

28 May 2021

Scott Gulliver  
Ministry for the Environment  
By email to [etsconsultation@mfe.govt.nz](mailto:etsconsultation@mfe.govt.nz)

Dear Scott

### **Proposed changes to NZ ETS and levy regulations – Electricity Allocation Factor**

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Ministry for the Environment (MfE) consultation document "Proposed changes to NZ ETS and SGG levy regulations 2021," 20<sup>th</sup> April 2021.<sup>1</sup> This submission comments on section 3 of the consultation document titled "Update the electricity allocation factor," abbreviated as EAF in this submission, and questions 23 to 30.
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Members may make separate submissions.
3. MEUG appreciates the assistance of MfE to answer initial questions on the proposal to update the EAF, and to allow an extension in time for additional modelling by Energy Link to be available to assist discussions.
4. Briefly MEUG agrees with the consultation document (p40) that "The current EAF is no longer fit for purpose," needs updating, and we prefer a shift to a rolling average methodology with each new year's estimate of EAF calculated using a transparent ex-post formula based on actual history. The challenges are to decide the best ex-post option, the best approach to transition from the status quo ex-ante approach, and the best rolling average approach. This will require new calculations and probably changes to the regulations to facilitate a timely reset each year of the EAF.
5. Responses to questions in the consultation paper follow:

Questions on Options	MEUG comment
23. To what extent do you agree with the way we have described the issues? Please explain any additional aspects of the problem that you think we should consider.	MEUG agrees with the section titled "Why update the EAF?" on page 40 of the consultation document.

<sup>1</sup> Document URL [https://consult.environment.govt.nz/comms/proposed-nz-ets-changes2021/supporting\\_documents/proposedchangestoNZETSandSGGlevyregulations2021.pdf](https://consult.environment.govt.nz/comms/proposed-nz-ets-changes2021/supporting_documents/proposedchangestoNZETSandSGGlevyregulations2021.pdf) at <https://consult.environment.govt.nz/comms/proposed-nz-ets-changes2021/>.

Questions on Options	MEUG comment
<p>24. Do you agree that the options outlined in this consultation document are the correct ones to consider? If not, why not?</p>	<p>MEUG comments on the issues considered on pages 40 and 41 are:</p> <ul style="list-style-type: none"> <li>• Forward-looking or actual. MEUG agrees with the consultation documents proposal to shift from the current ex-ante approach. MEUG agrees with the consultation document (p40) statement,  <p style="margin-left: 40px;">“The ex-post approach may offer less certainty for firms, because their allocations will change with the EAF from year to year. This could be mitigated by using a rolling average, so that at any time the EAF reflects a longer historical period rather than just the current compliance year.”</p> <p>i.e., MEUG’s preference is to have formula with a rolling average.</p> </li> <li>• Process for setting an EAF. MEUG agrees with the consultation document (p41) statement,  <p style="margin-left: 40px;">“In our view, a practicable future process may be assisted by separating issues of principle and method from the business of running a model and determining a number. We would establish the principles to be applied, and the calculation method, upfront. Re-estimating the EAF from time to time would then become a technical issue. We would consult stakeholders, as for any change to NZ ETS regulations, for each update but this should not need in-depth engagement and consensus.”</p> </li> <li>• Choice of model and methodology. The consultation document, referring to use of vSPD (p41) states,  <p style="margin-left: 40px;">“...our view is that Scenario 3 is likely to be the most realistic.”</p> <p>As noted in paragraph 3 of this submission we have asked Energy Link to undertake further analysis. After that work has been completed, we will have more information to provide feedback on this question.</p> </li> </ul>

Questions on Options	MEUG comment
25. What options should we consider to solve the problem, either as identified in this document, or as you identify the problem? Do you have a preferred option? Please let us know if there are aspects of any of the options presented that you do not agree with, and why.	See response to Qu. 24 above.
26. Do you have views on the timing of implementation of any new EAF methodology and calculation, including the timing of updating allocation baselines and when these should apply from?	See response to Qu. 24, second bullet point. Our preference would be to have an annual reset of the EAF.
Questions on methodology and modelling	
27. Do you have any comment on the choices of a modelling approach?	See response to Qu. 24 above.
28. Do you have any comment on using the Electricity Authority vSPD model for future updates?	See response to Qu. 24 above.
29. We would welcome technical input from experts, industry and the electricity sector on any aspect of the modelling and calculation of an EAF, and on sourcing and updating the input parameters, eg, emission factors for all of New Zealand's generation assets.	See response to Qu. 24 above.
30. Do you agree with the assumption that hydro and low-price thermal generators would adjust their offers as described in the Scientia report, as a consistent basis for the counterfactual that is modelled?	See response to Qu. 24 above.

Yours sincerely



Ralph Matthes  
Executive Director