
REPORT 2
(1215/52/IM)

DRAFT CARBON MANAGEMENT POLICY – REPORT ON PUBLIC CONSULTATION

1. Purpose of Report

This report presents the results of public consultation on the draft Carbon Management Policy. It provides recommendations in response to this input and seeks the Committee's agreement to refer a revised draft policy to Council for adoption.

2. Executive Summary

A draft Carbon Management Policy was released for public consultation in October 2010. There were 12 written and 4 oral submissions on the draft policy.

Nearly all submitters were positive about the draft policy; though many identified some areas where they believed it could be improved. Only one submitter opposed the draft policy at a general level.

The main areas of change sought were to the “principles” section of the draft policy and to broaden the scope of the policy so that it covered objectives beyond managing carbon. Recommendations have been made to amend a number of areas of the policy, including the principles. However, it is not recommended that the scope of the policy be broadened since this could result in the Council's response to climate change being inconsistent and/or uncoordinated. A better approach is for the Council to consider its overall package of responses to climate change (such as: any new initiatives to reduce emissions; setting targets; District Plan changes; adaptation, etc) within the context of the broad Climate Change Action Plan.

It is recommended that the Committee recommends to Council that it adopt the updated Carbon Management Policy (attached as appendix one) and that the policy becomes effective immediately.

3. Recommendations

Officers recommend that the Committee:

1. *Receive the information;*
2. *Note that 12 written submissions were received and 4 oral submissions were heard on the Draft Carbon Management Policy;*
3. *Note that as a result of this input officers recommend a number of changes to the draft Carbon Management Policy attached as appendix one to this report;*
4. *Delegate to the Chief Executive Officer and Climate Change Portfolio leader the authority to make any necessary amendments to the policy required as a result of decisions of this Committee, prior to the policy being referred to the Council for consideration;*
5. *Recommend to Council that it agree to adopt the Carbon Management Policy attached as appendix one to this report and that the policy becomes effective immediately;*
6. *Recommend to Council that it delegate to the Chief Executive Officer and Climate Change Portfolio leader the authority to make any necessary amendments to the policy required as a result of decisions of the Council, prior to the policy being published.*

4. Background

The New Zealand Emissions Trading Scheme (NZETS) will create assets and liabilities for the Council. Assets will arise from the Council's forests. Liabilities will arise from the Council's landfill operations and potentially some of its forests.

The NZETS will also create legal obligations with significant penalties if they are not met. Further, it will impose additional costs on Council operations, especially from higher energy costs.

As part of the Council's Climate Change Action Plan (adopted in June 2010) the Council agreed to "develop a policy to manage our liabilities under the NZETS for the landfill as well as how we manage carbon credits from our forests". The proposed Carbon Management Policy¹ (CMP) responds to this commitment.

¹ In this report "carbon" is used as a simplification for all greenhouses gasses covered by the New Zealand Emissions Trading Scheme.

The scope agreed for the CMP is quite narrow, focussing on the effects of the NZETS. It is a sub-set of the Council's wider Climate Change Action Plan, and does not address mitigation of climate change or adaptation to climate change directly, as these issues are covered under the Action Plan.

A key objective of the CMP is to manage the considerable uncertainty that surrounds 'carbon prices'². Other key objectives are to ensure that decisions that are materially affected by future carbon prices are robust and fiscally prudent; and that the Council meets all of its legal obligations under the NZETS and related legislation.

4.1 Summary of Proposals in the Draft Carbon Management Policy

Overarching Principles: The draft policy proposes a number of overarching principles to guide carbon management decisions. These cover: meeting legal obligations; taking a conservative approach; 'no regrets' decisions where possible; buying units locally where competitive; acquiring least-cost units; looking for economies of scale; and considering overall economic efficiency.

Framework for assessing costs and benefits: The draft policy outlines standard assumptions and other guidance to be used when undertaking cost benefit analysis for carbon-related investment decisions.

Cost Recovery: The draft policy proposes that the costs of complying with the NZETS be fully recovered from users. This is particularly relevant to landfill fees and the cost of yellow rubbish bags.

Managing forest assets and liabilities: The draft policy outlines how emissions units and potential liabilities arising from forests should be managed. In particular it would require the Council to hold enough emission units to cover any future harvesting liabilities or other unforeseen losses of carbon that may result in liabilities.

Sale of units for the highest price: There may be significant differences in the price the Council needs to pay for units to meet its NZETS obligations compared to the price it can receive for its post-1989 forestry units. The draft policy proposes that the Council is able to sell any or all of the units it generates from its post-1989 forests, rather than automatically using them to meet liabilities from its landfill operations.

No ring-fencing of income from sale of emission units: The draft policy proposes that any revenue from the sale of emission units not be ring-fenced for climate change-related projects.

² In the context of the NZETS the 'carbon price' is essentially the cost of purchasing a New Zealand Emission Unit or other emission unit allowed under the NZETS to meet obligations.

Buy from local growers where possible: The draft policy proposes that the Council gives preference to buying units locally, provided the cost is not significantly over market rates for units.

5. Discussion

5.1 Consultation on the Draft Carbon Management Policy

Consultation commenced on 26 October 2010 and closed on 25 November 2010. The consultation process was advertised in the Our Wellington page of the Dominion Post on 26 October. The draft policy and feedback forms were posted on the Council's website as well as being available from all public libraries.

12 written submissions were received; nine from individuals and three from organisations. Four submitters also made oral submissions on 9 December 2010.

5.2 Main findings – common themes arising from consultation

The common themes arising from consultation are summarised in table 1 below. More detailed comments from submitters are also provided.

Table 2 provides officers' responses to submissions and the recommended response. These recommendations have been incorporated into the draft Carbon Management Policy attached as appendix one (new text is shaded and removed text is shown with a line through it).

Table 1: Summary of common themes from public consultation

Theme	Comments from submitters
<p>1. <i>Overall support for Policy – with some amendments</i></p>	<p>Nearly all submitters were positive about the draft policy; though many identified areas where they believed it could be improved. Only one submitter opposed the draft policy at a general level. One submitter felt the policy document would not enable the stated objectives to be achieved.</p> <p>A number of submitters thought the descriptions of some of the principles could be clearer. This applied especially to the “conservative approach” principle (discussed in detail below); the “no-regrets decisions where possible” principle; and the principle on considering “overall economic efficiency”. One submitter proposed a new principle dealing with “carbon responsibility” where the Council would consciously consider the effects its decisions have on carbon emissions and storage and the need for the city to make a positive contribution to mitigating future climate change where this is affordable.</p>
<p>2. <i>The Policy should be broader in its scope and application – its objectives should include reducing emissions, increasing sequestration and adapting to climate change</i></p>	<p>A number of submitters felt the draft policy was too focussed on managing the financial implications of the NZETS. Some noted that the NZETS itself was flawed; being too narrowly focussed and ignoring other outcomes such as cultural, social and wider environmental and biodiversity outcomes. Others noted that incentives created by the NZETS did not reflect the true costs and benefits of climate change actions. One submitter noted that the Carbon Management Policy should not be isolated from the wider climate change policy; another making a similar point that the “policy must operate in the context of the Council’s wider commitments for climate change”. Two submitters proposed that an additional objective be added that reflects the need for the policy to determine how responding to the NZETS can create opportunities to mitigate and adapt to climate change. One submitter asked the Council to adopt a “quadruple bottom-line approach to decision-making, under which decisions on managing carbon assets and liabilities would also seek to achieve conservation, social and cultural outcomes.”</p> <p>There is concern from some submitters over the use of a “zero carbon price” scenario for financial modelling. The concern being that regardless of what price the NZETS imposes at a given time, greenhouse gas emissions create real costs on the environment and society and the Council should make decisions that reflect these real costs.</p>
<p>3. <i>The Policy should provide for specific actions to reduce emissions or increase sequestration</i></p>	<p>A number of submitters sought or proposed specific actions that the Council should take now to reduce emissions or increase sequestration, including: changing street lighting; solar water heating for swimming pools; removing organics from landfills; facilitating renewable energy development; providing space for growing food; greater investment in public transport; improvement of cycling facilities and infrastructure; introducing fuel economy standards; incentivising energy efficient buildings; introducing protections (such as District Plan rules) for regenerating and remnant indigenous forest, and giving higher priority to pest and weed reduction.</p>

	<p>One submitter proposed the inclusion of specific targets and key performance indicators so the success in achieving the objectives of the policy could be assessed.</p>
<p>4. <i>Support for recovery of the costs of the NZETS through user fees</i></p>	<p>A large majority of submitters supported full cost recovery of NZETS costs by way of user fees. Only one submitter opposed this proposal.</p>
<p>5. <i>Support for “conservative approach” provided this doesn’t mean taking little action</i></p>	<p>The majority of submitters supported the principle that the Council take a conservative approach to buying and selling units. However, a number pointed out that this should not extend to a conservative approach to implementing measures to address climate change. One submitter proposed new wording that would focus the principle of conservativeness on managing assets and liabilities arising from the NZETS. One submitter wanted the wording of this principle strengthened to make it clear that the Council “will not” speculate or become a major trader in emission units.</p>
<p>6. <i>Views on what to do with any revenue generated</i></p>	<p>The majority of submitters felt that any revenue generated from the sale of emission units should be dedicated (ring-fenced) for climate change actions. One noted “ring fencing this money means resources are available to affect change”. A minority of submitters supported the proposal for any revenue generated to be treated as other revenues received by the Council.</p>
<p>7. <i>Views on managing forests</i></p>	<p>A number of submitters provided general support for the proposed approach to managing forest assets and liabilities, but also made specific proposals for changes to this section. Some submitters felt the section focussed too much on exotic forests and did not provide adequate commitment to indigenous forest protection and restoration. This is a similar point to that made under theme 2 that other (non-NZETS) values were not being adequately recognised in the policy. One submitter wanted a dedicated section on indigenous forests. This additional section would include support for actions that have climate change (and other) benefits but are not currently recognised under the NZETS.</p> <p>One submitter considered that all revenue generated from the response to the NZETS “should be dedicated to propagation, nurturing, planting and generally maintaining forests”.</p> <p>One submitter considered that the Council should never sell emission units generated from forests since this would do a “massive disservice to future generations by putting the carbon risk on them for credits sold today”.</p>
<p>8. <i>Views on buying and selling units</i></p>	<p>There was general support for the idea of buying units locally if possible. One submitter noted the different terms used to describe the conditions for units purchased locally and sought specific guidance on this.</p> <p>One submitter considered it would be “unethical” for the Council to sell its units with high ecological values for a high price, but buy in other units with lower ecological values at a lower price.</p>

Table 2: Officers’ responses to submissions and recommendations

Theme	Officers’ response and recommendations
<p>1. <i>Overall support for Policy</i></p>	<p>The level of support (and arguably the small number of submissions) endorses the Council’s earlier decision to develop a Carbon Management Policy. Officers believe the policy, with a number of amendments discussed later in the table, will achieve its stated objectives and make an important contribution to the Council’s overall response to climate change.</p> <p>Officers agree that some of the principles could be made clearer. The “no-regrets” principle could be shortened and better explained, though the principle itself is sound. On the principle of considering “overall economic efficiency” one submitter considered the reference to “economic” was too narrow and that decisions should rather take the broader interests of Wellingtonians into consideration. Officers note that, strictly speaking, a reference to “economic” includes all outcomes that people value (such as social benefits, biodiversity benefits, etc). This was the original intent of this principle. However, officers also agree that the term “economic” may be confused with “financial” interests in this instance. To avoid confusion, officers recommend that the reference to “economic” be removed.</p> <p>The proposed new principle on “carbon responsibility” would be consistent with the Council’s broader commitments on climate change, would aid decision-making by requiring conscious consideration of carbon issues, is suitably qualified by including a reference to “where affordable”, and is relevant to the scope of the Carbon Management Policy. Officers therefore support the inclusion of this additional principle.</p> <p>Recommendation: Adopt the Carbon Management Policy with amendments as recommended in this table. Amend the “Overarching principles” section to: make the “no-regrets” principle shorter and clearer; remove the reference to “economic efficiency” and replace this with “overall interests of Wellingtonians”; add a new principle on “carbon responsibility”.</p>
<p>2. <i>The Policy should be broader in its scope and application – its objectives should include reducing emissions, increasing sequestration and adapting to climate change.</i></p>	<p>The scope of the draft Carbon Management Policy is consistent with the scope agreed under the Climate Change Action Plan. Broadening the scope of the Policy would probably result in the Council considering its climate change response under multiple processes; namely any future updates of the Climate Change Action Plan and again under the Carbon Management Policy. This could lead to inconsistent and uncoordinated decisions. Officers believe the preferred approach is for the Council to consider its overall package of responses to climate change (such as: any new initiatives to reduce emissions; setting targets; District Plan changes; adaptation, etc) within the context of the broad Climate Change Action Plan.</p> <p>Similar arguments can be made in respect of calls for Council to apply quadruple bottom-line decision-making on carbon issues. The Carbon Management Policy does not specifically seek to generate biodiversity, social or cultural outcomes</p>

	<p>(though these are likely to be by-products of good decisions on carbon management). Officers do not consider additional objectives would be appropriate because this: may compromise achieving the core objectives of the Carbon Management Policy; may lead to a confused policy; and is largely unnecessary since addressing these other outcomes is typically provided for in other relevant documents and plans. A good example is the Council’s policies on indigenous forests. One submitter sought additional requirements in the Carbon Management Policy for managing indigenous forests; concerned that making forest management decisions based on carbon values alone might encourage establishing exotic trees over indigenous ones. However, the management plans for the various reserve areas entering the PFSI (about 1300 hectares) provide for the reestablishment of indigenous forest. The Biodiversity Action Plan also supports the restoration and protection of indigenous forest.</p> <p>The Carbon Management Policy notes that “management of post-1989 forests [which includes areas of regenerating indigenous forest] will be in accordance with specific forest or land management plans. There is nothing in the Carbon Management Policy that would over-ride existing management plans for forests allowing them to, say, now be converted to exotic forests. Additional requirements within the Carbon Management Policy are, therefore, not necessary in order to protect indigenous forest. However, the relationship between various policies could be made clearer by adding additional guidance to clarify that analysis on managing carbon assets and liabilities should consider and assess consistency with other relevant policies and plans.</p> <p>On the issue of analysing a scenario where the price of carbon falls to zero; officers consider that this is a prudent sensitivity test when assessing any new initiative with carbon-related costs and benefits. This is not to suggest that the true cost of emissions will ever become zero or that the Council should not proceed with an initiative just because there is a risk that the price of carbon could fall to zero. The scenario is important since it will inform decision-makers of a proposal’s costs and benefits in the absence of an externally imposed price on carbon. Similarly the policy also requires that scenario of high carbon prices is analysed so that decision-makers get a full range of scenarios.</p> <p>Recommendation: Retain the draft Policy’s focus on managing carbon assets and liabilities arising from the NZETS. Include additional guidance so that any analysis of proposals for managing carbon assets and liabilities must consider and assess consistency with other relevant policies and plans.</p>
<p><i>3. The Policy should provide for specific actions to reduce emissions or increase sequestration</i></p>	<p>This theme raises similar issues to those discussed above. Officers consider that the Carbon Management Policy is not the appropriate mechanism for considering new measures such as regulatory protection of remnant indigenous forest, changes to street lighting, encouraging energy efficient buildings, or enhanced infrastructure for cycling. These issues should be considered in the context of any review of the Climate Change Action Plan, draft Annual Plan and/or Long-Term Plan.</p> <p>Recommendation: Do not include specific actions or new initiatives in the Carbon Management Policy.</p>

<p>4. <i>Support for recovery of the costs of the NZETS through user fees</i></p>	<p>Officers recommended full cost recovery as this would place appropriate financial incentives on people responsible for greenhouse gas emissions (that is users of the landfill). Feedback from submitters supports this position.</p> <p>Recommendation: Adopt the policy of full cost recovery in respect of NZETS costs.</p>
<p>5. <i>Support for “conservative approach” principle provided this doesn’t mean taking little action</i></p>	<p>While there was strong overall support for this principle, some confusion remained over which Council decisions would be subject to a “conservative approach”. There were concerns the idea of conservativeness would extend to the Council’s general approach to climate change, which was not the intent of this principle. One submitter sought to strengthen the application of the principle by replacing the phrase “the Council does not intend to become” with “the Council will not become”. Officers consider this proposed wording better reflects the intent of the principle.</p> <p>Recommendation: Amend the principle so that the first line instead reads: “the Council will adopt a conservative approach to managing assets and liabilities arising under the NZETS” and replace the phrase “does not intend to” with “will not” in the fourth sentence of the relevant principle. Also – in the financial reporting section - include a reference to the Council providing explicit information on its carbon-related assets and liabilities in the Annual Report.</p>
<p>6. <i>Views on what to do with any revenue generated</i></p>	<p>Officers recommend that the Council prioritises its spending across all its potential activities, rather than singling out one area of investment for non-contestable funding. This principle should apply regardless of where or how the Council’s income is generated (unless there are compelling legal reasons requiring a different approach). Moreover, since the NZETS will improve the relative attractiveness of investments that reduce emissions or increase sequestration, the ring-fencing of funds is not necessary in order to encourage more investment to be made on mitigating climate change.</p> <p>Recommendation: Adopt the policy that income generated from the NZETS will not be ring-fenced (dedicated) for climate change initiatives/actions.</p>
<p>7. <i>Views on managing forests</i></p>	<p>Officers do not agree that this section of the policy focuses on exotic forests. As noted under the discussion on theme 2 above, most forests entering the NZETS/PFSI will be managed under management plans that require them to be regenerated into indigenous forest species. Also as noted under that theme, officers do not believe it is appropriate to broaden the scope of the Carbon Management Policy beyond what that previously agreed, so that it seeks to address climate change matters that are beyond the scope of the NZETS. This means officers do not recommend including policies on remnant indigenous forest (either on Council-owned land or private land), since these issues are either already dealt with elsewhere or will be considered as part of the Council’s future work on the review of Capital Spaces (Open Space Strategy), any covenant policy and acquisition priorities as well as possible revisions of the District Plan.</p>

	<p>In respect of the concerns that selling emission units from forests would do a “massive disservice to future generations by putting the carbon risk on them for credits sold today”, officers note that a key purpose of the policy is to ensure that enough units are retained to cover any future harvesting liabilities (in the case of exotic forests) or other unforeseen losses of carbon that may result in liabilities.</p> <p>The issue of ring-fencing revenue for forest enhancement is discussed in general terms above. Officers note that there will be a strong case for more investment in indigenous forest restoration as this can generate more credits. Any such proposals should be made during the draft Annual Plan and LTP processes.</p> <p>Recommendation: Adopt the policy on managing the Council’s forest assets and liabilities as drafted.</p>
<p>8. <i>Views on buying and selling units</i></p>	<p>Buying and selling units locally was strongly supported, though one submitter noted the varying guidance around this principle. Officers do not recommend publishing formulaic guidance such as a percentage premium Council may pay for locally produced units. This is because once such guidelines became known, all local producers will offer units with any premium included, raising overall costs of compliance. However, such guidance would be part of internal administrative processes to implement the policy. Officers agree that the wording in the relevant sections should be amended so that it is consistent.</p> <p>Officers do not accept the argument that it is unethical for the Council to sell units at a higher price than it buys them. In taking this approach the Council can generate additional income that can be used to invest more in the restoration and protection of its indigenous forests.</p> <p>Recommendation: Amend the sections dealing with buying units locally so that they consistently refer to the Council “not paying significantly above market rates for local units”.</p>

5.3 Climate Change

The proposed policy forms part of the Council's overall response to Climate Change. The development of a Carbon Management Policy was agreed as part of the Climate Change Action Plan in June 2010.

6 Conclusion

A draft Carbon Management Policy was released for public consultation in October 2010. There were a small number of submissions on the draft Policy. These have been analysed and recommendations have been made for amendments to the Policy. It is recommended that the committee refers the draft Carbon Management Policy to Council for adoption.

7 Appendices

Appendix One: Draft Carbon Management Policy

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Supporting Information

1) Strategic Fit / Strategic Outcome

The proposed Carbon Management Policy (CMP) is a subset of the Council's overall response to the challenge of climate change. The need for a CMP was agreed in the Council's Climate Change Action Plan.

2) LTCCP/Annual Plan reference and long term financial impact

Elements of the CMP are likely to have implications for the Revenue and Finance Policy, which would need to be adjusted accordingly. In addition, some adjustments to waste service fees will need to be made from 2013 to recover the costs of the NZETS.

3) Treaty of Waitangi considerations

The draft policy does not raise any specific issues related to mana whenua or the Treaty of Waitangi.

4) Decision-Making

This is not a significant decision. Most aspects of the CMP are internally focussed. Any implications for costs of services would be consulted with the public as part of the LTCCP and Annual Plan processes.

5) Consultation

a) General Consultation

Significant internal consultation has been undertaken on the CMP. Price Waterhouse Coopers has also reviewed the CMP.

Public consultation was undertaken over October and November 2010. 12 submissions were received.

b) Consultation with Maori

The draft policy raises no specific Maori or Treaty of Waitangi issues.

6) Legal Implications

No legal issues have been identified arising from the proposed CMP.

7) Consistency with existing policy

The CMP is a sub-set of the Council's wider climate change action plan. The principles it contains are consistent with the Council's objectives in respect of climate change outcomes and sustainability more generally.

Appendix One: Draft Carbon Management Policy

Carbon Management Policy

**Wellington City Council
February 2011**

Introduction

The Emissions Trading Scheme (the NZETS) is a key measure in New Zealand's response to climate change.

The NZETS will put a cost on emissions of greenhouse gases; sometimes called a 'carbon price'. This will have direct and indirect effects on the Council.

Direct effects include: liabilities for methane emissions from the Council's landfill operations; potential liabilities for deforesting pre-1990 exotic forest; and receiving credits (and associated potential liabilities) for forests planted after 1989.

Indirect effects include increased energy costs, increased costs for some services and perhaps greater incentives to develop renewable energy on Council-owned land.

This Carbon Management Policy (CMP) provides a framework to aid the Council's decision-making where the future carbon price is, or may, be a material consideration. It will also help ensure that the Council meets its legal obligations and is fiscally prudent when managing carbon-related assets and liabilities.

A key challenge is to manage the considerable uncertainty that surrounds climate change policy, including the future carbon price in New Zealand.

The CMP addresses the effects of the NZETS. It is a sub-set of the Council's wider Climate Change Action Plan (CCAP). It does not address mitigation of climate change or adaptation to climate change directly, as these issues are covered under the CCAP.

Objectives

The objectives of the Carbon Management Policy are:

1. to provide a framework to aid decision-making where the future cost of greenhouse gas emissions (sometimes referred to as the carbon price) is, or may, be a material consideration;
2. to ensure the Council meets its legal obligations and is fiscally prudent when managing carbon-related assets and liabilities; and
3. to identify opportunities to minimise liabilities and/or maximise assets created under the NZETS, where this is economically efficient and fiscally prudent.

Scope and Application

The CMP addresses assets, liabilities, costs and opportunities arising from the NZETS. It applies across all Council activities.

The Council will engage with its Council Controlled Organisations on the CMP, particularly through the Statement of Intent process.

Overarching Principles

These principles will help guide decision-making in an uncertain environment.

The key principles are:

- **Meeting legal obligations** – the Council will meet all its legal obligations required under the NZETS and related legislation and regulations.
- **Conservative approach** – the Council will adopt a conservative approach to managing carbon assets and liabilities arising under the NZETS. The Council does not have a major strategic exposure to carbon pricing nor does it have core competencies in this area. Exposing a large amount of the Council's balance sheet to carbon pricing is therefore not justified. For example, the Council ~~does not intend to~~ will not become a major carbon trader nor a speculator on future prices on carbon. Nor will the Council take aggressively short or long positions on emissions units relative to its liabilities. Assumptions about future carbon prices will also be conservative.
- **'No regrets' decisions where possible** – Future carbon prices are highly uncertain, yet assumptions about them can have a major impact on the assessed costs and benefits of a particular proposal. Ideally, proposals will have a rationale and net benefit (albeit a diminished benefit) even if the price of carbon changed dramatically in the future. ~~decision-makers should consider their decisions under scenarios where carbon prices become significantly higher and fall to zero. The zero carbon price scenario is particularly important, since political decisions could create such an environment with little warning. High carbon prices on the other hand are likely to be telegraphed in advance allowing time for the Council to adapt. Ideally, decisions will have a rationale and net benefit (albeit a diminished benefit) regardless of future carbon pricing, including in a scenario where greenhouse gas emissions are not priced at all. Decisions on acquiring or divesting assets should also consider possible implications of the NZETS and future carbon prices.~~
- **Buy units locally when prices allow where this is competitive** – the Council has aspirations to see forest re-established on private land throughout the district. It may help achieve these objectives by acquiring units from local suppliers. The Council will not, however, pay significantly above market rates for local units.
- **Acquire least-cost units** – in cases where the Council cannot acquire enough units locally or where local units are significantly above market rates, the Council will acquire units at least cost. The Council will not require units to have any additional characteristics beyond those set by Government under the NZETS rules.

- **Investigate opportunities for economies of scale in the purchase and sale of units** – the Council will consider cooperating, where appropriate, with other local authorities or private entities to achieve economies of scale in the acquisition and/or sale of emission units. In doing so, the Council will generally not take on the performance risk of any entities with which it cooperates.
- **Consider overall economic efficiency interests of Wellingtonians not just Council's direct costs** – the Council should consider the overall economic interests of Wellingtonians when making decisions, even though this may mean investing in new technologies rather than simply passing on cost increases by way of rates or fees.
- **Carbon responsibility** - the Council will consciously consider the effects of its decisions on carbon emissions and storage, and the need for the city to make a positive contribution to avoiding future climate change where this is affordable.

Monitoring and Evaluating a Changing Policy and Market Environment

The policy and market environment for carbon pricing is changing constantly. Good decision-making requires good information.

There are many sources of such information available which the Council will analyse and summarise to aid decision-makers. Information will also be assessed to ensure its relevance to the Council and the NZETS³.

Financial information, in particular information on the cost of emissions units, will be monitored and evaluated.

Developments in the wider political environment, including internationally, will also be monitored and evaluated.

The information and intelligence gathered will be used to inform decision-making and annual planning processes, including the setting of fees and rates and the assessment of new initiative proposals.

³ For example, much of the information on carbon pricing relates to the European Trading Scheme which is often not relevant to New Zealand.

Framework for assessing cost and benefits of decisions

The degree of uncertainty over carbon prices challenges typical models and assumptions for making investment decisions where a future cost on carbon is a significant consideration.

This section provides standardised assumptions and other guidance when undertaking cost benefit analysis for carbon-related investment decisions.

Key issues covered are:

- the discount rate to apply for future costs and benefits of carbon
- carbon price assumptions
- scenarios to be modelled
- treatment of implications beyond the Council for cost benefit analysis
- relationship to other relevant policies and plans

Discount rates

The selection of discount rates is one of the most critical assumptions when undertaking discount cashflow analysis as part of any assessment of investment opportunities. Where future cashflows (either incomes or costs) depend on an ongoing carbon price, the uncertainty associated with that future price should be reflected in the discount rate used.

Higher discount rates reduce the net present value of future incomes or costs. As a general rule the more uncertain a cost or benefit is, the higher that cost or benefit should be discounted.

Given the uncertainty over the future of carbon pricing, a premium will be applied to Council's normal discount rates when assessing cashflows dependant on a future price of carbon.

Carbon prices assumptions

The New Zealand Treasury publishes regular updates of the carbon price used to calculate New Zealand's position under the Kyoto Protocol as reported in the financial statements of the Government of New Zealand.

Where the Treasury continues to publish such information, the most recent relevant carbon price published by the Treasury will be used in all "base-case" scenarios for financial analysis. Where Treasury does not publish this information,

Council officers, using the best market information available, will develop carbon price estimates to be used in financial analysis.

Future carbon prices for “base-case” scenarios will be assumed to be the current carbon price, unless there are exceptional circumstances to modify current carbon price.

Scenarios to be modelled

All analysis of investment proposals should include scenarios in which future carbon prices are significantly higher (twice) and lower (half) than the current carbon price.

One scenario should also analyse a carbon price of zero in the mid-term (five years from present) to assess the implications of an investment where there are no costs or benefits arising from carbon pricing beyond five years.

Treatment of implications beyond the Council for cost benefit analysis

For some of its activities and services, the Council might be in a position to fully pass on costs of emissions liabilities without loss of competitive advantage. However, in some cases simply passing on costs may be economically inefficient and detrimental overall to Wellington ratepayers compared to investing in technologies to reduce emissions.

The Council will take a broader view of costs and benefits into consideration when assessing investment opportunities, and will make decisions in the overall economic interests of Wellingtonians.

This may mean investing in new technologies rather than simply passing on cost increases.

All analysis should, nonetheless, still identify where costs and benefits lie, including financial implications for the Council.

In some cases analysis may include a hypothetical scenario in which the effect on fees or rates is estimated in the absence of the Council investment in a certain technology or service.

Relationship to other relevant policies and plans

All analysis of investment proposals must consider and assess consistency with other relevant policies and plans. This will be particularly relevant to decisions affecting the management of regenerating or established indigenous forest.

Meeting legal obligations - emission returns and responsibilities

The Council has/will have legal obligations to furnish emission returns for its post-1989 forests under the NZETS and/or PFSI and its operating landfills. There are also statutory obligations to maintain records and report certain transactions.

For landfills and pre-1990 deforestation activities, reporting must be carried out annually between 1 January and 31 March in the year following the year to which the emissions relate (reporting is carried out based on calendar years). Any obligations to surrender emission units must be met by 31 May in the year following the year to which the emissions return relates.

Returns for post-1989 forest land must be carried out over the same months of the year, but there is flexibility as to what years returns are made. The only compulsory return for post-1989 forests is once every 5 years (or the end of 2012 in the case of the first commitment period of the NZETS).

The provisions for filing returns for forests can be complex where post-1989 forest land is bought or sold.

To ensure the Council meets its legal obligations, specific legal requirements will be identified, including those noted above, and assigned to particular business units.

Some key tasks to be assigned include:

- completing accurate draft emissions returns
- notifying relevant government agencies when specified activities or transactions occur as required under any relevant legislation
- keeping records
- filing emissions returns
- surrendering emission units
- applying for a free allocation of units for pre-1990 forests owned by the Council.

Managing the Council's NZETS-related Landfill Liabilities

The Council will actively consider opportunities, including new technologies and investment, to reduce greenhouse gas emissions and liabilities from its wholly-owned landfill operations.

Such opportunities will be coordinated with and/or included in the Council's Waste Management and Minimisation Plans as appropriate.

Any new initiatives identified will be considered by Council along with all other new initiative proposals, either as part of the Draft Annual Plan process or LTCCP processes. Analysis of the costs and benefits of such initiatives will follow the framework discussed above.

In general, the Council will recover the costs of any such initiatives by way of user fees and costs on refuse bags.

Despite initiatives to reduce emissions, some emission liabilities will almost certainly remain. The costs of these will be fully recovered from users by way of landfill fees and costs on refuse bags. Where emission units are sourced internally from forest-related activities, the transfer cost of such units will be estimated using the market carbon price at the day the units are transferred, and this transfer price will be recovered by way of landfill user fees.

Council officers will ensure that appropriate forecasting is done so that fee setting under the Draft Annual Plan and LTCCP processes has accurate information upon which to base cost recovery.

Spicer landfill

Wellington City Council owns a minority share of Spicer landfill. Key decisions on Spicer are made by a Joint Venture Committee that is structured to represent Wellington City's interest. The Joint Venture Committee is the appropriate vehicle for influencing and proposing investment decisions and pricing for Spicer, including NZETS liabilities.

Managing the Council's NZETS-related Forest Assets and Liabilities

Post-1989 Forests and PFSI Forests

The carbon management issues arising from post-1989 forests (including PFSI forests) are more complex than those arising from landfill management. This is because forests can be both sources of liabilities and generators of assets. They also create contingent liabilities that will need to be managed.

The Council will actively consider opportunities to increase carbon sequestration in its post-1989 forests. It will also carefully consider the costs and benefits of any forestry operations that reduce the amount of carbon stored in its forests.

Management of post-1989 forests will be in accordance with specific forest or land management plans which include expected forest operations and the carbon sequestration and emission implications of those operations.

Where forests are expected to be harvested at some future point, future emission liabilities will be estimated and the Council will ensure that adequate emission units are available - from (in no particular order) the forest in question, other forests within the Council's portfolio, or the purchase of units - to cover those estimated future emission liabilities.

Where a forest management plan does not propose harvesting (for example where indigenous forest is being regenerated) up to 90 percent of emission units generated from those forests will be available for sale (including for transfer to other parts of the Council to cover emission liabilities). A reserve of 10 percent of credits generated will be retained to cover unforeseen losses through such things as fires. The level of retained credits will be reviewed 5 years after the adoption of this Policy and adjusted as appropriate.

The Council will seek to optimise its returns from units generated from post-1989 forests. This may mean the Council will sell such units on the open market (as opposed to using them to cover its own landfill liabilities), where the Council can receive a premium for those units given the significant biodiversity attributes they have.

Any new initiatives identified to increase carbon sequestration, such as control of browsing animals or enhancement planting, will be considered by Council along with all other new initiative proposals, either as part of the Draft Annual Plan process or LTCCP processes.

Analysis of the costs and benefits of such proposals will follow the framework discussed above.

Pre-1990 Forest Deforestation

Under the NZETS deforestation of pre-1990 exotic forests creates liabilities. The Council does not anticipate any significant deforestation activities involving any of its forests.

Where pre-1990 exotic forests are harvested, it is expected that the affected areas will either be replanted or regenerated into a different forest type, such as an indigenous forest. In either case no emission liabilities are created under the NZETS.

Should deforestation of pre-1990 exotic forests be proposed, the deforestation costs created by such proposals will be considered by the Council as either:

- a new initiative under the Draft Annual Plan process; or
- included in the costs of a project to which the proposed deforestation relates. For example, if an infrastructure project required deforestation of an area of pre-1990 exotic forest, the costs of any deforestation liabilities will be included in the costs of the project.

Revenue from Sales and Cost Recovery

Revenues generated from the sale of emission units or from costs recovered by way of fees and charges will be treated as other revenues received by the Council.

There will be no ring-fenced use of revenues arising from the Council's response to the NZETS.

Policies to manage the indirect effects of the NZETS

The Council incorporates any expected price effects arising from the NZETS as part of its Annual Plan and LTCCP processes.

Any purchasing or investment strategies to reduce the Council's exposure to NZETS-related price increases will be evaluated as part of draft Annual Plan and LTCCP processes.

Purchasing and Trading Strategies for Emission Units

The Council will have obligations to surrender emission units in respect of its landfill operations and any net emissions arising from its forestry activities covered by the NZETS. The Council will also have the opportunity to sell units from its relevant forestry activities.

The Council will develop an appropriate level of expertise, and take expert advice as required, on the acquisition and sale of emission units, including addressing the following key issues:

- ensuring that acquired emission units meet the requirements of the NZETS
- undertaking due diligence on contracting partners, particularly where contracts involve the supply of units in future
- long-term versus spot market purchasing strategies
- managing the Council's overall net position with respect to emission unit assets and liabilities
- cooperating with other purchasers to take advantage of synergies and economies of scale
- minimising costs to Council while ensuring appropriate risk management
- taking into accounting and taxation issues, as appropriate.

The Council may also consider options to acquire emission units by way of investing in post-1989 forest activities in addition to land under its direct control. Consideration of such options will require careful evaluation for risk and value for money.

The Council will give priority to purchasing emission units from local sources, where the generation of those units is consistent with the Council's wider policy objectives (such as establishing indigenous forest on private land). Any such purchases, however, will not be at a price that is materially significantly above market rates for units.

Financial reporting of carbon-related assets and liabilities

There is currently no International Financial Reporting Standard relating specifically to carbon-related assets and liabilities.

In December 2004 the International Accounting Standards Board (IASB) released *IFRIC 3 – Emission Rights* which specified the accounting for companies participating in government schemes aimed at reducing greenhouse gas emissions. This interpretation was subsequently withdrawn in June 2005. Since then there has been no specific guidance relating to emissions and entities have to apply the current accounting standards to develop an accounting policy for the recognition and measurement of assets and liabilities relating to emission units. The IASB is not expected to release a new draft standard until 2012.

The Council complies with existing New Zealand Generally Accepted Accounting Practice but notes that the current treatment of carbon-related assets and liabilities may change if new guidance is released.

If emission units are held to meet compliance requirements (that is, to surrender to meet an entity's liability relating to emissions) they meet the definition of intangible assets under *NZ IAS 38 – Intangible Assets* and are treated in line with the requirements of this standard. Granted allowances are recognised initially at fair value which is deemed to be the market price on the date of allocation. Purchased allowances are recognised initially at cost.

Any carbon-related liabilities are recognised when all of the following three conditions can be satisfied:

- There is a present obligation as a result of a past event
- There is a probable outflow of economic benefits
- The amount can be estimated reliably.

Where the Council already holds units to offset its liabilities then the unit price used to determine the value of the liability is the same as the carrying value of the asset. Any liabilities over and above this are recognised at fair value (market price) at the date of recognition of the liability and re-measured at the end of each reporting period.

Explicit information on carbon-related assets and liabilities will be reported in the Council's Annual Report. The nature of the information reported may change if and when new accounting standards are released

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