MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
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Options for expanding the purpose of an existing energy levy

Summary of submissions report - July 2016

New Zealand Government

Introduction

Energy sector priorities are changing. While electricity efficiency is still important, the transport and industrial sectors are areas where the most impact can be made on improving New Zealand's energy productivity and reducing carbon emissions.

The Energy Efficiency and Conservation Authority (EECA) is the government agency that is responsible for encouraging, promoting and supporting energy efficiency, energy conservation, and the use of renewable sources of energy. However, currently half EECA's funding comes from a levy on electricity participants and can only be used for activities related to electricity efficiency. To address this problem, we consulted on options for expanding the purpose of one or more of the existing levies on electricity, transport fuels and gas, to broaden the levy funding from an 'electricity' levy into a broader 'energy' levy.

The proposed change will provide more flexibility in the allocation of funding so that EECA's activities can focus on areas that will have the greatest impact. A current example of this is the newly-created low emission vehicles (LEVs) contestable fund that EECA has been tasked with delivering. However, the change will allow other technologies or sectors to be focused on in the future.

MBIE thanks all the consultation respondents who took the time to provide their views on these proposals.

Consultation process

On 17 May 2016, MBIE released the consultation document *"Options for expanding the purpose of an existing energy levy."* The submission period closed on 7 June 2016. The discussion document was put on MBIE's website. MBIE also emailed all key stakeholders to inform them that the consultation process had started and how they could get more information and make a submission.

The discussion document proposed eight options including the status quo. The specific options were:

- **Status quo** - EECA levy funding from electricity levy for electricity-efficiency activities.
- **Option 1:** Electricity levy with expanded purpose (to enable levy money to be spent on ***energy*** efficiency and to support to uptake of renewable energy).
- **Option 1A**: Electricity levy – expanded purpose – revised to a rate per customer (e.g. ICP).
- **Options 1B:** Electricity levy – expanded purpose – revised to a rate on electricity generated.
- **Option 2:** Existing electricity levy + Petroleum and Engine Fuels Monitoring Levy (PEFML) with expanded purpose.

- **Option 2A:** Existing electricity levy + PEFML with expanded purpose but excluding biofuels from the levy.
- **Option 3:** Existing electricity levy + PEFML with expanded purpose + gas levy with expanded purpose.
- **Option 3A:** Existing electricity levy with expanded purpose + PEFML with expanded purpose + gas levy with expanded purpose – set allocations: 30:50:20.

Design principles and criteria for assessing options

The discussion document considered the options against the objective of providing more funding flexibility, and against the following four criteria:

a. Causer or beneficiary pays

Those who generate the need for, or potentially benefit from, the activities should be contributing towards the costs of the activity. This criterion is about identifying the appropriate group of levy payers.

The ‘causers’ in this context are users of energy where efficiency gains can be made and/or that energy is non-renewable. ‘Beneficiaries’ will be those who benefit from the outcomes of the activities. These outcomes will benefit all New Zealanders, but there are more group-specific benefits applicable to certain options, such as where there may be a commercial benefit for a particular group. These are discussed for applicable options in the Assessment section below.

b. Rationality

There should be a strong or close relationship between the group of levy payers and the service or activity being provided. Sometimes it is necessary to identify a subgroup of levy payers to link the funded activities and the causers or beneficiaries more closely. This criterion is about logically linking the types of activities funded to the group or subgroup of levy payers.

This criterion is different from the causer or beneficiary pays criteria because it relates to the specific activity being funded. For example, while transport fuel users broadly cause the need for programmes that encourage the uptake of renewable fuels, a specific programme to promote switching from gas to biofuels is not directly linked to the use of transport fuel.

c. Administrative simplicity, transparency

The levy structure should not create undue transaction costs. The purpose should be transparent, easily understood and clear to the levy payers. This criterion is about ensuring accountability and avoiding undue costs.

d. Equity

Levy payers in similar situations should be treated similarly. The allocation of costs within the group of levy payers should be fair. This criterion is about how the costs are allocated within the group of levy payers.

What we asked from submitters

A reply form was supplied which posed the following questions:

Question 1: What are your views on the objective of this proposal? Do you agree or disagree with it? Why?

Question 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?

Question 3: Which option do you think provides the best balance?

Question 4: What is your preferred option?

Question 5: Why do you consider this the best option?

Question 6: Of the options you do not prefer, what issues or reasons do you think are most important for us to consider?

Question 7: Are there other options for providing transparency in the use of levy money (besides requiring annual consultation and reporting)?

Submissions breakdown

MBIE received **26** submissions on the consultation document. The breakdown of submitters was as follows[1]:

- 12 business representative organisations/NGOs (Major Electricity Users' Group (MEUG), Sustainable Business Network, Bioenergy Association, the Electricity Engineers' Association (EEA), BusinessNZ, Business Central, The New Zealand Geothermal Association, Electricity Retailers Association of NZ (ERANZ), Major Gas Users Group (MGUG), Energy Management Association of NZ (EMANZ), Electricity Networks Association (ENA), NZ Automobile Association (AA);
- One energy distributor company (Vector);
- Three gas wholesaler/retailers (Nova, Genesis Energy, Trustpower);
- Four electricity generator/retailers (Nova, Mighty River Power, Genesis Energy, Trustpower);
- One Petroleum retailer (BP);
- Two large electricity end users (Winstone Pulp International (WPI), Pacific Aluminium (NZAS);

[1] Where an organisation is commonly known by its acronym, these are used throughout the document. A list of submitters with their full name is at the end of this document.

- Three companies from other related sectors (a waste disposal company –EnviroNZ, an electric vehicle charging station construction company – ChargeNet NZ, a renewable energy technology company – Greenlane Technologies); and
- Three Individuals (Ian McChesney, Molly Melhuish, Robert Tromop).

Summary of submissions analysis

Overall feedback from submissions indicates that stakeholders strongly support the proposal to increase the flexibility of EECA's funding, so the organisation can focus on activities in sectors where the most gain can be made in terms of energy efficiency, energy conservation and the use of renewable sources of energy. A total of **20** of the **26** submitters agreed with the proposal to expand one or more existing energy levy.

This broad support stemmed from agreement that many of the opportunities for energy efficiency gains, reduction of emissions, and uptake of renewables, will occur from outside the electricity sector. It then made sense to submitters that EECA, as the agency already tasked with encouraging, supporting, and promoting this broad energy work, should have more flexibility in the allocation of its levy-recovered funding so that activities can focus on areas that will have the greatest impact.

There was strong support for the options that spread the cost of activities across the fuels that represent the most significant share of consumer demand in the energy sector (electricity, transport fuels and gas), that is options 3, or 3A.

The specific breakdown of preferred options from least preferred to most was:

- **No** submitters preferred the **status quo, option 1** (electricity levy with expanded purpose), or **option 1B** (electricity levy with expanded purpose, and revised to a rate on electricity generated).
- **One** submitter preferred **option 2A** (existing electricity levy + PEFML with expanded purpose but excluding biofuels from the levy).
- **Two** submitters preferred **option 1A** (electricity levy with expanded purpose, and revised to a rate per customer (e.g. Installation Control Point).
- **Two** submitters preferred **option 2** (existing electricity levy + PEFML with expanded purpose).
- **Eight** submitters preferred **option 3A** (existing electricity levy with expanded purpose + PEFML with expanded purpose + gas levy with expanded purpose – set allocations: 30:50:20).
- **Nine** submitters preferred **option 3** (existing electricity levy + PEFML with expanded purpose + gas levy with expanded purpose).

Themes and issues raised in submissions centred around trade-offs between the criteria

We asked submitters what they thought the appropriate balance between the criteria should be. The themes that came through when submitters discussed their preferred options were largely expressed in terms of issues and trade-offs related to the criteria.

Causer or beneficiary pays

A general theme was the importance of the levy being paid by the causers or beneficiaries of the activities. Some submitters believed this to be a fundamental under-pinning of levy recovered funding. This is the reason that options 3 and 3A were the most strongly supported options.

Rationality

Further to this theme, most submitters thought that there fundamentally needed to be a logical link between the activities being funded and the specific group of levy payers. The main reason given was that rationality, or linking activities logically to a sector or fuel, ensures fairness. For example, "It would be unfair to make electricity consumers pay for projects that impact on the transport or industrial heat processing sectors." (Mighty River Power).

Administrative simplicity and/or transparency

However, some submitters recognised the complexity of logically linking a programme to one funding source where there is more than one causer or beneficiary. An example given was funding the LEV package where some submitters considered both the electricity sector (beneficiary) and transport sector (causer) should contribute. These submitters generally considered that prioritising the transparency criteria over the causer or beneficiary pays or rationality criteria was pragmatic.

Transparency was considered important because it was seen as a way to help ensure accountability and a fairer and acceptable spread of levy sources and allocation of funds. In this way it was believed that transparency would increase rationality.

The choice between Option 3 and 3A represents a trade-off between rationality/ transparency, and flexibility/administrative simplicity

Options 3 and 3A both strongly meet the causer and beneficiary pays principle by levying electricity, transport fuels and gas. The fairly even split in preferred option between options 3 and 3A represents the key trade-off between rationality/transparency on the one hand, and flexibility/administrative simplicity on the other.

Option 3 (which proposes using the existing electricity levy (unexpanded), the Petroleum and Engine Fuels Monitoring Levy (PEFML) with expanded purpose, and the gas levy with expanded purpose) is designed to give more emphasis to meeting the rationality and transparency criteria and consequently trading-off some flexibility and administrative simplicity.

Rationality is ensured under this option because the electricity levy would continue to only fund electricity-efficiency activities, the PEFML would only be used to recover activities related to transport fuels, and only gas-related activities would be recovered from the gas levy.

Justification would need to be made for allocating costs to a particular group of levy payers. Where this cannot be done, funding for activities will continue to be allocated from EECA's Crown funding.

Under this option the levy rate could be adjusted annually in a process similar to how the EECA allocation of the electricity levy is currently set. EECA would consult annually with all levy payers on its proposed work programme, and report that consultation to the Minister before decisions are made. The discussion document suggested any unspent levy would be refunded.

The trade-off with this option is that it does inhibit some of the flexibility possible from expanding the purpose of the levies by requiring strict linking of activities to the specific funding source. Further, having to justify and link each specific activity in the work programme back to one of the three levies, then wash up the actual spend, adjust the levy rate, and refund any unspent money annually, will increase the administrative complexity for EECA.

Submitters for whom rationality was a more important criteria argued this trade-off was worthwhile because by ensuring each sub-groups' levy will not be spent on activities for other sub-groups, it will set up a framework that will be more largely supported by the energy sector.

Option 3A (which proposes using the existing electricity levy with expanded purpose, the PEFML with expanded purpose, and the gas levy with expanded purpose, with a set allocation from each to form a common pool) would replace the design feature whereby the allocation from each levy is based on a work programme of activities that must be linked back to a particular set of levy payers/funding source.

This design increases flexibility because EECA could spend any of its levy money on any activity. This allows EECA to undertake activities with levy money that may not fit into specific fuel classes. However, in doing so the logical/rational link could be weakened, for example, it may be the case that gas or electricity levy money could be spent on a transport initiative.

Some submitters considered the more general objective of overall causers and beneficiaries was sufficient linking, particularly given the complexity of truly ensuring rationality. And, as discussed above, if transparency was retained via EECA's current consultation and reporting mechanisms, then fairness could be ensured. However, submitters who considered rationality the most important criteria were opposed to this trade-off.

Six submitters disagreed with the proposal

Where there was disagreement from stakeholders on the proposal, this was generally on the basis that they thought that the beneficiaries of the funded activities might be a broad enough group to warrant that EECA's programmes be funded from general taxation.

Several of these submitters also held the position that, as major electricity users, and therefore paying large amounts of the levy, they do not receive equivalent individual benefit back from their contribution to the levy.

Alignment with the new New Zealand Energy Efficiency and Conservation Strategy (NZEECS)

Some submitters, for whom linking of each programme back to a specific levy source, was considered the most important criteria, commented that it was difficult to clearly assess how strongly this principle is met for each levy option, in the absence of a clear work plan by EECA for specific energy efficiency and renewable activities post-2016. (The new NZEECS and associated work programmes would provide this work plan).

Summary of response from submitters to each question[2]

<table>
<tr><th>Questions</th><th>Summary of responses from submitters</th></tr>
<tr><td>Question 1:
What are your views on the objective of this proposal? Do you agree or disagree with it? Why?</td><td><u>Agreed with/supported the proposal</u>:
20 submitters said they agreed with/supported the objective of the proposal. These submitters were Nova Energy, The Sustainable Business Network, Ian McChesney, Bioenergy Association, the EEA, EnviroNZ, ChargeNet, Trustpower, Greenlane Technologies, the New Zealand Geothermal Association, Mighty River Power, ERANZ, Molly Melhuish, BP, Genesis Energy, Robert Tromop, EMANZ, ENA, Vector and the AA.

Most submitters who agreed with the proposal did so because they agree many of the opportunities for energy efficiency gains, reduction of emissions, and uptake of renewables, will occur from outside the electricity sector. Therefore, EECA should have more flexibility in the allocation of funding so that activities can focus on areas that will have the greatest impact. On this basis many agreed consumers of other fuels should share the costs of efficiency initiatives or activities to increase the uptake of renewables outside the electricity sector, particularly given that our electricity is predominantly generated from using renewable resources. However, the following comments, qualifications or suggestions were also made:
EECA need to clearly demonstrate how its initiatives will provide a net benefit to New Zealanders’ wellbeing over the long term (Nova Energy).
If the proposal is tied to the maximum funding available from the current levy ($17.5M) this potentially restricts future opportunities and strategic imperatives (Ian McChesney).
It is unfortunate the New Zealand Energy Efficiency and Conservation Strategy update did not accompany the consultation paper. Clearer long-term objectives and energy efficiency targets would have helped to better scope the relevance of each levy option in the light of EECA’s priority goals. Electric vehicles and industrial heat for instance are quite different work areas with different causers and beneficiaries to consider (the EEA). The EEA strongly encouraged MBIE to carry out further consultation once the new NZEECS is published, before making any final decision on the proposed options.
While supporting the proposal, Trustpower are not in favour of increases in costs to their</td></tr>
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[2] Comments in the ‘summary of comments’ sections have been edited for brevity so may not be exactly as written in submissions. Where verbatim quotes have been used these are indicated by quotation marks. Please refer to the full submissions published on our website for entire submissions.

Questions	Summary of responses from submitters
	consumers. • Promoting electricity efficiency does not have to be constrained by seeking a reduction in the use of energy (Genesis Energy supported ERANZ's submission on this issue). • Disagree that establishing a levy for coal would be administratively difficult as there are only a small number of coal suppliers. This would also send a strong signal to coal producers and users that their costs should reflect the environmental externalities (Bioenergy Association). • Some submitters focused on the outcome of reducing emissions (EMANZ). • The comparison when considering efficiency in transport should include petroleum products versus electricity (ChargeNet NZ). • One submitter did not agree with the proposal because they did not think the objective goes far enough to address our response for halting climate change (Greenlane Technologies). **<u>Disagreed or raised concerns with the proposal</u>:** 6 submitters including MEUG, WPI, BusinessNZ, Business central, MGUG and NZAS disagreed or raised concerns with the objective of the proposal. There were three main themes in the views and reasons they gave. 1. ***Do not believe EECA's programmes are bringing gains.*** Some submitters said there was no evidence presented in the consultation paper to demonstrate that the status quo or the proposal will bring net national benefit from EECA worked funded by the existing levy, to consumers (including all New Zealanders and large electricity users) (MEUG, NZAS). WPI (supporting MEUG submission) said it pays approximately $80,000 pa in electricity levies that are used to support EECA's work. While they have focused on managing this cost through a long term in house energy efficiency programme, they said they have not been able to access help from EECA that reasonably meets their needs. Similarly, NZAS submitted that it currently does not derive a net benefit from the levy expenditure. 2. ***There is no information on what expanded levies will actually be spent on.*** Some submitters said they required more specific information about what the levy would be spent on in order to determine who will benefit and who are the causers. They suggested that the specific nature of the work, and whether other means to achieve desired outcomes have been considered, would determine whether any existing or expanded levies are appropriate (BusinessNZ , Business Central

Questions	Summary of responses from submitters
	(supporting BusinessNZ's submission) NZAS, MGUG and MEUG). • BusinessNZ (supported by Business Central) supports EECA being strategically aligned with the direction of government policy and being suitably funded. However, it said the discussion document does not explain EECA's strategic focus, how it currently funds what it does, how it will fund new activities, and what are the most appropriate 'other' mechanisms. • Further to this MEUG suggests, 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. • NZAS noted that there are already incentives for businesses to improve their energy efficiency to reduce their exposure to the high cost of electricity in New Zealand and more broadly because of the carbon price via the Emissions Trading Scheme. 3. ***Is levy funding appropriate?*** Some submitters thought that beneficiaries and causers could not be clearly identified, or that the breadth of beneficiaries (e.g. all New Zealanders) was such that they are perhaps a 'public good', and if so general taxation should be used to fund those activities (MEUG, BusinessNZ, NZAS). MGUG also asked the rationale for levy funding vs general taxation. • MEUG suggested a clearer argument needs to be made for industry levy vs general taxation to fund EECA outcomes in order to meet transparency criterion. They suggested 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 investing, means that further marginal benefits no longer accrue to the investor. Hence further energy efficiency improvements accrue to external parties who should then pay. ***Other comments/questions by those concerned about the objective of the proposal:*** • A few submitters thought, or asked if, the proposal would increase funding. MGUG for example asked 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? And 2. If funds are no longer required for the existing purpose then why are levies not being reduced, or removed? • BusinessNZ (supported by Business Central) submitted it supports the status quo until such time as specific information has been provided (e.g. what the increase in levy funding will be used for) to adequately justify a change such.

Questions	Summary of responses from submitters
	• BusinessNZ (supported by Business Central) also suggested there are risks using a levy for non-contestable activities (provided only by Government). They questioned whether the service could be cheaper if provision of service made contestable? No competitors means the Government department may provide a poor service or a 'gold-plated' service. • BusinessNZ was also concerned and expanded levy will be an added burden. They suggest increased costs will come at the same time as the removal of the partial Emissions Trading Scheme obligation (which will result in increasing the price of carbon). The organisation suggested Government needs to first identify why funding in addition to increased market price of carbon is required to deliver the outcomes that would otherwise be delivered by EECA (residual market failure?) • MGUG had 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. They note that the Business Growth Agenda (Natural Resources) should 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. • One submitter (WPI) supported MEUG's submission, which did not agree with the proposal, however, in order to address the problems they saw with the status quo (for example that EECA have not been able to offer assistance to suit large electricity users such as themselves, and that there are unproductive costs associated with the EECA programmes) they supported option 1A (charging the levy on a flat rate per ICP).
Question 2: What do you think is the appropriate balance between 'administrative simplicity/ transparency' and the 'causer or beneficiary pays' and 'rationality'	**<u>All criteria are important:</u>** Most submitters acknowledged the importance of all/most of the criteria, for example: • The AA considers the principle of 'causer or beneficiary pays' should be applied in a manner that is administratively simple and there should be a rational link between where the levy is raised and applied. • To ensure that the objectives of the proposal are met at the lowest possible cost, BP believes that equal weight should be shown to 'administrative simplicity/transparency', 'causer or beneficiary pays' and 'rationality' criteria. **<u>Causer or beneficiary pays:</u>** While also acknowledging the importance of all the criteria, some submitters (including ChargeNet, the Sustainable Business Network and the EEA) thought that the **'causer or beneficiary pays'** should be weighted more heavily than the 'administrative simplicity/transparency' criteria. The reasons given for this included: • Weakness in the transparency criteria can be mitigated with improved processes whereas causer and beneficiary pays criteria

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<tr><td>criteria? Should more weight be given to one over the others?</td><td>are fundamental to the idea of levy-based funding and cannot be reconsidered once excluded (ChargeNet, Ian McChesney).
With regards to the goals of EECA and the BGA, causer and beneficiary pays appear to be currently unrepresented in funding streams. A rectification therefore may be needed to focus on these criteria to align it with its current high standards of administrative simplicity. If the criteria for is that it is easily understood and clear to the levy payers (ChargeNet).
<u>Administrative simplicity and/or Transparency:</u>
Some submitters (including the EMA, Nova, Trustpower, the EEA), thought that ‘administrative simplicity and/or transparency were most important. Reasons given for rating these criteria above causer or beneficiary pays included that is difficult to allocate a programme to one funding source where there is more than one causer/beneficiary. EMANZ gave the example of funding a shift to electric vehicles, where they consider both the electricity sector (beneficiary) and transport sector (causer) should contribute. And they considered this was okay as long as the public process of fund allocation is transparent. Nova also noted the complexity in determining a ‘causer’ The example they provided is where a levy on motor fuel is used to assist in promoting the benefits of electric vehicles; suggesting a private motorist may not be a direct beneficiary of that promotion, but they will subsequently benefit from greater choice, market competition, and improved electric vehicle infrastructure when they come to replace their own vehicle).

Other submitters rated transparency as the most important criteria (above administrative simplicity) because it helped ensure accountability and a fairer and acceptable spread of levy sources and allocation of funds (EEA). Further to this, other submitters thought that EECA’s current consultation and reporting requirements and the refund mechanism should be extended to the PEFML and gas levies (Genesis Energy, Mighty River Power).

<u>Rationality:</u>
However, most submitters thought that there fundamentally needed to be a logical link between the activities and the levy payers (ENA, ERANZ, Molly Melhuish, Trustpower). The main reason given was that rationality, or linking activities logically to a sector ensures fairness. For example “It would be unfair to make electricity consumers pay for projects that impact on the transport or industrial heat processing sectors” (Mighty River Power). And “If the rationale is not clearly established then the justification for collecting that money from the sector cannot be established or measured” (ERANZ). Other comments made included:
It is important to achieving transparency (Trustpower).
It will be supported by the public who resent any of their levy going to a different group of beneficiaries. Causer and beneficiary are widely used in discussions of electricity pricing and carry connotations, which may not carry over to EECA</td></tr>
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Questions	Summary of responses from submitters
	work. Transparency is important but difficult to implement (Molly Melhuish). • Rationality is a relevant factor but, in the absence of a clear work plan made publicly available by EECA for specific energy efficiency and renewables activities post-2016, it is difficult to clearly assess how strongly this principle is met for each levy option (EEA). Similarly to a central theme from submitters regarding the causer and beneficiary pay criteria, one submitter noted that developing strong rationality in the intent, allocation, utilization and performance of any funds can be a challenge. He suggested MBIE should ensure an obvious rationality and accountability involving a robust annual consultation process with all classes of energy consumers before the use of any funds (Robert Tromop). He suggested a strong rationality would target: • Effective market transformation outcomes with clear outcomes to consumers, rather than government programme outputs. • Relevance to New Zealand's need for productivity improvements and increased value creation in different sectors. • Stimulating private sector supply chains and their provision of energy efficiency products and services. • Best application of levy funds; the levy might be allocated to private sector entities for energy efficiency market development and shouldn't be assumed to be allocated to EECA only. • Develop consumer belief in value of energy efficiency as part of developing consumer commitment and uptake. • Synergies between energy efficiency, renewables and conventional options. **Equity:** Equity was commented on least and did not appear to be considered *more* important than other criteria. For example: "We also support the equity principle in the sense that the allocation of costs should be fair, transparent and affect similar groups in similar ways" (EEA). Another comment included: "Equity could equally be proposed as meeting customer 'ability to pay' criteria. The notion of 'equity' as used in the consultation paper needs to be rethought" (Ian McChesney).

Questions	Summary of responses from submitters
Question 3: Which option do you think provides the best balance?	**No** submitters suggested the **status quo, option 1, 1A, or 1B** provides the best balance. **1** submitter (BP) thought **option 2** provides the best balance. **1** submitter (ENA) thought **option 2A** provides the best balance. The reason suggested was that it enables the objective of the proposal whilst preserving the rationality principle. **7** submitters thought **option 3** provides the best balance. Those submitters were Trustpower, Greenlane Technologies, New Zealand Geothermal Association, Mighty River Power, ERANZ, Molly Melhuish and the AA. Comments included: • This option covers the major energy fuels, which is the most important criteria. If it includes the existing consultation, reporting and refund mechanisms built into the electricity-efficiency levy requirements, it will be a ‘rational’ and transparent

Questions	Summary of responses from submitters
	allocation of funds (New Zealand Geothermal Association). • The funding allocation should be determined by the degree proposals meet Government's stated objectives to raise productivity, reduce carbon emissions, promote consumer choice, and develop renewable energy resources and support new technologies (Molly Melhuish). **7** submitters thought **option 3A** provides the best balance. Those submitters were Nova, the Sustainable Business Network, the Bioenergy Association, ChargeNet, Genesis Energy, Robert Tromop, and the Energy Management Association of New Zealand. Comments included: • Issues of transparency in terms of how funds are used can be overcome by ensuring there is a rigorous process for evaluating the net benefits of projects. It is not sufficient to rely on the EECA Board to do that as its responsibilities are to the organisation rather the consumer (Nova).
Question 4: What is your preferred option? **Question 5:** Why do you consider this the best option?	**Status Quo - Electricity levy for electricity-efficiency activities only.** **No** submitters said the **status quo** was their preferred option.
	Option 1- Electricity levy with expanded purpose. **No** submitters said **option 1** was their preferred option. While not preferring option 1, BP agreed that electricity consumers would benefit from measures that encourage switching to renewables-based fuel and for electricity retailers if any activities to encourage the use of renewable energy increase the total use of electricity (e.g. the accelerated and widespread uptake of electric vehicles).
	Option 1A - Electricity levy – expanded purpose – revised to a rate per customer (e.g. ICP).

Questions	Summary of responses from submitters
	2 submitters said **option 1A** was their preferred option (WPI and NZAS). NZAS did not agree to the overall proposal, however commented that "To the extent the electricity levy continues to be collected NZAS would support a change in the way it is charged from a per megawatt-hour (MWh) consumption basis to a per customer amount per Installed Control Point (ICP) under Option 1A. NZAS does not support the expansion of the purpose of the electricity levy also outlined in that option".
	Option 1B: Electricity levy – expanded purpose – revised to a rate on electricity generated. **No** submitters said **option 1B** was their preferred option.
	Option 2: Existing electricity levy + PEFML with expanded purpose. **2** submitters said **option 2** was their preferred option (BP and Vector). The reasons given for why this was considered the best option included: • While option 1 is the most administratively simple, in order to meet the objective of the proposal, option 2 is the most balanced. As ethanol and biofuels are almost always used in combination with hydrocarbon fuels, BP believes that option two effectively balances 'causer pays' and 'rationality' criteria whilst delivering a level of administrative simplicity and transparency (BP). • Vector submitted that they believe it would be appropriate for the LEV contestable fund to be delivered from the petroleum and engine fuels monitoring levy (PEFML) under option 2. They agree with the approach that the PEFML would have an expanded purpose, but the electricity levy could remain for electricity activities only because it ensures that transport sector users are funding energy efficiency improvements in their sector and have the right forward looking incentive to modify their transport use. • While not their most preferred option, the EEA noted they thought that option 2 (and 2A) are other acceptable options because they meet the causer and beneficiary pays criteria. Whilst gas participants are not covered by these options the EEA note funding of EECA's gas-related activities would remain out of the scope of the electricity levy and would not incur any cost increase or irrationality in the way the electricity levy is used.
	Option 2A: Existing electricity levy + PEFML with expanded purpose but excluding biofuels from the levy. **1** submitter said **option 2A** was their preferred option (ENA). The reasons given were because they believe it best meets the

Questions	Summary of responses from submitters
	objectives of the proposal whilst protecting the interests of electricity customers. Another submitter commented that there is not an adequate case for excluding biofuels, particularly given that renewable electricity generation is included, and the fully costed benefits of biofuels appear to be marginal in any case (Nova). However, another submitter said that new technology now allows for the production of liquid fuels from non-traditional sources such as waste to fuel (petrol, diesel jet fuel) and upgrading of landfill gas to CNG or liquid fuel. These are multi-million dollar technology investments with significant benefits to the country in offsetting our reliance on traditional fossil fuel imports. As a result they should be exempt from any levy in order to assist and encourage investment (EnviroNZ). And another submitter (AA) said; “We are neutral on Option 2A; there is logic in exempting biofuels because they are renewable, but it needs to be ‘administratively simple’. In any event, the size of the levy would be small with a negligible on the retail prices, which would not have an impact on consumers that would justify exempting biofuels unless it was easy to administer”.
	Option 3: Existing electricity levy + PEFML with expanded purpose + gas levy with expanded purpose. **9** submitters said **option 3** was their preferred option. Those submitters were the EEA, Trustpower, Greenlane Technologies, New Zealand Geothermal Association, Mighty River Power, ERANZ, Molly Melhuish, and the NZAA and Ian McChesney (although the latter two preferred all levies to have an expanded purpose). The main reasons for preferring this option were that it meets the causer and beneficiary pays principle most strongly, enables a more flexible, yet transparent, use of levy expenditures and spreads the cost in a fair and rational manner. Other comments given included: • Organising annual consultations with wider levy sources and providing a refund mechanism will increase the complexity of the process and restrict to some extent the flexibility EECA is looking for. However, the Government will gain from setting up a framework that appropriately balances flexibility and transparency, as it will be more largely supported by the energy sectors than other options where they will have little say (EEA). • Rationality can only be achieved upon implementation of the new NZEECS and associated work programmes (Trustpower). • Projects that are not directly attributable to one of the levies under option 3 can still be carried out using Crown funding (Trustpower). • The option could potentially consider geothermal heat use as a substitute for gas, diesel, or electrical heat sources. It could potentially cover the support of a geothermal data collection program in collaboration with the International Energy

Questions	Summary of responses from submitters
	Association and the International Geothermal Association (New Zealand Geothermal Association). Two submitters supported this option but suggested the electricity levy should also have an expanded purpose (like option 1). The reasons given were: • Initiatives to promote the uptake of electric vehicles should be funded from the electricity levy, as this is the energy source that will 'benefit' from such activity. Electricity generators, wholesalers and retailers are supportive of electric vehicles and will benefit commercially from their growth and so should contribute. The liquid fuel sector would 'benefit' from increasing the uptake of biofuels, so should pay (via the PEFML). Initiatives to increase (mineral) fuel efficiency could also be funded under the PEFML (under the 'causer pays' principle). While promoting the uptake of electric vehicles would also achieve this, we would argue that as there is a clear beneficiary, the activity should be funded from the 'source' (electricity). But other mineral fuel efficiency initiatives (like EECAs fuel efficient driving programs) would be funded via the PEFML as there is no other clear energy source beneficiary (but only a causer) (AA). • Expanding the electricity purpose to include the use of renewable sources of energy could enable some electricity substitution projects to be considered. A potential example of the use of an expanded electricity levy might be energy efficiency and/or switching associated with alleviating 'energy poverty' in households. There are concerns that this form of funding entails higher regressive effects compared with funding from the general tax pool, and 'takeback' effects. However, there may be some specific situations and technologies, such as replacing electric resistance heating with efficient and well-chosen heat pumps, and substituting electric resistance heating with clean, efficient wood burning, that offer both worthwhile and sustained electricity savings and provide long-lasting energy poverty alleviation benefits (Ian McChesney).
	Option 3A: Existing electricity levy with expanded purpose + PEFML with expanded purpose + gas levy with expanded purpose – set allocations: 30:50:20. **8** submitters said **option 3A** was their preferred option (Nova, Sustainable Business Network, Bioenergy Association, EnviroNZ, Genesis Energy, Robert Tromop, and EMANZ). The main reasons given for preferring this option were that it meets the objective most strongly, that is, it provides the most flexibility, and it is also strongly meets the 'causer pays' and 'beneficiary pays' principles, because it recovers costs from the vast majority of the energy users, and it is fair and equitable. The reasons given for why this was considered the best option included:

Questions	Summary of responses from submitters
	• It allows coverage of activities that are difficult to prescribe or fit into a specific fuel class (Bioenergy Association). • It is capable of opening up a better exploration of how energy efficiency, renewable energy and other sustainable options can synergise to deliver greater benefits across a wide range of sectors. It recognises that some of the greatest opportunities for improved productivity lie in non-stationary applications of energy (eg Transport). The proposed proportions are a good start and can be reviewed over time (Robert Tromop). • Transportation fuels account for a major proportion of New Zealand's energy usage and CO2-e emissions…we need to addresses the challenge of those emissions, and the transport sector should carry a significant component of the overall costs (Nova). • Direct use of natural gas for water and space heating is a highly efficient use of energy and should be supported in preference to requiring increased capacity in peak period generation and electricity transmission and distribution. It is appropriate that a gas levy be part of the mix and its efficient use be promoted by EECA (Nova). • There are significant efficiency gains to be made in the gas sector for example through gas real time metering (EMANZ).
Question 6: Of the options you do not prefer, what issues or reasons do you think are most important for us to consider?	**Status quo:** Many submitters (including the EEA, ChargeNet, the EMANZ and NZAS) listed the **status quo** as an option they did not prefer. The main reason given is that it does not meet the objective to provide more flexibility. Another comment was: • NZAS does not support the status quo because it is confident that its electricity efficiency practice is world class and that the electricity efficiency component of the electricity levy adds a considerable net cost to NZAS. **Option 1:** **9** submitters (including Nova, Trustpower, ChargeNet, Mighty River Power, ERANZ, Genesis Energy, Robert Tromop, ENA and the AA) listed **option 1** as an option they did not prefer. The main reasons given were that while being administratively simple, it only captures a subset of the 'causers' and would result in inequitable allocation of costs to electricity sector participants. Other comments included: • It is not appropriate to apply the full burden of the levy on the electricity sector (Option 1) as it is largely generated from renewable sources. Improvements in efficient usage of electricity are largely driven by new technologies which are promoted by the market in any case (ERANZ, Nova). • Option 1 loads an additional cost on to New Zealand's largest energy intensive industries which are competing in international markets and are already incentivised to invest their own resources in energy efficiency. Increasing the costs of those industries would exceed any benefit received and cause a further distortion on future investment decisions (Nova).

Questions	Summary of responses from submitters
	• In competitive regional electricity markets, some retailers may absorb the pass-through element of the levy in their pricing, which could limit the levy's use as a signal to consumers. The expansion of the levy's use would thereby result in inequitable allocation of costs to electricity sector participants. This would underestimate the marginal costs of energy efficiency initiatives in the transport and industrial sectors unless accurately measured, and does not satisfy causer pays (Trustpower). • Under option 1, 1A or 1B any inequity is likely to increase over time as EECA undertakes more projects in these sectors and less electricity efficiency projects. Likewise the rationale linking the project back to the beneficiary is likely to get weaker and without any clear link to the beneficiary we are less likely to encourage behavioural changes (Mighty River Power). • Electricity consumers are no more representative of all "energy users" than say petrol or diesel consumers and as such should not (to the extent possible) fund activities that will benefit other, quite possibly distinct, groups of customers (ENA). • Should the electricity levy be expanded this should still be ring-fenced in some manner to only fund those programmes that impact upon electricity use (i.e. the Government's package of measures to encourage uptake of electric vehicles) (ENA). **<u>Option 1A:</u>** **6** submitters (Nova, EEA, Trustpower, Mighty River Power, ENA and the AA) listed **option 1A** as an option they did not prefer. Most of the reasons were similar to option 1 in that it doesn't target the causers, however other specific comments about this option included: • Option 1A adds a fixed cost to all electricity consumers, roughly half of whom already opt for a low-user charge in order to reduce their fixed costs each month. It also captures a wide range of consumption points such as shearing sheds, pump houses, toilet facilities, community halls, etc. that have little relevance to the application of the funds. In respect of the existing levy on electricity, Nova Energy believes that on balance, a levy tilted towards an ICP basis would better reflect the beneficiaries of EECA's work than a kWh charge (Nova). • The consultation paper suggests cost per ICP will improve equity to make up for the low rationality criteria behind the expansion of the electricity levy purpose. The argument does not hold very strongly in such situations where EECA would keep funding electricity efficiency related projects through this levy, which we anticipate it will. In general, the sourcing for such expenditure sits more fairly on an energy consumption base than a consumer base. The existing structure of a consumption based levy should be retained to ensure the burden of funding is not significantly shifted from industrial and commercial to residential electricity customers (EEA). **<u>Option 1B</u>**: **6** submitters (including Nova, EnviroNZ Limited, Trustpower, Mighty River Power, ENA, and the AA listed **option 1B** as an option they did not prefer. In addition to poorly targeting the potential causers/ beneficiaries, the reasons or issues they saw with this

Questions	Summary of responses from submitters
	option included: • Option 1B would result in electricity prices rising by the amount of the levy and having the same effect as option 1. Electricity prices are determined by the marginal generator at any point in time. Given that the marginal generator can be expected to factor all of its costs into its offering strategy, a levy on generation would impact on the electricity price paid by all consumers (Nova). • A levy on MW produced by existing renewable or biofuel generators is counter intuitive and counterproductive if the intention is to increase generation from these sources (EnviroNZ). • Small scale distributed generation plants, using renewable or biofuel, are facing increasing financial pressures with reduction in wholesale electricity prices, proposed Electricity Authority reforms that are likely to result in increased connection costs and reduced or the elimination of avoided cost of transmission payments. The likely outcome of these added financial burdens is a reduction in new investment and possible closure of current installations (EnviroNZ). • In the absence of clearer goals and work programme, it is difficult to hold strong arguments in favour or against this option compared to Option 1 or 1A. In addition, we point out that electricity generators are already levied under the Energy (Fuels, Levies and References) Act. They are unlikely to welcome any increase in either the charges or their complexity (EEA). **<u>Option 2:</u>** **2** submitters (including Genesis Energy and the AA) listed **option 2** as an option they did not prefer. The reasons or issues they saw with this option included: • Option 2 only extends the PEFML levy, the electricity levy will still be restricted to electricity efficiencies and the industrial sector is not bearing any of the cost of the energy efficiency policies despite the opportunity for efficiency gains. Addressing emissions is a significant policy driver for the coming years. Increasing all energy efficiency is a key tool. By amending the electricity levy, the PEFML levy and the gas levy, the industrial and transport sectors will be funding the promotion of energy efficiency in the relevant sector and EECA will be better able to direct its funding to energy efficiency policy initiatives in a more holistic way (Genesis Energy). **<u>Option 2A:</u>** **1** submitter (the EEA) listed **option 2A** as an option they did not prefer. The AA said “the size of the levy would be small with a negligible impact on the retail prices, which would not have an impact on consumers that would justify exempting biofuels unless it was easy to administer”.

Questions	Summary of responses from submitters
	<u>Option 3:</u> **No** submitters specifically listed **option 3** as an option they did not prefer. However, one submitter, MGUG offered comments questioning expanding the existing levy on gas. In particular they mentioned the importance of the gas market in New Zealand to the production and export of petroleum liquids as well as providing a transitional pathway to a lower carbon economy, and that 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. They suggested that the success of our oil exports is dependent of ensuring markets to absorb the gas, including in domestic consumption. And that 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. Furthermore, they suggested natural gas could be used as an alternative transport fuel (and this is occurring internationally where methanol and liquefied natural gas are used for trucking and shipping). MGUG said globally gas is regarded as a transitional fuel because it can is seen as providing a pathway to a lower carbon economy. 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. **<u>Option 3A:</u>** **2** submitters (Trustpower, and Greenlane Technologies) listed **option 3A** as an option they did not prefer. The main reasons included the weaker alignment with the 'rationality' principle, and lack of transparency. Trustpower and the EEA were concerned a set allocation from all three levies to form a common pool to fund any of EECA's activities would remove the annual consultation on EECA work programmes funded from these levies. The EEA commented "Simplifying the system by setting allocations compromises the transparency of these allocations and is a concession the EEA does not support". Trustpower also noted it is particularly difficult to consult on a set allocation without the work programmes being consulted on. "MBIE suggests this could be addressed by reporting, but the historical nature of the information gives little indication of how the amounts of these levies will change in future and is thus less supportive of investment decision-making" (Trustpower). **Other general comments about all options:** • Electricity consumers should not have to pay for transport and industrial heat process projects. Under option 1, 1A or 1B any inequity is likely to increase over time as EECA undertakes more projects in these sectors and less electricity efficiency projects. Likewise the rationale linking the project back to the beneficiary is likely to get weaker and without any clear link to the beneficiary we are less likely to encourage behavioural changes (Mighty River Power). • Trustpower: "Given that the objective of the proposal is to provide more flexibility in the allocation of funding, such that activities can focus on areas that will have the greatest impact, e.g. transport, expansion of the Electricity levy under options

Questions	Summary of responses from submitters
	1, 1A, 1B and 3A are least preferred. We ask that MBIE consider transparency and rationality of the funding allocation, as expansion of the electricity levy only isn't reflective of differing energy type intensities in the transport fuel and gas heavy industries, as compared with their electricity use. The expansion of the levy's use would thereby and would underestimate the marginal costs of energy efficiency initiatives in the transport and industrial sectors unless accurately measured." • "The AA's view is that the energy source that causes, or benefits, should pay, and this should include liquid fuel (via the PEFML) and gas (via the gas levy) for activities in relation to those energy sources. Conversely, electricity should not have to fund liquid fuel or gas initiatives; hence the AA does not support Options 1 or 2." • Greenlane Technologies were less concerned about the rationality principle, saying "All energy users should be levied, renewable or non-renewable. This levy is not about incentivising change but simply collecting funds from the sector being serviced by EECA." • Funding of the residential sector, once the majority of EECA funding, has been cut back to the extent that the whole retrofit industry is losing its viability. Yet cold houses are damaging productivity, and consumer choice is now becoming restricted to all-electric options. The issue is whether EECA is restricted to implementing Government's priorities, which at present include promotion of electric vehicles, or whether it is prepared to evaluate its proposed programmes by criteria such as – most important – climate emissions reduction (Molly Melhuish). • Electricity consumers should not have to pay for transport and industrial heat process projects. Under option 1, 1A or 1B any inequity is likely to increase over time as EECA undertakes more projects in these sectors and less electricity efficiency projects. Likewise the rationale linking the project back to the beneficiary is likely to get weaker and without any clear link to the beneficiary we are less likely to encourage behavioural changes (Mighty River Power).
Question 7: Are there other options for providing transparency in the use of levy money (besides	Most submitters expressed the opinion that transparency in how levy money is spent is very important. Several suggested that the reporting and consultation that EECA currently undertake on their proposed work programme regarding how the electricity efficiency levy money should be undertaken similarly for the other levies if they are expanded. This was seen as a good way to ensure transparency and rationality. Some submitters acknowledged that this did increase administrative complexity. One submitter disagreed that annual consultation over use of the levy money should be a 'given' saying "Certainly, consultation and regular reporting is a given, but the implied need to

Questions	Summary of responses from submitters
requiring annual consultation and reporting)?	justify the levy programme every year goes against good planning principles for energy efficiency and renewable energy investment projects. Such projects require longer time frames to ascertain the flow of benefits and determine other effects such as longer-term ‘take back’ or other behaviour change characteristics that are not necessarily obvious within a very short-term timeframe. I suggest that levy programmes be set up on a 2 or 3 year consultation cycle, with annual reporting, and a degree of flexibility to alter programme details within the 2 or 3 years if circumstances require. In that way a sensible planning period for projects can be set up from the start, and sufficient time can be built in to ascertain outcomes” (Ian McChesney). Suggestions for how to improve transparency in the use of levy money included: • It would be appropriate for MBIE to formally survey representative consumer groups to provide feedback on their assessments of EECA’s achievements on an annual basis. It would also be appropriate to contribute to the costs of responding to such surveys given the membership funding of those organisations. This would provide the independent check that EECA’s operations continue to meet the needs of government and the community that it operates in (Nova). • EECA reporting on the projected results and ex-post outcomes of work programmes will provide a wider range of information for business decision making. It would assist not only with the targeting of future work programmes, it would encourage market-driven innovation focused on energy efficiency. • Trustpower: Clarity around the work programmes progressed in the updated NZEECS will better inform levy funding allocations and investment decisions. • Put all applications for levy use through a common cost – benefit analysis including multiple benefits. Better representation from consumers and users on levy allocation processes. Improved analysis of energy efficiency, disaggregating structural, fuel mix and activity changes to better understand the drivers for energy demand, state and response options (Robert Tromop). • An option for restoring residential input into funding of energy efficiency would be to restore the balance of governance of the EECA board, which is now dominated by the industrial sector. This of course reflects central government’s current priorities. Alternatively a forum similar to the Smart Grid Forum could research and set policy directions including funding priorities for residential energy efficiency and renewable energy. Since the Smart Grid Forum is considering re-casting itself, a new Smart Energy Forum could be the required body (Molly Melhuish). • High degree of consultation on levy principles and objectives. External evaluation of market capability, potentials and outcomes. Evaluation of productivity improvements in sectors where energy productivity has been stimulated by energy efficiency. One submitter said there were problems with the current process:

Questions	Summary of responses from submitters
	• EECA's annual 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 needs to be more oversight by MBIE or Treasury of EECA's levy funded work. 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 (MEUG). A further suggestion was: • The EEA would support the expansion of discussion around consultation processes for all levies covered under the Energy (Fuels, Levies, and References) Act 1989. Although the electricity levy covered in this Act is not considered for expansion in this consultation, it is over and above that collected under the Electricity Industry Act 2010. This discussion would be particularly relevant should option 3 be implemented, as it would expand the purpose of the PEFML and gas levy under the Energy Act and provide a consultation platform for it.

Next steps

The submissions we received on this proposal have helped us to provide advice to the Minister for Energy and Resources on expanding an existing energy levy to enable a wider range of activities that encourage, promote and support energy efficiency, energy conservation and the use of renewable sources of energy to be levy funded.

The Minister will consider our advice and in August the Government will decide if the levy for electricity efficiency will change, and if so how. If a change is agreed, it is proposed to include the change in a Bill to be introduced to the House by the end of the year. If this occurs any change to the levy will come into force when the Bill is passed in 2017.

List of submitters

Name	Number
Major Electricity User's Group (MEUG)	1
Nova Energy	2
Winstone Pulp International (WPI) Ltd	3
Sustainable Business Network	4
Ian McChesney	5
Bioenergy Association	6
The Electricity Engineers' Association of New Zealand (EEA)	7
EnviroNZ Limited	8
ChargeNet NZ	9
Trustpower	10
Greenlane Technologies	11
Business NZ	12
Business Central	13
New Zealand Geothermal Association	14
Mighty River Power	15

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Electricity Retailers' Association of New Zealand (ERANZ)	16
Molly Melhuish	17
BP Oil New Zealand Ltd	18
Major Gas Users Group (MGUG)	19
Genesis Energy	20
Robert Tromop	21
Energy Management Association of New Zealand (EMANZ)	22
Electricity Networks Association (ENA)	23
Vector	24
NZAS (Pacific Aluminium)	25
NZ Automobile Association (AA)	26