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Environment Select Committee
Parliament Buildings
Wellington

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Submission on the Climate Change Response (Emissions Trading Reform) Amendment Bill

Introduction

1. This is Vector Limited's (Vector) submission on the *Climate Change Response (Emissions Trading Reform) Amendment Bill* (ETR Bill), published for consultation by Parliament's Environment Committee on 6 December 2019.
2. Vector broadly supports the proposed amendments to the *Climate Change Response Act 2002*, through the ETR Bill, to improve certainty for businesses, make the New Zealand Emissions Trading Scheme (NZ ETS or the Scheme) more accessible, and improve the administration of the Scheme.
3. Vector supports the introduction of auctions under the NZ ETS as a tool for reducing emissions and enabling New Zealand to more efficiently and effectively meet its climate change objectives. Auctioning would help align the supply of New Zealand Units (NZUs) with New Zealand's emissions reduction targets and provide certainty to the market.
4. The use of the auctioning mechanism would enable entities across the economy to make more informed decisions on how they can best reduce their emission levels. This includes innovating and investing in new technology solutions that use renewable energy. Vector, as a leading technology solutions company with a vision of *creating a new energy future*, is well placed to promote and enable such solutions.
5. We set out below our views on the proposals in the ETR Bill that are of relevance or interest to Vector businesses, which are mainly around the introduction of auctions in the NZ ETS. We also make a few suggestions for improvement to the proposed auctions and related arrangements for consideration by the Environment Committee.
6. No part of this submission is confidential. Vector's contact person for this submission is:

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Feedback on selected key proposals in the ETR Bill

Enabling cap on emissions covered by the NZ ETS

7. Vector is on record as supporting the enactment of the *Climate Change Response (Zero Carbon) Amendment Act 2019* as a way of providing businesses and consumers certainty around New Zealand's pathway to a low emissions future. We therefore support the ETR Bill's proposal to place a cap on emissions covered by the NZ ETS in support of the objectives of the Zero Carbon legislation.

8. We welcome the independent Climate Change Commission's mandate under the above legislation to provide recommendations to the government on emissions budgets and related NZ ETS settings.

Allowing for a cost containment reserve

9. Vector agrees with the establishment of a cost containment reserve from which the Government will release reserve NZUs when NZU prices reach a particular level at an auction (the "trigger level").
10. To avoid complexity, we suggest that a single trigger price be applied to all the reserve NZUs in the cost containment reserve.
11. To further avoid complexity, we suggest that the NZUs from the cost containment reserve be sold at the same auction where the trigger price is reached, with the floor set at the level of the trigger price. We would have concerns if the sale of NZUs from the cost containment reserve is held through a separate auction where a different set of rules would apply, e.g. limitations on which parties can participate. This could create distortions in the clearing price across the original auction and the auction for NZUs released from the cost containment reserve.
12. While we note that the above suggestions could be more appropriately provided for in regulations, we suggest that the ETR Bill provide that the principle of simplicity be taken into consideration in the administration of the cost containment reserve. This would:
 - a. reduce complexity and transaction costs for auction participants and the auction operator;
 - b. expedite the validation and publication of the auction results by the auction monitor, delivering more real-time information to the market; and
 - c. encourage greater participation in NZ ETS auctions.

Introducing robust and transparent auctions

13. As indicated in the introduction of this submission, Vector supports the introduction of auctions in the NZ ETS to enable entities to make informed investment and other business decisions on how they can best reduce their emission levels. We suggest that the ETR Bill explicitly provide that the design of any auction arrangements be 'fit for purpose', avoid complexity, be fully automated if possible, and incorporate best practice from existing auction arrangements in New Zealand and/or internationally.
14. Our submission on the Ministry for the Environment's technical consultation document, *Reforming the New Zealand Emissions Trading Scheme: Rules for auctioning*, published in November 2019, set out some of the features we prefer to ensure robust and transparent NZ ETS auctions:
 - a. Auction volumes should be evenly distributed over the calendar year.
 - b. Unsold units from an auction should be added to subsequent auctions within a limit.
 - c. The closest auction should be scheduled a month ahead of the surrender date in the NZ ETS of 31 May and other 'key periods', e.g. Easter, Christmas and New Year's holidays.
 - d. The auction notice or schedule of the next auction should be announced at the time the auction results are published.

- e. The processes for pre-registration, registration, provision of collateral (and form of collateral), settlement and delivery should be kept as simple and flexible as possible to reduce transaction costs and incentivise greater participation in the auctions. We believe the efficient implementation of these processes would be possible where an electronic platform or process is in place.
- f. The auction operator and the auction monitor should be selected through a contestable process.

Strengthening the compliance regime

15. Consistent with the principles of proportionality and effectiveness, Vector considers the introduction of infringement notices to be appropriate for low-level offences.
16. We support the publication of information on significant non-compliance with NZ ETS requirements. For example, the Environmental Protection Authority (EPA) could publish non-attributable case studies of significant offending to increase participants' awareness of the new requirements and penalties for non-compliance under the NZ ETS.

Increasing transparency

17. Vector supports greater transparency that enables parties to make more informed decisions relating to the NZ ETS and on how they can best reduce their emissions and help improve the resilience of their businesses and communities. It provides a 'level playing field' for all parties, encouraging greater access to, and participation in, the NZ ETS.
18. We therefore agree with the proposal for data on emissions and removals of individual businesses to be made publicly available online, subject to commercial sensitivity considerations and the appropriate privacy and security settings.
19. To increase certainty for NZ ETS participants in relation to the above proposal, we suggest that the ETR Bill provide that the following be set in the relevant regulations:
 - a. a fixed annual reporting date; and
 - b. a requirement on the EPA to notify affected participants in advance of any publication date of emissions and removals data.

Introducing NZ ETS-wide operational and technical improvements

20. Vector generally supports the proposed amendments that will make the correction of errors (e.g. incorrect unique emission factors) easier and resolve several administrative issues, among other proposed improvements.

Pricing of agricultural emissions from 2025

21. Vector supports an approach that fairly allocates the costs for action on climate change, including in the NZ ETS, across all sectors of the New Zealand economy. We believe all sectors should make a concerted effort to achieving net zero emissions by 2050.
22. We therefore consider the pricing of agricultural emissions from 2025 to be a 'step in the right direction' towards a fairer approach for climate change action.

Concluding comment

23. We are happy to discuss any aspects of this submission with the Environment Committee, as necessary.

Yours sincerely
For and on behalf of Vector Limited



Richard Sharp
Head of Pricing and Regulatory Compliance