

# OWNERSHIP UNBUNDLING IN ELECTRICITY DISTRIBUTION: EMPIRICAL EVIDENCE FROM NEW ZEALAND

EPRG Working Paper 0820

Cambridge Working Paper in Economics 0836

**Paul Nillesen and Michael G.Pollitt**

Although the current European discussion of ownership unbundling in the energy sector focuses on transmission (The Third Energy Package), it is possible that in future the Commission will consider ownership unbundling further down the value chain, at the distribution level as well. Outside Europe, New Zealand forced ownership separation at the distribution level in 1998. The examination of the empirical evidence from New Zealand in this paper offers a unique opportunity to analyse the impact forced distribution ownership unbundling has.

As part of our analysis we examine the one-off transaction costs incurred by integrated utilities, the structural effect on unit distribution costs, and the development of competition in the retail market. The analysis attempts to examine the main proposed benefits of ownership unbundling using a dataset from 1995 to 2007.

We define three main hypotheses to test the effects of ownership unbundling on (i) competition, (ii) the quality of the network, and (iii) the costs of the network companies.

On competition, we find that competition has only partially and temporarily benefitted from ownership unbundling. On the quality of the networks, we find that this has improved substantially over the time period of our dataset. On the analysis of network costs, we show that there have been substantial one-off transaction costs associated with ownership unbundling. The operational costs have however decreased significantly as a result of unbundling: our analysis suggests a 17 percent decrease in unit operational costs can be attributed to unbundling.



We conclude that transferring the lessons from New Zealand should be done with care and consideration. Ownership unbundling is not the “silver bullet” with which to achieve competitive energy markets. This suggests that policy makers should take care when proposing structural remedies to solve market malfunctioning. The question remains whether a strict regulator enforcing a proven regulatory regime could have achieved more than the current results demonstrate.

Contact <your email>  
Publication <month year>  
Financial Support <funder, grant>