



**Moderated NZETS: Information for stakeholders and engagement during select committee stage**

<b>Date:</b>	23 September 2009	<b>MfE Priority:</b>	Urgent
<b>Security Level:</b>		<b>Number of Attachments:</b>	Three
		<b>MfE Ref No:</b>	09-B-02841

**Action Sought**

	<b>Action Sought</b>	<b>Deadline</b>
Minister for Climate Change Issues  Hon Dr Nick Smith	<b>Approve</b> the attached communications material for public release subject to ongoing improvements as discussed with your office	24 September 2009, to allow communications material to be released immediately following introduction of the Bill
	[Withheld]	[Withheld]
	[Withheld]	[Withheld]

**Ministry for the Environment Contacts**

<b>Name</b>	<b>Position</b>	<b>Telephone</b>		<b>1st Contact</b>
		<b>(cell)</b>	<b>(work)</b>	
Jules Williams	[withheld]		[withheld]	
John Scott	Acting Manager - Emissions Trading	[Withheld]	439 7573	✓
Stuart Calman	Director – Climate and Risk	[Withheld]	439 7571	

**Director- Approval to send to Minister's office**

Director	Date
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## **Purpose**

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1. This paper has two purposes:
  - To seek your approval on communications explaining the content and operation of the moderated NZ ETS
  - For you to seek approval from the Chair of the Emissions Trading Select Committee for officials to conduct certain limited engagement with stakeholders during the select committee stage of the Bill.

## **Background**

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2. Following the Government's announcements, interest from industrial stakeholders in the new allocation provisions is strong and will increase once an amendment Bill is introduced. There is also a need to manage stakeholder expectations, to test the legislative industrial allocation provisions for workability, investigate the arguments for, and feasibility of, conferring eligibility on the meat and dairy processing sectors as well as conduct consultations necessary to progress implementation of the NZ ETS.
3. More generally there is a need to inform stakeholders of the content of the Bill and the meaning of specific proposals.

## **Managing stakeholder interest**

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4. Once an amendment Bill has been introduced there will be significant interest from stakeholders in the impact of the changes to the industrial allocation provisions of the Climate Change Response Act (CCRA) and how they can engage with government to begin the process of obtaining a free allocation.
5. MFE officials have prepared an emissions trading bulletin that:
  - provides an overview of the changes to the industrial allocation provisions of the NZ ETS
  - signals how you intend to apply these free allocation provisions
  - signals that a consultation document will be published in December 2009 marking the beginning of broad stakeholder engagement on implementation of the free allocation
  - notes that limited engagement may occur between stakeholders and officials during the select committee stage but only if approval is granted.
6. Officials have also prepared a more general publication: "Questions and answers on the moderated NZ ETS" that is targeted at stakeholders in all sectors and explains the provisions in the Bill. This is also attached.
7. Drafts of *Emissions Trading Bulletin 11: Industrial allocation update* and *Questions and answers on the moderated NZ ETS* are attached for your approval.

## **Overall approach to implementing free allocation**

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8. Note that as well as describing the changes in industrial allocation policy, the attached Emissions Trading Bulletin 11 explains to stakeholders how you intend to exercise certain powers and discretions under the industrial allocation provisions. This Bulletin is important because it will set expectations among stakeholders about the way you will exercise your powers and discretion over the detail of the allocation process.

9. Because of the limited timeframes in which to implement the free allocation provisions the Bulletin sets out the following approach to implementing free allocation, during the transition period (July 2010 to December 2012):
- Wherever possible activity definitions, eligibility decisions and allocative baselines (NZU entitlements per unit output) will be taken directly from the CPRS, modified for New Zealand's electricity emissions intensity
  - Only where activity definitions have not been produced for use in the CPRS is it likely that an attempt will be made to produce activity definitions from scratch
  - Only where allocative baselines have not been developed under the CPRS is it likely that an attempt will be made to determine eligibility and allocative baselines in New Zealand based on data collection
  - Where data is available from both New Zealand and Australia the preference will be to use Australian data for reasons of consistency and the larger size of most industries in Australia
10. The bulletin also signals that data on emissions, revenue and output will be sought from those seeking allocation (even where free allocation regulations are developed using information from the CPRS), as it will inform the 2011 review and any subsequent changes to free allocation. Initially this data collection may need to focus on those activities where it is likely to be required to determine eligibility and develop allocative baselines, rather than those where data may only be required to inform the 2011 review.
11. This approach will allow technical resources to be focussed on those activities for which there are no or limited CPRS precedents to be adopted.
12. Closely following the CPRS approach will mean that levels of assistance may not closely represent the New Zealand average emissions intensity of an activity in all cases. However, the implications of any over- or under-allocations that might occur will be reduced by the transition phase which provides significant assistance to all industries.
13. The bulletin also notes:
- an intention that emissions from liquid fossil fuels, or from wood waste and other minor emissions sources will not be included in eligibility calculations when applying emissions intensity thresholds
  - an intention to use an electricity "allocation factor" for developing allocative baselines such as developed by the Stationary Energy and Industrial Processes Technical Advisory Group (0.52 tonnes of CO<sub>2</sub>-e per MWh).

## **Limited engagement during select committee**

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[Withheld].

### Recommended Action

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**We recommend that you:**

- (a) **Approve** the attached communications material for public release subject to ongoing improvements as discussed with your office: **Yes / No**
- Draft Emissions Trading Bulletin 11 explaining the new industrial allocation provisions of the Bill and the intended approach to implementing these provisions
  - Draft questions and answers on the moderated NZ ETS

**[Withheld]**

**Yes / No**

(b) **[Withheld]**

**Yes / No**

(c) **[Withheld]**

(d) **[Withheld]**

Stuart Calman  
**Climate and Risk**

**Date**

Hon Dr Nick Smith  
**Minister for Climate Change Issues**

**Date**