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An Electricity Allocation Factor for 2013 and Beyond

BusinessNZ is pleased to have the opportunity to provide a submission to the Ministry for the Environment on its consultation document entitled 'An Electricity Allocation Factor for 2013 and Beyond', released June 2012.[1]

Introduction

BusinessNZ welcomes the Government consultation document outlining its proposed changes to the electricity allocation factor for 2013 and beyond. The Ministry for the Environment is to be commended for the rigorous process it ran, including the use of the Contact Group (the 'group') and the support and advice it provided to the group. This allowed the group to deliver a high quality report.

All group members considered that on the basis of the modelling undertaken, and the insights gained from it, the electricity allocation factor (the 'EAF') should be higher than the existing EAF of 0.52tCO_2/MWh. BusinessNZ supports option (c), the higher of the options put forward.

Comments

The differences between the 2008 sub-group of the Stationary Energy and Industrial Process Technical Advisory Group, and the 2011 group could not have been starker. The 2008 sub-group was convened in a rush and required to consider the complexities of an EAF within a constrained timeframe. The 2011 group, on the other hand, comprised a good mix of business and officials, was given the luxury of time to consider the intricacies of the EAF and was well-resourced.

In light of these differences it is hardly a surprise that the group recommended that the EAF be increased. Critically, the group thought hard about from whom to get advice in the development of a new EAF, and the nature of that

[1] Background information on BusinessNZ is attached in Appendix One.

advice. This pointed the group at analysis by Energy Modelling Consultants (EMC) Ltd and the use of short-run, marginal cost analysis.

Like all modelling, the EMC work is dependent upon the assumptions used. However, it was in this regard that the depth and breadth of the experience and knowledge of the group members came to the fore. The EMC work was subject to rigorous scrutiny which it withstood. The EAF recommendation (to increase it) flows from the modelling.

It is true that other models with other assumptions may deliver different (i.e. lower) EAFs. However, to supplant the work of the group with a different model or result would be unprincipled. BusinessNZ considers that in light of the high quality of the group's work, a high burden of proof has been set for those who may wish to see a lower than recommended EAF.

BusinessNZ supports the higher EAF of 0.606 tCO_2/MWh. BusinessNZ's support of this higher factor rests principally on the need to correct the fact that the 2008 sub-group did not give appropriate consideration to the impact of a price of carbon on the initial new generation build schedules, but instead, assumed the same schedule. Doing so *understated* the initial EAF, making an upward adjustment now seem larger than it should be. BusinessNZ also considers that a higher EAF is justified on the basis of the asymmetric risks to investment arising from under, rather than over-estimating the EAF. The magnitude of this asymmetric risk can be quantified from the following estimation:

> "*Options (b) and (c) cost the Crown (and therefore benefit businesses) approximately 20,000 units and 100,000 units per annum respectively, relatively to option (a).*"[2]

Finally, regardless of the EAF chosen, BusinessNZ considers that its use should not be time-bound. This, coincidentally, is consistent with the approach just adopted by the Government in its recent decisions on the emissions trading scheme more broadly that have sought to provide business with greater longer-term certainty of policy settings. We believe that the Government is able to review the EAF at any time it wishes, without the need for a scheduled review, but we do note that the Minister for Climate Change Issues has signalled a Ministerial review for 2015.

Yours sincerely

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BusinessNZ

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[2] Ministry for the Environment consultation paper entitled 'An Electricity Allocation Factor for 2013 and Beyond', dated June 2012, page 3.

APPENDIX ONE: ABOUT BUSINESSNZ

Encompassing four regional business organisations (Employers' & Manufacturers' Association (Northern), Employers' Chamber of Commerce Central, Canterbury Employers' Chamber of Commerce, and the Otago-Southland Employers' Association), BusinessNZ is New Zealand's largest business advocacy body. Together with its 80 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.