Effective Regulation

Economic Regulation of NZ’s Electricity Distribution Services

Dr Pinar Bagci, July 2007
www.casecon.com
Aims of Present Regime

AIMS

- Light Handed
- Non-invasive
- Cost Effective
- Consumer Benefit
- Regulation Last Resort
Fears About Regulation

FEARS

- Intrusive
- Litigious
- Costly
- Gold Plating
- Publicly Unpopular
Current Position

Ad-hoc Decisions
Backward Looking
Distribution Aims
Litigation
Investment at Risk
UNCERTAINTY
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

- Parliament
  - Clear Objectives
  - Delegated Authority
- Government
  - Accountable
- Independent Regulator
  - Transparent
  - Obligations
  - Commitments
  - Firms
    - Merits Review
  - Consumers
    - Rules
    - Processes
    - Decisions
Independence

Sets Regulatory Framework

Implements Regulation

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

Parliament

Set Regulatory Framework

Regulator

Regulatory Decisions

Appeal Bodies

Overturn Regulatory Decisions
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)

Compared 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

About Case

CASE ASSOCIATES PROVIDE ECONOMIC AND COMPETITIVE ANALYSIS IN COMPETITION REGULATORY AND COURT PROCEEDINGS

Competition & Regulatory Economists