



Section 6: Cost recovery mechanisms

This section seeks your views on introducing a levy on consumers of coal to partially recover the cost of implementing any new policies in Part A that may be introduced.

Option 6.1 Introduce a levy on consumers of coal to fund process heat activities

Description

In order to mobilise private-sector investment and scale up efforts to achieve the Government's process heat outcomes, additional funds will be required to resource implementation of some of the policy proposals in Part A of this paper that are agreed by the government.

One option for funding policy proposals is through cost recovery mechanisms. We seek your feedback on introducing a levy on consumers of coal to fund EECA's process heat programmes.

Analysis

Introducing a levy on consumers of coal would provide an even treatment of levies for relevant specified activities of EECA, or could help to fund other implementation activities relevant to any proposals in this Section.

Funds are currently levied on:

- petroleum or engine fuel, to recover the cost of fuel monitoring and specified activities of EECA
- natural gas, to recover the cost of safety, monitoring and specified activities of EECA, and
- electricity, to recover the costs of the Electricity Authority, and specified activities of EECA.

These are based on consumption and sales of these energy sources. There is no equivalent coal levy. Under the Energy Resources Levy Act, the existing levy is only on coal extracted at open-cast mines, not on coal consumed in New Zealand.⁴¹

Determining the levy rate and the proposed activities to be funded will need to be made once in-principle policy decision have been made. However, the approach will likely be the same as for existing levies where EECA (or another agency) must describe the fuel types it is intending to levy for that year and demonstrate a logical link between its specific programmes and the levy.⁴²

Table 4 below provides information on the current levies on petrol, gas and electricity to recover EECA costs, the quantum of revenue they raise for EECA.

⁴¹ As outlined in the *Discussion Paper: Options for expanding the purpose of existing energy levies*, the existing levy is only on coal extracted at open-cast mines, not on coal consumed in New Zealand, so an expansion would not sufficiently meet the design principles and criteria that apply to using the levy for energy efficiency and emission reduction purposes. <https://www.mbie.govt.nz/dmsdocument/2883-options-for-expanding-the-purpose-of-existing-energy-levies-pdf>

⁴² Available at <https://www.mbie.govt.nz/dmsdocument/206-egi-cabinet-paper-levy-policy-decisions-final-sept-2016-redacted-pdf>

Table 4: Current energy levies for EECA purposes

Levy (in 2019/20) ⁴³	Levy for EECA purposes	
	Levy rate	Amount levied (\$ million)
Petroleum or Engine Fuel Monitoring (PEFM) levy	0.1 cents per litre	7.5
Electricity industry levy	12 cents per MWh	5.2
Gas Safety, Monitoring and Energy Efficiency (GSMEE)	1.4 cents per GJ	1.1

The Energy Resources Levy Act 1976 imposes a levy on the production of open-cast coal and natural gas produced from discoveries made before 1 January 1986. Revenue is paid into a Consolidated Fund. The levy rate is specified in legislation at rate of \$2 per tonne on coal (other than South Island lignite), and \$1.50 per tonne on South Island lignite. Approximately 50 per cent of coal extracted in New Zealand is exported as it is high-grade coal.

Coal users would face increased costs because of the levy. However, they are expected to benefit from the services the levy will fund. For example, coal users who pay the levy could receive co-funding from a low emissions heating feasibility study to switch off coal, trial a new technology under an expanded Technology Demonstration Fund, or benefit from a tax credit to adopt an energy efficient technology. While the total amount levied would depend on the specific activities to be funded, an initial estimate is in the order to \$2 to \$4 million. Levy funding would likely complement Crown funding, and any unused funds would be returned to levy payers.

The status quo would be to resource the adoption and implementation of policy proposals from general Crown revenue and existing energy levies. Another option would be to use the proceeds from the auctioning of emissions units.

Questions

Q6.1	What is your view on whether cost recovery mechanisms should be adopted to fund policy proposals in Part A of this document?
Q6.2	What are the advantages and disadvantages of introducing a levy on consumers of coal to fund process heat activities?

⁴³ Levy rates <https://www.mbie.govt.nz/building-and-energy/energy-and-natural-resources/low-emissions-economy/energy-efficiency-in-new-zealand/energy-levies/>