

VOTE *Energy*

Energy

Overview

Appropriations sought in Vote Energy in 2003/04 total \$28.189 million and are to be applied as follows:

- \$23.195 million (82.3% of the Vote) purchasing services from the Ministry of Economic Development, including:
 - \$4.551 million for policy advice on the operation of energy and resource markets
 - \$6.341 million for the management of the Crown mineral estate
 - \$9.266 million for advice on, and the administration of, the gas and electrical safety, supply quality and measurement regimes; a petroleum quality monitoring regime, licensing of electrical workers and the implementation of information disclosure regimes for the electricity and gas sectors
 - \$480,000 for the development and implementation of a national unit register to enable international trading in emissions units and sink credits under the Climate Change Response Act 2002, and
 - \$2.557 million for the provision of information on energy and minerals sectors.

Appropriations for non-departmental output classes in 2003/04 total \$4.519 million (16.0% of the Vote) will be used as follows:

- \$3.000 million (10.6% of the Vote) for the Commerce Commission to undertake electricity regulation through monitoring and price control of electricity lines businesses.
- \$1.519 million (5.4% of the Vote) for the Commerce Commission to undertake a section 56 inquiry under the Commerce Act 1986 on whether 'control' of gas pipeline services should be introduced.

Appropriations sought for non-departmental other expenses total \$475,000 (1.7% of the Vote). These relate to the Crown contribution to, or membership of, various organisations associated with activities within Vote Energy, and the payment of residual liabilities of the former Ministry of Energy (MOE).

The Ministry expects to collect \$122.349 million of Crown revenue in 2003/04 with the major portion coming from petroleum licence/permit levies and royalties.

More specific details of how the appropriations are to be applied appear in Parts B1 and C of this Vote. Details of Crown revenue appear in Part F.

Terms and Definitions Used

EECA	Energy Efficiency and Conservation Authority
MOE	Ministry of Energy
IEA	International Energy Agency

Energy

VOTE MINISTER: Minister of Energy

ADMINISTERING DEPARTMENT: Ministry of Economic Development

The Minister for Economic Development is the Responsible Minister for the Ministry of Economic Development

Part A - Statement of Objectives and Trends

Part A1 – Objectives for Vote Energy

Related Government Outcomes

One of the Government's goals to guide the public sector in achieving sustainable development is to grow an inclusive, innovative economy for the benefit of all.

The Ministry of Economic Development contributes to this goal by working towards ensuring that New Zealand's business environment promotes a sustainable increase in income growth for New Zealanders.

The services to be purchased under Vote Energy will allow the Ministry of Economic Development and other agencies to deliver outputs that contribute to the Government's goal.

In particular, the Ministry will provide policy advice in respect of energy markets and environmental regulation with significant economic implications such as the Resource Management Act 1991 and climate change. The Ministry will also provide information on energy matters and administer the Crown's mineral estate.

A sound and reliable energy infrastructure is critical to a thriving business environment and consumer welfare.

The Ministry of Economic Development provides advice to the Government on the design, regulation and governance of electricity and gas markets, with a view to ensuring that energy is supplied reliably, securely and at reasonable cost.

A particular focus is ensuring that there is adequate investment to meet New Zealand's growing needs, balanced by the need for enhanced efficiency in energy use.

Output Classes

The table below summarises the contribution that different outputs make to the Ministry's Business Environment outcomes.

Outcome	Contribution
Businesses and consumers use information held by the Ministry, or required by the laws it administers, to help them make well-informed decisions	<p>Provision of information on the energy sector, including the performance of energy markets and supply and demand scenarios.</p> <p>Provision of information on the Crown's mineral estate.</p> <p>Development and implementation of a national register to record emission units and sink credits under the Climate Change Response Act 2002. Both trading and the prices emerging from trading enable businesses to make well-informed decisions on how to handle their climate change obligations.</p>
Business regulation is easy to comply with, and balances the cost it imposes with the benefits to the community	Policy advice on environmental regulation with significant economic implications, e.g. climate change, Resource Management Act 1991, Hazardous Substances and New Organisms Act 1996. This work is done in conjunction with the Ministry of Environment.
Business and consumers have confidence in the integrity and effectiveness of markets	Policy advice on, and administration of, electricity and gas safety, supply quality and measurement regimes; petroleum quality monitoring regime; electrical workers' licensing; and information disclosure regimes for electricity and gas industries.
Businesses and consumers have access to reliable infrastructure services at reasonable cost	Policy advice on the design, regulation and governance of electricity and gas markets.
The Ministry's management of Crown resources supports business development and sustainable growth	<p>Administration of Crown's mineral estate, including allocation and permitting issues and the promotion of opportunities for investment in exploration and prospecting, especially for oil and gas.</p> <p>Policy advice on Treaty of Waitangi issues relating to natural resources.</p>

In addition, appropriations are sought in this Vote to purchase outputs from the Commerce Commission for:

- the provision of monitoring electricity prices, reviewing asset valuation methodologies and re-calibrating asset values, collecting and disclosing information and implementing price controls as necessary in relation to electricity lines businesses and to Transpower, and
- the provision of a gas pipeline inquiry under section 56 of the Commerce Act 1986.

Part A2 - Trends in Vote Energy

Classes of Output to be Supplied

Output trends from 1999/2000 to 2002/03

The major change between 1999/2000 and 2000/01 reflected a change in status for the Energy Efficiency Conservation Authority (EECA) to a stand-alone Crown entity with energy efficiency policy advice and services being delivered through Vote Energy - Energy Efficiency and Conservation. The Ministry for the Environment now administers these activities. Partially offsetting the reduction resulting from the change in status for EECA was ongoing additional funding for increased outputs to assist with New Zealand's preparation for meeting its Kyoto Protocol commitments, and expenditure incurred for the Ministerial Inquiry into the Electricity Industry in 1999/2000.

The increase in 2001/02 mainly relates to an increase in appropriation of \$4.600 million as a consequence of the implementation of the Government's new policies in relation to electricity regulation set out in the new Part 4A of the Commerce Amendment Act (No 2) 2001. In addition a minerals conference was undertaken in 2001/02 and work on the Ministerial Inquiry into the Electricity Industry was completed in that period.

The reduction between 2001/02 and 2002/03 mainly reflects the completion of projects in 2001/02 as referred to above, and a reduction in funding for electricity regulation activities following the completion of its establishment phase in 2001/02. In addition, funding was transferred from Vote Energy to Vote Prime Minister and Cabinet in 2001/02 and 2002/03 only to assist with the establishment of a climate change project team. A one-off item relating to the plugging and reclamation of the Blenheim 1 well in New Plymouth and the commencement of a regulatory control inquiry on gas pipeline services undertaken by the Commerce Commission offset this.

Appropriation changes from 2002/03

Expenditure for classes of outputs will increase in 2003/04 due to:

- additional work to be undertaken on modelling of electricity supply risks and publication of security forecasts
- development and implementation of the national unit register under the Climate Change Response Act 2002, that is required to meet New Zealand's obligations under the Kyoto Protocol and to enable international trading in emissions units and sink credits
- additional funding for the provision of detailed and comprehensive advice to Ministers on issues associated with gas and electricity market developments, including funding for policy advice and energy modelling
- the development of an integrated approach to the management and allocation of fresh water as part of an inter-departmental work programme led by the Ministry for the Environment, and
- the introduction of a public information campaign to alert diesel vehicle owners to possible maintenance requirements associated with lower sulphur diesel.

For further details of new initiatives agreed, refer to the "Reconciliation of New Initiatives to Appropriations" below.

Capital Flows

Crown Energy Efficiency Loans were transferred to Vote Energy - Energy Efficiency and Conservation effective 1 July 2000.

Crown Revenue and Receipts

Significant revenue fluctuations have occurred over this period primarily owing to variations in the levels of petroleum royalties and energy resource levies (related to changes in crude oil prices and fluctuation in demand for gas for power generation).

2001/02 was the first year when electricity lines businesses were levied to fund regulation activities.

Furthermore, capital receipts were forecast at \$1.000 million per annum for Crown Energy Efficiency Loans transferred to Vote Energy - Energy Efficiency and Conservation effective from 1 July 2000.

The anticipated run-down in gas off take from the Maui field will result in reduced Energy Resource Levies receipts and Royalties on condensate production (petroleum).

Strategic Issues

A major focus for the Ministry in 2003/04 will be to continue monitoring the energy and resource markets and to advise the Government on effective governance and design of electricity and gas markets (with a particular focus on supply security) and the implementation of regulations as required. The Ministry will work to promote an electricity market that delivers the objectives of the Government's Policy Statement of February 2002. A particular focus will be ensuring the security of electricity supply in the context of the early depletion of Maui. In addition the Ministry will participate in contingency planning to manage supply security in the event of another dry hydro year.

The Ministry will also work to ensure delivery of the government's gas objectives, set out in the Government Policy Statement on gas, to improve the functioning of the market and ensure a smooth transition to the post-Maui environment.

Continued investment to identify new gas reserves is required, and international promotional work to market the prospectivity of New Zealand's hydrocarbon basins to new investors will continue. A review of the regulatory regime for petroleum commenced in 2001/02 and will progress during 2003/04 to ensure that the regime is internationally competitive and capable of attracting continued investment.

The EnergySafe project will translate the Government's May 1999 'in principle' decisions on the review of the safety regime for the electrical and gas industries, into the legislative changes needed to implement a new safety regime. The changes are designed to remove the inconsistencies between legislation and provide consumers with choice and a greater confidence that safety is being maintained and enhanced.

Reconciliation of New Initiatives to Appropriations

Initiative	Appropriations as shown in Part B	\$000 – increase/(decrease)				
		2002/03	2003/04	2004/05	2005/06	2006/07
Energy policy and forecasting work to support delivery of advice on issues associated with gas and electricity market developments	Departmental Output Class – Policy Advice on Energy and Resource Issues	502	1,125	1,125	175	135
	Departmental Output Class – Energy and Resource Information Services	450	225	225	225	225
Modelling of electricity supply risks and publication of security forecasts	Departmental Output Class – Energy and Resource Information Services	225	989	708	708	-
Development and implementation of the national unit register under the Climate Change Response Act 2002 (part of the Climate Change Package)	Departmental Output Class – Provision of Climate Change Unit Register and Information	-	480	480	480	480
Integrated approach to the management and allocation of freshwater in New Zealand (part of an inter-departmental work programme led by the Ministry for the Environment)	Departmental Output Class – Policy Advice on Energy and Resource Issues	-	150	150	-	-
Public information campaign associated with lower diesel sulphur levels	Departmental Output Class – Policy Advice on Energy and Resource Issues	-	155	40	155	-
Total Initiatives		1,177	3,124	2,728	1,778	840

Trends in Vote Energy - Summary of Appropriations and Crown Revenue

Types of Appropriation	1998/99	1999/2000	2000/01	2001/02	2002/03		2003/04 Appropriations to be Used				2004/05	2005/06	2006/07	
	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budget \$000	Estimated Actual \$000	By the Department Administering the Vote		For Non-Departmental Transactions		Total \$000	Estimated \$000	Estimated \$000	Estimated \$000
							Annual \$000	Other \$000	Annual \$000	Other \$000				
Operating Flows														
Classes of Outputs to be Supplied	23,991	24,090	19,746	22,655	25,038	24,775	22,108	1,087	4,519	-	27,714	25,742	24,307	23,404
Benefits and Other Unrequited Expenses	-	-	-	-	-	-	N/A	N/A	-	-	-	-	-	-
Borrowing Expenses	-	-	-	-	-	-	N/A	N/A	-	-	-	-	-	-
Other Expenses	2,553	13,825	286	518	475	475	-	-	475	-	475	475	475	475
Capital Flows														
Capital Contributions	869	983	-	-	-	-	-	-	-	-	-	-	-	-
Purchase or Development of Capital Assets	-	-	-	-	-	-	N/A	N/A	-	-	-	-	-	-
Repayment of Debt	-	-	-	-	-	-	N/A	N/A	-	-	-	-	-	-
Total Appropriations	27,413	38,898	20,032	23,173	25,513	25,250	22,108	1,087	4,994	-	28,189	26,217	24,782	23,879
Total Crown Revenue and Receipts	125,959	156,618	195,388	165,388	142,317	149,654	N/A	N/A	N/A	N/A	122,349	116,149	107,849	105,599

Part B - Statement of Appropriations

Part B1 - Details of Appropriations

	2002/03				2003/04		Description of 2003/04 Appropriations
	Vote		Estimated Actual		Vote		
Appropriations	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	
Departmental Output Classes (Mode B Gross)							
D1 Policy Advice on Energy and Resource Issues	3,658	-	3,658	-	4,551	-	- Policy advice on the operation of energy and resource markets (electricity, oil, gas, geothermal, coal, minerals and related natural resources) including Treaty of Waitangi issues in relation to natural resources in particular mineral and energy resources.
D2 Management of the Crown Mineral Estate	5,890	-	5,704	-	6,341	-	- Allocation and management of Crown-owned petroleum, coal and mineral resources under the Crown Minerals Act 1991 and minerals programmes issued under the Act.
D3 Administration of Gas and Electricity Regulations	9,266	-	9,232	-	9,266	-	- Advice on, and the administration of, the gas and electrical safety, supply quality and measurement regimes; a petroleum quality monitoring regime; and implementation of information disclosure regimes for the electricity and gas industries.
D4 Provision of Climate Change Unit Register and Information	-	-	-	-	480	-	- Services relating to the development and implementation of a national unit register to enable international trading in emissions units and sink credits under the Climate Change Response Act 2002.
Total Appropriations for Departmental Output Classes (Mode B Gross)	18,814	-	18,594	-	20,638	-	

Departmental Output Classes (Mode B Net)							
D5 Energy and Resource Information Services	987	1,156	944	1,156	1,470	1,087	Provision of information and technical advice on energy and minerals sectors; monitoring and statistical analysis of energy markets and the provision of energy supply and demand forecasts. It also includes inter-governmental liaison and the servicing of New Zealand membership of international organisations, particularly the International Energy Agency (IEA).
Total Appropriations for Departmental Output Classes (Mode B Net)	987	1,156	944	1,156	1,470	1,087	
Non-Departmental Output Classes							
O1 Enforcement of Electricity Sector Regulation	3,000	-	3,000	-	3,000	-	- For the provision of monitoring electricity prices, reviewing asset valuation methodologies and re-calibrating asset values, collecting and disclosing information and implementing price controls as necessary in relation to electricity lines businesses and to Transpower.
O2 Regulatory Control Inquiry - Gas Pipeline Services	281	-	281	-	1,519	-	- For the provision of a gas pipeline inquiry under section 56 of the Commerce Act 1986.
O3 Blenheim Wells	800	-	800	-	-	-	- No appropriation is sought for 2003/04.
Total Appropriations for Non-Departmental Output Classes	4,081	-	4,081	-	4,519	-	
Other Expenses to be Incurred by the Crown							
International Energy Agency Contribution	50	-	50	-	50	-	- Payment of contributions towards the cost of energy-related research undertaken by the IEA.
International Energy Agency Subscription	115	-	115	-	115	-	- Payment of annual subscription for membership of the IEA.
Ministry of Energy Residual Liabilities	210	-	210	-	210	-	- Payment of residual liabilities of the former MOE and to meet urgent mine restoration and rehabilitation relating to the operations of the State Coal Mines prior to 1987.

Part B1 - Details of Appropriations (continued)

	2002/03				2003/04		Description of 2003/04 Appropriations
	Vote		Estimated Actual		Vote		
	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	
Appropriations							
Other Expenses to be Incurred by the Crown – cont'd							
Petroleum Joint Venture Development	100	-	100	-	100	-	Commitments to the Crown's interest in petroleum prospecting and mining licences through petroleum joint ventures.
Total Appropriations for Other Expenses to be Incurred by the Crown	475	-	475	-	475	-	
Total Appropriations	24,357	1,156	24,094	1,156	27,102	1,087	

Part C - Explanation of Appropriations for Output Classes

Part C1 - Departmental Output Classes

For more detailed analysis of departmental output classes, including financial and non-financial performance measures, please refer to the *Ministry of Economic Development's 2003 - 2006 Statement of Intent*.

Output Class D1 - Policy Advice on Energy and Resource Issues

The Minister of Energy will purchase policy advice that ensures the operation of energy and resource markets (electricity, oil, gas, geothermal, coal, minerals and other natural resources).

Outputs in this class include:

- monitoring and advice to the Government on effective governance and operation of electricity and gas markets (with particular focus on security of supply) and implementing regulations as required
- providing advice to the Government on effective retail competition in the petroleum market
- leadership of the public sector energy action plan of the Sustainable Development Plan of Action
- providing advice on the allocation and management of natural resources, particularly Crown-owned resources, and on Treaty of Waitangi claims in respect of natural resources
- contributing to policy advice on the development of a response to New Zealand's climate change obligations under the Kyoto Protocol
- developing a policy framework for bioprospecting in New Zealand, and
- contributing to the development of a policy framework for managing New Zealand's oceans, including policy advice on the regulation of minerals exploration and mining beyond New Zealand's territorial sea.

Output Class D2 - Management of the Crown Mineral Estate

The Minister of Energy will purchase services relating to the management of Crown owned minerals under the Crown Minerals Act 1991 and minerals programmes issued under this Act. The Crown owns all in-ground petroleum, gold and silver in New Zealand and approximately half of the coal and other mineral resources. It also has jurisdiction of the petroleum and minerals in New Zealand's exclusive economic zone and continental shelf.

Outputs in this class provided include:

- maintenance of an efficient and effective management regime for the exploration of petroleum, mineral and coal resources and allocating and managing prospecting exploration and mining permits

- promotion of investment opportunities in exploration and development of petroleum and minerals
- policy and strategic advice on the Crown minerals sector
- management of the geoscience resource data library, and
- collection of royalties, levies and fees related to petroleum and minerals extraction and permits.

Output Class D3 - Administration of Gas and Electricity Regulations

The Minister of Energy will purchase advice on, and the administration of, the gas and electricity safety, supply quality and measurement regimes; a petroleum quality monitoring regime; electrical workers' licensing and information disclosure regimes for the gas and electricity industries.

Outputs in this class include:

- managing legislation, regulation, codes of practice and standards
- managing international relationships
- operating effective compliance, investigation, enforcement and communication programmes
- undertaking a petroleum monitoring programme
- administering electrical workers' registration and licensing, and
- contributing to a good understanding of the energy sector performance by administering gas and electricity information disclosure regulations.

Output Class D4 - Provision of Climate Change Unit Register and Information

The Minister of Energy will purchase services relating to the development and implementation of a national unit register to enable international trading in emissions units and sink credits under the Climate Change Response Act 2002.

Outputs in this class include:

- contributing to the development of international technical standards relating to the exchange of data between registry systems, and
- developing business requirements for the national unit registry by 30 June 2004.

Output Class D5 - Energy and Resource Information Services

The Minister of Energy will purchase the provision of information and technical advice on energy and resources, the management of the response to any international disruption in oil supplies, and the management of New Zealand's energy-related international relations.

Outputs in this output class include:

- collecting and compiling a wide range of energy data (in particular on price movements) for the purpose of keeping Ministers informed on the performance of energy markets and publishing related information for the purpose of keeping energy producers and consumers informed
- collecting and compiling an inventory of energy sector greenhouse gas emissions for the purpose of meeting international reporting obligations, and publishing related information for the purpose of keeping energy producers and consumers informed
- preparing energy sector forecasts for the purpose of keeping Ministers informed on energy security and likely future energy sector scenarios, and publishing related information for the purpose of keeping energy producers and consumers informed
- managing New Zealand's response to any international disruption to oil supplies, and
- managing New Zealand's energy international relations.

Part C2 – Non-Departmental Output Classes

Output Class 01 Enforcement of Electricity Sector Regulation

The Minister of Energy will purchase services for:

- the conduct of investigations of large electricity lines businesses identified through assessments as appearing to breach performance thresholds, which may result in declarations that businesses that do not meet the thresholds should be placed under regulatory control
- the conduct price, revenue and quality authorisations where, following investigation, the Commerce Commission has declared that such a business should be placed under regulatory control, and
- the disclosure of reliable and timely information about the operation and performance of each lines business.

The Minister of Energy will also purchase services for the conduct of litigation activity arising from the above, and for the provision of information to businesses and consumers promoting greater understanding of the parties' statutory rights and obligations under Part 4A of the Commerce Act.

Quantity, quality, timeliness and cost

Where appropriate, comparative standards for the previous year are shown in parentheses.

Performance Measures	2003/04 Performance Standards
Quantity	
Complete development of Performance Thresholds	1 (N/A)
Complete Review of Asset Valuation Methodology	N/A (1)
Complete Identification of Information Disclosure Requirements	1 (N/A)
Performance threshold investigations completed	1 - 5 (N/A)
Appeals filed against/reviews of Commission decisions	0-1 (0-1)
Summary of information disclosed by large electricity lines businesses	1 (N/A)
Quality	
Successful challenges to the Commerce Commission's processes during the course of investigations/authorisations.	Nil (N/A)
Timeliness	
Average elapsed time for completion within stated standards for investigations/authorisations.	100% (N/A)

Cost

This output class will be provided within the appropriate sum of \$3 million (GST inclusive). The cost of this output class is fully funded by third party revenue, collected by the Ministry of Economic Development on behalf of the Crown.

2003/04	Total output class to be provided within (GST inclusive)	\$3,000,000
2002/03	Total output class to be provided within (GST inclusive)	\$3,000,000

Provider

Commerce Commission.

Output Class O2 Regulatory Control Inquiry - Gas Pipeline Services

The Minister of Energy will purchase services for the conduct of an inquiry into gas transmission and distribution services and provision of a report on whether to place the services under regulatory control. The inquiry is being carried out under section 56 of the Commerce Act 1986.

Quantity, quality, timeliness and cost

Where appropriate, comparative targets for the previous year are shown in parentheses.

Performance Measures	2003/04 Performance Standards	
<u>Quantity</u> Regulatory control inquiry report completed	N/A until 2004/05	(N/A)
	The Commerce Commission provides quarterly reports to the Ministry of Economic Development on progress.	
<u>Quality</u> Successful challenges to the Commission's processes during the course of the inquiry	Nil	(N/A)
<u>Timeliness</u> Inquiry completed within Ministerial deadline	100%	

Cost

2003/04	Total output class to be provided within (GST inclusive)	\$1,519,000
2002/03	Total output class to be provided within (GST inclusive)	\$281,000

Provider

Commerce Commission.

Part F - Crown Revenue and Receipts

Part F1 - Current and Capital Revenue and Receipts

	2002/03		2003/04	Description of 2003/04 Crown Revenue
	Budgeted \$000	Estimated Actual \$000	Budget \$000	
Current Revenue				
Tax Revenue				
Energy Resource Levies - Coal	6,100	7,400	6,300	Levy payable on opencast coal.
Energy Resource Levies - Gas	88,500	92,000	80,000	Levy payable on natural gas produced on discoveries made prior to 1 January 1986.
Total Tax Revenue	94,600	99,400	86,300	
Non-Tax Revenue				
Levy on Electricity Line Businesses	2,667	2,700	2,667	Levy payable associated with the Commerce Commission regulation activities.
Ironsands Royalties	50	54	52	Royalties obtained from ironsand operations licensed by the Crown.
Residual Ministry of Energy Commitments	100	100	80	Proceeds from property rentals previously owned by State Coal.
Royalties - Coal	1,600	1,700	1,550	Royalties obtained from coal mining operations licensed by the Crown.
Royalties - Minerals	1,300	1,700	1,300	Royalties obtained from mineral mining operations licensed by the Crown.
Royalties - Petroleum	42,000	44,000	30,400	Royalties obtained from petroleum mining operations licensed by the Crown.
Total Non-Tax Revenue	47,717	50,254	36,049	
Total Current Revenue	142,317	149,654	122,349	
Total Crown Revenue and Receipts	142,317	149,654	122,349	