



MAJOR ELECTRICITY USERS' GROUP

11 December 2006

Jenny Walton
Electricity Commission
By email to info@electricitycommission.govt.nz

Dear Jenny

Submission on proposed Appropriation for Electricity Efficiency work programme for 2007/08 to 2009/10 and beyond

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Commission (the "Commission") consultation paper "*Proposed request for appropriation for the Electricity Efficiency Function for the financial years ending 2008-2010 and outyears*" released 16th November 2006. The Commission provided supplementary material at seminars in Christchurch, Wellington and Auckland on 28th, 29th and 30th November. In addition Commission staff met and discussed questions on process and detail raised in a MEUG email to the Commission dated 17th November.
2. This submission opens with some overall observations. That discussion then sets the scene for answers to the three questions in the Commission's consultation paper.

Overall observations

3. Governments throughout the world spend public monies in an array of different approaches to promote energy efficiency. In our experience there is no stand-out example of public monies allocated to the type of programme proposed by the Commission that has clearly demonstrated benefits without resulting in cross-subsidies between user classes. If examples existed elsewhere then New Zealand could adopt and adapt those regimes.
4. There is a great deal of optimism and enthusiasm by some policy makers that in the area of electricity efficiency the Commission can develop a programme that will deliver benefits in excess of costs for individual levy payers. MEUG support that goal but we are also very aware this is a very large challenge. The balance between the opportunity to develop a breakthrough in regulatory approach versus the significant risk of achieving little other than wealth transfers has tempered the view of MEUG on the requested level of appropriation and who should pay.
5. Members of MEUG pay approximately 30% of any levy collected by the Commission for electricity efficiency related work. Therefore we have a material interest in both the costs and benefits of the Commission's work on electricity efficiency.

6. The proposed appropriation for 2007/08 is \$16.474m. The share to be paid for by MEUG members amounts to approximately \$5m. If this appropriation request is approved, over the four years 2008 to 2011 the share to be paid by MEUG members will be \$20m. Three practical aspects demonstrate the reluctance of MEUG to support the requested level of appropriation:
- a) MEUG members have strong incentives to invest in energy efficiency programmes suited to their plant. Capital, operating and staff time for energy efficiency related work must compete against a number of other demands within MEUG companies. Additional taxes compete with these in-house initiatives. Therefore having to pay a levy of \$5m in 2007/08 and \$20m over the next 4 years reduces the ability of companies to undertake their own energy efficiency programmes.
 - b) If the Commission were to receive an additional \$5m from levies in 2007/08 MEUG believe there are other areas the Commission could spend those monies that would achieve a greater payback for all consumers. In particular work by the Commission to improve competition has been slow and lacked resources. Even something as basic as improving information to allow improved demand decisions (and therefore improve electricity efficiency) just hasn't had support or funding to find solutions. MEUG would prefer the Commission spent any additional levies paid for by MEUG members on improving competition rather than the proposed electricity efficiency programme.
 - c) There is a high risk of mismatch between the parties that pay the electricity efficiency levy and the beneficiaries of the programme. As an example MEUG members have paid for approximately 30% of the pilot Compact Fluorescent Lighting (CFL) programmes to date but the main beneficiaries have been:
 - i) Households that have directly benefited through a subsidy for the initial purchase of the CFL and ongoing lower power charges;
 - ii) Suppliers of CFL's and the agents that have secured Commission contracts to promote the CFL programmes; and
 - iii) Suppliers because irrespective of how much electricity efficiency might defer new generation, suppliers will continue to price wholesale power at the avoided cost of that new generation.

For example assume the next large generation investment (post e3p) will be built in 2010 at a levelised unit cost of 7 c/kWh. Prior to 2010 suppliers will price their existing supply on average at just below 7 c/kWh, i.e. offer hedges just below 7c/kWh. If an electricity efficiency programme defers the need for that next large generator by say two years, existing suppliers will still offer hedges at just below 7 c/kWh from now through to 2012. Wholesale end consumers get no benefit from the delay in generation.
7. MEUG therefore submit:
- a) Until such time as an electricity efficiency programme can be designed that clearly returns a benefit to individual levy payers greater than the cost they pay, the cost of that programme should be covered from the Consolidated Account.

There is already a precedent for Government funding energy efficiency policy and implementation plans through Consolidated Account, i.e. EECA (2006/07 expenditure budget of \$18m plus loan, grant and financial assistance schemes administered by EECA of approximately \$9m) and the recent announcement to fund a solar hot water programme over 5 years with the first 3 years costs to be \$15m.
 - b) If and when the work proposed by the Electricity Commission in the draft appropriation programme can demonstrate net benefits to individual levy payers, there may still be a need to better align benefits to levy payers with the cost they pay by reviewing the levy structure.

8. Subject to the above caveat that the programme proposed by the Commission should be paid through the Consolidated Account, MEUG make the following comments in reply to the questions in the Commission consultation paper:

Question 1: Do you have any comments on the Commission's overall approach to electricity efficiency?

9. Most of the approach is good practice, eg:
- a) Developing an electricity energy efficiency programme within the wider spectrum of government programmes and other Commission work streams (including the electricity potentials study currently underway);
 - b) Working with demonstration or pilot programmes and then rolling out or implementing larger initiatives once proven; and
 - c) At the larger implementation stage having an outcome focus with a requirement for the relevant supplier industry (eg compressed air industry) to have some equity in the programme in addition to the Commission working closely with the appropriate industry.
10. MEUG note that the appropriation levels sought assume the reviews of the pilot work, that have yet to be published, will indicate merit in larger implementation programmes. A more prudent approach would have been to develop budgets after those reviews had been concluded.
11. A key element missing in the overall approach is an analysis proving beyond any doubt that individual levy payers will benefit more than the levy cost they pay. As noted beforehand, without this proof, these work programmes presumably have a general public good outcome and should therefore be recovered through Consolidated Account.
12. If the government decides the cost of this work should continue to be recovered by a levy from all power users, then MEUG submit:
- a) Any increase in levy for electricity efficiency work should be funded by supplementary savings in other parts of the Commission appropriation. This is an ideal time to consider this option because with service provider contracts currently out for tender; there is a good prospect of those costs decreasing.
 - b) Government investigate a mechanism to allow users to seek a reduction in their contribution to levy payments if they can demonstrate capital or operating expenditure that will lead to improved electricity efficiency at their plant. This overcomes the existing problem that large users would like to invest in energy efficiency but the funding for that work is instead diverted to pay the levy collected by the Commission.
 - c) Government investigate levy funds being contestable by end consumers for specific electricity efficiency activities. There are pros (more contestability) and cons (may not overcome cross-subsidy issue) with this; but at least it should be investigated.
 - d) The levy structure should be reviewed with the intention of considering alternatives that reduce the current bias in the levy against high load factor consumers. For example perhaps the levy needs to recognise some efficiency savings may have a peak capacity dimension. Other efficiency savings are designed to overcome shortcomings in the household market such as information asymmetry and poor pricing signals. A better denominator for the levy may be a mix of the current energy dimension (MWh), coincident peak (MW) and using number of ICPs to estimate households when charging retailers.

Question 2: Do you have any comments on the Commission's spending plans?

13. It would have been preferable to have the results of the electricity potentials study and the review of the pilot programmes to date to assess the priorities and spending plans proposed by the Commission.

Question 3: Do you have any comments on the work priorities set by the Commission?

14. Refer answer to question 2 above.

Concluding comments

15. MEUG members view the proposed very large increase in appropriation for electricity efficiency work as imposing significant costs (\$5m to MEUG members in 2007/08) without there being any evidence of members receiving a payback. Given the experience of the CFL pilot to date, the beneficiaries will be parties other than the levy payers. Programmes that result in these types of cross-subsidies should not be supported. If the programmes have a more general public good benefit then they should be paid for from Consolidated Account.
16. If the Commission can demonstrate that the benefits that accrue to individual levy payers is greater than the cost of the levy they pay, then MEUG suggest the total level of appropriation should match savings in other parts of the Commission budget, government investigate exempting parties that are investing in energy efficiency programmes themselves or establish a contestable fund, and the Commission review the structure of the levy.

Yours sincerely



Ralph Matthes
Executive Director