

# Chronology of New Zealand Electricity Reform

Energy Markets Policy Group  
Resources and Networks Branch  
Ministry of Economic Development

February 2001

This document outlines the main developments in New Zealand's electricity reforms to February 2001.

## Revision History

February 2001      Sections 51, 52, 53 and 54 added.

## 1. Start Point: Mid-1980s

Electricity generation and transmission were amongst the responsibilities of a Government Department, the Ministry of Energy. This Ministry was also responsible for policy advice and regulatory functions. There was extensive political involvement in generation investment decisions, project management was not accorded attention that meets current standards, and wholesale pricing was (at least in part) determined by political factors.

In 1985<sup>1</sup> local distribution and supply were the responsibility of sixty-one electricity supply authorities (ESAs)<sup>2</sup> - (there were ninety-three in 1945). These were electorally oriented, statutory monopolies. Inefficiency, lack of customer choice and cross-subsidies resulted.

This set of circumstances coincided with increasing concern about New Zealand's overall economic performance. In turn, this concern led to introduction of wide-ranging micro-economic reforms, more predictable macro-economic policy formation, and strengthened public sector accountability arrangements. Outcomes sought included economic growth through efficient resource use, driven by clearer price signals, and, where possible, by competitive markets.

In the early 1980s, a major inter-departmental review of the Crown's role in the electricity industry was commenced, looking to separate operational from other functions, and to improve commercial performance and introduce commercial disciplines for trading activities.

---

<sup>1</sup> The Government had been supplying a limited number of large consumers since before the reforms in this Chronology commenced.

<sup>2</sup> These ESAs included 38 special purpose local authorities operating under the Electric Power Board Act 1925 ("Boards"), 21 municipal electricity departments of territorial local authorities ("MEDs"), and two government owned authorities (Southland Electric Power Supply and Chatham Islands Electricity System).

## **2. 1986: First Government Decisions on Electricity Reform**

The Government announced its decision to reform its trading activities, including the generation and transmission sectors of the electricity industry. In addition, an inter-departmental committee was set up to develop and co-ordinate distribution reforms.

## **3. April 1987: Electricity Corporation of New Zealand Ltd (ECNZ) Set Up**

ECNZ was set up as a company under the State-Owned Enterprises (SOE) Act, to own and operate the generation and transmission assets of the New Zealand Electricity Division (NZED) of the Ministry of Energy. The Division's policy and regulatory activities were separated out, and largely retained in the Ministry of Energy.

The SOE Act was a component of the Government's moves to improve the performance and accountability of the public sector. SOEs are companies in which nominated Ministers hold all the shares, the enterprises provide annual Statements of Corporate Intent (SCIs) and they operate with commercial structures and incentives and with the principal objective of being successful businesses.

## **4. April 1987: ESAs Subject to Income Tax**

ESAs were subject to income tax from the year beginning 1 April 1987.

## **5. December 1987: Electricity Task Force Announced**

The Task Force comprised members from Government departments, ECNZ and ESAs. Terms of reference involved advising the Government on structure and the regulatory environment for electricity industry.

## **6. January 1988: Electricity Amendment Act 1987 Came into Force**

The Electricity Amendment Act 1987 came into force on 1 January 1988, removing the need for the Minister of Energy to approve all new hydro generation proposals.

## **7. April 1988: Transpower Set Up as a Subsidiary of ECNZ**

ECNZ organised its activities so that Transpower was set up to run the transmission network as a subsidiary of ECNZ, which became solely a generator.

## **8. June 1989: Electric Power Boards Amendment Act 1989 Passed**

This Amendment Act extended the terms of office of existing Board members to October 1990 (i.e. deferred October 1989 Board elections), in expectation of imminent reform.

## **9. September 1989: Task Force Recommendations Announced**

The Task Force's key recommendations were:

- Separate ownership of generation and transmission.
- No large scale break-up of generation.
- Further study of limited generation break-up and creation of wholesale market (subject to this, ECNZ to be privatised).
- Transmission to be owned by club of generators and distributors.
- ESAs to be corporatised and privatised.
- Removal of statutory franchise areas and obligation to supply.
- The development of a light-handed regulatory regime, drawing on the Commerce Act 1986 supported by public information disclosure.

## **10. January 1990: Ministry of Commerce Assumed Remaining Roles of Ministry of Energy**

The Ministry of Energy was abolished with effect from December 1989. That Ministry's policy, regulatory and other non-commercial roles were transferred to the new Energy and Resources Division (now the Resources & Networks Branch) of the Ministry of Commerce. A small number of residual and transitional Ministry of Energy commercial responsibilities were transferred to The Treasury.

## **11. May 1990: Government Decision on Corporatisation of ESAs**

The Government announced that ESAs would be corporatised. Boards were to be owned by local trusts. MEDs (Municipal Electricity Department, owned by rejoined territorial authorities) were to remain in local authority ownership.

## **12. July 1990: Transpower Establishment Board Set Up**

An Establishment Board was set up with a brief to oversee setting up Transpower as a separate corporate entity from ECNZ, with a plan for club ownership of Transpower. The Board's brief was subsequently widened to consider other ownership forms.

## **13. August 1990: Electric Power Boards Amendment Act 1990 Passed**

Commercial directors were appointed to Electric Power Boards by the Government with effect from October 1990. The remaining Board members not appointed as directors became trustees, and were to hold shares when the Boards were corporatised. Trustees were subsequently to be elected.

## **14. June and September 1991: Transpower Establishment Board Reported**

In its report to the Government, the Establishment Board recommended ownership of Transpower by a "club" of ESAs and generators.

At the same time, it recommended a process for separation of Transpower from ECNZ (including valuation, gearing and pricing).

## **15. 1991: Energy Sector Reform Bill Introduced to Parliament<sup>3</sup>**

This Bill contained provisions facilitating the corporatisation of ESAs and a wide range of regulatory measures.

There was extensive public debate about the appropriate ownership of ESAs. The Bill provided for polls of local consumers (in the case of Electric Power Boards) and ratepayers (in the case of MEDs) to determine appropriate share distributions.

The Bill was later split to become five separate Acts, including the Energy Companies Act 1992 and the Electricity Act 1992.<sup>4</sup>

## **16. June 1992: Officials Committee on Energy Policy (OCEP) Set Up**

OCEP was given the task of coordinating energy policy advice to Government, replacing previous inter-departmental committee arrangements on energy policy issues.

---

<sup>3</sup> This bill also addressed corresponding issues in the gas sector.

<sup>4</sup> See sections 18 and 23

## **17. June 1992: Energy Policy Framework Confirmed**

The Government confirmed its energy policy framework:

*"The Government's key objective in the energy area, is to ensure that energy services continue to be available at the lowest cost to the economy, consistent with sustainable development.*

*"This will be achieved by the efficient and effective provision of energy services through properly functioning commercial systems with competitive incentives. These systems will work within an effective and stable regulatory environment and take energy conservation into account."*

## **18. July 1992: Energy Companies Act 1992 Came Into Effect**

This Act provided for the corporatisation of the ESAs. Ownership of Boards<sup>5</sup> became the subject of share ownership plans that were incorporated in establishment plans, and which took account of views expressed in local consultations. Trustees endorsed the share allocation plans. The Minister of Energy approved the establishment plans (the Minister's role in regard to ownership was to ensure that the prescribed process was carried out).

Diverse ownership patterns resulted. Broadly:

- Trust ownership was most favoured.
- Majority private shareholding resulted in some cases.
- MEDs and a small number of boards owned by local government.
- Many combinations of the above.

## **19. October 1992: Wholesale Electricity Market Study (WEMS) Released**

At this point it was clear that generation reform and the creation of wholesale market arrangements had been given less attention than distribution and retailing. More concerted attention was therefore given to the generation sector.

WEMS was a private sector initiative. The study recommended a major evolution of existing market arrangements to provide a predictable price path for wholesale electricity, and to enable some trading at marginal prices. Competition with the dominant generator ECNZ was envisaged.

---

<sup>5</sup> The Act provided that, while MEDs were to prepare establishment plans, ownership of their shares was to be vested in the associated territorial local authorities.

## **20. October 1992: WEMS Critique Announced**

The Government sought independent review of WEMS report.

## **21. October 1992: Energy Efficiency and Conservation Authority (EECA) Set Up**

The Government set up EECA to develop, implement and promote strategies to improve energy efficiency.

## **22. February 1993: WEMS Critique Completed**

The critique was presented to the Government. It identified five areas for further development:

- Pricing of tradeable contracts.
- Ground rules of market operation, with the threat of heavier regulatory oversight.
- Oversight of the performance of the wholesale market in improving energy efficiency.
- Need for wider review of the wholesale electricity market proposals, including by parties not involved in WEMS.
- Possibility of evolutionary development if one-step introduction of new arrangements turned out to be impracticable.

## **23. April 1993: Electricity Act 1992 Came into Effect**

The Act provided for:

- Deregulation (the removal of distributors' statutory monopolies and of the obligation to supply).
- Information disclosure, focused particularly on natural monopolies.
- Temporary provision for price control for domestic consumers.
- Safety matters.
- Land access.
- Role and wind up of Rural Electrical Reticulation Council (RERC)<sup>6</sup>.
- Compulsory maintenance of line services until 2013 (20 years).

---

<sup>6</sup> The RERC was set up to help fund electricity reticulation in rural areas, drawing on finance from a levy on electricity sales.

## **24. April 1993: First Franchise Removal**

This was the first stage of removal of statutory distribution and retail monopolies (and the obligation to supply), allowing competition for sales to retail consumers.

Franchise restrictions were removed for small consumers first (i.e. under 0.5 GWh per annum), to avoid the possibility that they might face the costs of a cross-subsidy, since competition for larger consumers was expected to be stronger.

## **25. May 1993: Stock Exchange Introduced "Energy List"**

The New Zealand Stock Exchange announced that a separate "Energy List" would be introduced, to accommodate energy companies unable to qualify for the exchange's full list because of restrictions on share ownership. This was seen as a transitional measure, and companies on the "Energy List" were encouraged to take steps to qualify for full listing. The Energy list has since been discontinued.

## **26. May 1993: Transpower Separation Announced**

Government announced the decision to separate Transpower from ECNZ. Club ownership was seen as difficult to implement, so the Government decided to set Transpower up as a stand-alone Crown-owned company. Special legislation would be required.

## **27. June 1993: Wholesale Electricity Market Development Group (WEMDG) Established**

The Government announced its decision to establish the Wholesale Electricity Market Development Group (WEMDG).

The Group's terms of reference included the development of specific, cost effective proposals for developing a wholesale electricity market that, consistent with sustainable development, would ensure that wholesale electricity is delivered at the lowest cost to the economy.

WEMDG comprised a range of representatives from interested parties (including a new entrant generator and consumers). The process was to include wide consultation. Some Government funding was provided, and two Government observers attended.

## **28. June 1993: Government Announced Policy on Renewable Energy**

Framework objective:

*"To facilitate the development of cost-effective renewable energy consistent with the Government Energy Policy Framework."*

The Government's energy sector reforms were seen as a good basis for encouraging renewables. Enhancements of the opportunities for the cost-effective application of

renewable energy were announced, including work on identification of the barriers to renewable energy.

## **29. 1993: Electricity Market Company Ltd (EMCO) set Up**

EMCO was set up by the Electricity Supply Association (ESANZ) and ECNZ (later joined by Transpower), to develop an electricity market framework for wholesale trading.

Key steps included:

- Commencement of an on-line secondary market in trading of ECNZ's hedge contracts, including provision of market information.
- Establishment of a market surveillance committee to admit new entrants and supervise conduct.
- Administration of the Metering and Reconciliation Information Agreement (MARIA), to record and reconcile flows to meet the needs of parties contracting in the wholesale and retail markets. Under the MARIA agreement, Transpower, as National Reconciliation Manager, reconciles information against contracts and passes information for billing back to market participants.

## **30. April 1994: Second Franchise Removal**

This was the second stage of removal of statutory distribution and retail monopolies (and the obligation to supply), allowing competition for supply to all consumers. Small consumers (i.e. under 0.5 GWh pa has been contestable since April 1993. In this second stage, franchise restrictions were recovered for larger consumers.

## **31. April 1994: Transpower Separation - Second Announcement**

The Government amended its announcement of May 1993, preferring to set up Transpower as a stand-alone SOE. The separation of Transpower from ECNZ took place on 1 July 1994.

## **32. July 1994: Information Disclosure Regulations Promulgated**

The Electricity (Information Disclosure) Regulations came into force. These regulations call for public disclosure of:

- Separate audited financial statements for natural monopoly and potentially competitive businesses (and methodologies).
- Prices and other main terms and conditions of contracts.

- Financial performance measures, based on standard asset values (ODV<sup>7</sup>) and with removal of any elements of double counting of asset related expenditure.
- Efficiency and reliability performance measures.
- Costs and revenues by tariff category (and methodologies).
- Line charges (and methodologies).

### **33. August 1994: WEMDG Report to Government**

The draft WEMDG proposal was published in March 1994.

In its final report (August 1994), WEMDG recommended:

- Earliest establishment of competitive wholesale market.
- Sale of most electricity under long term, tradeable contracts.
- Establishment of a voluntary pool and spot market, operated by a neutral entity.
- Independent Transpower.
- Steps to stem ECNZ's dominance, including progressively leasing approximately 40 per cent of ECNZ's plant and constraints on new investment.
- Levy to promote energy efficiency and conservation.

### **34. June 1995: Wholesale Electricity Market Announcements**

The Government made its provisional announcements on the steps it would be taking in the lead up to the opening of the wholesale electricity market:

- ECNZ to be split into two competing SOEs (ECNZ and Contact Energy<sup>8</sup>).
- ECNZ's Maui gas contract to be transferred to Contact Energy.
- ECNZ's proposals for new Taranaki plant to be sold (including associated gas supply).
- Six small hydro plants owned by ECNZ to be sold.
- Remaining assets of ECNZ and Contact Energy not to be sold.

---

<sup>7</sup> Optimised Deprival Value, i.e. the lesser of Optimised Depreciated Replacement Cost (ODRC) and Economic Value (net present value of future cash flows).

<sup>8</sup> At the time of this announcement, Contact Energy was temporarily known as "EC-2".

- Special constraints on ECNZ to apply until its market share falls to 45% (cap on building new capacity, ring-fencing new capacity, and high level of firm capacity to be offered by tender for long-term contracts).
- Five year fund of \$18 million to support energy efficiency in the domestic sector.

### **35. November 1995: ECNZ Restructuring Confirmed**

The Government confirmed its June 1995 wholesale electricity market decisions, following consultations with Maori and confirmation of the viability of ECNZ's restructuring and the reform timetable.

### **36. February 1996: Contact Energy Commenced Operations**

Contact Energy commenced operations as an SOE generator, in competition with ECNZ. Contact Energy took on the former ECNZ power stations at Roxburgh, Clyde, New Plymouth, Wairakei, Ohaaki, Otahuhu, Stratford and Whirinaki, which represented 22% of total energy production. Contact Energy also took over ECNZ's contracts for Maui gas.

A set of special restraints was applied to ECNZ until such time as its market share fell below 45%.

### **37. June 1996: Government Signalled Future Direction for Regulation of Telecommunications, Electricity and Gas**

An extended legal dispute over interconnection pricing in telecommunications had culminated in a Privy Council decision endorsing a pricing rule (Baumol-Willig) which - in the Government's view - had the potential to lessen competition. This legal outcome prompted the Government to reappraise light-handed regulation of vertically integrated monopolies.

In June 1996, the Government confirmed its reliance on competition to achieve efficiencies in telecommunications, electricity and gas services in order to promote user benefits. At the same time, however, it declared its resolve to take additional regulatory action if it was not satisfied that vertically integrated network owners and potential competitors were negotiating in good faith to arrive at commercial solutions in a timely manner.

### **38. October 1996: The Wholesale Electricity Market Commenced Operations**

The competitive wholesale electricity market started, with EMCO acting as Market Administrator, Clearing Manager and Pricing Manager, and Transpower in the role of Dispatcher.

Electricity prices are based on bids and offers from market participants (i.e. generators, purchasers and traders), and the price is not capped. The spot market is supplemented by trading of longer term hedge contracts.

### **39. September 1997: Revised Objectives for Transpower**

Transpower's objectives were revised to more strongly emphasize the need for it to continually improve the efficiency of transmission services, by making the services contestable wherever possible and producing customer driven services at least cost. The key outcome sought by the Government was to reduce transmission costs as a percentage of total electricity costs on a sustainable basis.

Transpower initiated a review of the way grid security standards are set and maintained by establishing the Interim Grid Security Committee (IGSC), chaired by Honourable David Caygill. It was charged with developing a conceptual framework for grid security policy (GSP) consistent with a Government policy statement on the matter.

This involved establishing a self-governing arrangement for the industry for setting standards for common quality including security, a contractual structure for implementing agreed common quality standards and a robust monitoring, compliance and dispute resolution process. The outcome of this work is the Multilateral Agreement on Common Quality Standards (MACQS).

### **40. April 1998: Electricity Generation, Distribution and Retail Reforms**

The Government announced a package of reforms to generation, distribution and retail. The outcomes sought were vigorous competition wherever possible and effective regulation of natural monopoly businesses. Key features:

- Decision, in principle, to split ECNZ into 3 SOEs - Huntly and Tongariro; Waikato hydros; Waitaki and Manapouri.
- Ownership separation of line and energy businesses.
- Lines businesses, which do not face competition, will face increased risk of price control if they do not deliver best possible prices to consumers.
- Strengthening the Electricity (Information Disclosure) Regulations 1994 and the ODV handbook for valuing lines businesses.
- The government to publish improved analysis of disclosed information to enable better comparisons of the performances of power companies.
- The industry required to establish low cost switching arrangements to enable customers to change retailers; the government to introduce mandatory default system if the industry fails to deliver within 12 months.

## **41. July 1998: Electricity Industry Reform Act 1998**

The Electricity Industry Reform Bill was introduced in May 1998, as part of the Government's budget legislation package. The legislation was enacted on 8 July 1998.

Under the EIR Act, corporate separation of lines and energy businesses was to be achieved by 1 April 1999, and full ownership separation no later than 31 December 2003.

## **42. September 1998: Government Decision to Sell Contact Energy**

The Government announced its decision to scope the sale of state-owned generator Contact Energy. Contact Energy was reported to have a book value of \$860 million.

## **43. March 1999: Sale of Cornerstone Shareholding in Contact Energy**

The Government announced the sale of a 40% cornerstone shareholding in state-owned generator/retailer Contact Energy to US-based Edison Mission Energy for \$NZ1.208 billion. The remaining 60% is to be offered to small shareholders later in 1999.

## **44. April 1999: ECNZ Split**

New Zealand's largest electricity generator – state-owned enterprise ECNZ – was split into 3 competing state-owned generators. The 3 new companies, which commenced trading on 1 April 1999 are :

- Genesis Power Ltd (based in Manukau City, owns the Huntly and Tongariro power stations and owns electricity retailer First Electric);
- Meridian Energy Ltd (based in Wellington, owns the South Island's Waitaki and Manapouri power stations); and
- Mighty River Power Ltd (based in Auckland, owns the Waikato Hydro system).

## **45. April 1999: Separation of Ownership of Electricity Line and Supply Businesses Completed More Quickly Than Expected**

The Electricity Industry Reform Act 1998 required electricity companies to separate ownership of their line and supply businesses by 31 December 2003, and to undertake interim corporate separation by 1 April 1999. In the event, the industry chose to move more quickly, completing ownership separation before 1 April 1999. At that date, there were 7 retailers, many owned by generators (including the three SOE generators). Merger activity over the period of ownership change was less pronounced among line businesses, of which there were 32 on 1 April 1999.

## **46. April 1999: Inauguration of System for Switching Electricity Retailers**

The electricity industry launched a profiling system that will enable consumers to switch electricity retailers easily. The system is administered by wholesale market administrator The Marketplace Company Ltd (M-co). The ability for consumers to switch retailers was a requirement of the Government's 1998 electricity reforms.

## **47. April 1999: Revised Information Disclosure Regulations Promulgated**

The Electricity (Information Disclosure) Regulations 1999 came into force, replacing the 1994 version of the regulations. The new regulations :

- removed disclosure requirements from retailers and generators;
- tightened rules for accounting and for calculating performance measures;
- introduced new measures of reliability performance;
- required line owners to disclose asset management plans and security standards, as recommended by the Ministerial Inquiry into the Auckland Power Failure; and
- provided for much disclosed information to be made available on the Internet.

## **48. May 1999: Government Sells its Remaining Stake in Contact Energy**

The Government sells its remaining share of Contact Energy to more than 225,000 retail investors at \$NZ3.10 per share. The Government's revenue from the sale of Contact Energy, including the 40% sold in March 1999 to Edison Mission Energy, is more than \$NZ2.3 billion.

## **49. November 1999: Industry Self-Governing Arrangements for Grid Security**

Following authorisation by the Commerce Commission of the Multilateral Agreement on Common Quality Standards (MACQS) in August 1999 and signing of MACQS by industry participants, the Grid Security Committee (GSC) was formed in early November 1999. The GSC consists of an independent chair (Honourable David Caygill), 3 elected representatives from generators, an elected representative from retailers and a representative each from of the group of local networks, grid owners, domestic end user group, commercial end user group and industrial end user group.

The functions of the GSC are to: evaluate proposals to change parts of MACQS; oversee the Common Quality Coordinator contracting arrangements; admit members to MACQS; appoint mediators and arbitrators for disputes; carry out or participate in certain reviews and perform other such functions and tasks as given to the GSC under MACQS.

## **50. February 2000: Electricity Industry Inquiry Announced**

The Government announced a Ministerial inquiry into the electricity industry on 3 February 2000. The Inquiry will consider what changes are needed to ensure New Zealanders have the best possible electricity system. The Government's objective is to ensure that electricity is delivered in an efficient, reliable and environmentally sustainable manner to all consumers. The Inquiry will focus on distribution and retailing, the wholesale market and the transmission grid. Its report was due by 12 June 2000.

## **51. June 2000: Electricity Industry Inquiry Report Released**

The Ministerial Inquiry into the Electricity Industry reported to the Government on 12 June 2000 and their report was subsequently publicly released.

The Minister of Energy noted that the inquiry panel recommended a comprehensive and principle-driven approach to improving the efficiency and fairness of the electricity market.

The Inquiry panel recommended further evolution of the self-regulatory arrangements in the electricity industry as well as a credible threat of price control for electricity lines businesses.

## **52. October 2000: Power Package Released**

The Government's decisions on electricity sector reform were announced in the Power Package on 3 October 2000. These announcements follow the Ministerial Inquiry into the electricity industry – recommendations from which were accepted, either directly or in a modified form.

The Government stated it favours industry solutions where possible. A draft Government Policy Statement was released outlining the Government's expectations for further evolution of the self-regulatory arrangements in the electricity industry. The statement includes Guiding Principles and requires a new electricity governance board to develop rules for the industry that are consistent with these principles.

The Government announced it would introduce legislation which would enable it to make regulations if necessary if the governance board fails to deliver.

An Energy Policy Framework was released as well as a summary of all the Government's decisions.

## **53. November 2000: Electricity Industry Bill Tabled in Parliament**

The Electricity Industry Bill was tabled in Parliament on 28 November 2000 and is expected to be enacted in May 2001.

This is an omnibus bill to amend various Acts to give effect to the Government's response to the recommendations of the Ministerial Inquiry.

The Bill is designed to encourage the electricity industry to develop its own solutions to ensure the Government's overall objective for electricity is met. The objective is to ensure that electricity is delivered in an efficient, fair, reliable, and environmentally sustainable manner to all consumers. The Bill provides the Government with regulation-making powers to be exercised if the industry fails to deliver these solutions.

## **54. December 2000: Government Policy Statement Released**

Following consultation with industry participants, the final version of the "Government Policy Statement – Further Development of New Zealand's Electricity Industry" was released on 7 December 2000.

This Statement requires the industry to establish a new governance board, incorporating key features, to develop rules for the industry in areas specified consistent with the Guiding Principles outlined. The Statement includes other requirements on the industry.