Better together.

Trustpower Limited
Head Office
Truman Lane
RD 5
Tauranga
Postal Address:
Private Bag 12023
Tauranga Mail Centre
Tauranga 3143
T 07 572 9754
F 07 572 9825
Offices in
Auckland
Wellington
Christchurch
Oamaru
Freephone
0800 87 87 87
trustpower.co.nz

30 April 2016

NZ ETS Review Consultation
Ministry for the Environment
PO Box 10362
WELLINGTON 6143

By email: nzetsreview@mfe.govt.nz

TRUSTPOWER SUBMISSION: NEW ZEALAND EMISSIONS TRADING SCHEME REVIEW – OTHER MATTERS

1 Introduction and overview

1.1.1 Trustpower Limited (Trustpower) welcomes the opportunity to provide a submission to the Ministry for the Environment (MfE) on the priority issues in its *New Zealand Emissions Trading Scheme Review* consultation paper (the Consultation Paper).

1.1.2 We understand that New Zealand and several of its key trading partners are announcing plans to take increased action on climate change. New Zealand's target is to reduce greenhouse gases to 30 percent below the 2005 levels by 2030, which will be more challenging to achieve than past emission reduction obligations.

1.1.3 The New Zealand Emissions Trading Scheme (NZ ETS) will play an important role in this, being New Zealand's main tool for reducing emissions.

1.1.4 Fundamentally, Trustpower supports measures for reducing emissions, including the NZ ETS.

2 Background to the New Zealand Emissions Trading Scheme

2.1.1 The NZ ETS came into effect in 2008. Since then, there have been formal reviews in 2009 and 2011, which put in place, and then extended, transitional measures to moderate the impact of the NZ ETS during the global financial crisis. As stated in the Consultation Paper, these transitional measures:[1]

a) allow non-forestry participants to surrender only one emission unit for every two tonnes of emissions;

b) provide participants with the option to buy New Zealand Units (NZUs) from the Government for a fixed price of $25, limiting the potential costs faced by emitters;

c) indefinitely delay the introduction of surrender obligations for the agriculture sector; and

[1] Ministry for the Environment, 'New Zealand Emissions Trading Scheme Review 2015/16', pg 3

d) indefinitely delay reductions in the level of free allocation of NZUs to protect the competitiveness of businesses involved in emissions-intensive and trade-exposed activities.

2.1.2 Further, in June 2015 the NZ ETS moved to a domestic-only scheme, meaning that international units are no longer accepted for surrender.

2.2 Reasons for this review

2.2.1 This review is being carried out to:[2]

a) ensure that the NZ ETS helps New Zealand to meet its international obligations cost effectively;

b) ensure the New Zealand economy is well-prepared for a strengthening international response to climate change, and potentially higher carbon prices; and

c) allow the NZ ETS to evolve with these changing circumstances, and particularly with respect to the framework provided by the new climate change agreement.

2.3 Key drivers of this review

2.3.1 The key drivers for the review are:[3]

a) improving performance of the NZ ETS against its objectives

b) preparing for a more carbon-constrained future

c) increasing certainty about future policy settings

d) managing banked emissions units.

2.4 Priority issues

2.4.1 Submitters were asked to submit first on priority issues. These priority issues concerned the key drivers of the review, moving to full surrender obligations and managing the costs of doing so. We submitted on these issues in February 2016.

2.5 Other issues

2.5.1 Submitters were also asked to submit on other issues. These other issues concern business responses to the NZ ETS, protecting competitiveness through free allocation, managing unit supply (including issues related to forestry, international units, and selling NZUs by auction), managing price stability, operational and technical matters, and addressing barriers to the uptake of low emissions technologies.

2.5.2 The remainder of this submission outlines our views on these issues.

3 Our views on the other issues

3.1 Business responses to the NZ ETS

3.1.1 We consider the future cost of emissions in our long-term business planning. While there is minimal impact on our operational functions, the future costs associated with emissions influence decision making around electricity generation development and gas purchasing arrangements.

---

[2] Ministry for the Environment, 'New Zealand Emissions Trading Scheme Review 2015/16', pg 4.

[3] Ministry for the Environment, 'New Zealand Emissions Trading Scheme Review 2015/16', pg 8.

3.1.2 We believe that the regulatory regime should ensure that the associated risks of carbon price volatility are optimally distributed and managed. That is, risk should be allocated to the parties best suited to manage them.

3.1.3 We also believe that the New Zealand ETS regime should be linked to the international market, whether by allowing businesses to purchase international units, or by implementing a cap on the price that is tied to the international price.

3.2 Protecting competitiveness through free allocation

3.2.1 We support the free allocation of NZUs to particular activities to prevent NZ ETS costs from affecting New Zealand's international competitiveness, and to prevent the relocation of domestic economic activity to countries that have not implemented a method of carbon pricing. Free allocation of NZU's should only be provided to New Zealand businesses and activities that are truly exposed to international trade, and face competition from countries that do not have a similar ETS regime to New Zealand.

3.2.2 The intent behind international agreements on climate change is to reduce carbon emissions globally. New Zealand should ensure that our trade-exposed industries are competing on a level playing field, otherwise we could be potentially worsening global emissions by disadvantaging New Zealand based industries, which are less emissions intensive than comparable industries internationally.

3.2.3 Businesses that trade primarily at the domestic level, or with other countries that have similar ETS regimes to New Zealand, should not be given free allocations, to ensure that a fair cost of emissions is faced by these parties.

3.3 Managing Unit supply

3.3.1 Forestry

3.3.2 We are not participants in the forestry industry, but expect that the industry faces similar concerns about carbon price predictability.

3.3.3 International units

3.3.4 We believe that there should be restrictions on where units can be sourced from. These restrictions should limit the purchase of carbon credits from other countries with reputable regimes similar to our own. By ensuring consistency across regulatory regimes, we can be certain that units are comparable for use in achieving emission reduction targets.

3.3.5 NZUs, including auctioned NZUs, should form the majority of units surrendered. This could be achieved by placing an upper limit on the quantity of international units that can be surrendered. This incentivises New Zealand to attempt to reduce its internal emissions, ahead of purchasing international units.

3.3.6 We also believe that there should be restrictions on the types of projects. These restrictions should ensure that the true impact of the project on emissions reduction is carefully considered.

3.3.7 Auctioning

3.3.8 We believe that auctioning should be used as a means to align the supply in the NZ ETS more closely with our international target, to ensure that New Zealand meets its international commitments. Auctioning should be introduced in order to actively manage NZU prices, as this is an indicator of how New Zealand is performing on its emissions reduction target. Using auctioning to manage NZU prices will create a significant distortion to the emissions market, and reduce confidence in the scheme.

3.4 Managing price stability

3.4.1 We support the establishment of a stable regulatory regime with market rules, under which the carbon price is determined by the participants, reflecting New Zealand's performance in meeting its international obligations. In contrast, active management of the carbon market price by the Government could reduce participant confidence and investor certainty.

3.5 Operational and technical matters

3.5.1 We support the introduction of appropriate market rules to improve the operational efficiency of the NZ ETS. Clear and concise market rules should reduce complexity around market participation and improve transparency around reporting and other compliance activities.

3.6 Addressing barriers to the uptake of low emissions technologies

3.6.1 We support mechanisms that will encourage the uptake of technologies and opportunities for emission reduction. Relatively low carbon prices just under a year ago provided little incentive for innovation in emission reduction-focused technologies. As the surplus of credits is reducing and market prices are firming, new opportunities for abatement are becoming financially feasible. Providing regulatory certainty for these new technologies will further incentivise participation and investment in them.

3.6.2 Our answers to the specific questions posed in the Consultation Paper are attached in Appendix A.

3.6.3 For any questions relating to the material in this submission, please contact me on [redacted]

Regards,

[redacted]

CRAIG SCHUBAUER
WHOLESALE MARKET MANAGER

MfE_NZETSReview_TrustpowerSubmission_OtherMatters_Apr2016 v1.0

Appendix A: Responses to consultation questions

Question	Response
9. Do you consider the future cost of emissions in your business planning? **Yes/No** If yes, how do you do this?	9.1 Yes. 9.2 We consider the likely costs of emissions in our long-term planning. While there is minimal impact on our operational functions, the future costs associated with emissions influence decision making around electricity generation development and gas purchasing arrangements.
10. What would improve your ability to take into account the future cost of emissions in your business planning?	10.1 We believe that establishing a stable regime with appropriate market settings would improve our ability to take into account the future cost of emissions in our business planning. The regulatory regime should ensure that the associated risks of carbon price volatility are optimally distributed and managed. That is, risk should be allocated to the parties best suited to manage them. 10.2 We also believe that the New Zealand ETS regime should be linked to the international market, whether by allowing businesses to purchase international units, or by implementing a cap on the price that is tied to the international price.
11. Under what conditions should free allocation rates start to be reduced after 2020?	11.1 We support the free allocation of NZUs to particular activities to prevent NZ ETS costs from affecting New Zealand's international competitiveness, and to prevent the relocation of domestic economic activity to countries that have not implemented a method of carbon pricing. Free allocation of NZU's should only be provided to New Zealand businesses and activities that are truly exposed to international trade, and face competition from countries that do not have a similar ETS regime to New Zealand. 11.2 The intent behind international agreements on climate change is to reduce carbon emissions globally. New Zealand should ensure that our trade-exposed industries are competing on a level playing field, otherwise we could be disadvantaging our businesses that are more carbon efficient compared to competition overseas. 11.3 Businesses that trade primarily at the domestic level, or with other countries that have similar ETS regimes to New Zealand, should not be given free allocations.

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?	12.1 We support free allocations, as noted at 11.1 above. Free allocation impacts the commodity price paths for electricity and gas. Provided the pathway for phasing out free allocation is clear, this would reduce some uncertainty, which would influence our investment decisions.
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.	13.1 N/A. We are not in the forestry industry.
14. Are there opportunities for the NZ ETS to increase incentives for forestry investments, outside of NZU price? **Yes/No/Unsure**	14.1 N/A.
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.	15.1 N/A.
16. If international units are eligible for NZ ETS compliance in the 2020s, should any of the following restrictions be placed on their use?	16.1 We believe that there should be restrictions on where units can be sourced from. These restrictions should limit the purchase of carbon credits from other countries with reputable regimes similar to our own. By ensuring consistency across regulatory regimes, we can be certain that units are comparable for use in achieving emission reduction targets.

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).	16.2 We also believe that there should be restrictions on the types of projects. These restrictions should ensure that the true impact of the project on emissions reduction is carefully considered.
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).	17.1 Yes. 17.2 We believe that auctioning should be introduced in the next two to three years.
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).	18.1 We believe that auctioning should be used to align the supply in the NZ ETS more closely with our international target, to ensure that New Zealand meets its international commitments. We do not believe that auctioning should be introduced in order to actively manage NZU prices.
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?	19.1 We believe that NZUs, including auctioned NZUs, should form the majority of units surrendered. This could be achieved by placing an upper limit on the quantity of international units that can be surrendered. This incentivises New Zealand to attempt to reduce its internal emissions, ahead of purchasing international units.

20. What impact has carbon price volatility in the NZ ETS had on your business? a) minor b) moderate c) significant.	20.1 To date, price volatility has been has had a minor impact on our business, as prices have been low. However, we anticipate the impact will become more significant as prices increase.
21. Do you think measures should be in place to manage price stability? **Yes/No/Unsure**	21.1 No. 21.2 We believe that the focus should be on the establishing a stable regime.
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).	22.1 As per 21.2 above, we believe that the Government should seek to establish a stable regime with clear market rules. We do not believe that the Government should actively manage or manipulate the carbon price. The carbon price should be determined by the participants in the market.
23. What should the Government consider when managing price stability?	23.1 Government interference in markets can reduce participant confidence and investor certainty. Accordingly, we believe the Government should consider the potential negative implications of interfering in the carbon market.
24. Are you aware of ways the administrative efficiency of the NZ ETS could be improved? **Yes/No/Unsure**	24.1 We believe that the administrative efficiency of the NZ ETS could be improved by implementing appropriate market rules.

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.	25.1 We believe that a clear and concise set of market rules will remove some of the complexities involved in participating in the NZ ETS. Currently there are no clear concise rules outlining obligations for the various industries, and what the penalties are for not surrendering units to offset your emissions obligations.
26. Are there any barriers or market failures that will prevent the efficient uptake of opportunities and technologies for reducing emissions?	26.1 When the market price was low there was little incentive to reduce emissions. However, as the surplus of NZU's is reducing and market prices firm, new opportunities to reduce emissions, and the development of new technologies, will be incentivised. We believe that providing regulatory certainty for these new technologies will further incentivise participation.
27. If so, is there a role for the Government in addressing these barriers or market failures and how should it do this?	27.1 We believe that there is a role for the Government in addressing barriers to entry and market failures. The Government should engage in holistic end-to-end thinking when determining its energy market policy. It should focus on incentivising appropriate behaviour to minimise New Zealand's contribution to climate change.