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Energy Markets Policy
Energy and Resources markets
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By email: energymarkets@mbie.govt.nz

Re: Consultation Paper – Options for expanding the purpose of existing energy levies

Nova Energy supports a review of the funding arrangements to support energy efficiency, energy conservation and the use of renewable sources of energy; primarily through EECA's activities. Nova accepts the potential benefits of broadening the activities that EECA can undertake, as long as those activities are expected to provide a strongly positive net return on the investment being made.

By widening the sources of income, there is a risk that EECA's accountability and responsiveness to the market is diluted, primarily through a lack of interest by the different sectors providing the funding. To overcome that risk, Nova Energy asks that in lieu of any market discipline on EECA's activities, that MBIE enforce close accountability on EECA to demonstrate the value added on projects that it undertakes.

Our response to the specific questions in the paper is attached. Please feel free to contact me if you wish to discuss our views further.

Yours sincerely



Commercial & Regulatory Advisor



Nova Energy submission

Please identify your sector: Gas wholesaling and retailing; electricity generation and retailing

Responses to the discussion paper

Q	Comment	Response
1.	What are your views on the objective of this proposal? Do you agree or disagree with it? Why?	Nova Energy supports allowing EECA to undertake projects in the context of energy efficiency and reducing CO ₂ -e emissions with its funding if it can clearly demonstrate how its initiatives will provide a net benefit to New Zealanders' wellbeing over the long term. It makes sense that the allocation of funds to these initiatives should be based on the highest 'return on investment' rather than constraining those according to the specific source of funding.
2.	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?	<p>Nova favours 'administrative simplicity' and 'equity'. The links between 'causer or beneficiary pays' and EECA's actual activities is tenuous in that there is considerable subjectivity in determining if a party is truly a 'causer' or assessing who benefits from its programmes.</p> <p>For instance, where a levy on motor fuel is used to assist in promoting the benefits of electric vehicles; a private motorist may not be a direct beneficiary of that promotion, but they will subsequently benefit from greater choice, market competition, and improved EV infrastructure when they come to replace their own vehicle.</p>
3.	Which option do you think provides the best balance?	Option 3A. Issues of transparency in terms of how funds are used can be overcome by ensuring there is a rigorous process of evaluating the net benefits of projects. It is not sufficient to rely on the EECA Board to do that as its responsibilities are to the organisation rather than the consumer.
4.	What is your preferred option?	Option 3A
5.	Why do you consider this the best option?	<p>Transportation fuels account for a major proportion of New Zealand's energy usage and CO₂-e emissions. It is therefore important that New Zealand addresses the challenge of those emissions, and as such the transport sector should carry a significant component of the overall costs.</p> <p>Direct use of natural gas for water and space heating is a highly efficient use of energy and should be supported in preference to requiring increased capacity in peak period generation and electricity transmission and distribution. It is appropriate that a gas levy be part of the mix and its efficient use be promoted by EECA.</p> <p>There is not an adequate case for excluding biofuels, particularly given that renewable electricity generation is included, and the fully costed benefits of biofuels appear to be marginal in any case.</p> <p>Option 3A would seem a reasonable and pragmatic funding basis.</p>

Q	Comment	Response
6.	Of the options you do not prefer, what issues or reasons do you think are most important for us to consider?	<p>Option 1 is unacceptable as electricity is largely generated from renewable sources. Improvements in efficient usage of electricity are largely driven by new technologies which are promoted by the market in any case.</p> <p>Initiatives such as those pertaining to transport, industrial processes such as compressed air, clean wood burners, improved home heating and insulation should not be funded out of an electricity levy.</p> <p>Options 1, 1A and 1B suffer from the difficulty that they poorly target the potential causers/beneficiaries of a levy on electricity.</p> <p>Option 1 loads an additional cost on to New Zealand's largest energy intensive industries which are competing in international markets and are already incentivised to invest their own resources in energy efficiency. Increasing the costs of those industries would exceed of any benefit received and cause a further distortion on future investment decisions.</p> <p>Option 1A adds a fixed cost to all electricity consumers, roughly half of whom already opt for a low-user charge in order to reduce their fixed costs each month. It also captures a wide range of consumption points such as shearing sheds, pump houses, toilet facilities, community halls, etc. that have little relevance to the application of the funds.</p> <p>Option 1B would result in electricity prices rising by the amount of the levy and having the same effect as option 1. Electricity prices are determined by the marginal generator at any point in time. Given that the marginal generator can be expected to factor all of its costs into its offering strategy, a levy on generation would impact on the electricity price paid by all consumers.</p> <p>In respect of the existing levy on electricity, on Nova Energy believes that on balance, a levy tilted towards an ICP basis would better reflect the beneficiaries of EECA's work than a kWh charge.</p>
7.	Are there other options for providing transparency in the use of levy money (besides requiring annual consultation and reporting)?	<p>EECA's activities have parallel's with the Crown's funding of science, and it would be appropriate for MBIE to formally survey representative consumer groups such as MEUG, MGUG, Road Transport Forum NZ, AA and Consumer NZ to provide feedback on their assessments of EECA's achievements on an annual basis. It would also be appropriate to contribute to the costs of responding to such surveys given the membership funding of those organisations.</p> <p>This would provide the independent check that EECA's operations continue to meet the needs of government and the community that it operates in.</p>