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NEW ZEALAND CENTRE FOR POLITICAL RESEARCH

THE COST OF POWER

By Muriel Newman

Our homes used to be our castle, but eight years of intrusive new laws and regulations have put paid to that.

DIY renovations have been all but banned and registered builders are now needed for almost any building job, big or small. A mandatory Home Energy Rating Scheme - requiring home owners to get an assessment by an accredited agency of the home's energy efficiency at the time of sale is on the way, and a Warrant of Fitness rating for all houses is being trailed.

Old fridges, ordinary light bulbs and conventional water heaters look likely to soon be restricted because the Government has decided that they make an excessive contribution to global warming. In many parts of the country indoor fireplaces have already been banned, with outdoor fires now being targeted - this time because the Government claims that the smoke from fires is killing people.

If you are planning a housing development, the Government has just released details of new legislation that will essentially confiscate your property rights under the guise of 'affordable housing'. Instead of addressing the causes of the increasing cost of building new houses - namely burdens, costs and delays associated with their 2004 Building Act, the 2002 Local Government Act and the Resource Management Act - Labour has opted to create new market distortions by enabling local authorities to commandeer a proportion of a new subdivision for cheap council housing.

Another hair-brained scheme being foreshadowed by the Prime Minister is legislation to regulate "the operation of buildings over their entire life, covering the overall carbon cost of producing, maintaining and using new buildings the so-called 'embodied' energy of a building. This would be a new measure for building codes internationally. Further work is being done on how embodied energy could be calculated and how the concept could work in practice".

This climate change 'religion' is now driving policy throughout the government sector. The Prime Minister set the ball rolling in February when she announced: "My annual statement to Parliament this year is a call to action on sustainability. Complacency will not do... I believe New Zealand can aim to be the first nation to be truly sustainable... I believe we can aspire to be carbon neutral in our economy and way of life. I believe that in the years to come, the pride we take in our quest for sustainability and carbon neutrality will define our nation".

Helen Clark's goal of carbon neutrality was reported around the world. She is now driven to deliver so that she will look good on the world stage. That means that the traditional driving force of good government raising living standards has been sidelined.

Nowhere is this more evident than in the crucial energy sector, where the serious concerns over the Government's recently released Energy Strategy have just increased substantially as a result of the introduction of the new Emissions Trading Bill which imposes a 10-year moratorium on traditional energy generation. This week's NZCPR Guest Commentator, energy consultant Bryan Leyland, puts it this way:

"I have been involved in the electricity and energy business in New Zealand for the last fifty years. In all that time, I have never seen anything that is potentially so disastrous for electricity supply and for the economy as the New Zealand Energy Strategy and the Emissions Trading Scheme. Its central focus is climate change and political expediency not strategy and energy".

Bryan explains:

"A rational strategy must first establish the objective. For the energy sector it is, surely, the provision of a reliable and economic supply of electricity and other forms of energy for New Zealand. The next step is to establish what the demand will be and, having done that, evaluate all the resources available to us to meet that demand. Then it needs to match the resources and the demand to give the lowest possible cost of energy with reasonable security. Having done that, we have a firmly established and rational "base case". The next step is to consider alternatives to the base case. These can include variations in demand, and the cost and availability of, for instance indigenous oil and gas. Other options such as a belief that minimizing the emissions of greenhouse gases is important can also be factored in.

"A rational strategy would give us a comprehensive review of the options and their uncertainties and their costs and benefits. On the basis of this, a long-term strategy for pursuing what is determined to be the most attractive option can be developed. If circumstances change, then it is easy to repeat the whole exercise by changing the base case or the options as necessary.

Bryan then concludes: "But what we actually got is a political document that reflects, more than anything else, the government's obsession with the idea that man-made carbon dioxide causes dangerous global warming. It also seems that the government believes that if New Zealand reduces its emissions, it will have an effect on the climate. Yet there are scientific studies which show that even if Kyoto were adopted 100%, the world would be 0.07 degrees cooler in 2050 than it otherwise would be." (To read Bryan's opinion piece, see www.nzcpr.com)

The Government's energy strategy is a dangerously

political document which will not only seriously damage the New Zealand economy, but will cost families dearly.

In November business leaders and industry groups banded together to expressly warn the Government that restrictions on thermal generation would be detrimental to the economy and have a “chilling effect” on petroleum exploration in New Zealand. In a letter to Ministers they stated:

“We should be aspiring to catch up to better performing countries GDP growth rates and any policy that might be a barrier to that goal, such as limiting new thermal generation, should be discounted”. They go on to explain that New Zealand will be the only country in the world to limit new thermal generation and that higher electricity costs and greater risks to security of supply will be the result.

Common sense tells us that countries need a broad base of electricity generation capacity in order to avoid blackouts, shortages and escalating prices during peak use periods. The moratorium, as well as the unachievable goal of having 90 percent New Zealand's electricity produced from renewable sources, shows how far Labour has gone out on its ideological limb.

A new report by Strategic Advisers Castalia warns that Labour plans to expose New Zealand's fragile economy to the massive and unnecessary risk of carbon pricing on a volatile international market with its emissions trading scheme: “The current policy ignores economic and market realities and provides no mechanism for managing economic and social risks”.

So why would Labour knowingly introduce policies to look good on the world stage, when it knows that doing so will dramatically increase the cost of power - and the general cost of living - in a country where so many families and businesses are struggling financially?

In an opinion piece in the Herald “Rich has become a four letter word” John Roughan casts some light on this conundrum. He explains how Michael Cullen abused John Key in Parliament by calling him a “Rich prick”: “Rich? What sort of mind regards “rich” as a term of abuse? Next month, when politics is on holiday and Cullen is lying in the sun somewhere, he will remember that remark and wince. Not because he has suddenly ceased to resent wealth but because

he realises, too late, how revealing the comment was and how typical of his party these past few weeks. Somewhere high on a mountain, Helen Clark may be seized by the same thought. It may come to her with a sudden chill that Labour has let its contemptible side suffer too much exposure for the sake of the Electoral Finance Bill.”

Not only is Labour's scorn for anyone striving for financial independence poisonous, but its loathing for the country's wealth creators is destructive. That means that Labour doesn't actually care if the Energy Strategy and Emissions Trading Scheme imposes excessive costs it will find a way to give an election year power subsidy to potential voters. As far as business is concerned, if the resulting costs are such a burden that they are forced to close or relocate offshore, tough!

The Greenhouse Policy Coalition has published the results of a survey of 41 businesses across a wide range of industry sectors which shows that the government's proposals will put at risk 3,000 existing jobs, 700 planned jobs, and will impose additional direct energy costs of over \$250 million. Further, an estimated \$1.6 billion of planned new investment will not go ahead, with much of it being redirected to countries like Australia which doesn't plan to introduce an emissions trading scheme until 2012. In comparison New Zealand's scheme is scheduled to start in January 2008.

All of this means that householders will face a double whammy from Helen Clark's desire to make New Zealand a world-leading 'sustainable' nation: firstly, the cost of power (and everything else) will escalate as the government forces us to rely increasingly on expensive renewable energy, and secondly, once the emissions trading scheme is underway, power prices will rise even more as we are forced to pay through the nose for the price of carbon on an exceedingly volatile international market.

The poll this week asks; Do you believe that escalating power costs is a reasonable price to pay for New Zealand becoming a world-leading sustainable nation.

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