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MAJOR ELECTRICITY USERS' GROUP

6 December 2016

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

Dear James

Consultation Paper – 2017/18 Appropriations

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Energy Efficiency and Conservation Authority (EECA) consultation paper, EECA's 2017/18 levy-funded appropriation and work programme consultation paper, 9 November 2016.[1]

2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.

3. MEUG makes this submission as an interested party for MEUG members that collectively will pay approximately 26% or $1.35m of the proposed $5.2m levy funded electricity efficiency work in 2017/18.

4. MEUG members are knowledgeable of the market for electricity efficiency as they are incentivised to reduce costs every working day. Every dollar paid to EECA by way of the electricity levy is a dollar less MEUG member companies can choose to spend on electricity efficiency or staff training or a new capital investment or anything the company deems most important. The same applies to all consumers. This has been a common theme of MEUG submissions on prior year appropriations by EECA.

5. A second theme from prior years has been scepticism on EECA claimed benefits directly attributable to levy funded work. We remain unconvinced with the assessed value of EECA work to date in section 2.3 of the consultation paper and claimed benefits for work over 2017/18 in section 4.3. The response by EECA to prior submissions by MEUG have not overcome our scepticism.

6. At a more fundamental policy design the use of a mandatory levy to fund an activity which has public good characteristics and for which there is no clear directly attributable causal link to levy payers as exacerbators or beneficiaries may be contrary the Auditor-General's good practice guide "Charging fees for public sector goods and services" and the Treasury's "Guidelines for Setting Charges in the Public Sector".

[1] https://www.eeca.govt.nz/about-eeca/consultations-and-proposals/.

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7. MEUG supports that part of the $5.2m budget for electricity efficiency work that addresses a recognised market failure that is best achieved through an EECA work programme and where the direct benefits are identifiable users or a class of users of electricity. MEUG therefore recommends:

    a) Only the technology demonstrations portion of the $1.6m budget for "Business" in table 3 be funded from levy payers. The balance of that work being:

    > "Direct engagement through account management partnerships with large energy users, industry association partnership agreements, energy audits, energy monitoring and targeting and optimisation of critical energy systems",

    is likely to be directly beneficial to those parties that are recipients of being part of EECA's work programme but no direct and arguably of little indirect benefit to any other electricity user.[2] There is also an argument that the direct recipient companies and industry associations of EECA funded work are being subsidised by other consumers. For example take two identical companies apart from their energy efficiency. In the past one company invested using their own capital and resources to become energy efficient to give it a competitive advantage. That company has to pay a levy that in part will subsidise its competitor improving its energy efficiency. This, in the view of MEUG, is an inappropriate use of a levy.

    b) The business and residential energy efficiency regulations (MEPS and MEPLS) at a budget of $1m and $2.6m respectively should be funded from the government general account and not levies. MEUG would re-appraise this view if first EECA, MBIE or The Treasury were to demonstrate that there are many similar situations in other sectors of the economy where incremental changes to standards are funded by a levy on that sector. Second if an adequate explanation is provided for the requested budget to manage proposed changes to MEPS and MEPLS. It seems extraordinary that EECA plan to spend $3.6m in 2017/18 on managing changes to those regulations where, for example, market service providers to the Electricity Authority on very complex market services such as the Financial Transmission Right (FTR) Manager have a budget of $0.935m. Even the highest cost and most complex service provider, other than the system operator, being the Clearing Manager, has an annual budget of $2.312m.[3]

8. We look forward to EECA publishing all submissions on the proposed appropriations as early as possible because we may use that material in our submissions to the Commerce Committee on the Energy Innovation (Electric Vehicle and Other Matters) Bill due by 1 February 2017.

Yours sincerely

Ralph Matthes
Executive Director

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[2] A secondary issue for MEUG has been that businesses wishing to become a recipient of EECA work programmes must accept terms and conditions set by EECA. That as well as the transaction cost of engaging with EECA can act as a barrier to companies that might have potential new innovations that could have wide spread deployment from being funded in an EECA work programme and the results published as a technology demonstration project.

[3] Refer EA appropriations consultation paper 25 October 2016, document URL http://www.ea.govt.nz/dmsdocument/21400 at http://www.ea.govt.nz/about-us/corporate-projects/201718-planning-and-reporting/consultations/#c16218, table 2, p11.