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28th February 2020

Energy Transitions
Energy and Resources Markets Branch
Ministry of Business, Innovation and Employment
By email to: energymarkets@mbie.govt.nz
Attention Suzannah Toulmin

Dear Suzannah

ACCELERATING RENEWABLE ENERGY AND ENERGY EFFICIENCY
MBIE DISCUSSION DOCUMENT
WINSTONE PULP INTERNATIONAL LIMITED'S SUBMISSION

This is Winstone Pulp International Limited's (WPI) submission on the Ministry of Business, Innovation and Employment's (MBIE) discussion document "Accelerating renewable energy and energy efficiency" published on 19th December 2019.

WPI supports the Major Electricity Users Group's (MEUG) submission on this discussion document and makes the following additional comments:

1. Importance of renewable energy and energy efficiency for our business

WPI operates a pulpmill at Karioi, near Ohakune, that produces 200,000 t/y per annum high grade pulp for export, and an adjacent sawmill producing sawn timber for export and the domestic market.

To stay internationally competitive, WPI must aggressively manage our operating costs. Energy, particularly electricity is a major component of WPI's input costs and we have focused on managing this cost through a long term in house efficiency programme. Over the last 8 years, our investment under this programme has achieved over a 30% reduction in electricity use per tonne of pulp produced, equal to an electricity efficiency saving of over 80,000MWh/y.

We have also invested to utilise the biomass residues from our sites as fuel to generate process heat for our pulpmill. This has allowed us to significantly reduce the use of fossil fuels, achieving emission reductions of around 25,000 t/y CO_2e.

We have had no assistance from EECA in achieving this result.

2. Corporate energy transition plans – Option 1.1

Under this option, which is stated to be preferred by MBIE, WPI would be required to: develop a Corporate Energy Transition Plan; report annually on energy efficiency and emissions reductions; and undertake energy audits every four years.

<u>We are strongly opposed to this option</u>. For our business, this option would be counterproductive: it would impose additional costs and divert our management focus towards compliance and away from our core focus on process efficiency.

As previously noted, we have focussed for many years on energy efficiency (EE) and increasing Renewable Energy (RE) supply. While we have already made major gains, we acknowledge we can do more and this is an on-going focus for us. However, making further significant improvements requires careful evaluation of options and their implications for product quality, safety, and potential unintended consequences. Rather than focusing on mandating compliance requirements, we think MBIE's focus should be on reducing barriers to EE & RE investments, as discussed in section 5 below.

We do not agree that mandated energy audits will assist WPI to make progress on EE and RE. Our experience with past audits has not been encouraging. External energy audits can identify relatively simple generic solutions but, in our experience, external auditors do not have enough expertise and experience in complex wood processing operations to identify real and practical opportunities, and then make a realistic estimate of the costs, benefits and risks. To do this requires specialist expertise and a considerable investment in pre-engineering and feasibility study, which can cost in the order of 5% of the capital budget. The costs of doing this, without being sure of a viable improvement project, is a significant barrier for us.

In our business, EE and RE cannot be considered in isolation to our core mill operation. This means that any consideration of EE and RE improvement options will cut across our intellectual property and require access to commercially sensitive information. We do not agree that Government would be able to keep this information out of the public domain, in the event of an OIA request.

3. Section 6: Cost recovery mechanisms for EE and RE option

We do not agree that levies are an acceptable way to fund any of the options considered by MBIE. Levies inevitably result in cross subsidies, overhead inefficiencies and compliance costs for large users. These costs of Government policy should not be imposed on business.

WPI are currently paying approximately $30,000/y electricity levies to fund EECA (after the rate reduction in 2018), but we have never received any support from EECA. While we have engaged with EECA to explore ways to work with them, we have been unable reach mutually agreeable terms and conditions to access their support.

4. Phasing down fossil fuel power generation: option 8.6

We agree with MBIE's view that this option is not warranted at this time.

This would be a relatively high cost option with minimal potential benefit and would unduly interfere in the electricity market. The electricity market is already achieving growth in the RE share and proposed changes to the ETS settings will further support this.

The sector needs time to develop alternative RE base load and peaking power generation options, and MBIE should focus on reducing regulatory barriers for these options.

5. Section 5: Boosting investment in EE and RE

We believe MBIE's focus should be on reducing barriers to investment in renewable energy and energy efficiency <u>rather</u> than prescriptive regulation. We are therefore very disappointed that MBIE has not evaluated these options in more detail and has proposed few options to lower barriers and incentivise EE and RE investment.

We suggest MBIE should consider the following options in more detail:

- Accelerated depreciation – see NZIER report to MEUG.
- Improved tax treatment of pre-engineering and feasibility study costs, even if the investment does not proceed.
- Government co-funding for feasibility studies for large energy users with customised complex process operations.
- Promotion of investment through third party ESCO suppliers, addressing tax and accounting disincentives for the end user under an ESCO approach.
- Scheme to provide "additionality" funding for marginal projects based on allocation of NZUs for a percentage of the achieved emission reductions
- Low interest loans for capital expenditure from a dedicated government fund

We agree with MBIE that these types of measures could be funded from ETS auction revenues.

Thank you for the opportunity to make this submission.

Yours sincerely

Glenn Whiting
Chief Financial Officer