BRIEFING
Budget 2022 – Submission of Budget Bids for the Energy and Resources Portfolio

Date: 1 December 2021
Priority: Medium
Security classification: Budget - Sensitive
Tracking number: 2122-1938

Action sought

<table>
<thead>
<tr>
<th>Action sought</th>
<th>Deadline</th>
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<tbody>
<tr>
<td>Hon Dr Megan Woods, Minister of Energy and Resources</td>
<td>Agree to sign and submit the attached letter (Annex One) submitting eight budget bids by Friday, 10 December 2021.</td>
</tr>
<tr>
<td>Note the draft versions of the eight initiatives and provide any comments ahead of submission (Annex Two).</td>
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</table>

Contact for telephone discussion (if required)

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Telephone</th>
<th>1st contact</th>
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<tbody>
<tr>
<td>Privacy of natural persons</td>
<td></td>
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The following departments/agencies have been consulted

Minister’s office to complete: □ Approved □ Declined
□ Noted □ Needs change
□ Seen □ Overtaken by Events
□ See Minister’s Notes □ Withdrawn

Comments
BRIEFING

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</table>

Purpose

This briefing seeks your agreement to submit an Initiative letter to the Minister of Finance submitting eight Energy and Resources portfolio initiatives for Budget 2022.

Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

a **Agree** to sign and submit the attached letter (Annex One) submitting eight budget bids by Friday, 10 December 2021.

b **Note** the draft versions of the eight initiatives and provide any comments ahead of submission (Annex Two).

General Manager, Energy and Resource Markets
Building, Resources and Markets, MBIE
2 / 12 / 2021

Hon Dr Megan Woods
Minister of Energy and Resources

….. / ….. / …..
**Background**

1. Cabinet agreed to the Budget 2022 strategy on 30 August 2021. As with Budget 2021, initiatives for Budget 2022 are to be submitted only on the invitation of the Minister of Finance (with the exception of the cluster process, which is not relevant to your Energy and Resources portfolio). A summary of the Budget 2022 strategy is in Annex Three.

2. To assist with the invitation process, the Minister of Finance asked you to write to him by 23 September 2021 detailing initiatives that you believed should be considered for Budget 2022. He also asked you to identify initiatives that were manifesto commitment or cost pressures bids, and any climate-related initiatives in your portfolio that could be considered as candidates for the new Climate Emergency Response Fund (CERF).

3. Your 23 September letter proposed 14 initiatives and indicated that 13 were candidates for the CERF, with the remaining initiative being a cost pressure bid.

4. On 22 October 2021, the Minister of Finance invited you to submit ten of those 14 initiatives. He advised that the *Extending the Warmer Kiwi Homes programme* should be submitted as a cost pressure (as opposed to a CERF) bid, and requested that

   Confidential advice to Government

5. In his invitation letter, the Minister of Finance also indicated that he expected the number of initiatives submitted in December, and the total funding sought, to be less than what was invited. MBIE, with your approval, has consolidated some of the invited CERF initiatives, and we now propose you submit eight initiatives. The table below shows how they have changed.

<table>
<thead>
<tr>
<th>Number</th>
<th>Initiative</th>
<th>Changes since invitation</th>
</tr>
</thead>
<tbody>
<tr>
<td>13824</td>
<td>Effectively engaging with iwi and managing risks in petroleum and mineral permitting</td>
<td>Renamed from <em>Ensuring effective iwi engagement and management of risks with petroleum and mineral permitting</em></td>
</tr>
<tr>
<td>13820</td>
<td>Extending the Warmer Kiwi Homes programme</td>
<td>Submitted as a cost pressure bid rather than CERF initiative</td>
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<tr>
<td></td>
<td>Confidential advice to Government</td>
<td></td>
</tr>
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<tr>
<td>13812</td>
<td>Electricity market measures to support the transition to a highly renewable electricity system</td>
<td>Renamed and closely aligns with <em>Readying the energy system to transition to a low emissions economy through an energy strategy and regulatory frameworks</em> (13808). Funding added to support public sector entities entering Power Purchase Agreements (PPAs). Confidential advice to Government.</td>
</tr>
<tr>
<td>13814</td>
<td>Funding further decarbonisation of process heat and implementation of supporting policies</td>
<td>Funding sought has been phased over seven years (rather than four).</td>
</tr>
<tr>
<td>13808</td>
<td><em>Readying the energy system to transition to a low emissions economy through an energy strategy and regulatory frameworks</em></td>
<td>Consolidates <em>Completing Aotearoa’s hydrogen strategy</em> (13818) and <em>Developing an energy strategy for Aotearoa’s transition to a net zero carbon economy</em> (13808) and <em>Developing an offshore renewable energy regulatory framework</em> (13809).</td>
</tr>
<tr>
<td>13823</td>
<td>Supporting renewable and affordable energy in New Zealand communities</td>
<td>Nil</td>
</tr>
<tr>
<td></td>
<td><strong>Total sought (nearest $m)</strong></td>
<td>Confidential advice to Government</td>
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</tbody>
</table>
10. Two of the initiatives, *Electricity market measures to support the transition to a highly renewable electricity system* and *Readying the energy system to transition to a low emissions economy through an energy strategy and regulatory frameworks*, respond to the need for a well-managed and strategy-led transition and for a regulatory system that facilitates the transition. If funded, both initiatives will guide and support private sector investment.

11. Private sector investment will be further supported through *Funding further decarbonisation of process heat and implementation of supporting policies*, which are two initiatives that will fund the acceleration of low emissions energy options, and the delivery of energy and emissions reporting requirements.

12. Support for communities and ways to help address the distributional impacts of the transition will be provided through funding the *Supporting renewable and affordable energy in New Zealand communities* initiatives.

### CERF prioritisation

13. The Minister of Finance has indicated that while the creation of the CERF demonstrates a step-change in the approach to climate change investment, it does not guarantee that all initiatives submitted will be able to receive funding through Budget 2022. He also noted that he expects CERF bids to be accompanied by a clear articulation of their relative importance.

14. The attached draft letter to the Minister of Finance (Annex One) does not indicate priority within your CERF bids. This recognises that it likely makes the most sense to undertake prioritisation when Ministers have sight of all submitted CERF bids. However, please advise if you would like the letter to indicate priority within your bids.

15. If prioritisation within the Energy and Resources bids is required, we recommend that the following four CERF initiatives should be higher priority:

- *Funding further decarbonisation of process heat and implementation of supporting policies* – because it will make a critical contribution to meeting the emissions budgets as it delivers substantial reductions in emissions over the next eight years

- *Electricity market measures to support the transition to a highly renewable electricity system* and *Readying the energy system to transition to a low emissions economy through an energy strategy and regulatory frameworks* – because both are critical enablers to meeting the emissions budgets and critical to ensuring energy transition risks are well-managed

- *Confidential advice to Government*

16. The remaining two initiatives, *Confidential advice to Government*
Implementation readiness

17. The Minister of Finance has also indicated he expects a focus on implementation readiness and delivery risk. Only initiatives that are implementation ready will be supported, unless there is clearly articulated reasoning for why an exception to this rule should be considered.

18. Below is an assessment of the implementation readiness of each proposed initiative.

Cost pressure bids

Extending the Warmer Kiwi Homes programme

19. This initiative expands an existing programme and is implementation ready. Securing funding in Budget 2022 will provide continuity and build on existing economies of scale.

20. Confidential advice to Government

Effectively engaging with iwi and managing risks in petroleum and mineral permitting

21. This initiative is also implementation ready. It addresses critical cost-pressures within the Energy and Resources: Management of the Crown Mineral Estate Appropriation and the associated memorandum account.

22. Without additional funding through Budget 2022, MBIE (as the regulator) will not have the required resources, processes and systems to undertake effective iwi engagement, implement the new petroleum decommissioning requirements, and maintain appropriate monitoring, compliance and enforcement activities under the Crown Minerals Act 1991. Additionally, the deficit in the memorandum account will increase.

23. The delivery risk associated with this initiative is set out in the below section regarding MBIE’s operating context.

Climate Emergency Response Fund (CERF)

24. We consider all six CERF initiatives to be implementation ready, although some would be able to deliver results sooner than others.

25. Confidential advice to Government

Electricity market measures to support the transition to a highly renewable electricity system

26. A significant amount of groundwork has been done and delivery is only dependent on recruitment and procurement of specialist skills, which are not expected to be constrained.
Funding further decarbonisation of process heat and implementation of supporting policies

27. This initiative is highly implementation ready as it expands an existing fund, and policy work on the energy emissions reporting scheme is well advanced. The main delivery risk with this initiative is set out in the below section regarding MBIE’s operating context.

Confidential advice to Government

Readying the energy system to transition to a low emissions economy through an energy strategy and regulatory frameworks

29. The delivery of this initiative is dependent on recruitment (refer below section regarding MBIE’s operating context) and the capacity of key stakeholders, especially with iwi/Māori to engage in the development of the energy strategy and regulatory frameworks.

Supporting renewable and affordable energy in New Zealand communities

30. This initiative is highly implementation ready as it builds on an existing fund and requires a relatively low level of new resource.

MBIE departmental operating context

31. MBIE’s size has enabled us to flex and reprioritise to support a large increase in critical and significant government programmes during the last 12 months while maintaining our essential core business.

32. This has been achieved while delivering on over 100 COVID-19 related initiatives. In addition to redirecting our existing resources to the COVID-19 response (including border closures and exemption management, essential services, vaccine procurement, business travel documents, business support, and rapid antigen testing), we remain the lead agency for significant transformational work programmes like the Fair Pay Agreement system, a Social Unemployment Insurance Scheme, Industry Transformation Plans, Immigration system changes, the RSI science system, significant work programmes relating to emissions reduction and climate change adaptation plans and consumer focussed law reforms while our policy groups have been under significant resourcing pressure.

33. Maintaining a focus on MBIE’s core regulatory stewardship functions has proved particularly challenging in the face of these priority work streams. Confidential advice to Government

34. MBIE’s increasing work programme comes at a time of uncertain border settings, skills shortages in key areas such as policy, programme management and ICT, low unemployment, increasing inflation, and pay restraint, putting us further under pressure to retain existing staff, compete with the private sector and grow capacity to maintain momentum for these and other significant Government priorities.

35. Attracting the right people and skillsets and retaining this talent is a key priority for MBIE. This is so we can continue to deliver, grow and transform our infrastructural capabilities while maintaining agility to respond and support the Governments critical COVID-19, Wellbeing and Climate Emergency priorities. However, even with sufficient funding the constraints on labour markets are likely to reduce our ability to deliver across all these priorities.
Next steps

36. Subject to any comments you have on the final draft initiatives, please sign and submit your Budget 2022: Energy and Resources Portfolio Bids letter for your portfolio (Annex One) to the Minister of Finance by **5pm, 10 December 2021**.

37. Any comments you have on the final draft bids in Annex Two need to be provided ahead of submission on 10 December 2021. Note that the drafts are still subject to editorial changes.

38. The table below sets out the timelines for the Budget 2022 process provided by the Treasury.

<table>
<thead>
<tr>
<th>Item/Action</th>
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<tbody>
<tr>
<td>Submission letter from Portfolio Ministers due with the Minister of Finance</td>
<td><strong>5pm, Friday 10 December</strong></td>
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<tr>
<td>Invited initiative submissions due in CFISnet</td>
<td><strong>5pm, Friday 10 December</strong></td>
</tr>
<tr>
<td>Treasury assessment of Initiatives</td>
<td>December 2021 – January 2022</td>
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<tr>
<td>Budget 2022 decision-making by Budget Ministers</td>
<td>February 2022 – March 2022</td>
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<tr>
<td>Cabinet considers the Budget 2021 package</td>
<td>April 2022 (TBC)</td>
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Annexes

Annex One: Cover letter for the Budget Bids for the Energy and Resources Portfolio

Annex Two: Final drafts of the Energy and Resources Portfolio bids for Budget 2021

Annex Three: Strategy for Budget 2022
Constitutional conventions
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Annex Three: Strategy for Budget 2022

3. The Minister of Finance, in his letter addressed to you on 31 August, indicated that Budget 2022 provides a key opportunity to ensure that we continue to make progress against our Government’s goals for this term, with a particular focus at Budget 2022 on addressing future issues such as climate change.

4. Similar to Budget 2021 these goals are:
   - keeping New Zealanders safe from COVID-19
   - accelerating the recovery and rebuild from the impacts of COVID-19, and
   - laying the foundations for the future, including addressing key issues such as climate change, housing affordability and child poverty.

5. The proposed design of Budget 2022 is broken down into three streams:
   - **Core Budget process**: manifesto commitments and cost pressures.
   - **Addressing long-term challenges through multi-year funding**: Climate Emergency Response Fund (CERF) and Health reforms.
   - **Public Finance System Modernisation**: Natural Resources and Justice cluster pilots.

6. Two of the initiatives we propose you submit are part of the **core Budget process** as they are cost pressure bids, and six are part of **Addressing long-term challenges through multi-year funding** as they are candidates for the CERF.

7. Cabinet has agreed that the focus of the CERF will be emissions reduction, with the following criteria for eligibility:
   - the initiative is included in the Emissions Reduction Plan
   - the initiative will directly reduce emissions
   - the initiative’s primary objective is to support, remove barriers to, or accelerate emissions reductions
   - the initiative will support an ao Māori approach to climate response
   - the initiative will facilitate the development of such proposals in the future (such as feasibility studies or business cases for such initiatives; or
   - the initiative addresses the distributional impacts of emissions reduction policy.