



4 May 2016

NZ ETS Review Consultation
Ministry for the Environment
PO Box 10362, Wellington 6143
By email: nzetsreview@mfe.govt.nz

2015-16 New Zealand ETS Review – Meridian Submission on Second Priority Topics

Meridian appreciates the opportunity to submit on ‘second priority’ topics of the Ministry for the Environment’s (MfE’s) 2015-16 NZ Emissions Trading Scheme (ETS) Review.

Meridian is the largest generator of electricity in New Zealand and produces this from 100% renewable wind and hydro sources. As a company that believes in a better energy future, Meridian is a supporter of energy efficiency, technology choice, and innovation.

Appendix A provides Meridian’s responses to specific consultation questions. Our more general comments are as follows.

Meridian’s interest in the ETS

From Meridian’s perspective, predictability and stability around ETS policy settings is of primary concern.

Since the enactment of ETS legislation, Meridian has accounted for future carbon prices in its investment decisions. For Meridian, such investment decisions are typically long term, involving assets with a 50-100 year operating life. At a more day-to-day level, we also trade electricity on an integrated wholesale and futures market. This means we are exposed to the effects of carbon pricing and carbon price uncertainty on electricity prices (including, for example, when submitting bids and offers for three year ahead contracts in accordance with our electricity futures ‘market maker’ obligations).

Continued Meridian support for an all-encompassing, market-based ETS mechanism

Meridian continues to support the use of a market-based ETS mechanism that is extended, with time, to all gases and all sectors. As our past submissions suggest, we consider an ETS pricing mechanism is the most efficient way to change investor and user behaviours to reduce emissions. The ETS model has proven itself capable of adaptation, as per the core objectives for the ETS review.

Preferred ETS changes

Meridian agrees with and supports the Government's underlying objectives for the ETS review.

The need for greater ambition to achieve New Zealand's 2021-2030 carbon reduction target has been clearly signalled by the Government. As Meridian's past submissions have consistently maintained, the need for action must be appropriately balanced with economic considerations. Enabling access to international units of high environmental integrity will be important in this regard.

The scheme should not stand in the way of genuine emission reductions globally or encourage increases in global emissions from movement offshore (carbon leakage).

In terms of the specific consultation proposals, Meridian supports:

- The removal of '2 for 1' and \$25 fixed price transition measures, with an appropriate lead time.
- To the extent there is low risk of carbon leakage, phasing out free allocation allowances.
- Establishing auctioning of NZUs, as an alternative to wholly allocating NZUs using free allocations.
- Strict environmental standards for international units and the Government announcing now any intention to restrict volumes of international units able to be surrendered.

The requirement for early signalling of policy reforms

It has been recently announced by the Minister that changes made as a consequence of the review will include (at some point) removal of the '2 for 1' transition arrangements. As per our earlier feedback¹, details of this and any other changes need to be provided as soon as possible. Early notice of implementation timeframes and other significant details is of general importance – whether from the perspective of those with exposures to manage (for instance, through hedging) or investors in large scale assets (for instance, like Meridian).

Please contact me if you have any questions relating to this submission.

Yours sincerely,



Alannah MacShane
Regulatory Analyst

DDI 
Mobile 
Email 

¹ Refer Meridian's 18 February 2016 'first priority' topic submission.

Appendix A – Responses to specific consultation questions

Question	Response
1. Do you agree with the drivers for the review?	<p>The consultation document identifies as drivers for the review:</p> <ul style="list-style-type: none"> • improving performance of the NZ ETS against its objectives (assisting with global efforts, and the achievement of international obligations and carbon reductions below business as usual levels). • preparing for a more carbon-constrained future • increasing certainty about future policy settings • managing banked emissions units – that at around 140 million units are in excess of 4.5 times the total numbers typically surrendered each year. <p>Meridian agrees with the drivers listed.</p>
2. What other factors should the Government be considering in this NZ ETS review?	As per our cover letter comments, the need for reforms to be announced as quickly as possible. This needs to be achieved without risk in terms of the durability of the reforms.
3-8.	Refer Meridian's 18 February 2016 submission.
9. Do you consider the future cost of emissions in your business planning? Yes/No	Yes. Refer cover letter comments.
10. If yes, how do you do this?	See cover letter.
11. Under what conditions should free allocation rates start to be reduced after 2020?	<p>Carbon-leakage – where reforms encourage relocation of production and consequent increases in emissions elsewhere – is undesirable from a global standpoint and needs to be avoided. Free allocations should only begin to be reduced or removed from 2020 to the extent there is low risk of carbon leakage. International progress and carbon pricing policies should be monitored by officials at a sector level to enable the potential for carbon leakage to be taken into consideration.</p> <p>Post 2020 free allocation arrangements will have a significant influence on forward ETS impacts. Any planned reductions in free allocation rates after 2020 should be announced as soon as possible.</p>
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?	<p>As per our cover letter comments, Meridian as a matter of course accounts for expectations around carbon prices in its investments.</p> <p>Current free allocation recipient New Zealand Aluminium Smelters Limited (NZAS) is Meridian's largest customer and the largest consumer of electricity in New Zealand – consuming approximately 14% of national annual demand. The value of the free allocation to NZAS is understood to be material, with any reduction or removal likely to create flow-on impacts for their ongoing operational and investment decisions, as well as the general outlook on the NZ business environment. As a consequence, changes to NZAS' allocation will be considered in the context of wider electricity industry generation and transmission network investments.</p>

Question	Response
<p>13. How does the carbon price impact your forestry investment decision-making? In your answer, we are interested in the:</p> <p>(a) extent to which the NZU price impacts decisions, compared to other factors</p> <p>(b) impacts of the current price, and of your expectations for future prices.</p>	<p>Meridian does not invest in forestry.²</p>
<p>14. Are there opportunities for the NZ ETS to increase incentives for forestry investments, outside of the NZU price? Yes/No/Unsure</p>	<p>No comment.</p>
<p>15. What are your reasons for the above answer? If you answered yes, we would be interested in comments on:</p> <p>(a) any barriers to participating in the NZ ETS that could be reduced.</p> <p>(b) other factors.</p>	<p>N/A.</p>

² Certain parts of the Rototuna forest in the Pouto peninsula area are owned by Meridian. This is held as a potential site for wind generation – not as a forestry investment.

Question	Response
<p>16. If international units are eligible for NZ ETS compliance in the 2020s, should any of the following restrictions be placed on their use?</p> <p>a) restrictions on where units can be sourced from (location of and/or types of projects)</p> <p>b) restrictions on how many units can be surrendered.</p> <p>c) others (please explain).</p>	<p>Meridian supports enabling participants access to international units that meet high standards of environmental integrity. What should matter most is that there are verifiable global emissions reductions, not necessarily the location of the emissions. In relation to the specific options for eligibility requirements discussed in April 2016 stakeholder meetings³, Meridian agrees these should all be further considered and does not have any additional options to suggest. As a general principle, however, eligibility standards should be as clear and as simple as possible.</p> <p>As detailed above, it is Meridian’s view that high qualitative standards for environmental integrity will need to be an important focus and are required irrespective of whether volumes of international unit surrender apply. Meridian understands restrictions on international unit volumes are widely used in other markets. The extent to which the restrictions are needed to prevent the ETS lagging approaches overseas, however, has not been made clear. Meridian supports the views of Business NZ on the proposal – i.e. that any intention to restrict volumes should be announced now and then set in consultation with businesses and other stakeholders.</p>
<p>17. Should auctioning be introduced in the NZ ETS? Yes/No/Unsure If yes, when?</p> <p>(a) In the next two to three years</p> <p>(b) Within five years (before 2020)</p> <p>(c) After 5 years (post 2020)</p>	<p>Yes, at a point officials consider appropriate.</p> <p>See also Q18 response.</p>
<p>18. What should be the role or purpose of an auctioning function in the NZ ETS, if one were introduced?</p> <p>(a) to align supply in the NZ ETS more closely with our international target</p> <p>(b) to more actively manage NZU prices</p> <p>(c) other (please explain).</p>	<p>(a) – aligning supply in the NZ ETS more closely with our international target.</p> <p>As an alternative to wholly allocating units using free allocation, auctioning would also achieve other purposes; specifically effective price discovery, and the allocation of a limited supply of units at an equitable price.</p>

³ Namely:

- ‘Centralised’ options like existing, or certain existing, CDM projects and potential future UNFCCC projects.
- ‘Bilateral / de-centralised’ projects progressed through, for example, bilateral project offset schemes.

Question	Response
<p>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?</p>	<p>We consider determining the relationship between auctioned NZUs and units from other sources will require, as a necessary first step, domestic allocation budgets to be specified.</p>
<p>20. What impact has carbon price volatility in the NZ ETS had on your business? (a) minor (b) moderate (c) significant</p>	<p>To date the effects of carbon price volatility have been minor for Meridian. Potential effects longer term are unclear.</p> <p>Of more concern to Meridian is uncertainty regarding the way the ETS will operate. As an electricity market participant, Meridian is used to dealing with volatility in market prices.</p>
<p>21. Do you think measures should be in place to manage price stability? Yes/No/ Unsure</p>	<p>In Meridian's view, the need for price ceilings, reserve prices and/or floors is matter to be determined by officials.</p> <p>Meridian does not support price ceiling measures in the long term as this will mute incentives for emission reductions. Any ceilings applied should be strictly short term, and remain only until the point where access to international markets is re-established.</p>
<p>22. What do you consider are important factors for managing price stability? (a) upper price limits (b) lower price limits (eg, price floor) (c) other (please explain).</p>	<p>Refer Q21 response.</p>
<p>23. What should the Government consider when managing price stability?</p>	<p>Refer Q21 response.</p>
<p>24. Are you aware of ways the administrative efficiency of the NZ ETs could be improved? Yes/No/Unsure</p>	<p>No.</p>

Question	Response
<p>25. Can you provide any further information to support your answer? We would be interested in comments on:</p> <p>(a) complexities involved in ETS participation</p> <p>(b) penalties for breaching NZ ETS obligations</p> <p>(c) any technical or operational changes that could be made to the NZ ETS to improve efficiency.</p>	<p>N/A.</p>
<p>26. Are there any barriers or market failures that will prevent the efficient uptake of opportunities and technologies for reducing emissions?</p>	<p>Principally, an ETS that is stable, predictable and unambiguous will be needed to facilitate meaningful carbon reduction efforts and low carbon investment.</p> <p>In terms of other comments:</p> <ul style="list-style-type: none"> • Electricity sector 'low fixed charge' regulations in effect incentivise domestic consumption of gas over electricity. We suggest this is discussed further with Ministry of Business Innovation and Employment officials. • Meridian supports the Electricity Authority in its work to review the need for distribution pricing adjustments to ensure efficiency and durability in a context of new solar, EV, battery etc. technologies. • Meridian is one of a number of parties supporting independent work by Concept Consulting on the impacts of EVs, solar, and various other technologies. Their recent report <i>'Electric cars, solar panels, and batteries – how will they affect New Zealand's greenhouse gas emissions?'</i>⁴ may provide useful insights for consideration.
<p>27. If so, is there a role for the Government in addressing these barriers or market failures and how should it do this?</p>	<p>Refer Q26. response.</p>

⁴ Available: <https://assets.documentcloud.org/documents/2773214/ConceptTechEVreport.pdf>