



BRIEFING

Budget 2025 Energy Portfolio Plan - additional information

Date:	10 October 2024	Priority:	High
Security classification:	Budget - Sensitive	Tracking number:	BRIEFING-REQ-0004528

Action sought		
	Action sought	Deadline
Hon Simeon Brown Minister for Energy	Agree approach to managing the energy policy work programme and cost pressure Approve the Energy Portfolio Plan	14 October 2024

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Sharon Corbett	Acting 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☐ Withdrawn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

We have previously discussed a draft Energy Portfolio Plan with you, which will be discussed at EXP in early 2025 and inform Budget decisions. This paper

- Provides you with:
 - Information you requested on energy sector levies
 - Financial information for EECA that you requested, and could be included in the Portfolio Plan
 - An updated Energy Portfolio Plan, for approval to submit to Treasury; and
- Seeks your direction on options for managing the energy policy work programme and cost pressure

Executive Summary

The MBIE Performance Plan, including all Portfolio Plans, is due to be submitted to central agencies on 17 October. This paper follows on from your discussion with Officials about the draft Energy Portfolio Plan.

There is scope to leverage levy funding

There is just over \$180 million in sector-specific levies. There is scope to increase this further, particularly in regards to energy efficiency related activity. Officials will provide further advice as part of EECA's 2025/26 levy round.

There is opportunity for scaling/reprioritisation in the EECA part of the portfolio

EECA investments do show a strong return on investment, particularly Warmer Kiwi Homes. However, there are choices for you about where and how much to invest (in addition to the mix of Crown and levy funding). Areas within the EECA portfolio where there are uncommitted funds, or options to scale include:

Potential area for consideration	Scale of option
Low Emissions Transport Fund and Technology Demonstration Fund	\$6m pa Crown-funding
Choices about Government Priority investments	\$280m uncommitted funds over 3 years
Level of investment in the Information function	\$21m pa Crown-funding

There are choices in relation to the MBIE policy work programme

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. We have identified options based on 3 time periods, to enable trade-offs within the portfolio.

Period	Cost Pressure	Scale	Options
2024/25	Delivery of Review of Electricity Market Performance and establishment of the Offshore Renewable Energy Regulator	\$0.9m for projects, Confidential advice to Government	Reprioritise from grants and funds
2025/26 – 2027/28	Falling baseline (as above), combined with expected wage pressures and all-of-MBIE support services cost pressures.	\$3.8m over 3 years to maintain baseline Confidential advice to Government	Confidential advice to Government Reprioritise funding from grants and funds (potentially along with changes to levy-funding), and/or Confidential advice to Government
2028/29	Return to historic baseline, as fixed term funding ends, that is insufficient to meet the needs of a more complex and transitioning energy system.	\$5.4m pa to restore baseline, Confidential advice to Government	Establish a revised ongoing baseline by reprioritising grants and funds, or Confidential advice to Government

Recommended action

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

Additional information on EECA and Levies

- a **Note** the attached information on EECA's financials and energy sector levies (Annexes One and Two)

Noted

- b **Confirm** whether you would like the additional EECA page included in the Portfolio Plan

Yes/No

Managing the energy policy work programme and cost pressures

- c **Note** funding for energy policy falls over the forecast period, and there are cost pressures related to delivery of:

- i) the comprehensive response to security of supply issues, and
- ii) establishment work for the offshore renewable energy regulator

Noted

d **Indicate** your preferred approach to managing resourcing for the energy policy work programme

Period	Options	
2024/25	1. reprioritise from grants and funds to ensure delivery of the Review of Electricity Market Performance and establishment of the Offshore Renewable Energy Regulator	Yes/No/Discuss
2025/26 – 2027/28	2. Confidential advice to Government; Commercial Information	Yes/No/Discuss
	3. reprioritise funding from grants and funds, and/or	Yes/No/Discuss
	4. Confidential advice to Government; Commercial Information	Yes/No/Discuss
2028/29	5. establish a revised ongoing baseline by reprioritising grants and funds, or	Yes/No/Discuss
	6. Confidential advice to Government; Commercial Information	Yes/No/Discuss

e **Note** that we will provide further advice on your preferred approach, and that your direction on recommendation (d) is sufficient to enable us to submit the Portfolio Plan to Central Agencies

Noted

f Confidential advice to Government; Commercial Information

g

Agree/Disagree

Submission of the Energy Portfolio Plan

h **Note** that Treasury requires submission of Performance and Portfolio Plans by 17 October

Noted

i **Approve** the attached Energy Portfolio Plan (Annex Three).

Approved / Not approved

Sharon Corbett
Acting General Manager, Energy Markets
Building, Resources and Markets, MBIE

10 / 10 / 2024

Hon Simeon Brown
Minister for Energy

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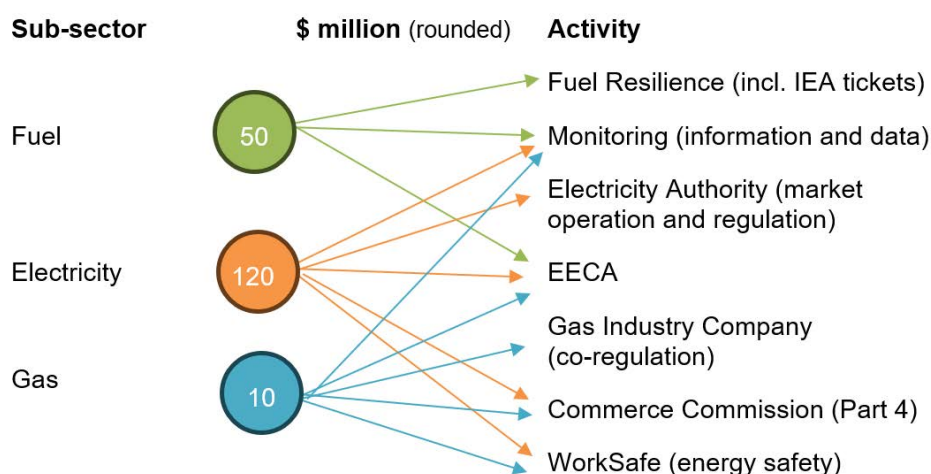
Background

1. We have previously provided you with a draft Energy Portfolio Plan (BRIEFING-REQ-0002998 refers). This will form part of the MBIE Performance Plan, as required by Cabinet and to inform Budget 2025. It is intended that all Performance Plans will be discussed by EXP in early 2025.
2. At the Officials meeting on Tuesday 1 October, you requested further information on energy sector levies, and an overview of EECA's financial position. You also directed that MBIE would need to manage the energy policy cost pressure within baselines.
3. This paper provides the additional information you requested, and options for managing policy cost pressures.

Information on EECA and Sector Levies

Energy Sector Levies

4. **Annex One** sets out detail of the energy sector levies, as per your request. In total, the sector pays just over \$180 million in sector-specific levies. The following diagram illustrates the levy flows by sub-sector.



5. There are 7 sector-specific levies.
 - a. The largest is the Electricity Industry Levy, collecting around \$110 million per annum, which is mostly used to fund the Electricity Authority.
 - b. The Petrol or Engine Fuel Monitoring Levy is the second largest, at around \$50 million per annum, this is mostly applied to meeting New Zealand's International Energy Agency obligations (including purchase of IEA tickets).
6. A share of the levies are managed by the Commerce and Consumer, and Workplace Safety and Relations portfolios. These revenues are not included in the Energy Portfolio Plan (though the links are noted (page 2 of **Annex 3** refers).

Energy Efficiency and Conservation Authority (EECA)

7. **Annex 2** sets out an overview of EECA's financial position, for inclusion in the Energy Portfolio Plan.

Levy-funded activity

8. Around \$20 million per annum of EECA's baseline is levy-funded. This is allocated as follows:

Activity	Levy funding (% levy-funded)
Regulatory function	\$3.3 million (50%)
Information function	\$3.4 million (15%)
Technology Demonstration Fund	\$1.2 million (34%)
Low Emissions Transport Fund	\$12.4 million (75%)

9. EECA draws on the levy-funding as a "first-call", to ensure it is delivering on the work programme agreed in levy consultation. This also means any under-spends revert to the Crown.
10. You have asked for officials to consider whether it would be appropriate to increase the share of levy revenue for EECA's activities. EECA will provide you with further advice in the next few weeks, as part of their 2025/26 levy round. There is also potential to reduce total investment in the Technology Demonstration Fund and the Low Emissions Transport Fund.

Targeted Investment and uncommitted funding

11. EECA has a suite of four Funds it delivers from its annual baseline¹. In addition, the Government has established specific, time-limited programmes (in MYAs) to deliver on Priorities of the day².
12. The following table sets out the funding for grants and loans within EECA's portfolio. It includes the supporting operational spend (staff to manage programmes and overheads) and assumes investment levels for both Crown and Levy are maintained for baseline funds in outyears:

Grants and Loans (by source) \$m	2024/25	2025/26	2026/27	2027/28	2028/29
Levy funding	13.570	13.570	13.570	13.570	13.570
Crown funding					
• Government Priority Programmes (MYA)	249.331	301.034	153.126	-	-
• Annual Investment Funds (baseline)	17.633	17.633	17.633	17.633	17.633
Total	280.534	332.237	184.329	31.203	31.203

¹ Technology Demonstration Fund, Public Sector Programmes, Low Emissions Transport Fund, and a \$2m programme supporting the transport strategy and loan pilot.

² Warmer Kiwi Homes, Public EV Charging Hubs, Low Emission Heavy Vehicles, and remaining commitments for GIDI and Shovel Ready Projects.

13. Levy funding cannot be (as readily) redirected, however, as noted above levy funds are applied to projects ahead of Crown funding. The table below sets out the uncommitted funding in the EECA portfolio.

Uncommitted Funding \$m	2024/25	2025/26	2026/27	2027/28	2028/29
Government Priority Programmes (MYA)	8.000	164.797	104.171	-	-
Annual Investment Funds (baseline)	-	17.633	17.633	17.633	17.633
Total	8.000	182.430	121.804	17.633	17.633

14. Government Priority Programmes with uncommitted funds include Warmer Kiwi Homes, Public EV Chargers and Infrastructure, and Low Emissions Heavy Vehicles. The budget for baseline funds has been set for 2024/25 based on commitments, there are no outyear commitments (uncommitted funding assumes current levy and crown funding levels are maintained).

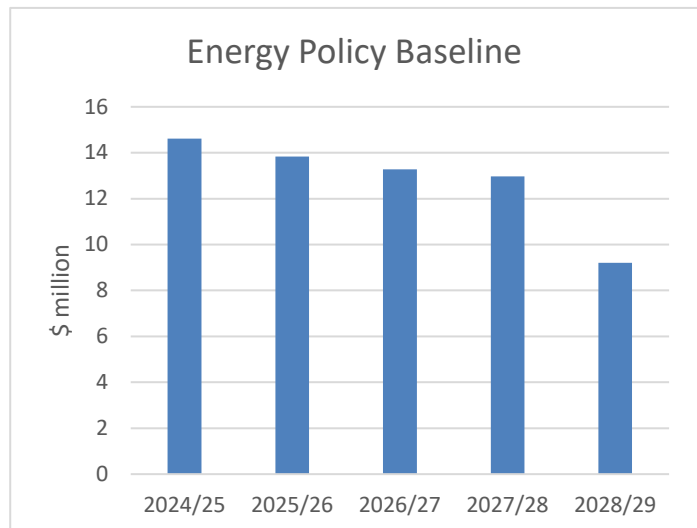
Regulatory and Information functions

15. EECA currently spends \$6.6 million per annum on its Regulator function. Standards are developed in partnership with Australia, and monitoring activity is relatively light-touch. EECA's regulator functions are being updated to enable standards for smart energy devices. We do not recommend any reductions in this area.
16. EECA currently spends around \$25 million per annum on public engagement, research and partnerships. This includes development of energy efficiency and decarbonisation pathways for large energy users, as well as regional coordination to connect demand and supply-side businesses in specific regions. This both leverages and supports work in other areas of responsibility. This is an area where consideration could be given to scaling or greater use of levy-funding.

Managing the energy policy work programme and cost pressures

17. The energy policy work programme is facing volume pressures as a result of the increasing complexities of the energy system. In addition, the energy policy baseline is decreasing over the forecast period. Steps were taken in Budget 2024 to smooth that decrease, using time-limited funding.

18. The graph shows the baseline as of the October Baseline Update. There is a \$5.4 million reduction in 2028/29 compared with 2024/25



19. The following table shows the cost pressures facing the energy policy baseline. Project cost pressures relate to the comprehensive response to security of supply issues, and establishment costs for the offshore renewable energy regulator.

\$ million	2024/25	2025/26	2026/27	2027/28	2028/29
Cost to maintain 2024/25 baseline	-	0.792	1.346	1.650	5.415

Confidential advice to Government

20. We are seeking your direction on your preferred approach to manage these cost pressures within baselines. Options are set out in the table below, and discussed in more detail in the remainder of this briefing:

Period	Cost Pressure	Options	Preference
2024/25	Delivery of Review of Electricity Market Performance and establishment of the Offshore Renewable Energy Regulator	Reprioritise from grants and funds	Yes/No/Discuss
2025/26 – 2027/28	Falling baseline (as above), combined with expected wage pressures and all-of-MBIE support services cost pressures.	Confidential advice to Government; Confidential Information	Yes/No/Discuss
		Reprioritise funding from grants and funds, and/or	Yes/No/Discuss
		Confidential advice to Government; Confidential Information	Yes/No/Discuss
2028/29	Return to historic baseline, as fixed term funding ends, that is insufficient to meet the needs of a more complex and transitioning energy system.	Establish a revised ongoing baseline by reprioritising grants and funds, or	Yes/No/Discuss
		Confidential advice to Government; Confidential Information	Yes/No/Discuss

2024/25 cost pressures: ORE and Comprehensive Response

21. Cost pressures have emerged for the current financial year as a result of 2 projects.
- The **comprehensive response to security of supply issues** has largely been managed within baselines and leveraged surge support from across MBIE. However, the Review of Electricity Market Performance costs are now estimated to be up to \$1.0 million (driven by the need for independent experts, which need to be sourced from overseas). This is an increase from the initial \$0.600 million estimate.
 - Establishment costs for the **offshore renewable energy regulator** have been estimated at \$0.6 million in 2024/25. This was originally intended to be met from within existing resources, however, those people are now required to progress/implement the RMA reforms, Fast-track, and Crown Minerals Act amendment. Some of those programmes are being progressed more rapidly than expected, as is the implementation of the offshore renewables regime. Cabinet has previously agreed that establishment costs would not be recovered by levy.
22. MBIE is able to meet nearly half of these costs, however, there is a \$0.9 million shortfall. Given the priority of these projects, and the falling baseline, deferral is not a recommended solution. Given the fiscal environment, we recommend reprioritising funding from

uncommitted money in one of the Funds (either those administered by EECA (Annex Two refers), or the Community Renewable Energy Fund).

23. A transfer would be fiscally neutral and can be approved by joint Ministers. We would action the change as part of the March baseline update.

Medium term work programme and costs 2025/26-2027/28

24. In Budget 2024, Cabinet agreed to a re-phasing of fixed term funding which partially addressed the falling baseline for the period 2025/26 to 2027/28. Confidential advice to Government; Confidential Information

Confidential advice to Government; Confidential Information

Funding options

27. There are two options for maintaining or partly mitigating current capacity and work programme across 2025/26 to 2027/28 through funding. You can either:
 - a. Reprioritise funding from uncommitted money in one of the Funds, either those administered by EECA (**Annex Two** refers), or the Community Renewable Energy Fund (\$19 million currently uncommitted), and/or

Confidential advice to Government; Confidential Information

28. Reprioritising from Funds may be constrained, depending on the Minister of Finance's decisions on the Funds and Grants deep dive.

Confidential advice to Government

2028/29 and outyears

33. The 2028/29 financial year sees a return to the historic baseline, which was not intended to provide capacity for the current work programme and complex energy system.
34. There are two options available to you in relation to the outyear baseline:
 - a. Establish a new on-going baseline by reprioritising within the energy portfolio, by reprioritising from EECA's Funds

Confidential advice to Government; Confidential Information

35.

36. Reprioritising from Funds may be constrained, depending on the Minister of Finance's decisions on the Funds and Grants deep dive. In particular, while there is \$23.5 million per annum in Funds from 2027/28, \$12.7 million is levy-funded, and so can only be used for those purposes.

Energy Portfolio Plan for your approval

37. We have updated the Energy Portfolio Plan, in line with discussions at Officials on 1 October. In particular, the Plan now assumes that cost pressures will all be met from within baselines.
38. You requested additional information on EECA, we have provided this in a format that could be added as an additional page, if you wish to include this in your Portfolio Plan.

Next steps

Energy Portfolio Plan

39. Subject to your approval, we will submit the Energy Portfolio Plan to Treasury on 17 October, as part of the MBIE Performance Plan.
40. The Treasury, the Public Service Commission, and the Department of Prime Minister and Cabinet will review all agency Performance Plans through November.

Funds and Grants Deep Dive

41. Treasury has advised that the Minister of Finance is likely to consider options for savings from the Funds and Grants Deep Dive (phase one of Budget 2025) this month. We will provide you with further advice, as required.

Managing the energy policy cost pressure and revenue options for EECA

42. We will provide further advice on implementing your preferred approach to managing the energy policy cost pressures.
43. We will also continue to work with EECA to explore revenue options for third-party funding a greater share of their activity.

Annexes

Annex One: Energy Sector Levies

Annex Two: EECA Overview

Annex Three: Energy Portfolio Plan

Annex Two: EECA Overview

Annex Three: Energy Portfolio Plan
