MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

COVERSHEET

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	*Offshore renewable energy regime – Cost recovery proposals*	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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Stage 2 Cost Recovery Impact Statement: Offshore Renewable Energy (ORE) Regime Cost Recovery

Agency Disclosure Statement

This Cost Recovery Impact Statement (CRIS) has been prepared by the Ministry of Business, Innovation and Employment (MBIE).

It provides an analysis of options to recover the cost of administering feasibility permit applications, and monitoring and compliance activities under the offshore renewable energy regulatory regime. Two further tranches of cost recovery proposals will later cover application fees for permit variations, transfers, and surrenders; and commercial permits and safety zones respectively.

The analysis in this impact statement has been made with the following provisos:

- The proposals in this paper are dependent on the passage of the Offshore Renewable Energy Bill. If amendments are made to the cost recovery provisions in the Bill, the Minister for Energy may seek further decisions on cost recovery proposals.
- This Stage 2 CRIS should be read in the context of the Regulatory Impact Statement that accompanied Cabinet policy decisions in June 2024, which included Stage 1 decisions from Cabinet to cost recover the regulator's activities.[1]
- The Government has set clear expectations of opening a feasibility permit round by late 2025 and awarding first permits in 2026. MBIE has focused on identifying an operating model that is sufficiently robust and able to be delivered within the timeframes allowed.
- In identifying the appropriate operating model, we have assessed a minimum viable operating model option against a second option that included additional IT support for information and data management, and some additional (and more senior) FTE resource.
- We have not included options for larger-scale operating models, because they will not be designed or implemented within the Government's timeframes.
- The number of applications that will be received, and permits granted, is highly uncertain. If there are fewer applications than anticipated, the regulator will under-recover fixed costs. If there are more applications, the additional revenue from application fees would support the scaling up of resources required to process a greater volume of applications in a timely manner.
- The levy amount reflects that the risks associated with undertaking feasibility activities are relatively low, and therefore a light-touch monitoring approach is appropriate. The approach can be adjusted if required in later years.
- While the cost recovery proposals have been developed with advice from operational policy and operational teams, further detailed operational policy and planning is still underway. However, MBIE is confident that a feasibility round, around the assumed scale, can be delivered within these costs.

[1] https://www.mbie.govt.nz/dmsdocument/29132-regulatory-impact-statement-offshore-renewable-energy-regime

This CRIS was originally published on 12 May 2025.

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Executive summary

The Government is establishing legislation to regulate offshore renewable energy (ORE). The regime aims to give developers greater certainty to invest, 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 feasibility and commercial permits.

Cabinet previously agreed that:

- the regime will be fully cost recovered through application fees and levies
- the Ministry of Business, Innovation and Employment (MBIE) will be the regulator and administrator of the ORE regime [CBC-24-MIN-0041 refers].

This CRIS covers the first of three tranches of regulations and their associated cost recovery proposals. This first tranche is targeted at cost recovery mechanisms needed to enable the Government to meet its goal of opening the first round of feasibility permit assessments in late 2025.

We propose the following cost recovery charges:

- **An application fee for feasibility permits of $130,000[2] per application**. This is based on total cost of assessing the applications estimated at $520,000, divided by an estimated four applications. The assessment process involves the regulator assessing applications against set considerations (for example, technical and financial capability, and benefits of the proposed developments to New Zealand) and seeking information on applications through a public consultation process. The equivalent fee in Australia is AUD$300,000 per application.
- **An annual levy to recover total costs expected to be $480,000 per annum, which would be split among permit holders.** The levy is intended to recover the costs of MBIE administering the regime, including implementation costs, monitoring and compliance, maintaining the register of permits, stakeholder engagement, regulatory stewardship, and reporting to the Minister. An equal split is appropriate because we expect limited differences in the amount of compliance work required between different applicants. The amount per permit holder will depend on the number of permits granted. The levy under the Australian system equates to a minimum of AUD$730,000 per feasibility licence holder, but its regulator undertakes broader functions (including health and safety compliance and designating areas for development).

The proposed fees and levies have been developed following consultation in November 2024. Stakeholders supported the proposed application fee of $124,000. The final fee of

[2] All dollar figures in this CRIS are expressed in New Zealand Dollars (NZD) unless otherwise specified.

$130,000 reflects final costings and refinements to the operating model. MBIE consulted on an annual levy rate of $1.3 million to be shared equally amongst permit holders. Stakeholders raised concerns that this levy rate could be significant in a scenario where there is only one permit holder. Following consultation, we have undertaken further work to streamline costs to refine what will be needed for the feasibility stage of the process. We have consequently reduced estimated staff levels and are proposing using simpler, off-the-shelf IT products to manage the regime.

The proposed application fees and levy rates are sufficient to fund a 'minimum viable' operating model. This approach keeps costs down, is considered to be appropriate for the level of risk management required for a feasibility phase, and can be rapidly stood up to meet the Government's expectations that the first feasibility round be opened by late 2025. If there are fewer than the assumed number of applications, the regulator will under-recover fixed costs and MBIE will be required to make up the shortfall from baselines. If there are more applications, the additional revenue from application fees would support the scaling up of resources required to process a greater volume of applications within the timeframes set out by the Government.

Introducing an offshore renewable energy regime

Offshore renewable energy faces barriers to investment

Offshore renewable energy could make a significant contribution to the supply of renewable electricity to support New Zealand's transition to a low-emissions economy.

International developers are exploring offshore wind projects off the coasts of Taranaki, South Auckland/Waikato and potentially the South Island, which offer a limited number of sites with world-leading wind quality and shallow water depths suitable for fixed-bottom wind farms. Our large exclusive economic zone means there is also significant potential for floating wind, but this is newer technology and more expensive.

Offshore renewable energy developments are currently subject to environmental consents under the Resource Management Act 1991 (RMA) and the Exclusive Economic Zone and Continental Shelf (Environmental Effects) Act 2012 (EEZ Act). These Acts focus on the sustainable management of the environment.

The offshore renewable energy regime is designed to fill some gaps in the current regulatory environment, including:

- Significant feasibility work is required before developers can apply for consents under the RMA or EEZ Act. Developers have identified there is not sufficient certainty around the ability to use the site to enable investment in feasibility studies. Feasibility studies for offshore wind are estimated to take around 5-7 years and cost around ~$200 million. Investment required for each project is estimated to be ~$5 billion.
- Limited suitable areas are available for fixed-bottom offshore wind. The environmental consenting regimes are on a 'first come, first served' basis. There is currently no ability for the government to select offshore renewable energy developments that will deliver the most benefits to New Zealand.
- There are not sufficient mechanisms to manage the risks to the Crown and the public from offshore renewable energy developments, specifically risks relating to decommissioning of infrastructure, and safety risks for people and infrastructure.

The Government has agreed to establish legislation to regulate offshore renewable energy (ORE), and has ambitious timeframes for opening the first feasibility permit application round

In June 2024, Cabinet agreed to establish an offshore renewable energy regime with the following objectives:

- give developers greater certainty to invest.
- allow the selection of developments that best meet New Zealand's national interests.
- manage risks to the Crown and public associated with developments.

It does this by introducing two new permits:

- 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).
- 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 Government expects to open a feasibility permit round by late 2025, and award first permit/s in 2026.

The Bill also:

- creates an ability for safety zones to be declared around infrastructure
- places obligations on permit holders to decommission infrastructure
- provides authority for administration and enforcement functions
- provides regulation-making powers, including for cost-recovery[3].

This Stage 2 CRIS should be read in the context of the Regulatory Impact Statement that accompanied Cabinet policy decisions in June 2024, which included Stage 1 decisions from Cabinet to cost recover the regulator's activities.[4] An earlier Regulatory Impact Statement supported in-principle decisions by Cabinet in June 2023.[5]

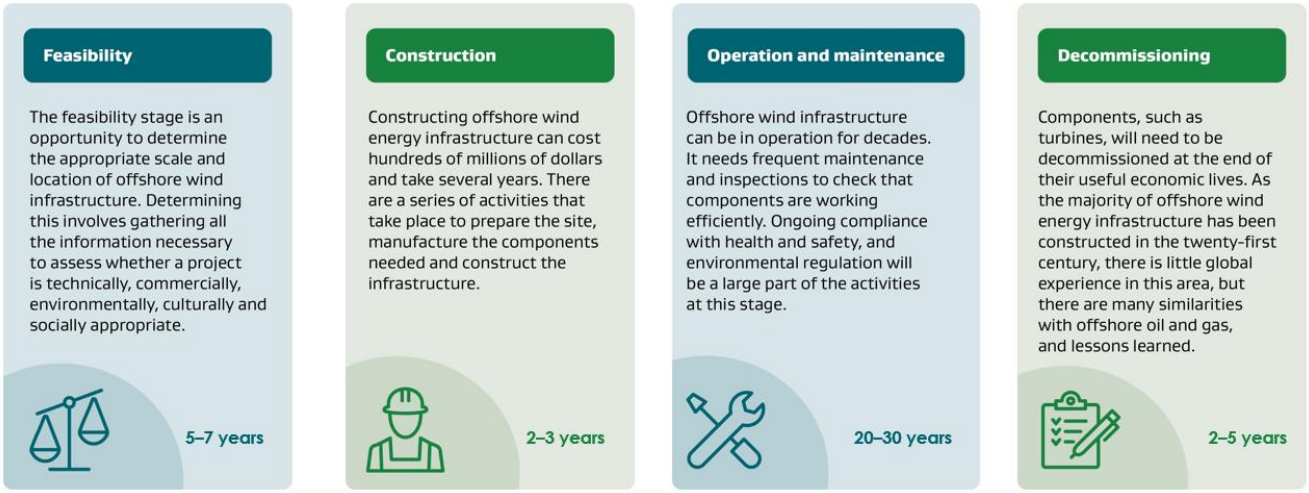
The figure below shows the lifecycle of an offshore renewable energy project.

[3] See clause 168.

[4] https://www.mbie.govt.nz/dmsdocument/29132-regulatory-impact-statement-offshore-renewable-energy-regime

[5] https://www.mbie.govt.nz/dmsdocument/27261-regulatory-impact-statement-offshore-renewable-energy-in-principle-decisions-for-regulating-feasibility-activities-proactiverelease-pdf

Figure 1: Life cycle of an offshore renewable energy project



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

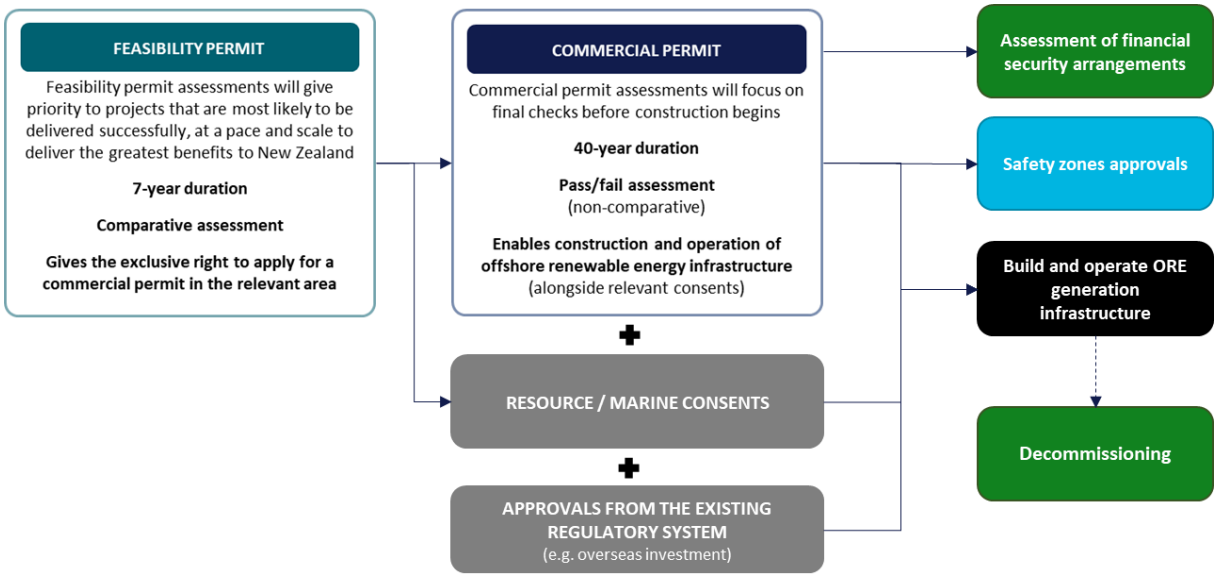
Cabinet agreed that the offshore renewable energy regime would be fully cost recovered [CBC-24-MIN-0041 refers]. It was indicated at that time that the Minister for Energy would come back to Cabinet for decisions on the design of the cost recovery model, and the level of the fees and levy.

The current 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.

The offshore renewable energy regulator will be co-located with the regulator for the Crown Minerals Act 1991 (New Zealand Petroleum & Minerals, NZP&M). This will enable existing systems and resources to be flexibly applied to the offshore renewable energy regime, alongside additional specialist expertise. This arrangement will enable some efficiencies. Cost controls will be in place to ensure there will be no cross-subsidisation between the regimes.

The figure below provides an overview of the key stages of the regime. The focus of these regulations is on the opening of the first feasibility permit round.

Figure 2: Overview of the offshore renewable energy permitting regime



Cost Recovery Principles and Objectives

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 objectives of the wider regime are outlined on page 4.

Using guidance from the New Zealand Treasury and the Office of the Auditor-General, we have identified a set of criteria to assess options for cost recovery. In addition, we have assessed options based on whether they meet the Government's timeframes for opening a feasibility permit round.

Must meet:

- **Timeliness –** the option should be able to be implemented in time to meet the Government's intentions to open a feasibility permit round by late 2025 and award first permit/s by the third quarter of 2026.
- **Effectiveness** – cost recovery should support the regime's three key objectives described on page 4, by providing the regulator with a sufficient level and certainty of revenue to provide timely and high-quality assessment processes and compliance activity, while ensuring costs imposed on the sector do not create investment certainty challenges for developers.

Should meet:

- **Equity** – the recovery of costs for a particular function or service should be attributed to those users of the relevant function or service, at a level that reflects their level of use or benefit. This principle also means ensuring that the system does not seek to recover costs from one group that could benefit a previous or future group. This principle is about ensuring the fair distribution of resources.
- **Efficiency** – costs should be allocated and recovered to ensure that maximum benefits are delivered at minimum cost. This principle is about value for money.

- **Justifiability** – the costs recovered through fees or levies reasonably relate to the goods or services for which users are being charged the fees or levies for. This principle is about making sure that the costs that are recovered are justifiable. MBIE also has a responsibility to ensure that services are both effective and efficient.
- **Transparency** – establishing transparent processes for setting and managing fees or levies. This principle is about ensuring information is available, so that those impacted by fees and levies can understand and comment on the basis on which charges are calculated and imposed. It is also about ensuring that recovered costs can be clearly linked to the service provision (including the time period in which they are incurred).

Policy Rationale: Why a user charge? And what type is most appropriate?

Why a user charge?

Cabinet has agreed to full cost recovery. Cost recovery for the regime is appropriate because applicants (offshore renewable energy developers and operators) opt into, and are the direct beneficiaries of, the permit.

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, the capital costs of the project, the amount of electricity generated, and the number of consumers (see the impacts analysis section).

What type of charge is appropriate?

Cabinet agreed to an application fee and a levy. These remain appropriate. Fees are most appropriate when the activity it funds has a clear beneficiary. Levies are most appropriate when recovering costs of activities that apply to a group (i.e., permit holders) rather than a specific entity.

Table 1: Cost recovery mechanism

Cost recovery mechanism	Who pays	What it pays for	When they pay	How it varies among payees
Application fees	Applicants for feasibility permits	One-off assessment activity for feasibility permit applications	Once upon application	Standard rate
Levy	Feasibility permit holders	Ongoing monitoring, compliance, education, activities	On an annual basis once permit is granted	Split equally among permit holders

The level of the proposed fee and its cost components (cost recovery model)

Proposed charges are based on assumed application numbers

The level of cost recovery depends on the number of applications and resulting number of permits awarded.

Resourcing assumptions for the first application round are based on receiving four applications. We are aware of at least five offshore wind developers considering projects in New Zealand. More international developers may also show interest once a feasibility permit round opens. For example, Australia estimated that it would receive eight applications and received 37 applications. However, unlike in Australia, developers in New Zealand have indicated two key concerns that may result in fewer, or no, applications:

- 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.
- Lack of government revenue stabilisation for offshore wind projects (compared with overseas project opportunities).

The subsequent monitoring function (likely to commence in 2026), has been developed on a minimum viable basis for monitoring two permit holders. We understand most current developer interest is for limited areas in Taranaki and Waikato, that are optimal for fixed-bottom wind projects in New Zealand (the most developed technology – noting there is potential for significantly more floating wind projects in future). We understand there is space for approximately 2-3 projects at 1GW scale in these areas.

Operational and fiscal risks associated with these assumptions are discussed in the Implementation Plan section.

Application fee

Application fee level

We propose an application fee of $130,000 (GST exclusive) per application, to be paid on submission of the application. The application fee will recover the cost of assessing applications for feasibility permits. The equivalent fee in Australia is AUD$300,000 per application.

We intend to review the feasibility application fee before the launch of any future feasibility permit application rounds, as individual rounds are likely to be years apart. Any change to the application fee would require changing the regulations.

The application fee will resource the feasibility round, including assessment and advice

The ORE Bill establishes that the Minister may award feasibility permits through application rounds, and the factors that must be considered. The Minister's determinations will be informed by advice from the regulator.

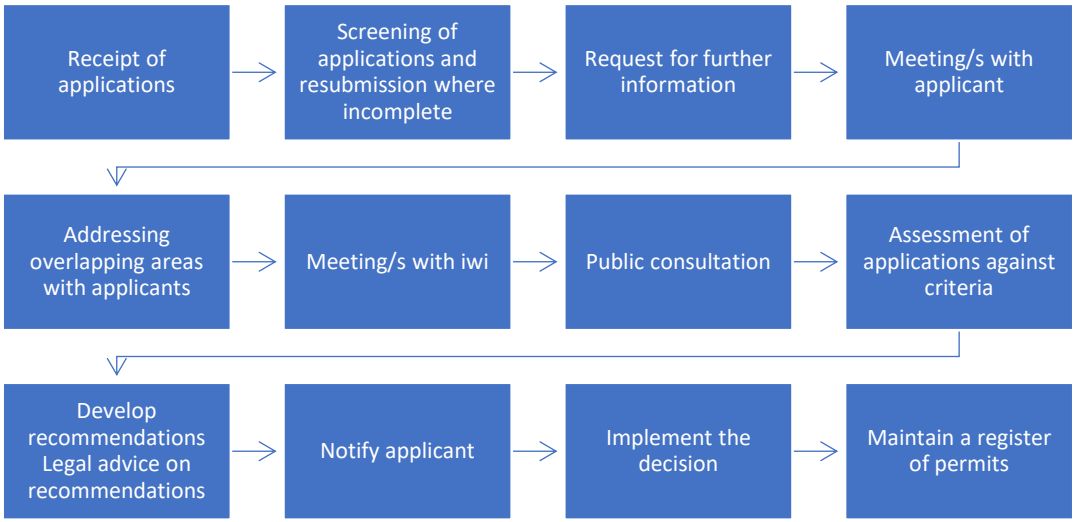
Robust and timely assessment is essential to:

- Ensure the regime is attractive to investors.
- Allow the selection of developments that best meet New Zealand's national interests.

- Reduce the risk of sub-optimal developments and/or legal challenge of the Minister's determinations.

The Government intends for application rounds to cover the following activities (many of which will be undertaken in parallel, rather than sequentially as shown).

Diagram 1: Activities undertaken in feasibility permit assessment phase



The application fees would provide for the following, assuming four applications in the first round:

- **Management of the round (MBIE resource**) - $210,000 for salary costs and overheads, legal support, and engagement.
- **Expert input for assessments** on technical elements, such as electricity system effects – $310,000 for 2-3 individuals over 6 months.

This is the minimum viable operating model required to meet statutory obligations. The model generates efficiencies by allowing resources to be flexibly applied between the Crown Minerals and ORE regimes, with appropriate cost controls. The "Implementation Plan" section outlines how we have considered the risk of higher or lower application numbers.

The operating model does not recover policy resource, e.g. developing advice to Ministers on regulations or the scope of the application round. Policy advice is a core government function and provides benefits to a wider range of stakeholders.

The application fee will be non-refundable

We considered options for refunding application fees in situations where an application is not accepted due to the application being incomplete. This scenario mainly applies to applications missing significant information, or activity, as the regulator would be able to ask applicants for minor missing details at no cost.

We considered three options:

- Provide a refund process.
- Create a two-stage process, where applicants are first charged a submission fee covering screening costs, and then a second fee upon application acceptance covering assessment costs.
- Do not provide refunds.

We ultimately recommend not to provide refunds. The first two options would be complex and expensive to implement **(efficiency principle)**, and it could be considered unfair to other applicants if another party is able to submit significant details after the deadline **(equity principle)**. We expect applicants to be highly sophisticated international companies with in-house legal teams to advise on the suitability of applications.

Annual levy

Levy level and design

The levy will recover the ongoing operating costs of the ORE regime, including monitoring and compliance, information management and provision, and reporting to the Minister for Energy.

We are proposing the following key design features for how the annual levy to be paid by feasibility permit holders will work:

- 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).
- The initial levy amount and any changes to it will be notified in the *Gazette,* consistent with other energy sector levies.
- 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.
- 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.
- 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 and is made feasible by the (relatively) small number of levy payers. This means a memorandum account is not required.

The levy will be set at $480,000 (GST exclusive), to be divided equally among permit holders. The levy under the Australian system equates to a minimum of AUD$730,000 per feasibility licence holder, but its regulator undertakes broader functions (including health and safety compliance and designating areas for development).

Australia's ORE levies vary depending on the size of the permit area. MBIE consulted on whether New Zealand's levy rate should do the same. We have ultimately decided not to vary the levy rate by size. Unlike Australia, we expect projects to be of a similar size. In addition, for the feasibility phase, there is substantively little difference in the cost of checking compliance between projects of different sizes within the scale expected in New Zealand (0.5 – 1 GWh) (**justifiability** principle), and administering the variability would be administratively burdensome, particularly given the small amounts involved (**efficiency** principle).

Levy will provide resources for education, monitoring and compliance

During the feasibility stage, offshore renewable energy developers will undertake the environmental studies and stakeholder engagement needed before reaching investment stage and confirming suitability for investment.

Monitoring during this phase will be light-touch. It will involve assessing whether permit holders have reached the milestones set out in their development plan, and if not, seeking explanation for why the plan is delayed. Regulator activity during the commercial phase will be more substantive, covering aspects such as construction, decommissioning plans and associated financial securities, and safety zones.

The levy rate would provide for the following, assuming the granting of two permits in the first round:

- **Management of regime, monitoring and compliance (MBIE resource)** - $365,000 for 2.2 FTE providing technical, operational, and information services.
- **Digital services, including web, data, and channels** - $115,000.

The levy would enable the following functions for at least two developments:

- Monitoring of development activity, including technical assessments and maintenance of data.
- Ongoing development and maintenance of operational policy and guidance.
- General information provision (public and developers), including web-based resources.

We focused on identifying an operating model that is robust and can be deployed within the Government's timeframes. Our proposed model assumes two permit holders and some ability to share FTE across New Zealand Petroleum & Minerals (NZP&M), with appropriate cost controls to avoid cross-subsidisation. Scaled-up options would require MBIE develop specific IT solutions now, well before we have certainty of legislative authority for the nature of the regime, its cost recovery, and demand for cost-recovered services.

MBIE consulted on an annual levy rate of $1.3 million, which included additional IT support for information and data management, and some additional (and more senior) FTE resource.

Submitters raised concerns that if there was only one permit holder, a $1.3 million levy would be significant. Submitters said the level of the levy should be commensurate with the risk and stage of development of the project. Following further work to refine what is needed for the feasibility stage of the project, and taking into account the risks associated with feasibility activities, we have reduced estimated staff levels and are proposing using simpler, off-the-shelf IT products to manage the regime. Consequently, we brought the levy rate down to $480,000, to be shared equally amongst permit holders. Table 2 compares these levy rates against our criteria.

Table 2: Comparison of levy rate options

Option	1. Minimum viable $480,000	2. Consulted option $1.3 million
Must meet:		
Timeliness	✓	✗
Effectiveness	✓	✓
Should meet:		
Equity	✓	✓
Efficiency	✓	✗
Justifiability	✓	✓
Transparency	✓	✓

Option 1 is appropriate because it meets the two criteria that must be met (timeliness and effectiveness). A minimal viable approach will avoid over-investing and/or sunk costs if the requirements for the Regulator change, and ensure the basic systems and resources are in place to meet timeframes. The minimum viable product is appropriate, given the relatively low-risk nature of feasibility activities (this also accords with submitters' feedback on proposals).

Table 3: 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

Revenue will vary from forecast, depending on the number of applications and actual costs from 2026/27 (revenue will be adjusted for actual cost through year end reconciliation and (possibly) future levy reviews)

Impact analysis

Impact on applicants and permit holders

The proposed cost recovery will affect a small number of feasibility permit applicants and permit holders.

Around 5 large multinational businesses have expressed interest in obtaining feasibility permits to commence research to establish offshore wind infrastructure, most of which have extensive experience in offshore wind developments.

The proposed cost recovery levels have been set with regard to potential impacts on investment certainty and commercial viability of offshore renewable energy. The proposed levy rate of an estimated $480,000 per annum for each applicant would represent approximately 1% of a developer's expected annual expenditure of ~$40 million per annum at feasibility stage in a scenario with only one permit holder, or less if there are more permit holders.

In response to concerns that the proposed levy rate of $1.3m could be significant in a scenario with only one permit holder, we have reduced estimated staff levels and are proposing using simpler, off-the-shelf IT products to manage the regime. This has reduced costs down to $480,000, to be shared equally amongst permit holders.

The proposed fee levels compare favourably to international examples. The table below compares proposed application fee and levy rates with Australia's offshore renewable energy legislation, which has served as a reference point.

Table 4: Comparison of proposed cost recovery levels in New Zealand and Australia

Mechanism	New Zealand	Australia
Application fee	$130,000 per application	AUD$300,000 per application
Levy	Expected to be a total of $480,000 split between permit holders. (i.e., $240,000 each in a scenario with two permit holders)	Three levies equating to a minimum of AUD$730,000 per licence holder, plus a variable component based on the size of the development.*

* The Australian system differs from the offshore renewable energy regime, e.g. its regulator is responsible for enforcing the health and safety provisions of the Act (whereas in New Zealand we have WorkSafe), and it also designates areas for offshore renewable energy.

Impact on electricity users

Levy costs at feasibility stage may eventually flow through to the price of electricity sold by offshore renewable energy developers at commercial stage. This flow-through is inconsequential compared to total development costs. For comparison, developers are expected to spend around $200 million for feasibility activities and $5 billion for construction costs for a 1 GW project, compared to a levy rate of $240,000 per annum in a scenario with two permit holders. In addition, these costs would then be recovered through the electricity generated.

The additional and/or accelerated investment in electricity generation is likely to benefit consumers in the long run through greater supply (enhancing security and affordability).

Impact on the regulator & potential risks

See the Implementation Plan section.

Consultation

Consultation on ORE regime design and intention to cost-recover.

Cost recovery was discussed at a high level in the second discussion document, *Developing a Regulatory Framework for Offshore Renewable Energy*. It noted that cost recovery was appropriate and in line with Treasury advice that public organisations generally charge fees or levies when the goods or services they provide deliver a specific group (and not the population as a whole) with a direct benefit.

The discussion document proposed recovery costs through application fees (to be charged irrespective of the success of the application to recover the costs associated with assessing the application) and annual fees (where a permit had been granted to applicants, to cover potential ongoing costs associated with monitoring the conditions of the permit).

Submitters almost unanimously supported full cost recovery of government services for the regime so long as it is proportionate and moderate. A small minority of submitters suggested that there should be no costs involved if the Government was to support development of offshore renewables. As outlined in the section on cost recovery principles, we consider it reasonable to recover the cost of compliance activity.

Targeted consultation on detailed cost recovery proposals

In late 2024, MBIE undertook targeted consultation on the cost recovery proposals with offshore wind developers who have an interest in New Zealand, and iwi and hapū. MBIE received four submissions from offshore wind developers and the New Zealand Wind Energy Association. We have discussed the outcome of this consultation above in relation to the rates for the application fee and levy.

Conclusions and recommendations

MBIE recommends the following cost recovery mechanisms:

- An **application fee** of $130,000 per application, charged to parties applying for a feasibility permit, to cover the cost of assessing applications.
- An **annual levy** expected to be $480,000 split evenly between feasibility permit holders, to cover the cost of the regulator's compliance and education activities.

These cost recovery rates allow for a minimum viable operating model, premised on an assumption of four applications and two permit holders.

Implementation plan

Establishing the regime and regulator

The regulator's form, functions, and operating model have been developed by MBIE Energy Markets Policy and the Crown Minerals regulator at a high level, in parallel with development of the regime (legislation and regulations). This includes the phases of round opening, assessment, consultation, and decision-making for the feasibility phase. Resourcing for the establishment phase is not being cost-recovered, on the basis that there is a national interest in setting up the regulator (as there is in the policy work), and establishment is occurring ahead of cost-recovery mechanisms to meet the Government's timeframes.

Work to date (informed by experience of the Crown Mineral's regulator) has been sufficient to inform the level of resourcing required. More detailed design of the operating model is underway.

The regulator has recently hired 1 FTE to undertake operational policy planning, and is currently recruiting for a technical expert to lead assessment. Further technical experts will be contracted for assessments as needed, and we have already begun conversations with agencies such as Transpower that may provide support. This resourcing reflects a minimum viable operating model.

The regulator has begun implementation planning, which includes:

- developing process workflows
- developing the round notice
- developing information requirements for applications
- developing standard operating procedures
- scoping geospatial requirements
- developing the decision-making framework for assessing applications
- developing digital platforms and payment systems
- developing information, education, and guidance.

MBIE has not been able to develop full detail in the time and resource available before cost recovery policy decisions. The expertise of the regulator as it is further established will be critical in appropriately scoping these policies and plans.

Table 5 outlines our proposed phasing of the regulator's capability and capacity development.

Table 5: Phases for establishing the regulator

Phase	Timing	Overview
Establishment	FY 2024/25	The regulator will establish minimum viable capability and systems, assuming four applications and two permit holders, funded through existing baselines.
First application round	FY 2025/26	The regulator will operate a minimum viable operating model to assess applications (i.e., manual assessment rather than bespoke IT systems), funded by application fees. If the volume of applications requires scaling up capacity, this will be paid for through the additional application fees.
Ongoing monitoring function	FY 2026/27	The regulator will undertake a light touch monitoring regime, commensurate with the relatively low risks of feasibility activities. Variation in the number of actual permit holders will be addressed through an annual reconciliation process. The

		regulator will develop more sophisticated operational policies and IT systems if these are warranted.
Ongoing monitoring and future rounds	FY 2027/28 onward	The regulator will incorporate lessons from the first round and year one operations to set future application fees and levy rates, including operating model efficiencies and adaptations that may be identified to address requirements (risk, volumes, changes in policy etc)

*Note that commercial phase considerations are not part of this CRIS, and will be assessed at a later date.

Financial and operational risks

As discussed above, the proposals have been developed using an assumption of four applications and two resulting permit awards.

The proposed cost recovery levels are intended to fully recover the regulator's costs. The annual reconciliation process ensures that the regulator is able to address any under-recovery or refund any over-recovery in relation to a particular year, and a memorandum account is not required. This type of mechanism is common in energy sector levies. Over the long term, this model provides the necessary flexibility to manage service delivery risks.

Right-sizing the system for the feasibility round

The key risk is in relation to the feasibility round. To minimise costs, MBIE is planning for low volumes of applications – four, based on the known level of interest in offshore wind projects in New Zealand currently (around 5 potential developers) and has planned for a minimum viable regulatory operating model, with minimal permanent FTE and using off-the-shelf IT tools rather than specialised applicant and permit holder management software. Applicants must pay their fee as part of an application, to avoid non-payment risks.

If there are fewer than four applications there is some limited scope to scale down resourcing, but costs may exceed revenue if, for example, there was only one application. The Minister for Energy has agreed to reprioritisation options to meet any fiscal shortfall.

If greater than four applications are received, the regulator may need to either flexibly draw on Crown Minerals regulatory resource where available, or contract for more capability. As a last resort, we could also consider extending assessment timelines.

Building a system for a larger number of applications risks substantial over-build. The cost of over-building a system would likely be paid by the taxpayer (through reprioritisation), as there would be no mechanism for additional cost recovery, and any such recovery would be hard to justify. A more sophisticated system is also likely to put at risk delivery on the Government's timelines for opening the round.

The New Zealand Security Intelligence Service (NZSIS) and Government Communications Security Bureau (GCSB) will support MBIE to develop the capability/systems to conduct initial screening for national security risk as part of permit application assessments. MBIE will be able to escalate complex cases to the NZSIS and the GCSB as necessary. NZSIS and GCSB have advised that they could initially meet the cost of this activity from within baselines, but cost recovery may need to be revisited in future if a greater number of complex assessments is needed.

Monitoring and compliance

Levy-funded compliance and monitoring requirements are low cost, given the nature of monitoring required during feasibility. This will be relatively easy to scale up, if more permits are awarded. Fiscal risks are mitigated by setting the levy by formula (i.e. total cost divided by number of permit holders); and additionally with a reconciliation at year end for actual costs and actual number of permit holders.

Monitoring and evaluation

MBIE will be responsible for monitoring and evaluating the Offshore Renewable Energy regime, including its financial performance. MBIE is in the process of developing the regulator function so that the regime can be implemented in mid-2025. This will include developing key performance indicators.

The regulator will be co-located with (and will flexibly share resources with) the Crown Minerals regulator (NZP&M), giving it well-established regulatory capability.

MBIE intends for the scope of monitoring activity to be proportional to the size of the regulator. It will include cost centre management and appropriation reporting.

MBIE has ongoing regulatory stewardship obligations and will monitor the following to inform future reviews of the regulations to ensure cost recovery principles are being met:

- The number of feasibility permit applications received (and revenue).
- The time taken to undertake a feasibility application assessment.
- The actual costs associated with assessing the feasibility applications.
- The number of permit holders.
- The accuracy of cost assumptions to undertake the functions associated with the levy (education, monitoring, compliance, etc).
- The actual costs associated with the levy.

Review

The feasibility application fee will be reviewed before the launch of a feasibility round.

MBIE will periodically review the levy design as part of its regulatory stewardship function. The levy will be notified by *Gazette* notice based on a formula in regulations and will include a reconciliation annually (ensuring charges equal costs). Where significant variations are identified in the reconciliation, MBIE will undertake a levy review to assess whether services are being delivered cost-effectively, and align cost recovery with actual costs where appropriate. This will provide permit holders with greater certainty about levy charges and service quality.

Substantive reviews of the regime may also trigger a cost recovery review.