

NZ ETS Review 2015/2016 consultation

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Comments on the consultation document have been provided only for questions 1-8. A fuller submission will be provided by the final due date.

As an introduction the Bioenergy Association is concerned that Government is focusing only on the ETS and is not addressing all the opportunities available to reduce greenhouse gas emissions. The ETS is only one of the tools available and Bioenergy Association Members would like to see Government step back and develop a Plan of Action for Achieving Greenhouse Gas Emission Reduction Targets. Bioenergy Association would be pleased to participate in such an activity and to assist Government develop such a Plan of Action.

A premise of the Bioenergy Association submission is that with good suite of Government policies reduction of greenhouse gas emissions can provide opportunities for economic growth, employment and achievement of environmental outcomes and not an economic impost on the community.

The key role for the ETS should be to drive down gross and net emissions in NZ in the most cost efficient way but it can't be done without complementary measures. Many of these measures must relate to the barrier arising from access to capital.

Submission Form

Context and drivers for the review

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

Yes

The ETS as it is currently structured does not provide adequate incentive for emitters to reduce greenhouse gas emissions and does not provide the certainty that business requires to be able to effectively manage their transition to low carbon activities.

There are adequate low carbon alternatives (eg wood fuel and waste for heat) for emitters to move away from fossil fuels, particularly for heat. The proposed changes to the ETS would improve the economic incentives for heat users to move from using coal to biomass for the production of heat and thus contribute to the Greenhouse gas emissions reduction target in the specified time frame.

Transport biofuel options are a longer term alternative but encouraging research on the high value co-products of liquid biofuel production eg lignin and bio-chemicals, will improve the overall economics and assist liquid biofuels contribution to achievement of the target within the specified timeline.

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

The ETS alone is not adequate enough to achieve the targets in the specified time frame. A number of complementary measures should be used to support and assist the transition to the targets. Many of the complementary measures are economic today but there is little incentive for emitters to make the change as these often require access to capital.

The possible complementary measures around heat would be low cost and cost effective with regard to reducing greenhouse gas emissions.

Some complementary measures that would assist emitters in the heat sector could be:

- Accelerated depreciation for renewable energy and energy efficiency capital expenditure
- Requiring government owned facilities such as schools and hospitals to undertake life-cycle analysis and consider greenhouse gas emission reductions alongside the financial cost when evaluating capital investment decisions
- Where appropriate using government owned facilities as role models to other emitters
- Encouraging utilisation of municipal solid and liquid waste as a feedstock for the production of energy.
- Encouragement of more domestic added value processing of wood as this produces more wood fuel as a co-product

As renewable energy projects tend to have high capital costs and low operating costs compared to fossil fuel facilities a policy focus on influencing capital purchases makes good sense partly because it can be targeted (don't waste subsidies on those that are already doing it, and don't penalise unduly those that have capital locked up) and because it is easy to manage as a transitional measure (easier to close down when no longer needed). Such policies would hereby allow a lower cost ETS compared to use of carbon prices alone which requires a big jump in the price, whereas targeting those making investment decisions over the next 5 - 10 years is much cheaper, and can support growth of new industry.

Changes in Government procurement processes in capital plant can demonstrate to industry how consideration of life cycle costs and benefits can make low carbon capital investment economic. Current dysfunction in the Government's health and education capital investment decision making acts against a policy of reducing greenhouse gas emissions.

Linking the Government's waste minimisation policies with the greenhouse gas emission reduction policies can turn utilisation of waste to be an opportunity and not a problem.

There is currently little support for industry to undertake longer-term applied research and development relevant to adoption of cleaner processes. A contestable research fund to increase investment in the application of research to business (similar to current funding of pure research projects) would encourage industry to investigate and evaluate opportunities. This would help manage the longer-term risks faced by our economy, and to exploit potential overseas opportunities using our solutions.

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

There should be a provision for business to transition to full surrender obligations. As many of the means of transition require capital expenditure there is a need to assist business make this transition in an orderly fashion. The transition should be over a number of years as an orderly transition should mean a smoother more credible carbon price signal since the expectation generally is that this move to full surrender will cause an increase in carbon price..

For the heat market to convert from using coal to biomass and waste as fuel there needs to be a transition to allow the wood fuel suppliers to expand in an orderly fashion. There is adequate capability to provide wood fuel from existing sources and new planting but there needs to be a time period for new wood fuel sources to be developed. The new sources of wood fuel will invariably also be a co-product of forestry and agriculture so the transition period will need to take changes in these sectors into account.

The heat market has been expanding in an orderly fashion with wood fuel suppliers meeting the demand for bigger and bigger heat plant. There is capability in the wood energy sector to grow at a faster rate.

Similarly the use of solid and liquid waste to produce biogas has been progressing slowly and there is capacity (and the potential projects available) for greater use of waste as an energy source.

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

The bioenergy sector has been developing its foundations so that it is able to gear up for the inevitable transition from the use of fossil to renewable fuels as NZ moves to a low carbon economy. The wood energy sector in particular has wood fuel and heat plant suppliers capable of expansion to meet the requirements of heat plant owners wishing to transition from coal to wood fuel.

- 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.**

Many potential bioenergy projects that could contribute to reducing greenhouse gas emissions are near economic and it is the additional regional, community, social and environmental benefits that will get them over the line. Any improvement in carbon pricing will assist and

clearly the higher the price the easier it will be to justify the investment. Analysis of the Bioenergy Strategy (<http://www.bioenergy.org.nz/resource/nz-bioenergy-strategy>) showed that at carbon prices assumed at the time of publishing the strategy that 40% of the then Government's 50 by 50 target could be achieved from bioenergy investments alone.

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

The sole focus on ETS and not on some of the complementary policies has resulted in emitters seeing greenhouse gas emission reductions as a cost and not a business opportunity. The ETS should be presented as only one of the policy tools.

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

There needs to be a transition period for the very large emitters

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**

The individual businesses are best placed to manage the cost of moving to full surrender obligations but Government should monitor the economy to identify any unforeseen impacts

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**

Yes. Use complementary measures to assist maintain the price at this level.

b) **lower the fixed price option**

No

c) **gradually move to full surrender obligation**

There should be an orderly transition so that business can transition to alternative energy sources. While there are many technical solutions which would assist business to reduce greenhouse gas emissions many of these are capital intensive and can be financially disruptive or a barrier to implementation. Complementary measures which assist business with their capital investment solutions eg accelerated depreciation or suspensory loans can;

- Avoid putting undue costs onto internationally exposed sections of the economy that can't quickly adapt (and result in too much price disruption too quickly in the economy)
- Be even handed.

With regard to the life of the relevant capital stock the threat of the price going up has to be perceived as being real as industry looks for certainty. This argues for a longer-term but certain transition for those who are locked-in with existing capital plant rather than having a quicker and possibly more volatile transition.

While the transitions should be managed, but those making capital decisions should be incentivised to take the plunge.

d) **other methods.**

Continue and widen providing assistance for business to transition through the Energy Efficiency and Conservation Authority programmes.

Government could expand the Government loans scheme where the loan funds is available at their borrowing cost for repayment over an appropriate period of time such as the pay back period.

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

From the perspective of the bioenergy sector it should be as high as possible.