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**Submission on the Proposed Regulations Restricting the Use
of Certain International Units in the NZ ETS**

1. Vector Limited ("Vector") welcomes the opportunity to make this submission on the Ministry for the Environment's ("the Ministry") consultation document, *Consultation on proposed regulations restricting the use of certain international units in the NZ ETS*, released on 19 November 2012.
2. No part of this submission is confidential and Vector is happy for it to be made publicly available.
3. Vector's contact person for this submission is:

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The proposed restrictions

4. It is on record that Vector supports market-based mechanisms that efficiently signal the costs of using resources to market participants.¹ Vector therefore generally supports the New Zealand Emissions Trading Scheme ("NZ ETS") and continues to hold this view.

¹ This view was expressed in Vector's previous submissions in relation to the NZ ETS:
<http://www.vector.co.nz/sites/vector.co.nz/files/4%20%2020110406Vector%20Submission-ETSIssuesStatement.pdf> and <http://www.vector.co.nz/sites/vector.co.nz/files/20111031VectorSubmission-HFC-23andN2OCERs.pdf>.

5. As a market-based mechanism, the NZ ETS is intended to efficiently signal the environmental costs and emission reduction opportunities to participants and potential participants of the scheme, as well as energy consumers, who will make appropriate decisions about spending and investment.²
6. Vector, therefore, has concerns about the potential impacts of the proposal to restrict the use in the NZ ETS of: 1) HFC-23 and N₂O Emission Reduction Units ("ERUs") from industrial gas destruction projects, and 2) Certified Emission Reduction Units ("CERs") from certain large-scale hydropower projects with capacities greater than 20 MW.
7. As similarly reflected in Vector's submission on the restriction of HFC-23 and N₂O CERs in 2011³, Vector's concerns relate to the potential market distortions and the uncertainty and additional costs the proposed restrictions would have on market participants:
 - a. HFC-23 and N₂O ERUs are permitted under the Kyoto Protocol. The integrity of the Kyoto Protocol may be undermined if parties that signed up to it vary the application of particular provisions that would not suit them at any time. For example, some trading participants may have agreed to join the NZ ETS on the basis of HFC-23 and N₂O opportunities.

While the Government recently announced that it will take its next climate change commitment under the UN Framework Convention, the Climate Change Minister "emphasise[d] that NZ stands 100% behind its existing Kyoto Protocol Commitment"⁴.

- b. The proposed restrictions may raise the cost of the NZ ETS, but there has been no assessment of the extent to which they would raise costs or whether the purported benefits of the changes would be sufficient to offset these higher costs.
- c. Vector has concerns about the stability of the NZ ETS if changes are made simply to align with other schemes. Any signatory's reinterpretation could adversely impact on other signatories.
- d. There is a high level of uncertainty surrounding emissions trading due to its nascent nature, its global scale, various political and economic considerations (for example, the uncertainty of how other schemes would respond to the

² <http://www.vector.co.nz/sites/vector.co.nz/files/4%20%2020110406Vector%20Submission-ETSIssuesStatement.pdf>, paragraph 5

³ <http://www.vector.co.nz/sites/vector.co.nz/files/20111031VectorSubmission-HFC-23andN2OCERs.pdf>

⁴ <http://www.beehive.govt.nz/release/new-zealand-commits-un-framework-convention>

restriction of particular CERs and ERUs), the current economic climate⁵, and the transition of the NZ ETS from the Kyoto Protocol to a UN Framework Convention that remains to be developed.

8. Good regulatory practice would result in the above issues and other risks and opportunities being well understood so that any recommendations to introduce regulations specifically address identified problems or market failures.

Need for a cost-benefit analysis

9. Vector considers that an in-depth analysis of the ensuing costs and benefits of the proposed restrictions needs to be undertaken before robust recommendations to introduce more changes to the NZ ETS can be made. Such analysis could explore 1) the potential wealth transfers between New Zealand and overseas parties, and 2) the comparative costs and benefits of linking the NZ ETS with other schemes that impose the same restrictions and those that do not.⁶
10. The *Government Statement on Regulation: Better Regulation, Less Regulation*⁷ made commitments to “[r]esist the temptation or pressure to take a regulatory decision until we have considered the evidence, advice and consultation feedback, and fully satisfied ourselves that—the benefits of the preferred option not only exceed the costs (taking account of all relevant considerations) but will deliver the highest level of net benefit of the practical regulatory options available...[and] implementation issues, costs and risks have been fully assessed and addressed”.
11. The same statement further “[r]equire[s] there to be a particularly strong case made for any regulatory proposals that are likely to...impose additional costs on business during the current economic recession”.
12. Vector believes the consultation document has not met these requirements.
13. Any changes that could impose unnecessary uncertainty and significant costs on parties that are in the process of implementing initial NZ ETS arrangements into their business planning and operations could undermine the integrity of the NZ ETS and confidence in this market.

⁵ <http://www.vector.co.nz/sites/vector.co.nz/files/20111031VectorSubmission-HFC-23andN20CERs.pdf>

paragraph 9

⁶ *Ibid.*, paragraph 12

⁷ <http://www.treasury.govt.nz/economy/regulation/statement>

Closing comment

14. Vector urges the Ministry to exercise restraint before introducing regulations by clearly identifying the “problem or market failure” to be addressed by regulation and conducting a cost-benefit study on the impact of the proposed regulations on market participants, consumers, and the wider economy.

Yours sincerely

A handwritten signature in blue ink that reads "R. Girdwood".

Bruce Girdwood
Manager Regulatory Affairs