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## Submission on Reforming the NZ ETS – Proposed Settings

### Introduction

1. This is Vector Limited's (Vector) submission on the Ministry for the Environment's (MfE) consultation document, *Reforming the New Zealand Emissions Trading Scheme: Proposed settings*, published in December 2019.
2. Vector supports the *Climate Change Response (Zero Carbon) Amendment Act 2019* (Zero Carbon Act) as a way of providing businesses and consumers certainty around New Zealand's pathway to a low emissions future. As a leading technology solutions company with a vision of *creating a new energy future*, we are well placed to provide technology solutions that contribute to reducing emissions by enabling energy efficiency and promoting the use of renewable energy.
3. We generally support the proposals in the *Climate Change Response (Emissions Trading Reform) Amendment Bill* (ETR Bill) being considered by Parliament that would support the objectives of the Zero Carbon Act. We support the proposals in the ETR Bill that are intended to improve certainty for businesses, make the New Zealand Emissions Trading Scheme (NZ ETS or Scheme) more accessible, and improve the administration of the Scheme. We support the introduction of auctions in the NZ ETS, which will be enabled by the ETR Bill, as a tool for reducing emissions and enabling New Zealand to more efficiently meet its emissions reduction targets.
4. We appreciate MfE's early engagement with stakeholders on its proposed provisional settings for the NZ ETS that will allow auctioning to begin at the end of 2020 or early 2021. We believe the proposed settings will provide stakeholders forward visibility over what to expect and plan for regarding emissions unit supply and prices in the short to medium term.
5. We set out below our responses to questions in the consultation document that are of significant relevance or interest to Vector businesses. We also make suggestions for greater clarity and predictability around a few of the proposed settings.
6. No part of this submission is confidential. Vector's contact person for this submission is:

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## Responses to selected consultation questions

**Q1:** *Do you agree with the proposal to set a provisional emissions budget of 354 Mt CO<sub>2</sub>-e for the 2021-25 period? If not, why not?*

*Please include your views on:*

- *using a straight-line approach towards the 2050 target*
- *the considerations that were included in proposing the provisional emissions budget.*

7. Vector broadly considers the above emissions budget proposals to be reasonable, noting that these proposals are subject to advice from the Climate Change Commission in 2021 on emissions budgets and related NZ ETS settings.
8. We generally agree with the key considerations underpinning the above proposals, including:
  - a. consistency with New Zealand's long-term emissions reduction targets;
  - b. turning around fast the rising trend of New Zealand's gross emissions over the past 30 years and projected rising net emissions in the short term; and
  - c. the need for emissions reductions to commence now to ensure progress is made towards the country's domestic and international emissions reduction targets.

**Q4:** *Do you agree with the proposal to address the NZ ETS unit stockpile by reducing the annual volume of NZUs available for auction? If not, why not?*

**Q5:** *Do you agree with 27 million NZUs being removed from auction volume between 2021-25? If not, why not?*

9. While we agree with the proposed approach, in principle, we believe greater understanding is required around the drivers and motivations behind various parties' existing NZ ETS Unit (NZU) holdings.
10. For example, there are parties in the supply chain such as gas traders/retailers who have 'surrender' obligations to NZ ETS participants (e.g. to gas producers) rather than to the Crown but are exposed to similar levels of commercial risk as NZ ETS participants. These 'intermediate parties' in the gas supply chain may therefore not have the same ability to release their holdings to the market as other non-NZ ETS participants.
11. We propose a more 'nuanced' analysis of the (relative) risks parties with no direct surrender obligations to the Crown face for the above reason.

**Q6:** *Do you agree with the steps and calculations taken to reach the proposed annual auction volumes?*

12. We consider the steps and calculations set out in the consultation document to reach the proposed annual auction volumes to be reasonable.

**Q7:** *Do you support the proposal to auction 80 million NZUs over the 2021-25 period plus 2 million NZUs for auctioning trial in 2020? If not, why not? Please include your views on the process for adjusting auction volumes.*

13. Yes, we generally support the auctioning of the above proposed volumes for the auction trial in late 2020 and auctions over the 2021-2025 period.

**Q8:** *Do you agree with the proposal to set an auction reserve price floor at \$20 for 2020-2025? If not, why not?*

14. Yes, we generally agree with the proposal to set the auction reserve price floor at \$20 for 2020-2025.

**Q9:** *Do you agree with the proposal to increase the fixed price option to \$35 for obligations arising from activities over 2020?*

15. Yes, we agree with the proposal to increase the fixed price option to \$35 for obligations arising from activities over 2020 to enable a smooth transition to the reformed NZ ETS, noting that the auction platform will not be ready for use for most of 2020.
16. We believe the above proposal will incentivise participants during the transition period towards full-blown auctions to reduce their emission levels, or start planning for the reduction of their emission levels and consider the best method or path to achieve that.
17. It would be informative if MfE can provide some indication whether the \$35 fixed price option is currently in line with the prices of international emission units that meet environmental integrity standards.

**Q10:** *Do you agree with the proposal to set the price ceiling trigger of the cost containment reserve at \$50 for the 2020-25 period? If not, why not?*

18. Yes, we agree with the proposal to set the trigger price of the cost containment reserve at \$50 for the 2020-2025 period. We consider this proposal to be reasonable and note MfE's expectation that ideally, the reserve price will never have to be activated.
19. We suggest that the term "price ceiling" not be used in reference to the trigger price for the cost containment reserve. It could be misconstrued as a ceiling price for NZUs. We suggest using the term "trigger price" to avoid any confusion.

**Q11:** *Do you agree with the proposed annual cost containment reserve volumes to be released if the price ceiling trigger is hit? If not, why not?*

20. Yes, we broadly agree with the proposed annual cost containment reserve volumes to be released if the trigger price is hit.

**Q12:** *Do you agree with the proposed approach for release of NZ ETS settings information? If not, why not?*

21. Vector generally agrees with the proposed approach to release NZ ETS settings information (including unit supply and price control settings) annually as a package on a five-year rolling basis. We believe this will create regulatory certainty, increasing the confidence of existing and potential participants in the NZ ETS.
22. We agree that it is important to ensure the above process is "simple, accessible, transparent, impartial, and accurate" (page 70 of the consultation document). We propose that this process be also implemented in a "timely" manner.

23. We support the publication of a calendar of all key NZ ETS dates before the beginning of each calendar year. To further increase process predictability, we propose that a 'date range' be specified on when this calendar is released every year.
24. We further propose that the above calendar include indicative dates of the auctions that will be held during the coming year.

**Concluding comment**

25. We are happy to discuss any aspects of this submission with MfE officials.

Yours sincerely  
For and on behalf of Vector Limited



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Senior Regulatory Specialist