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ETS Regulations Updates 2017  
Ministry for the Environment  
Wellington 6143

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## Submission on MfE's Proposed Technical Updates to NZ ETS Regulations 2017

### Introduction

1. This is Vector Limited's (Vector) submission on the Ministry for the Environment's (MfE) consultation document on its proposed technical updates to New Zealand Emissions Trading Scheme (NZ ETS) regulations, released in May 2017.
2. We set out below our responses to the questions in the consultation document relating to issues of relevance and interest to Vector businesses. These include the following:
  - update of natural gas default emissions factors (DEFs);
  - change to accounting for SF<sub>6</sub> emissions; and
  - updates to *Other Removals Regulations*.
3. No part of this submission is confidential. Vector's contact person for this submission is:

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### Update of natural gas default emissions factors

4. The consultation document states that MfE contacted gas mining participants in 2016 to establish data access arrangements, and that MfE will contact those who did not respond to that request again. We suggest that, in addition to miners, MfE also inform and include gas producers in this process, for example, the Kapuni Gas Treatment Plant.
5. In relation to future changes to DEFs, we suggest that these changes be widely communicated to stakeholders with sufficient notice. This would allow affected parties to consider impending DEF changes in their business planning.
6. We further suggest that MfE consider informing other relevant regulators and industry bodies, such as the Gas Industry Company, of any changes to DEFs so they can inform their stakeholders in a timely manner.

## Change to accounting for SF6 emissions

*Q1 Will the proposed requirement to use the mass balance methodology in the Energy Networks Australia Industry Guideline for SF6 Management provide sufficient information to reduce SF6 emissions?*

*Q2 What will be your additional administrative costs from using the ENA mass balance approach to meeting NZ ETS reporting requirements?*

*Q3 What amount of additional emissions will you report using the proposed methodology?*

7. We support the proposed adoption of the mass balance methodology, in principle. We **recommend** that MfE and/or the Environmental Protection Authority (EPA) undertake similar consultation processes they had with affected parties during the transition from voluntary to mandatory SF6 reporting. This is because the proposed approach could exacerbate the disproportionate compliance costs associated with existing SF6 accounting and reporting requirements.
8. In response to Question 1, the shift to the mass balance methodology will generate more information but we cannot say for certain and in advance whether the additional information would help reduce SF6 emissions. That is why MfE should have discussions with liable parties around expectations and implementation details to avoid making a decision that would impose additional compliance costs but may not materially reduce SF6 emissions.
9. Given MfE's access to data disclosed by all liable parties, we believe it is the party best placed to determine whether SF6 emissions in New Zealand are declining over time.
10. In response to Question 2, we believe there would be additional administrative costs from using the mass balance methodology. However, we cannot determine whether these costs are significant until we know the details of the new methodology and their practical implications. Should MfE implement the mass balance methodology, we **recommend** a transition period, say three years, to allow affected parties to consider the proposed change in their business planning.
11. On the question about the amount of additional emissions that will be reported using the mass balance methodology (Question 3), we do not anticipate a significant increase in SF6 emissions from our equipment in storage or under repair. Again, this cannot be determined for certain at this point as emissions from these sources are currently not being required to be accounted for and reported.
12. We are happy to discuss our views with MfE officials, and provide compliance cost information to further inform MfE's thinking on this matter. We are also open to alternative approaches that would streamline and reduce the costs of existing compliance requirements, and make the benefits of reporting SF6 emissions more apparent.
13. We further discuss our views below.

### *Disproportionate compliance costs*

14. As an SF<sub>6</sub> liable party, we undertook a significant amount of work in transitioning our reporting process from a voluntary to a mandatory, business-as-usual process, including joining the ETS (as a trading member) solely for this purpose. The costs we incur annually to meet our SF<sub>6</sub> emission obligations significantly outweigh the charges on the emissions we generate. Over the past few years, our SF<sub>6</sub> liabilities have been in the range of a few hundred to a few thousand dollars while our annual compliance costs have been significantly higher (including recording, reviewing, reporting, and surrendering units).
15. Just as the current approach is stabilising, we are now potentially faced with another change that would increase costs in the form of employing more resources to comply with the additional requirements.
16. We recall that during the consultations leading to the implementation of mandatory SF<sub>6</sub> reporting, there was some debate on whether imposing a carbon tax on SF<sub>6</sub> emissions would be more appropriate, given the non-trivial costs of emissions reporting.
17. We note that SF<sub>6</sub> is not intentionally vented or consumed by the switchgear on our electricity distribution network. There is some leakage during the lifetime of a switch but this is a minute amount, approximately 0.4% each year. When the switch is at the end of its operational life, the SF<sub>6</sub> is recycled prior to equipment disposal.
18. We further recall that MfE engaged with potentially liable parties a few times prior to the implementation of mandatory SF<sub>6</sub> reporting. There was clear signalling of the policy intent and clarification of some technical issues, which we appreciated. We also had discussions with the EPA on the practical implications of the calculation methodology.
19. It would have been useful if the consultation document cited the relevant provisions from the Australian ENA's *Industry Guideline for SF<sub>6</sub> Management*, considering that the Guideline is not publicly available, or not available without paying a fee. A description of the Australian experience with the ENA Guideline would also have been informative. We do not consider it reasonable to be expected to make comments on the details of a document that is not readily available within a very short consultation period (2.5 weeks).
20. As an SF<sub>6</sub> liable party, we have strong incentives to reduce emissions – driven by cost, safety, and environmental concerns (we wish to keep emissions to an absolute minimum). As a leading provider of technology solutions in the rapidly evolving energy sector, achieving emissions reduction supports Vector's vision of "creating a new energy future".

### *Imposing obligations at the point of importation*

21. The consultation document raised another option for charging SF<sub>6</sub> emissions, which is at the point of importation. This option was discussed extensively during the consultations leading to the mandatory reporting of SF<sub>6</sub> emissions. We are therefore disappointed that it is re-litigated in this consultation without any cost-benefit assessment.

22. We strongly oppose the imposition of SF<sub>6</sub> emission obligations at the point of importation. To base SF<sub>6</sub> liabilities on imported quantities (100%) rather than actual emissions (0.1% to 0.4%) is a vast over-estimate. It is a significant over-signalling of the cost of emissions which is inefficient, and would have an adverse impact on businesses that own electricity switches.
23. We support arrangements that ensure SF<sub>6</sub> liabilities are paid as the gas is emitted (actual emissions) rather than when it is imported – the right price signals are sent and there are no perverse incentives.
24. In addition, paying SF<sub>6</sub> charges up front does not provide financial incentives for users to reduce leakage or other emissions.

### **Updates to *Other Removals Regulations***

25. The background and project definition on updates to *Other Removals Regulations* in the consultation document provides a sound summary of the issue. We strongly support MfE's preferred option to add natural gasoline produced from purchased natural gas (i.e. for which an NZ ETS cost has been incurred) to the list of Other Removals activities.

**Q14** *How should natural gasoline emissions be estimated, eg, from the measured mass fraction of carbon in natural gasoline and the mass of natural gasoline sold?*

26. We consider the estimation of emissions from the measured mass fraction of carbon in natural gasoline and the mass of natural gasoline sold to be the appropriate calculation approach.

**Q15** *Does the proposed approach effectively exclude natural gasoline produced from gas processing by a miner, which is not reported directly as part of an NZ ETS gas sales emissions return?*

27. Yes. The regulations for the similar case of LPG exports being treated as a removal activity stipulate that:

...the LPG is included in any information that a person is required to collect and record under regulation 16 of the Climate Change (Stationary Energy and Industrial Processes) Regulations 2009.

Source: Climate Change (Other Removal Activities) Regulations 2009 7A(c)<sup>1</sup>

28. A similar reference for natural gasoline would ensure that non-ETS reported natural gasoline would be excluded from eligibility as a removals activity.

**Q16** *Do you think any of the other options considered as alternatives to adding natural gasoline to 'Other Removals' regulations are superior? If so why?*

<sup>1</sup>[http://www.legislation.govt.nz/regulation/public/2009/0284/latest/DLM4267107.html?search=qs\\_act%40bill%40regulation%40deemedreg\\_removal\\_resel\\_25\\_h&p=1](http://www.legislation.govt.nz/regulation/public/2009/0284/latest/DLM4267107.html?search=qs_act%40bill%40regulation%40deemedreg_removal_resel_25_h&p=1)

29. We do not view any of the other options considered to be superior to the preferred option.
30. We understand that further work is required to assess whether natural gasoline sold as feedstock to the Marsden Point Refinery meets the “Other Removals” requirements. We suggest that MfE implement the preferred option of adding natural gasoline exports to the list of Other Removals activities regardless of this further work, with regulations in force backdated to 1 January 2017.

Yours sincerely

For and on behalf of Vector Limited



**Richard Sharp**

Head of Regulatory and Pricing