MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

COVERSHEET

Minister	Hon Simeon Brown	Portfolio	Energy
Title of Briefing	Fiscal Sustainability Options for the Energy Portfolio	Date to be published	15 August 2024

List of documents to be proactively released		
Date	**Title**	**Author**
27 November 2023	Fiscal Sustainability Options for the Energy Portfolio	Privacy of natural persons
27 November 2023	Fiscal Sustainability Options for the Energy Portfolio – Annex One	Privacy of natural persons

Information redacted **YES ~~/ NO~~**

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

SCorbett

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

BRIEFING

Fiscal sustainability options for the Energy portfolio

Date:	27 November 2023	**Priority:**	High
Security classification:	In Confidence	**Tracking number:**	2324-0946

Action sought		
	Action sought	**Deadline**
Hon Simeon Brown **Minister for Energy**	**Note** that we have identified potential savings from the Energy portfolio in the order of $827 million. **Discuss** the contents of this briefing with officials at your initial meeting with MBIE.	4 December 2023

Contact for telephone discussion (if required)			
Name	**Position**	**Telephone**	**1st contact**
Paul Stocks	Deputy Secretary, Building, Resources, and Markets	Privacy of natural persons	✓
Justine Cannon	General Manager, Energy and Resource Markets	Privacy of natural persons	
Privacy of natural persons	Policy Director, Energy and Resource Markets	Privacy of natural persons	

The following departments/agencies have been consulted
Energy Efficiency and Conservation Authority, Electricity Authority

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☐ Overtaken by Events	☐ See Minister's Notes	☐ Withdrawn

Comments

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

BRIEFING

Fiscal sustainability options for the Energy portfolio

Date:	27 November 2023	**Priority:**	High
Security classification:	In Confidence	**Tracking number:**	2324-0946

Purpose

This briefing sets out reprioritisation options in the Energy portfolio to support the Government's fiscal objectives.

Executive summary

In light of the Government's fiscal objectives and the Government's priorities, we have identified a package of potential savings of up to $827 million from the Energy portfolio. The largest potential savings come from the following three areas:

- **NZ Battery Project:** Consistent with the Government's priorities, discontinuing the work on a pumped hydro scheme at Lake Onslow could result in savings of up to $64 million, depending on your preferences for advancing work on the dry year problem. These savings can be effective immediately.
- **Warmer Kiwi Homes:** We recommend savings of $76 million over four years by discontinuing new funding elements that were recently added to the Warmer Kiwi Homes programme – specifically for LED installations and other efficiency measures such as hot water heat pumps.
- **Government Investment in Decarbonising Industry (GIDI):** Your tax plan identified that at least $306 million could be reallocated from GIDI. There is currently around $650 million remaining in the appropriation out to 2028/29 which has not been committed. We would welcome an early discussion with you about the potential choices available to you with this remaining funding (discussed further on page 11), noting that this programme was forecast to play a material role in meeting New Zealand's emissions budgets.

Further to these substantial savings, we have considered opportunities for savings across all Energy and Resources appropriations. The table below summarises the potential savings we have identified.

Summary of potential savings in the Energy Portfolio

	2023/24 '$000	2024/25 '$000	2025/26 '$000	2026/27 '$000	Total '$000
MBIE Energy grant funding	4,000	4,000	4,000	4,000	**16,000**
MBIE Dry-year advice	63,984				**63,984**
MBIE Energy Info Services	449	449	449	449	**1,796**
EECA – GIDI	60,426	174,468	169,928	154,998	**Up to 650,000 (over 6 years)**
EECA – Warmer Kiwi Homes	5,050	12,500	20,000	35,000	**72,550**
EECA – Operational	4,530	4,045	4,474	4,090	**17,139**
Confidential advice to Government					
Total potential savings					Confidential advice to

Some key points to note in considering these options are:

- **MBIE Energy Policy:** The overall complexity and risk of the energy transition means more active energy policy work is needed on an ongoing basis when compared with the two decades up to 2020 when the sector was in a steady-state, including work to deliver your priorities. A separate fiscal omnibus briefing will provide advice on policy savings across MBIE. In parallel with this process, we propose re-phasing some time-limited Energy policy funding received in Budget 2022 into the latter three years of the forecast period, to achieve a more sustainable funding level to deliver policy advice.

- **MBIE Grant Funding:** MBIE currently delivers grant funding for renewable energy infrastructure and innovation. This includes funding for solar and battery systems on community buildings in regions affected by Cyclone Gabrielle and innovation funding to help manage peak electricity demand. We have recommended limited scaling back of these funds. We have not recommended more substantive reductions given their importance in supporting the Government's priorities related to electrification.

- **Electricity Authority:** We have not recommended any savings for the Electricity Authority (an independent Crown entity, with responsibility for the governance and regulation of New Zealand's electricity industry), noting the increasing complexity and workload the Authority is facing.

We would welcome a discussion with you on the potential savings that could be made in the Energy portfolio, including to explore any further or different options to those set out in this briefing.

Recommended action

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

a **Note** that MBIE has undertaken a fiscal sustainability and efficiency programme to support the government to achieve its fiscal objectives and ensure value for money in Government spend.

Noted

b **Note** that we have identified potential savings from the Energy portfolio in the order of $827 million.

Noted

c **Note** that there are additional options identified in the MBIE ownership fiscal briefing (2324-0917 refers) and these savings will be apportioned to your portfolio.

d **Discuss** the contents of this briefing with officials at your initial meeting with MBIE.

Yes/No

Next steps

e **Agree** to attend a meeting with MBIE portfolio Ministers to discuss the reprioritisation options presented in this paper and how best to achieve your respective portfolio priorities as well as overall fiscal objectives.

Agree / Disagree

f **Note** that we will provide further advice on options you would like to progress, including phasing, costs of change, and risk management.

Noted

Paul Stocks
Deputy Secretary, Building, Resources and Markets
MBIE

27 / 11 / 2023

Hon Simeon Brown
Minister for Energy

..... / ...... / ......

Introduction

1. This briefing sets out reprioritisation options in the Energy portfolio to support the Government's fiscal objectives.

2. In particular, this briefing steps through the different areas of funding. For each area it provides an overview of what the funding is used for, additional strategic context as relevant, and options for savings. It then provides our overall recommended package of potential savings of up to $827 million from the Energy portfolio.

3. In developing this package, we have aimed to balance the following objectives:

    a. Delivering the Government's priorities in this portfolio,

    b. Continuing to deliver non-discretionary activities, and

    c. Finding sufficient savings by reprioritising activities; resulting in recommendations to scale-down, defer, or discontinue specific activities.

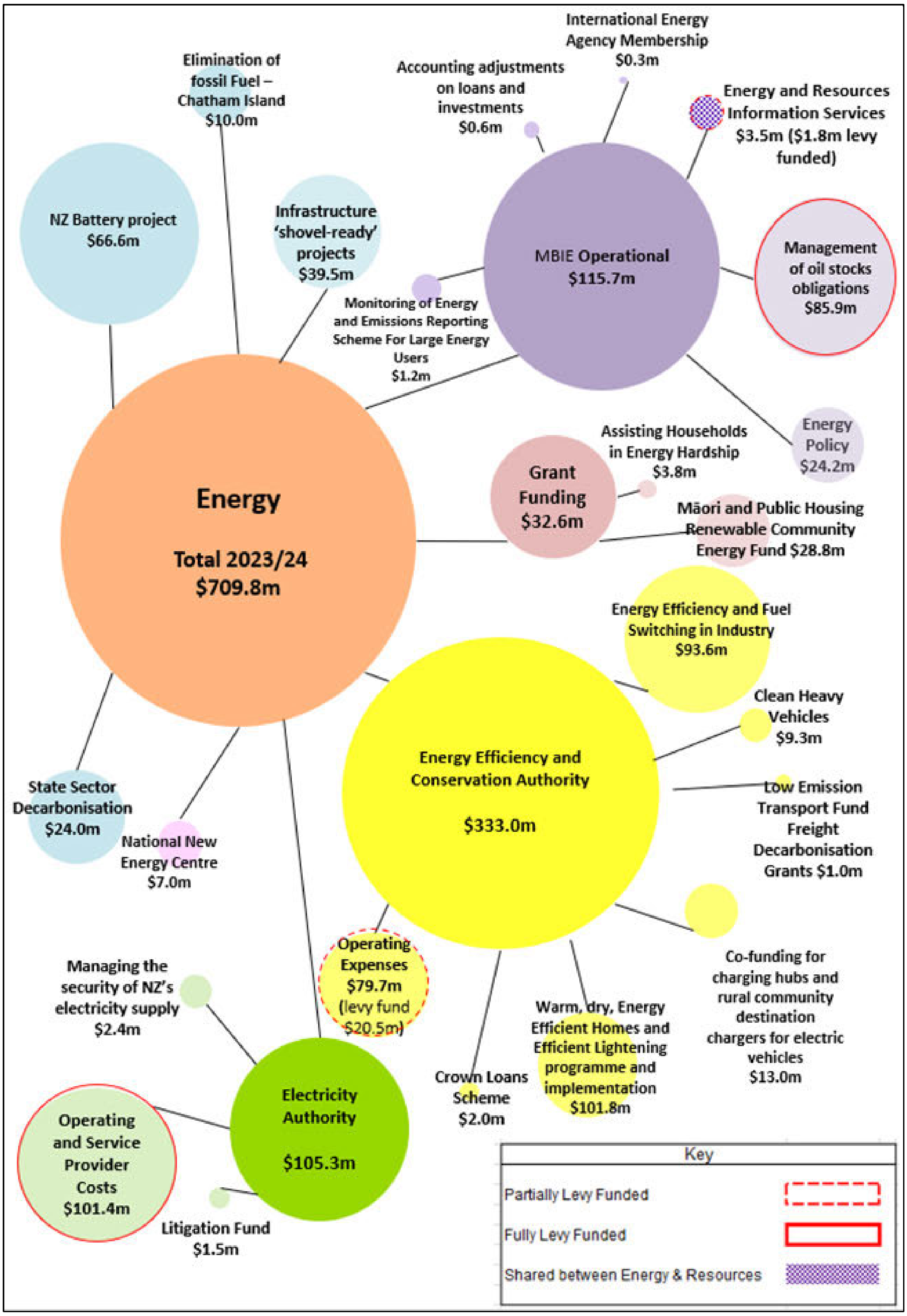
Fiscal background for the Energy portfolio

The Energy Portfolio includes departmental and non-departmental funding

4. The table below shows the current funding for the Energy portfolio. This includes both departmental funding (funding received by MBIE to provide services directly) and non-departmental funding (funding provided through MBIE to other agencies or organisations for them to provide services). The savings rows show the savings options identified throughout this briefing (all options identified have a fiscal impact as all relate to Crown-funded activities).

Energy	2023/24 $ million	2024/25 $ million	2025/26 $ million	2026/27 $ million	2027/28 & Outyears $ million
Departmental Crown Revenue	27.077	17.661	13.515	13.057	12.412
Non-Departmental Crown Revenue	473.135	536.713	533.426	469.218	215.096
Departmental Third Party Revenue	1.800	1.800	1.800	1.800	1.800
Non-Departmental Third Party Revenue	207.762	148.364	148.538	148.022	148.022
Total	**709.774**	**704.538**	**697.279**	**632.097**	**377.330**
Savings with fiscal impact	139.839	196.862	200.251	199.937	90.18
Savings with no Fiscal Impact	0	0	0	0	0

5. To better illustrate the kinds of activities covered by this funding, the diagram below sets out the 2023/24 appropriation for the Energy portfolio. Items circled in red are fully funded by levies, and those circled with a red dotted line are partially funded by levies.



Energy grant funding and infrastructure funding

MBIE administers funding programmes relating to energy resilience, affordability and network innovation

6. As illustrated in the diagram on page 6, MBIE delivers grant funding for community energy projects and energy innovation. This covers:

    a. Grant funding to support community-based renewable energy generation projects ("the community energy fund") to reduce energy costs, while building community resilience to extreme weather events and other natural hazards. This includes specific funding for solar generation and battery systems on community buildings in regions affected by Cyclone Gabrielle. This funding amounts to around $10 million per year over four years.

    b. Network innovation funding to support demand response systems that help manage peak electricity demand and improve electricity network resilience. Ara Ake will administer this funding, which amounts to around $5 million per year over four years.

    c. The final financial year of a fund for renewable energy projects on public and Māori housing. This funding has been fully allocated and contracted so there are no opportunities for savings.

7. The funding for assisting households with energy affordability is the Supporting Energy Education in Communities (SEEC) programme. The SEEC Programme was established following the 2019 Electricity Price Review and includes funding for community-based service providers to support people experiencing energy affordability issues to achieve warmer, more energy-efficient homes and lower their energy bills. This funding amounts to $11.8 million over four years.

8. $10 million has also been allocated to establishing a renewable energy system on the Chatham Islands, improving energy resilience and energy affordability for Chatham Islanders who are currently dependent on diesel generation. We note $300,000 has also been allocated to develop a business case for a renewable energy solution on Stewart Island. A contract for this work is ready to proceed, but has been paused pending confirmation of whether you would like to continue with this project.

Savings could be delivered by scaling back the funding for renewable energy projects

9. Savings of $16 million could be achieved by scaling back the community energy fund ($10 million reduction) and network innovation ($6 million reduction). This would represent a 25 per cent saving against this appropriation.

10. We do not recommend more substantive savings from these funds, noting their importance as we move to electrify the wider economy and their co-benefits for cost of living, resilience to natural hazards, and energy system innovation. The community energy fund is likely to be highly oversubscribed, given the high cost of living pressures in rural areas, and increasing frequency of storm events. The network innovation fund could unlock a considerably large return on investment by demonstrating 'least-cost' pathways to building future electrification infrastructure.

11. We could also consider scaling back or stopping the SEEC programme. We have not recommended this in the first instance given its small scale, the strong demand for its services and benefits delivered[1].

12. We recommend proceeding with the Chatham Islands and Stewart Island renewable energy projects – particularly the former as the funding is fully allocated through a contract in place with the Chatham Islands Enterprise Trust. The project will significantly reduce energy costs for Chatham Islanders who currently pay around four times more for electricity than on mainland New Zealand.

Proposed savings for MBIE Energy grant and infrastructure funding

	2023/24 '$000	2024/25 '$000	2025/26 '$000	2026/27 '$000	Total savings
Current MBIE Energy grant and infrastructure funding	42,564[2]	18,708	18,708	18,562	
Proposed funding profile	38,564	14,708	14,708	14,562	
Proposed savings	**4,000**	**4,000**	**4,000**	**4,000**	**16,000**

The Regional Hydrogen Transition programme sits in the Economic Development portfolio

13. We note that Budget 2023 also included $100 million for the Regional Hydrogen Transition programme, which aims to support early consumers of green hydrogen by providing a consumption rebate to bridge the price gap between green hydrogen and fossil fuel alternatives.

14. The appropriation for the Regional Hydrogen Transition sits in the Economic Development portfolio. Therefore, any savings will be considered as part of that portfolio.

Advice on addressing the dry-year problem

15. MBIE has $66.6m of remaining funding to investigate energy storage projects to address New Zealand's electricity 'dry-year problem'.

Significant savings can be achieved by discontinuing the work on a pumped hydro scheme at Lake Onslow and refocussing our work on dry year risk

16. We note the Government's priorities include discontinuing work on a pumped hydro scheme at Lake Onslow and removing the target to achieve 100% renewable electricity by 2030. We consider that removing the 100% renewable electricity target allows more time to develop an understanding of what the market itself will be able to deliver and the viability of addressing the dry year problem through a portfolio of technologies.

17. As set out in the accompanying briefing to you as incoming Minister, we recommend continuing to plan for the long-term management of dry year security of supply risks given there is a real risk that the market itself may not solve the emerging challenges. Depending on your preference for how the work is advanced, the lowest cost option would be to advance it as part of a smaller policy project, alongside work on other electricity security of supply issues.

---

[1] Findings from pilots funded to date have shown benefits to the household include reduced electricity bills, with average savings ranging from $180 to $230 per year through actions such as more efficient heat pump use through cleaning filters, installing LEDs, installing an efficient shower head, and switching to a lower-cost electricity plan. Wider benefits for New Zealand include reduced electricity demand at peak times, which reduces network infrastructure costs, and reduced carbon emissions at a 'negative abatement cost' (typical for energy efficiency initiatives).

[2] The funding in 2023/24 includes the final financial year of a fund for renewable energy projects on public and Māori housing, which has been fully allocated and the $10 million fund for establishing a renewable energy system on the Chatham Islands.

18. This approach would deliver savings of around $64 million as shown in the table below. This allows us to meet current contractual liabilities and undertake decommissioning work around Lake Onslow. This includes bore remediation, decommissioning of the buoy and meteorological station, and lease and exit costs for a core store maintained for the project in Roxburgh.

19. If you wish to continue with a focussed and fast-paced dry year work programme, we would recommend retaining an additional $3 million of this appropriation. We will brief you separately on next steps on dry year risk.

Potential savings from discontinuing work on Lake Onslow

	2023/24 '$000	2024/25 '$000	2025/26 '$000	2026/27 '$000	Total savings
Current advice on viable energy storage	66,627	-	-	-	
Proposed funding profile	2,643	-	-	-	
Proposed savings	**63,984**	**-**	**-**	**-**	**63,984**

Energy Information Services

20. As shown in the diagram on page 6, the appropriation includes $3 million per annum for information services (of which $1.8 million is funded from levies). Amongst other things, this funds the production of a range of energy data resources and publications, including the Energy in New Zealand publication, weekly fuel price monitoring, and modelling of electricity demand and generation scenarios.

21. In Budget 2022, this appropriation received $0.3 million to administer a new Energy Emissions Reporting Scheme. Amongst other things, the funding was intended to cover software development and the production of insights and energy emissions trends. The reporting scheme has not yet been progressed.

Small savings may be achievable depending on policy priorities

22. If you wish to discontinue work on an Energy Emissions Reporting Scheme, savings of $1.2 million could be delivered over four years. We can separately brief you on the merits of the scheme in the context of the wider work programme.

23. Savings of 10 per cent of the Crown funded portion of the appropriation could also be delivered, contributing around $0.5 million over four years.

Potential savings for MBIE Energy Information Services

	2023/24 '$000	2024/25 '$000	2025/26 '$000	2026/27 '$000	Total savings
Current Energy & Resources Information Services	3,463	3,039	3,009	3,009	
Proposed funding profile	3,014	2,590	2,560	2,560	
Proposed savings	**449**	**449**	**449**	**449**	**1,796**

Energy Policy

A separate fiscal omnibus briefing will provide advice on policy savings across MBIE

24. MBIE has a multi-category appropriation in each of its Votes, which all cover a range of policy functions to provide flexibility in delivering against Government priorities. MBIE is proposing a 10 per cent reduction for the activity as a whole. The current allocation of resourcing reflects existing work programmes, therefore we recommend that MBIE Ministers discuss how best to allocate the remaining 90 per cent across portfolios, given the incoming Government's priorities. Further advice on this matter is covered in the Fiscal Omnibus Briefing.

We recommend rephasing the Energy portfolio policy funding

25. As set out in our first briefing to you as incoming Minister, changes underway in the energy system are unprecedented and create significant risks and opportunities. This means there will be more active policy work needed on an ongoing basis; certainly relative to the past two decades when the sector has been in a steady-state. This is also reflected in the Government's priorities and, consistent with those, our policy function will support you to (amongst other things):

    a. Remove planning barriers to new renewable wind, geothermal, and solar power projects,

    b. Streamline rules and regulations for building the required transmission and distribution infrastructure,

    c. Fast track rules to unleash investment in offshore wind generation,

    d. Future-proof the natural gas industry by restarting offshore exploration, and

    e. Deliver a comprehensive, nationwide EV charging network.

26. New areas also require policy consideration, including the regulation of carbon capture, utilisation, and storage (CCUS) and consideration of the treatment of new technologies such as regulatory standards to enable the safe use of hydrogen.

27. In recent years MBIE has received time-limited funding to undertake the significant volume of policy work resulting from transitioning the energy system. Most of the time-limited funding expires in 2025 (with some expiring as soon as 2024). As a result, policy funding decreases significantly from 2025/26. This means funding will be insufficient from 2025/26 to deliver your priorities and address emerging policy issues.

28. We recommend rephasing some of the funding from the current financial year into the latter three years of the forecast period, to achieve a more sustainable funding level from which to deliver you with policy advice. This proposed profile of funding is shown in the table below. The rephasing would mean sufficient funding to deliver your priorities and address other pressures until the end of the forecast period, after which the portfolio's funding may need to be revisited.

Proposed re-phasing of Energy and Resources[3] policy funding

	2023/24 '$000	2024/25 '$000	2025/26 '$000	2026/27 '$000
Current Energy and Resources Policy	27,803[4]	17,463	12,726	12,552
Proposed re-phasing of Energy and Resources Policy	17,636	17,636	17,636	17,636

Energy Efficiency and Conservation Authority

EECA uses a range of levers, including co-investment programmes, to encourage the use of renewable energy

29. The Energy Efficiency and Conservation Authority (EECA) is a Crown agency with the role to encourage, promote, and support energy efficiency, energy conservation, and the use of renewable sources of energy.

30. EECA's three main levers to fulfil this role are: (1) delivering funding or co-investment to support the uptake of energy efficient technologies and renewable energy, (2) developing and communicating credible information to encourage clean energy choices, and (3) regulation, including minimum energy efficiency standards for products and appliances.

31. As illustrated in the diagram on page 6, the two most significant co-investment programmes relate to funding to promote fuel switching in industry (the Government Investment in Decarbonising Industry programme, or GIDI) and funding for warm, dry, energy efficient homes (the Warmer Kiwi Homes programme).

Savings can be achieved by scaling back co-investment

32. We have consulted with EECA on potential savings from its co-investment programmes.

Fuel switching in industry

33. We note your tax plan identified that at least $306 million could be reallocated from GIDI to support a new climate dividend.

34. There is currently around $650 million remaining in the GIDI appropriation out to 2028/29 which has not been committed. We would welcome an early discussion with you about the potential choices available with this remaining funding, which include:

    a. returning the full $650 million as savings now, or

    b. returning a significant proportion (e.g. $350 million) of the remaining unallocated funding now and consider how the remaining funding is allocated (or returned as savings) as part of the second emissions reduction plan.

35. We also recommend you discuss this with the Minister of Climate Change. Emissions budgets are legally binding on the Government through the Minister of Climate Change: the Government must ensure that New Zealand does not exceed the emissions budget. GIDI is forecast to play a material role in the Government's ability to deliver its emissions budget – 11%, 26%, and 12% of the reductions required to meet Emissions Budgets 1, 2, and 3 respectively.

36. Some investment to support industry to switch away from fossil fuels may be needed to achieve the upcoming emissions budgets. Such investment could be redirected into new

[3] The policy function is shared across the Energy portfolio and Resources portfolio.
[4] This includes an IPET of $5.9 million from 2022/23.

programmes that align with your priorities. For example, this could include funding for renewable electricity infrastructure, including new transmission and distribution connections where these costs are otherwise a barrier to firms electrifying. There is also considerable opportunity to support small and medium businesses to increase their productivity and reduce emissions through support with installing and upgrading to off-the-shelf, energy-efficient equipment and solutions needed to run a business day-to-day.

Proposed savings from the Government Investment in Decarbonising Industry programme

	2023/24 '$000	2024/25 '$000	2025/26 '$000	2026/27 '$000	2027/28 '$000	2028/29 '$000	Total savings
Current fuel switching in industry*	93,568	270,158	263,127	240,008	113,630	26,010	
Option 1							
Option 1 funding profile	33,142	95,690	93,199	85,010	40,248	9,213	
Potential savings Option 1 (return all)**	**60,426**	**174,468**	**169,928**	**154,998**	**73,382**	**16,797**	**650,000**
Option 2							
Option 2 funding profile	60,819	175,603	171,033	156,005	73,860	16,907	
Potential savings Option 2 (return significant proportion)	**32,749**	**94,555**	**92,094**	**84,003**	**39,771**	**9,104**	**352,275**

*note this row shows the full appropriation, without subtracting the $350 million that has been committed, and so overstates the amount available for reallocation
**actual savings profile would depend on the profile of committed spend, which would need to be confirmed by EECA.

Warmer Kiwi Homes

37. We do not recommend any significant change to funding for the *core* Warmer Kiwi Homes programme, which provides grants for insulation and heating for owner occupied homes in low-income areas. This programme has been operating under successive governments since 2009, and there is a very strong evidence base for the benefits achieved from the programme, including a benefit:cost ratio of over 4:1 and an average 16 per cent reduction in household energy use over winter months.

38. Budget 2023 added new components on top of the core insulation and heating programme:

    a. Broad-based support for LED installation in homes (approximately $16 million)

    b. Funding for other efficiency measures such as hot water heat pumps (approximately $56 million)

    c. Targeted home repairs to bring houses up to the standard required for insulation retrofits (approximately $25 million).

39. As shown in the table below, savings of $72.6 million could be made by discontinuing the programmes for LED installations and funding for other efficiency measures such as hot water heat pumps. EECA will still be able to develop standards for hot water heat pumps, which is important to ensure New Zealanders have efficient choices in the market.

40. We recommend preserving the targeted home repairs to bring houses up to the standard required for insulation retrofits ($25 million), as this supports the core objective of Warmer Kiwi Homes to insulate and provide efficient heating to houses in low-income areas. This represents a small improvement to the programme so that very basic repairs – for example a

small leak in the roof that would have previously prevented the insulation from being installed – do not prohibit eligibility. There will be a cap on repair value per house and a white-list of basic improvements that this programme can cover (e.g. minor roof repairs and holes in floors).

Proposed savings from the Warmer Kiwi Homes programme

	2023/24 '$000	2024/25 '$000	2025/26 '$000	2026/27 '$000	Total savings
Current Warmer Kiwi Homes (including targeted repairs and hot water heat pumps)	100,517	97,183	110,963	125,963	
Proposed funding profile - Warmer Kiwi Homes	96,767	89,683	95,963	95,963	
Current Efficient Lighting	1,300	5,000	5,000	5,000	
Proposed funding profile – Efficient Lighting	0	0	0	0	
Proposed Savings	**5,050**	**12,500**	**20,000**	**35,000**	**72,550**

Other EECA programmes

41. The $219.5 million State Sector Decarbonisation Fund (coordinated by EECA) has been fully allocated to projects, with no future funding allocated at this point.

42. Other key EECA programmes include:

    a. The Low Emission Transport Fund (approximately $12.5 million per year) which supports low emission freight and supply chain demonstration projects. This has funded project such as electric battery trucks, electric ferries and EV charging hubs.

    b. A new clean heavy vehicle discount programme, announced in Budget 2023 at $30m over 3 years – focusing on new zero on-road emissions heavy vehicles over 3.5 tonnes (battery electric vehicles and hydrogen fuel cell vehicles), at the point of first registration in New Zealand.

    c. Around $100 million for EV fast charging infrastructure investment, announced in Budget 2023.

43. We recommend you consider potential reprioritisation of these funds as part of wider work on innovation and infrastructure investment, rather than as discrete decisions at this point.

44. For example, the EV fast charging investment could be re-aligned or expanded to reflect your preferred future approach to such investment. We understand the Government's priorities include utilising a UFB style model to rapidly deliver a comprehensive EV charging network. Given EECA is ready to deploy an EV fast charger programme now, we recommend that EECA should continue this programme, to maximise the number of chargers being deployed. The unspent funding could then be reallocated once a new model is underway.

45. Likewise, the approach to funding innovation in transport (especially heavy vehicles and transport modes that do not have a current market solution in New Zealand) could be considered in one place, alongside consideration of the transport component of the next emissions reduction plan. We can provide further advice as required on these options, working with EECA and the Ministry of Transport.

Scaling back co-investment will also result in operational savings

46. If, as recommended above, funding allocated to Warmer Kiwi Homes and GIDI is scaled back, then EECA will be in a position to contribute further savings by reducing the operational expenditure associated with delivering these programmes. The table below

illustrates potential savings – the precise savings and profile of funding will ultimately depend on programme decisions.

47. EECA also has relatively substantial financial reserves. We are working with EECA to understand how much of this is uncommitted and whether, having regard to their cashflow forecasts for the coming 12 months, there is potential to reduce the reserves to provide a fiscal saving. Any saving would be one-off.

Proposed EECA operational savings

	2023/24 '$000	**2024/25 '$000**	**2025/26 '$000**	**2026/27 '$000**	**Total savings '$000**
Current operational – GIDI	5,118	5,181	5,896	4,359	
Proposed funding profile – GIDI operational	Up to 3,839	Up to 3,886	Up to 4,422	Up to 3,269	
Current operational – Warmer Kiwi Homes	8,667	9,496	9,496	9,296	
Proposed funding profile – Warmer Kiwi Homes operational	6,917	7,746	7,496	7,296	
Current operational – Efficient Lighting	1,500	1,000	1,000	1,000	
Proposed funding profile – Efficient Lighting operational	0	0	0	0	
Proposed savings	**4,530**	**4,045**	**4,474**	**4,090**	**17,139**

Electricity Authority

48. The Electricity Authority is an independent Crown entity, with responsibility for the governance and regulation of New Zealand's electricity industry. The Authority is funded by the Crown through appropriations and this funding is recovered through a levy on electricity industry participants. The Authority publicly consults on its levies each year in accordance with the Electricity Industry Act 2010.

We do not recommend any reductions in funding for the Electricity Authority

49. The Authority plans to commence a levy consultation in the coming months (exact timing to be confirmed) for an increase to its main operating appropriation of approximately 14 per cent ($14 million). The Authority will provide you with a briefing on its proposed 2024/25 levy consultation document approximately two weeks before releasing the document for public consultation. A recent strategic baseline review by Sapere confirms that the Authority's operating context is increasingly complex and that more is being asked of them, indicating that an increase in funding may be required. We have advised the Authority that we are not recommending reductions in its funding given the context.

Ara Ake

50. Ara Ake – New Zealand's Future Energy Centre – was established in 2020. Ara Ake's purpose is to facilitate the demonstration and commercialisation of energy innovation to support New Zealand's transition to a low emissions future. It is based in Taranaki, to leverage Taranaki's energy skills and infrastructure.

51. Ara Ake is not a government agency – it is a company owned by a range of industry bodies and research shareholders. In April 2023, Ara Ake was given long-term certainty through a new $70 million ten-year funding agreement (from 1 July 2023) with MBIE. This followed an

independent review of Ara Ake that established a case for continued funding so it can build and expand on its achievements to date.

Confidential advice to Government

Total potential package of savings

We have identified potential savings of up to $827 million

The table below summarises the potential savings we have identified as described throughout this briefing.

Summary of potential savings in the Energy Portfolio

	2023/24 '$000	**2024/25 '$000**	**2025/26 '$000**	**2026/27 '$000**	**Total '$000**
MBIE Energy grant funding	4,000	4,000	4,000	4,000	**16,000**
MBIE Dry-year advice	63,984				**63,984**
MBIE Energy Info Services	449	449	449	449	**1,796**
EECA – GIDI	60,426	174,468	169,928	154,998	**Up to 650,000 (over 6 years)**
EECA – Warmer Kiwi Homes	5,050	12,500	20,000	35,000	**72,550**
EECA – Operational	4,530	4,045	4,474	4,090	**17,139**
Confidential advice to Government					
Total potential savings					Confidential advice to

Next steps

54. This briefing has outlined potential areas to achieve savings in the Energy portfolio, in line with our understanding of your priorities.

55. We would welcome a discussion with you on the potential savings that could be made in the portfolio, including whether we should explore any further or different options to those set out in this briefing.

An All-of-MBIE approach to reprioritisation

56. MBIE operates a number of functions that operate across portfolios, as well as working to realise synergies between them. We therefore recommend considering the portfolios as a suite, this enables:

    a. Consideration of enablement and stewardship functions as part of the whole (which will have proportional savings for each portfolio)

    b. Opportunities to align and consolidate related functions between portfolios, including Crown Entities

    c. Enabling trade-offs across functions in order to calibrate/equalise impacts, such as directing policy resource.

57. We therefore recommend that MBIE Ministers meet to consider their portfolios jointly.

Progressing options

58. We will provide you with further advice on areas you indicate you would like to reprioritise. This advice will include how fast savings can be realised, any costs associated, and further information on the likely impacts of those changes.

59. We also expect to receive advice from the Treasury shortly about the process for submissions for the Fiscal Sustainability Payment, and/or Budget processes. We will take direction from Ministers on which of the potential reprioritisation options in this briefing should be included in those submissions.

Annexes

Annex one: Fiscal Summary for the Energy portfolio

Annex one: Fiscal Summary for the Energy portfolio

Fiscal Summary for the Energy portfolio

Current Baseline

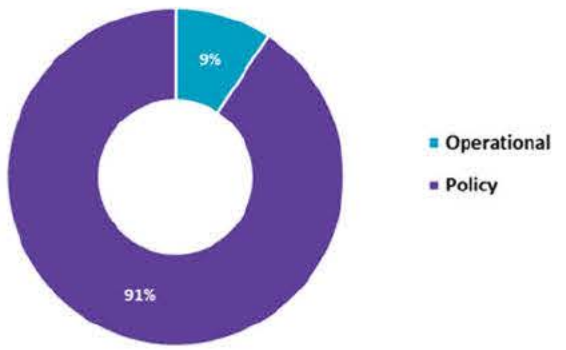
The following table sets out the appropriated funding for the Energy portfolio, by funding source. Departmental funding is received by MBIE to directly provide services. Non-departmental funding is provided via MBIE to other agencies, including Crown Entities and grant recipients.

Changes to Crown funded activities will have a direct impact on the Government's financial position. Changes to Third Party funded activity will generally have no impact on the Government's financial position, as most third-party charges are set on a cost-recovery basis.

Baseline $million	2023/24	2024/25	2025/26	2026/27	2027/28 & Outyears
Dept.	27.077	17.661	13.515	13.057	12.412
Non-Dept	473.135	536.713	533.426	469.218	215.096
Total Crown	**500.212**	**554.374**	**546.941**	**482.275**	**227.508**
Dept.	1.800	1.800	1.800	1.800	1.800
Non-Dept	207.762	148.364	148.538	148.022	148.022
Total Third Party	**209.562**	**150.164**	**150.338**	**149.822**	**149.822**

People Resources in MBIE

The Energy portfolio is supported by the Energy and Resource Markets Branch of MBIE. Within the branch, approximately 68 policy FTEs and 7 operational FTEs are dedicated to the Energy portfolio. This represents 1.2% of the total MBIE workforce. Enablement functions (e.g. corporate, ICT) are not included in this summary.



Portfolio FTE by Function

Function	Portfolio FTE	Portfolio %
Operational	7.0	9%
Policy	68.4	91%
Total staff	**75.4**	**100%**

Fiscal Sustainability

The following table summarises options identified for reprioritisation within the Energy portfolio. This includes programmes that could be stopped, and others that can be scaled.

Option for reprioritisation	Fiscal implication $million in 2023/24	FTE implication	Implementation	Comment
MBIE: Discontinue work on a pumped hydro scheme at Lake Onslow*	63.98	10	One-off saving, work to be discontinued immediately	We recommend continuing to plan for the long-term management of dry year risks. This could be advanced as part of a smaller policy project, alongside other electricity security of supply issues.
MBIE: Energy grant funding and infrastructure funding	4.0	0	$4m per annum for four years, effective immediately, by scaling funding programmes	The proposed savings represent a 25% reduction in funds for renewable energy projects and electricity network innovation. We do not recommend more substantive savings, noting their importance as we move to electrify the economy.
MIBE: Energy Information Services	0.45	1	$0.45m per annum, implemented immediately.	Funding was received to administer a new Energy Emissions Reporting Scheme. If you wish to discontinue work on this scheme, savings could be delivered. We can brief you on the merits of the scheme in the context of the wider work programme.
EECA: Government Investment in Decarbonising Industry*	GIDI fund: 60.4 Operational: 1.3**	5**	Total potential savings of up to $650m over six years. Implemented immediately.	There is currently around $650 million remaining in the appropriation out to 2028/29 which has not been committed. We would welcome an early discussion about the potential choices with this remaining funding noting that this programme was forecast to play a very material role in meeting New Zealand's emissions budgets.
EECA Warmer Kiwi Homes	WKH fund: 5.05 Operational: 3.25**	10**	Average of $19.1m per year, or total savings of $76.3m over four years. Implemented immediately.	The proposed savings arise by discontinuing programmes for LED installations and other efficiency measures such as hot water heat pumps. We do not recommend any significant change to the core Warmer Kiwi Homes programme, given there is strong evidence for the benefits achieved, including a benefit:cost ratio of over 4:1.
Confidential advice to Government				
A share of cross-MBIE reprioritisation options	To be determined	To be determined	These savings will be apportioned to portfolios, following discussions with Ministers.	The MBIE ownership fiscal briefing includes options for reductions in core services (both immediate efficiencies, and further "right-sizing" following portfolio decisions), 15% reduction in specified discretionary spend, and 10% reduction in policy capacity with resources to be redirected based on Government priorities.
Total	Confidential advice to Gove	26		This shows recommended savings in 2023/24. Looking out over four years (or six in the case of recommended savings from the Government Investment in Decarbonising Industry) we have identified over $827 million for reprioritisation.

The Fiscal Briefing has further detail on options and the implications of these choices.

* Items marked *are as per stated Government policy.

** If funding allocated to Warmer Kiwi Homes and GIDI is scaled back, then EECA will be in a position to contribute further savings by reducing the operational expenditure associated with delivering these programmes. The precise savings and profile of funding will ultimately depend on programme decisions.

Government priorities

The Government has made the following commitments relating to the Energy Portfolio. The table below sets out our initial comment on resourcing and implementation implications of these commitments.

<table>
<tr><th>Source</th><th>Government Priorities</th><th>High level cost estimate $million pa</th><th>FTE implication</th><th>Implementation</th><th>Comment on estimates</th></tr>
<tr><td>National</td><td>Remove the 100% renewable electricity target</td><td>0</td><td>0</td><td>No implementation required</td><td>N/A</td></tr>
<tr><td>National</td><td>Begin efforts to double renewable energy production, including work to issue a National Policy Statement for Renewable Electricity Generation</td><td colspan="4" rowspan="15">As set out in our first briefing to you as incoming Minister, changes underway in the energy system are unprecedented and create significant risks and opportunities. This means there will be more active policy work needed on an ongoing basis; certainly relative to the two decades up to 2020 when the sector was in a steady-state. This is reflected in the Government’s policies in the column to the left, which our policy function will support you to deliver.

Further areas where we see change underway and requiring policy direction include: dealing with the challenges of moving to an expanded and highly renewable electricity system with more intermittent sources of generation, the regulation of carbon capture, utilisation, and storage (CCUS) and consideration of the treatment of new technologies such as regulatory standards to enable the safe use of hydrogen.

In terms of policy resource, we may be able to deliver your priorities, and respond to emerging issues, without additional funding or FTEs by:
• discontinuing some current areas of policy work, and
• rephasing some time-limited policy funding we received in Budget 2022 into later years.

The fiscal savings briefing describes the rephasing proposal in more detail. Potential areas of policy that could be discontinued or scaled back include work relating to energy hardship and developing a new Energy Efficiency and Conservation Strategy, amongst other options. We would welcome a discussion on the overall work programme for the coming Parliamentary term.</td></tr>
<tr><td>Coalition (ACT)</td><td>Reverse the ban on petroleum exploration</td></tr>
<tr><td>National</td><td>Improve other resource management settings for renewable generation including increasing consent terms, minimum lapse times, requiring certain consents to be granted within 1 year, new National Environmental Standards, National Policy Statements for Distribution and Hydrogen</td></tr>
<tr><td>National</td><td>Fast track work to implement an offshore wind regulatory system</td></tr>
<tr><td>Coalition (ACT)</td><td>Deliver a nationwide network of 10,000 EV chargers, while accounting for robust cost-benefit analysis</td></tr>
<tr><td>National</td><td>Make regulatory changes to provide greater certainty around cost recovery for regulated infrastructure and manage first mover disadvantage</td></tr>
<tr><td>Coalition (NZ First)</td><td>Commissioning a study into NZ’s fuel security requirements</td></tr>
<tr><td>Coalition (NZ First)</td><td>Investigate the reopening of Marsden Point oil refinery and implement a Fuel Security Plan</td></tr>
<tr><td>Coalition (NZ First)</td><td>Investigating the threshold at which local lines companies can invest in local generation assets</td></tr>
<tr><td>Coalition (NZ First)</td><td>Requiring the electricity regulator to implement regulations such that there is sufficient electricity infrastructure to ensure security of supply and avoid excessive prices.</td></tr>
<tr><td>Coalition (NZ First)</td><td>Examining transmission and connection pricing to facilitate cost effective connection of new renewable generation resources, both on-shore and off-shore.</td></tr>
<tr><td>Coalition (NZ First)</td><td>Planning for transitional low carbon fuels, including the infrastructure needed to increase the use of methanol and hydrogen to achieve sovereign fuel resilience.</td></tr>
<tr><td>Coalition (NZ First)</td><td>Future-proofing the natural gas industry by restarting offshore exploration and supporting development of hydrogen technology to produce hydrogen from natural gas without co-production of CO2.</td></tr>
<tr><td>Coalition (NZ First)</td><td>Ensuring that climate change policies are aligned and do not undermine national energy security.</td></tr>
<tr><td>Coalition (NZ First)</td><td>Ensuring the government’s energy settings allow for the exploration of natural geological hydrogen in New Zealand, to maximise future energy resilience.</td></tr>
<tr><td>Coalition (ACT)</td><td>Stop work on a Lake Onslow pumped hydro scheme</td><td colspan="4">Fiscal savings and implementation as described in fiscal sustainability table above</td></tr>
<tr><td>National</td><td>Reallocate funding allocated to the Government Investment in Decarbonising Industry fund</td><td colspan="4">Fiscal savings and implementation as described in fiscal sustainability table above</td></tr>
</table>