

# New Zealand ETS review 2015/16 consultation



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

Answer 1: Unsure

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

Answer 2:

Unfortunately the short period between the stakeholder meetings and the submission deadline has precluded the inclusion of specific examples or investigation and quantification in relation many of the points raised herein. As such we would welcome any inquiries regarding the following-

NRLLP questions whether all non-forestry emitters should move to one for one surrender, or if focus should be given to those sectors for which further reductions of emissions, or significant cost led consumer reductions, can still be achieved. The stationary energy sector, for example, still has scope to move to a greater proportion of renewables, and cost increases can drive consumer's behaviour in terms of both reducing energy usage, and choosing more energy efficient products and appliances. In contrast to this the waste sector has largely moved to capture and destruction of methane emissions (as required by NES legislation and resource consents) and costs associated with moving away from two for one surrender cannot be mitigated by further investment in emissions reduction.

Full surrender could be phased in across sectors, In order of greatest potential emissions reduction.

Is it appropriate that excess NZU's, that are a result of the design and operation of the NZ ETS, be eliminated at the expense solely of non EITE emitters (that is ultimately the New Zealand public), or, since costs for these activities will be passed through to public in any case, is it more appropriate that costs associated with removal of excess NZUs be met by the tax payer, so as to avoid risk of the burden being unfairly distributed amongst low income families?

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: No

3A. Please explain your answer:

Where emissions reduction costs and technologies are the same across an industry, carbon cost increases to non IETE emitters are transferrable as pass-through costs to consumers. Ultimately these costs rest with households, or household wage providers.

Low income households are more exposed to increased carbon costs. They tend to use more electricity than average and have less opportunity to lower their energy usage, living in poorly insulated homes, being less able to purchase more efficient appliances or new vehicles for example.

The cumulative effect of all these sectors moving to full surrender at the same time will fall disproportionately on low income Households. Households with little to no disposable income will be unable to carry cost increases across several categories at once, and are more likely to live in a region where an increase in ETS cost have a larger than average negative effect on the regional economy.

Low income families will not only be proportionately more effected by the increased costs against low disposable income, but will also be more effected by a decrease in economic activity, with less opportunity to increase income and fewer job opportunities.

Regions most economically affected by the proposed changes will also be those with highest proportion of low income families, lowest job growth and highest unemployment. The collective effect on a region with low household disposable income means a larger decrease in economic activity, as the fixed nature of these costs makes up a proportionally larger decrease in discretionary spending.

At the stakeholder meeting it was suggested that costs to low income households could be mitigated by increasing benefits to compensate. The same could also be done via a low income transfer system such as Working for Families. However, meeting costs via government transfers simply pushes the cost back to the taxpayer, with the

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added inefficiencies and margin charges associated with passing costs through multiple sets of hands between the NZ ETS participant and the consumer.

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

Answer 4:

A move to full surrender will have zero impact on future emissions from NRLLP's business. Currently we are capturing and destroying between 90 and 100% of our calculated emissions, whilst a maximum Unique Emissions Factor of 90% is allowed.

Regardless of NZU price, there is nothing we can do to limit our costs. If the maximum allowed C value (collection and destruction efficiency in the  $C = D \times Q/G$  formula) were raised to 100% we would be incentivised to maximise the efficiency of our collection system. This would be achieved at the current NZU price, as the costs involved in maximising capture efficiency are negligible.

NES legislation and Resource consents required NRLLP to install an enclosed landfill gas flare at the Puwera site. NZ ETS liability had no impact on the decision to capture and destroy landfill gas, as the capability was required to be a fundamental part of the landfill design to comply with these requirements- the landfill could not be built to operate without emissions control regardless of the cost of NZ ETS liabilities.

Because the majority of existing- and all new- landfills face the same requirements, there is no competitive advantage in decreasing emissions past the 90% barrier. Instead, the competitive nature of the industry means that any increase in NZU cost will simply be passed through to the consumer.

Consumer waste reduction strategies are already in place, with kerbside and transfer station recycling facilities already operating. The cost motivation is likely partially driving behaviours in this regard, although social factors also play an important role. While these strategies may reduce volumes to landfill, they do little to reduce carbon emissions, as these are a result of the organic fraction of the waste stream, not of the waste stream itself.

Whatever method is used to dispose of organic waste, be it composting, bio-digestion, agricultural feed or landfilling, methane emissions are still a net result of decomposition. Add to this the added fuel emissions of separate collection runs and it soon becomes apparent that deposition in a landfill properly equipped to capture and destroy CH<sub>4</sub> is the best alternative for putrescible material.

The IPCC and USEPA models used for methane emissions from landfilling are both predicated on the use of an appropriate degradation constant (k value) which is dependent on temperature and rainfall. New Zealand's widely varied climate, ranging from subtropical in the north to sub Antarctic in the south makes a mandatory k value misleading and inappropriate. Landfills in dry cold areas may find that their methane generation levels are overestimated for the active lifetime of the landfill, whilst in warm, wet areas, initial methane generation may be underestimated and later generation overestimated (as the fast initial degradation of the organic fraction is lost to the model). This can serve to further exacerbate the costs associated with only allowing 90% of captured emissions to be claimed, and further reduces incentive to maximise capture efficiency.

As the system currently stands there is an incentive for those capturing more than 90% of calculated emissions to under extract in the hope that they may defer methane extraction to subsequent years. This could be mitigated by allowing emission captures of greater than 90% to be offset against future deficits. This would both incentivise landfill gas emitters to maximise their methane capture, and correct for inefficiencies in the gas production model caused by the mandatory use of inappropriate input parameters.

## 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.

Any move to full one for one surrender for the waste sector should not be fully implemented before trade in International Units is reintroduced into the NZ ETS. This will allow a transition to an efficient market price in a

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manner constrain by the liquidity of a larger global carbon market. This could possibly be timed to coincide with the beginning of the 2021-30 emissions commitment period

NRLLP would require time and price signalling a minimum of 12 months before implementation to allow pricing adjustment for contractual waste acceptance. Assuming that the reporting process remains the same, it makes little difference to us as a participant as to whether changes are implemented in a full or partial reporting year.

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

Answer 6: Yes

6A. Please explain your answer:

Price shocks will need to be managed to mitigate, as far as possible, the inevitable damage done to the economic well being of businesses and households resulting from cost increases across the economy.

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

Answer 7: d) other methods - please specify

7A. Please explain your answer:

Price shocks should be managed by incremental progress up to full one for one surrender at the point when International units are reintroduced to the NZ ETS. The fixed price surrender option should be lowered in anticipation of a demand based price spike, increasing back to \$25 when international units are introduced.

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

Answer 8:

150% of average NZU price in year prior to first incremental change, increasing on a rolling average basis with each further increment until reintroduction of international units to the NZETS, at which time a new fixed price option should be calculated in line with the shock absorption capacity of the New Zealand economy at that time.

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:

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:

21A. Please explain your answer:

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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:

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