

MAJOR ELECTRICITY USERS' GROUP

15 January 2009

Judge David Sheppard
The Chairperson
Board of Inquiry into Proposed National Policy Statement for Freshwater Management

By email to freshwatermps@mfe.govt.nz

Dear Sir

Submission on Proposed National Policy Statement for Freshwater Management

1. This is a submission by the Major Electricity Users' Group Incorporated (MEUG) to the Board of Inquiry (BOI) on the Proposed National Policy Statement for Freshwater Management (the "proposed NPS") released by the Minister for the Environment on 23 July 2008¹.
2. Improving how freshwater is allocated as competing demands grow at the same time cognisant of water quality are important and complex policy issues for New Zealand.
3. Policy decisions on how to improve allocation and better manage fresh water quality need to be made based on the best possible consideration of all feasible options given the very high cost of implementing the proposed NPS. To put this into context, the Ministry for the Environment analysis of costs and benefits pursuant to section 32 of the RMA (the "s.32 analysis") estimated the costs for Central and Local government alone of implementing the proposed NPS of at least \$100 million².
4. The s.32 analysis correctly identifies a number of alternatives³ against which the proposed NPS should be considered. However the actual analysis fails to consider in detail benefits and costs of each alternative compared to the proposed NPS. Instead the analysis assumes an undefined "without NPS" counterfactual. There is a single table that makes some subjective assessments of the alternatives⁴ but that hardly qualifies as a robust analysis to support a policy that will cost in excess of \$100 million to implement.
5. An obvious alternative that should have been explored in detail was development of economic instruments. In the absence of externalities, market mechanisms are more efficient than consenting authorities in allocating resources. Even where there are externality effects, the use of shadow prices to reflect the cost of externalities can be an effective policy. For example there has been very good research by Motu Economic and Public Policy Research on using economic instruments to manage nutrient flows into Lake Rotorua⁵. The s.32 analysis should have considered in detail this type of approach relative to proceeding with an NPS.

¹ Hon Trevor Mallard, media release, Proposed stronger regime for protecting our water, 23 July 2008,

<http://feeds.beehive.govt.nz/release/proposed+stronger+regime+protecting+our+water>

² s.32 analysis, p77-79, <http://www.mfe.govt.nz/publications/rma/nps-freshwater-management-section32-evaluation/index.html>

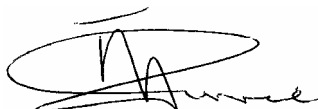
³ s.32 analysis, p19

⁴ s.32 analysis, table 1, p22

⁵ Motu Working Paper 08-05, Kelly Lock and Suzi Kerr, Nutrient Trading in Lake Rotorua: Choosing the scope of a Nutrient Trading System, April 2008, http://motu-www.motu.org.nz/wpapers/08_05.pdf

6. Perhaps one of the reasons why the s.32 analysis lacks rigour is that it is largely based on the output of the prior governments Sustainable Water Programme of Action. The Sustainable Water Programme of Action work presupposed that "partnerships" and "increased national direction" were desired policy outcomes⁶. There was, in our view, an ideological resistance at the outset from considering in depth economic instrument alternatives.
7. The claimed benefits of the proposed NPS highlight just how light-weight the s.32 analysis is. An estimate⁷ of \$1 billion per annum is assumed for New Zealand's "clean green image" of proceeding with the proposed NPS compared to the case without the proposed NPS. The s.32 analysis fails to consider that each the alternatives listed on page 19 of the s.32 analysis would also fix the water quality problem and therefore the \$1 billion per annum clean green image benefits cannot be exclusively assigned to the proposed NPS option. Similarly other claimed benefits of avoiding water-borne diseases and allocating freshwater resources to its most economic welfare maximising use are equally likely to be achieved by alternative policies such as economic instruments.
8. MEUG is not suggesting that the benefits of taking action in regard to improving fresh water use allocation and quality are insignificant relative to the costs. However for the Ministry for the Environment in their s.32 analysis to recommend the proposed NPS as the path forward without a robust analysis of the relative costs and benefits of all feasible alternatives is extremely poor policy. Furthermore the lack of a robust s.32 analysis is out of step with the Prime Minister's recent statement to address the dire economic outlook for New Zealand by⁸ "more productive use of public money" and the Minister of Finance, Hon Bill English, comments that⁹ "Complacent policies and ill disciplined spending in recent years have increased New Zealand's vulnerability to the world recession."
9. In conclusion MEUG cannot see how the BOI can justify recommending to the Minister the proposed NPS should proceed given the poor cost-benefit-analysis attached to the proposal. The best course of action for the BOI is to recommend to the Minister that a more thorough analysis of all feasible options be undertaken.
10. MEUG wish to be heard in support of this submission. If others make a similar submission, MEUG will consider presenting a joint case with them at a hearing
11. The contact person for MEUG is Ralph Matthes, Executive Director, email ralph@meug.co.nz, telephone 04 494 0996, cell phone 0274 760 500 and postal adress PO Box 8085, The Terrace, Wellington.

Yours sincerely



Terrence Currie
Chairman

⁶ s.32 analysis, p vii

⁷ s.32 analysis, p81

⁸ Hon John Key, Media release, Economic Ministers to meet this week, 12 January 2009, <http://www.beehive.govt.nz/release/economic+ministers+meet+week>

⁹ Hon Bill English, Media release, Credit rating news reflects decade of excesses, 13 January 2009, <http://www.beehive.govt.nz/release/credit+rating+news+reflects+decade+excesses>