



MAJOR ELECTRICITY USERS' GROUP

7 September 2010

Jo Mackay
Ministry of Economic Development
By email to nzes@med.govt.nz

Dear Jo

Submission on draft replacement New Zealand Energy Strategy and New Zealand Energy Efficiency and Conservation Strategy

1. This is a submission by the Major Electricity Users' Group (MEUG) on the draft replacement New Zealand Energy Strategy and New Zealand Energy Efficiency and Conservation Strategy released for consultation by the Minister on 22nd July 2010¹. Both the draft replacement NZES and NZEECS were published in the same document titled "Developing our energy potential". MEUG appreciates the Ministry granting MEUG an extension to the submission deadline.
2. Feedback on the questions set out on page 30 of the consultation paper follow:

Question on draft NZES	MEUG feedback
1) Does the proposed NZES effectively promote and support the appropriate development and use of energy resources? If not, what changes do you propose?	The draft is a significant improvement on the 2007 NZES. Suggested improvements to the draft are set out below.
2) What barriers to investment in energy resources are not addressed?	<p>Not mentioned is the barrier to efficient market responses due to inappropriate policy interventions by politicians. These interventions provide short-term political gain or risk management but result in long-term distortions.</p> <p>Rather than have a comprehensive list of barriers, it is more important that the institutions governing energy policy are adept at identifying and adapting policy to</p>

¹ Refer http://www.med.govt.nz/templates/MultipageDocumentTOC_44085.aspx

Question on draft NZES	MEUG feedback
	mitigate new barriers that arise.
<p>3) Do you have any comments on the proposed goal, priorities and 12 areas of focus? What would you change, and why?</p> <p>Area of focus 2: Develop renewable energy resources</p> <p>Area of focus 4: Competitive energy markets deliver value for money</p>	<p>The aspirational target of 90% of electricity generation to be from renewable resources by 2025 providing this does not affect security of supply is not supported unless a further caveat is added referring to the target also being consistent with least cost supply. Without this additional caveat there will be continual lobbying to develop higher cost renewable options. An example of how the aspirational target can be misconstrued was reported by Sharechat on 16th August 2010 in relation to Meridian's Project Hayes wind farm²:</p> <p><i>"However, the chief executive of the New Zealand Wind Energy Association, Fraser Clark, said the judgment was good news for renewable energy projects, especially as the National Energy Strategy was confirming a target of 90% electricity from renewable."</i></p> <p>Notice how the Wind Energy Association never mentioned the security of supply caveat or that the target was aspirational. Without a caveat requiring the aspirational target to also be least cost, the Wind Energy Association and others are likely to lobby for more renewable generation to achieve the 90% target even though it may result in higher cost outcomes.</p> <p>The second sentence in paragraph 2 on page 11 under this area of focus states <i>"When it is considered that a market is failing to deliver value for money, the Government will consider whether and how it could act to address the cause."</i> MEUG suggests this should be restated to refer to the powers of the Commerce Commission under the Commerce Act and the soon to be initiated Electricity Authority that will have market monitoring responsibilities and an independent ability to mitigate market power. We do not want Government addressing market power issues directly</p>

² <http://www.sharechat.co.nz/article/9ada6047/>

Question on draft NZES	MEUG feedback
<p>Area of focus 12: Reduce energy-related greenhouse gas emissions</p>	<p>without having first used existing processes available to the Commerce Commission and Electricity Authority.</p> <p>This presumes the world will be better off if New Zealand lowers energy-related emissions. This may not be correct. The incremental cost of new emissions relative to additional global GDP growth could be lower in New Zealand than in most other countries. In that case the world and New Zealand will be better off if we increase our energy-related greenhouse gas emissions and other countries decrease their emissions. MEUG suggests this area of focus be re-stated Minimise energy-related greenhouse gas emissions.</p>
<p>4) Where the draft NZES proposes the Government will support or encourage industry activity, how do you consider the Government can best provide this support or encouragement?</p>	<p>Ensuring all government energy policies comply with Treasury guidance on undertaking Regulatory Impact Analysis, Regulatory Impact Statements and for providing quality assurance of regulatory proposals as set out at http://www.treasury.govt.nz/publications/guidance/regulatory. MEUG accepts politicians must be free to make decisions; but the officials advising them must have an unfettered ability to report any difference between their view of the best policy approach and political decisions.</p>
<p>5) Do you have other comments?</p>	<p>Under the heading "Realising our potential" on page 2, the opening sentence in paragraph 7 refers to Government exploring "how to direct energy resources." Government giving directions seems at odds with the balance of the draft NZES that emphasises market mechanisms. MEUG suggest the word "direct" be replaced with "ensure".</p> <p>In the section titled "Implementing the strategy" on page 18 mention should also be made of the Commerce Commission and Gas Industry Company. Both are important in the governance and operation of efficient and competitive energy markets through their responsibilities under the Commerce Act, the Fair Trading Act and the Gas Act.</p>

3. Feedback on the questions on page 30 of the consultation paper on the draft replacement NZEECS follow:

Question on draft NZEECS	MEUG feedback
<p>1) Does the draft NZEECS clearly explain the Government's policy and priorities for promoting energy efficiency, energy conservation and renewable energy over the next five years? What do you consider are the priorities?</p>	<p>Explanation is clear.</p> <p>Targets are not clear (refer question 2) below) and therefore we cannot assess whether resources are being prioritised correctly.</p>
<p>2) For each sector, are the objectives, targets, rationale and policy outlined in the draft appropriate? What changes do you propose?</p>	<p>The targets for each sector appear to be a uniform difference between an assumed business-as-usual energy intensity of -1% pa for the 8 years between 2008 and 2015 and a forecast NZEECS facilitated energy intensity of -1.2% pa. MEUG note:</p> <ul style="list-style-type: none"> • It is very difficult, indeed we found it impossible, to replicate the individual sector targets. The NZCEES should provide more information to allow parties to assess the validity of the targets. • While PJ's is a useful comparator of energy forms, it gives no information on the relative value to the economy. The NZEECS should include the value of estimated energy savings in dollars terms including assumptions on how externalities such as climate change are valued. • Just as MEUG believes the economic value of energy forms and savings is of more use to policy makers in prioritising policy actions, so too we are dismissive of ratios such as energy intensity (units are GJ/\$000) used in the graph on page 21. A far more valuable ratio would be energy efficiency and conservation dollar savings in each sector. • For example a PJ of additional energy efficiency in the household sector may have twice the economic value of a PJ conserved in the industrial sector or the values may be the reverse. The relative economic value of the potential energy that can be conserved is important because the higher the value then the more resources can be justified in any policy response. Relying solely on PJ values as set out in the draft NZCEECES gives no effective reference of relative value for policy makers.

Question on draft NZEECS	MEUG feedback
3) What should the Government do to deliver the NZEECS? In many cases the draft suggests the Government will 'support' or 'encourage' other parties to make changes. How do you consider this support or encouragement is best provided?	Refer to feedback to question 4) on the draft NZES.
4) Where should the private sector, such as firms or industry associations, take the lead?	The private sector should take the lead because it is best able to develop innovative and lowest cost services to meet the needs of consumers. Government should focus on setting the regulatory environment to incentivise efficient private sector behaviour.
5) Do you have other comments?	It is essential the strategic review of EECA noted as part of the Ministerial Review of the Electricity Market ³ is comprehensive and robust.

4. This submission is not confidential.

Yours sincerely



Ralph Matthes
Executive Director

³ Refer memorandum from Minister of Energy and Resources considered by Cabinet Economic Growth and Infrastructure Committee on 7th December 2009, paragraph 166, recommendation 45, "Note that the Minister of Energy and Resources is undertaking a strategic review of EECA to ensure that it is well-focused and performing effectively (including adopting where possible the best practice approaches to promotion of energy efficiency used by the EC)", <http://www.med.govt.nz/upload/71002/cabinet-paper.pdf>