



Timetable

31-Aug-07	1 st paper to Cabinet	<u>Comment:</u> Rushed policy making. No consultation.
11-Oct-07	1 st public announcement (part of NZES)	
4-Dec-07	Details published in Bill	
10-Jun-08	Report back to House	Insufficient time to allow any peaking thermal to be in place by next winter.
By Aug ?	Bill enacted	
2009Q1?	Regulations gazetted	
2009Q2?	First exemption application	



“Perceived” Policy Problem

- “The prospect of a new fossil-fuelled power station being built during the early years prior to the full introduction of an ETS could jeopardise public confidence in the climate change policy.” (refer RIS)

BUT

- If ETS robust, new thermal power stations will be built globally where most efficient ... that could be NZ

OR

- If ETS not robust ... will lose credibility, but that's a result of ETS being flawed and not a reason to ban thermal power stations



Benefits and costs of a ban

- Counterfactual is to have no ban

Benefits	Costs
Nil	<ul style="list-style-type: none">▪ Increased risk to electricity security of supply▪ Forgoing possible lower electricity price path▪ Adverse effects on the gas market▪ Reduced investor confidence... and▪ Compliance costs

- RIS failed to quantify these risks



Increased security of supply risk

- Increased security risks relative to new thermal:

Renewable	Fuel risk	Investment risk
Hydro	Seasonal weather	RMA, New transmission
Geothermal	Field risk (\equiv gas?)	New transmission, RMA (?)
Wind	Hourly weather	RMA, New transmission Turbine costs in near term

- Other non-fuel risks:
 - Rate of demand growth – peak and energy
 - Unexpected failure of existing stations and transmission
- We should be keeping all our options open



Forgoing possible lower price path

- Relative to allowing the market to decide if new thermal power stations should be built, with a ban overall supply costs may rise and hence prices:
 - More back up to cover higher security of supply risks including ancillary services
 - More transmission needed to transport remotely located renewable generation to main demand growth area in Auckland
 - Forgoing the opportunity to develop new gas reserves for thermal generation in the event of greater than expected new discoveries



Adverse effects on the gas market

- Petroleum explorers search for oil
- NZ is gas prone
- Explorers will have less opportunity to offset exploration risks and costs against gas sales if NZ bans sales to power stations.
- NZ will therefore be less attractive for petroleum explorers
- Potentially a gas market death spiral scenario and lower petroleum exploration overall



Reduced investor confidence

- Ban is unnecessary given a robust ETS linked to international market mechanisms
- Ban is arbitrary:
 - Discriminates against thermal power stations but fails to consider GHG emissions from geothermal power stations
 - Discriminates against incumbent thermal power stations owners at the expense of possibly more benign GHG emission new entrants
- No other country has a 10 year ban
- Investors will ask “If the NZ Parliament legislates for this intervention, what other interventions might we see in the future?”



Conclusion

- The Ban is not robust and will detrimentally affect the electricity and gas markets and the economy
- The Select Committee should report back to the House recommending the Ban should not proceed
- Parliament should vote against the Ban
 - and some overall lessons
- The Ban is a subset of 90% renewables by 2025 target ... better to keep to broader market design principals of pricing externalities than setting targets reminiscent of a command and control type economy
- Government's advisors should have been more explicit about the costs of the proposed Ban



Post script

- Wide spread business community concern
- Off the record concern expressed by some politicians, officials and regulators
- Excellent range of submissions to select committee, refer:
 - PEPANZ www.pepanz.org.nz
 - CAE www.caenz.com
 - MEUG www.meug.co.nz
- The Ban is not a done deal ... worth continuing the effort to ensure decision makers understand the detriments of the Ban