



C Neutrality – In NZ' s best interest or political grandstanding?

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The governments C neutrality aspirations

Four C neutral aspirations were announced on 20-Sep-07 as part of ETS proposals to respond to climate change issues:

1. Effectively C neutral in the electricity sector by 2025
2. Effectively C neutral in stationary energy sector by 2030
3. Effectively C neutral in the transport sector by 2040
4. Effectively C neutral in the total energy sector by 2040

Note:

- Climate change policy dominates energy policy (and no mention of an overarching goal of GDP growth)
- C neutrality was shorthand for CO₂ ... but what about CH₄?



Electricity sector target to meet the aspirations

To meet these aspirations 5 targets were set.

The relevant electricity sector target was:

90% of electricity generation from renewable sources by 2025

Note:

- Setting output targets seems like a step back to the old command and control economies ... but ...
- wouldn't it be better to let the market decide the optimal level of renewables and non-renewables provided government ensured all externalities are priced?
- Last year many politicians throughout the world had similar C neutral goals though usually as CO₂ emission targets. Talk of such goals has evaporated this year as economic realities bite.



Costs and benefits of 90% renewables by 2025

The cost-benefit-analysis in late 2007 by government:

- Was back filling after the decision had been made
- Assumed away additional transmission costs to support renewable generation remote from demand ... the EC is still working on what the costs might be
- Did not canvas all scenarios, eg if NZ discovered large new gas reserves wouldn't we want to use those in NZ power stations rather than export as LNG to be used as fuel in power stations overseas
- A back-of-the-envelope analysis shows that if the C price were \$40/t power from a 400 MW CCGT the power would cost 9 c/kWh versus \approx 11 c/kWh for wind (before adding between 14 and 20 c/kWh for back-up OCGT or any transmission costs). A 2 c/kWh difference = \$800m pa more paid by consumers



An alternative set of policy priorities

- Better governance and market structures, not just incremental changes to the current design (although that needs to continue)
- In the near term the ban on thermals policy should be scrapped and the ETS needs major improvements
- More focus on the needs of consumers
- Making Ministers and regulators accountable for proper cost-benefit-analysis

- Most importantly the immediate priority is to encourage power savings

... more on each of these in the following slides ...



It starts with better governance and market structures

- EC has Market Design Review work underway
- But that doesn't ask the question if the current role and scope of the EC (and CC) are best to facilitate efficient outcomes
- The recent GPS is evidence that the Minister has too much influence on the EC ... the independence of the CC is a better model
- The various roles of the EC need to be reviewed, eg is the electricity efficiency activity sufficiently different from the work EECA does on other sectors to warrant the EC undertaking that work?



Banning the ban

Assuming the counterfactual is to have no ban and a price on GHG emissions linked to a real international price, then:

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

The Regulatory Impact Statement attached to the Bill did not quantify these

The thermal ban is a poor policy and should be dropped



Improving the ETS

- Problems the ETS has yet to solve include (not an exhaustive list):
 - There is no international C market. The EU centred market is prone to regulatory uncertainty and price volatility
 - Fixed cap free obligations on business at risk doesn't allow for growth. Australia is considering a emissions intensity approach
 - The Law Commission was critical of the delegated powers given to the Minister ... high risk of giving Ministers discretion instead of transparent and impartial processes?
- Trying to fix these in Select Committee or the House could end up with more problems. Major changes should trigger another round of submissions to the select committee
- It's more important to get it right than rush it.
- In July a major report for the Australian government will be published ... why not wait to see what Australia is proposing?



The needs of consumers

- MEUG agrees with the policy on the ETNZ web site that:
 “Currently, retailers do not have to separate the energy and distribution costs on the bill. ETNZ supports more transparent billing information for consumers”
- Delays in getting this implemented are frustrating ... but just as we demand good CBA for other policies; we also must demonstrate this intervention has a +ve national benefit
- Longer term MEUG seeks a more contractually based market with less regulatory intervention ... but until that time some interventions will be required to supplement voluntary market mechanisms (eg mandatory disclosure of contract terms for > 0.25 MW consumers to complement suppliers energyhedge forward price curve)



Proper cost-benefit-analysis

- The thermal ban and the ETS failed to have adequate cost-benefit-analysis (CBA)
- Amazingly the ETS that government described as being an important policy in transforming the economy had little CBA to consider the impacts ... it took industry and others to do the work to demonstrate the impacts were not negligible
- It seems like any major policy should have a sound CBA as justification ... but that's not how it works in practice
- Too often policy initiatives have knee jerk reactions to public concerns. Rather than consider all the options including non-regulatory options, Ministers believe the public will only perceive action has been taken with new laws & regulations
- Australia is tightening up the need for robust CBA ... perhaps we should also



Right now the priority is to encourage power savings

- SI lake storage is very low and Inflows are forecast to continue to be low
- If the 1992 inflow sequence is followed, then SI lake storage will be at 500 GWh on 7 July. At that point blackouts might start
- The spot prices are at extreme levels (40 c/kWh at Haywards)
- All consumers need to conserve power starting now where-ever it is sensible to do so
- If this worst case scenario occurs, more savings will be needed
- We think the supply risk and the economic harm on the business community has reached the point where suppliers should begin their campaigns promoting power savings now



What does this all mean for C neutral aspirations?

- The current supply risk and high spot prices highlights our vulnerability to renewables ... why not keep all our options open?
- The ban on thermal will probably fail to get a Parliamentary majority
- It's not clear what the minor parties think of the ETS. The Bill as it is though will not pass as the minor parties will require changes to garner their support. Would a Bill subject to ad hoc changes be a sustainable piece of policy? I don't think so.
- Little has been said of the C neutral aspirations since they were announced in Sep-07. Most focus went on the targets. If the 90% renewables target by 2025 were clearly the lowest cost option it would last ... it isn't though and therefore it will not survive