MAJOR GAS USERS GROUP

7 June 2016

Justine Cannon
Energy Markets Policy
Energy and Resources Markets
Ministry of Business Innovation and Employment
PO Box 1473
Wellington
(via email to energymarkets@mbie.govt.nz)

Dear Justine

RE: Submission on Options for expanding the purpose of existing energy levies

1. Thank you for the opportunity to submit on this options paper. This submission is on behalf of the Major Gas Users Group (MGUG) and relates to the discussion concerning levies on natural gas. Nothing in this submission is confidential and some members may choose to make separate submissions.

2. MGUG was established in 2010 as a consumer voice for the interests of a number of industrials who are major consumers of natural gas. Membership of the Group includes:

    - Ballance Agri-Nutrients Ltd
    - Oji Fibre Solutions (NZ) Ltd
    - Fonterra Co-operative Group
    - Goodman Fielder New Zealand Limited
    - New Zealand Steel Ltd
    - New Zealand Sugar Company Ltd
    - Refining NZ

3. These industries are a significant part of New Zealand's economy, including; the primary industry export sector, in provision of energy security, and through import substitution assisting New Zealand's balance of payments. Their manufacturing base in New Zealand relies on a secure energy supply, which for natural gas includes secure and reliable gas transport (transmission and distribution). Collectively the group has invested significant long term capital in manufacturing facilities that consume about 30 PJ per annum of natural gas, or about 15% of the gas supplied to the market in New Zealand.

4. As we understand it this paper is considering the options for expanding various levies to enable a broader range of energy efficiency, energy conservation and renewables initiatives to be undertaken. Gas is part of the consideration because it is subject to a levy, which is imposed to fund safety related matters.

5. In our view the consultation paper creates a number of inferences about gas because it is a fossil fuel. This creates a number of misunderstandings about gas, including how it finds its way into the energy mix in New Zealand and its role in supporting economic growth.

6. The paper states that reducing our reliance on fossil fuels is good. This may be correct for imported petroleum but it fails to appreciate how gas in produced in New Zealand and the importance of a gas market to the production and export of petroleum liquids as well as providing a transitional pathway to a lower carbon economy.

7. The Business Growth Agenda (Natural Resources) acknowledges that New Zealand has petroleum resources that help reduce reliance on imported energy and help to balance New Zealand's trade accounts. Various work streams within the BGA are focused on pre-commercial data acquisition projects and related studies for example.

8. Hydrocarbon production in New Zealand involves significant associated gas production. A productive oil production sector is considered a major generator of value for the New Zealand economy but there are no opportunities to export gas. Hence the success of our oil exports is dependent of ensuring markets to absorb the gas, including in domestic consumption. This is good for our productive sector, our economy, and to meet climate objectives by avoiding the need to use coal as a source of consumer energy[1].

9. Furthermore natural gas could be used as an alternative transport fuel (this is occurring internationally where methanol and liquefied natural gas are used for trucking and shipping). Globally gas is regarded as a transitional fuel because it can is seen as providing a pathway to a lower carbon economy.

10. Therefore any suggestion of extending the current levy on gas to fund other initiatives raises questions about whether it would simply be a tax on gas to fund other unrelated activities. Currently natural gas is levied $NZ0.02/GJ under the Energy (Fuels, Levies and References) Act 1989 to fund Worksafe and MBIE safety-related services. We presume the activities funded by this levy would continue. Hence any new activities would likely require additional levies and we are concerned that this would impact on gas as a competitive energy source, raising the cost of gas as a competing energy and providing additional incentives for less acceptable fuels such as coal as well imposing higher costs of the productive export sector that it would simply not be able to recover. This would have a negative impact on value add to the economy, raising questions about increasing levies would sit with other Government priorities.

11. We have provided specific responses to the questions set out in the table at the end of the consultation paper as follows:

[1] The counterfactual for gas is coal as is shown by the difference in the North Island where reticulated gas is available vs other regions, including the South Island where industrial heat in particular is provided by coal.

Name:	Richard Hale
Email address:	richard@haletwomey.co.nz
Organisation:	Major Gas Users Group
Please identify your sector:	Major industrials (Refining NZ, New Zealand Steel, Fonterra, NZ Sugar, Goodman Fielder, Oji Fibre Solutions, Ballance Agri-nutrients)
What are your views on the objective of this proposal? Do you agree or disagree with it? Why?	It is hard to comment because the objective of the proposal is not explicitly expressed and there is a general lack of analysis on implications of the various proposals. The background suggests that there is a broader objective of supporting the building of a more productive and competitive economy. The paper then moves into an argument that EECA is hampered in its activities to support energy efficiency objectives because the portion of its funding it receives from various energy levies cannot be applied to energy efficiency initiatives. With no clear statement we can only assume that the narrower objective is to repurpose existing levies. This leaves a number of unanswered questions: 1. Are levies being repurposed i.e. reallocated within an existing pool of funds, or is purpose being expanded, i.e. levies are being increased, and if so, to what extent? 2. If funds are no longer required for existing purpose then why are levies not being reduced, or removed? 3. What are industry levies going to be spent on that benefits the industry? 4. What is the rationale for levy funding vs general taxation? Beyond these more general questions MGUG has concerns that the benefits of our domestic gas resource in enabling a more productive and competitive economy are being undermined by a proposal that might tax domestic gas more heavily. We would note that the BGA (Natural Resources) also include initiatives to expand the exploitation of New Zealand's petroleum resources. Policy coherence would suggest that there is a distinction to be made between treatment of our energy natural resources and imported energy.

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?	A clearer argument needs to be made for industry levy vs general taxation to fund EECA outcomes in order to meet transparency criterion. Treasury guidelines would suggest that the beneficiary of incremental efficiency gains is the public and that therefore funding logically should come from general taxation. The rationale for this argument is that industry and other private beneficiaries should already be investing in energy efficiency that meet their investment criteria. To the extent that they are not is a statement that further marginal benefits no longer accrue to the investor. Hence further energy efficiency improvements accrue to external parties, and if they are the beneficiaries then Treasury guidelines support that they should pay.
Which option do you think provides the best balance?	Difficult to comment until there is better definition of the issues with or connection to natural gas. The paper itself has not raised any particular issues with gas, other than at a high level – hence it is difficult to understand how the criteria would be applied
What is your preferred option?	as above
Why do you consider this the best option?	na
Of the options you do not prefer, what issues or reasons do you think are most important for us to consider?	More generally the paper lacks sufficient reasoning to support any of the proposals as outlined in our response to the first question.
Are there other options for providing transparency in the use of levy money (besides requiring annual consultation and reporting)?	

Yours sincerely

Richard Hale
Hale & Twomey Ltd
Secretariat for the Major Gas Users Group