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# Current Comment

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Lewis Evans in response to the Editorial  
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Informed discussion: a benefit of partial privatisation  
of (electricity) SOEs

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### *Informed discussion: a benefit of partial privatisation of (electricity) SOEs*

In the editorial “A long wait for cheaper power” (The NZ Herald 11 January 2012) there is the broad assertion that the performance of the electricity industry has deteriorated under the switch from central government control beginning in the 1990s. The article seems stimulated by the prospect of partial privatisation of certain of the electricity SOEs. It illustrates well one benefit of privatisation.

Firms that are held (even partially) directly by individual owners will have their strategies and actions scrutinised and publicly discussed more intensively than were they purely government-held firms. The different personal interests of individual owners can be expected to promote explanations of scrutiny of investment and operational performance that are public and that improve performance of these entities.

Viewed in this way “A long wait for cheaper power” makes a useful contribution although its assertions about the performance of the industry are not justified.

While the editorial’s focus on price is understandable, a balanced account would recognise factors that include:

- a) That the price funds construction of new plant – prior to the 1990s generation and transmission were provided by a government-funded separate entity;
- b) That the cost of supply is increasing and so the price must rise. The rise in cost results from expanding demand requiring increasingly costly supply that stems from: reduced availability of low cost Maui gas, switch to renewable energy sources and the emissions trading scheme that effectively taxes thermal generators;
- c) That as supply costs rise price rises, and existing low cost producers make increased profits (just as occurs elsewhere: e.g. in dairying with existing relatively efficient dairy farms);
- d) That Frank Wolak’s report is completely discredited. In part, this is a result of the assumption of its surplus profit calculation that no consumer – household or industrial – will make any adjustment to their consumption of electricity when the price is 5-7 times higher than normal for periods of weeks at a time.

Partial privatisation will induce a more balanced account in the public media of the performance electricity firms and the industry. Analysts that represent private shareholders will have the incentive to dig into detailed investigations and reports on key issues. They might read the symposium on the Wolak report in the first issue of *New Zealand Economic Papers* in 2012. The overview of the symposium collection is available at ([www.iscr.org.nz](http://www.iscr.org.nz)). There have been a number of reports on the issue since 2009.