



28 February 2020

Via email: etsconsultation@mfe.govt.nz

Dear Sir / Madam,

SUBMISSION: REFORMING THE NEW ZEALAND EMISSIONS TRADING SCHEME - PROPOSED SETTINGS

Thank you for the opportunity to present our feedback on the consultation document, Reforming the New Zealand Emissions Trading Scheme: Proposed settings. Queenstown Lakes District Council (QLDC) fully supports the intention to reduce New Zealand's emissions in line with the objectives and obligations set out in the Paris Agreement in 2015.

In July 2019, QLDC declared a climate emergency and as such, is highly aware of the obligations faced with regard to climate change and reducing the impact on the planet. The government is commended for examining all avenues to aid in the reduction of emissions and encouraging businesses to innovate and invest in solutions. Although QLDC does agree that increased financial pressure on those failing to reduce emissions is a necessity, the system and levies proposed in this paper could have significant financial consequences for local councils and therefore rate payers. As a smaller emitter - with landfills being less than 2% of the Emissions Trading Scheme across the country – QLDC would like to see some consideration for those smaller emitters that may not have the resources or the flexibility to operate effectively within this scheme.

The attached submission is the position of Council officers in relation to the consultation document and QLDC looks forward to continuing the conversation with the Ministry. Council staff may wish to speak at further hearings or to participate in any focus groups throughout this consultation process.

Thank you again for the opportunity to comment.

Yours faithfully,



Mike Theelen
Chief Executive

KEY POINTS

1.0 EMISSIONS REDUCTION

- 1.1 QLDC fully supports a 'sinking lid' approach to the ETS and commends all efforts to reduce New Zealand's emissions in alignment with the Paris agreement.
 - 1.1.1 QLDC supports the intent of the provisional emissions budget to reverse New Zealand's increasing emissions trend.
 - 1.1.2 QLDC agrees that although a more ambitious target for the trajectory of the reduction of emissions is desirable, challenges would be faced by local governments to replace or update existing infrastructure and assets. This would have a significant expense associated that would increase costs substantially for ratepayers in the short term rather than spreading these costs over a more extended period.

2.0 LOCAL GOVERNMENT AND SMALL EMITTERS

- 2.1 QLDC believes that all emitters should be liable for their emissions however is mindful that the ETS as a scheme does not work well for local government bodies or smaller emitters due to the complexity of the mechanism.
 - 2.1.1 There is misalignment between the ETS and local government financial processes with significant financial risk in an auction system that introduces price uncertainty and a great deal of variability. With rates levels requiring consultation six months in advance of annual rates being collected the potential variability of this system could put significant strain on community finances and invariably means that councils are unable to fully recover these ETS costs annually.
 - 2.1.2 There is a high administrative burden placed on local governments and other small emitters with surrender obligations and those taking part in the Unique Emissions Factor process.
 - 2.1.3 QLDC questions whether smaller emitters should be levied in the same way as the larger emitters. Consideration should be given to alternative options that could alleviate the administrative burden and uncertainty of the auction process on smaller emitters.

3.0 SUB-SCHEME CONSIDERATION

- 3.1 QLDC believe there should be consideration for a sub- or secondary scheme which creates a separate mechanism or market for local government bodies and other small emitters to engage with the ETS at lower risk and lower cost-variability component to aid with financial security.
 - 3.1.1 One option could be to ensure that a portion of auction credits are allocated to local government to reduce the risk that there will be the requirement to purchase credits in the secondary market, outside of the auction system, where there is no price ceiling.
 - 3.1.2 The possibility of a fixed-price option for smaller emitters, including local government, would alleviate the variability of costs between the floor of \$20/t and a ceiling of \$50/t, and therefore the associated financial uncertainty and risk.
 - 3.1.3 The potential volatility in carbon costs may not be a risk that local government will be able to manage effectively given that councils are governed through a democratic process and use public funds on behalf of citizens. There is no other mandatory market risk faced by Council that exhibits the level of volatility proposed.

ADDITIONAL POINTS

4.0 STOCKPILING

- 4.1 QLDC would like to have clarity regarding the planning and modelling that Central Government has done to understand, and therefore comment fully, on the degree to which reducing auction volumes will draw credits out of stockpile.
 - 4.1.1 There needs to be the demonstration by Central Government that a variety of scenarios have been considered in terms of how much of the stockpile is released, the potential impact on price volatility and thus the credibility of the ETS.
 - 4.1.2 QLDC has concerns that an early auction process at the end of 2020 may lead to additional stockpiling by some in the short-term which is at odds with the objective of drawing credits out through the reduction of auction volumes.

5.0 RESERVE VOLUMES

- 5.1 QLDC believes that reserve volumes should be released into a separate auction that is limited to participants with surrender obligations. This would mitigate the effects of the secondary market imposing price increases that cannot be accommodated by local government through the rating system and public funds.

6.0 TRANSPARENCY

- 6.1 QLDC requests that all auctions are conducted transparently with the requirement to monitor and publish breakdowns of successful bids by sector.
 - 6.1.1 All published history of clearing prices would allow for local government organisations with prescribed budgets and long term planning obligations to forecast ETS costs as accurately as possible.