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

Online submission via www.mfe.govt.nz/more/consultations

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

TRUSTPOWER SUBMISSION: NEW ZEALAND EMISSIONS TRADING SCHEME REVIEW

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, is 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 were 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 have been asked to submit first on priority issues. These priority issues concern the key drivers of the review, moving to full surrender obligations and managing the costs of doing so. This submission outlines our views on these issues.

3 Our views on the key drivers of the review and full surrender obligations

3.1 Government should consider international treatment of industries

3.1.1 We agree with the key drivers of the review. However, we believe that the Government should also consider how industries are treated internationally. New Zealand industries who participate in global markets should not be disadvantaged disproportionately by the NZ ETS. As such, the Government should ensure that the NZ ETS reflects the practices of our key trading partners. That is, New Zealand should look to treat domestic industries the same as these industries are treated internationally.

3.1.2 At the same time, the NZ ETS must ensure that New Zealand is reducing global emissions. Some of our key industries, such as farming, produce less emissions than their overseas counterparts. If we disadvantage these industries when our key trading partners are not, we will be disadvantaging more carbon efficient producers.

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.

3.2 Full surrender obligations should be applied from 2017

3.2.1 The one-for-two surrender obligations were initially put in place as a transitional measure. This was then temporarily extended due to the global financial crisis (GFC). The GFC has now passed, so we believe that the full surrender obligations should be implemented from 2017. This would give industry adequate time to prepare for the changes.

3.3 Fixed price option should be updated based on international prices

3.3.1 We believe that there should be a fixed price option to manage price shocks, which should be updated based on international prices. The Government should seek to minimise its exposure if it intends to purchase international units. As such, New Zealand's carbon prices under the NZ ETS should be reflective of forecast international prices.

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

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

Regards,

[REDACTED]

CRAIG SCHUBAUER
WHOLESALE MARKETS MANAGER

MfE_NZETSReview_TrustpowerSubmission_Feb2015 v1.0.docx

Appendix A: Responses to consultation questions

Question	Response
1. Do you agree with the drivers for the Review? Yes/No/Unsure	1.1 Yes.
2. What other factors should the Government be considering in this NZ ETS review?	<p>2.1 We believe that the Government should also consider how different industries are treated internationally. New Zealand industries who participate in global markets should not be disadvantaged disproportionately by the NZ ETS. As such, the Government should ensure that the NZ ETS reflects the practices of our key trading partners. That is, New Zealand should look to treat domestic industries the same as these industries are treated internationally.</p> <p>2.2 At the same time, the NZ ETS must ensure that New Zealand is reducing global emissions. Some of our key industries, such as farming, produce less emissions than their overseas counterparts. If we disadvantage these industries when our key trading partners are not, we will be disadvantaging more carbon-efficient producers.</p>
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	<p>3.1 Yes.</p> <p>3.2 The one-for-two surrender obligations were initially put in place as a transitional measure. This was then temporarily extended due to the global financial crisis (GFC). The GFC has now passed, so we believe that the full surrender obligations should be implemented.</p>
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	<p>4.1 Moving to full surrender obligations will have a limited impact on the <i>operational</i> side of our business, however, depending on the level of effective prices, it may lead to increased costs for our gas and electricity customers (and the customers of other energy retailers in New Zealand).</p> <p>4.2 Based on the values provided in the tables in Appendix 2 of the Consultation Paper, the increase in consumer costs would be relatively small at lower levels of effective carbon prices, with a maximum increase of \$0.02 per kWh of electricity at a relatively high effective carbon price of \$50:</p>

<p>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.</p> <p>b) any NZ ETS administrative or operational issues, for example the option for participants to apply for a unique emissions factor.</p>	<p style="text-align: center;">Consumers, including households</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #0056b3; color: white;"> <th style="text-align: left;">NZ ETS cost</th> <th style="text-align: center;">Effective price \$5</th> <th style="text-align: center;">carbon</th> <th style="text-align: center;">Effective price \$10</th> <th style="text-align: center;">carbon</th> <th style="text-align: center;">Effective price \$20</th> <th style="text-align: center;">carbon</th> <th style="text-align: center;">Effective price \$50</th> <th style="text-align: center;">carbon</th> </tr> </thead> <tbody> <tr> <td>per kWh of electricity²¹</td> <td style="text-align: center;">\$0.00 (< 1 cent)</td> <td></td> <td style="text-align: center;">\$0.00 (< 1 cent)</td> <td></td> <td style="text-align: center;">\$0.01</td> <td></td> <td style="text-align: center;">\$0.02</td> <td></td> </tr> <tr> <td>per kWh of natural gas</td> <td style="text-align: center;">\$0.00 (< 1 cent)</td> <td></td> <td style="text-align: center;">\$0.00 (< 1 cent)</td> <td></td> <td style="text-align: center;">\$0.00 (< 1 cent)</td> <td></td> <td style="text-align: center;">\$0.01</td> <td></td> </tr> </tbody> </table> <p style="text-align: center;">Figure 1: Ministry for the Environment, NZ ETS Review Paper</p>	NZ ETS cost	Effective price \$5	carbon	Effective price \$10	carbon	Effective price \$20	carbon	Effective price \$50	carbon	per kWh of electricity ²¹	\$0.00 (< 1 cent)		\$0.00 (< 1 cent)		\$0.01		\$0.02		per kWh of natural gas	\$0.00 (< 1 cent)		\$0.00 (< 1 cent)		\$0.00 (< 1 cent)		\$0.01	
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<p>5. If full surrender obligations are applied, when should this be implemented?</p> <p>a) 2016 b) 2017 c) 2018 d) other – please specify</p> <p>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.</p>	<p>5.1 We believe that the first full surrender obligations should be applied from 2017.</p> <p>5.2 As noted above, the one-for-two obligations were introduced as temporary measures, first as a transitional phase, and then extended for the GFC. Accordingly, now that the GFC is over, the NZ ETS should move to full surrender obligations.</p> <p>5.3 However, we believe that industry should have adequate time to prepare for these changes. As such, we consider the full surrender obligations should be applied from 2017.</p>																											
<p>6. If the NZ ETS moves to full surrender obligations, should potential price shocks be managed? Yes/No/Unsure</p>	<p>6.1 Yes.</p>																											
<p>7. If potential price shocks associated with moving to full surrender obligations should be managed, how should this be done?</p>	<p>7.1 We believe that potential price shocks associated with moving to full surrender obligations should be managed by maintaining the fixed price option at \$25.</p>																											

<ul style="list-style-type: none"> a) maintain the fixed price option at \$25 b) lower the fixed price option c) gradually move to full surrender obligation d) other methods. 	
<p>8. If the \$25 fixed price surrender option value should change, what should it change to and why?</p>	<p>8.1 We believe that the fixed price option should be updated based on international prices.</p> <p>8.2 The Government should seek to minimise its exposure if it intends to purchase international units to offset parties that take up the fixed price option. As such, New Zealand’s carbon prices under the NZ ETS fixed price option should be reflective of forecast international prices.</p>