

19 February 2016

Climate Change Policy Team
Ministry for the Environment
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Wellington 6143

NZ Emissions Trading Scheme Review Consultation

Mighty River Power welcomes the opportunity to comment on the review of the New Zealand Emissions Trading Scheme (NZ ETS). This submission is also represents the view of our geothermal generation joint venture partner Tauhara North No. 2 Trust.

New Zealand has a real opportunity to reinvigorate its domestic climate change policy settings and leverage its already strong renewable advantage for future economic prosperity and improved environmental outcomes.

The significant progress made in Paris on international climate negotiations has sent a clear message that the time for taking action on climate changes is now. We should, with priority, remove the current ETS transitional measures to improve the effectiveness of the regime.

A low carbon future presents significant opportunities

Many of our key industries such as tourism, dairy, renewable energy and transport leverage our “clean and green” reputation. As a small, geographically isolated, export dependent country there are clear benefits for us to lead the way in the transition to low carbon and renewable technologies and business opportunities. We want to ensure that we put in place policies that will put us on track to meet our climate change target without having to introduce more intensive measures later on that may come at higher cost to the economy.

New Zealand’s electricity sector is world leading in renewables, but our renewables contribution to primary energy is only 40%. There is scope to further reduce emissions in sectors such as transport and agriculture.

Transport electrification will substantially reduce our emissions while improving our balance of payments, offering significant fuel cost savings to consumers (equivalent to 30c per litre of petrol) and reducing health related costs due to poor air quality. While an effective carbon price will assist in realising these benefits, there are complementary measures the Government could also take in showing leadership in converting its own fleet to electric and driving supply in secondary markets.

In 2015 for the first time tourism overtook agriculture as our largest export earner, we can grow this sector further if we are able to demonstrate to the tourist market that we are committed to doing our share to reduce emissions and by investing in climate friendly technologies for tourism transport and energy consumption. Investment in research and innovation in these key areas will happen more quickly if we introduce policy settings that progressively expose the economy to the true cost of emissions and we ensure we have coherent, predictable policies across energy, transport, agriculture, water and infrastructure.

Early clarity around policy settings is crucial

The review of the NZ ETS is timely given the international response to climate change is strengthening and New Zealand has a new 2021-2030 climate change target to reduce our greenhouse gas emissions 30% below 2005 levels (or 11% below 1990 levels). New Zealand

needs to prepare for a carbon constrained future. A key part of preparation will be clear signalling to business of our direction of travel, what regulatory settings will be in place, what conditions must be met before we re-enter international trading and the timing of implementation of key measures. We see this signalling as top priority.

Business does not need certainty around the price of emission units but it does need certainty around policy and regulatory settings and some degree of confidence that these settings will remain in place or clear criteria against which decisions will be made to change settings. This clarity will show the world that New Zealand is taking climate change seriously and allow business and consumers to make appropriate longer term investment decisions.

The NZ ETS is our main policy tool to achieve emissions reductions. Mighty River Power supports the use of markets for managing emissions. We support reducing emissions at least cost to the extent that this can be achieved without undermining the overarching goal of reducing our domestic emissions. In this context we note that the NZ ETS is not currently achieving domestic emissions reductions¹.

Factors to consider when refreshing the NZ ETS and wider climate change policy

It is important for the government to clearly signal the direction of travel with respect to domestic climate change policy. The NZ ETS should progressively move to incorporate all sectors of the economy once it is clear effective mitigation measures are feasible

While it is important to encourage domestic abatement, a priority should be placed on developing a set of conditions that must be met for us to reconnect with international emissions trading schemes. One of the key principles will be that any international units traded represent genuine and verifiable emission reductions.

The review should take into account the impacts of the NZ ETS and our wider climate change policies and on land use decisions and other resource uses. When some sectors and some businesses do not face the full cost of carbon this can lead to a lack of pressure to innovate to find ways to abate emissions and to perverse outcomes where externalities are not priced.

For example decisions to convert forestry to dairying in particular are currently being made without factoring in the true environmental cost of the land use change or the cost of associated greenhouse gas emissions. This has led to an increase in our total greenhouse gas emissions and deforestation rates as well as an increase in demand for water and significant degradation in the water quality of our major waterways.

It is appropriate to remove the transitional provisions in the NZ ETS

Mighty River Power supports the removal of the transitional provisions in the NZ ETS. With our strengthened climate change target we can take advantage of the opportunities inherent in transitioning to a low carbon future by commencing our adjustment as soon as possible.

In addition the conditions that led to the provisions being introduced in the first place no longer hold. The provisions have been reviewed twice already and both times the recommendation was that they should be removed. NZIER's analysis of the macro economic impacts of removing the provisions indicates the cost will be small across the economy although the impacts on our most vulnerable consumers will need to be managed. We support the removal of the price cap as soon as possible to allow businesses and consumers to prepare now and to avoid sudden price shocks post 2020.

¹ "The New Zealand Emissions Trading Scheme Evaluation 2016" (Feb 2016, Ministry for the Environment).

Please direct any queries on this submission to myself or [REDACTED] or [REDACTED]

Yours Sincerely



Nick Wilson
Manager Regulatory and Government Affairs

Appendix 1 Response to Consultation Questions

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

Yes.

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

The impacts of climate change policy for other resource uses and regulatory certainty as outlined in our cover letter. Businesses and consumers do not need price certainty but it would be beneficial to have greater certainty around regulatory settings over time so that when making long term investment decisions this information can be taken into account and the associated risks better managed.

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

Yes, as soon as possible.

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

We are confident we can manage the impacts associated with moving to full surrender obligations as these measures were always intended to be part of a transition towards facing the full cost of emitting greenhouse gases, a fact that we have taken into account in our risk management planning.

a) increased carbon prices, including actions to reduce emissions and future investment decisions?

See above.

b) any ETS administrative or operational issues?

We will provide further comment as part of the second round of consultation.

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

As soon as possible. The NZ ETS is not meeting its objective of sending a clear price signal for the cost of greenhouse gas emissions. Revealing the true cost of emissions will help businesses to drive innovation and investment in emissions reduction technologies thereby enhancing our competitiveness and opening up further opportunities for environmentally sustainable growth. We believe there are opportunities to reduce our primary energy consumption and for more investment in public transport, electric vehicles and the export of renewable energy.

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

We note from the work done for the Ministry for the Environment by NZIER that the price shocks appear to be relatively modest but will be of concern to the most vulnerable consumers for whom any price increases are significant. We consider this is most appropriately addressed through revenue recycling and/or adjustments to financial support via the social welfare system.

7. If potential price shocks should be managed, how should this be done?

See answer to Q6.

8. If the \$25 fixed price surrender obligation should change, what should it change to?

We support an uncapped price consistent with the principle that businesses and consumers should face the true cost of emissions.