meridian

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NZ ETS Review Consultation
Ministry for the Environment
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By email: nzetsreview@mfe.govt.nz

2015-16 New Zealand Emissions Trading Scheme Review – Meridian Submission

Meridian welcomes the opportunity to submit on the Ministry for the Environment's (MfE's) 2015-16 NZ Emissions Trading Scheme (ETS) Review consultation paper.

Meridian is the largest generator of electricity in New Zealand and produces this electricity from 100% renewable resources. As a company that believes in a better energy future, sustainability is a pervading part of Meridian's business – most significantly as a large scale renewable generator but also in the work we do to support energy efficiency, technology choice, and innovation. Meridian:

- Owns and operates generation assets that produce around half of New Zealand's hydro generation and we plan to maintain well into the future.
- In the last decade has developed over 60% of New Zealand's wind capacity, with consents to build more.
- Retails to well over 50% of New Zealand's solar installations.
- Has assisted users as large as KiwiRail with their energy efficiency.

Meridian's feedback in this submission focuses on the MfE's suggested 'first priority topics'. We expect to provide additional feedback in April addressing other elements of the MfE's consultation.

Meridian agrees additional certainty is required

The consultation paper indicates the Government intends as one objective for the review to target improving certainty in relation to 'transition arrangements', the prospect of ETS auctioning, and other aspects of ETS arrangements. Meridian agrees with this sentiment.

For Meridian, carbon pricing has impacts as an investor in long-life renewable generation assets and day-to-day as a participant in the wholesale and futures market.

More specifically, since the enactment of ETS legislation Meridian has accounted for future carbon prices in its investments – which are typically ‘lumpy’ and involve assets with a 50 to 100 year operating life. Early on we assumed in adopting this approach transition measures would be phased out in the way the legislation originally allowed for. Whilst Meridian does not attract any direct carbon liabilities for its generation activities, participating in the wholesale and futures market creates exposure to the effects of carbon pricing on electricity prices. Where regulatory uncertainty makes carbon price elements difficult to predict, this has flow on implications for Meridian as a trader, for instance, when considering extended supply contracts and when submitting bids and offers for three year ahead electricity futures contracts in accordance with our electricity futures market making obligations.

The importance of predictability and clarity in the future direction of the ETS – both from Meridian’s own perspective and also the wider electricity industry – has been a common theme from Meridian’s submissions for some time.

Meridian supports the removal of ‘2 for 1’ transition arrangements, with an appropriate lead time

Retaining ‘2 for 1’ measures with no clear transition path cannot be reconciled with providing businesses / consumers with the certainty required to undertake meaningful actions to reduce emissions and is not a tenable approach.

Originally introduced as ‘temporary’ concessionary measures, the arrangements have now been in place almost six years. Legislative amendments made in 2012 have left the potential life span of the measures unclear since that time.

As recognised in the paper, general economic indicators point to significant improvement in economic conditions compared to the time of the last review. The increased ambition and likely prospect of international carbon unit purchases required to achieve New Zealand’s Intended Nationally Determined Contribution (INDC) has been clearly signalled by the Government.

Meridian considers '2 for 1' arrangements should be removed following an appropriate period of lead time. We do not have any specific feedback on the precise implementation timeframes to be followed; this will be an important matter for the MfE to assess in detail in the light of submissions and technical modelling work. Meridian accepts 'free allocations' will require adjustment as a consequence of the changes.

Implementation timeframes should fully account for possible price shocks

Meridian's view is that any potential for price shocks can be managed by impacted parties by locking in now the implementation date for full surrender obligations – whether 2016 or beyond. This will assist affected parties to take steps to respond to the changes, for example through hedging.

With an implementation date for 1 for 1 obligations that is set and signalled appropriately, there is no need for specific protections such as lowering the $25 fixed price cap. In addition, reducing or maintaining (indefinitely) the fixed price cap[1] is contrary to the recommendations of the 2011 ETS review panel and has potential to mute incentives for emission reduction / abatement efforts.

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

Yours sincerely,

[redacted]

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[1] As per options discussed on page 14 of the consultation paper.