Submission

By

Business NZ

to the

Hon David Parker, Minister of Energy and Jeanette Fitzsimons, Government spokesperson – energy efficiency and conservation

on the

Draft NZ Energy Efficiency and Conservation Strategy

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DRAFT NZ ENERGY EFFICIENCY AND CONSERVATION STRATEGY
SUBMISSION BY BUSINESS NEW ZEALAND[1]
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1 INTRODUCTION

1.1 Business New Zealand welcomes the opportunity to make a submission on the *Draft New Zealand Energy Efficiency and Conservation Strategy*, (NZEECS) released for consultation by the Hon David Parker, Minister of Energy and Jeanette Fitzsimons, Government spokesperson – energy efficiency and conservation, on December 14, 2006.

1.2 The following suite of documents has also been considered:

1.2.1 *'Draft New Zealand Energy Strategy to 2050: Powering our future – towards a sustainable low emissions energy system.'*

1.2.2 *'Transitional measures – Options to move towards low emissions electricity and stationary energy supply and to facilitate a transition to greenhouse gas pricing in the future,'* published jointly by the Ministry for Economic Development and Ministry for the Environment on December 11, 2006.

1.2.3 *'Draft discussion paper on measures to reduce Greenhouse Gas Emissions in New Zealand Post-2102,'* published by the Ministry for the Environment on December 11, 2006.

1.2.4 *'Sustainable Land Management and Climate Change – Options for a Plan of Action,'* published jointly by the Minister of Agriculture and Forestry and the Minister Responsible for Climate Change Issues.

2 BACKGROUND

2.1 The Energy Efficiency and Conservation Authority (EECA) failed to deliver on its energy efficiency and renewable generation targets as set out in the previous National Energy Efficiency and Conservation Strategy. Since that time the Minister of Energy has introduced a draft New Zealand Energy Strategy and a number of other discussion documents that look to set out the energy future of New Zealand and its climate change mitigation response.

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

2.2 In effect this series of work streams replace the original content of the National Energy Efficiency and Conservation Strategy. While there is still a statutory requirement for EECA to produce this strategy, unless it acts as the implementation plan for the NZES it ceases to have any real purpose.

2.3 To this end it is difficult to see the value of submissions on the NZEECS at this time when so much work remains to be done. However there are a number of areas where Business New Zealand feels obligated to highlight issues.

3 ISSUES TO HIGHLIGHT

3.1 The proposed NZEECS targets are at this stage incomplete or inappropriate in their proposed methodology. If the title of the document is correct then it should be concerned with improved efficiency in the use of energy and where appropriate, energy conservation.

3.2 On that basis, judging the success of the strategy by the quantum reduction in CO_2 emissions seems entirely inappropriate. If, as recently stated by the government, the intention is to become carbon neutral with 100% renewable generation, there will be no need to use electricity in the most efficient manner as the NZEECS will only be looking at emission levels and they will be zero.

3.3 It seems to be an appropriate market response that in a commercial environment, energy efficiency drives investment where cost can be avoided. Attempting to increase the level of energy efficiency by regulation and thus setting mandatory targets is unlikely to encourage an optimum response as the mandated level becomes the target and the mandated level may be incorrectly derived for different sectors of the economy.

3.4 A lack of cost benefit analysis to justify proposals is a common theme throughout the suite of documents released for comment. It is of greater concern however the NZEECS appears to be promoting a greatly reduced discount factor. This tends to indicate that government will be subsidising all projects as businesses are required to achieve a commercial rate of return on their investments. If this is the case there is a significant conflict of interest when EECA is not only the delivery agent but is also controlling the cost benefit analysis process. Since all money expended by EECA is taxpayer’s money it would seem appropriate for an independent party to undertake the cost benefit analysis and net present value calculations to determine the investment priorities.

3.5 In the opening sentence of the draft NZEECS, the Minister of Energy states that New Zealand wastes large amounts of energy every day. This is reaffirmed by the statement that it’s increasingly recognised New

Zealand cannot continue to use energy in the way it has done in the past. It is time for a concerted effort to reduce wastage. This type of rhetoric is unhelpful as it implies that all New Zealanders willingly waste energy whereas nothing could be further from the truth. Certainly there may be opportunities to reduce energy consumption but there are many reasons why these opportunities are not taken up.

3.6 In the first instance there has to be a cost benefit, otherwise why would there be investment in energy efficiency? It is necessary to have useful information in a format that can be understood by lay people as well as those who are technically competent. Other countries have successfully taken up the challenge and created an environment where energy efficiency is made a focus. Australia is a good example of this with action at a state level, with the Sustainable Energy Development Authority in New South Wales leading the way, and at Federal level with the Australian Greenhouse Office. New Zealand has failed to achieve this level of success, in the main because successive governments have failed to lead through mandating the standards to be achieved by government departments.

3.7 Australia has also successfully introduced the concept of performance contracting into the energy efficiency arena. This is one of the most successful ways to gain involvement from large organisations with limited investment budgets as the projects are funded from cash flow. There were a number of regulatory interventions required to achieve whole of government support for this methodology, including a change in the way government departments were funded. New Zealand has failed to address this opportunity.

3.8 Government's recent announcement that selected departments would be placed on a path to carbon neutrality is the first time a commitment has been made, placing the public sector at the leading edge. It's hoped the NZEECS will incorporate the framework under which this goal will be achieved along with a methodology for roll out into the private sector.

3.9 It has never been clear to the private sector what government expectations have been for EECA. It is noted that they have a budget of around $14 million and employ some 84 staff. The Electricity Commission on the other hand has a budget in excess of $18 million for improved efficiency in the electricity sector and employs 2 staff. It would seem that accountability has a lot to do with productivity. The Electricity Commission is funded by a levy from all consumers and is required to account for the return on their investments. EECA on the other hand is a statuary body and therefore is neither a government department nor a private entity. It has a government-appointed board, reports to the co-leader of a political party not in government and is funded by the taxpayers with no clear accountability for expenditure.

4 A SECOND ROUND OF CONSULTATION IS REQUIRED

4.1 The draft NZEECS is one of the least comprehensive documents in the suite being considered. This is surprising as the development process for the NZEECS commenced well before any of the other work streams and has had a cross departmental team contributing to it for many months. There are a number of statements in the draft indicating a lack of clarity of purpose or complete confusion as to where this strategy sits within the broader energy strategy framework. Some examples are set out below:

4.2 "The stringency levels and timeframes in some instances cannot be finalised at this stage due to ongoing analysis. This work will continue over the coming months."

4.3 "Monitoring and reporting of progress on implementing the draft strategy will need to be consistent across government. It could include qualitative tracking of progress towards targets and reporting results in statements of intent, performance agreements and quarterly and annual reports. This will be agreed in the coming months."

4.4 "Work is ongoing to refine these valuations and extend the analysis to a wider set of measures."

4.5 "Specific accountabilities are currently being finalised and will be included in the final strategy"

4.6 The Act requires the Minister to consult on a draft of the NZEECS. It's difficult to see how the Minister can obtain quality feedback from interested parties when significant issues, such as targets and supporting cost benefit analysis, have yet to be decided. Partial consultation of this nature does not meet the requirement for meaningful consultation set out in the Act. It would be an unacceptable outcome and contrary to the requirement of the Act if the final version of the NZEECS contained significant sections that had not been fully consulted on.

4.7 We believe a second round of consultation will be required given that significant parts of the draft NZEECS have yet to be formulated and the Act requires the Minister to consult on draft proposals, not on proposals that have not at this time been drafted.

4.8 The concept of a quasi government department setting quantitative targets for outputs that it has little control over and therefore cannot be held accountable for makes absolutely no sense. New Zealand would be better served if EECA adopted a similar approach to that developed by the Senior Advisor Electricity Efficiency for the Electricity Commission.

4.9 The fact that the EECA failed to deliver on targets set by the previous NEECS looks set to be repeated with the latest NZEECS. The new risk is that because NZEECS failed to set appropriate targets the politicians might decide to set them, as in the case of carbon neutrality for selected government departments and then New Zealand as a whole.

4.10 This approach could result in a loss of credibility and the resultant failure to achieve anything close to the desired levels of reduced energy consumption. This outcome is further reinforced by setting targets for a reduction in emissions when a reduction in energy consumption is the real target. The following statements are taken from various sections of the draft NZEECS

4.10.1 A reduction in CO_2 intensity ratios.

4.10.2 A reduction in net New Zealand CO_2 emissions to 1990 level by 2012

4.10.3 Greenhouse gas savings of 0.3 MT pa for the "Our workplaces" sector

4.10.4 Greenhouse gas savings of 2.4 MT pa for transport sector

4.10.5 Greenhouse gas savings of 0.3-0.7 MT pa for "Planning and partnerships"

4.11 These are clearly inappropriate because they are related to climate change policies and are not within the purpose of the Act. Climate change or changes in greenhouse gas emissions are not mentioned in the Act at all. The purpose statement of the Act is clear:

"The purpose of this Act is to promote, in New Zealand, energy efficiency, energy conservation, and the use of renewable sources of energy."

4.12 The NZEECS targets need to be set and performance measured in terms of energy efficiency, energy conservation and the use of renewable sources of energy. Obviously the government has related climate change strategies however those should be developed in a separate climate change strategy.

4.13 Business New Zealand is concerned that the NZEECS appears to assume that failure of EECA to deliver on the targets set in the original NEECS in some way implies that there is a need for regulatory intervention to set mandatory targets. This is encapsulated in the following statement:

4:13.1 "The usual starting point to encourage effective consumer choices is to address significant market failures such as making sure prices are fully cost-reflective, information gaps are filled and split incentives are managed. These and other voluntary measures in the last strategy have now paved the way to move further. In this draft strategy, a stronger emphasis on incentives and mandatory measures (where cost-effective) is proposed."

4.14 Business New Zealand is a firm believer in voluntary measures and as far as we are aware there has been no comprehensive analysis of the market failures referred to above across all energy sectors. It is therefore premature to argue voluntary measures to reduce energy consumption have failed and hence mandatory measures are needed. Without thorough analysis it is not clear why EECA failed to deliver on the NEECS targets and it is inappropriate for EECA to act as judge and jury in this instance. We would suggest that there would need to be an independent review of the performance of EECA and its failure to deliver before any move is made to regulate outcomes.

4.15 Throughout this whole suite of documents there is little cost benefit analysis to support the proposed actions and this draft strategy is no different. For example, to promote renewable sources of energy, the strategy lists nine actions for 2009-2012, six of which are carried over from 2007-2008 and as far as we are aware have never had any cost benefit analysis to justify their implementation. The remaining three are new proposals but once again there is no cost benefit analysis in support of the proposals.

4.16 This is a serious matter since the proposals may lead to significant government and private sector expenditures. For example, one of the new proposals for renewable energy is to build industry capacity and support market growth for selected small-scale renewable energy technologies. This includes such activities as installer and designer training, product accreditation, standards and marketing.

4.17 The draft NZEECS provides no further information on this proposal and neither does it articulate if the government is seeking industry to develop this on a voluntary basis or whether the government will impose some mandatory requirements. It is possible that millions of dollars could be spent by government and the private sector implementing this proposal while the magnitude of any benefits to the economy by reduced energy consumption or a reduction in emissions is far from clear.

4.18 Of the limited cost benefit analysis that has been undertaken it is of concern that the use of a 5% discount rate is advocated together with the assumption that climate change externalities should for some unknown reason be valued at $15/t CO_2. Until we move to an international price for carbon it would seem appropriate that any cost benefit analysis should align with the Treasury value for international carbon credits and a Treasury derived discount factor should be applied.

4:19 As stated previously, funding EECA to achieve the outcomes of the NZEECS is a significant cost to taxpayers with little or no apparent accountability. In any other sector funding to this level would be treated as a significant item and subject to a robust process to ensure it is well targeted to overcome any identified problems. In the case of energy efficiency, the ongoing future of EECA can only be justified if there is perceived market failure to deliver the desired outcome.

4:20 In the electricity sector, suggestions of market failure have been a recurring theme since the electricity market started in October 1996. At stake is whether the $4.3 billion per annum consumers pay for delivered power is supplied competitively or not. Over the 10-and-a-half years the market has been in existence some resources have been employed to consider market failure issues, but no where near the $14m per annum spent on EECA. Compared to expenditure on work to investigate and mitigate possible market failures in the electricity market, the funding on energy efficiency and conservation perceived market failures appears excessive.

5 CONCLUSION

5.1 One of the problems is that the service delivery agent for energy efficiency interventions is also responsible for cost benefit analysis to support the draft NZEECS. It seems unlikely that EECA would conclude that there were few market failures requiring intervention and that the level of intervention should be reduced – even though that may actually be the best outcome.

5.2 The problem is an agency cannot be responsible for deciding the required level of funding and be the beneficiary of that funding at the same time.

The result of this less than robust process has been significant growth in the number of staff employed by EECA from some 14 full time equivalents at conception to around 84 today. In this period its counterparts in Australia have gone from 20 staff in 1995 to zero staff today having successfully established a robust market for the provision of services and a genuine desire by organisations to reduce energy consumption. The continued growth is staffing and expenditure tends to indicate EECA are not only failing to identify and intervene to overcome market failure but in some way are facilitating an increase in the rate of failure across a wider range of activities.

5.3 In real terms it would appear the model adopted in New Zealand to address the issues of energy efficiency and conservation is deficient. It is unclear to most people what the exact role of EECA is now that we have embarked on the development of a long term energy strategy driven by the Ministry for Economic Development and in association have a significant focus on the implementation of climate change mitigation measures driven by the Ministry for the Environment.

5.4 At best, government should be reviewing the operation of EECA and its deliverables under NZEECS and its predecessor NEECS with a view to changing the structure. At the very least, given the conflict of interest in deciding the level of funding for energy efficiency work, it should vest responsibility for cost benefit analysis of all proposals promoted by EECA to government departments such as Treasury, MED or MfE.

APPENDIX

6 ABOUT BUSINESS NZ

6.1 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 64-member Affiliated Industries Group (AIG), which comprises most of New Zealand's national industry associations, Business New Zealand 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.

6.2 In addition to advocacy on behalf of enterprise, Business New Zealand 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.

6.3.1 Business NZ'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.