



## BRIEFING

### Budget 2025: Options for managing cost pressures

<b>Date:</b>	14 November 2024	<b>Priority:</b>	Medium
<b>Security classification:</b>	Budget - Sensitive	<b>Tracking number:</b>	BRIEFING-REQ-0005237

Action sought		
	Action sought	Deadline
Hon Simeon Brown <b>Minister for Energy</b>	<b>Discuss</b> trade-offs required between work-programme, energy policy baseline, and grants and funds	19 November 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, Energy Markets		✓

The following departments/agencies have been consulted

Minister's office to complete:

☐ Approved

☐ Declined

☐ Noted

☐ Needs change

☐ Seen

☐ Overtaken by Events

☐ See Minister's Notes

☐ Withdrawn

Comments



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### Purpose

This paper sets out the longer-term work programme for the Energy portfolio, for discussion at the officials meeting on 19 November, and to inform reprioritisation within the Energy portfolio as part of Budget 2025. Options include both work programme changes and funding top ups (via fiscally neutral adjustment from non-departmental appropriations).

### Recommended action

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

- a **Note** that the energy policy baseline is decreasing over the forecast period:

\$ million	2024/25	2025/26	2026/27	2027/28	2028/29
<b>Energy Policy Baseline</b>	14.621	13.829	13.275	12.971	9.206

*Noted*

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- c **Note** that this paper is part of a suite of advice in relation to Budget 2025, Annex One provides a list of work underway, including actions to date.

*Noted*

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

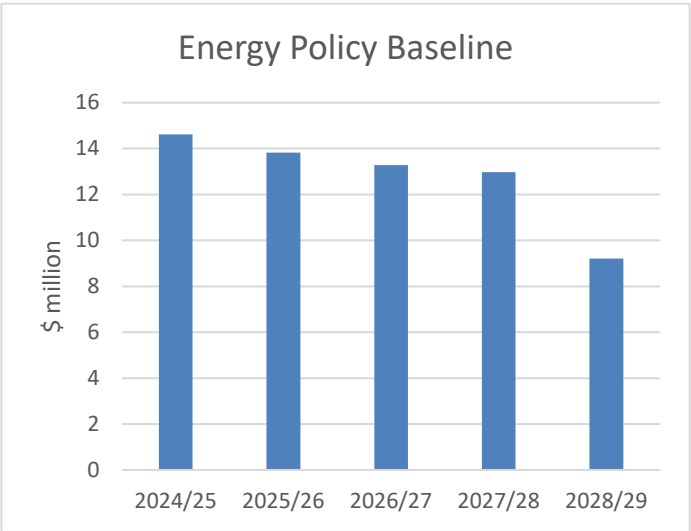
15 / 11 / 2024

Hon Simeon Brown  
**Minister for Energy**

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**The energy policy baseline decreases over the forecast period and is insufficient for the projected work programme**

- 1. You have directed MBIE to identify options for meeting the cost pressures in energy policy. Cost pressures have arisen from a combination of falling baseline, accelerated/new priorities, and a share of cross-MBIE pressures.
- 2. As previously advised, the energy policy work programme is facing volume pressures because of the increasing complexities of the energy system. In addition, the energy policy baseline is decreasing over the forecast period.
- 3. There is a \$5.4 million reduction in 2028/29 compared with 2024/25 Confidential advice to Government. In addition, the following table also notes the all-of-MBIE cost pressures.



\$ million	2024/25	2025/26	2026/27	2027/28	2028/29
Energy Policy Baseline	14.621	13.829	13.275	12.971	9.206
Cost to maintain 2024/25 baseline	-	0.792	1.346	1.650	5.415

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**Options for managing energy policy cost pressures**

- 4. There are three broad options for addressing the energy policy baseline cost pressure.
  - a. Confidential advice to Government
  - b. Reprioritise funding from non-departmental expenditure to fund the work programme, Confidential advice to Government or
  - c. A combination of work programme changes and reprioritisation.
- 5. Confidential advice to Government
- 6. The second part of this briefing sets out the options to increase the energy policy appropriation, in line with your preferred service level / work programme changes.

## A. Prioritising the work programme

### Estimated requirements for the forward work programme exceed current funds

7. You have requested further information about the longer-term work programme in order to consider resourcing requirements.

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9. Current year requirements have been met through borrowing FTE within MBIE temporarily (for the comprehensive response) and staff overtime.

### Outline of the work programme, by workstream

10. The following table sets out each workstream, its deliverables (consistent with the output plan), and signals the likelihood for ongoing work. Few work programmes have definite deliverables beyond 2025/26, but we consider that there is likely a need for ongoing resource in most areas to ensure the energy system adjusts to new technology, supply challenges, and growing/changing demand.

Workstream	Current Deliverables	Likely ongoing requirements
Review of Electricity Market Performance	Support independent review of market performance, advise on recommendations. Could be longer implementation if government-led changes	No
Emissions Reduction Plan	Plan to be published, and then ongoing monitoring and supporting the Minister for Climate Change engagement. ERP3 work likely to commence in 2029/30	Yes
Security of Supply - Electricity	Inc Hazards from Trees (phases 2 and 3), oversight of EA and Commerce Commission decisions (network connections etc), generation capacity and pipeline, and security of supply advice and regulatory changes	Yes
Security of Supply - Gas	CCUS, Energy and Electricity Security Bill (enabling LNG imports and other changes), gas market settings, gas for critical users, renewable gas, Gas Security Response Group, advice and system adjustments	Yes
Security of Supply - Fuel	Fuel Security Study (including Marsden Point report) and Plan, Minimum Stockholding Obligations etc	Yes
Alternative Fuels	Sector engagement/facilitation on SAF, biomass, hydrogen, etc, regulatory changes to remove barriers	Yes
DER and Demand Flexibility	Stakeholder engagement/facilitation, oversight of EA and Taskforce work	Yes
Electrify NZ – RM	Fast Track, RM reforms and National Direction package to enable generation and infrastructure	Likely, depending on reforms
Electrify NZ – ORE	ORE Bill, regulations, and an initial Round in late 2025. Further suite of regulations for decommissioning, and fees. National Standard/Direction for ORE, and development of a one-stop shop for commercial permit and consents.	Likely to fold into BAU once establishment work complete

<b>Workstream</b>	<b>Current Deliverables</b>	<b>Likely ongoing requirements</b>
Regulation for least-cost transition	Consumer Data Right, EEC Amendment Bill inc enabling EV smart charging, Supercharging EVs, wholesale market regulation, standards updates (voltage ranges, safety standards, etc)	Yes
Energy Resilience and Affordability	Fund administration and advice (including across users, fund management, RIF proposals)	Reduces
System Maintenance	Regulatory activity and updates, levies, monitor/implement regulator recommendations, international engagement	Yes
Ministerial Servicing	OIAs, PQs, MCs, Event/Meeting Briefs, Budget process, regular reporting	Yes
Ad hoc and second opinion	Second opinion on relevant Cabinet papers, advice and updates as requested by the Minister	Yes
All-of-Government policy reviews	Treaty Clauses Review, legislative review required under proposal Regulatory Standards Bill	Likely yes
Stewardship and unknown projects (from 2025/26)	Currently nil, as resource deployed on comprehensive response. This provides longer term, system level advice, and/or is used as flexible capacity to respond to large scale events and/or other unanticipated projects.	Yes

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**B. Fiscal implications: options to achieve a balanced budget**

14. The following table sets out estimated fiscal implications of options for the energy policy baseline. The cost of maintaining the current baseline, with and without all-of-MBIE cost pressures, is included for reference, but is not a recommended option.

	\$ million	2025/26	2026/27	2027/28	2028/29	Comment
	Maintain the 2024/25 baseline	0.792	1.346	1.650	5.415	Maintaining the 2024/25 level of expenditure is a straightforward approach, that would be consistent with the expectation that agencies absorb increased operating costs (such as wages, lease costs etc).

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## Two options to deliver your preferred level of service

18. You have previously directed MBIE to find options for managing these cost pressures within baselines. You have two options (which can be deployed in combination) to achieve your preferred option above:

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- b. Fund your preferred level of policy advice by transferring the shortfall from non-departmental programmes.

### *Reprioritising from within the portfolio*

19. You have indicated support for EECA to consult on a small increase to levy revenue. The resulting \$3 million per annum savings to the Crown could be applied to the energy policy baseline (or part of).
20. There are also options within some of the MYA Funds in the portfolio. However, these are time-limited, and so not sufficient on their own.
21. To address outyear funding pressures a transfer from the current Crown portion of the EECA appropriation would be required. This would likely entail scaling down some grant schemes and/or information, partnerships and engagement work.

## Next steps

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22. Once you have indicated your preferred approach, and we have received the Budget 2025 expectations letter from the Minister of Finance, we will provide further advice on any financial reprioritisation.
23. From there, we will incorporate your decisions into Budget 2025 processes, including changes to funding allocations and/or workforce.

## Annexes

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Annex One: Tracking actions and decisions for Budget 2025

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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 Due to be discussed by EXP early 2025
Current year fiscal pressures <ul style="list-style-type: none"> <li>Establish ORE Regulator</li> <li>Review of Electricity Market Performance</li> </ul>	Agreed to transfer up to \$900,000 from grants	To be included in MBU 2025
Address ongoing energy policy baseline	Requested further information on work programme, this briefing responds	Decisions to be incorporated in Budget 2025 process
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 intending to consult 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	Levy consultation due out mid-November 2024  Decisions on levy due February/March 2025
Budget 2025 Expectations from Minister of Finance	We understand the MOF will shortly be issuing Budget letters to Portfolio Ministers	MBIE will co-ordinate work to meet the MOF's budget expectations, and provide you with portfolio specific advice.