



COVERSHEET

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| Minister | Hon Simon Watts | Portfolio | Energy |
| Title of Cabinet paper | Offshore renewable energy regime – Cost recovery proposals | Date to be published | 14 May 2025 |

List of documents that have been proactively released

| Date | Title | Author |
|---------------|---|-------------------------------|
| 25 March 2025 | <i>Offshore renewable energy regime – Cost recovery proposals</i> | Office of Minister for Energy |
| 25 March 2025 | Offshore renewable energy regime: Cost recovery proposals EXP-25-MIN-0022 Minute | Cabinet Office |
| 25 March 2025 | Cost Recovery Impact Statement: Offshore Renewable Energy Regime Cost Recovery | MBIE |

Information redacted

NO

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In Confidence

Office of the Minister for Energy

Cabinet Economic Policy Committee

Offshore renewable energy regime – Cost recovery proposals

Proposal

- 1 This paper seeks agreement to the cost recovery proposals for the feasibility permit stage of the offshore renewable energy regime.

Relation to government priorities

- 2 As part of Electrify NZ, the Government has committed to delivering a regulatory regime for offshore renewable energy, to enable investment and deliver clean energy at scale.

Executive Summary

- 3 In June 2024, Cabinet agreed to the settings for establishing the offshore renewable energy regime [CBC-24-MIN-0041 refers]. The Offshore Renewable Energy Bill was introduced on 9 December 2024 and is now being considered by the Transport and Infrastructure Committee.
- 4 Cabinet previously agreed that:
 - 4.1 the offshore renewable energy regime would be fully cost recovered through application fees and levies; and
 - 4.2 the Ministry of Business, Innovation and Employment (MBIE) will be the regulator and administrator of the offshore renewable energy regime.
- 5 The Bill enables regulations to be made to, among other things, prescribe fees and levies for the purpose of recovering the costs of administering the regime.¹
- 6 The proposed cost recovery regulations are being developed in parallel with the Bill's passage through the House (alongside other permitting regulations) to meet the Government's aim of opening the first permitting round by the end of 2025. I am seeking agreement now to the cost recovery proposals in this paper, so that the Parliamentary Counsel Office can begin drafting the regulations soon to meet those timelines.

¹ Clause 168 of the Bill.

- 7 MBIE undertook targeted consultation on cost recovery proposals in November 2024. Submitters' views are summarised in this paper and have been considered when developing the proposals.
- 8 I am now seeking approval to the key design features for the first set of proposed cost recovery regulations, which are:
- 8.1 an application fee for applying for a feasibility permit of \$130,000 (GST exclusive)² per application noting the equivalent fee in Australia is 300,000 AUD; and
 - 8.2 detailed design settings for the levy to be paid annually by feasibility permit holders.
- 9 The expectation is that the annual levy to be paid by feasibility permit holders will initially be set at \$480,000 (GST exclusive) to be divided equally among permit holders. The equivalent fee in Australia is a minimum of 730,000 AUD per permit holder.

Background

- 10 Offshore renewable energy has the potential to help us grow an economy where buildings, transport and industry are powered by clean, renewable energy, and to reach net-zero greenhouse gas emissions by 2050.
- 11 In June 2024, Cabinet agreed to establish an offshore renewable energy regime to provide developers greater certainty to invest in offshore renewable energy projects, allow the selection of developments that best meet New Zealand's national interests, and manage risks to the Crown and public. It does this by introducing two new permits:
- 11.1 A **feasibility permit**, which enables an offshore renewable energy developer to apply for the relevant consents and a commercial permit in the specified area to which the feasibility permit relates (to the exclusion of any other offshore renewable energy developer).
 - 11.2 A **commercial permit**, which must be obtained before construction begins and provides a final check (complementing environmental consents) to ensure projects meet the required standard and risks are managed.

The offshore renewable energy regime costs are to be recovered through application fees and a levy

- 12 Cabinet agreed in June 2024 that the offshore renewable energy regime would be fully cost recovered [CBC-24-MIN-0041 refers]. It was indicated at that time that the Minister for Energy would come back to Cabinet for decisions on the design of the cost recovery model, including the level of the fees and levy. The Bill contains provisions to enable cost recovery regulations to be made, including the ability to specify how the levy or rates of levies are

² All figures are expressed in New Zealand Dollars (NZD) unless otherwise specified.

calculated.³ These empowering provisions are not yet in force and the proposed regulations depend on the Bill being enacted.

- 13 The primary objective in setting fees and levies is to resource the regulator and administrator of the offshore renewable energy regime (MBIE) to deliver the regime effectively and efficiently. The Treasury and Auditor-General cost recovery principles have been applied to the proposed design of the application fee and levy settings.
- 14 The proposals relate only to costs associated with feasibility permits, including the assessment and grant of applications and the administration of the feasibility phase of the regime. These regulations are needed to enable opening of the first feasibility permit round as soon as possible after the Bill passes in mid-2025. MBIE considers the proposed application fees and levy rates set out below to be sufficient to fund a 'minimum viable' operating model.
- 15 In late 2024, MBIE undertook targeted consultation on the cost recovery proposals for the feasibility phase with offshore wind developers who have an interest in New Zealand, the New Zealand Wind Energy Association (NZWEA), and iwi and hapū. MBIE received four submissions from offshore wind developers and NZWEA. Their views are set out in relation to each of the proposals below.

I am seeking agreement to introduce a feasibility application fee of \$130,000

- 16 Applicants opt into, and are the direct beneficiaries of, the permit assessment function and should therefore pay the costs of this service. I am proposing to introduce a feasibility application fee of \$130,000 (GST exclusive). **Appendix 1** provides a summary of the costings associated with the feasibility permit application fee and the feasibility permit holder levy (set out below).
- 17 The proposed application fee is based on a total cost to the regulator of undertaking a comparative assessment of four applications, estimated at \$520,000 in total (excluding GST). This fee includes staff costs, overheads, technical expertise and the costs of public consultation and engagement with iwi and hapū.
- 18 The number of actual applications is highly uncertain. If there are fewer applications, the regulator will under-recover fixed costs. If there are more applications, this will support the scaling up of resources required to process a greater volume of applications in a timely manner.
- 19 The equivalent fee for feasibility licences in Australia is set at 300,000 AUD.

Consultation broadly supported a fee of this level

- 20 MBIE consulted on an application fee rate of \$124,000. There was broad support across submitters for the proposed level of the fee, with one submitter

³ Clause 168 of the Bill.

noting that the fee was not cost-prohibitive and so would ensure a satisfactory level of competition in New Zealand. Adjustments were made to the final figure to reflect final costings and refinements to the operating model.

- 21 We intend to review the feasibility application fee before the launch of any further feasibility permit application rounds, as individual rounds are likely to be years apart. Any change to the application fee would be made through changes to the regulations.

I am also seeking agreement to the design for how the annual levy will be set

- 22 The levy that will apply to feasibility permit holders will recover the ongoing operating costs of the offshore renewable energy regime, including monitoring and compliance, information management and provision, and reporting to the Minister for Energy.
- 23 I am proposing the following key design features for how the annual levy to be paid by feasibility permit holders will work:
- 23.1 The levy amount will be set by a formula prescribed in regulations that is based on estimated total annual costs, divided equally between levy payers (those with a valid feasibility permit in the relevant fiscal year);
 - 23.2 The initial levy amount and any changes to it will be notified in the *Gazette*;
 - 23.3 The levy would be payable within thirty days of a permit being granted for the first levy payment, and by 31 July each year thereafter;
 - 23.4 A feasibility permit holder is required to pay the levy amount for the full fiscal year. The levy amount will not be adjusted when a permit is issued, surrendered or revoked part way through the fiscal year for that permit holder. This is necessary to maintain the financial viability of the regulator, which is likely to be collecting revenue from a small number of parties;
 - 23.5 An annual reconciliation process will take place once actual costs are known (i.e. around three months after the end of the fiscal year). The reconciliation process would also take into account any revenue from additional permits that have been issued during the year. Other levies in the energy sector include a reconciliation process as it aligns with cost recovery principles.
- 24 MBIE intends to periodically review the levy design as part of its regulatory stewardship role.

The annual levy amount is initially expected to be set at \$480,000, to be divided among permit holders

- 25 Based on the formula described above, I expect the annual levy amount to be initially set at \$480,000 (GST exclusive), to be divided equally among all feasibility permit holders.
- 26 The equivalent levies⁴ under the Australian system equate to a minimum of 730,000 AUD per feasibility licence holder. However, under the Australian system, the offshore renewable energy undertakes broader functions (including health and safety compliance and designating areas for development).

The proposed levy has significantly reduced following consultation

- 27 Submitters broadly supported the proposed design features for the levy, but had concerns with the indicative levy amount.
- 28 MBIE consulted on an indicative levy amount of \$1.3 million (to be divided by the number of feasibility permit holders) based on estimated implementation and ongoing costs to the regulator in the first fiscal year of the regime. Submitters raised concerns that this would be a significant amount if there was only one permit holder. Submitters also said the level of the levy should be commensurate with the risk and stage of development of the project.
- 29 MBIE subsequently undertook further work to streamline costs to refine what is needed for the feasibility stage of the project. This included reducing estimated staff levels and using simpler, off-the-shelf IT products to manage the regime.

The proposals in this paper rely on regulation-making powers in the Bill

- 30 The proposals in this paper depend on the passage of the Bill, which includes provision for cost recovery regulations to be made. If amendments are made to the cost recovery provisions in the Bill the Minister for Energy may seek further decisions on cost recovery proposals.

I will seek agreement to further cost recovery proposals in the future

- 31 I intend to bring a second tranche of cost recovery proposals for the other application fees in the offshore renewable energy regime, including applications to vary a permit, transfer a permit or surrender a permit, before the first permits are issued.
- 32 The application fees for commercial permits and safety zone determinations will be proposed in a third tranche, when the regulator will have better information about the costs based on the feasibility permit application process. No commercial permit applications are expected before 2030, and a

⁴ There are three applicable levies on feasibility licence holders under the Australian regime.

declaration for a safety zone will not apply until a commercial permit has been granted.

Cost-of-living Implications

- 33 There are no immediate or direct cost-of-living implications arising from the proposals in this paper. Enabling offshore renewable energy provides another option for the electricity sector to meet growth in demand for energy while diversifying energy security risks. Fees and levies are ultimately passed to consumers, but the impact for consumers would be insignificant given the level of offshore renewable energy regime costs to be recovered and the number of consumers.

Financial Implications

- 34 Implementation of the proposals is assumed to raise revenue in the order of \$520,000 in application fees in FY2025/26 and \$480,000 in levy fees from FY2026/27 onward to support the regulator's activities. MBIE is absorbing offshore renewable energy regime establishment costs for the 2024/25 fiscal year (via transfer from March Baseline Update).

Table 1: Summary of forecast revenue

| Period | Fee/Levy (\$) | No. Payees (assumed) | Revenue (\$million) |
|---------|------------------------------|----------------------|---------------------|
| 2025/26 | Application Fee \$130,000 | 4 applications | 0.520 |
| 2026/27 | Annual Levy \$480,000 | 2 permit holders | 0.480 |
| 2027/28 | Annual Levy \$ 480,000 | 2 permit holders | 0.480 |

- 35 We are aware of at least five offshore wind developers considering projects in New Zealand. However, developers have indicated two key concerns that may result in fewer, or no, applications:
- 35.1 The potential for seabed mining off the coast of Taranaki (the preferred site for offshore wind projects) to affect the availability of suitable space for offshore wind development and/or their ability to get resource consent; and
 - 35.2 Lack of government revenue stabilisation for offshore wind projects (compared with overseas project opportunities).
- 36 In the event there are no applications or permits issued, MBIE may incur up to \$520,000 in one-off costs without a revenue stream. Officials are working to mitigate the risks by:
- 36.1 limiting advance expenditure as far as possible without compromising on delivery timelines,

- 36.2 releasing a notice of intention to open a feasibility application round once the Bill is in force to gather information about likely application numbers, and
- 36.3 setting the levy in such a way as to ensure cost recovery for ongoing costs as long as at least one permit is issued.
- 37 Options for reprioritisation have also been identified in the Energy portfolio to cover one-off losses in FY2025/26, if they emerge.
- 38 The New Zealand Security Intelligence Service (NZSIS) and Government Communications Security Bureau (GCSB) will support MBIE to develop the capability to conduct initial screening for national security risk as part of permit application assessments. MBIE will be able to escalate cases to the NZSIS and the GCSB as necessary. The cost of this activity and assessments made by NZSIS and GCSB will initially be met from baselines, but cost recovery may need to be revisited in future if there is a greater number of complex assessments needed than what has been assumed.
- 39 An appropriation for the Offshore Renewable Energy regulator was established in the March Baseline Update.

Legislative Implications

- 40 Regulations promulgated under the Offshore Renewable Energy Act, once it is has been enacted and in force, will be needed to implement the cost recovery proposals.

Regulatory Impact Statement

- 41 A Regulatory Impact Statement was prepared as part of the process for seeking policy decisions for the design of the regime. This included first stage cost recovery proposals.
- 42 A second stage cost recovery impact statement was prepared by MBIE. An internal quality assurance panel from the Ministry of Business, Innovation and Employment has reviewed the Cost Recovery Impact Statement on offshore renewable energy, and assessed it against guidance in the CRIS2 template and the quality assurance criteria. The panel considers that the CRIS2 meets the quality assurance criteria for Ministers to make informed decisions on the proposals in this paper.

Climate Implications of Policy Assessment

- 43 The Climate Implications of Policy Assessment (CIPA) requirements do not apply to this proposal (as the threshold for significance is not met).

Population Implications

- 44 The Bill recognises that there are Māori interests in the marine environment, and therefore offshore renewable energy. The Bill, in its current form, requires

developers to engage with relevant iwi, hapū, and other Māori groups; and that the regulator, on behalf of the Minister for Energy, will also consult with those groups as part of assessing a feasibility permit application.

Human Rights

- 45 There are no inconsistencies with the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993.

Use of external Resources

- 46 These proposals have been developed without the use of external resources.

Consultation

- 47 MBIE consulted publicly on the offshore renewable energy regime in 2022⁵ and 2023.⁶ The consultation included a proposal for full cost recovery.
- 48 MBIE carried out targeted consultation on the specific proposals in this paper with offshore wind developers that have an active interest in New Zealand, the New Zealand Wind Energy Association and iwi and hapū over four weeks in late 2024. MBIE received submissions from three offshore wind developers and NZWEA. Their views are summarised as part of the proposals above.
- 49 The following government agencies were consulted on the preparation of this Cabinet paper: Department of Prime Minister and Cabinet (Policy Advisory Group), Government Communications Security Bureau, New Zealand Security Intelligence Service, Te Arawhiti, Ministry for Regulation, and the Treasury.

Communications

- 50 Following Cabinet decisions, MBIE intends to provide an update to those consulted as part of targeted consultation on the cost recovery discussion document, and to update its website.

Proactive Release

- 51 I plan to proactively release this paper, with any redactions consistent with the Official Information Act 1982, on MBIE's website within 30 business days of Cabinet's decision.

Recommendations

The Minister for Energy recommends that the Committee:

- 1 **note** that in June 2024 Cabinet agreed to the design of the Offshore Renewable Energy Regulatory Regime [CBC-24-MIN-0041 refers];
- 2 **note** Cabinet agreed that:

⁵ Enabling Investment in Offshore Renewable Energy, MBIE, December 2022

⁶ Developing a Regulatory Framework for Offshore Renewable Energy, MBIE, August 2023

- 2.1 the regime would be fully cost recovered through application fees and levies; and
- 2.2 the Ministry of Business, Innovation and Employment will be the regulator and administrator of the offshore renewable energy regime [CBC-24-MIN-0041 refers];
- 3 **note** the Offshore Renewable Energy Bill was introduced on 9 December 2024 and includes regulation-making powers to enable the regime to be fully cost recovered;
- 4 **note** the proposals in this paper depend on the passage of the Offshore Renewable Energy Bill;
- 5 **agree** to an application fee for applying for a feasibility permit of \$130,000 (GST exclusive);
- 6 **agree** to the following design features for the annual levies to be paid by feasibility permit holders:
 - 6.1 The levy amount will be set by a formula prescribed in regulations that is based on estimated total annual costs, divided equally between levy payers (those with a valid feasibility permit in the relevant fiscal year);
 - 6.2 The initial levy amount and any changes to it will be notified in the *Gazette*;
 - 6.3 The levy is to be paid within thirty days of a feasibility permit being granted for the first levy payment, and by 31 July each year thereafter;
 - 6.4 Levies will be due for the full year, with no adjustments if the permit is only valid in part of the year;
 - 6.5 There is a levy reconciliation process once costs have been confirmed that involves either invoicing or refunding levy payers to reflect the actual costs divided by the number of feasibility permit holders in the relevant fiscal year (or part of that fiscal year);
- 7 **note** that the annual levy amount is expected to be initially set at \$480,000 (GST exclusive), divided amongst feasibility permit holders;
- 8 **invite** the Minister for Energy to issue drafting instructions to the Parliamentary Counsel Office to prepare regulations to give effect to the above decisions;
- 9 **authorise** the Minister for Energy to make decisions consistent with the policy in this paper on any issues which arise during the drafting process.

Authorised for lodgement

Hon Simon Watts

I N C O N F I D E N C E

Minister for Energy

I N C O N F I D E N C E

Appendix One: Summary of Offshore Renewable Energy Costings

Summary of costings

| Phase | Period | Rounded | Funded by |
|---|---------|-----------|--|
| Establishment phase for the Offshore Renewable Energy regulator | 2024/25 | \$475,000 | MBIE baseline (transfer in MBU) |
| Feasibility permit round | 2025/26 | \$520,000 | Application Fee \$130,000 (assuming four applications) |
| Monitoring, compliance, other regulator activities | Annual | \$480,000 | Levy on permit holders \$240,000 (assuming two permit holders) |

Cost components for the feasibility permit application fee

| Feasibility permit round cost breakdown | Description | Cost |
|---|--|------------------|
| Management of Round (MBIE resource) | 0.8 FTE, legal support, and engagement | \$210,000 |
| Expert input to assessments | 2-3 individuals over 6 months | \$310,000 |
| Total | | \$520,000 |

Cost components for the feasibility permit holder levy

| Monitoring, compliance, other regulator activities | Description | Cost |
|--|---|------------------|
| Management of regime, monitoring, compliance (MBIE resource) | 2.2 FTE providing technical, operational and information services | \$365,000 |
| Digital services, including web, data, and channels | 2-3 individuals over 6 months | \$115,000 |
| Total | | \$480,000 |