



MAJOR ELECTRICITY USERS' GROUP

2nd June 2016

Justine Cannon
Energy Markets Policy
Energy and Resources Markets
Minister of Business, Innovation and Employment
By email to energymarkets@mbie.govt.nz

Dear Justine

Options for expanding the purpose of existing energy levies

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Ministry of Business, Innovation & Employment (MBIE) consultation paper "Options for expanding the purpose of existing energy levies" published 17th May 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 members are materially affected by the existing electricity efficiency levy and will be materially affected by continuation of that levy in some form for most of the options proposed.²
4. MEUG members and all consumers derive no net national benefit from EECA work funded from the existing \$13m pa electricity efficiency levy.³ There is no evidence presented in the consultation paper to demonstrate that will change with any of the proposals including continuation of the status quo.
5. Responses to questions in the consultation paper follow:

¹ Document URL <http://www.mbie.govt.nz/info-services/sectors-industries/energy/current-reviews-consultations/energy-levy-consultation/discussion-document.pdf> at <http://www.mbie.govt.nz/info-services/sectors-industries/energy/current-reviews-consultations/energy-levy-consultation>

² The last public estimate of the cost to MEUG members was MEUG submission to EECA on proposed 2015-16 appropriations in December 2014 when MEUG estimated members paid \$3.66m (28%) of the total annual levy on all consumers of \$13m, refer <http://www.meug.co.nz/node/638>.

³ Refer MEUG submission to EECA on proposed 2016-17 appropriations, 24th November 2015, section titled "There is no net national benefit for the proposed work", p3, refer <http://www.meug.co.nz/node/727>.

Question	MEUG response
<p>1. What are your views on the objective of this proposal? Do you agree or disagree with it? Why?</p>	<p>The proposal objective is:</p> <p>“The intention is to enable levy funding of a wider range of activities that encourage, promote and support energy efficiency, energy conservation and the use of renewable sources of energy.”⁴</p> <p>MEUG has two concerns with this proposal;</p> <ul style="list-style-type: none"> • Why is levy funding the only choice considered? • Issues in levying for a wide range of activities. <p>Why is levy funding the only choice considered?</p> <p>MEUG disagrees with this objective because it pre-supposes government work to “encourage, promote and support energy efficiency, energy conservation and the use of renewable sources of energy” is best funded from levies and fails to consider use of general taxation.⁵</p> <p>There is no information on what expanded levies will actually be spent on. In the absence of any understanding about what is being purchased, it is not impossible to establish who benefits and who should pay, and therefore what the best funding mechanism might be. MEUG’s position is that, as a matter of principle, if a general public good is being sought then that should be funded from general taxation.</p> <p>MEUG suggest the following proposal objective will lead to economically better and more durable outcomes:</p> <p>The intention is to optimise market and government resources to encourage, promote and support energy efficiency, energy conservation and the use of renewable sources of energy. Where government resources are to be used a principled approach is used to choose between general taxation and levies.</p> <p>In other words whether any existing or expanded levies are appropriate depends on the nature of the work and whether other means to achieve desired outcomes have been considered.</p>

⁴ Consultation paper, paragraph 1.

⁵ The Treasury Guidelines for setting charges in the public sector, December 2002 (document URL <http://www.treasury.govt.nz/publications/guidance/planning/charges/charges-dec02.pdf> at <http://www.treasury.govt.nz/publications/guidance/planning/charges>) is a useful reference material for design of levies as noted in the consultation paper (paragraph 45). However the Guidelines state (p3) “These guidelines deal with charges for which the Government is a monopoly supplier, in other words, when alternative sources of supply are not present or have not been identified”. To comply with the Guidelines MBIE must first demonstrate there are no other sources of supply such as contestable market providers for services to encourage, promote and support energy efficiency, energy conservation and the use of renewable sources of energy.

Question	MEUG response
	<p>Issues in levying for a wide range of activities</p> <p>Formulating levies for ad hoc purposes should be avoided and indeed was one of the reasons why The Treasury Guidelines were first introduced.⁶ To give EECA or a Minister discretion to tax by way of an energy levy for unspecified activities is an outcome that should be avoided.</p> <p>As a matter of principle, when proposing changes to a targeted levy the Government should consult on proposed specific activities, so proposals can be assessed on their merits. This is not possible with the current consultation paper.</p> <p>For example, if the Government intends EECA to focus on reducing emissions then sectors of the economy where emissions can be readily avoided or reduced should contribute towards funding. The electricity sector contributes around six per cent of emissions and should not therefore assume the full burden of funding emissions reduction initiatives.</p> <p>The beneficiaries of each proposed activity or the exacerbators (also called causers) driving the need for those policies should be used in designing a levy. Where beneficiaries and causers cannot be clearly identified then general taxation should be used to fund those activities. In the latter case budget expenditure has to date been allocated to Vote Energy. MEUG suggest for some activities and intended policy outcomes expenditure may be better allocated to Vote Transport, Vote Climate Change or Vote Health.⁷</p>

⁶ Ibid, p2.

⁷ The consultation paper refers to work and or benefits relevant to the transport sector in paragraph 3 and better environment and health outcomes in paragraph 8.

<p>2. What do you think is the appropriate balance between 'administrative simplicity/transparency' and the 'causer or beneficiary pays' and 'rationality' criteria? Should more weight be given to one over the others?</p>	<p>The balance between design criteria should preferably be decided by the absolute change in NPV in national benefit of each option compared to a counterfactual. In other words quantitative estimates should be made. The qualitative assessment summarised in table 1 of the consultation paper is not sufficient to make a robust and durable choice between options.</p> <p>A more fundamental question is whether the design criteria are comprehensive? As noted in paragraph 4 and footnote 3 of this submission MEUG have provided an analysis concluding consumers derive no net national benefit from existing EECA levy funded work. If MEUG's analysis is true, or if it is true for some consumers only, then the design criteria "causer or beneficiary pays" is insufficient and should be re-phrased "Does the proposed work result in a private, public or merit good?"</p> <p>For each specific proposed expanded piece of work by EECA there will likely be different answers to the question of the question will this result in a private, public or merit good? This observation reinforces the comment in response to Q.1 above that there it would be undesirable to have a levy or levies for a wide range of activities that in some cases may best be funded from general taxation – let alone activities yet to be defined.</p>
<p>3. Which option do you think provides the best balance?</p>	<p>No view because the design criteria used in the assessment are incomplete and require quantification as noted in response to Q.2 above. In any case the broader question as to what if any of EECA's expanded work should be recovered from levies as opposed to using other approaches as noted in response to Q.1 above needs to be addressed first.</p>
<p>4. What is your preferred option?</p>	<p>None as discussed in response to Q3 above.</p>
<p>5. Why do you consider this the best option?</p>	<p>See answer to Q4 above.</p>
<p>6. Of the options you do not prefer, what issues or reasons do you think are most important for us to consider?</p>	<p>See answer to Q4 above.</p>

<p>7. Are there other options for providing transparency in the use of levy money (besides requiring annual consultation and reporting)?</p>	<p>MEUG has made a submission to EECA every year that the electricity efficiency levy has been consulted on. The consultation process has been flawed because EECA are both the advocate for, and advisor to the Minister regarding the level of appropriation sought for levy based work and how monies are to be spent. There appears to be minimal oversight by MBIE or Treasury of EECA levy funded work.</p> <p>The annual consultation process has not proven effective at addressing the underlying problem that electricity consumers derive no net national benefit from existing EECA levy funded work and hence the rationale for a levy at all. The current consultation is an opportunity to redress that flawed policy.</p>
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6. MEUG looks forward to early publication by MBIE of submissions on this important topic.

Yours sincerely



Ralph Matthes
Executive Director