



MAJOR ELECTRICITY USERS' GROUP

5 October 2007

Hon David Parker
Minister for Climate Change Issues

By email to David.Parker@Parliament.govt.nz

Dear Minister

Official Information Act request for information in relation to Climate Change policy announcements of 20th September 2007

1. In relation to the climate change policy announcements of 20th September 2007 and overall climate change policies can you please provide the following information considered by Cabinet or Cabinet subcommittees and all information provided by officials to you as Minister for Climate Change Issues as follows:
 - a) Forecast domestic and international supply, demand and price forecasts of tradable carbon units including any analysis of how transparent and liquid those markets will be over time. We are looking not just for expected forecasts, but also any maximum and minimum quantity and price forecasts considered.

Note MEUG is concerned that statements by Ministers when announcing the policy decisions on 20th September consistently referred to a NZ\$15/t CO₂-e price as the likely internationally linked price that would moderate domestic C prices. It became clear at the workshops earlier this week that over the near term, including the time that the liquid fuels sector enters the proposed NZ ETS, the only likely international C units of the quality to satisfy the NZ ETS are currently priced (in the forward market) at about NZ\$30/t CO₂-e. While there are some indices that track some EU sourced bi-lateral trades of Kyoto units, it's probably reasonable to say that the current market is far from liquid and transparent and unlikely to be so within the near term.

This does raise questions about the likely quantity and price profile of acceptable internationally sourced C units to act as a cap on domestic prices in the near term and the sector obligations to be imposed by the NZ ETS. On the other hand the government's own fiscal Kyoto liability doesn't fall due until well after 1 January 2013 and by that time Russian Hot Air C credits may well have depressed the price. There are a range of other scenarios also; hence our interest in viewing the material government has considered.

- b) Analysis of the approach by Canada in terms of their participation in the Kyoto Protocol and any consideration to New Zealand adopting the same position.
- c) Analysis of the likelihood of a second Kyoto Protocol phase (ie from 1 January 2013) being negotiated compared to the probability of an alternative set of international negotiations under the UNFCCC.
- d) Analysis of the likelihood New Zealand will be able to negotiate as part of any second Kyoto Protocol phase, recognition that felled timber is not a source of greenhouse gas emissions.

Achievement of this single factor alone will dramatically alter the future carbon emissions profile for New Zealand; hence our interest in understanding the advice and consideration government made of this as part of the announcements.

- e) One theme of the workshops was the purported benefit of the NZ ETS to initiate the path towards a less carbon intensive world because of likely more stringent carbon emission reduction targets for New Zealand post the initial Kyoto Protocol phase. Please provide all analysis of the range of stringent reduction paths considered for both New Zealand and for other countries.

The reason we are interested in the forecast for all countries is that we don't believe New Zealand should enter any post Kyoto agreements unless all major carbon emitting countries are included and the stringency that they are likely to accept will dictate our threshold. New Zealand should not volunteer stringent targets that diminish our GDP relative to the rest of the world.

- f) Material exchanged and correspondence with and from the Australian government as part of any consultation in the preparation of the announcements by the New Zealand government of 20th September. If that material is already in the public domain, then a list will suffice.
- g) Material exchanged and correspondence with and from the European Union (EU) and any government within the EU as part of any consultation in the preparation of the announcements by the New Zealand government of 20th September. If that material is already in the public domain, then a list will suffice.
- h) The analysis of all forecast electricity demand and supply options including effects on GDP that support the announced target *"by 2025, 90 per cent of our electricity generation will be from renewable sources."*
- i) Analysis of policies the government may have in reserve should the market fail to achieve the target *"by 2025, 90 per cent of our electricity generation will be from renewable sources."*

MEUG is concerned that the government while supportive of market instruments to establish a market price for carbon emission externalities, may not be satisfied that if the market decides it is still cheaper even after including a price for carbon to build new thermal power stations rather than renewable energy power stations. Signalling a "target" for renewables will chill investor confidence for otherwise economically efficient new thermal power stations (after taking into account C externality costs) and natural gas explorers looking for power stations to market new gas discoveries.

- j) Cost-benefit-analysis that was considered in deciding on the target that *"we will be one of the first countries in the world to widely deploy electric vehicles."*
- k) Analysis of the reasons for choosing a 50,000 t CO₂-e threshold as one of the key factors for determining industrial sector firms eligible for and then allocation of free NZ Units; compared to a higher or lower threshold.

- l) Initial forecasts of the level of appropriation for the fiscal year beginning 1 July 2008 and for the following 3 years for the new ETS agency to manage the proposed NZ ETS. A question was asked of officials at the workshops about the expected cost of government administration but they were coy about answering. It would be peculiar if government were about to introduce a Bill and commit to such a large work programme without having made some estimate of the administrative cost; hence the reason for repeating this question through this OIA.
2. MEUG understands that other organisations have requested details of the cost-benefit analysis and Regulatory Impact Analysis that underpin the announcements. We suggest government should when releasing that material post it on the web for the information of all interested parties.
3. A copy of this request will be posted on the MEUG web site next week.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Matthes', written over a thin red vertical line.

Ralph Matthes
Executive Director