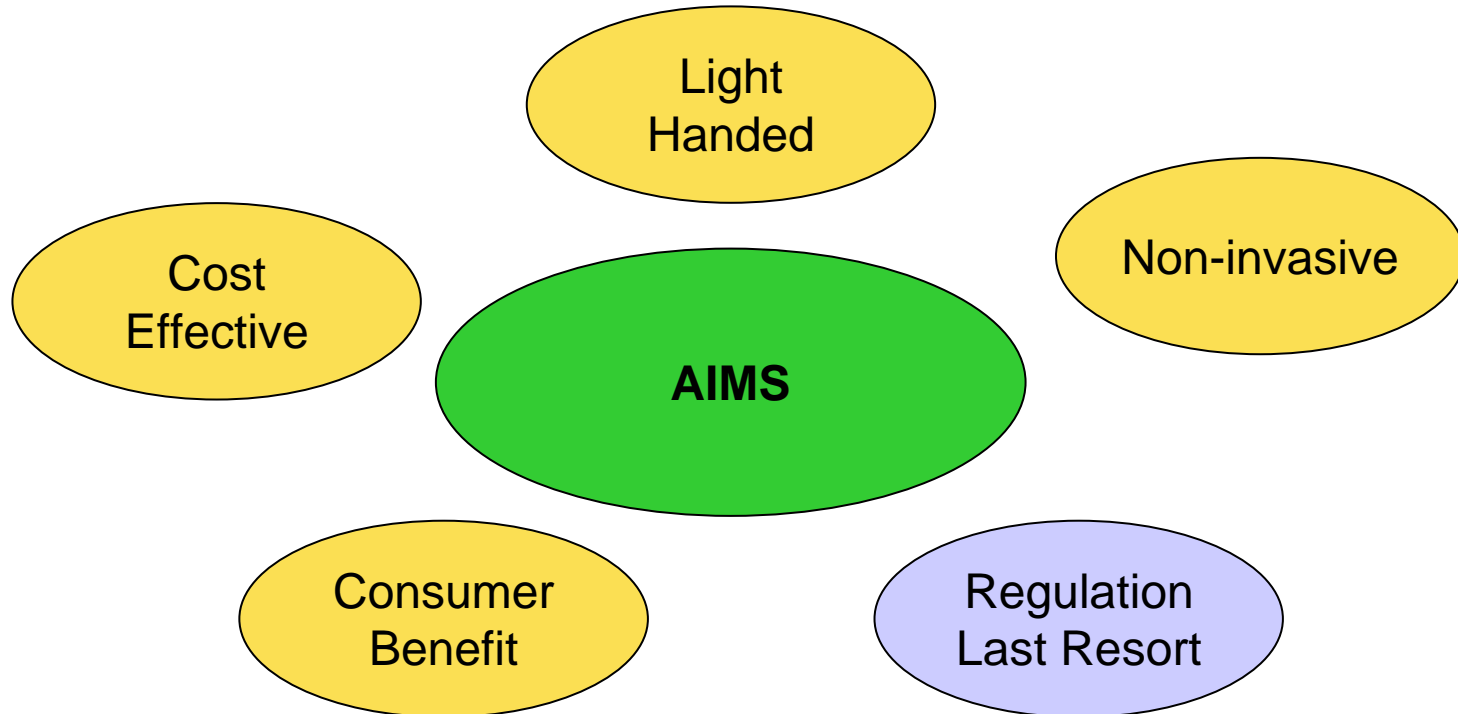
Economic Regulation of NZ's Electricity Distribution Services

Dr Pinar Bagci, July 2007

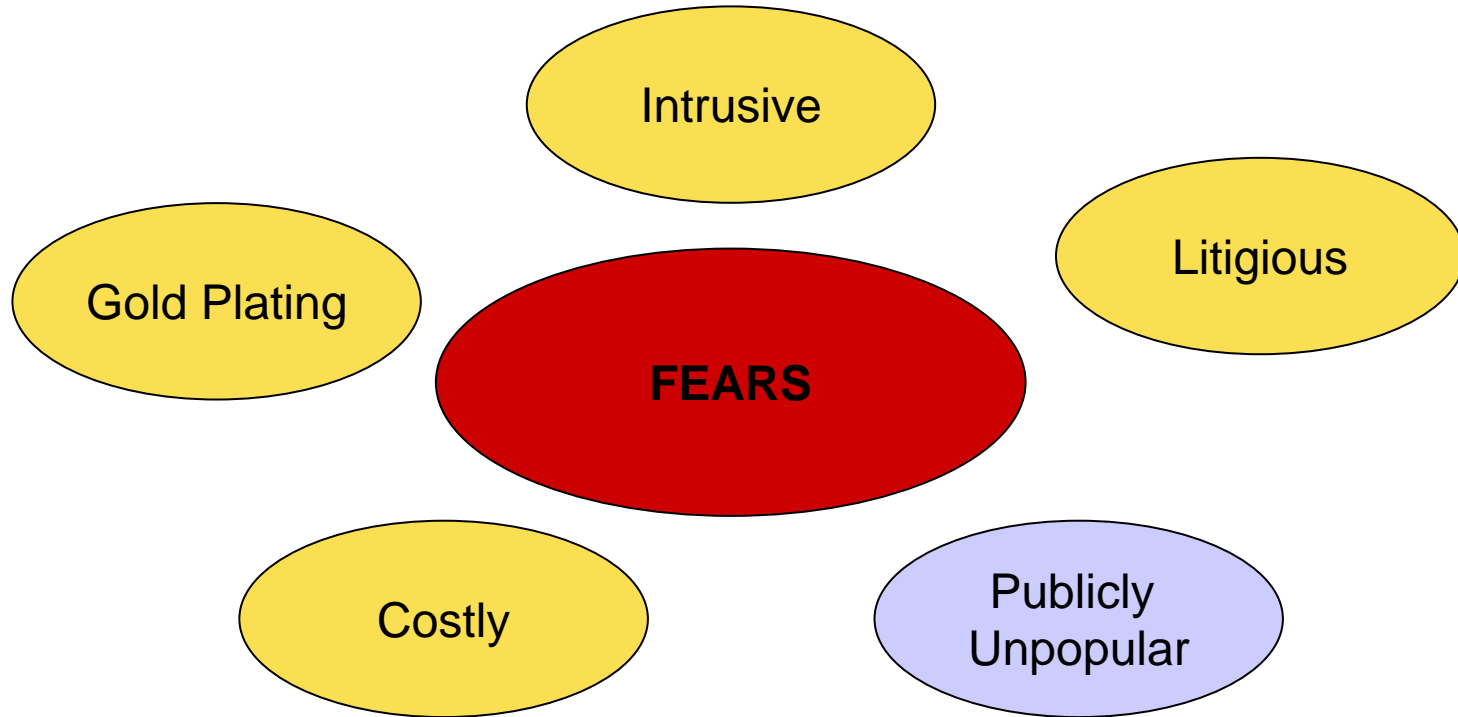
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COMPETITION
& REGULATORY
ECONOMISTS

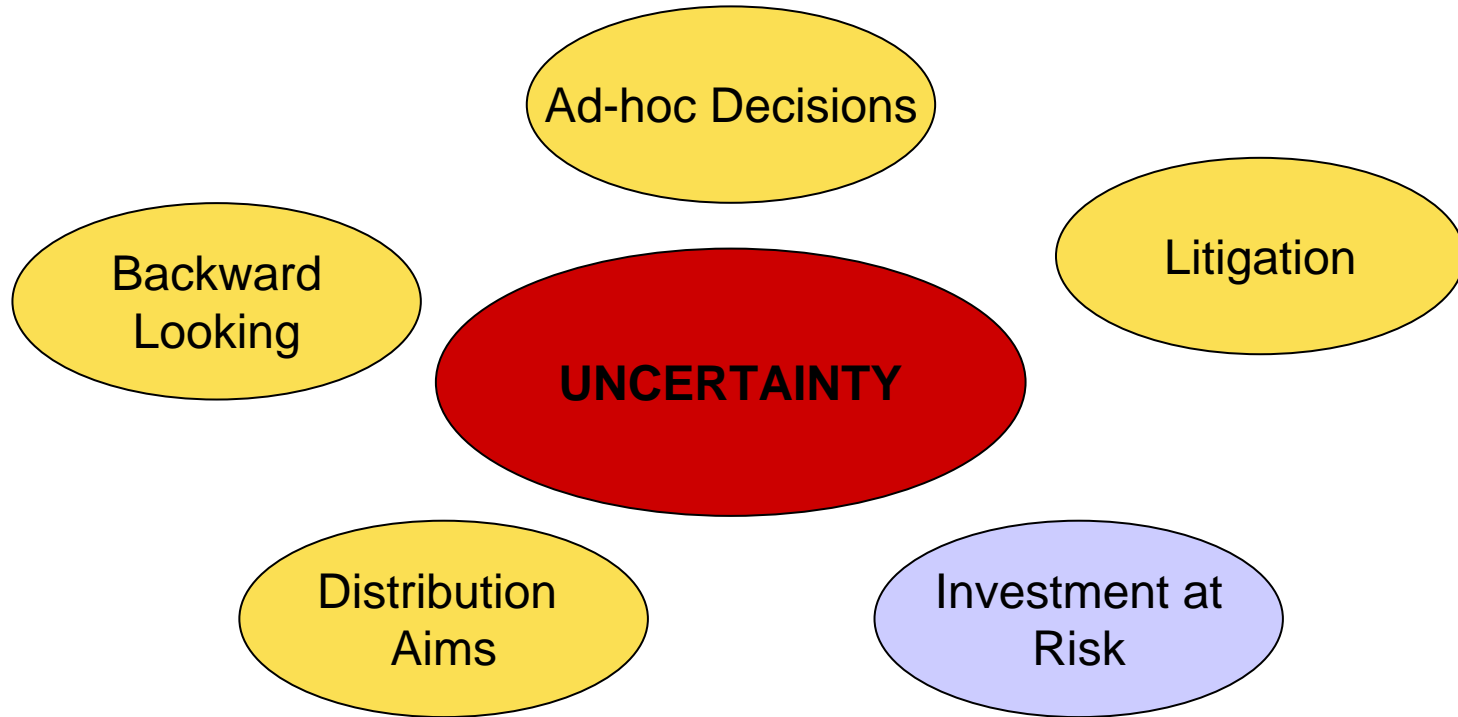
Aims of Present Regime



Fears About Regulation



Current Position



Regulation or Competition Law



No remit to promote investment under competition law

Regulatory Balance

- **Consumer Benefits**
 - Reliable
 - Affordable
 - Efficient
 - Reasonable quality
- **Investment & Efficiency**
 - Incentives
 - Cost recovery
 - Reasonable return

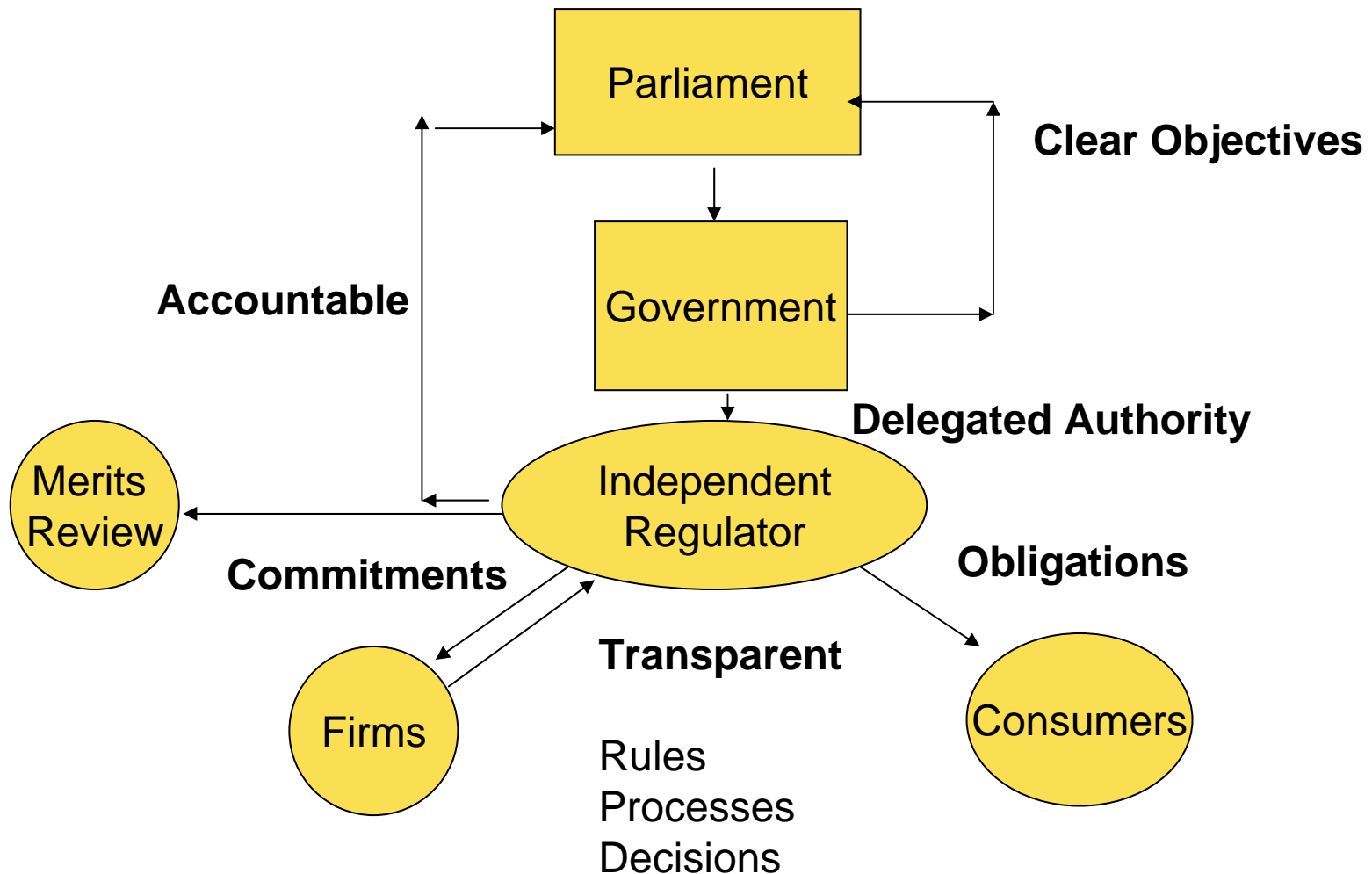
Not a choice between benefits to consumers or firms

MED Consultation

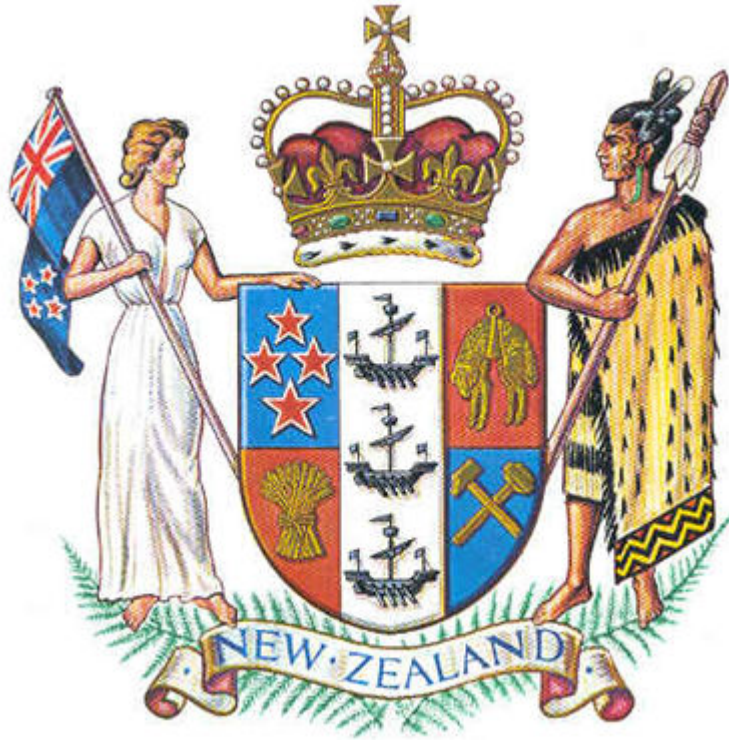
- **Proposals**
 - Clear objectives
 - Rules in advance
 - Greater transparency
 - Regulation last resort

A Solution for the long-term?

Effective Regulation



Independence



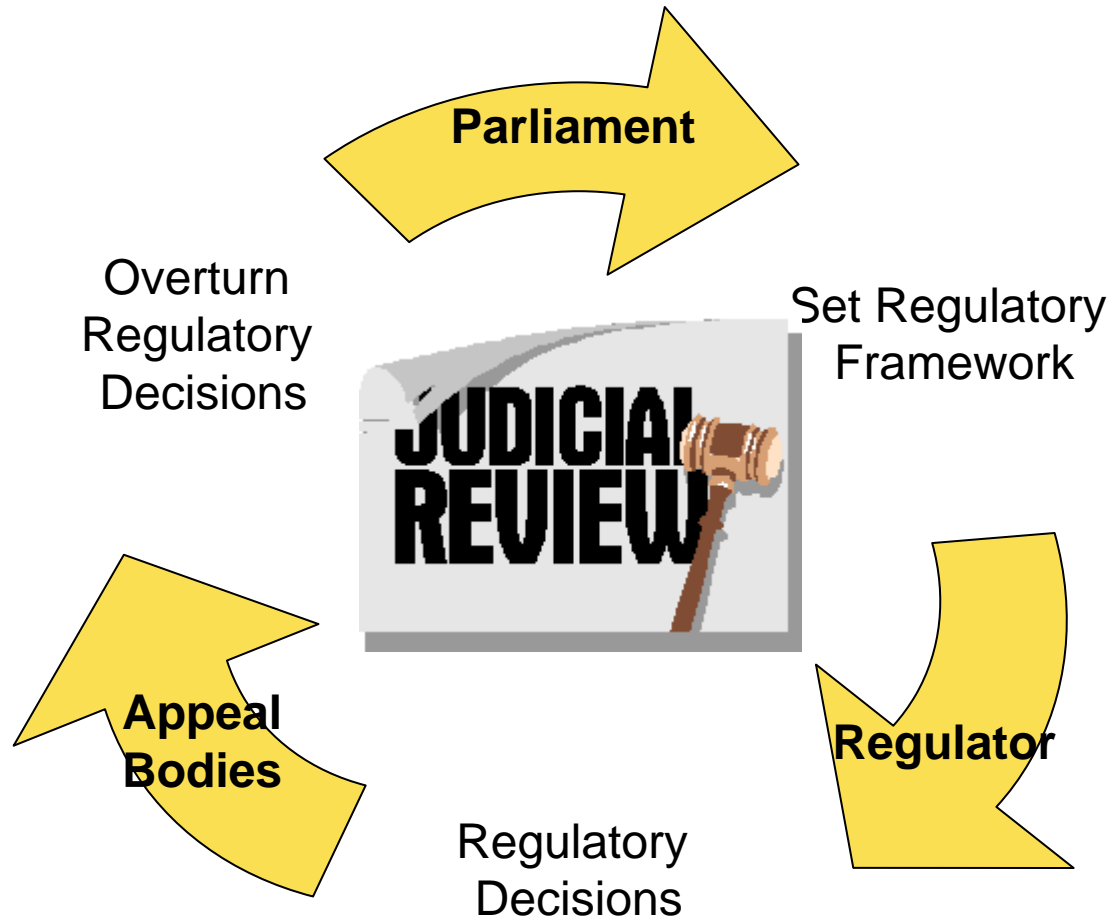
Sets Regulatory Framework



Implements Regulation

When to control
Form of control
Rules
Processes
Guidelines
Investment appraisal
Cost evaluation

Accountability



Transparency



Regulatory Commitment

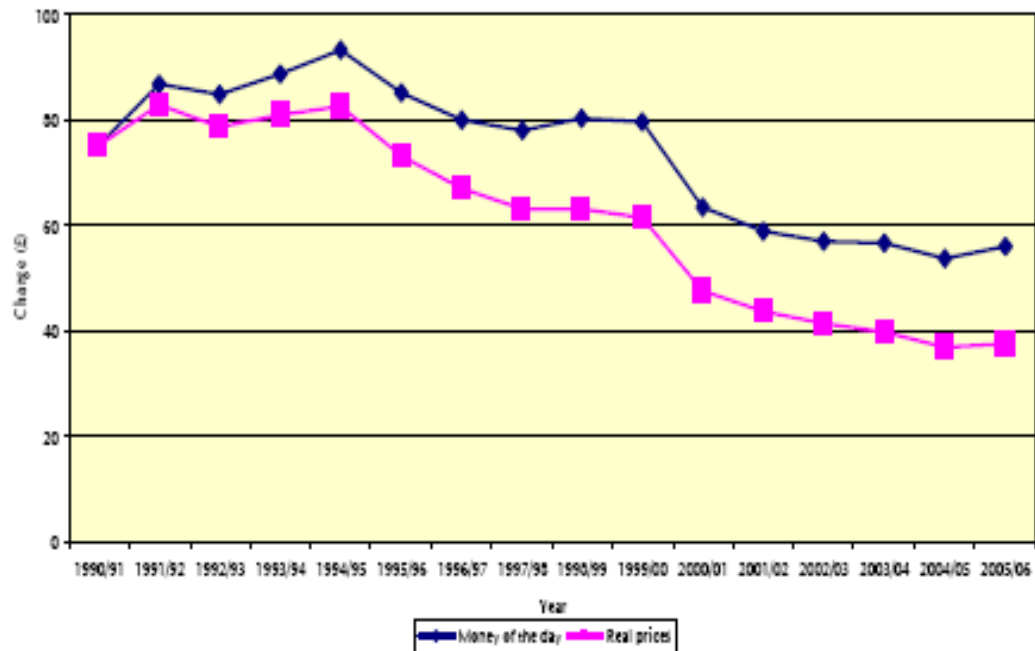
- **USA**
 - Hope Natural Gas Case 1944
 - Administrative Procedures Act
- **UK**
 - Sector Specific Legislation
 - Licences, Codes
- **Australia**
 - Sector Specific Legislation
 - Licences, Codes
- **New Zealand**
 - No sectoral legislation
 - No licences
 - No codes
 - No guidelines

Too much discretion creates uncertainty

The Case for Regulation

UK experience 1990 – 2005

Electricity distribution charges: typical household customer



Source: Ofgem.

The Case for Regulation

UK experience 1990 - 2005

Investment

£15.5 bn invested in electricity distribution networks (£1bn a year)

Compares with £0.25bn/year during 1986-90

Projected investment of £1.5 bn a year to 2010

Quality/Reliability

16% increased reliability since 2002

Distribution line losses reduced from 7.5% in 1990 to 6% in 2004

Source: "Our Energy Challenge: Ofgem's response", April 2006.

About Case

