

Ministry for the Environment  
via email: etsconsultation@mfe.govt.nz

20 February 2020

### **Reforming the NZ ETS: Proposed settings**

Mercury welcomes the opportunity to comment on the consultation 'Reforming the NZ ETS: Proposed settings', no part of our submission is confidential.

We see the NZ ETS as the main instrument for transitioning NZ to a low emissions economy and for meeting our Paris Agreement commitments. It is crucial that the NZ ETS design is strengthened to deliver a carbon price that will encourage all emitters to make efficient decisions concerning emissions abatement. The changes to proposed settings set out in the consultation document are, the **minimum required** to start this process. Mercury urges the government to implement these proposals. We look forward to the Climate Change Commission (Commission) providing advice early next year on the first set of emissions budgets and further measures to ensure the NZ ETS encourages investment in emissions abatement opportunities.

### **Provisional emissions budget is acceptable as an interim approach to setting the abatement level**

Mercury supports setting a provisional emissions budget indicating total volume for New Zealand's net emissions over the period 2021-2025. There is an urgent need to cap our net emissions and clearly signal the required direction of travel. Acting now is preferable to waiting for the Commission to provide its recommendations for the first three budgets in early 2021. Forecasts indicate that under business as usual our net emissions will not reduce to meet our emission reduction commitments under the Paris Agreement<sup>1</sup>. Our primary tool for reducing emissions is the NZ ETS. A provisional budget is necessary to guide the amount of NZUs that should be auctioned annually and the price control settings.

The proposal is to set the provisional emissions budget to hold net emissions steady at projected 2020 levels for two years, halting a projected increase in net emissions and then track towards a direct path from current emissions levels to the 2050 target in the Zero Carbon Act. This pathway will require 13 Mt CO<sub>2-e</sub> of additional emissions reductions below current projected levels over the period 2021-2025. This results in a provisional emissions budget of 354 Mt CO<sub>2-e</sub> for the 2021-2025 period. Ideally, the government would take a more ambitious approach, but in the interim, Mercury supports this proposal.

### **We support the steps in reaching the proposed NZ ETS unit supply settings**

The Commission will independently recommend NZ ETS settings to the Government. Within the broader supply setting framework, Mercury supports the introduction of auctioning NZUs in a way that allows the current oversupply of NZUs to be managed. We support the proposals for setting the NZ ETS cap and agree that no technical volume or forestry adjustments are needed. We agree that the forecast volume of free allocation over the provisional budget period needs to be removed from the NZ ETS cap because it should not be available for auction.

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<sup>1</sup> Net emissions have risen since 2015 due to increased levels of deforestation compared to 1990 levels and as forests planted in the 1990s are harvested. Net emissions are expected to continue to increase for several further years before falling after 2022. Reforming the NZ ETS: Proposed settings pg 23.

We strongly support reducing the annual volume of NZUs available for auction as a mechanism for reducing the stockpile of NZUs. As of June 2019 there were 132m NZUs, approximately four times the number of NZUs surrendered in 2019. This oversupply is a significant barrier to the NZ ETS effectively encouraging emission abatement allowing NZ to meet its climate change targets.

We support international units being ruled out for use in the NZ ETS for the 2021-2025 period. We agree that it is important to prioritise domestic abatement and managing down of our current stockpile of NZUs. In practice it will take time for the infrastructure necessary to verify and trade international units to be negotiated and implemented. It is important to keep our options open over the longer term. In the future it may be cost effective to support verifiable abatement in other countries. We support further consultation on the feasibility and practicality of modes of access, as well as considerations on the environmental integrity of international units in the future as rules around international units are negotiated.

### **Price controls**

In principle we support the proposed price controls although we would expect most NZU holders to retain their NZUs and pay the Government \$35 per unit of CO<sub>2-e</sub> in anticipation of the price of carbon rising in the future. Mercury supports a cost containment reserve of \$50 but would be open to a higher level. We are sceptical that abatement will be encouraged with the reserve set at \$50 but acknowledge that the main constraint on abatement in the short term may be practical issues such as converting equipment to low carbon technology. We agree with the proposed volume for release if the cost containment reserve is met.

If you have any questions please contact me at [REDACTED]

Yours sincerely



James Flexman  
**Wholesale Markets Manager**



## Appendix One

### Consultation Questions

Consultation Question	Mercury Response
1. Do you agree with the proposal to set a provisional emissions budget of 354 MT CO <sub>2</sub> e for the 2021-25 period? If not why not? Include views on using a straight-line approach towards the 2050 target and the considerations that were included in proposing the provisional emissions budget.	Yes, we would prefer a more ambitious emissions budget but support what is proposed as an interim measure.
2. Do you support the decisions made regarding the technical volume adjustment decisions?	Yes.
3. Are there other adjustments that need to be considered?	No.
4. Do you agree with the proposal to address the NZ ETS unit stockpile by reducing the annual volume of NZUs available for auction?	Yes. We see reducing the NZ ETS unit stockpile as crucial to improving the effectiveness of the ETS.
5. Do you agree with 27 million NZUs being removed from auction volume between 2021-25?	Yes.
6. Do you agree with the steps and calculations taken to reach the proposed annual auction volumes?	Yes.
7. Do you support the proposal to auction 80 million NZUs over the 2021-25 period plus 2 million NZUs for auctioning trial in 2020? If not, why not? Please include your views on the process for adjusting auction volumes.	Yes.
8. Do you agree with the proposal to set an auction reserve price floor at \$20 for 2020-25?	Yes.
9. Do you agree with the proposal to increase the fixed price option to \$35 for obligations arising from activities over 2020?	Yes.
10. Do you agree with the proposal to set the price ceiling trigger of the cost containment reserve at \$50 for the 2020-25 period?	Yes as an interim measure we support. Mercury would prefer a higher price ceiling to be introduced in the longer term.
11. Do you agree with the proposed annual cost containment reserve volumes to be released if the price ceiling trigger is hit?	Yes as an interim measure.
12. Do you agree with the proposed approach for release of NZ ETS settings information?	Yes.
13. Do you have any further comments?	The NZ ETS is New Zealand's primary policy tool for ensuring we transition to a low emissions economy and meet our Paris target as such it is crucial that it is as effective as possible. We support the proposals on the basis that they are interim measures. We anticipate the Commission will report in February 2021 with recommendations to further strengthen the NZ ETS to encourage emissions abatement.

