

New Zealand ETS review 2015/16 consultation



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

Answer 1: Yes

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

Answer 2:

New Zealand goods form part of international supply chains, and reviewing the ETS to provide a more robust scheme lends further support to NZ Inc's environmental credentials.

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

Answer 3: Yes

3A. Please explain your answer: KiwiRail supports moves to strengthen the ETS.

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

Answer 4:

Fuel pricing adjustments are passed on directly to our freight customers, so the assumption is that increased carbon prices reflected in fuel costs will be passed through to those customers.

From our experience, pricing is just one factor behind why businesses choose to use rail for their freight requirements, with other factors including reliability, environmental effect, service offering, long haul distances and heavier freight.

Our freight customers are increasingly investing in becoming rail served businesses and we are increasing our intermodal capability to provide them a seamless service moving between road, rail and sea. Any moves to further internalise environmental externalities is welcome in helping our customers to make these investment decisions.

Carbon is an important part of our business. As a lower carbon-intensive industry than our road competitors, we do calculate how many tonnes of carbon emissions our business operations avoid than if the same freight were carried by road. We calculate our carbon intensity on an annual basis, and customers request carbon emission data, so it is an area we will continue to focus on, particularly if it becomes a greater area of interest for our customers and influences their modal choice.

Carbon prices at the higher end of the range might make alternative fuels or other alternative energy sources more attractive.

We expect full surrender obligations would result in a slight increase in the cost of maintaining the rail network due to increases in diesel and petrol prices, but don't believe this will have a significant impact on our operations.

Increased fuel prices would increase the cost to operate passenger services but that would equally apply to other transport providers. As some of our passenger services operate in a tourism market and their primary purpose is to provide a travel experience, a significant increase in input costs for these services that would necessitate a price increase could affect whether or not people choose these experiences. However, we don't see this being a major issue at the range of carbon prices envisaged in the discussion document.

From a commercial perspective, forestry represents around 14% of our business, so a higher carbon price may have a positive commercial outcome for rail by encouraging harvesting to occur and providing incentives to replant, although that would be dependent on global market demand for wood.

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Some of our customers operate energy intensive businesses and are going to be exposed to increased costs. Whether or not there remains a mechanism in place to enable those customers to compete against international competitors who are not necessarily exposed to carbon pricing will obviously affect their survival and ultimately impacts on our business.

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

Answer 5: 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 a year.

We are not direct participants in the scheme so have no strong view on the implementation date from a business perspective. However, we consider that if full surrender obligations are to be applied, having certainty about when this will come into effect, and allowing sufficient lead time for affected businesses to plan adequately for this scenario is important.

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

Answer 6: Unsure

6A. Please explain your answer:

Given that the main carbon price impact on KiwiRail will be related to fuel costs, there is significantly more volatility in fuel pricing than carbon pricing will provide.

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

Answer 7:

7A. Please explain your answer:

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

Answer 8:

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

Answer 9:

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

Answer 10:

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

Answer 11:

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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?

Answer 12:

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

Answer 13:

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

Answer 14:

15. What are your reasons for the above answer?

Answer 15:

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

Answer 16:

16A. Please explain your answer:

17. Should auctioning be introduced in the NZ ETS?

Answer 17:

17A. Please explain your answer:

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

Answer 18:

18A. Please explain your answer:

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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?

Answer 19:

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

Answer 20:

20A. Please explain your answer:

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

Answer 21:

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21A. Please explain your answer:

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

Answer 22:

22A. Please explain your answer:

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

Answer 23:

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

Answer 24:

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

Answer 25:

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

Answer 26:

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

Answer 27:

28. Please comment here

Answer 28:

The actual and potential impact of climate change is driving a shift to low carbon economies around the world. There is an increasing focus on transportation as a significant source of greenhouse gas emissions, and recognition that the way the world moves people and freight needs to change.

Within New Zealand, transport accounts for approximately 20% of greenhouse gas emissions. There are opportunities to reduce these emissions through modal shift, technological advances and changes in behaviour.

Internationally, there has been a revival of rail as countries recognise the value in the efficient mass movement of people and freight both within and between cities. This has led to considerable modal shift and a commensurate reduction in emissions.

Within New Zealand, there has been an increase in rail investment since 2008 as part of the Government's purchase of the operational rail business. This has improved rail infrastructure and rolling stock leading to investment by freight customers to become rail-enabled.

One of rail's main advantages over other transport modes is the relatively low emissions per tonne of freight or passenger kilometre (the measure of carbon intensity). KiwiRail has calculated this for all of our main service offerings and had our methodology verified by carboNZero. While there is no specific road freight emission factor for New Zealand, we estimate that road freight produces three to four times the emissions of rail freight.

We also intend to produce an infographic to demonstrate the fuel and emissions saved by using rail for freight

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movements as part of a programme to help our customers understand the benefit they provide to NZ Inc from using rail.

The ETS is a key mechanism to ensure these environmental costs are internalised and that people and businesses are driven to use the most carbon efficient modes of transport. To date, the ETS has had minimal, if any, impact on encouraging modal shift in the freight sector. KiwiRail appreciates that there are other factors influencing the carbon price but our view is that more can be done to strengthen the ETS.

Our submission responds directly to the priority questions posed in the discussion document, but it should be noted that we are members of the Sustainable Business Council and support the content of their submission.

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