



30 October 2019
Cheryl Barnes
Deputy Secretary
Water & Climate Change
Ministry for the Environment
Wellington

BY EMAIL

Dear Ms Barnes

**DRAFT NATIONAL POLICY STATEMENT FOR FRESHWATER MANAGEMENT (NPSFM)
PROPOSED NATIONAL ENVIRONMENTAL STANDARDS FOR FRESHWATER (NESFM)**

Trustpower Limited ("Trustpower") thanks the Ministry for the Environment ("MFE") for the opportunity to comment on this important package of freshwater reform for New Zealand ("NZ").

Trustpower's hydro-electric power schemes ("HEPS") experience the impacts of water quality changes and poor land management practices first hand. With a spread of assets across ten regional councils in NZ, we are exposed to the many different regulatory approaches taken by regional councils, including the divergence of recognition afforded to hydro electricity generation activities.

We have a number of concerns with the reform as currently proposed. This letter contains a selection of these views. Our accompanying submission offers suggestions to avoid the detrimental consequences which will likely arise from the proposed approach, including those associated with the draft Part 4 Exceptions framework. It is a matter of fact that the National Policy Statement: Renewable Electricity Generation 2011 ("NPS:REG") does not distinguish between the six largest HEPS and other schemes. We would welcome the opportunity to discuss our views on this topic in person.

1. Resource Management Act, Integrated Management, and Climate Change

- 1.1. Integrated management is one of the key requirements of the Resource Management Act 1991 ("RMA"). Any policy on freshwater management should be developed to coordinate with and recognise existing policy statements, such as the NPS:REG. The tension that exists between these two national policy statements have not been addressed - it will be perpetuated further as regional councils attempt to implement the policy.
- 1.2. The RMA requires that all persons exercising functions and powers under the RMA shall have regard to the effects of climate change. They must also have regard to benefits to be derived from the use and development of renewable energy. The proposed reform fails in both regards. Imposing unreasonable constraints on the operation of hydro-electric power will result in reduced output and will be detrimental to NZ's low emissions, renewable energy future.

- 1.3. Trustpower's independent experts estimate there may be a total increase in emissions from the draft NPSFM of 629kt CO₂-e per annum¹.

2. NZ Energy system, competition, and future opportunity

- 2.1. New Zealand has a valuable resource in its existing hydro-electricity generation, but we fear that it will not be able to meet its full potential in the transition to a low-emissions energy sector under the current policy and decision-making frameworks.

- 2.2. The Sapere work reports:

“Hydro-electricity generation makes a vital contribution to the supply of electricity in winter. The contribution of each scheme or station depends on the characteristics of the individual scheme or station. The impact of the NPS FM will also vary between generators. Based on a high level consideration of a sample of hydro schemes with different characteristics, we consider the range of lost winter energy supply from hydro may lie between 0% and 50% depending on the scheme and the application of the NPS FM.”

- 2.3. Trustpower's schemes have not been afforded Subpart 4 Exceptions that others have. The need for Exceptions would not have arisen if detrimental impacts on HEPs wasn't anticipated by officials. Our assets, along with those of many other smaller operators, provide approximately 11% of NZ's HEP output – all of which will be subject to increased operating and output risk if this proposal progresses in current form.
- 2.4. This two-tiered approach will cause confusion for regional councils during implementation and will create distortion in a competitive market. It is neither the right thing to do in a policy sense, nor fair in a competition sense. It also raises concerns about objectivity in policy making.
- 2.5. The proposal will result in the real loss of future opportunity for regional New Zealand where many of the non-Excepted schemes exist. Currently, these schemes have the potential to support decentralised future renewable electricity systems, however the current proposal places this opportunity at risk, and denies the chance for innovation in the marketplace.
- 2.6. When a government agency prepares a proposal for regulatory change, an impact analysis must be prepared. Whilst we understand this work is yet to be completed, in this case the proposal has been developed without adequate consideration for potential impacts on the NZ energy sector. The information relied upon by MfE for its impact analysis was unsuitable for this purpose (and known to be unsuitable to MfE but nevertheless, relied on).

3. Lack of Alignment and increased consumer costs

- 3.1. It is Trustpower's view that the freshwater reform proposal will not be in the long-term interests of electricity consumers. Any costs associated with changing the operation of existing hydro electricity generation will ultimately be borne by consumers. Rigorous analysis of economic impacts is missing from this freshwater reform package.
- 3.2. The current messaging by Government is not aligned. In October, Fletcher Tabuteau, Under Secretary for Regional Economic Development, said:

“New Zealand First has long held a strong belief that electricity, an essential service, must be delivered to all New Zealanders at the most reasonable price that is consistent with the maintenance of a viable industry ... As a result, New Zealand's future energy regulatory structure will provide long-term stability and incentives for business to make informed

¹ Sapere 2019, Review of Proposed NPSFM and associated RIA

investment and purchasing decisions while ensuring that the needs of every New Zealander are met.”

- 3.3. In October 2019 Dr Megan Woods, Minister of Energy & Resources, announced that the changes proposed following the Electricity Price Review would create a level playing field for smaller independent retailers, create greater transparency over the big power companies and increase competition in the market. The reverse is reflected in the freshwater package of reform.

4. Potential solution to address the distortion

- 4.1. Trustpower, as with many other New Zealand businesses, expects a fair regulatory system to be established and maintained. We understand the Government does not wish to provide exception for all hydro schemes. Whilst full inclusion would appear the fairest result, Trustpower’s submission provides an alternative avenue for officials to adopt. This is one which will remove the distortion of the proposed framework, establish a principled, “all of sector” solution, and will ensure regional councils make good decisions in the national interests within their regional context. That solution requires the outcome for hydro-electricity generation to be identified in the freshwater outcomes, and for it to have some measure of policy recognition.

Ongoing Engagement

We would be happy to explain our submission to MFE officials, particularly around the expert advice we have received in relation to the inadequate Regulatory Impact Analysis, the resultant increase GHG emissions, and the potential broader impact on NZ’s electricity system.

We would be happy to make available any resources your officials require to consider these concerns more deeply.

Yours faithfully



VINCE HAWKSWORTH
CHIEF EXECUTIVE