TDB Digest, September 2019

Productivity in the electricity lines sector

One of the biggest challenges the New Zealand economy faces is how to boost its productivity. By increasing the output that is produced with a given amount of resources, increased productivity means we can all be better off. We were surprised, therefore, to see the Commerce Commission proposing a target of 0% productivity growth for the electricity distribution businesses (EDBs) in its draft regulatory settings for the coming five years. This target follows on the Commission's finding that productivity in the EDBs has been falling by 1.1% on average each year in the ten years to 2014. More recent data suggest the trend of declining productivity amongst the EDBs has been continuing. This trend is of significant concern as declining productivity means higher costs and higher prices for electricity over time. Zero or negative productivity growth for the regulated businesses also suggests the regulatory system is not working well to promote the long-term benefits of consumers. TDB recently assisted the Electricity Retailers Association of New Zealand (ERANZ) with a submission to the Commerce Commission on the matter. We argued the Commission needs to provide greater incentives for the EDBs to boost their productivity. Find out the details in the submission below.

https://www.tdb.co.nz/wp-content/uploads/2021/09/TDB-Advisory-ERANZ-Submission-to-Commerce-Commission-on-DPP3.pdf

The wellbeing framework

The Government's wellbeing approach to its budget and policy-making has been held up as a world-leading new approach. But how new is it really, and most importantly, will it actually make us better off?

In a recent article in the NBR, TDB Director Phil Barry discusses some of the risks and potential setbacks of this new approach, raising four key questions:

1. will it encourage the government to use the wrong tool for the job;
2. who is best placed to assess and promote wellbeing, government or ourselves;
3. who becomes the champion of financial discipline in the government if the Treasury is focused on assessing overall wellbeing; and
4. where does productivity feature in the framework?

Unpacking the Wellbeing budget from another perspective, uncover the details in Phil's article below.

https://www.tdb.co.nz/wp-content/uploads/2019/09/Phil-Barry-NBR-The-Wellbeing-Framework-2019.pdf

The mixed ownership model

In a recent article in the NBR entitled "SOEs' selldown rewarded investors, not taxpayers", Brent Sheather discussed the results of the selldown by the Crown of 49% of its shares in Meridian Energy, Genesis Energy and Mercury (the "Mixed Ownership Model"). Sheather noted the large increases in value of the three SOEs since their public listings, alongside the increases in their dividends. He claims that because of the sales, taxpayers have missed out on $3.4 billion worth of dividends.

However, could it be the case that the improved performance and increased dividends of all three companies have been a result of their partial privatisations? In a response article in the NBR, TDB Director Phil Barry points out that Sheather makes the critical assumption that the increases in value and dividends of the MoM companies would have occurred had they remained 100% owned. On the flipside, Phil's article discusses the overall success of the sales on a number of fronts. Read both articles below and see who you side with.

https://www.tdb.co.nz/wp-content/uploads/2019/09/Phil-Barry-NBR-The-Mixed-Ownership-Model-2019.pdf

https://www.tdb.co.nz/wp-content/uploads/2018/10/TDB-Advisory-Mixed-Ownership-Review-2018.pdf

Gas governance review

The gas sector is currently co-regulated by the Government and industry-owned Gas Industry Company (GIC). This co-regulation has been the case since 2004, though the major gas outages last year has raised the question, do we need to rethink this governance model? In our recent report for the Major Electricity Users Group (MEUG), TDB undertook a full review of the current gas governance landscape, meeting with a range of different stakeholders, and reviewing the academic literature and experience with co-regulation. Questions we addressed included:

- is co-regulation the best option for New Zealand's gas industry?
- what is the biggest industry concern with the current governance?
- is there some industry capture going on here?
- what if we moved to joint regulation model for gas and electricity?

See what we concluded on these points and more in our Gas Governance Review linked below.

https://www.tdb.co.nz/wp-content/uploads/2019/05/TDB-Advisory-Gas-Governance-Report-2019.pdf

State-owned enterprises in Georgia

The New Zealand government currently owns thirteen state-owned enterprises (SOEs). The Georgian government on the other hand owns approximately 160 SOEs with a further 70-plus owned by local government. Over the last year, TDB director Phil Barry has had the opportunity to work on behalf of the International Monetary Fund (IMF), analysing the performance and risk exposure of these Georgian enterprises.

Focusing on 7 of the country's largest SOE's, this project involved modelling the impact of a range of potential economic shocks on each SOE. The analysis indicates that with high levels of debt (over 75% of total assets on average), and with the debt largely denominated in foreign currencies, the SOEs - and their owner the government - are highly exposed to an exchange rate depreciation. While an adverse GDP or interest rate shock would also impact on the SOEs, exchange rate fluctuation is by far the main risk the SOEs face going forward. Another exchange rate shock equivalent to the 30% depreciation that Georgia experienced in 2015 would have an adverse impact on the government's finances equal to around 5% of Georgia's GDP.

Find out the details in the Georgian Government's Statement of Fiscal Risks, as tabled in the Parliament, with our main analysis from page 24-50.

Other TDB Media coverage

https://www.stuff.co.nz/business/farming/115461685/fonterra--should-it-be-split-in-two-to-save-it

https://www.rnz.co.nz/national/programmes/thepanel/audio/2018708517/fonterra-in-dire-straits

Staff news

Tom Completed his PhD

TDB Analyst Tom Stannard successfully defended his PhD thesis in Finance last week. Tom's thesis was titled 'CEO Turnover: Governance, Games and Real Options'. It presented a new analysis of firm investment timing decisions under uncertainty in both theory and practice. After four highly successful years at TDB, Tom will be joining the Reserve Bank next month in their Economics Department.

George at the Tokyo Art Book Fair

Finally, we'd like to mention recent achievements of TDB Analyst George Nelson in a very different world – the world of Japanese art and poetry. Alongside his day-job, George doubles as a Japanese haiku poet, having recently self-published three new books of illustrated poetry. Last month, he exhibited his work at the Tokyo Art Book Fair, which took place at Tokyo's Museum of Contemporary Art. We are pleased to announce that George's books are also soon to make an appearance on the TDB office coffee table. Without some degree of Japanese fluency, reading them may prove challenging, however George has assured us that they are very cleverly worded and highly profound.

Haiku of the day

To celebrate George's recent poetry success, we thought we'd close this edition of the TDB Digest with one of his haiku. Just this once he has kindly translated it for the non-Japanese audience.

いちじかん

はやくおきれば

うみいける

One hour earlier

awake one hour earlier

can reach the ocean