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Energy Markets Policy
Energy and Resources Markets
Ministry of Business, Innovation and Employment

Emailed to: energymarkets@mbie.govt.nz

Options for expanding the purpose of existing energy levies – EEA submission

Executive summary and recommendations

The Electricity Engineers' Association of New Zealand (EEA) welcomes the proposal to expand the purpose of existing energy levies. We recognise that the Energy Efficiency and Conservation Agency's (EECA) work is valuable to the electricity supply industry and that its objectives and research projects need to be realigned to key Government objectives that will benefit New Zealand.

We support in principle the spread of EECA levy sources, at current funding levels, across different energy sectors to more equitably recover the costs of encouraging, promoting and supporting energy efficiency, energy conservation and the use of renewable sources of energy across the board.

With more than 80% of electricity generated from renewable sources, we believe it is appropriate to spread the costs of funding EECA's projects across the non-renewable and other less energy efficient sectors. Accordingly, the EEA supports Options 3 and 2 (ranked in preferential order).

However, we regret the absence of an updated New Zealand Energy Efficiency and Conservation Strategy (NZEECS) and a work plan to accompany the consultation paper. Clearer long-term objectives and energy efficiency targets would have helped to better scope the relevance of each levy option in the light of EECA's priority goals. We would strongly encourage the Ministry for Business, Innovation and Employment (MBIE) to carry out further consultation once the new NZEECS is published, before making any final decision on the different proposed options.

The EEA wishes to make the following four recommendations:

Recommendation 1. That MBIE publishes updated information on the New Zealand Energy Efficiency and Conservation Strategy and EECA's future work programme to help scope the relevance of each levy option. We anticipate Options 3 and 2 will best meet the assessment criteria and objective of this consultation, however we recognise that any argumentation in favour or against any levy option should be based on clearly communicated objectives and projects.

Recommendation 2. That, on the basis that Recommendation 1 has been implemented, MBIE progresses this consultation with a more detailed proposal on one or two short-listed options, to enable the necessary changes in cooperation with the energy sectors. The EEA does not consider the *status quo* to be an acceptable option to achieve the stated objective.

Recommendation 3. That, in respect to implementing the Treasury’s Guidelines, MBIE give more weight to transparency than to administrative simplicity. The EEA supports all the criteria set by the Guidelines but suggests that compromises can more easily be made for some criteria compared with others. In particular, we consider that it is important that, when ranking the different proposed levy options, MBIE ensures that any decision is made with the full knowledge and the support of the energy sectors.

Recommendation 4. That the discussion around annual consultation processes be expanded to all levies, included those covered under the Energy (Fuels, Levies, and References) Act 1989. Although the consultation paper is silent on the levies made under this Act, one includes a levy on electricity generation concerning which consultation has long since fallen into abeyance. The EEA considers that there should be transparent reporting on the use of all levies.

Introduction

The EEA thanks MBIE for the opportunity to submit comments and recommendations on the content of its consultation paper “Options for expanding the purpose of existing energy levies”.

The EEA is the national representative organisation for technical, engineering, health and safety and asset management issues within the electricity supply industry (ESI). Our members include corporate and individual representatives from all sectors of the industry including generation, electricity networks, contractors (operation / maintenance), engineering consultancies and equipment suppliers.

Our submission addresses the different questions listed in MBIE’s questionnaire:

- general views on the objective of the proposal,
- comments on the balance between the different levy design criteria,
- general views on and ranking of the different proposed levy options,
- discussion on other options for providing transparency in the use of levy money.

General views on the objective of the proposal

The EEA supports the objective of the proposal, which is to enable levy funding of a wider range of activities that encourage, promote and support energy efficiency, energy conservation and the use of renewable sources of energy.

The EEA appreciates that the intent is to collect the same total amount of levy revenue to partially fund EECA’s activities, not to increase it. We understand that this will be done from wider levy sources and / or with a wider funding purpose for one or more levies.

Whilst the funds collected from electricity industry participants levy set out in the Electricity Industry Act 2010 (electricity levy) have been partly allocated to EECA’s work to encourage, promote and support electricity efficiency only, the ESI recognises that it is in the industry’s and in New Zealand’s best interest to promote cross-sector use of renewable energy and energy efficiency, and therefore provide more flexibility to EECA’s funds allocations. Some particular work areas mentioned in the consultation paper that cannot currently be funded by the electricity levy include projects that are of particular importance to the ESI, such as the promotion of electric vehicles.

The EEA understands that this proposal's objective aligns with new government priorities and targets to promote energy use and energy efficiency, in particular in transport and industrial heat sectors¹.

We note that the New Zealand Energy Efficiency and Conservation Strategy will expire in August 2016 and we regret the absence of an updated plan to accompany the consultation paper. Clearer long-term objectives and energy efficiency targets would have helped to better scope the relevance of each levy option in the light of EECA's priority goals. Electric vehicles and industrial heat for instance are quite different work areas with different causers and beneficiaries to consider. We strongly encourage MBIE to carry out further consultation once the new NZEECS is published, before making any final decision on the proposed options.

Balance between the different levy design criteria

The EEA supports the application of the Treasury's Guidelines (a. causer or beneficiary pays, b. rationality, c. administrative simplicity and transparency, d. equity) as being the fairest criteria to observe when setting Government levies. We consider that the causer or beneficiary pays principle is the most critical criterion to justify any levy, as well as the easiest to define.

Rationality is a relevant factor but, in the absence of a clear work plan made publicly available by EECA for specific energy efficiency and renewables activities post-2016, it is difficult to clearly assess how strongly this principle is met for each levy option.

Administrative simplicity is important but, if taken to excess, may impact on transparency, which we consider to be even more important in ensuring a fairer and acceptable spread of levy sources and allocation of funds.

We also support the equity principle in the sense that the allocation of costs should be fair, transparent and affect similar groups in similar ways.

The EEA also supports levy options that do meet the objective of this consultation. As a result, we do not consider that the *status quo* option meets the criteria for the objective proposed.

General views on the different proposed levy options

When analysing the different proposed levy options, the EEA gave particular weight to:

- options that meet the objective of the consultation, considering it is in New Zealand's best interests to promote renewable energy and energy efficiency across all energy sectors, not just the electrical energy sector,
- options that spread the levy sources across all energy users and suppliers, considering EECA's work will span different types of energy,
- options that meet a strong 'causer or beneficiary pays' criterion, as we believe this is the most critical criterion to defend a fair and relevant levy option, as well as the easiest criterion to assess compared to the rationality criterion,

¹ As announced on 3 March 2016 by Energy and Resources Minister Simon Bridges:
<https://www.beehive.govt.nz/release/targets-provide-direction-our-energy-future>

- options that increase transparency, as this is critical to ensure an appropriate understanding and support from the industries affected by the levies.

The EEA believes that Option 3 provides the best balance, followed by Option 2; we do not support either Option 1 or the *status quo* as a means to achieve the proposed objective. Our concerns and the reasons for this ranking are discussed below and summarised in an appendix table, in general preference order. Variations 1A, 1B, 2A and 3A are discussed within their main option number and were not ranked for clarity purposes. We would like to stress out that this ranking is based on our understanding of EECA's priorities. These priorities should be more clearly communicated in order to confirm the validity of our argumentation.

Option 3: Existing electricity levy, PEFML + gas levy with expanded purposes

Option 3 meets the causer and beneficiary pays principle most strongly, enables a more flexible, yet transparent, use of levy expenditures and spreads the levy sources in a fair and rational manner, which are the main criteria we listed as critical.

We realise organising annual consultations with wider levy sources and providing a refund mechanism will increase the complexity of the process and restrict to some extent the flexibility EECA is looking for. However, we believe the Government will gain from setting up a framework that appropriately balances flexibility and transparency, as it will be more largely supported by the energy sectors than other options where they will have little say.

Variation 3A: Existing electricity levy, PEFML + gas levy with expanded purposes – set allocation (30:50:20). The EEA is concerned that a set allocation would replace annual consultations on EECA's work programme. Simplifying the system by setting allocations compromises the transparency of these allocations, which is a concession the EEA does not support.

Option 2: Existing electricity levy + PEFML with expanded purpose and Variation 2A: exempt biodiesel and ethanol.

We believe that Option 2 is another acceptable option. It meets the same important criteria. Whilst gas participants are not covered by this proposal, the funding of EECA's gas-related activities would remain out of the scope of the electricity levy and would not incur any cost increase or irrationality in the way the electricity levy is used.

It will be MBIE's responsibility to decide where the best balance can be found between a strong causer and beneficiary pays principle and simpler administrative procedures.

Option 1: Electricity levy with expanded purpose

Option 1's main advantage is certainly its simplicity, requiring merely a change in the wording within the Electricity Industry Act 2010 so that the purpose of the levy covers all energy aspects, and not just electricity.

However, we do not support it because the causer and beneficiary pays principle is weak in this option compared to Options 3 and 2.

We also have a few concerns regarding the different variations within Option 1.

Variation 1A: Electricity levy – expanded purpose – revised design to a rate per customer. The consultation paper raises the argument of equity to make up for the low rationality criteria behind the expansion of the electricity levy purpose, and is the main reason for the proposal to allocate the levy as an amount per ICP rather than based on consumption.

The argument does not hold very strongly in such situations where EECA would keep funding electricity efficiency related projects through this levy, which we anticipate it will. In general, the sourcing for such expenditure sits more fairly on an energy consumption base than a consumer base.

Variation 2A: Electricity levy – expanded purpose – revised to a rate on electricity generated. The EEA recognises the importance of charging those that are more directly likely to benefit from EECA work activities. We note however that MBIE itself admits that “charging generators **potentially** meets the ‘beneficiary pays’ criteria more strongly than option 1 or 1A” (paragraph 59 page 14 of the consultation paper). In the absence of clearer goals and work programme, it is difficult to hold strong arguments in favour or against this option compared to Option 1 or 1A. In addition, we point out that electricity generators are already levied under the Energy (Fuels, Levies and References) Act. They are unlikely to welcome any increase in either the charges or their complexity.

Status quo

As outlined earlier, the EEA supports levy options that do meet the objective of this consultation. As a result, we do not consider the *status quo* to be an acceptable way of meeting the objective.

The EEA understands that there is a need for more flexibility in the way EECA allocates its funding. We consider that changes should be made in the scope of existing levies rather than continue to fund activities that do not appropriately align with the Government’s new priorities and the benefits for New Zealand.

Other options for providing transparency in the use of levy money

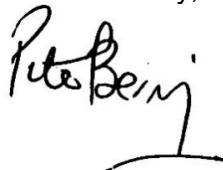
The EEA strongly supports the proposal to conduct annual adjustments and consultations on EECA’s work programme. We recognise that the transparent annual reporting of levy funded achievements is a good way to ensure public discipline on the expenditure of levy sources.

The EEA would support the expansion of discussion around consultation processes for all levies covered under the Energy (Fuels, Levies, and References) Act 1989. Although the electricity levy covered in this Act is not considered for expansion in this consultation, it is over and above that collected under the Electricity Industry Act 2010. This discussion would be particularly relevant should option 3 be implemented, as it would expand the purpose of the PEFML and gas levy under the Energy Act and provide a consultation platform for it.

Conclusion

The EEA thanks MBIE for the opportunity to make this submission. Should you wish to further discuss or clarify any matters mentioned in this submission, please contact Marion Sorez at marion@eea.co.nz or Peter Berry at peter@eea.co.nz or 04 4738 600.

Yours sincerely,



Peter Berry
Executive Director

Appendix. Summary table of the different proposed levy options – EEA submission

Options	Advantages	Issues
Options supported by the EEA (ranked*)		
<p>Option 3: Existing electricity levy, PEFML + gas levy with expanded purposes</p> <p>Variation 3A: set allocation (30:50:20)</p>	<ul style="list-style-type: none"> - Meets the causer and beneficiary pays principle most strongly - More flexibility than in the current framework - Spreads the levy sources in a fair and rational manner - Transparency 	<ul style="list-style-type: none"> - Issue regarding its variation, option 3A: transparency compromised for simplicity reasons
<p>Option 2: Existing electricity levy + PEFML with expanded purpose</p> <p>Variation 2A: exempt biodiesel and ethanol</p>	<ul style="list-style-type: none"> - Strong causer and beneficiary pays principle - More flexibility than in the current framework - Spreads the levy sources in a fair and rational manner, although with the exclusion of the gas sector - Transparency 	<ul style="list-style-type: none"> - Government responsibility to decide where the best balance can be found between a strong causer and beneficiary pays principle (exclude biofuels) and simpler administrative procedures (include biofuels)
Options not supported by the EEA		
<p>Option 1: Electricity levy with expanded purpose</p> <p>Option 1A: Electricity levy – expanded purpose – revised design to a rate per customer</p> <p>Option 2A: Electricity levy – expanded purpose – revised to a rate on electricity generated</p>	<ul style="list-style-type: none"> - Simplicity - More flexibility - Transparency 	<ul style="list-style-type: none"> - Weak causer and beneficiary pays principle compared to the other options - Variation 1A: weak equity argument considering that EECA might keep funding electricity efficiency projects - Variation 1B: absence of clear goals and work programme makes it difficult to judge the beneficiary criteria relative to options 1 or 1A
<p>Status quo</p>	<ul style="list-style-type: none"> - Simplicity - Transparency 	<ul style="list-style-type: none"> - No flexibility - Funding activities do not appropriately align with the Government’s new priorities.

* Main options ranked in preferential order, variations discussed within each option but not ranked.