



**Press Release**  
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## **APEC report vindicates market-led approach to electricity retail sector**

An APEC report on reforms in New Zealand's electricity retail services is a vindication of the market-led and competition approach for the sector, says the Electricity Retailers' Association (ERANZ).

Chief Executive Jenny Cameron says the APEC Economic Policy Report 2016 'Structural Reform and Services' addresses subjects at the very heart of the current conversation about growth, productivity and economic inclusion challenges facing the APEC region.

"The fact that the authors chose to analyse the reform of the New Zealand electricity retail services sector as one of just five case studies demonstrates how world-leading and innovative our sector has become.

"The report finds that the consistent approach by successive governments to the market-led and competition approach has delivered economic benefits for New Zealand. These include reducing electricity costs for business and enabling them to better control energy supply and price risks, stimulating new generation options, and boosting the strength of trading in electricity derivatives on the futures exchange.

"This a good endorsement for the need for an open, competitive, sustainable market, and the importance of consistency of government approach to promoting market-based responses."

The report consists of a policy framework chapter, which concludes with a set of important recommendations, and five case studies that provide an in-depth analysis of the economic impact of specific services sector reforms: China – retail services; Indonesia – air transport services; Japan – financial services; New Zealand – electricity retail services; Chinese Taipei – testing and certification services. The report says neither government, regulators nor industry had formally assessed the social and economic value of the reforms because they have operational evidence of their positive impact.

The New Zealand case study starts on page 251 of the Annex A Case Studies [APEC Economic Policy Report 2016](#).

## **Highlights from the report: Key Lessons of Reform in New Zealand**

The case study on New Zealand examines the reforms to the electricity retail market in New Zealand between the early 1980s and 2016, with a particular focus on two key phases of change in 1999 and 2010. The analysis is based on literature review and extensive consultation with the government, regulators, electricity industry, consumer complaints Commissioner, and other relevant stakeholders. The consultants visited Wellington in May 2016 to meet and interview relevant government and non-government stakeholders.

The key lesson from the process and approach to reforms in New Zealand is that when pursuing change successive governments have never deviated from a commitment to promoting market based responses and competition, and the clear set of principles that were established at the beginning of the reform process to underpin this commitment. This commitment has remained intact even though it was put to the test by several major reviews during the period of reform. These principles are as follows:

***Learning by doing.***

Successive governments have not been risk averse and have applied reforms even when there was no model or precedent to guide them. They have been willing to accept that market failures may occur and address them as they arise. As a result, the reforms have been evolutionary in nature.

***Commitment to market based competition, even when addressing market failures.***

Successive governments have consistently ensured that their reactions to issues are based only on supporting and encouraging market based responses. The most critical test to the government's faith in market based solutions occurred as part of the 2010 reforms. Leading up to 2010 residential prices were increasing, not falling, and this was opposite to public expectations about the benefits of the 1999 reforms. To address this problem the then government considered a range of publicly popular regulatory options including capping residential prices, but nevertheless maintained a commitment to measures that encouraged market based solutions.

***No price signals to distort market based responses.***

Successive governments have not been tempted to introduce consumer price concessions or controls, feed-in tariffs to support solar and other alternative local generation sources, subsidies to encourage renewable energy, or any other kind of financial support or exemptions. This has not dissuaded investment in renewable generation sources such as new development options for hydro power, wind farms or the use of solar panels. Accordingly, behaviour in the retail market is driven solely by market based pricing. One advantage that New Zealand has enjoyed is that it is naturally more reliant on renewable sources of energy (hydro and geo-thermal) than thermal sources (coal) with higher emissions profiles. This has meant that its responses to electricity market issues have not needed to be driven by emissions reduction objectives as much as in some other jurisdictions. However, consistent with its commitment to market based principles, New Zealand also phased in an emissions trading scheme (ETS) from 2008 to 2015 to reduce carbon emissions in its economy.

***Regulatory intervention is only used to improve market efficiency, where competition cannot.***

The approach of the regulators is based on facilitating outcomes through guidelines rather than rule setting and prescriptions for behaviour. For example, there is no prescriptive licensing regime for retailers to meet as a condition of market entry.

## **Benefits**

The consistent commitment to market based solutions and competition and application of these clear principles at each stage of reform has enabled New Zealand to maintain a course of continually improving reform that builds on and learns from successes and failures within a robust and defined framework. This approach has delivered a range of economic benefits including reducing electricity costs for business; enabling business to better control their energy supply and price risks; providing investors in the energy market with certainty to the extent that has stimulated a diversity of development options for new generation; and encouraging the listing of the five major retailers on the Australian stock exchange and promoting the strength of their shares and trading in New Zealand electricity derivatives on the futures exchange.

**About ERANZ**

The Electricity Retailers Association of New Zealand was established in August 2015 to represent the electricity retail industry on important sector-wide issues such as delivering value to stakeholders and consumers, and supporting the continued development of an open, competitive, sustainable and effective electricity market.

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