



BRIEFING

Budget 2025 - Energy funds and grants savings invitation

Date:	28 November 2024	Priority:	High
Security classification:	Budget - Sensitive	Tracking number:	BRIEFING-REQ-0006614

Action sought		
	Action sought	Deadline
Hon Simeon Brown Minister for Energy	Note the Minister of Finance has invited you to identify savings <small>Confidential advice to Government</small> in Energy portfolio funds and grants Discuss your preferred savings packages for submission to the Minister of Finance with officials on 3 December	3 December 2024

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Justine Cannon	General Manager, Energy Markets	Privacy of natural persons	✓
Privacy of natural persons	Policy Director		
	Senior Policy Advisor		

The following departments/agencies have been consulted
Input has been requested from EECA and Ara Ake for this briefing, however, they have not been informed of the scenarios included.

Minister's office to complete:

☐ Approved

☐ Declined

☐ Noted

☐ Needs change

☐ Seen

☐ Overtaken by Events

☐ See Minister's Notes

☐ Withdrawn

Comments



BRIEFING

Budget 2025 - Energy funds and grants savings invitation

Date:	28 November 2024	Priority:	High
Security classification:	Budget - Sensitive	Tracking number:	BRIEFING-REQ-0006614

Purpose

To seek decisions on your preferred cost savings options for grants and funds in the Energy Portfolio, to meet Budget 2025 savings targets.

Recommended action

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

- a **Note** that for Budget 2025 the Minister of Finance has requested that you identify savings initiatives from funds and grants within the Energy portfolio **Confidential advice to Government**
Noted
- b **Note** MBIE has developed an initial package to meet the high and low savings targets in your response to the Minister of Finance, as a starting point for discussion (Annex One refers)
Noted
- c **Discuss** the options in this briefing at your next Officials meeting on 3 December to shape your preferred package
Yes / No
- d **Note** that we will report back to you on December 12 with a final package for your approval, and that this will need to be confirmed by 17 December in order to meet the Minister of Finance's submission date.
Noted

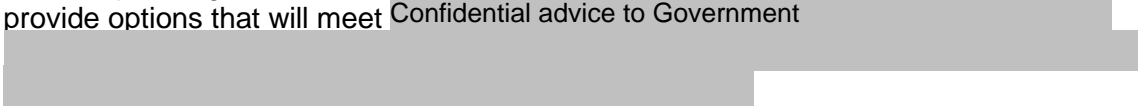
Justine Cannon
General Manager, Energy Markets
Building, Resources, and Markets, MBIE

28 / 11 / 2024

Hon Simeon Brown
Minister for Energy

..... / /

The Minister of Finance has invited you to prepare savings options for Energy portfolio funds and grants for Budget 2025

1. On 15 November, the Minister of Finance wrote to Ministers to outline the core components of Budget 2025 and request that Ministers begin developing their spending and/or savings submissions.
2. In the Energy portfolio, you have been asked to submit on savings and improved value for money from Energy funds and grants. The Minister of Finance has asked that you review funds and grants with a focus on:
 - a. Consolidating and simplifying the number of grants and funds
 - b. Increasing the value of Government spending, by scaling or closing grants and funds that represent lower value for money or where there isn't a clear rationale for Government intervention, and
 - c. minimising administrative costs.
3. Treasury have identified eight Energy portfolio funds and grants averaging \$39.64m in annual operating costs within scope of this cost saving exercise.¹ You have been asked to provide options that will meet Confidential advice to Government

4. The Minister of Finance has asked that you write to her by 23 December providing a summary of your intended savings initiatives. MBIE will submit your initiatives to Treasury by the same date.
5. In addition to this initiative, a baselines savings exercise for Budget 2025 is being led by Minister Seymour, focusing on portfolios where expenditure has significantly grown since 2017. We are awaiting confirmation of whether the Energy portfolio may be directed to identify additional savings for this exercise. Further Budget-related activity is set out in Annex Two.

Overview of funds and assessment criteria

6. The funds included in this exercise are administered by the Energy Efficiency and Conservation Agency (EECA) and MBIE. The latter includes funding for Ara Ake.
7. EECA funds are financed from a combination of direct Crown funding and levies (for example, the petroleum levy and electricity industry levy). Treasury have advised that, for the purposes of this exercise, savings from levy funding should be allocated towards targets in the same way as those from core Crown funding.
8. At a broad level, the purposes of the funds included in this savings exercise can be grouped into four categories:
 - a. Supporting the diffusion of new energy efficient and low-emission technologies
 - b. Supporting the development and commercialisation of new energy technologies
 - c. Supporting communities' energy resilience and affordability
 - d. Supporting public sector adoption of energy efficient and low-emission technologies.

¹ Two further funds – the Warmer Kiwi Homes Programme (\$41.5m average annual operating costs) and Public Electric Vehicle Charging Infrastructure (\$12m) – were excluded from saving target calculations.

9. The below sections provide a brief overview of the funds, grouped by these categories, and MBIE's views on where savings can most effectively be achieved. Annex One provides an initial cast of scenarios to meet the low and high targets set by the Minister of Finance.
10. In developing these scenarios, we have discussed savings options with EECA and Ara Ake. We have not, however, shared this final advice.

Criteria used to assess potential savings

11. In developing options to achieve savings targets, we have considered the following criteria (informed by the objectives set out in the Minister of Finance's Budget expectations letter):
 - a. **Value for Money:** we have considered fund evaluations where available.
 - i. Resilience and affordability funds rank particularly highly on this criterion
 - ii. Returns from support for public sector agencies are less clear, with agencies best placed to consider what is best value-for-money within their portfolios.
 - b. **Government priorities:** those funds delivering on Government priorities have been prioritised. For example, the Government's objectives for ensuring resilient infrastructure are directly supported by the Community Renewable Energy Fund.
 - c. **Administrative efficiency:** we have identified options to consolidate funds, which enables more flexibility and reduced administration costs. We have also sought to avoid creating funds that will only be capable of sub-scale interventions.
 - d. **Role for government:** There is a clear intervention logic for all the energy portfolio funds. It is worth noting that the technology diffusion funding primarily works based on demonstration effects, which could be achieved (to some extent) through other information sharing mechanisms. We have therefore given these funds a relatively lower priority.
 - e. **Distributional effects:** some funds target vulnerable households and communities, for example the Support for Energy Education in Communities and Warmer Kiwi Homes programmes.

Technology diffusion funds

12. EECA administers four funds supporting the early adoption of emerging energy efficient and low emissions technologies. These are:
 - a. *Technology Demonstration Fund (TDF)*: provides co-funding of projects that demonstrate early adoption of energy efficient technologies or processes that shows their commercial viability in New Zealand, supporting wider dissemination.
 - b. *Industry Development*: supports maintenance of an energy and carbon management accreditation framework and funds industry organisations to develop technical information, guidance, conferences and education.
 - c. *Low Emissions Transport Fund (LETF)*: provides co-funding to projects that demonstrate new-to-market low emissions technologies in the transport sector. This has previously funded projects such as electric battery trucks, and electric ferries.
 - d. *Low Emissions Heavy Vehicle Fund (LEHVF)*: provides co-funding to offset initial costs of purchase or conversion of heavy vehicles to approved low emissions alternatives.

Technology Demonstration, Industry Development and Low Emissions Transport Funds

13. EECA and MBIE consider that savings can be delivered by consolidating the TDF, Industry Development fund and LETF. These funds have substantial overlaps in purpose, with a focus on diffusion of energy efficient and low emissions technologies and supporting industry. A single fund fulfilling this function will simplify the funding environment and reduce administration costs. It will also give greater flexibility for EECA to shift investment across sectors to higher value areas.

Confidential advice to Government

Low Emissions Heavy Vehicle Fund

15. We have not suggested changes to the LEHVF. This Fund was newly established in Budget 2023 and is seeing significant industry interest. The LEHVF closely aligns with the Emission Reduction Plan's objectives for heavy transport decarbonisation, and targets an area where government support is currently needed to make transitions to low emissions technologies economical.

Energy technology development – Ara Ake

16. Ara Ake – New Zealand's Future Energy Centre – was established in 2020. Its purpose is to facilitate the development and commercialisation of energy innovation to support New Zealand's transition to a low emissions future. The organisation is set up as a company with shareholders and a governing Board, but would not be a going concern without Government funding. It is located in Taranaki but operates nationwide.

17. Ara Ake has a ten-year funding agreement (from 1 July 2023) with MBIE for \$70 million (or \$7 million per annum). These funding levels for Ara Ake were not altered in Budget 2024. Under its contract a mid-point review of Ara Ake including funding levels is due to occur in 2027/28.
18. Ara Ake focuses on funding and commercialisation support to help domestic innovative companies and start ups develop and scale. This contrasts with EECA funds, which focus on supporting businesses to adopt proven innovations. The structure of Ara Ake as an independent company allows more flexibility in funding better support innovators – for example, being able to consider equity options rather than grants or loans.
19. Ara Ake agrees a yearly work programme with MBIE to ensure their activity aligns with Government priorities. Current areas of focus align with priorities such as the development of carbon capture technology and sustainable fuels.
20. Ara Ake spends around \$3.6m per annum on functions of the company that are not direct financial support (eg identifying investment opportunities and commercialisation support to innovators, as well as fund administration). Confidential advice to Government

Confidential advice to Government

Community resilience and affordability funds

22. Three community resilience and affordability funds have been considered for savings:
 - a. *Community Renewable Energy Fund (CREF)*: supports community-based renewable energy projects. The CREF is primarily time-bounded funding, with approximately \$19.4m remaining in the appropriation over the next four years (\$12.5m in scope of this exercise). In October you agreed to target these remaining funds to focus on community resilience sites [briefing 2425-0985 refers].
 - b. *Support for Energy Education in Communities Programme (SEEC)*: supports frontline community-based support services to provide specialised advice and education to households in energy hardship, and support households to achieve warmer and more energy efficient homes.
 - c. *Warmer Kiwi Homes (WKH)*: provides grants to low-income households for insulation, efficient heating and basic home repairs (not included in Treasury's calculation of savings targets).
23. You have recently agreed that administration of CREF and SEEC should be transferred from MBIE to EECA, to support greater delivery efficiencies and alignment with EECA's other funding programmes.

24. These funds have demonstrated strong demand for their services and high realised benefits:
- a. The first round of CREF delivered grants to 70 sites to purchase solar PV and battery systems on community buildings, the majority of which served as civil defence sites during 2023 North Island severe weather events, to support their future resilience.
 - b. SEEC has demonstrated average savings for households between \$180-\$230 per year, improved the health of homes, and a recent evaluation found a return of \$2.21 for each \$1 of government funding invested.
 - c. WKH has strong evidence for the benefits achieved, an estimated benefit to cost ratio of over 4:1 and 16 per cent reduction in household electricity use over winter months.
25. These funds also align with government priorities to support resilience to natural hazards and address costs of living.

Confidential advice to Government



Public sector adoption of energy efficient technologies

Crown Loans Scheme

29. The Crown Loans Scheme, administered by EECA, provides interest-free loans to public sector organisations to fund energy efficiency and emissions reductions projects. In practice, this Scheme has generally been used by entities such as schools, councils, and health boards to fund the adoption of equipment like more efficient heating and lighting systems.

Overall savings packages

- 32. Annex Two provides a summary of potential savings packages to meet the low and high savings targets. These have been provided as a basis for discussion. A final package will be provided to you by 12 December, for your approval.

Next steps

36. A table outlining our suggested next steps to develop this submission is below:

Date	Milestone	Description
3 December	Officials Meeting	Discuss preferred savings package with officials
12 December	Briefing	Seeking final approval of savings package, with attachments <ul style="list-style-type: none">Letter to the Minister of FinanceSummary of savings initiative template (submission to Treasury and attach to letter)Savings initiative templates (detail for submission to Treasury)
17 Dec	Officials meeting	Option to discuss final package, if required
17-20 Dec	Submission to Treasury	MBIE will commence submission to Treasury's CFISnet system on 17 December.
23 Dec	Letter to MOF due	Last date for the Minister of Finance to receive Budget 2025 submission letters from Portfolio Ministers

37. Once you have confirmed your preferences, we will finalise proposals, and report back to you by 12 December. This will include:

- a. Assessment of the savings for the Crown and savings for levy-payers
- b. A draft response letter to the Minister of Finance
- c. Associated submissions for the Treasury

Annexes

Annex One: Summary of proposed savings packages

Annex Two: Tracking Budget 2025 actions





Annex Two: Tracking actions and decisions for Budget 2025

Initiative	Status	Next steps
Energy Portfolio Plan	Portfolio Plan balances to zero, with work underway to determine how that will be achieved. Additional page covering EECA added to Portfolio Plan	Submitted to Treasury 7 November Central Agency review November/December Due to be discussed by EXP early 2025
Current year fiscal pressures <ul style="list-style-type: none"> Establish ORE Regulator Review of Electricity Market Performance 	Agreed to transfer up to \$900,000 from grants	To be finalised and included in MBU 2025
Address ongoing energy policy baseline	Requested further information on work programme, advice provided	Options to be reviewed early 2025 in light of Budget 2025 progress Decisions to be included in MBU
EECA funding mix and scale	Decision to support lifting levy revenue from \$20m pa to \$23m (maximising cap set by Cabinet)	EECA will consult on the levy and present formal request in February 2025, to be included in Budget 2025
Electricity Authority cost pressures	Following negotiations, and work programme prioritisation, EA are now consulting on a \$7.8m (6.9%) increase in levy (\$5.7m for SOSPA and \$1.3m for EA work, and \$0.8m for other service providers) Sapere follow-up on the 2023 baseline review is underway Nov-Feb	Decisions on levy due February/March 2025
Budget 2025 Expectations from Minister of Finance	The Minister of Finance has written to you inviting savings from grants and funds <small>Confidential advice to Government</small> This briefing provides a basis for discussion of options	We will provide a final package by 12 December for your approval. Final decisions required by 17 December to enable submissions by 23 December