

19 July 2018

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Ministry for the Environment
By email to ZCB.submissions@mfe.govt.nz

Dear Emma

Zero Carbon Bill

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Ministry for the Environment discussion document, *Our Climate Your Say: Consultation on the Zero Carbon Bill*, published 7 June 2018.¹
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
3. MEUG welcomes this consultation ahead of a Bill being tabled in the House. MEUG responses to the questions in the discussion document start on the next page. To give context to those responses MEUG makes the following over-arching observations on the consultation process and purpose of the Zero Carbon Bill:
 - a) MEUG is concerned about the future effects of climate changes. We support government facilitating citizens, businesses, not-for-profit organisations and central and local government to change and or adapt behaviours. MEUG also supports government acting as an advocate in the international arena for other countries to implement policies to reduce emissions and for New Zealand to meet its international obligations.
 - b) We do not know today what the most effective technology or intervention in 20-years might be. The Government should not 'pick favourites' in terms of targeted interventions or technologies; instead should provide a regulatory and policy regime that creates the right incentives and keeps options for how to achieve established goals on the table.
 - c) There is a political consensus a Climate Change Commission will add value and having observed the UK Climate Change Commission we are optimistic a similar institution will work for New Zealand. MEUG supports an advisory Commission with final decision-making resting with elected officials.

¹ Document URL <https://www.mfe.govt.nz/sites/default/files/media/Consultations/FINAL-%20Zero%20Carbon%20Bill%20-%20Discussion%20Document.pdf> at <https://www.mfe.govt.nz/publications/climate-change/our-climate-your-say-consultation-zero-carbon-bill>

- d) MEUG supports an evidence-based approach to combatting climate change and reducing our emissions. Climate change policies will inevitably entail a degree of disruption that will impact on businesses and households. Major decisions on how to best reduce emissions should be subject to a Cost-Benefit-Analysis (CBA) so decision-makers can make informed decisions understanding the likely results of, and trade-offs inherent in, any major policy process.

Potential carbon targets need to be rigorously tested, including assessment of economic and social impacts, i.e. all transition costs are assessed, not just of potential carbon reductions. For example, it is invalid to consider emissions reductions resulting from carbon leakage without also looking at the impacts to the economy of large businesses exiting New Zealand and the social impacts resulting from the loss of thousands of jobs.

- e) To date, the Ministry for the Environment has made a number of assumptions on how net zero carbon might be achieved. While the Ministry has started to look at abatement costs this work is in its infancy and requires significantly more work before evidence-based decisions can be made by decision-makers. We refer officials to the submission of BusinessNZ on this matter. In terms of Cabinet decisions this means meeting the requirements of the Cabinet manual to have proposals subject to an independent Regulatory Impact Assessments (RIA) by departments.² That will enable decisions to be made on the basis of what will have the greatest impact on reducing emissions at least cost.
- f) The establishment of the Climate Change Commission is an urgent first step. That step is urgent because the Climate Change Committee should be given the objective and resources to provide advice on many of the questions posed in the consultation paper.

The establishment of the Interim Climate Change Committee to provide advice on specific matters to assist the incoming Climate Change Commission come up to speed has therefore been, in our view, a good decision.

4. Responses to questions in the consultation paper follow:

Questions and MEUG response	
2050 target	
1. What process should the Government use to set a new emissions reduction target legislation?	
	MEUG <u>supports</u> the following option that “the Government sets a goal to reach net zero emissions by the second half of the century, and the Climate Change Commission advises on the specific target for the Government to set later.”
	MEUG <u>does not support</u> the alternative option of setting a 2050 target in legislation now.

² The government has not had a good track record for having RIA for major decisions affecting the energy sector and hence the interests of MEUG and other electricity consumers as explained in our submission of 8 June to the Productivity Commission on the 12 April 2018 announcements to cease offering permits for new offshore oil and gas exploration, refer <http://www.meug.co.nz/node/934>. That announcement undermined business confidence and created uncertainty if the government would conduct RIA for other major decisions. The announcement removed gas as a viable option as part of the transition required; hence is relevant to the point made in paragraph 3 a) of this submission to keep options on the table given future uncertainties.

Questions and MEUG response

2. If the Government sets a 2050 target now, which is the best target for New Zealand?

Our preference is the Climate Change Commission provide advice to the government on what is the best target for New Zealand, followed by (or incorporating) public consultation. As per our observations above it is important potential carbon targets be rigorously tested.

3. How should New Zealand meet its targets?

MEUG supports the option "domestic emissions reductions (including from new forest planting) and using some emissions reductions from overseas (international carbon units) that have strong environmental safeguards."

MEUG does not support the alternative option of relying on domestic reductions only (including from new forest planting).

4. Should the Zero Carbon Bill allow the target to be revised if circumstances change?

Yes. Given the 30+ year timeframe in question, to do otherwise would be imprudent. At the very least future governments need to be able to respond to the rate of technological innovation, the movements of other countries, and any future multilateral international agreements.

Emissions budgets

5. The Government proposes that three emissions budgets of five years each (ie, covering the next 15 years) be in place at any given time. Do you agree with this proposal?

Yes.

6. Should the Government be able to alter the last emissions budget (ie, furthest into the future)?

Yes.

7. Should the Government have the ability to review and adjust the second emissions budget within a specific range under exceptional circumstances?

Yes, though we do not see any reason to specify in legislation a specific range of exceptional circumstances that bind a government. There are so many future uncertain variables that trying to predict which might be exceptional for inclusion on a list would become impractical or lead to a list in the legislation that was so broad as to effectively not rule out any unforeseen future event. If the legislation does not specify exceptional circumstances Government's will be cautious in changing the second 5-year year plan because of a political backlash or heightened uncertainty it may cause in the economy; hence irrespective of whether a list of exception circumstances is in the legislation or not, only such circumstances are likely to trigger proposed changes.

Questions and MEUG response

8. Do you agree with the considerations we propose that the Government and the Climate Change Commission take into account when advising on and setting budgets?

MEUG agrees with the list of matters the UK Climate Change Committee must consider when undertaking its work as listed on p44 as a useful precedent for the NZ Climate Change Commission along with one additional matter:

- The relative progress by New Zealand's peer countries, primary trading partners and the international community as a whole to meet international agreements and to address climate change effects.

Government response

9. Should the Zero Carbon Bill require Governments to set out plans within a certain timeframe to achieve the emissions budgets?

Yes.

10. What are the most important issues for the Government to consider in setting plans to meet budgets? For example, who do we need to work with, what else needs to be considered?

The "long-term benefit of consumers" or the "overall well-being of New Zealanders" should be included as a statutory objective of the new Commission. This would align with the purpose statements of the Commerce Commission, Electricity Authority and Productivity Commission.

The long-term benefit of consumers, in the case of the first two economic regulators, is dominated by market-based evidence for undertaking CBA though often non-market or qualitative costs and benefits need to be considered and estimates to monetise those are made. The Productivity Commission also uses CBA and often it's work requires quantifying less tangible benefits and costs.

With the Climate Change Commission, the evidence required to conduct CBA will require best practice techniques to estimate and monetise non-market or qualitative costs and benefits. That will be challenging rather than impossible, and necessary to ensure only decisions that achieve the highest net benefit measured as either maximising the "long-term benefit of consumers" or the "overall well-being of New Zealanders" proceed.

This requirement for the Climate Change Committee to support its recommendations to government with robust CBA is consistent with the overarching points made at the start of this submission (refer paragraph 3 d). Most importantly, it will assist decision-makers balance the effectiveness of proposed interventions with the costs of such interventions and support policies that result in the greatest benefit at least cost.

MEUG is concerned at the risk of conflating other policy objectives under the guise of policies necessary to manage climate change risks. For example, we are concerned policies affecting the electricity sector may be promoted and justified to meet climate change goals at the expense of diminishing the efficiency of the electricity market. Hence the due diligence check required of a sufficiently economy wide CBA as appropriate.

Climate Change Commission

11. The Government has proposed that the Climate Change Commission advises on and monitors New Zealand's progress towards its goals. Do you agree with these functions?

Yes.

12. What role do you think the Climate Change Commission should have in relation to the New Zealand Emissions Trading Scheme (NZ ETS)?

In giving advice to government, the Commission must be able to make suggestions on the ETS. However, MEUG considers implementation of the ETS is best undertaken by an organisation with operational capability rather than a focus on policy advice and monitoring/reviewing progress. We do not support the Commission having that type of operational capability and therefore do not support the Commission being responsible for the implementation of the ETS.

13. The Government has proposed that Climate Change Commissioners need to have a range of essential and desirable expertise. Do you agree with the proposed expertise?

The 8 expert attributes listed as essential on p45 are reasonable.

MEUG recommends the following expertise listed in the paper as being "desirable, but non-essential" should be elevated to "essential." Those are "business competitiveness" and "knowledge of the public and private innovation and technology development system." We can't see how experts that have skills for the essential expertise of "resource economic and impacts" can opine on impacts on households without knowing what impacts are affecting the employers (that includes entrepreneurial enterprises working on new technologies) of affected citizens.

As a small, open, trade dependent country, expertise in business competitiveness is essential to the Commission's deliberations.

Adapting to the impacts of climate change

14. Do you think the Zero Carbon Bill should cover adapting to climate change?

Yes, this is essential and should be part of the mandate for the Climate Change Commission. Adaptation is an important strategy to manage climate change risks and needs to be considered as a package along with strategies to de-carbonise the economy. If, as proposed in the paper, central and local government take the lead on adaptation and it is not within the scope of the Climate Change Commission, then there will be added costs and risk as follows:

- The Commission and central and local government will use resources monitoring and discussing with each other what they plan to do and co-ordinating; and
- Despite co-ordination there will be a heightened risk of opportunities and risks falling between the multiple jurisdictions, and/or duplication of effort.

Questions and MEUG response

15. The Government has proposed a number of new functions to help us adapt to climate change. Do you agree with the proposed functions?

Not at this time. The Climate Change Commission should first consider adaptation strategies as part of its overall advisory role consistent with MEUG's response to Qu. 14 above.

16. Should we explore setting up a targeted adaptation reporting power that could see some organisations share information on their exposure to climate change risks?

Not at this time. The Climate Change Commission should first consider adaptation strategies as part of its overall advisory role consistent with MEUG's response to Qu. 14 above.

Yours sincerely



John Harbord
Chair