

# 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:

We need a real climate plan.

New Zealand needs a comprehensive plan to decarbonise our economy, including how we will meet our 2030 target. The ETS review needs to be integrated with this rather than done in isolation.

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: Yes

3A. Please explain your answer:

The 'one-for-two' deal on emissions should be removed, and the ETS should move to full surrender obligations.

- Removing the 'one-for-two' deal will better meet the objectives of the ETS by reducing New Zealand's net emissions and helping meet our international obligations.
- The time for 'transition measures' is well and truly over - the world is committed to cutting greenhouse gas emissions and New Zealand needs to make up for lost time.
- The impact on the economy will be very modest and action now will reduce the cost of meeting our 2030 target.
- Stronger carbon prices are already in place in many other countries and regions.

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

Answer 4: coal vs. gas vs. biomass boiler investment decision

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

Answer 5: a) 2016

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.

The ETS should move to full surrender obligations before the end of 2016, and as soon as possible.

- The sooner New Zealand moves to full surrender obligations, the sooner the benefits will materialise and the more it will help to meet our emissions reduction targets.
- There will never be an easier time to remove the one-for-two deal than now, with very low oil and carbon prices that will only go up in the future.
- The government needs to send a clear signal it is stepping up action following the Paris agreement.
- Carbon prices need to rise above a threshold of \$15 to stimulate forest planting, which will be key to helping meet our 2030 target. Moving to full surrender obligations will help strengthen prices.

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

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Answer 6: Yes

6A. Please explain your answer:

Government should fairly manage the transition without watering down the carbon price.

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

Answer 7: c) gradually move to full surrender obligation

7A. Please explain your answer:

The \$25 price cap (fixed price option) could be kept in place until the end of 2016 to mitigate potential short-term price shocks, but should be either removed or steadily increased from then on.

There are a number of ways the government could reduce the impact on low-income households, such as tax adjustments, without watering down the carbon price.

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

Answer 8:

- If a price cap is to be kept it should be set at a meaningful level - for example, benchmarked to the 'social cost of carbon', currently assessed by the US EPA at around NZD\$60 (central estimate).
- NZIER's modelling shows that keeping the \$25 price cap in place could severely restrict potential net emissions reductions, while removing it would have only modest economic impact.
- Government should take further action to increase the price back above the \$15 threshold as soon as possible, for example through (1) a price floor; (2) a one-year freeze on free allocation of units to clear the 'bank' of units accumulated over the last three years.

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

Answer 9: Yes

9A. How do you do this?

Discounted cash flow valuation of capital investment options: e.g. coal vs. biomass boiler.

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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: Yes

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:

- 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

16A. Please explain your answer:

17. Should auctioning be introduced in the NZ ETS?

Answer 17: Yes

when a) in the next two to three years

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

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?

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*Manatū Mo Te Taiao*

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Answer 20: a) minor

20A. Please explain your answer:

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

Answer 21: No

21A. Please explain your answer: The market can create these itself

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

Answer 22: b) lower price limits (eg, price floor)

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: No

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: As per deadlines: responses only focused on Q1-8.

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