

## Topics for NZ ETS Review 2015/2016 consultation

### About the consultation

The Government is reviewing the New Zealand Emissions Trading Scheme (NZ ETS) to assess how it should evolve to support New Zealand in meeting future emissions reduction targets and its ongoing transition to a low emissions economy. This follows the announcement by the Government in July this year that New Zealand's post 2020 target is to reduce greenhouse gas emissions to 30 per cent below 2005 levels by 2030.

The Ministry for the Environment is leading the consultation and welcomes your feedback on how the NZ ETS is working and how it might work better in the future.

The review will focus on:

- some transitional measures introduced to moderate the impacts of the NZ ETS
- what is required for the NZ ETS to evolve with changing circumstances including future targets
- operational and technical improvements.

### Discussion document

For more information about the consultation, read our discussion document. It sets out the issues on which the Government is consulting, the objective and drivers for the review. It also contains the terms of reference for the review.

Some transition measures are being given priority and have the first deadline for submissions as they may be candidates for legislative change in 2016 (see closing dates for submissions below). Refer to the discussion document for detail on the priority and other matters under review.

Technical notes on the following specific issues will be available in December or early 2016 to support submissions:

- modelling of the impacts of the priority issues outlined in the discussion document
- forestry sector matters, including accounting methodologies for post-1989 foresters
- operational and other technical matters.

To be notified of when these technical notes are available, please email [nzetsreview@mfe.govt.nz](mailto:nzetsreview@mfe.govt.nz).

### Closing dates for submissions

- Submissions on priority issues close at 5pm on 19 February 2016
- Submissions on other review matters close at 5pm on 30 April 2016.

You may make submissions on both priority issues and on the other matters. If you provide feedback on both you can do so in a single submission or separate submissions. Please note submissions on priority issues must be received by 19 February 2016.

## Publishing and releasing submissions

All or part of any written submission (including names of submitters), may be published on the Ministry for the Environment's website [www.mfe.govt.nz](http://www.mfe.govt.nz). Unless you clearly specify otherwise in your submission, we will consider that you have consented to website posting of both your submission and your name.

Contents of submissions may be released to the public under the Official Information Act 1982 following requests to the Ministry for the Environment (including via email). Please advise if you have any objection to the release of any information contained in a submission and, in particular, which part(s) you consider should be withheld, together with the reason(s) for withholding the information. We will take into account all such objections when responding to requests for copies of, and information on, submissions to this consultation under the Official Information Act.

The Privacy Act 1993 applies certain principles about the collection, use and disclosure of information about individuals by various agencies, including the Ministry for the Environment. It governs access by individuals to information about themselves held by agencies. Any personal information you supply to the Ministry in the course of making a submission will be used by the Ministry only in relation to the matters covered by this consultation. Please clearly indicate in your submission if you do not wish your name to be included in any summary of submissions that the Ministry may publish.

## Contact for queries

Please direct any queries to:

Phone: +64 4 4397400

Email: [nzetsreview@mfe.govt.nz](mailto:nzetsreview@mfe.govt.nz)

Postal: NZ ETS Review Consultation, Ministry for the Environment, PO Box 10362, Wellington 6143

## Questions to guide your feedback

The questions below are a guide only, and all comments on topics are welcome.

To ensure your point of view is clearly understood, please explain your rationale.

## Contact information

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|---------------------------------|---|
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# Submission Form

## Context and drivers for the review

1. Do you agree with the drivers for the review?

Yes

**Yes**

No

Unsure

2. What other factors should the Government be considering in this NZ ETS review?

## Moving to full surrender obligations

3. Should the NZ ETS move to a full surrender obligation for the liquid fossil fuels, industrial processes, stationary energy and waste sectors?

Yes

**Yes**

No

Unsure

4. What impact will moving to full surrender obligations have on you or your business?

Please include specific examples or evidence of the impacts on you or your business of:

a) increased carbon prices, including actions to reduce emissions and future investment decisions. Please comment on effects that may occur at carbon prices ranging from \$5 to \$50, including any evidence of actions taken previously when carbon prices were higher.

**As a landfill operator the baseline nature of our activities produces carbon. To achieve its core purpose then the ETS system (in particular pricing) should encourage us to make capital investment and operational decisions that improve the efficiency and effectiveness of how we capture, and 'process' carbon emissions.**

**The design of our landfill cells, and comprehensive gas capture and destruction system is all prefaced around the most effective way of dealing with our gas emissions. The capital and operational expenditure on this has run into the millions. Core to this was a state of the art permanent gas flare which we installed in 2009. Fundamental to this decision is that it was financially sensible to invest monies in this manner. We are a company that has environmental responsibility at its core, but nonetheless as a privately held company, our shareholders also expect major expenditure to be financially prudent and have a justifiable payback.**

**The Southland region (which our landfill serves) is relatively lowly populated so the volumes of waste (and accordingly the gas generated) don't see comprehensive gas capture and deployment as having a**

positive return on investment in their own right (eg for use in power generation or other industrial activities). However the ETS and signalling on NZU price etc at the time of the gas flare purchase should have seen this as a worthwhile investment. The subsequent 'collapse' of the carbon price through access to inexpensive ERUs etc has undermined the return on investment (as there has been no benefit in applying for a unique emissions factor that would reflect the investment we have made around gas capture). Effectively as a company we would have been financially far better off not spending the significant capital and operational expenditure on our gas systems. This is contrary to the desired behavioural changes.

Going forward for us to continue to invest heavily the carbon price would need to be upwards of \$15 and ideally closer to the fixed \$25 price.

b) any NZ ETS administrative or operational issues, for example the option for participants to apply for a unique emissions factor.

**No issues administratively etc but as outlined above there has been no cost / benefit re unique emissions factors when carbon price has been so low (as the UEF regime comes with its own costs etc).**

5. If full surrender obligations are applied, when should this be implemented?

a) 2016

b) 2017

**2017**

c) 2018

d) other – please specify

Outline the reasons for your answer, and include any comments on the pros and cons of applying an increased surrender obligation to a partial or a full NZ ETS reporting year.

**Ideally it should be applied as soon as possible however practically it probably has to be 2017 given we are already into calendar 2016 and has to be some transition / signalling. It is imperative to remove the overhang of NZUs as quickly as possible as otherwise pricing / market cannot operate as envisaged. Given that many emitters have large amount of NZUs this should provide some protection from a major price spike as they won't feel the impact for a few years and thus market pricing should thus be able to 'transition' a bit more gradually.**

## Managing the costs of moving to full surrender obligations

6. If the NZ ETS moves to full surrender obligations, should potential price shocks be managed?  
Yes

**Yes**

No

Unsure

7. If potential price shocks associated with moving to full surrender obligations should be managed, how should this be done?

a) maintain the fixed price option at \$25

**Agree**

b) lower the fixed price option

c) gradually move to full surrender obligation

d) other methods.

8. If the \$25 fixed price surrender option value should change, what should it change to and why?

### Other issues: business responses to the NZ ETS

9. Do you consider the future cost of emissions in your business planning? Please explain your answer.

Yes

**Yes**

No

If yes, how do you do this?

**As outlined above it has historically impacted our capital and operational decisions based upon considering carbon return on investment (through unique emissions factor gains arising out of our spend). More recently and looking forward – without carbon price changes it wont factor at all – but likewise our decisions are likely to change.**

10. What would improve your ability to take into account the future cost of emissions in your business planning?

**Some degree of certainty re fxied price buffer and that the longer term pathway (through transition measures, access to international units, etc) is not going to see carbon price significantly lowered.**

### Other issues: protecting competitiveness through free allocation

11. Under what conditions should free allocation rates start to be reduced after 2020?

**Free allocation ultimately derives from a balancing act of needing to remain competitive so to a degree it really requires greater international accord. If the playing field is broadly level (on an industry by industry basis) then this would influence most.**

12. What impact would it have on your investment decisions over the next few years if there was a clear pathway or criteria for phasing out of free allocation after 2020?

**Ultimately it is about certainty that we arent going to get artificially low pricing, then our investment decisions will respond accordingly (and NZ / Southland region will continue to get the behavioural benefits desired). It is only to the extent that phasing out free allocation impacts that process will it impact our decisions.**

## Other issues: managing unit supply - forestry

13. How does the carbon price impact your forestry investment decision-making?

In your answer, we are interested in the:

- a) extent to which the NZU price impacts decisions, compared to other factors
- b) impacts of the current price, and of your expectations for future prices.

**N / A**

14. Are there opportunities for the NZ ETS to increase incentives for forestry investments, outside of NZU price?

Yes

No

Unsure

15. What are your reasons for the above answer? If you answered yes, we would be interested in comments on:

- a) any barriers to participating in the NZ ETS that could be reduced
- b) other factors.

## Other issues: managing unit supply – international units

16. If international units are eligible for NZ ETS compliance in the 2020s, should any of the following restrictions be placed on their use?

- a) restrictions on where units can be sourced from (location of and/or types of projects)

**Key is that they need to be robustly evidenced that generated from genuine carbon reduction / sequestration etc.**

- b) restrictions on how many units can be surrendered

- c) others (please explain).

## Other issues: managing unit supply – auctioning

17. Should auctioning be introduced in the NZ ETS?

Yes

No

Unsure

**Possibly. To the extent it can provide better pricing visibility and liquidity then may be useful.**

If yes, when?

- a) in the next two to three years
- b) within five years (before 2020)
- c) after five years (post 2020).

18. What should be the role or purpose of an auctioning function in the NZ ETS, if one were introduced?

- a) to align supply in the NZ ETS more closely with our international target
- b) to more actively manage NZU prices
- c) other (please explain).

19. How should auctioned NZUs relate to other sources of unit supply in the NZ ETS, especially NZUs generated through forestry removals and/or international units?

### Other issues: managing price stability

20. What impact has carbon price volatility in the NZ ETS had on your business?

- a) minor
- b) moderate
- c) **Significant.**

**Undermined key investment decisions and has resulted in spending decisions with no return on investment**

21. Do you think measures should be in place to manage price stability?

Yes

**Yes**

No

Unsure

22. What do you consider are important factors for managing price stability?

- a) upper price limits (eg, fixed price option, or a price ceiling implemented through an auctioning mechanism)

**Yes**

b) lower price limits (eg, price floor)

c) other (please explain).

23. What should the Government consider when managing price stability?

### **Other issues: operational and technical matters**

24. Are you aware of ways the administrative efficiency of the NZ ETS could be improved?

Yes

No

Unsure

25. Can you provide further information to support your answer?

We would be interested in comments on:

- a) complexities involved in NZ ETS participation
- b) penalties for breaching NZ ETS obligations
- c) any technical or operational changes that could be made to the NZ ETS to improve efficiency.

### **Other issues: addressing barriers to the uptake of low emissions technologies**

26. Are there any barriers or market failures that will prevent the efficient uptake of opportunities and technologies for reducing emissions?

27. If so, is there a role for the Government in addressing these barriers or market failures and how should it do this?

### **Any other comments related to issues set out in the discussion document**

28. Please comment here

### **When your submission is complete**

Email your completed submission to [nzetsreview@mfe.govt.nz](mailto:nzetsreview@mfe.govt.nz) or post to NZ ETS Review Consultation, Ministry for the Environment, PO Box 10362, Wellington 6143.

**Submissions on Priority issues close at 5.00pm on 19 February 2016.**

**Submissions on Other matters close at 5.00pm on 30 April 2016.**