

Topics for NZ ETS Review 2015/2016 consultation

About the consultation

The Government is reviewing the New Zealand Emissions Trading Scheme (NZ ETS) to assess how it should evolve to support New Zealand in meeting future emissions reduction targets and its ongoing transition to a low emissions economy. This follows the announcement by the Government in July this year that New Zealand's post 2020 target is to reduce greenhouse gas emissions to 30 per cent below 2005 levels by 2030.

The Ministry for the Environment is leading the consultation and welcomes your feedback on how the NZ ETS is working and how it might work better in the future.

The review will focus on:

- some transitional measures introduced to moderate the impacts of the NZ ETS
- what is required for the NZ ETS to evolve with changing circumstances including future targets
- operational and technical improvements.

Discussion document

For more information about the consultation, read our discussion document. It sets out the issues on which the Government is consulting, the objective and drivers for the review. It also contains the terms of reference for the review.

Some transition measures are being given priority and have the first deadline for submissions as they may be candidates for legislative change in 2016 (see closing dates for submissions below). Refer to the discussion document for detail on the priority and other matters under review.

Technical notes on the following specific issues will be available in December or early 2016 to support submissions:

- modelling of the impacts of the priority issues outlined in the discussion document
- forestry sector matters, including accounting methodologies for post-1989 foresters
- operational and other technical matters.

To be notified of when these technical notes are available, please email nzetsreview@mfe.govt.nz.

Closing dates for submissions

- Submissions on priority issues close at 5pm on 19 February 2016
- Submissions on other review matters close at 5pm on 30 April 2016.

You may make submissions on both priority issues and on the other matters. If you provide feedback on both you can do so in a single submission or separate submissions. Please note submissions on priority issues must be received by 19 February 2016.

Publishing and releasing submissions

All or part of any written submission (including names of submitters), may be published on the Ministry for the Environment's website www.mfe.govt.nz. Unless you clearly specify otherwise in your submission, we will consider that you have consented to website posting of both your submission and your name.

Contents of submissions may be released to the public under the Official Information Act 1982 following requests to the Ministry for the Environment (including via email). Please advise if you have any objection to the release of any information contained in a submission and, in particular, which part(s) you consider should be withheld, together with the reason(s) for withholding the information. We will take into account all such objections when responding to requests for copies of, and information on, submissions to this consultation under the Official Information Act.

The Privacy Act 1993 applies certain principles about the collection, use and disclosure of information about individuals by various agencies, including the Ministry for the Environment. It governs access by individuals to information about themselves held by agencies. Any personal information you supply to the Ministry in the course of making a submission will be used by the Ministry only in relation to the matters covered by this consultation. Please clearly indicate in your submission if you do not wish your name to be included in any summary of submissions that the Ministry may publish.

Contact for queries

Please direct any queries to:

Phone: +64 4 4397400

Email: nzetsreview@mfe.govt.nz

Postal: NZ ETS Review Consultation, Ministry for the Environment, PO Box 10362, Wellington 6143

Questions to guide your feedback

The questions below are a guide only, and all comments on topics are welcome.

To ensure your point of view is clearly understood, please explain your rationale.

Contact information

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Submission Form

Context and drivers for the review

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

Yes

X

No

Unsure

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

NERI considers that while in many cases there are straightforward cost-effective adjustments industry and users can take to meet future pricing, there remain areas where the problems of adjustment are relatively intractable. These create risks for the ETS because with rapid price increases they will disrupt economic activity and create social costs that could be avoided if these areas were transitioned in a more targeted and managed way.

It is these more intractable adjustments that we address in this submission.

In NERI's view there are significant steps that can be taken to identify and address these areas. By so doing this will take some of the pressure off the ETS and reduce its negative impacts, thereby aiding the transition.

The existing scheme has a number of features to aid transition, and no doubt others will emerge out of this and the 30 April review (in the latter case when addressing "Barriers to the uptake of low emission technologies"). In addition to muting the price signals from the ETS these features have tended to focus on giving additional incentives for firms and sectors to respond. The EECA grant programmes are a case in point.

However as occurs in agriculture, where there is limited capacity to respond to methane, so there are a number of areas where the industrial sectors and consumers currently lack the ability to adapt. This puts a constraint on the effectiveness of the ETS and on its implementation. Speeding up the uptake of new technologies and designing more sophisticated transition mechanisms will help remove these constraints, particularly if done in a targeted fashion.

While in many cases New Zealand will take international innovations, NERI considers that in a number of situations this will require indigenous solutions (and in some cases these could themselves be exported). The reasons for this include our available resource base, the nature of our sectors and historic conversion technologies, the availability of suitable infrastructure, and our patterns of use and social circumstances.

Unfortunately MBIE has been moving away from research programmes that are targeted top-down at specific national issues such as the reduction of GHGs. It has recently discontinued a separate Energy and Minerals portfolio that could have been used in this way. So this lever is no longer available to specifically encourage research to address these issues.

NERI considers that with a robustly designed portfolio and allocation process, with suitable top-down direction that requires suitable sector involvement, some of the more intractable transition issues could be addressed on a 3-5 year time frame. Specific examples might include speeding up the development of lower emission fuels to protect the sunk cost of existing infrastructure, improved conversion technologies, and measures to speed up

adaption by users and to protect the vulnerable ones from some of the adverse consequences.

We would like to discuss this with MfE as one part of the ETS review.

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

No

Unsure

Getting sectors to the point where they face the full cost of their emissions is essential for the ETS to operate as intended, and as has been noted in many cases this should not be a significant issue. However where there are difficult issues, the critical issue is how that transition is managed. A rapid transition without supporting measures is almost certainly not going to be the optimum option for New Zealand. At the same time not transitioning to full pricing, with certainty, over some period undermines the ETS, and other measures will become necessary instead.

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

Please include specific examples or evidence of the impacts on you or your business of:

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

N/A

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

a) 2016

b) 2017

c) 2018

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 year.

As noted above NERI considers that there are some potential impacts of a tighter ETS that are not addressable in the short-term. These are best dealt with by sectors working with the research community (within some agreed framework) to address these. Where this was

happening we would argue that there would be grounds for the sector being exempt from the more aggressive pricing, or that the investment in developing solutions be taken into account in assessing liabilities.

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

Yes, it would be foolhardy to impose costs on the economy that industries and users are unable to respond to, particularly if a more optimum but slower pathway was possible with supporting interventions. An important part of the transition is to influence those who are making investment decisions now, without punishing those with sunk capital or who are unable to respond, or needlessly rewarding those who have made the transition. A rapid price movement punishes those with sunk capital and those who can't respond (which in turn creates needless social and economic costs), whereas targeting could avoid or reduce these costs of transition. Our proposal is that for the more these difficult problems we should be incentivising research to aid the transition.

No

Unsure

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
- b) lower the fixed price option
- c) gradually move to full surrender obligation
- d) other methods.

See responses to earlier questions.

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

Other issues: business responses to the NZ ETS

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

Yes

No

If yes, how do you do this?

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

Other issues: protecting competitiveness through free allocation

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

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?

Other issues: managing unit supply - forestry

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

In your answer, we are interested in the:

- a) extent to which the NZU price impacts decisions, compared to other factors
- b) impacts of the current price, and of your expectations for future prices.

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

Yes

No

Unsure

15. What are your reasons for the above answer? If you answered yes, we would be interested in comments on:

- a) any barriers to participating in the NZ ETS that could be reduced
- b) other factors.

Other issues: managing unit supply – international units

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

- a) restrictions on where units can be sourced from (location of and/or types of projects)
- b) restrictions on how many units can be surrendered

c) others (please explain).

Other issues: managing unit supply – auctioning

17. Should auctioning be introduced in the NZ ETS?

Yes

No

Unsure

If yes, when?

a) in the next two to three years

b) within five years (before 2020)

c) after five years (post 2020).

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

a) to align supply in the NZ ETS more closely with our international target

b) to more actively manage NZU prices

c) other (please explain).

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?

Other issues: managing price stability

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

a) minor

b) moderate

c) significant.

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

Yes

No

Unsure

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

a) upper price limits (eg, fixed price option, or a price ceiling implemented through an auctioning mechanism)

b) lower price limits (eg, price floor)

c) other (please explain).

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

Other issues: operational and technical matters

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

Yes

No

Unsure

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

We would be interested in comments on:

a) complexities involved in NZ ETS participation

b) penalties for breaching NZ ETS obligations

c) any technical or operational changes that could be made to the NZ ETS to improve efficiency.

Other issues: addressing barriers to the uptake of low emissions technologies

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

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

Any other comments related to issues set out in the discussion document

28. Please comment here

When your submission is complete

Email your completed submission to nzetsreview@mfe.govt.nz or post to NZ ETS Review Consultation, Ministry for the Environment, PO Box 10362, Wellington 6143.

Submissions on Priority issues close at 5.00pm on 19 February 2016.

Submissions on Other matters close at 5.00pm on 30 April 2016.