MAJOR ELECTRICITY USERS' GROUP

12 October 2009

Mr Craig Foss
Chairman
Finance and Expenditure Committee
Parliament Buildings
Parliament

Dear Mr Foss

Submission on Climate Change Response (Moderated Emissions Trading) Amendment Bill

1. This is a submission by the Major Electricity Users' Group (MEUG) to the Finance and Expenditure Committee (the "Committee") on the Climate Change Response (Moderated Emissions Trading) Amendment Bill[1] (the "Bill"). The Bill modifies the Emissions Trading Scheme (ETS) established by amendments in September 2008 to the Climate Change Response Act 2002.

2. The Major Electricity Users' Group (MEUG) comprises 20 individual companies and 2 trade associations. Collectively members of the group consumer approximately 28% of total electricity demand in New Zealand. MEUG has actively followed the debate on climate change policy because of the potential impact on electricity prices paid by MEUG member companies, and indeed all consumers. A secondary impact on MEUG members is the effect on GDP that an ETS or tax will have and therefore the slower growth in the economy and weaker demand for products and services. The latter effect is highly pertinent as suboptimal policies will unnecessarily hinder GDP growth and the rate at which we recover from the current recession. We seek climate change policies that are robust, flexible and appropriate.

3. The direction of many changes to the ETS are an improvement over the ETS enacted in September 2008, eg the shift to an intensity basis rather than a cap. This change has both economic benefits while at the same time retaining environmental integrity.

4. MEUG submit that the Bill could be improved by:

   a) Aligning the entry date of sectors with that of the final Australian scheme. For the Stationary Energy, Industrial Processes sectors (SEIP) the 6 month delay to 1st July 2010 is still short of the proposed Australian SEIP entry into their ETS on 1st January 2011. The 6 month earlier entry will cost New Zealand businesses (net of free allocations) and households approximately $120m more for electricity than their Australian counterparts.

      Furthermore there is a possibility the Australian ETS may be delayed; in which case the additional cost to New Zealanders will increase proportionally with the delay in time.

[1] Refer http://www.parliament.nz/en-NZ/PB/Legislation/Bills/7/a/d/00DBHOH_BILL9597_1-Climate-Change-Response-Moderated-Emissions-Trading.htm

Level 28, The Majestic Centre, 100 Willis Street, Wellington, New Zealand
PO Box 8085, Wellington 6011, T +64-4 494 0996, info@meug.co.nz , www.meug.co.nz

Note we also believe that it will be difficult for robust institutional arrangements to be put in place by 1st July 2011 for the commencement of the scheme. The risk is that short cuts will be taken such as restricting appeal rights to Ministerial and administrative decisions in the name of getting the ETS going. It is important changes in the Bill to restrict appeal rights are reasonable and that early implementation is not at the expense of normal appeal rights.

b) Aligning the price cap of $12.50/t to the cap in the final Australian ETS. The latter is A$10 in which case with an exchange rate of A$1/NZ$0.8, the cap of $12.50 is reasonable. If the final cap in the Australian ETS changes or the exchange rate changes, so to should our cap. MEUG can see no reason why our price cap should differ from Australia.

c) Clarifying the roles of independent administrators from that of Ministers in making allocation decisions. The Australian ETS proposal is, in our view, a more sound approach whereby an independent agency determines rules and allocations based on preset criteria. The September 2008 ETS encouraged political cronyism and the Committee should take steps to remove that risk.

The preface to the Bill notes the just established Environmental Protection Agency may have a greater role in implementing the ETS. That proposal is welcome but reinforces MEUG concerns regarding difficulties and risks of rushing to meet a 1st July 2010 commencement date using a newly established entity.

d) Removing the proposal in the Bill for Ministers to gazette by regulation "targets" for greenhouse gas emissions in the year 2050. The Ministry of Economic Development Code of Good Regulatory Practice[2], states "*A regulation is neither efficient nor effective if it is not complied with or cannot be effectively enforced*." Setting a greenhouse gas emissions target for 2050 cannot be effectively enforced unless the Minister can also make enforcement regulations. MEUG suggest the latter involves new policies and should be debated in Parliament not developed through regulations.

e) Requiring a detailed Regulatory Impact Statement (RIS) to be undertaken. The view of the Treasury's Regulatory Impact team on the RIS[3] "*that the level and quality of analysis presented is not commensurate with the significance of the proposals, which represent major design changes to the Emissions Trading Scheme, and that the RIS does not provide an adequate basis for informed decision-makings*" highlights concerns for a robust RIS particularly given the economy wide impact an ETS (or tax) will have.

f) Consistent with a requiring a robust RIS to be published, MEUG reinforce our previous submissions that an option for a tax as an interim step towards an ETS needs to be considered. We are not confident that a liquid, secure (ie not subject to fraud) and politically unfettered (ie not subject to political interference such as has been the case with the EU ETS) international carbon market will be in place any time soon after 2013. If we are correct, then New Zealand may well be better to keep the ETS machinery in legislation ready to implement but use a carbon tax as an interim step.

5. By necessity this submission is relatively brief given the compressed time to prepare. If the Committee wishes further details on any of the above points we can provide more written argument. We would also welcome an opportunity to answer any questions directly before the Committee at any public hearing.

Yours sincerely

Ralph Matthes
Executive Director

---

[2] Refer http://www.med.govt.nz/templates/MultipageDocumentTOC____22149.aspx, 28th August 2006
[3] Bill explanatory note, p12