



MAJOR ELECTRICITY USERS' GROUP

2 October 2017

Steven Bailey
Inquiry Director
New Zealand Productivity Commission
By email to info@productivity.govt.nz

Dear Steven

Low-emissions economy issues paper – submission by MEUG

1. This is a submission by the Major Electricity Users' Group (MEUG) on the New Zealand Productivity Commission (NZPC) issues paper on a low-emissions economy (LEE issues paper) published 9 August 2017.¹
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
3. This submission responds to 4 electricity sector questions as set out in the appendix. The following three paragraphs provide context to those responses for transitioning to a LEE.
4. The members of MEUG provide services and products to New Zealand consumers and or exports to overseas markets and or substitute for imports. We estimate MEUG member company's contribution to GDP to be up to \$11 billion per annum and employ more than 25,000 people².
5. MEUG members have had a sharp focus on reducing costs since the Global Financial Crisis. Any increase in production costs, including the cost of carbon, could have significant effects for some companies as well as across the economy.³ In some scenarios, electricity intensive industries would close in New Zealand and re-open in more benign carbon price regimes overseas. This is a well-known risk leading to global carbon emissions increasing as electricity in New Zealand has one of the lowest carbon footprints of anywhere in the world. New Zealand's economy would also be affected with loss of export revenues or higher imports with loss of import substitution businesses. Unemployment would increase.

¹ URL <http://www.productivity.govt.nz/sites/default/files/LEE%20IP%20PDF.pdf> at <http://www.productivity.govt.nz/inquiry-content/3254?stage=2> .

² These estimates exclude companies that are members of MEUG industry group members BusinessNZ and the Wood Processors and Manufacturers Association, that are not individual company members of MEUG. Data on indirect employee numbers is difficult to assess but we expect it to be more than 15,000 people.

³ In this submission, the phrases cost or price or carbon also refer to any tax on carbon.

6. The policy response to date has been firstly, to recognise the risk and therefore, secondly to have targeted policies for emission intensive trade exposed businesses. MEUG recommends the NZPC also recognise this as a material risk and consider continuation of such targeted policies
7. The responses in the appendix focus on those related to the electricity sector. The terms of reference set by Ministers notes New Zealand has a “largely decarbonised electricity sector.” Nevertheless, as the marginal electricity generator, and in special cases the marginal consumer bid, sets electricity spot prices, then the level of carbon prices can be material. We therefore take comfort that Ministers note that New Zealand is a small, globally connected and trade-dependent country and have tasked the NZPC to consider a transition to a lower net emissions economy, while still maintaining and improving the incomes and prosperity of New Zealanders. Households and businesses would be affected by a price shock at the margin in the wholesale electricity market. Some households would be affected twice, once with higher household power bills and second with decreasing working hours or loss of employment as businesses cut production due to higher spot prices. Hence if evaluating transitional provisions for the economy MEUG recommend the NZPC consider the effect on the electricity wholesale market.

Yours sincerely



Ralph Matthes
Executive Director

Appendix

EE paper section and question	MEUG response
Transport Q8 What are the main barriers to the uptake of electric vehicles in New Zealand?	End consumers make choices on preferred transport mode, including EV, by comparing vehicle purchase costs and running costs. For infrastructure providers, including incumbent fossil fuel providers, it's the uncertainty on how the market for their product and service may grow or decline and that in turn depends on the choices consumers make. NZ is a vehicle technology and fossil fuel importer. In the long-run international prices will apply. ⁴ Electricity prices in NZ, the fuel for EV, can be influenced by regulators and government as discussed in Q12 and Q14 below.
Q9 What policies would best encourage the uptake of electric vehicles (EV) in New Zealand?	As with Q8 above, see responses to Q12 and Q14 below. ⁵ There is a risk the NZPC in posing this question has a bias for EV. We suggest any policy to address market failure for pricing carbon emissions be technology agnostic. It's possible, for example, that in the future hydrogen fuelled vehicles may have lower overall economic and environmental costs to society than EV.
Electricity generation Q12 What changes will be required to New Zealand's regulatory, institutional and infrastructural arrangements for the electricity market, to <u>facilitate greater reliance</u> on renewable sources of energy across the economy?	This question could be read to presuppose greater reliance on renewable generation is desirable at any cost. MEUG suggests the question should be re-phrased to ask what regulatory, institutional and infrastructural arrangements may be hindering efficient use and investment in renewable generation and efficient divestment in existing non-renewable generation? The key uncertainty for investors is the expected range of carbon prices and effect on electricity prices. There are two other material uncertainties. The first is what changes, and if so the pace of change, for distribution and transmission pricing. This is within the ambit of the Electricity Authority. The second are impediments and higher than necessary costs for building infrastructure, be it at the wholesale level or by households, due to the RMA.
Q14 Apart from the regulation and operation of the electricity market, what are the main opportunities and barriers to reducing emissions in electricity generation?	As noted in Q12 above the main uncertainty relates to future price paths for carbon and hence effect on electricity prices, monopoly line services and the RMA. The first and last of these factors are outside the regulation and operation of the electricity market. As noted in the cover page to this submission there are material risks of electricity spot price shock if carbon prices or costs lift materially given the wholesale market clears at the highest marginal price and that is often set by fossil fuelled stations.

⁴ Government and regulators can influence short-term prices and costs with inefficient taxes and interventions. Those can be politically inviting for Ministers to adopt and sometimes initially palatable to a majority of the public though inevitably they lead to the economy and consumers as a whole being poorer over the long-term.

⁵ Each alternative transport option can have ad hoc barriers. For EV, local authorities had some planning and consenting issues. Those issues were considered in the Energy Innovation (Electric Vehicle and Other Matters) Amendment Act 2017 given royal assent on 28 June 2017. In this case the underlying policy issue was with the RMA.