

**Vote Energy**  
**Baseline Alignment Proposal**

Version [1]

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Submitted by: Hon Gerry Brownlee  
**Minister of Energy and Resources**

## Section 1: Alignment to Government Priorities

My priorities over 2010/11 and the next two financial years, *[information deleted – free and frank]* are as follows.

1. Progressing a comprehensive Petroleum Action Plan in order to ensure New Zealand is a highly attractive destination for petroleum exploration and production investment, and that we develop the full potential of our petroleum resources. The plan includes positioning Government as highly supportive of exploration and production; developing a coordinated investment strategy to improve knowledge of our petroleum resources; completing a review of the Crown's capability and resourcing to manage our petroleum estate; improving the quality of information provided by industry about the level of petroleum resources; reviewing our regulatory, royalty and taxation arrangements; reviewing and, where necessary, amending the legislative framework for the sector; and undertaking further work on how we might realise the potential of our gas hydrates endowment. This work will contribute to better regulation, including regulations around natural resources which is one of our six main economic policy drivers. The main risks are meeting expectations of the investment community that the government will undertake a sufficiently ambitious suite of reform/ actions. For example sustained investment in understanding the petroleum estate to further attract investment and accelerate development.
2. Progressing a Minerals Action Plan which will increase the attractiveness of New Zealand as a destination for mineral exploration and development investment, so that we are able to further develop the potential of our mineral resources. This will involve completing the review of Schedule 4 of the Crown Minerals Act to improve access to Crown land for mineral exploration; reviewing and, where necessary, amending the legislative framework of the minerals sector (in tandem with the petroleum legislative review); and conducting further work to identify additional actions to support the objective. This will similarly contribute to better regulation, including regulations around natural resources. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
3. Implementing decisions arising from the Electricity Market Review. This will include introducing new legislation to give effect to the recommendations agreed by Cabinet; seeking appropriations and any necessary further Cabinet decisions; and undertaking necessary steps to establish new regulatory governance arrangements and reallocate SOE assets. This work will improve electricity security of supply, competition and regulatory and governance arrangements. It will slow the growth of electricity prices, improve investment incentives, and increase market efficiency. This will contribute to improved investment in infrastructure which is one of our six main economic policy drivers. The main risk is that implementation of the review may temporarily exacerbate investor uncertainty, which may delay investment, thereby reducing security of electricity supply. It is important, therefore, that the review decisions are implemented as quickly as practicable.
4. Publishing a revised New Zealand Energy Strategy which will provide clear and consistent signals to energy markets about the Government's medium- to long-term direction for energy policy and so provide sufficient certainty for investors to commit significant levels of capital into new major energy infrastructure. This will similarly contribute to improved investment in infrastructure.
5. Advancing energy efficiency through the Warm Up New Zealand: Heat Smart programme; updating the New Zealand Energy Efficiency and Conservation Strategy,

alongside the New Zealand Energy Strategy; and carrying out an in-depth review of the Energy Efficiency and Conservation Authority (EECA) – incorporating functions, policies and programmes as well as value for money considerations.

It should also be noted, that the current Solar Water Heating programme ends in June 2010. The programme has involved \$1000 grants, the development of product and installation standards and training, and consumer information and promotion activities.

*[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

These energy efficiency activities will deliver health and economic benefits and value for money improvements.

I will achieve these priorities by:

- progressing the seven core work-streams of the Government's Action Plan around maximising New Zealand's petroleum potential;
- completing the review of Schedule 4 of the Crown Minerals Act, and reviewing, and where necessary amending, the legislative framework for the minerals sector (in tandem with the petroleum legislative review);
- ensuring timely passage of the Electricity Industry Bill through the House and by appointing an establishment board to oversee the smooth transfer of functions from the Electricity Commission to the Electricity Authority. My officials will work closely with Treasury to ensure that the state owned generators move promptly to undertake the asset transfers agreed by Cabinet;
- providing clear and consistent signals to energy markets about the Government's medium- to long-term direction for energy policy to ensure greater certainty for decision-making by market participants;
- having agreements and processes in place to ensure the delivery of the Warm Up New Zealand: Heat Smart programme. The Ministry of Economic Development, as part of its overall monitoring responsibility of the Energy Efficiency and Conservation Authority, are keeping a close watch on the programme. I will be reporting to Cabinet in September 2010, and again in 2011, on the effectiveness of the programme.
- Completing the in-depth review of the Energy Efficiency and Conservation Authority (EECA) [following the review I expect the value for money and effectiveness of the Government's energy efficiency programmes to be improved].

There are also significant pressures on the Vote Energy baselines, and these are likely to increase, primarily due to time-limited funding ceasing and an increasing and uncertain work programme in a number of areas such as: the implementation of outcomes from the Ministerial Review of the Electricity Market; progression of the comprehensive Petroleum Action Plan; ongoing support of the current grants programme for solar and efficient hot water-related activity; and the implementation of the Emissions Trading Scheme. There is

little in my current programme of work that could be deferred or deleted that would free up resources should additional pressures impact on this Vote, as the majority of my work programme is either directly focused on the priorities at hand or relates to underpinning activities that support these priorities. I have also been asked to contribute funding to the establishment of a Productivity Commission.

In the mean time, areas of work that are likely to be reprioritised, in order to accommodate these priorities is summarised in the next section.

## **Section 2: Reprioritisation**

As noted above, I have no proposals to end or reduce any current activities funded by Vote Energy. Areas of work that are likely to be reprioritised are summarised below.

As a consequence of the Electricity Market Review, there will be a realignment of expenditure [levy funded] for the governance of the electricity market as well as one off costs associated with transitioning to the new arrangements [note I have already received approval for \$1.5 million funding across 2009/10 and 2010/11 for the establishment of the Electricity Authority, which will be recovered from retrospective levies]. There are also some fiscal implications associated with the transfer of the Whirinaki power station and associated fuel inventory.

As you are aware, the Petroleum Action Plan has been signalled in the recent Prime Minister's speech as a key focus for the government. I anticipate that there will be options that will require government to invest in order to meet our objectives of accelerating exploration and development activity in this sector to reach our economic growth objectives. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

A major area of reprioritisation for this Vote will also be required to support the government's work programme around progressing the Minerals Action Plan. At this stage, I have signalled to Cabinet that an investment in gathering more information on prospective areas would cost an estimated \$4 million, and that I propose to report back to Cabinet on how this will be funded from within existing baselines [this will involve other Votes as well as Vote Energy]. I have also signalled to Cabinet that in the context of the Government's desire to enhance opportunities for the development of mineral potential in New Zealand, including in conservation areas, a new conservation fund be considered to ensure that conservation also benefits from mining activity. If this fund did proceed, then additional funding would need to be sought. To give a degree of certainty to the fund, a minimum contribution of \$2 million per annum for the next four years has been recommended.

*[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

These initiatives will be required in order to:

- complete the Government's Action Plan for maximising our petroleum potential;
- implement the Government's Action Plan for maximising our minerals potential;
- increase investment and interest in exploring and developing New Zealand's petroleum and mineral estates;
- implement the new electricity governance and regulatory regime;
- unlock New Zealand's energy resources as a means of facilitating long-term economic growth;
- provide sufficient certainty for investors to commit significant levels of capital into new major energy infrastructure; and
- have energy efficient initiatives that are appropriately designed and targeted, that provide sensible energy saving and renewable targets at reasonable cost.

### **Section 3: Summary of Financial Movements**

Please refer to the attached table which identifies my baselines moving forward. Please note at this stage there are no financial changes highlighted.