# THE ELECTRICITY AND RETICULATED GAS LEVIES

# DISCUSSION PAPER

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# INTRODUCTION

## Executive Summary

1. This paper presents the Energy Safety Service's (ESS's)[1] review of the means currently employed to collect the electricity and reticulated gas levies[2], and seeks comment from interested parties.

2. At the request of some electricity generators it presents the ESS's deliberations regarding whether it is still appropriate and efficient to have the generators pay the electricity levy – or whether other parties should pay the levy. After reviewing other feasible options, the ESS considers the most efficient and effective arrangement is for electricity generators to continue to pay the levy.

3. This paper also considers whether reticulated gas wholesalers should continue to pay the reticulated gas levy – or whether other parties should pay that levy. After reviewing other payment options, the ESS concludes that gas wholesalers should continue to pay the levy. The ESS, however, would like to alter the basis on which the gas levy is charged. Currently, all reticulated gas sold to retailers is charged the levy. The ESS is keen to address concerns over the accuracy of levy payments, by charging the levy on the reticulated gas purchased from producers, rather than on the gas sold to retailers.

4. This paper also proposes a number of changes to the Ministry of Energy (Abolition) Act 1989 to ensure that:

- those who are covered by the services funded by the levies, particularly cogenerators, contribute towards the cost (either directly or indirectly),

- the Department of Labour's Occupational Safety and Health Service (OSH) can receive levy funding in order to carry out certain workplace electrical and gas safety duties, previously the responsibility of the ESS, pursuant to government approvals under the *EnergySafe* programme.

5. The paper also recommends that the levy refund process be streamlined via the issuing of credit notes.

## Purpose of paper

6. The purpose of this paper is to provide information about proposed changes to the processes used to collect the electricity and reticulated gas levies (raised pursuant to the Ministry of Energy (Abolition) Act 1989) and to seek feedback from all interested parties on the implications of such changes.

[1] The Energy Safety Service is a part of the Ministry of Consumer Affairs, itself an operating branch of the Ministry of Economic Development.

[2] The electricity and reticulated gas levies are established under the Ministry of Energy (Abolition) Act 1989. A copy of this Act is available at http://www.ess.govt.nz.

## Making submissions

7. Any comments on the issues raised in this discussion paper should be made by Friday 27th of February.

8. Presenting your submission in the following format will assist us in considering it:

| Question/ Paragraph number | Issue | Comment/Reason for comment |
|---|---|---|
| | | I support/disagree with … because … |

9. Please ensure that your submission includes your contact details, indicates clearly whether you are commenting on behalf of an organisation and lists the names of any other individuals or organisations represented by the submission.

10. We would prefer to receive your submission as a Word document attachment to an e-mail, but also welcome faxed or posted comments. Submissions should be sent to:


Saida Wilson
Energy Safety Service
PO Box 1473
WELLINGTON
Fax: 04 460 1365
Email: saida.wilson@mca.govt.nz


## Questions to consider when preparing a submission

11. We suggest that you consider the following questions when preparing your submission:

i. Should those cogenerators that sell the electricity they generate be liable to pay the electricity levy on the electricity they sell? If not, why not? If so, what would be the most effective way of ensuring they do?

ii. Should those cogenerators, using reticulated gas to generate electricity, that consume all the electricity they generate, be liable to pay the reticulated gas levy? If not, why not? If so, what is the most effective way of ensuring they do?

iii. Are there any other feasible means of collecting either the electricity or reticulated gas levies, that are not discussed in this paper?

iv. Are there any other advantages or disadvantages for the collection options that have not been considered in this paper?

v. Should credit notes be used to simplify and hasten the refund process? If not, why not?

## Official Information Act 1982

12. Please note that any submissions received by the ESS will constitute 'official information' under the Official Information Act 1982. This Act is designed to give the people of New Zealand access to information, but with exceptions including the preservation of personal privacy and commercial sensitivity.

13. It is the ESS's normal practice to prepare a summary of submissions received, together with the ESS's responses. This summary is intended for circulation to parties who have made submissions.

14. In providing your submission, please advise us if you have any objections to the release of your submission, and, if you do object the parts of your submission that you want withheld, and the grounds, under the Official Information Act, for withholding them. The ESS will carefully consider your reasons when preparing and releasing any summary, and in considering any formal Official Information Act requests that might be received in the future.

## Privacy Act 1993

15. Any personal information that you supply to the ESS in the course of making your submission will be used only by the ESS and only in conjunction with the consideration of matters covered by this consultation paper.

16. Your name may be included in any summary unless you inform the ESS that you do not wish your name to be included.

# USE OF LEVIES BY THE OCCUPATIONAL SAFETY AND HEALTH SERVICE (OSH)

## Proposed Transfer of Workplace Safety Responsibilities

17. In October 2001, the Government agreed to a range of recommendations arising from the *EnergySafe* programme. This programme was the implementation phase of earlier in-principle decisions made regarding the transfer of accountability for workplace safety (relating to electricity and gas matters) from the ESS to the Occupational Safety and Health Service (OSH) of the Department of Labour. This proposed transfer is yet to be authorised by way of changes to the Electricity Act 1992, the Gas Act 1992 and the Health and Safety in Employment Act 1992. An amendment Bill is currently being drafted.

18. One of the Government's decisions associated with the proposed transfer was to provide OSH with access to levy funding at an approved level ($371 OOO for the first year and $343 000 for outyears) in order to undertake its additional planned legislative obligations. The responsibilities to be transferred to OSH have, up until now, been financed with levy money, so there would be no increase in the current levy rates as a result of the proposed change.

19. Under this proposal, the ESS would allocate to OSH a portion of the electricity and gas levy money it collects so that OSH can carry out its additional workplace safety responsibilities.

## Proposal

20. Section 14 prescribes the purpose of levies. It is proposed that this section be amended to authorise the "Ministry" (i.e. ESS) to make payments to OSH in order for it to carry out certain workplace safety responsibilities in the electrical and gas areas that will no longer be undertaken by the ESS.

# RETICULATED GAS LEVY COLLECTION POINT

## Background

21. The reticulated gas levy is collected primarily by wholesalers and is currently set at 2 cents per gigajoule sold, the maximum rate specified by the Ministry of Energy (Abolition) (MoEA) Act. Gas sold for use as a feedstock or the generation of electricity and LPG is exempt from the levy. Those who sell less than 10,000 gigajoules during any quarter are not required to pay any levy for that period.

**Issues**

*Accuracy problems in a different market environment:*

22. Currently section 23 of the MoEA Act requires the payment of the reticulated (or piped) gas levy by:

    a) "Every person or body who or which sells piped gas to a retailer (whether or not that gas retailer is also a gas wholesaler); and

    b) Every gas retailer who sells piped gas which is not subject to a levy pursuant to paragraph (a) … "

23. Like the electricity levy, the reticulated gas levy was introduced in 1987 and designed to fit an industry dominated by one major participant, the government owned Natural Gas Corporation (NGC). Wholesalers were required to levy only the gas they sold to retailers or that they retailed themselves, because it was an effective means to target the levy's primary beneficiaries. Collecting from that point in the supply chain also ensured that gas used as a feedstock or for electricity generation could easily be made levy-exempt. Only NGC (98% of gas was traded through it) and Dunedin City's Gas Company were required to pay this levy because they were the only organisations covered by section 23.

24. The reticulated gas industry was deregulated during the 1990's and there are now more participants competing in a more complex market place. In the current trading environment there are several wholesalers, of whom some are also retailers. Contact Energy and NGC are examples. It is very hard for these wholesale/retail businesses, when they trade gas to each other, to determine how much of that gas will be on-sold to end users (and thus subject to levy) and how much will be on-sold to another retailer (and thus exempt).

*Equity Concerns:*

25. Wholesalers have expressed concern about the equity of the current collection system. They worry that it is poorly targeted because, they state, wholesalers receive little benefit from the services that the levy finances.

26. The ESS does not agree that only end users benefit from the services that the levy funds (standards development, safety advice and compliance management). In carrying out its responsibilities the ESS enhances industry expertise and public confidence in the product and thus helps to improve safety, efficiency and effectiveness. This benefits all reticulated gas industry participants.

27. Furthermore, end users ultimately finance the levy. Wholesalers pass the levy cost downstream to retailers who in turn pass it on to end users.

# Levy Collection Point Options

*Objectives*

28. The ESS considers the reticulated gas levy collection system needs to achieve the following objectives:

- minimal levels of avoidance;
- minimal occurrence of double payments;
- minimal levels of market distortion;
- simple and low cost administration;
- low compliance costs[3] for the industry.

*Options*

The following options have been considered:

1. Status Quo – collect the levy from wholesalers and continue to charge it on piped gas that is sold to retailers.

2. Continue to collect the levy from the wholesalers but charge it on all reticulated gas that is *purchased* from producers, and change the levy threshold to exempt those who *purchase* less than 10 000 gigajoules of reticulated gas in a given quarter.

3. Collect the levy from the producers charge it on the reticulated gas sold.

4. Collect the levy from the transmitters and distributors (anyone who supplies an 'end user').

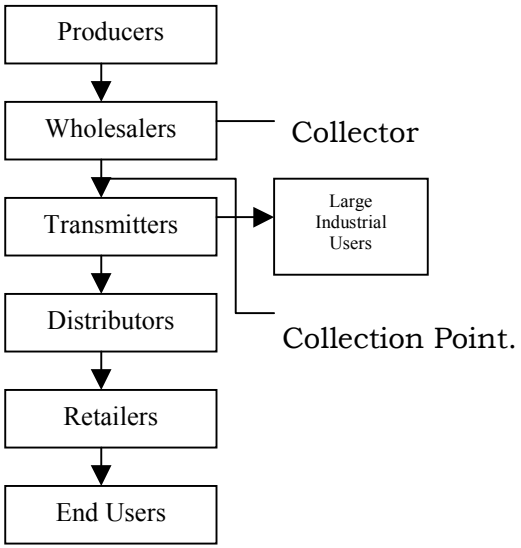
5. Collect the levy from retailers on the basis of reticulated gas sold.

29. Please note that currently distributors who sell less than 10,000 gigajoules during any quarter are not required to pay any levy for that period. This is because it is not cost efficient to collect from small-scale operations (the revenue they would provide generally would be small compared with the costs of collection). An exemption based on this cost efficiency principle will be included in whichever collection method is chosen.

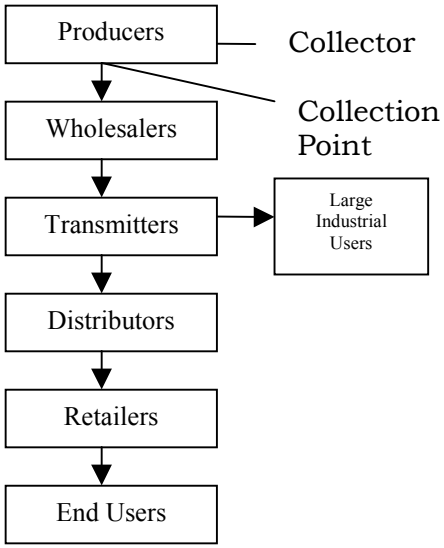
30. The following table presents the advantages and disadvantages of each of the above options. Simple diagrams of the reticulated gas supply chain have also been incorporated to highlight where the collection point would be in relation to the rest of the industry.

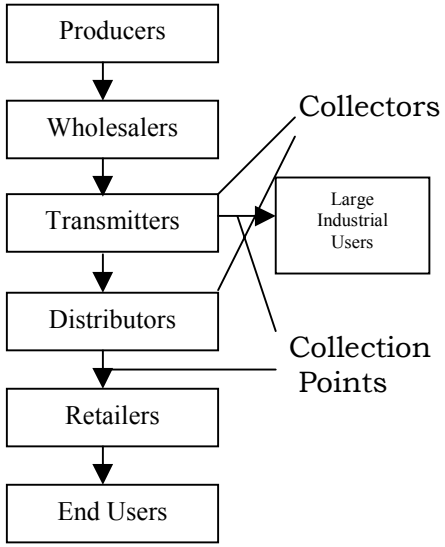
[3] Compliance costs are the costs to business of meeting government requirements (for example, administrative and paperwork costs) and are distinct from the direct costs of any requirement (such as the levy itself).

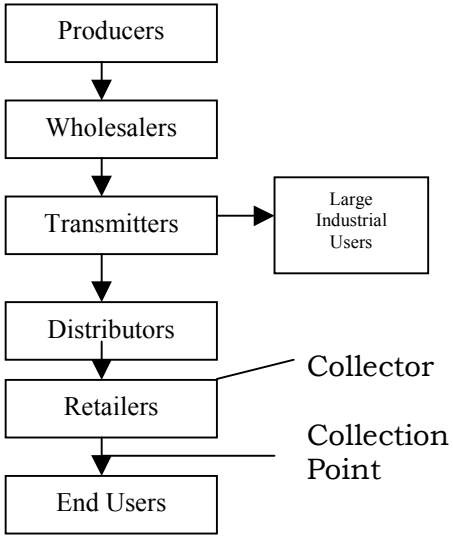
# Assessment of possible collection options

| | COLLECTION POINT | ADVANTAGES | DISADVANTAGES |
|---|---|---|---|
| 1 | Collecting from wholesalers on the basis of reticulated gas sold (the status quo).<br>  <br> | • Low administrative cost - there are currently only 3 natural gas wholesalers to collect from (NGC, Shell Todd Energy and Contact Energy).<br>• Low compliance costs for industry – the accepted procedure for working out the volume on which to pay the levy is relatively simple.<br>• No legislative amendments required. | • Uncertainty over the accuracy of returns: Because some wholesalers are also retailers it is hard for those wholesalers to accurately determine which reticulated gas is sold to other wholesalers and which to retailers. Reticulated gas sold for further wholesale should not be levied. One wholesaler simply does not count reticulated gas sold to another organisation that is known to be wholesaler/retailer.<br>• Difficult for ESS to accurately audit. |

| | COLLECTION POINT | ADVANTAGES | DISADVANTAGES |
|---|---|---|---|
| 2 | Collecting from anyone (though it would still be principally from wholesalers) on the basis of the gas they've BOUGHT from producers and importers. The formula to calculate the quantity to be levied would be:<br><br>Gas bought from producers/importers during the quarter.<br>*Less* gas sold for use as a feedstock during that quarter.<br>*Less* gas sold during the quarter that is known to be for the generation of electricity that will be on-sold.<br>= <u>GAS TO BE LEVIED</u><br><br>If the gas provider is not sure whether the gas will be used to generate electricity that will be sold then it would be levied. The responsibility would then be on the electricity generator to apply for a refund of the levy attached to the gas they used to generate the sold electricity.<br><br>To cater for the possibility that producers may start selling directly to end-users a threshold purchase amount would be set. For purchases above the given amount the purchaser would be liable to pay the levy. For purchases below the threshold the seller (i.e. the producer or importer) would be liable to pay the levy. The threshold would be quite low and unlikely to affect producers unless they begin directly trading to residential or small commercial end users. | • No market distortion<br>• Eliminates the risk of double payments<br>• Significantly reduces the risk of avoidance.<br>• Low administration costs for ESS: Effectively no change to the current method of collection.<br>• Lower compliance costs for wholesalers: Wholesalers would only have to record the reticulated gas they sell to electricity generators. They would no longer need to demarcate gas sold to wholesalers from gas sold to retailers.<br>• This addresses concerns about cogenerator free-riding as well (see next section for explanation). | • Just what sort of organisation a 'Gas Producer' is would have to be tightly defined in legislation. Some wholesalers are also producers (Shell Todd Energy for example).<br>• Likely to be a small increase in collection and compliance costs for some as a few electricity generators would have to apply for gas levy refunds. |

| | COLLECTION POINT | ADVANTAGES | DISADVANTAGES |
|---|---|---|---|
| 3 | Producers (charging on reticulated gas sold):<br>  <br> | • Eliminates possible levy avoidance<br>• Eliminates the risk of double payments<br>• Little market distortion<br>• Consistency – the Electricity Safety Levy is currently (and will probably continue to be) collected from the 'producers'. | • High Administration costs: It would be very difficult for producers to know how much of the reticulated gas they produce is used for electricity generation (and thus exempt from the levy). Producers would probably have to pay the levy on all reticulated gas (regardless of the end uses) and electricity generation companies would apply for a levy refund at the end of each quarter. This would be simple for the producers but time consuming for both ESS and electricity generators. (The ESS would have to refund about 70% of the money it would receive if gas sold for electricity generation were to continue to be excluded).<br>• New compliance costs for electricity generators. |

| | COLLECTION POINT | ADVANTAGES | DISADVANTAGES |
|---|---|---|---|
| 4 | Those supplying gas to end users (the transmitters and the distributors).<br>  <br> | • Greater Accuracy<br>• Minimises the risk of avoidance<br>• Eliminates the risk of double payment<br>• Minimal market distortion | • Administratively more complicated – There are 5 lines companies and two distribution companies.<br>• Higher administrative cost – audit costs would increase. Collection costs would increase.<br>• High compliance cost for distributors and transmitters: they would have to find out from retailers where the reticulated gas is going and in what quantities. This is commercially sensitive information and the collecting and compiling of it could prove time consuming and costly. |

| | COLLECTION POINT | ADVANTAGES | DISADVANTAGES |
|---|---|---|---|
| 5 | Retailers (on basis of gas sold to end users):<br>  <br> | • Eliminates double payments | • Higher Administration costs - there are 10 retailers to collect from<br>• Accuracy: The reticulated gas retail market is constantly in flux. New retailers enter and exit, change names, sell and swap customers' etc relatively frequently. It might prove difficult to keep a track of who exactly needs to pay and on what gas.<br>• Need separate arrangements for gas sold to consumers directly by transmitters rather than through retailers.<br>• Collectively, compliance costs would increase – more businesses would have to keep records and administer their payments.<br>• Re-sellers present a problem as well. These are organisations like apartment building operators or mall management companies that buy gas in bulk and then sell it to their clients – are they also retailers? |

## Preferred option

31. The ESS prefers option 2. It would like to continue collecting the levy from reticulated gas wholesalers but charge it on reticulated gas purchased from producers rather than reticulated gas sold to retailers. This change would generally result in lower industry compliance costs while solving the problems of avoidance and double-payments. Wholesalers would no longer have to concern themselves about whether or not they are selling reticulated gas to a wholesaler that is also a gas retailer.

32. All of the primary benefactors of the Energy Safety Service's piped gas safety work, that is industrial, residential, and commercial end users, would still ultimately pay the levy. Yet wholesalers would still be able to easily provide non-levied gas to electricity generators.

33. This option would also eliminate the concern about double-payment because wholesalers would no longer need to differentiate between gas sold to wholesaler/retailers and retailers. They would, unless they are supplying gas to a company that intends only to generate electricity for sale, have paid the levy on all the reticulated gas they sell.

34. While other options would also address the avoidance and double payment problems they are less desirable because they would significantly increase the collection and administration costs (and, subsequently, perhaps increase the overall levy rate).

35. Shifting the collection point further up-stream to the producers (option 3) would prove less economic in the long-run because of the need to continue exempting the reticulated gas used by electricity generation stations. The refund system would add significantly to administration costs.

36. Option 4, collecting the levy from those who supply end users (transmitters and distributors), might also result in greater payment accuracy. However, the ESS feels it would be too problematic because distributors and transmitters would need to keep track of who retailers are providing their reticulated gas to. This would prove difficult and costly. Retailers, in particular, would be reluctant to provide that type of commercially sensitive information and distributors would incur extra compliance costs in compiling and reconciling all of the different information.

37. The practical implications of moving the collection point to the more heavily populated and volatile retail sector of the industry (option 5) would, again, increase administration and compliance costs.

## Effects on Cogenerators:

38. "Cogeneration" is the process whereby gas is used to generate electricity and also useful heat (typically as steam or hot water). The electricity generated is either used to power 'on site' production facilities or injected into the national grid for sale and use by others. The by-product heat is also put towards some practical purpose such as space heating or timber stripping.

39. Over the past decade the use of cogeneration units has grown substantially. At July 2002, seven percent of all electricity generated in New Zealand was via 'on site' cogenerators[4] (it had been five percent six months prior to that). Cogeneration is

[4] P98, *Energy Data File*, July 2002, Ministry of Economic Development (Resources and Networks Branch).

used by a wide variety of organisations (from dairy factories to hotels) all around the country.

40. Section 23 of the MoEA Act states which reticulated gas is subject to the levies and by whom it should be collected. Clause 2 of section 23 states

> *"nothing in this section shall apply to gas sold for …. the generation of electricity…"*

41. This means that a cogeneration plant generating only a small portion of electricity from the gas it has bought to generate electricity, can use non-levied gas to produce a vast amount of energy (in the form of heat or steam) to power its production processes. So cogenerators essentially are not, according to the MoEA Act, required to contribute to the costs of ensuring energy safety.

42. There is little practical difference between a dairy factory that uses a cogenerator and an industrial operation that receives electricity from the national grid. Both organisations use energy to power their production processes. The powering of those processes presents risks and sometimes results in accidents. It is the responsibility of ESS to help minimise those risks and, if they occur, investigate accidents. It is therefore inconsistent if cogenerators do not contribute towards the costs of ensuring their facilities are safe, when other industrial operations of similar scales do.

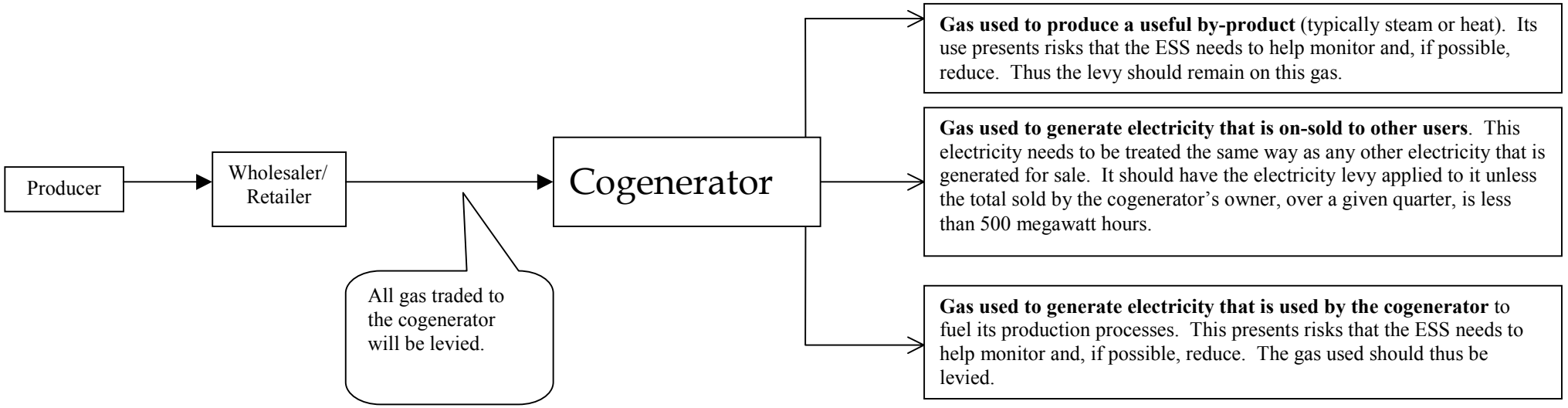
43. There seems to be little difference between smaller scale cogenerators that consume most of the energy they generate and typical commercial end-users of reticulated gas. A hotel, for example, uses electricity to power appliances like heaters, hair dryers and cash registers. Again, the source of this electricity is immaterial to the assurance of safety. The electricity and reticulated gas levy money collected by the ESS is used to assure safety. It is, therefore, equitable that cogenerators contribute towards the costs of assuring energy safety.

44. If, as proposed, the levy is applied to all gas purchased from producers and importers cogenerators would pay the appropriate levies.

45. All cogenerators would receive levied gas. This would see the appropriate safety cost being attached to the gas they use to produce inputs for their own production processes (steam and/or heat and electricity). If a cogenerator were to generate electricity for sale they (or the business that owns the station) could apply for a refund of the levy on the gas they used to generate electricity that was sold and levied. (see Diagram 1.3 below).

46. Note that the gas levy refund would be available only if the quantity of electricity sold exceeded the 500 megawatt hours per quarter threshold and was therefore liable for the electricity levy. This would make certain that all energy used or produced by cogenerators carried its share of the levy.

Diagram 1.3: Cogenerator gas use and levy application



# THE ELECTRICITY LEVY COLLECTION POINT

## Background

47. The MoEA Act currently requires the ESS to collect the electricity safety levy from electricity generation companies (s22).

48. The electricity levy is currently set at 1.05 cents per 100 kilowatt hours sold. The maximum rate is 2 cents per 100 kilowatt hours. Generators that sell less that 500 megawatt hours during any quarter are not required to pay any levy for that period.

49. This policy was first developed in 1987 before the major industry reforms of the 1990s. At this time the industry was dominated by the government owned Electricity Corporation of New Zealand (ECNZ). ECNZ was the sole generator and transmitter of electricity in New Zealand. The local distribution and retailing of electricity was the responsibility of local lines companies.

50. At the time the levy was established it was decided that the most effective means of levy recovery was to base it on the generation of electricity and have the generators, ECNZ and a small number of supply authorities that generated electricity, pay it. To have established the levy point further down the network would have added to the administrative burden while offering little or no benefit in terms of cost attribution.

## Issues

*Re-structuring of the Electricity Industry:*

51. As part of a major re-structuring of the electricity industry ECNZ was, in 1998, separated into four distinct new companies in order to make the generation sector more competitive. In 1994 the transmission operations were separated from the generation activities by the creation of Transpower as a separate State Owned Enterprise (solely responsible for the national grid). Local distribution/lines companies are no longer permitted to retail electricity and this has led to an increase in the number of electricity retailers.

52. The industry is now populated by a larger number of participants. There are now 12 generation businesses, over 30 lines businesses and 15 different retailers.

53. Some organisations reason that the primary incentive for deciding to levy the generators in 1987, administrative simplicity, no longer exists. The difference between the number of generators as opposed to the number of retailers is negligible. Generators have asked whether extracting the levy from the generators is still the simplest and most cost effective means to collect the levy.

54. Generators have also argued that they receive few (if any) direct benefits from the services that the levy finances. End users, they reason, receive most of the benefits, so therefore the levy collection point should be as close to them as possible.

# Levy collection Point Options

*Objectives*

55. As with the gas levy collection process, the ESS feels it is important to ensure the collection system would achieve a number of key objectives:

- minimal levels of avoidance;
- minimal occurrence of double payments;
- minimal levels of market distortion;
- simple and low cost administration;
- low compliance costs[5] for the industry.

*Options*

The following options have been considered:

1. Continue to collect it from the generators, charging on the basis of electricity sold.

2. Collect it from the New Zealand Electricity Market via M-Co, charging on the basis of electricity sold (and removing the exemption threshold).

3. Collect it from the transmitter (Transpower) and local distribution businesses charging on the basis of electricity supplied to end-users (and removing the exemption threshold[6]).

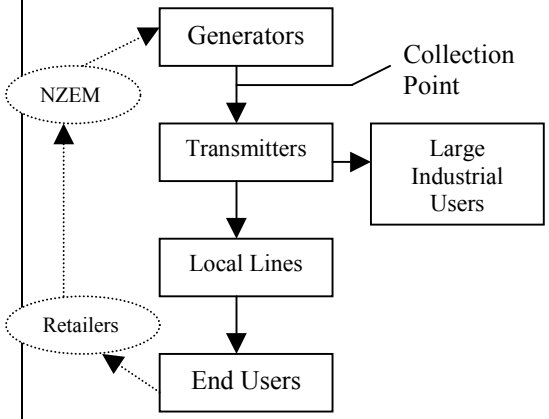
4. Collect it from retail businesses on the basis of electricity sold (exempting any retailer that sold less than 500-megawatt hours per quarter).

56. The following table presents the advantages and disadvantages of each of the above options. Simple diagrams of the supply chain and the money flows within the electricity industry have been incorporated to highlight where the collection point would be in relation to the rest of the industry.

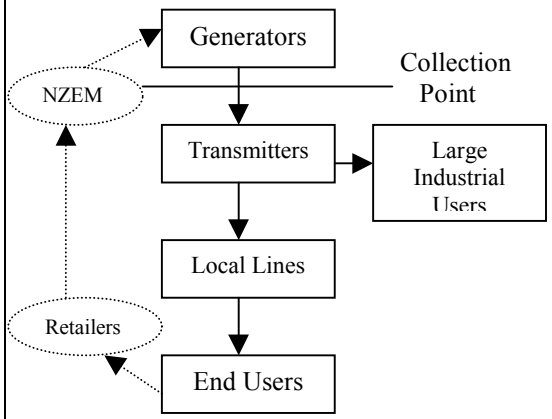
[5] Compliance costs are the costs to business of meeting government requirements (for example, administrative and paperwork costs) and are distinct from the direct costs of any requirement (such as the levy itself).

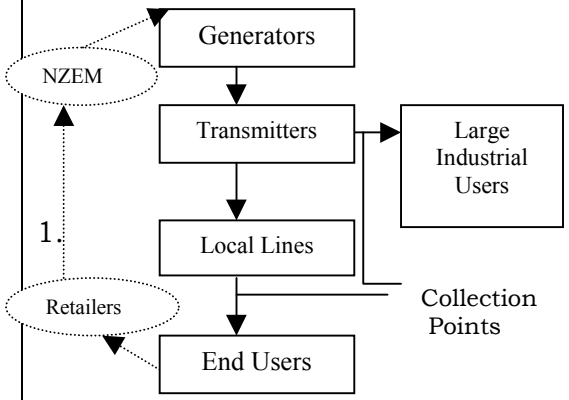
[6] There would be no need for a threshold as only one business would be paying the levy.

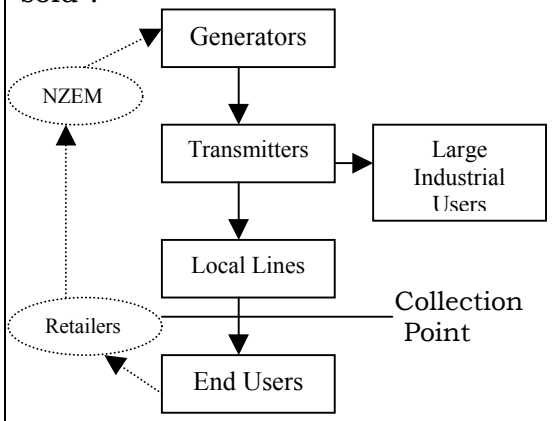
# Assessment of possible collection options

| | COLLECTION POINT | ADVANTAGES | DISADVANTAGES |
|---|---|---|---|
| 1. | Generators: Continuing to charge the levy on all electricity that is sold.<br>  <br> | • Low administration costs: There are only 12 electricity generation companies to collect the levy from[7].<br>• The generation sector is relatively stable: Generation companies do not tend to swap customers, change names or exit the market as frequently as electricity retailers. This makes it easier to keep track of which companies should be paying the levy.<br>• Little market distortion: All electricity sold is levied and generators pass the cost on to the transmitters. The transmitters in turn pass it on to the distributors who pass it on to end users.<br>• Avoids the implementation costs that would accompany a new system.<br>• Requires no legislative amendments. | • The levy is charged on some electricity that is never used. The levy is collected on *all* electricity generated even though some (approx. 6%) of it is lost during the transmission and distribution process. |

[7] There are more than 12 generation companies operating in New Zealand however some do not produce more than the legislated threshold of 500-megawatt hours per quarter so are not required to pay the levy.

| | COLLECTION POINT | ADVANTAGES | DISADVANTAGES |
|---|---|---|---|
| 2. | Collecting the levy from M-Co (NZEM):<br>  <br> | • Lower administration costs: Only one organisation to collect from.<br>• Low compliance costs: It would not be difficult for M-Co to measure the volume of electricity that they are selling. | • Some Market Distortion: Currently some electricity is not traded through M-Co.<br>• The system is relatively new and still being developed. |

| | COLLECTION POINT | ADVANTAGES | DISADVANTAGES |
|---|---|---|---|
| 3. | Transmitters and Distributors:<br>To ensure all end users paid the levy ESS would need to collect it from 'any business that acts as the last supplier of electricity to end users'. This would include the sole transmitter, Transpower, that supplies large industrial users, and local distribution companies that supply most residential and commercial customers.<br>  <br> | • Some of the energy that is lost during the transmission process would not be levied. | • Increased Administration Costs: ESS would have to collect the levy from over 30 businesses. This would be more costly to process and audit.<br>• Increased Compliance Costs: Distribution companies would have to determine the volume of electricity traded by contacting and reconciling with retail companies.<br>• A move to this point would not prevent the levy being charged on all electricity that would eventually be lost in the distribution process. |

| | COLLECTION POINT | ADVANTAGES | DISADVANTAGES |
|---|---|---|---|
| 4. | Retailers: The levy would be charged on the basis of electricity sold[8].<br>  <br> | • The collection point is close to those who receive the most direct benefit from it. | • It complicates the collection process.<br>• There are 14 retail companies (roughly the same as the number of generators)<br>• The retail sector fluctuates. New companies enter and exit the market quickly. This might make accurate collection difficult.<br>• ESS would have to collect directly from the 'direct supply' industrial users.<br>• Re-sellers present a problem as well. These are organisations like apartment building operators or mall management companies that buy electricity in bulk and then sell it to their clients – are they also retailers? |

[8] Retail businesses already provide the Resources and Networks Branch of the Ministry of Economic Development with estimated sales figures. The levy could be charged on those estimates. If necessary MARIA reconciliations could be used to ensure accuracy over time.

## Preferred Option

57. The ESS would prefer to continue collecting the electricity safety levy from electricity generators. It believes this to be still the simplest, most cost efficient and effective point from which to extract the levy.

58. As in the discussion of the gas levy collection point, the ESS does not agree with the contention that up-stream suppliers of energy receive no benefit from its work. It considers that the reputation of the entire industry is enhanced by ESS safety work. If end users are more confident of an energy source's safety they are more likely to use it. This benefits all industry participants.

59. As with the reticulated gas levy the ESS feels that, even though the levy is collected from up-stream suppliers, they do not ultimately finance the levy – end users still do. The cost is passed on to the point where it is eventually paid for by end-users.

60. The possibility of charging M-Co on the volume of electricity that it sells (option 2) is attractive because it would further simplify the collection process. Two important factors count against it however. First, a significant quantity of electricity is not traded through M-Co. Some electricity goes straight to some industrial users. To collect the levy from M-Co would distort the market, as some industrial consumers would pay less per unit of electricity than other industrial, residential and commercial consumers. Second, the M-Co arrangement is a young and still developing system. The ESS would prefer to not to use this option given that it is not yet mature and stable.

61. Shifting the collection point to those who supply end users (transmitters and distributors) would see the ESS needing to collect the levy from over 30 different businesses rather than the current 12. This would increase administration costs substantially. Option 3 would also force the distribution companies to accurately determine the volume of electricity transported through their lines. This would require a great deal of communication with retail businesses and would increase compliance costs.

62. Though there are currently only a few more retailers than there are generators, collecting from the electricity retail sector (option 4) is unattractive because of its dynamic nature. New companies come and go and customers are often traded between the established companies. Maintaining an accurate record of which businesses need to pay, and on what electricity, would be difficult and probably costly. The generation sector, in contrast, is very stable and unlikely to change at the pace of the retail sector.

# CHANGING THE LEVY REFUND PROCESS

## Background

63. Currently at the end of each quarter (March, June, September and December) the ESS sends out a levy return form to each business that is required to pay one or both of the safety levies. On this form each electricity generator or gas wholesaler is required to disclose the amount of energy generated or sold over the given quarter. Using this amount the business calculates how much levy they are required to pay. Each business then has until the 30th of the following month to send back the completed return and transfer the appropriate amount to a Ministry of Economic Development bank account. If the payment is late a 10% charge is applied (as required by the MoEA Act).

64. At the end of each financial year the ESS reconciles its expenditure on gas and electricity safety with the levies it has received to finance those activities. The amount of the levy collected generally exceeds the level of expenditure. The ESS rebates this excess to the levy payers. Each business' rebate is proportionate to their contribution to the total levy amount received that year (so a business that provided 10% of the total levy revenue will receive 10% of the total amount to be rebated).

65. A number of industry participants have highlighted what they see to be a redundant step in the levy refund process. Section 26 of the MOEA Act stipulates that levy payers must apply for their rebate. In practice the ESS invites levy payers (via letters) to send the Ministry a GST invoice (effectively bill the Ministry for the rebate amount).

## Proposal

66. The ESS would like to streamline this system. The ESS would like to amend section 26 of the MOEA Act so that levy payers, if entitled to a rebate, would not have to apply for it. Rather than inviting levy payers to send the Ministry of Economic Development invoices, the ESS proposes that the Ministry, after calculating the appropriate refund amounts, send each rebate to the respective levy payers. Each rebate would be accompanied by a credit note. The credit note would effectively act as a 'negative invoice' and satisfy the GST recording requirements of both the Ministry and the levy payers.