



## BRIEFING

### Budget 2022 – Submission of Budget Bids for the Energy and Resources Portfolio

<b>Date:</b>	1 December 2021	<b>Priority:</b>	Medium
<b>Security classification:</b>	Budget - Sensitive	<b>Tracking number:</b>	2122-1938

Action sought		
	Action sought	Deadline
Hon Dr Megan Woods <b>Minister of Energy and Resources</b>	<p><b>Agree</b> to sign and submit the attached letter (Annex One) submitting eight budget bids by Friday, 10 December 2021.</p> <p><b>Note</b> the draft versions of the eight initiatives and provide any comments ahead of submission (Annex Two).</p>	10 December 2021

Contact for telephone discussion (if required)				
Name	Position	Telephone		1st contact
Privacy of natural persons				

The following departments/agencies have been consulted

**Minister's office to complete:**

- |   |  |
|---|--|
| <input type="checkbox"/> Approved             | <input type="checkbox"/> Declined            |
| <input type="checkbox"/> Noted                | <input type="checkbox"/> Needs change        |
| <input type="checkbox"/> Seen                 | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn           |

**Comments**



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### Purpose

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This briefing seeks your agreement to submit an Initiative letter to the Minister of Finance submitting eight Energy and Resources portfolio initiatives for Budget 2022.

### Recommended action

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The Ministry of Business, Innovation and Employment recommends that you:

- a **Agree** to sign and submit the attached letter (Annex One) submitting eight budget bids by Friday, 10 December 2021.

*Agree / Disagree*

- b **Note** the draft versions of the eight initiatives and provide any comments ahead of submission (Annex Two).

*Noted*

Privacy of natural persons

**General Manager, Energy and Resource Markets**

Building, Resources and Markets, MBIE

2 / 12 / 2021

Hon Dr Megan Woods

**Minister of Energy and Resources**

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## Background

1. Cabinet agreed to the Budget 2022 strategy on 30 August 2021. As with Budget 2021, initiatives for Budget 2022 are to be submitted only on the invitation of the Minister of Finance (with the exception of the cluster process, which is not relevant to your Energy and Resources portfolio). A summary of the Budget 2022 strategy is in Annex Three.
2. To assist with the invitation process, the Minister of Finance asked you to write to him by 23 September 2021 detailing initiatives that you believed should be considered for Budget 2022. He also asked you to identify initiatives that were manifesto commitment or cost pressures bids, and any climate-related initiatives in your portfolio that could be considered as candidates for the new Climate Emergency Response Fund (CERF).
3. Your 23 September letter proposed 14 initiatives and indicated that 13 were candidates for the CERF, with the remaining initiative being a cost pressure bid.
4. On 22 October 2021, the Minister of Finance invited you to submit ten of those 14 initiatives. He advised that the *Extending the Warmer Kiwi Homes programme* should be submitted as a cost pressure (as opposed to a CERF) bid, and requested that Confidential advice to Government
5. In his invitation letter, the Minister of Finance also indicated that he expected the number of initiatives submitted in December, and the total funding sought, to be less than what was invited. MBIE, with your approval, has consolidated some of the invited CERF initiatives, and we now propose you submit eight initiatives. The table below shows how they have changed.

	Number	Initiative	Changes since invitation
<b>Cost pressure</b>	13824	Effectively engaging with iwi and managing risks in petroleum and mineral permitting	Renamed from <i>Ensuring effective iwi engagement and management of risks with petroleum and mineral permitting</i>
	13820	Extending the Warmer Kiwi Homes programme	Submitted as a cost pressure bid rather than CERF initiative
<b>Climate Emergency Response Fund</b>	Confidential advice to Government		

	Number	Initiative	Changes since invitation
	13812	Electricity market measures to support the transition to a highly renewable electricity system	Renamed and closely aligns with <i>Readying the energy system to transition to a low emissions economy through an energy strategy and regulatory frameworks (13808)</i> Funding added to support public sector entities entering Power Purchase Agreements (PPAs), Confidential advice to [REDACTED]
	13814	Funding further decarbonisation of process heat and implementation of supporting policies	Funding sought has been phased over seven years (rather than four)
	13808	Readying the energy system to transition to a low emissions economy through an energy strategy and regulatory frameworks	Consolidates <i>Completing Aotearoa's hydrogen strategy (13818)</i> and <i>Developing an energy strategy for Aotearoa's transition to a net zero carbon economy (13808)</i> and <i>Developing an offshore renewable energy regulatory framework (13809)</i>
	13823	Supporting renewable and affordable energy in New Zealand communities	Nil
	Total sought (nearest \$m)	Confidential advice to Government [REDACTED]	[REDACTED]

## Summary of the Energy and Resources Portfolio Bids

### Cost pressure bids

- The **two cost pressure initiatives** you have been invited to submit will extend and expand existing work in the Energy and Resources portfolio.
- Funding the *Extending the Warmer Kiwi Homes programme* initiative will enable the successful home insulation and heating retrofit programme to continue beyond mid-2023, as well as take a new approach to target hard-to-reach households.
- Funding the *Effectively engaging with iwi and managing risks in petroleum and mineral permitting* initiative will provide resource for the effective implementation of existing and new legislative requirements under the Crown Minerals Act 1991, and for better engaging with iwi in doing so.

### Climate Emergency Response Fund (CERF)

- Together, the **six CERF initiatives** you are submitting provide a package that will set direction, and facilitate and support Aotearoa's energy transition.

10. Two of the initiatives, *Electricity market measures to support the transition to a highly renewable electricity system* and *Readying the energy system to transition to a low emissions economy through an energy strategy and regulatory frameworks*, respond to the need for a well-managed and strategy-led transition and for a regulatory system that facilitates the transition. If funded, both initiatives will guide and support private sector investment.
11. Private sector investment will be further supported through Confidential advice to Government *Funding further decarbonisation of process heat and implementation of supporting policies*, which are two initiatives that will fund the acceleration of low emissions energy options, and the delivery of energy and emissions reporting requirements.
12. Support for communities and ways to help address the distributional impacts of the transition will be provided through funding the Confidential advice to Government *Supporting renewable and affordable energy in New Zealand communities* initiatives.

## CERF prioritisation

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13. The Minister of Finance has indicated that while the creation of the CERF demonstrates a step-change in the approach to climate change investment, it does not guarantee that all initiatives submitted will be able to receive funding through Budget 2022. He also noted that he expects CERF bids to be accompanied by a clear articulation of their relative importance.
14. The attached draft letter to the Minister of Finance (Annex One) does not indicate priority within your CERF bids. This recognises that it likely makes the most sense to undertake prioritisation when Ministers have sight of *all* submitted CERF bids. However, please advise if you would like the letter to indicate priority within your bids.
15. If prioritisation within the Energy and Resources bids is required, we recommend that the following four CERF initiatives should be higher priority:
  - *Funding further decarbonisation of process heat and implementation of supporting policies* – because it will make a critical contribution to meeting the emissions budgets as it delivers substantial reductions in emissions over the next eight years
  - *Electricity market measures to support the transition to a highly renewable electricity system and Readying the energy system to transition to a low emissions economy through an energy strategy and regulatory frameworks* – because both are critical enablers to meeting the emissions budgets and critical to ensuring energy transition risks are well-managed
  - Confidential advice to Government
16. The remaining two initiatives, Confidential advice to Government Confidential advice to Government

## Implementation readiness

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17. The Minister of Finance has also indicated he expects a focus on implementation readiness and delivery risk. Only initiatives that are implementation ready will be supported, unless there is clearly articulated reasoning for why an exception to this rule should be considered.
18. Below is an assessment of the implementation readiness of each proposed initiative.

### Cost pressure bids

#### *Extending the Warmer Kiwi Homes programme*

19. This initiative expands an existing programme and is implementation ready. Securing funding in Budget 2022 will provide continuity and build on existing economies of scale.
20. Confidential advice to Government

#### *Effectively engaging with iwi and managing risks in petroleum and mineral permitting*

21. This initiative is also implementation ready. It addresses critical cost-pressures within the Energy and Resources: Management of the Crown Mineral Estate Appropriation and the associated memorandum account.
22. Without additional funding through Budget 2022, MBIE (as the regulator) will not have the required resources, processes and systems to undertake effective iwi engagement, implement the new petroleum decommissioning requirements, and maintain appropriate monitoring, compliance and enforcement activities under the Crown Minerals Act 1991. Additionally, the deficit in the memorandum account will increase.
23. The delivery risk associated with this initiative is set out in the below section regarding MBIE's operating context.

### Climate Emergency Response Fund (CERF)

24. We consider all six CERF initiatives to be implementation ready, although some would be able to deliver results sooner than others.

Confidential advice to Government

#### *Electricity market measures to support the transition to a highly renewable electricity system*

26. A significant amount of groundwork has been done and delivery is only dependent on recruitment and procurement of specialist skills, which are not expected to be constrained.

*Funding further decarbonisation of process heat and implementation of supporting policies*

27. This initiative is highly implementation ready as it expands an existing fund, and policy work on the energy emissions reporting scheme is well advanced. The main delivery risk with this initiative is set out in the below section regarding MBIE's operating context.

Confidential advice to Government

*Readying the energy system to transition to a low emissions economy through an energy strategy and regulatory frameworks*

29. The delivery of this initiative is dependent on recruitment (refer below section regarding MBIE's operating context) and the capacity of key stakeholders, especially with iwi/Māori to engage in the development of the energy strategy and regulatory frameworks.

*Supporting renewable and affordable energy in New Zealand communities*

30. This initiative is highly implementation ready as it builds on an existing fund and requires a relatively low level of new resource.

## **MBIE departmental operating context**

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31. MBIE's size has enabled us to flex and reprioritise to support a large increase in critical and significant government programmes during the last 12 months while maintaining our essential core business.
32. This has been achieved while delivering on over 100 COVID-19 related initiatives. In addition to redirecting our existing resources to the COVID-19 response (including border closures and exemption management, essential services, vaccine procurement, business travel documents, business support, and rapid antigen testing), we remain the lead agency for significant transformational work programmes like the Fair Pay Agreement system, a Social Unemployment Insurance Scheme, Industry Transformation Plans, Immigration system changes, the RSI science system, significant work programmes relating to emissions reduction and climate change adaptation plans and consumer focussed law reforms while our policy groups have been under significant resourcing pressure.
33. Maintaining a focus on MBIE's core regulatory stewardship functions has proved particularly challenging in the face of these priority work streams. Confidential advice to Government
34. MBIE's increasing work programme comes at a time of uncertain border settings, skills shortages in key areas such as policy, programme management and ICT, low unemployment, increasing inflation, and pay restraint, putting us further under pressure to retain existing staff, compete with the private sector and grow capacity to maintain momentum for these and other significant Government priorities.
35. Attracting the right people and skillsets and retaining this talent is a key priority for MBIE. This is so we can continue to deliver, grow and transform our infrastructural capabilities while maintaining agility to respond and support the Governments critical COVID-19, Wellbeing and Climate Emergency priorities. However, even with sufficient funding the constraints on labour markets are likely to reduce our ability to deliver across all these priorities.

## Next steps

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36. Subject to any comments you have on the final draft initiatives, please sign and submit your Budget 2022: Energy and Resources Portfolio Bids letter for your portfolio (Annex One) to the Minister of Finance by **5pm, 10 December 2021**.
37. Any comments you have on the final draft bids in Annex Two need to be provided ahead of submission on 10 December 2021. Note that the drafts are still subject to editorial changes.
38. The table below sets out the timelines for the Budget 2022 process provided by the Treasury.

Item/Action	Date
Submission letter from Portfolio Ministers due with the Minister of Finance	<b>5pm, Friday 10 December</b>
Invited initiative submissions due in CFISnet	<b>5pm, Friday 10 December</b>
Treasury assessment of Initiatives	December 2021 – January 2022
Budget 2022 decision-making by Budget Ministers	February 2022 – March 2022
Cabinet considers the Budget 2021 package	April 2022 (TBC)

## Annexes

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Annex One: Cover letter for the Budget Bids for the Energy and Resources Portfolio

Annex Two: Final drafts of the Energy and Resources Portfolio bids for Budget 2021

Annex Three: Strategy for Budget 2022





























































































































































































































































































































## Annex Three: Strategy for Budget 2022

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3. The Minister of Finance, in his letter addressed to you on 31 August, indicated that Budget 2022 provides a key opportunity to ensure that we continue to make progress against our Government's goals for this term, with a particular focus at Budget 2022 on addressing future issues such as climate change.
4. Similar to Budget 2021 these goals are:
  - keeping New Zealanders safe from COVID-19
  - accelerating the recovery and rebuild from the impacts of COVID-19, and
  - laying the foundations for the future, including addressing key issues such as climate change, housing affordability and child poverty.
5. The proposed design of Budget 2022 is broken down into three streams:
  - **Core Budget process:** manifesto commitments and cost pressures.
  - **Addressing long-term challenges through multi-year funding:** Climate Emergency Response Fund (CERF) and Health reforms.
  - **Public Finance System Modernisation:** Natural Resources and Justice cluster pilots.
6. Two of the initiatives we propose you submit are part of the **core Budget process** as they are cost pressure bids, and six are part of **Addressing long-term challenges through multi-year funding** as they are candidates for the CERF.
7. Cabinet has agreed that the focus of the CERF will be emissions reduction, with the following criteria for eligibility:
  - the initiative is included in the Emissions Reduction Plan
  - the initiative will directly reduce emissions
  - the initiative's primary objective is to support, remove barriers to, or accelerate emissions reductions
  - the initiative will support an ao Māori approach to climate response
  - the initiative will facilitate the development of such proposals in the future (such as feasibility studies or business cases for such initiatives; or
  - the initiative addresses the distributional impacts of emissions reduction policy.