



# MAJOR ELECTRICITY USERS' GROUP

26 March 2010

Hon Dr Nick Smith  
Parliament

By email

Dear Minister

## ETS Allocation Plans and Electricity Emissions Factor

1. The Ministry for the Environment is consulting on a range of matters required prior to you recommending to the Governor General regulations to allocate emissions unit credits. Our businesses or the businesses that we represent are materially affected either directly or indirectly by the allocations that will finally be decided.

2. We welcome the Explanatory Note to the Climate Change Response (Moderated Emissions Trading) Amendment Bill introduced in September 2009 Act that opens with:

*"The objectives of the Bill are to —*

- *reduce competitiveness impacts of the NZ ETS and provide greater certainty for economic growth"*

3. In the third reading of the Bill on 24<sup>th</sup> November 2009 prior to its passage through the House you stated:

*"We said we would align our scheme more closely with Australia: the bill does that. We said we would provide incentives for industry to reduce emissions without encouraging an exodus of jobs and investment overseas: the bill does that. We said we would rejig the scheme to be fiscally neutral, so households, farms, and businesses would not be funding multibillion-dollar windfall gains to the Government; the bill does that."*

4. Individual companies eligible for emission unit credits are providing business and sector specific information and data to support the work of the Ministry in finalising allocations consistent with the above objectives. Most work is focussed on establishing individual company energy inputs and revenue data to help determine eligibility and then allocation plans. One of the generic inputs affecting most eligible stationary energy industry sector businesses is the Electricity Emissions Factor (EEF).

5. The purpose of this letter is to draw to your attention the importance of determining an EEF that meets the policy objectives of reducing competitiveness impacts and mitigating exodus of jobs and investment overseas.

6. In 2008 officials used modelling results produced by Dr Tom Hallburton to determine an EEF of 0.52. Dr Hallburton provided an array of EEFs depending on carbon price. The figure of 0.52 assumed a carbon price of \$40/tonne. Now that the price in NZ has effectively been capped at \$12.50/tonne the correct EEF based on Dr Hallburton's results can be extrapolated to 0.56.

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7. However this estimate does not take into account strategic generator behaviour. This has been well documented in the MEUG submission submitted to the Ministry on 11<sup>th</sup> February 2010. MEUG based its submission on conclusions reached in an independent report by Dr Andy Philpott and Mr Tony Downward of Stochastic Optimization Ltd. This report provides a range for the EEF of 0.62 to 0.689. We wish to record that the work by Stochastic Optimization is supported by all of the under signed and any counter view needs to be equally robust.
8. MEUG estimates that the annual collective value of unit credits forgone by using an EEF of 0.52 instead of the EEF range estimated by Stochastic Optimization would be between \$11.6 and \$21.1 million per annum. The policy question for government, eligible businesses and tax-payers is what value of EEF above 0.52 is the correct value?
9. As there is a material difference in estimating the EEF between that proposed by the Ministry and the work of Stochastic Optimization, and given the complexity of the issues involved, we suggest it would assist all parties to have a second consultation round or conference to allow the views of experts to be properly considered. An opportunity for you to hear any counter-arguments to advice from officials on the approach by Stochastic Optimization is more than just desirable; it is in our view essential.
10. We would welcome an opportunity to discuss this letter with you further. The contact person in regard to this letter is Ralph Matthes, Executive Director of MEUG.

Yours sincerely

*Mark Clarkson*

Mark Clarkson  
Managing Director  
ANZCO Foods Ltd

*Brice Landman*

Brice Landman  
Chief Executive  
Carter Holt Harvey Pulp & Paper

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Norske Skog Tasman Ltd

*Douglas*

Doug Ducker  
Managing Director  
Pan Pac Forest Products Ltd

*Dr Don Elder*

Dr Don Elder  
Chief Executive Officer  
Solid Energy New Zealand Ltd

A handwritten signature in blue ink, appearing to read 'D. Anderson', with a horizontal line extending from the end.

David Anderson  
Managing Director  
Winstone Pulp International Ltd

A handwritten signature in black ink, appearing to read 'T. Currie', with a large loop at the start and a horizontal line at the end.

Terrence Currie  
Chairman  
Major Electricity Users' Group

