

PROPERTY COUNCIL NEW ZEALAND
2008 ENERGY SUPPLY POLICY STATEMENT
URBAN STRATEGY

VISION

To promote a regulatory environment that prioritises a reliable and affordable supply of energy to all users at all times.

To reform regulatory decision-making processes that currently impede energy sector development.

To promote fair competition between energy generation providers and generation types.

RATIONALE

The goal of Property Council New Zealand is the creation of a well-designed, functional, and economically sustainable built environments in New Zealand. In a competitive global marketplace, the ability to provide an affordable and reliable supply of energy is crucial to New Zealand's ability to attract capital investment, both domestic and foreign.

BACKGROUND

Security of energy supply is essential to modern economies. When supply runs short (due to hydro-shortages or high demand), prices for energy can rise eightfold in comparison to periods with no supply constraints. High energy costs restrict production and manufacturing, lower national output, and can result in blue collar job losses.¹

In 1992, and to a lesser extent in 2003, New Zealand faced a shortage of electricity that curbed industrial output in energy dependant sectors. The 1992 crisis saw residential power cuts, the final proof of failure for an energy system. In the aftermath of the 1992 blackouts, the Electricity Commission ("the Commission") was established and tasked with ensuring that supply shortages were not repeated.

The establishment of the Commission, and resulting legislation, sought to enhance supply security by promoting the construction of new generators. To date, the Commission has taken \$230 million in levies from energy consumers, a large proportion of which has been used to subsidise the operation of the state-run diesel-fired generator at Whirinaki.

Investment in traditional avenues of generation face the hurdle of a resource consent approval process that does not guarantee consistent outcomes. The uncertainty of new legislation, and growing public sentiment surrounding climate change, has made generators unwilling to invest in new thermal generation capacity. Until power generators have confidence in a consistent statutory environment, investment in reliable and cost effective thermal generation will be avoided due to the fear of hidden future compliance costs. Hydrogeneration is now widely opposed due to the large area of land required. Wind power has also raised aesthetic concerns from environmental groups, as well as having additional

¹ *Market Administrator Weekly Wholesale Market Report*, M-Co, 8 Jun 2008 & 31 December 2006.

higher transmission needs than other generation options.

It is becoming increasingly difficult for generators to provide additional capacity in a timely manner. New projects face increasing requirements for approval from a number of different agencies and territorial authorities.

REGULARITY REFORM

Infrastructure is generally underfunded and over burdened by legalisation in New Zealand. Ongoing concerns surrounding supply security are exacerbated by a low sector confidence in the success of resource consent applications for new generation capacity. Low confidence is the result of a tightening of consent approval processes, prolonged consultation requirements, and a statutory environment that is in constant flux. The energy industry will remain unwilling to invest in new capital and infrastructure until government policy stabilises in both the transmission and generation sectors.

The multi-agency regulatory approach is failing New Zealanders and jeopardising economic growth. Any given energy project may need to be evaluated and approved under as many as nine pieces of legislation, each having its own agency, consultation requirements, and appeals process before approval is given. In addition, projects must also satisfy territorial authorities' individual policies and interpretations of the Resource Management Act 1991 (RMA 1991).

Numerous regulatory processes add significant cost to projects and cause the bulk of delays for new generation and transmission projects. The conflicting goals of the Electricity Commission, the Commerce Commission, and local authorities who administer the RMA 1991, are the primary deterrents to effective energy sector expansion.

While the functions of the Commerce Commission and Electricity Commission are vital, Transpower has raised concerns around duplication of process and unclear delegation of responsibilities.² Large scale energy projects need a streamlined approval process, giving generators the ability to move more quickly as the market changes. Property Council supports a review of current regulatory process to address the failure to promote new generation, which has resulted in seasonal power shortages.

Property Council supports a revised planning environment in which projects are assessed by agencies that have a stronger mandate to enhance supply security. Current resource consent procedures have proven to be insufficient at evaluating large scale energy projects, resulting in long delays and the failure to receive planning approval of projects essential to supply security.

Currently, the Minister for the Environment can 'call-in' consent applications for nationally significant projects and refer them to a Board of Inquiry or directly to the Environment Court, speeding up decisions that would in all likelihood be appealed anyway. Enabling organisations who propose new energy projects to voluntarily 'call-in' their proposals to the final point of appeal (the Environment Court, Board of Inquiry or a new specialist agency) would reduce consultation and holding costs, while providing a more efficient consultation process overall .

TRANSMISSION

Generation capacity expansion is dependent on the provision of sufficient transmission capacity to transport energy from

² *Submission to the Commerce Commission and the Electricity Commission: MoU [Memorandum of Understanding] between the Commerce Commission and the Electricity Commission, Transpower, 16 May 2007.*

the generation source to centres of demand. A well planned national grid ensures that if some capacity is temporarily unavailable, generation from other parts of the country can be used to supply isolated regions. Certainty of transmission capacity (both current and future) is a determinant for the location of new generation projects.

When a new transmission project is proposed by Transpower, the Commerce Commission and the Electricity Commission are both tasked with seeking the lowest possible capital and ongoing costs for the project. Territorial authorities are tasked under the RMA 1991 to seek the mitigation of adverse environmental effects, which increases project costs. The resulting opposition of the two regulatory forces is that one side is often forced to withhold or delay consent as their own rules give them insufficient ability to compromise. Eventual compromises are often inefficient and lead to grid upgrades with insufficient capacity to meet future needs or ignore environmental impacts.

Currently, the Commerce Commission, the Electricity Commission, and territorial authorities are tasked with overlapping areas of evaluation of transmission projects, with each independently seeking goals that are incompatible with the objectives of the two other agencies. This regulatory arrangement triplicates consultation and evaluation process, and creates three distinct opportunities for appeals.

Property Council supports a review of relevant legislation to rectify issues arising from conflicting goal setting and a statutory failure to accommodate compromise between the conflicting goals of the Commerce Commission, the Electricity Commission, and territorial authorities. With more clearly defined responsibilities and a consistent and transparent evaluation process, energy sector investment in supply security will increase as a result of improved sector confidence.

GENERATION

In the energy generation sector, uncertainty has led to a shortage of new generation projects. Concerns about climate change and the possibility of an emissions trading scheme that would radically alter the investment profile of all generation types has meant that generators are unwilling to commit to large scale energy projects until the risk of regulatory uncertainty is resolved. With planning and construction processes often taking years before a new generator is operational, certainty that there will not be major government policy changes during construction is essential at the onset of planning new generating capacity.

Energy generation projects are a balance between fuel supply (thermal or renewable) and proximity to demand. Generators need certainty that they will be able to economically exploit fuel sources; and transport the energy to market. When a project is evaluated for planning approval, a balance of cost, transmission, fuel availability, fuel price and environmental impact must all be weighted together. This technical process can not be correctly evaluated in regulatory silos.

When assessed independently by different agencies, a high cost in one area may be outweighed by greater benefit in another. But the current model would see a project opposed due to a single large cost on one area. The lack of interagency compromise has led to many of the current supply security issues. By giving different agencies responsibility for a single factor of a project, project-wide cost benefit analysis is restricted.

By increasing planning and evaluation certainty for generators and Transpower, the sector will be more willing and able to invest in supply security. The improved confidence in the energy sector will flow through to the entire economy as bulk users and households become confident that they will face consistent pricing and supply certainty in the short to long term. Blackouts and spot price jumps accompanied by savings campaigns are large red flags to high-tech foreign investors and detrimental to a knowledge economy.

DEMAND MANAGEMENT STRATEGIES

Property Council supports national improvements in energy efficiency. New and existing properties require support to increase the uptake of green technologies that lower energy use. Appropriate strategies are needed for both new and existing buildings. Strategies to promote the uptake of green technologies and reduce energy and resource demand in the built environment innovative strategies could include:

1. depreciation allowances for green technologies;
2. facilitating the allocation of emissions trading credits, that arise from the installation of green building technologies, to property owners;
3. reducing building and resource consents fees and processing times (through priority processing) for certified Green Star buildings; and
4. reducing development contributions levies for certified Green Star buildings.

The built environment is a large energy consumer. Initiatives to increase the uptake of green technology would have a marked effect on demand growth. By promoting strategies that encourage property owners to invest in green technologies, either at construction or in retrofit situations, energy demand mitigation will offset the need for otherwise necessary generation capacity.

CLIMATE CHANGE (EMISSIONS TRADING AND RENEWABLE PREFERENCE) BILL

Property Council opposed the Climate Change (Emissions Trading and Renewable Preference) Bill (“the Bill”) in its current form. By banning new thermal generation, the Government is removing the key stone of the energy sector. By further loading more capacity onto renewable generation, the network will become more susceptible to shortages when the weather is insufficient. Thermal generation is necessary to boost renewable output during peak periods of demand. The risk to supply security of the moratorium on thermal generation is unacceptable.

Furthermore the Bill seeks to load additional costs onto existing thermal generators through the Emissions Trading Scheme. With increased cost loaded onto thermal generators, consumers will have to pay more for the energy they use. If a generator decides to shift generation to a new cleaner thermal generation plant they will be prohibited from doing so under the thermal generation moratorium provisions of the Bill. The perverse effect will be more emissions than necessary as old large emitters are unable to be transitioned to lower emissions generators.