

Tax Working Group Public Submissions Information Release

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THE FUTURE OF TAX INTERIM REPORT

Introduction and overview

Trustpower Limited (**Trustpower**) welcomes the opportunity to provide feedback to the Tax Working Group (**TWG**) on the Future of Tax: Interim Report.

By way of background, Trustpower employs around 700 staff spread across many regions in NZ, with a head office in Tauranga, many regional site offices, including a call centre in Oamaru. Trustpower is an active participant in New Zealand's energy markets as both a multiproduct retailer and renewable electricity generator. We have had a long-standing commitment to renewable energy. Our generation portfolio comprises nearly 100% hydro-generation.

Trustpower acknowledges the Government is seeking to understand how issues such as climate change, agricultural emissions, and water quality can be addressed through taxation. The Interim Report recognises there is an opportunity to make greater use of resource and environmental taxation to improve environmental outcomes and diversify the tax base. It is this key area which is the focus of our submission.

1.1 Feedback on Interim Report

As a hydro-electricity generator and non-consumptive user of water resources, the prospect of environmental taxes, royalties for water use, or economic resource rental, are of considerable interest to Trustpower.

Trustpower's earlier submission sought clarity around the objectives and purpose of employing such taxes. The Interim Report has suggested that the potential is for tax not only to be a means of raising revenue, but also an instrument to achieve specific policy goals by influencing behaviour.

1.1.1 NZs low emissions future

New Zealand's hydro-generation portfolio will play an important role in supporting the government's climate change and renewable electricity targets as we move to a low emissions future. The introduction of a royalty that affects hydroelectricity could shift the economics of future investment in favour of thermal plant, or toward variable renewables that in turn affects reliability and security of supply.

1.1.2 Environmental Taxes

The Interim Report (Box 9.1) provides a draft framework for taxing negative environmental externalities.

Water Quality

Trustpower would be concerned if an environmental tax triggered a rigorous and costly process to ascertain source and extent of contribution to degradation – it is unclear what potential exists for a hydro-generator to be caught in this complex debate?

Trustpower has long been an advocate for proportional responsibility, and considers this is best dealt with through rules and regulation at source, rather than after diffuse and accumulated impacts arise, are measured and attributed. For this reason we question whether it would pass the framework test for measurability and similarly for unintended distributional impacts.

Water Abstraction Tax

The TWG identified water abstraction as one of the five specific areas requiring further attention. Hydro generation has been named as a large water user that could potentially be in scope for water taxes, despite being non consumptive. We would very much like to be involved in these discussions going forward, and to understand the rationale for this suggestion.

1.1.3 Hydro Generation Royalty

The suggestion of a royalty charge on water usage could have several potential impacts:

- i. the passing of any royalty through to market offers; and
- ii. an incentive for a hydroelectricity generator to spill water rather than generate; and
- iii. increase the cost of decarbonisation; and
- iv. decrease the value of the hydro investment.

We note that Mercury's earlier submission stated

“A royalty imposed after investments have been made would have a similar impact to any other form of tax (such as a wealth tax) levied on an existing investment; it would reduce the value of that investment. However, unlike a wealth tax, a royalty on hydroelectricity generation would tax the wealth of a small subset of population – those who had invested in firms operating renewable hydroelectricity generation. It is not evident to Mercury, how a tax targeted on just those investors (including the Crown) could improve the structure, fairness or balance of the tax system.”

Trustpower concurs with this statement.

Royalties are designed to provide a fair return to the owner of a resource. There remains a question as to the ownership of water in New Zealand. We understand the Government is in discussions over iwi rights and interests in water, and this is of particular interest to hydro generators, whose investors may be faced with equity and fairness issues themselves.

Without having anything concrete to comment on at this time, our feedback asks for consideration and caution over the following matters –

- i. Non consumptive water use does not contribute to resource scarcity. This raises the question of how many times the resource use might be taxed?

- ii. Wariness of employing an approach that might affect investment decisions, and hydro electricity production decisions.
- iii. Water that is used to generate electricity is a public good for the displacement of fossil fuel use – potential charges should therefore be different.
- iv. Linked to the above, unintended consequences in relation to the NZ hydro/electricity market and more broadly on climate change and renewable energy goals of the government.
- v. The likelihood that costs may be passed on to consumers.
- vi. Awareness of distinctly different impacts depending on what mechanisms and metrics would be used, e.g. kWh, m3, or m3/sec charges.
- vii. The need for meaningful consultation once the policy drivers are understood and options can be developed /shortlisted.

Finally, it is Trustpowers view that taxation on hydro-generation will most likely lead to other unintended consequences, and for that reason, should be carefully considered in balance with the Governments renewable electricity objectives, electricity pricing, and on investors in the hydroelectricity sector.

Trustpower would welcome the opportunity to speak with the TWG and the secretariat to discuss the points raised, if required.

Regards,

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