MAJOR ELECTRICITY USERS' GROUP

5 November 2012

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By email to mike.candy@eeca.govt.nz

Dear Mike

Proposed EECA work programme and appropriations for 2013/14

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Energy Efficiency and Conservation Authority (EECA) proposed work in appendix F of the joint EECA and Electricity Authority consultation paper "2013/14 Appropriations and Work Priorities, and EECA Work Programme" published 24th September 2012[1]. MEUG appreciates EECA granting a one working day extension to MEUG to make this submission.

2. EECA propose no change to the aggregate appropriation from last year of $13m. There is one proposed change in content of the work programme to cover[2] "the partial funding of the electrical products performance standards programme." The latter seems to be a revival of the proposed new programme "Electrical equipment regulation, labelling and compliance" proposed last year at a cost of $2.5m within a total budget request for 2012/13 of $15.5m. The final approved total appropriation was $13m.

3. MEUG remain sceptical of the claimed benefits attributable to the levy funded programme since 2006 to June 2014 of $986m[3]. We are not convinced by the claimed market failures or that relative to all other options the EECA work programme is the best option to solve those claimed market failures. In our view best regulatory practice would require a planned exit strategy to allow end customer preferences and willingness to pay to be matched by innovative services by competing electricity efficiency service providers. As far as we know there is no planned exit strategy for these programmes. None of the detailed critiques by MEUG and the New Zealand Business Round table over the last few years has ever been adequately addressed by EECA, the Ministry of Economic Development or Treasury. We have not repeated those arguments except to say we stand by all those prior critiques[4].

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[1] http://www.eeca.govt.nz/resource/consultation-document-201314-electricity-levy-appropriations-and-work-programmes
[2] Appendix F, paragraph F.6
[3] Ibid, paragraph F.27 (c)
[4] Refer submission to EECA, 20th December 2011, http://www.meug.co.nz/includes/download.aspx?ID=119076

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4. As we mentioned last year the extremely tight economic environment is seriously affecting all parts of the economy and in particular export orientated and import substitution businesses such as MEUG member companies. Where there is no clear direct or indirect benefit of a tax or levy, such as for the EECA electricity efficiency work, then Government should reduce or remove that cost burden. To put this into perspective, MEUG members use approximately 28% of total power consumed and therefore will pay 28% of the proposed $13m programme, ie $3.64m. This is an extremely high fiscal burden on companies that are highly incentivised to be as energy efficient as possible. In some cases companies have publicly announced downsizing or potential reduction in operations. Unjustified levy burdens such as those for the EECA electricity efficiency work are an unwanted drag on MEUG members remaining competitive.

5. In conclusion MEUG:

    a) <u>Opposes</u> the proposed electricity efficiency programme for $13m in 2013/14;

    b) As a second best option MEUG <u>recommends</u> the proposed electricity efficiency programme be reduced by $2.5m from $13m to $10.5m. The $2.5m is our estimate of the new electrical products performance standards programme that appears to be the same as the "Electrical equipment regulation, labelling and compliance" proposed but not accepted last year. If that work was not justified last year then we see no reason it should be justified and approved this year.

6. As with prior years an overarching problem with the EECA electricity efficiency programme is it is levied on a unit consumption basis on all power users' whereas all other EECA work is funded from the General Account. In our view the levy on electricity users' is poor regulatory design and section 128(3)(c) of the Electricity Industry Act 2010 should be repealed.

Yours sincerely

Ralph Matthes
Executive Director