

## 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](mailto: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](http://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](mailto: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?

Unsure

The drivers may be appropriate where it is possible for emissions to be further reduced by certain sectors but are not necessarily appropriate across the board.

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

We suggest that focus should be given to those sectors for which further reductions of emissions, or significant cost led consumer reductions can still be achieved. 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.

If full surrender is still considered appropriate for the waste sector at all, then full surrender could be phased in across sectors, in order of greatest potential emissions reduction.

We believe that it will be the low income families who will be most impacted by the drive to reduce the numbers of excess NZU's and therefore question whether it is more appropriate for costs associated with removal of excess NZUs be met by the tax payer.

## 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?

No

Where emissions reduction costs and technologies are the same across an industry, carbon cost increases to non EITE 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 affected by the increased costs against low disposable income, but will also be more affected 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 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?

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.

Whangarei District Council has a fifty percent share in Northland Regional Landfill Limited Partnership (NRLLP). Any impacts to move to full surrender units on NRLLP business will have a direct affect on council and the ratepayers.

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 NRLLP can do to limit their costs because the maximum allowed "C" value is set at 90%. If this was raised to 100% NRLLP would be incentivised to maximise the efficiency of its 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.

There is not currently any incentive for landfills to decrease their emissions past the 90% barrier. Instead, the competitive nature of the industry means that any increase in NZU cost has to be passed through to the consumer which for WDC is the ratepayer.

WDC already has waste reduction strategies 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.

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

- d) other – please specify

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 manner constrained 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.

Because councils have to set their new rates each year from 1 January, WDC requests a minimum of 12 months notice is provided before implementation.

## 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

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

d) other methods.

Price shocks should be managed by a gradual introduction up to the point where International units are reintroduced to the 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.

Price shocks could also be managed by focussing on the sectors where the most gain will be achieved e.g. introduce full surrender units industries who will be incentivised to reduce their emissions first.

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

No comment

## 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.

No

Not directly. This is not a direct cost to WDC but obviously the cost comes through in the disposal fees at the landfill.

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

The option for NRLLP to be able to move to 100% capture. The costs to achieve that would be able to be determined and therefore council would be able to reduce the cost risk to the ratepayer.

## Other issues: protecting competitiveness through free allocation

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

No comment

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?

No comment

### **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.

No comment

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

Unsure

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

No comment

### **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)

Yes - to ensure unit quality

### **Other issues: managing unit supply – auctioning**

17. Should auctioning be introduced in the NZ ETS?

No comment

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

No comment

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?

No comment

### **Other issues: managing price stability**

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

Not assessed

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

Yes

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

Not certain

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

Overall effects on the economy especially lower socio-economic areas.

## Other issues: operational and technical matters

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

No

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

As discussed above.

## 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?

As discussed above. The limitations placed by setting maximum claimable "C" factor for the waste industry.

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

Remove the limitation.

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

28. Please comment here

No further comment.

## When your submission is complete

Email your completed submission to [nzetsreview@mfe.govt.nz](mailto: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.**