10 December 2021

Andrew Caseley
Chief Executive
Energy Efficiency and Conservation Authority
By email to levyconsultation@eeca.govt.nz

Dear Andrew

## EECA 2022/23 levy consultation submission

1. This is a submission from the Major Electricity Users' Group (MEUG) on the Energy Efficiency and Conservation Authority (EECA) 2022/23 levy funding proposal and related work programme published 8th November 2021[1].

2. MEUG members have an interest in this consultation because they are being asked to pay levies of around $1.355m, that is around 26% of the total proposed electricity levy funded allocation. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Members make also make separate submissions.

3. MEUG members appreciated you attending the MEUG meeting on 24th November to discuss this consultation and brief members on other non-levy funded work by EECA.

4. MEUG welcomes the proposed decrease of the electricity levy by 3.8% compared to the appropriation this year, i.e., $5.3m is proposed 2022/23 compared to the vote this year of $5.5m, a decrease of $200,000. Around $51,000 of the decrease will accrue to MEUG members. Also welcome is the expectation that electricity levy-related activities will continue to decrease in future years.[2] However, the proposed decrease next year is too little and the rate of change too slow.

5. MEUG has made the case in prior years that the rationale for the level of the work proposed to be funded by a levy on electricity users' is weak. We do not repeat those arguments this year other than repeating summary points and adding to those arguments the effect of recent changes to the operation of the ETS.

6. MEUG has not been satisfied to date, and nor are we with this consultation, that all the levy funded work is to overcome clearly identified economic market failures. MEUG

[1] Document URL https://www.eeca.govt.nz/assets/EECA-Resources/Levy-consultation/Consultation-on-EECAs-2022-23-levy-funding-proposal-and-related-work-programme.pdf at web site https://www.eeca.govt.nz/about/news-and-corporate/consultations/levy-consultation/22-23-levy-consultation/.

[2] Consultation paper, change number three., p4.

agrees there may be a case there is an information asymmetry market failures to justify levy funded work to set appliance and equipment standards. Accordingly, MEUG agrees with the proposed Equipment Energy Efficiency Programmes for residential and business of $1.80m each for 2022/23 to be funded from levies.[3] MEUG does not agree with the proposed pooling of levies raised from electricity and gas levies as discussed later in paragraph 12 of this submission. Hence EECA should provide a breakdown of the $1.80m for each of the residential and business equipment energy efficiency programmes for separate work on electricity and gas appliances and equipment.

7. Most of the levy funded work programme fails the twin test of first being required to overcome a clear economic market failure. And second all feasible policy interventions have been considered to address market failures, and only after that test is an EECA work programme funded by a levy on electricity users' the best solution. As explained last year:

> "In the view of MEUG, EECA's electricity levy funded work programme fits into the group of well-meaning but debateable value taxes because most programmes are not about increasing productivity; rather they are about wealth transfers with a few levy payers' being 'winners' and most levy payers' being 'losers' that pay for the cross-subsidy."

8. A list of purported economic benefits due to EECA interventions is set out on page 12 of the consultation paper. MEUG agrees that energy efficiency has a role to play in each of the listed dimensions: lower energy prices, increased energy productivity, reduced/delayed investment, and resilience and security. Where we differ is that MEUG's first best solution to a market failure is to remove the market failure to allow market participants make investment and operating decisions based on better market settings. EECA's workstreams are heavily weighted to subsidising activities than addressing generic core market failures.

9. Accordingly, MEUG does not support electricity and gas levies being paid for the Large Energy Users – Direct Programme ($5.39m in 2022/23), Technology Demonstration programme ($2.69m), Industry Development Programme ($0.60m), NABERSNZ Programme ($0.34m), and Local Authorities Programme ($0.63m).[4]

10. An important market failure affecting the whole economy including the work of EECA has been that carbon was not in the past, and even since the ETS first started, has been priced to mitigate the market failure of greenhouse gas emissions resulting in the market failure of negative externalities. Incentives on consumers, both large and small, have accelerated with the change to the ETS mandating a decreasing cap over time of NZU's. Any justification of electricity levy monies being allocated for EECA work on climate change policies needs to justify what economic market failure is being addressed that is both of benefit only to electricity levy payers and that market failure is not already addressed by carbon prices set in the ETS.

[3] Ibid, Table 2, p5.
[4] Ibid.

11. A recent paper by Energy Resources Aotearoa in their Perspective Series titled "The 'waterbed' effect: the most important climate policy you've never heard of", 30th November 2021, explains why recent changes to the ETS nearly make every other climate policy intervention redundant. A copy of that report is attached.[5] A cover media release by Energy Resources Aotearoa summarised this point as follows:

> "The ETS now has a cap on total emissions allowed. This is great news, but it means that other policies like subsidies for e-vehicles cannot lower our total emissions - only shuffle around where they occur," says chief executive John Carnegie.
>
> If fewer people drive petrol-powered vehicles, then emissions units are freed up which will then be taken by other users, such as factories.
>
> This is known as the 'waterbed effect', because pushing down in one area means emissions pop up in other areas. 'Whack a mole' is another good analogy."

12. On the basis that climate change policy interventions are primarily met by the ETS, the Sector Decarbonisation Programme proposal for $2.10m in 2022/23 should not be meet by levies paid by electricity and gas consumers. Instead, government should meet the cost of those work programmes from the government general appropriation. Given the government this year and in future years will have significant income from the ETS ($1.325 billion for calendar year 2021), then whether the government implements a hypothecated tax system or not, the proposed EECA Sector Decarbonisation Programme costs should be met from either that new hypothecated tax system or general appropriations.

13. The proposed pooling of levy monies from electricity consumers and the separate levy on gas consumers (the GSMEE levy) is a backward step and therefore MEUG does not support. The rationale for exercising the ability to pool levy monies is explained as:

> "It is now apparent the use of multiple fuels (i.e. electricity and gas) by many businesses is driving the need to give EECA greater operational flexibility and avoid the complexity and administrative complication costs of making strict judgements about which levy can be used when a programme cuts across multiple fuel types. Consequently, we are now proposing to pool the funding from the Electricity and GSMEE levies to cover relevant programmes in 2022/23 and beyond to which this funding will be applied.

14. An avoidance of an administrative hassle for EECA is a backward step to the days when there was little accountability to consumers on work-streams. Not all consumers that pay electricity levies also use gas, or indeed are affected directly by efficiency improvements in the gas market. For example, the largest consumer in New Zealand of electricity and largest payer of electricity levies, the aluminium smelter, is not affected by energy efficiency improvements in the gas market facilitated by EECA. Pooling levy funds reduces the line of sight by electricity consumers as to whether the levies they pay are directly relevant and beneficial to consumers in the electricity sector.

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[5] Refer also document URL https://www.energyresources.org.nz/dmsdocument/202

15. In conclusion MEUG support the EECA levy on electricity consumers to cover that fraction of the proposed 2022/23 appropriations for the electricity related (i.e., net of gas related) Equipment Energy Efficiency Programmes for residential and business of $1.80m each as discussed in paragraph 6 above. MEUG does not support any of the other proposed workstreams be funded by the EECA levy on electricity consumers.

Yours sincerely

Ralph Matthes
Executive Director