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The voice of business

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23 July 2010

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Dear Gareth

Costs for Implementing New Electricity Industry Governance Arrangements – Impacts on Electricity Levies

Business New Zealand is pleased to have the opportunity to provide a submission to the Ministry of Economic Development on its consultation paper entitled 'Costs for Implementing New Electricity Industry Governance Arrangements – Impacts on Electricity Levies', dated 7 July 2010.[1]

Introduction

Business New Zealand welcomes the Ministry of Economic Development's consultation paper. As with its most recent consultation on the allocation of costs, BusinessNZ is pleased that this consultation is occurring in a timely manner, well in advance of the expected commencement date of the new Electricity Authority.[2] The focus of this submission is on the electricity levy costs.

As BusinessNZ noted in its submission on the allocation regime for levy funding, the main functions currently being delivered by the Electricity Commission are continuing to be delivered but by different organisations. Therefore, with some exceptions, the funding is largely following the functions. In light of this, the proposed new levy levels as summarised in Table 1 on page 6 of the consultation paper appears to be broadly appropriate.

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[1] Background information on Business New Zealand is attached in Appendix One.

[2] Having said that, BusinessNZ is surprised at the sequencing of this and the Ministry of Economic Development's previous consultation (with the second consultation paper being released on the closing day of submissions on the first paper). At a time when there are numerous demands on organisations to consult, BusinessNZ wonders why these two consultation processes could not have been run together, particularly given their logical fit.

However, having said that, BusinessNZ has some specific comments it wishes to make on a few matters. These are set out briefly, below.

Specific Comments

While in general agreement with the new proposed levy levels, BusinessNZ has the following comments on the following specific areas, these being:

1. BusinessNZ welcomes the decision (bullet point 5, page 4) that no increased funding will be sought to cover the costs in relation to monitoring;

2. BusinessNZ appreciates the advance notice of the additional funding required for increased System Operator costs. However, on the basis of the information provided, BusinessNZ is unable to make an informed decision about the proposed additional funding for increased System Operator costs. While BusinessNZ has no doubt that the funding for these System Operator costs is required, we are:

   a. unable to reconcile the numbers referred to in paragraph 7 of the consultation paper ($7.2 and $1.2 million, and the CPI adjustment) to the numbers in Table 1 ($0, $3.232, $3.919 and $4.627 million). Without better information as to the derivation of the proposed numbers submitters are simply left to accept them on faith (this is exactly the type of information problem that BusinessNZ highlighted in its submission on the allocation regime – the provision of poor quality information preventing quality feedback from submitters); and

   b. unclear, irrespective of the final level of funding, why this is not accompanied by an offsetting reduction in the Electricity Authority's budget. BusinessNZ has always understood that these were functions that were currently being delivered by the Electricity Commission and were being transferred to the System Operator. Even if this is not the case, as a matter of general principle, BusinessNZ considers that more effort should be made by the Ministry of Economic Development to ensure that future changes are undertaken in a fiscally neutral manner.

   If these numbers are, as thought, early notification of changes that will be the subject of further consultation in advance of the appropriate financial year and not being 'set in stone' at this point, the issues raised above need to be addressed in that context.

3. the use to which the additional funding for customer switching is being put is unclear. The funding (excluding that being provided to the Ministry of Consumer Affairs) is described as covering:

   > "development and administration of cost effective programmes to facilitate and promote increased switching…."[3]

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[3] Ministry of Economic Development letter to stakeholders dated 7 July 2010, paragraph 10.

While this may simply be a matter of imprecise language, an emphasis on the 'development of programmes' by the Electricity Authority does not immediately imply a contestable funding arrangement, whereby potential providers effectively bid for funding to deliver certain outcomes, as set out in the Cabinet decision:

> *(iv) Fund for consumer switching*
>
> 14 Agree to the establishment, for three years, of a $5m a year contestable fund to promote the benefits of customer switching ……;[4]

While BusinessNZ has no comment on the level of funding, it is also hard to take seriously the proposed funding split for the Electricity Authority's portion of the funding. From the footnote explanation (footnote 5), the proposed split has all of the appearances of being without foundation ("Spending in each year is indicative only, and maybe higher or lower"). This apparent approach appears to justify concerns frequently raised by BusinessNZ regarding the inability to determine the value-for-money from levy expenditure, particularly if changes to the out-year funding mix are proposed in future consultations; and

4. consistent with BusinessNZ's comments in its submission on the allocation regime, the Ministry of Economic Development has missed an opportunity to have a more strategic conversation about the purpose of the electricity efficiency funding. At just over $17.5 million per annum, this equates to around 20% of levy funding yet there is little visibility surrounding the Energy Efficiency and Conservation Authority's future plans for it. The expectation is that business and residential consumers (who ultimately pay the levy), must wait and see what programmes are developed, and more specifically, the nature of the public benefits that are expected. While it is true that energy is undoubtedly being saved, there remains little evidence of the public (as opposed to private) benefit of these programmes. Some insight into this would have been helpful in order to have given the request for feedback some meaning.

Finally, it is worthwhile noting that the cover letter to the consultation paper states that:

> "For future budgets, from 2011/12 onwards, the Electricity Industry Bill provides that the Electricity Authority and the Energy Efficiency and Conservation Authority must consult with industry participants annually on the level of levy funding."[5]

While undoubtedly an oversight, BusinessNZ notes that the Bill as reported back to the House (section 127(3)) also requires the Ministry of Economic

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[4] Minister of Energy and Resources paper to Chair of the Cabinet Economic Growth and Infrastructure Committee entitled 'Ministerial Review of the Electricity Market', page 40.

[5] Ministry of Economic Development letter to stakeholders, ibid, page 2.

Development to consult on the costs incurred by the Crown in relation to developing and publishing regional electricity supply and demand forecasts and scenarios, and related information and analysis, for the purpose of assisting investment planning by industry participants (section 126(3)(g)). BusinessNZ looks forward to this consultation, should it ever need to occur.

A Contextual Comment

The nature of the Ministry of Economic Development's two consultation processes has been highly mechanistic with a strong emphasis on the status quo. In the most part, this is appropriate. However, BusinessNZ feels it important to reiterate to the Ministry of Economic Development BusinessNZ's view that the status quo is not its expectation of how the Electricity Commission and the Commerce Commission will operate in practice going forward. To act as if nothing has changed other than who delivers the particular function would belie one of the key reasons for changing the governance arrangements in the first place. It is important that lessons are learned from past practices.

BusinessNZ recognises that it is still early days in the transition process. However, it will increasingly look for tangible evidence that the changes occurring are more substantive than a change in branding.

Conclusion

BusinessNZ agrees with much of what the Ministry of Economic Development has outlined. However, in some cases, the Ministry of Economic Development has struggled to get the right balance between simply telling stakeholders what is going to happen based on decisions already taken, and informing them in a manner capable of evoking informed and helpful feedback.

Getting this balance right is important to the business community, more so now than ever before. Every dollar collected via the levy is a dollar added to the cost of electricity supplied. Business consumers want to be assured that the new Electricity Authority, as well as other recipients of levy funding, is not immune to the effect of their contribution to rising electricity prices. Recourse to new levy funding should be a last resort.

Yours sincerely

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Business New Zealand

APPENDIX ONE: ABOUT BUSINESSNZ

Encompassing four regional business organisations (Employers' & Manufacturers' Association (Northern), Employers' & Manufacturers' Association (Central), Canterbury Employers' Chamber of Commerce, and the Otago-Southland Employers' Association), Business New Zealand is New Zealand's largest business advocacy body. Together with its 54 strong Major Companies Group, and the 70-member Affiliated Industries Group (AIG), which comprises most of New Zealand's national industry associations, BusinessNZ is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy on behalf of enterprise, BusinessNZ contributes to Governmental and tripartite working parties and international bodies including the ILO, the International Organisation of Employers and the Business and Industry Advisory Council to the OECD.

BusinessNZ's key goal is the implementation of policies that would see New Zealand retain a first world national income and regain a place in the top ten of the OECD (a high comparative OECD growth ranking is the most robust indicator of a country's ability to deliver quality health, education, superannuation and other social services). It is widely acknowledged that consistent, sustainable growth well in excess of 4% per capita per year would be required to achieve this goal in the medium term.