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Energy Markets Policy  
Energy and Resources Markets  
Ministry of Business, Innovation and Employment  
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## TRUSTPOWER SUBMISSION: OPTIONS FOR EXPANDING THE PURPOSE OF EXISTING ENERGY LEVIES

### 1 Introduction and overview

- 1.1.1 Trustpower Limited (Trustpower) welcomes the opportunity to provide a submission to the Ministry of Business, Innovation and Employment (MBIE) on its *Options for expanding the purpose of existing energy levies* consultation paper (the Consultation Paper).
- 1.1.2 We understand that the main points put forward in the Consultation Paper are as follows:
- a) The Energy Efficiency and Conservation Authority (EECA) undertakes the Government's work to encourage, promote and support energy efficiency, energy conservation and the use of renewable sources of energy. EECA currently receives some funding from the Electricity Levy, but this is limited to 'electricity' efficiency activities only.<sup>1</sup> The rest of its funding comes from general taxation.
  - b) Significant progress has been made in the area of electricity efficiency, and while it remains important, greater gains can be made by focusing on energy use for transport and industrial processes.<sup>2</sup> However, currently these other activities must be funded entirely by general taxation.
  - c) In order to take advantage of opportunities to improve energy efficiency, MBIE is proposing expansion of the purpose of one or more *existing* levies, to better prioritise funding towards activities that provide the greatest overall benefit to New Zealand.
- 1.1.3 Fundamentally, Trustpower supports the proposal to expand EECA's potential funding sources.
- 1.1.4 Our submission focuses on the:
- a) Optimal balance of the design criteria considered by MBIE;
  - b) Advantages and disadvantages of proposed options for levy expansion; and
  - c) Further relevant considerations for efficient allocation of the levy funding.

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<sup>1</sup> Ministry of Business, Innovation and Employment, 'Options for expanding the purpose of existing energy levies', pg 5

<sup>2</sup> Ministry of Business, Innovation and Employment, 'Options for expanding the purpose of existing energy levies', pg 6

- 1.1.5 Trustpower is a member of the Electricity Retailers Association of New Zealand (ERANZ) and endorses the ERANZ submission on the Consultation Paper.

## 2 Background to the Energy Efficiency and Conservation Authority

- 2.1.1 The MBIE Business Growth Agenda (BGA) programme of work ensures that the Government stays focused on encouraging business confidence and investment. The Natural Resources Sector (NRS) stream of the BGA includes an Energy and Climate focus area, which aims to improve energy efficiency and use of renewable energy to raise productivity, reduce carbon emissions and promote consumer choice.
- 2.1.2 The New Zealand Energy Strategy 2011-2021 (NZES) sets out a strategic approach to New Zealand maximising its energy potential, with priorities around diverse resource development, environmental responsibility, efficient use of energy, and secure and affordable energy.<sup>3</sup> The New Zealand Energy Efficiency and Conservation Strategy 2011-2016 (NZECS) is a companion to the NZES, setting out objectives in transport, business, homes, products, the electricity system and the public sector.
- 2.1.3 The EECA is guided by the NZECS in its function to encourage, promote and support energy efficiency, energy conservation and the use of renewable sources of energy.<sup>4</sup> Approximately 50 percent of EECA's funding comes from levies. To date, EECA has only ever consulted on and drawn down a maximum of \$13 million from its approved \$17.5 million to fund projects in its agreed work plan which relate to electricity efficiency. The remainder of its work is funded from general taxation, currently \$16.6 million. Prioritisation around this wider funding source could potentially be limiting on the types of energy efficiency initiatives that it undertakes.

### 2.2 Proposal objectives and options

- 2.2.1 The proposal 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, by expanding one or more of the existing levies on electricity, transport fuels and gas. The objective is to provide more flexibility in the allocation of funding so that activities can focus on areas that will have the greatest impact, such as transport.<sup>5</sup>
- 2.2.2 The options proposed expand the purpose of one or more of the Electricity Levy, Petroleum and engine fuels monitoring levy (PEFML) and Gas Levy. MBIE considers these fuels are relevant as they:
- Would be the focus of activities undertaken by EECA and therefore they link to the objective of the proposal;
  - Represent a significant share of consumer demand and would be worthwhile recovering levy money from; and
  - Are already levied by a suitable levy.
- 2.2.3 In addition to the proposal objective, the options are assessed against the following criteria:
- Causer or beneficiary pays**, which are used to identify the appropriate group or subgroup of levy payers;
  - Rationality**, suggesting there should be a clear link between the levy payer and *specific* activity being funded;

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<sup>3</sup> Ministry of Economic Development, 'New Zealand Energy Strategy 2011-2021', pg 5

<sup>4</sup> Energy Efficiency and Conservation Act 2000, s21(1)

<sup>5</sup> Ministry of Business, Innovation and Employment, 'Options for expanding the purpose of existing energy levies', pg 5

- c) **Administrative simplicity and transparency** i.e. the purpose of changes to the funding structure should be easily understood and applied; and
- d) **Equity**, regarding how the costs are allocated within the group of levy payers.

### **3 Our views on the criteria and option proposed**

- 3.1.1 The NZEECS is expected to be renewed in the latter half of this year. Consultation on the finalised strategy, including work programmes, will allow more informed assessment of appropriate options.
- 3.1.2 We support the wider objective of encouraging, promoting and supporting energy efficiency, energy conservation and the use of renewable sources of energy. As stated in the discussion document, significant progress has been made in the area of electricity efficiency, and while it remains important, greater gains can be made by focusing on energy use for transport and industrial processes.<sup>6</sup> However, we are not in favour of increases in costs to our consumers.
- 3.1.3 The current framework constrains beneficial non-electricity projects to a smaller funding pool, and this could be addressed by improving the flexibility around funding sources and allocation. For example, current EECA programmes around improving heavy vehicle fuel efficiency and the recently launched Low Emission Vehicles contestable fund are funded out of the general taxation portion of EECA funding.

#### **3.2 Design criteria assessment**

- 3.2.1 The rationality, causer-pays and beneficiary-pays criteria are all associated with the notion of connecting levy payers to the EECA work programmes most relevant to their fuel consumption. Trustpower views rationality, i.e., linking specific activities to levy payers – where possible and practicable – as important to achieving transparency.
- 3.2.2 We believe that the chosen option (whether this is ultimately 1, 2, 3, or the status quo) should be easily understood, and MBIE should give effect to ‘causer or beneficiary pays’ and ‘rationality’ where it is possible to do so without onerous administrative complexity.

#### **3.3 Option 1, 1A and 1B**

- 3.3.1 Expanding the electricity levy to include “energy efficiency, energy conservation and the use of renewable sources of energy” i.e., the full range of EECA activities, would be little more administratively complex than the status quo. However, the link between the levy payer and the activities being funded is weaker than under any of the other options proposed, as transport fuel and gas heavy industries are not necessarily large electricity users (i.e. this option is not reflective of differing energy type intensities in these industries).
- 3.3.2 In competitive regional electricity markets, some retailers may absorb the pass-through element of the levy in their pricing, which could limit the levy’s use as a signal to consumers. The expansion of the levy’s use would thereby result in inequitable allocation of costs to electricity sector participants. This would underestimate the marginal costs of energy efficiency initiatives in the transport and industrial sectors unless accurately measured, and does not satisfy causer pays.
- 3.3.3 Option 1A, which expands the purpose of the Electricity Levy and revises the levy to an amount per Installation Control Point (ICP) is inequitable and does not fulfil causer or beneficiary pays as larger electricity users, such as businesses, will be paying a fixed amount for activities not directly

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<sup>6</sup> Ministry of Business, Innovation and Employment, ‘Options for expanding the purpose of existing energy levies’, pg 6

related to electricity efficiency, despite being the greater beneficiaries of the Electricity Efficiency Output class spend.<sup>7</sup>

- 3.3.4 Option 1B revises the levy to a rate charged per unit of electricity generated, in addition to the proposed expansion to the full range of EECA activities. By levying generators rather than other wholesale market purchasers, the 'beneficiary pays' criteria is potentially met more strongly than option 1 or 1A. However, as this is very likely to be passed directly through to consumers in wholesale energy prices, it is not any more equitable than option 1.
- 3.3.5 With regard to the changes in the charging methods proposed under options 1A and 1B, allowing retailers flexibility in levy charging could be considered as part of the ongoing evolution of tariff structures.

### **3.4 Option 2 and 2A**

- 3.4.1 Option 2 proposes to expand the purpose of the PEFML to include recovery of some of EECA's costs for performing its functions in activities related to transport. By directly targeting users of non-renewable energy, this option is strongly causer pays. As the PEFML is levied on a consumption basis, the equity criterion is satisfied; benefits from the combination of increased electricity and renewable-energy use accrue to both electricity and petrol users.
- 3.4.2 Under this model, justification will need to be made to allocate the costs of an activity to a particular group of levy payers. Although consultation on the work programme makes this option relatively more administratively complex, the transparency and rationality of the option is far better than option 1, as a large portion of the programmes to increase the use of renewables will be directed at transport fuel use.<sup>8</sup>
- 3.4.3 In addition to the option to expand the purpose of the PEFML, option 2A also excludes biofuel (ethanol and biodiesel) as they are classed as renewables for their reduced creation of carbon dioxide in the production process.<sup>9</sup> However, uptake is low and regulated as a maximum proportion of a petrol blend, and implementation would be administratively complex with increased compliance costs for manufacturers and importers of biofuel blends.

### **3.5 Option 3 and 3A**

- 3.5.1 Option 3 proposes the existing electricity levy and expanded PEFML and gas levy. The electricity levy would continue to fund electricity-efficiency activities, the PEFML would be used to recover activities related to transport fuels, and only gas-related activities would be recovered from the gas levy. Expanding both the PEFML and gas levies aligns most strongly with the causer pays principle. In order to satisfy rationality as in option 2, work programme consultation will need to be carried out for gas levy payers (as well as PEFML payers).
- 3.5.2 Although this is slightly more administratively complex than other options, requiring consultation with a number of different levy payers, option 3 is our preferred option as it is equitable, transparent and fulfils the causer and beneficiary pays criteria. Further, option 3 provides the most flexibility of funding allocation; rationality can only be achieved upon implementation of the new NZEECS and associated work programmes.

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<sup>7</sup> Energy Efficiency and Conservation Authority, 'Annual Report 2014/15' pg 31, pg 58. The ratio of business to residential spend of the Electricity Efficiency Output class in the 2014/15 financial year was close to 2:1.

<sup>8</sup> Ministry of Business, Innovation and Employment, 'Options for expanding the purpose of existing energy levies', pg 15

<sup>9</sup> Ministry of Business, Innovation and Employment, 'Options for expanding the purpose of existing energy levies', pg 15 footnote

- 3.5.3 Option 3A, in addition to expanded PEFML and gas levy, expands the electricity levy, proposing a set allocation from all three levies to form a common pool to fund any of EECA's activities. This would remove the annual consultation on EECA work programmes funded from these levies.<sup>10</sup>
- 3.5.4 Set allocation has a weaker alignment with the 'rationality' principle, because it only attempts to allocate the costs of activities in proportion to the group's contribution to the problem. It is particularly difficult to consult on a set allocation without the work programmes being consulted on. This is in contrast to the other options, where levy payers contribute to the specific activities that logically link to the energy used.<sup>11</sup>
- 3.5.5 While it provides flexibility and is administratively simple, there is a significant lack of transparency. MBIE suggests this could be addressed by reporting, but the historical nature of the information gives little indication of how the amounts of these levies will change in future and is thus less supportive of investment decision-making. Further, it is inconsistent with New Zealand Treasury guidelines for setting charges in the public sector.<sup>12</sup>

#### **4 Further considerations**

- 4.1.1 The renewal of the NZEECS for the latter period of the NZES is expected to provide an indication of EECA work programmes, which will better inform levy funding allocations and investment decisions.
- 4.1.2 EECA reporting on the projected results and ex-post outcomes of work programmes will provide a wider range of information for business decision making. It would assist not only with the targeting of future work programmes, it would encourage market-driven innovation focused on energy efficiency.
- 4.1.3 Our answers to the specific questions posed in the Consultation Paper are attached in Appendix A.
- 4.1.4 For any questions relating to the material in this submission, please contact me on 07 572 9888.

Regards,



**JAMES TIPPING**  
**MANAGER STRATEGY AND REGULATION**

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<sup>10</sup> Ministry of Business, Innovation and Employment, 'Options for expanding the purpose of existing energy levies', pg 11

<sup>11</sup> Ministry of Business, Innovation and Employment, 'Options for expanding the purpose of existing energy levies', pg 17

<sup>12</sup> New Zealand Treasury, 'Guidelines for Setting Charges in the Public Sector', pg 10, pg 14

## Appendix A: Responses to consultation questions

Question	Response
1. Please identify your sector.	1.1 Electricity (generation and retail), Gas (retail) and Telecommunications sectors
2. What are your views on the objective of this proposal? Do you agree or disagree with it? Why?	<p>2.1 We support the wider objective of encouraging, promoting and supporting energy efficiency, energy conservation and the use of renewable sources of energy.</p> <p>2.2 Significant progress has been made in the area of electricity efficiency, and while it remains important, greater gains can be made by focusing on energy use for transport and industrial processes. However, we are not in favour of increases in costs to our consumers.</p>
3. 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>3.1 The rationality, causer pays and beneficiary pays criteria are all associated with the notion of connecting levy payers to the EECA work programmes most relevant to their fuel consumption. Trustpower views rationality, i.e. linking specific activities to levy payers – where possible and practicable – as important to achieving transparency.</p> <p>3.2 We believe that the chosen option (whether this is ultimately 1, 2, 3, or the status quo) should be easily understood, and MBIE should give effect to 'causer or beneficiary pays' and 'rationality' where it is possible to do so without onerous administrative complexity.</p>
4. Which option do you think provides the best balance?	4.1 We submit that option 3 provides the best balance.
5. What is your preferred option?	5.1 Option 3, the existing Electricity Levy and expanded PEFML and Gas Levy, is our preferred option.
6. Why do you consider this the best option?	6.1 Although slightly more administratively costly, projects that are not directly attributable to one of the levies under option 3 can still be carried out using Crown funding, and linking the levies to specific activities satisfies rationality. This option is equitable, transparent and fulfils the causer and beneficiary pays criteria. Further, option 3 provides the most flexibility of funding allocation; rationality can only be achieved upon implementation of the new NZEECS and associated work programmes.

<p>7. Of the options you do not prefer, what issues or reasons do you think are most important for us to consider?</p>	<p>7.1 Given that the objective of the proposal is to provide more flexibility in the allocation of funding, such that activities can focus on areas that will have the greatest impact, e.g. transport, expansion of the Electricity levy under options 1, 1A, 1B and 3A are least preferred.</p> <p>7.2 Expanding the electricity levy alone would be administratively simple, but only captures a subset of the 'causers'. We ask that MBIE consider transparency and rationality of the funding allocation, as expansion of the electricity levy only isn't reflective of differing energy type intensities in the transport fuel and gas heavy industries, as compared with their electricity use. The expansion of the levy's use would thereby result in inequitable allocation of costs to electricity sector participants and would underestimate the marginal costs of energy efficiency initiatives in the transport and industrial sectors unless accurately measured.</p>
<p>8. Are there other options for providing transparency in the use of levy money (besides requiring annual consultation and reporting)?</p>	<p>8.1 Clarity around the work programmes progressed in the updated NZECS will better inform levy funding allocations and investment decisions.</p> <p>8.2 EECA reporting on the projected results and ex-post outcomes of work programmes will provide a wider range of information for business decision making. It would assist not only with the targeting of future work programmes, it would encourage market-driven innovation focused on energy efficiency.</p>