8 June 2016

Justine Cannon
Energy Markets Policy
Energy and Resources Markets
Ministry of Business, Innovation and Employment
WELLINGTON

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Dear Justine,

Options for expanding the purpose of existing energy levies

Genesis Energy Limited welcomes the opportunity to provide a submission to the Ministry of Business, Innovation and Employment ("MBIE") on the consultation paper "Options for expanding the purpose of existing energy levies" dated 17 May 2016 ("the Consultation Paper").

We agree with MBIE that: "*significant progress has been made in the area of electricity efficiency, and while it remains important, greater gains can be made by focussing on energy use for transport and industrial processes.*"

We note that the current funding model for the Energy Efficiency and Conservation Authority ("EECA") limits approximately half of its funding to electricity, not energy, efficiency activities. We agree this prevents funding from being used for broader energy activities projects. For example, the current funding model will not support promotion of electric vehicles ("EVs") as uptake of EVs would increase electricity consumption, rather than decrease electricity consumption.

Our view is that greater flexibility is needed for EECA to obtain funding towards activities that provide the greatest overall energy efficiency benefits to NZ, and better reflect changing circumstances and priorities in the wider energy sector.

While this change will allow greater flexibility in the short term, we support the ERANZ submission which raises the wider issue that the definition of "energy efficiency" in the Energy Efficiency and Conservation Act 2000 is generally too narrow.

Preferred Option 3A

MBIE has proposed a number of options for change. Genesis Energy supports Option 3A.

We agree that "energy efficiency", rather than "electricity efficiency", better reflects EECA's policy objective. Under option 3A, the electricity levy, gas levy and petroleum and engine fuels monitoring levy ("PEFML") will target the sectors which offer significant opportunities to ensure New Zealand increases energy efficiency and use of renewable energy.

It is fair and equitable for the funding of energy efficiency initiatives to be recovered from all three sectors. We consider this is best achieved by amending the purpose of the electricity levy to reflect "energy efficiency" and expanding the purpose of the gas levy and the PEFML to include "energy efficiency, energy conservation and the use of renewable sources of energy",

Retain current consultation requirements

Section 129 of the Electricity Industry Act 2010 ("the Act") requires EECA to consult on proposed appropriations for the coming year. Section 129 states:

> **129 Consultation about request for appropriation**
>
> (1) The Authority and the Energy Efficiency and Conservation Authority must, before submitting a request to the Minister seeking an appropriation of public money for the year, or any change to an appropriation for the current year, that relates to costs that are intended to be recovered by way of levies under section 128, consult about that request with –
>
> (a) those industry participants who are liable to pay a levy under that section; and
>
> (b) any other representatives of persons whom the Authority believes to be significantly affected by a levy.
>
> (2) Each Authority must, at the time when the request is submitted, report to the Minister on the outcome of that consultation.
>
> (3) The Minister must consult in a like manner in respect of a levy to recover costs referred to in section 128(3)(g).
>
> (4) This section applies to requests in respect of the financial year beginning 1 July 2011 and later financial years.

This requirement for annual Consultation provides important transparency and accountability regarding the levy recovered from industry participants. It must be continued, and we suggest should be expanded to the gas levy and PEFML.

Retain current electricity levy charging model

The Consultation Paper also discusses options for changing the way the electricity levy is charged. Currently, the electricity levy is charged as a rate on electricity purchased from the wholesale market per megawatt hour (MWh). We strongly advocate for retaining the status quo.

The electricity industry has systems in place to apply the levy on a MWh basis and any change will create unnecessary costs without providing any benefits. For example: changing to a charge per Installation Control Point (ICP) will disproportionately increase costs to small consumers; charging per MWh generated would mean that systems and processes would need to be changed imposing unnecessary costs.

If you would like to discuss any of these matters further, please contact me on 04 495 3348.

Yours sincerely

Rebekah Cain
Regulatory Advisor

Appendix A: Responses to Consultation Questions

QUESTION	COMMENT
Q1: What are your views on the objective of this proposal? Do you agree or disagree with it? Why?	We agree with the objective of this proposal, that is, to provide more flexibility in the allocation of funding so that activities can focus on areas that will have the greatest impact on improving the energy efficiency of New Zealand's homes and businesses. As noted in the Consultation Paper, Electricity is only one area where gains can be made in energy efficiency and only represents 25% of energy demand. The industrial sector and the transport sectors used approximately 38% and 36%, respectively, of all energy in 2014. Transport accounts for approximately 17% of our emissions. Electricity has moved, and continues to, to renewable sources. Accordingly, there is greater capacity for improvements to be made in the industrial and transport sector. EECA funding should allow EECA to target the areas where the greatest gains in energy efficiency and increased renewable energy use can be achieved. It is also important that the funding framework is resilient enough to adapt to emerging technologies in the future.
Q2: What do you think is the appropriate balance between 'administrative simplicity /transparency' and the 'causer or beneficiary pays' and 'rationality' criteria? Should more weight be given to one over the others?	The current consultation and requirements under s129 of the Act, as well as the refund mechanism, are an important part of the accountability and transparency requirements for the electricity levy. This must be retained and should be extended to the PEFML and gas levies.
Q3: Which option do you think provides the best balance?	Option 3A.
Q4: What is your preferred option?	Option 3A.

QUESTION	COMMENT
Q5: Why do you think this is the best option?	It is fair and equitable. It ensures that a levy to fund energy efficiency policy initiatives are recovered from those sectors where there are gains to be made in energy efficiency and increased use of renewable energy.
Q6: Of the options you do not prefer, what issues or reasons do you think are most important for us to consider?	Option 1 only changes the electricity levy which does not need reforming and means that the electricity industry is bearing a disproportionate responsibility for funding energy efficiency policy. Option 2 only extends the PEFML levy. The electricity levy will still be restricted to electricity efficiencies and the industrial sector is not bearing any of the cost of the energy efficiency policies despite the opportunity for efficiency gains. Addressing emissions is a significant policy driver for the coming years. Increasing all energy efficiency is a key tool. By amending the electricity levy, the PEFML levy and the gas levy, the industrial and transport sectors will be funding the promotion of energy efficiency in the relevant sector and EECA will be better able to direct its funding to energy efficiency policy initiatives in a more holistic way,
Q7: Are there other options for providing transparency in the use of levy money (besides requiring annual consultation and reporting)?	The annual consultation and reporting requirements are important transparency and accountability measure. These requirements should be retained and extended to cover the gas levy and PEFML.