

29 July 2016

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## **New Zealand Energy Efficiency and Conservation Strategy Refresh: 2017 – 2022 (Targeted Consultation Document)**

BusinessNZ is pleased to have the opportunity to provide a submission to the Ministry of Business, Innovation & Employment (MBIE) on its targeted consultation paper entitled 'New Zealand Energy Efficiency and Conservation Strategy Refresh: 2017 – 2022' dated May 2016.<sup>1</sup>

### **Introduction**

BusinessNZ welcomes the early engagement on this important issue. MBIE is to be congratulated on its initiative in doing so. BusinessNZ strongly supports energy efficiency, and the role it plays in meeting New Zealand's energy needs efficiently.<sup>2</sup> This area is especially relevant now in light of the rapidly changing context post-Paris, and the renewed emphasis on a transition to a lower carbon economy.

However, much remains to be done by the MBIE and the Energy Efficiency and Conservation Authority (EECA) panel in getting this work into a shape for wider public consultation later this year on the actual strategy. BusinessNZ looks forward to working with both MBIE and EECA in helping to continue to shape the overall approach to the EECA strategy.

### **Specific Remarks**

BusinessNZ has the following specific remarks on the detail of the consultation document (in no particular order):

- it is important that MBIE does not simply fall into the trap of an implicit emphasis on *minimising* energy use (non-renewable energy in

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<sup>1</sup> Background information on BusinessNZ is attached in Appendix One.

<sup>2</sup> Where energy efficiency means a change to energy use that results in an increase in net-public benefits per unit of energy. In other words, reducing energy consumption by investing in equipment or changing behaviour where the cost of making the reduction (that is, the investment or the cost of the behavioural change) is less than the full cost of the energy that would otherwise have been used.

particular) as if it is a good thing to do, in and of itself rather than as a means to an end;

- while this might be a stylistic nuance to make the document more accessible, we note the use of the word “barrier” throughout the document as though this word might provide some sort of justification for interfering in energy markets. We agree that there are barriers to the uptake to energy efficiency and renewable energy, but do not agree that the barriers are evidence of a clear market failure and therefore justification of an intervention. Indeed, a failure of private individuals and businesses to capture all available energy efficiency benefits is a necessary, but not sufficient reason for governments to intervene in energy markets. A rationale for intervention in energy efficiency must identify:
  - i. what market failure is being dealt with;
  - ii. what consequential welfare loss is there; and
  - iii. what costs are associated with intervention;
- observers sometimes refer to factors affecting investment decisions as ‘market failures. These facets are no more barriers than failures, but simply a reflection of how markets work. Businesses and individuals often have imperfect information, different risk profiles and different preferences (reflected, for example, in high discount rates). This is true in other markets for example, for i-phones and groceries, as well as those for energy-efficient products. It is precisely for this reason that good public policy practice is to intervene only when public welfare can be unambiguously enhanced;
- in the absence of a good reason to intervene, MBIE needs to be careful not to regulate additional costs on to businesses for a highly uncertain *public* benefit.<sup>3</sup> For example, there is a complex range of reasons why businesses don't invest in energy efficiency. For example:
  - i. energy is still relatively cheap by way of international comparison;
  - ii. energy is often a very small element of total costs so it isn't a priority;
  - iii. underinvestment is a function of sunk cost investments in plant and equipment (so there is an intertemporal aspect); and
  - iv. different discount rates (that is, businesses tend to want immediate returns, and so have high discount rates);

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<sup>3</sup> There may, of course, be private benefits derived from government interventions but this is not the standard by which government intervention is measured.

- any energy efficiency interventions should focus on **energy** efficiency. Climate change policy can be expected to predominantly deal with fuel choices. If (as consistently stated by successive Ministers for Climate Change) the emissions trading scheme is *the* primary mechanism for addressing climate change issues and internalising the environmental cost of carbon,<sup>4</sup> there needs to be a clear articulation of what the incremental market failure is over and above the need to implement a carbon price before implementing yet further interventions;
- MBIE needs to be extremely cautious when using claims of deferred investment in new generation or associated infrastructure as a benefit. This is not a good reason for the government to intervene in energy markets, as investing in generation may in fact be more efficient overall (by producing a higher net public benefit) than reducing energy use (this 'deferred investment' argument is akin to arguing that the government should subsidise gym memberships because doing so will avoid the next hospital being built);
- there is no economic efficiency or cost element to the proposed overarching goal. This is extremely concerning. The goal should be amended to read:
 

*“ ..... for New Zealand to be more energy efficient, productive and a low emissions economy, in a least cost way, while enhancing our international competitiveness.”*
- the five objectives listed on page 8 of the consultation document are laudable, but it is unclear how MBIE proposes to manage the internal trade-offs required within them, let alone the tensions with other policy areas. There are many areas where energy policy settings overlap with and sometimes contribute towards other policy areas. As noted above, climate change policy is the most obvious, but there are other areas such as social policy (for example, affordability), and environmental policy (for example, resource consenting). As MBIE will know, targeting policy solutions to deliver on competing objectives is highly problematic;
- the benefits from the development of separate strategies for the key groups of individuals, businesses and government are not immediately obvious due to the cross-cutting nature of the solutions. Given that this is a government strategy that will presumably be based around the actions that government will take, it makes more sense to structure the overall strategy around those priority areas in which government wishes to see certain outcomes achieved. It would then be appropriate

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<sup>4</sup> For example, Ministry for the Environment document entitled 'New Zealand Emissions Trading Scheme Review 2015/16, discussion document and call for written submissions' dated 24 November 2015 where it states on page 3:

“The New Zealand Emissions Trading Scheme (NZ ETS) is the Government's principal policy response to climate change.”

to outline the expectations of government on each of the key actors. It might be appropriate to have strategies for each of the key actors if the actor-based strategies involved actions that were being taken independent of government mandate;

- as a general principle, technological neutrality is important in the development and execution of the strategy. The strategy should not be a tool by which the government picks winners – this should be left up to the market to determine. Markets and market mechanisms, rather than bureaucrats, are best placed to deliver competitive, least-cost outcomes. Technology restriction or favouritism-type interventions (such as the much-derided light-bulb ban) should be avoided at all costs; and
- it is critical to the success of the next strategy that it is firmly ground on the actual results of the current strategy and not on theoretical expectations of efficiency gains that *might* be technically achievable. In this regard, it is important to look back at the results before looking forward, otherwise the strategy risks having an air of unreality about it.

## Summary

BusinessNZ welcomes the early engagement on this most important issue. Energy efficiency will have a vital role in helping to meet New Zealand's growing international emission reduction targets, as well as the ambitions of our business community to maintain and enhance its international competitiveness.

BusinessNZ has sought to use this submission to highlight some of those areas on which MBIE (and EECA) could assure themselves in order to strengthen the quality of the eventual outcome. We look forward to working with both MBIE and EECA in the continued development of this strategy.

Yours sincerely



John Carnegie  
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BusinessNZ

## APPENDIX ONE: ABOUT BUSINESSNZ

[BusinessNZ](#) is New Zealand's largest business advocacy body, representing:

- Regional business groups [EMA](#), [Business Central](#), [Canterbury Employers' Chamber of Commerce](#), and [Employers Otago Southland](#)
- [Major Companies Group](#) of New Zealand's largest businesses
- [Gold Group](#) of medium sized businesses
- [Affiliated Industries Group](#) of national industry associations
- [ExportNZ](#) representing New Zealand exporting enterprises
- [ManufacturingNZ](#) representing New Zealand manufacturing enterprises
- [Sustainable Business Council](#) of enterprises leading sustainable business practice
- [BusinessNZ Energy Council](#) of enterprises leading sustainable energy production and use
- [Buy NZ Made](#) representing producers, retailers and consumers of New Zealand-made goods

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 and services for enterprise, BusinessNZ contributes to Government, tripartite working parties and international bodies including the International Labour Organisation ([ILO](#)), the International Organisation of Employers ([IOE](#)) and the Business and Industry Advisory Council ([BIAC](#)) to the Organisation for Economic Cooperation and Development ([OECD](#)).

### The BusinessNZ family



[www.businessnz.org.nz](http://www.businessnz.org.nz)