Appendix 1

Submission from the Wellington City Council on the Emissions Trading Scheme Review 2011

Submission to: **Emissions Trading Scheme Review Panel**

Submission on: **ETS Review 2011**

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1. Introduction

1.1 The Wellington City Council ('the Council') welcomes the opportunity to comment on the Issues Statement for the 2011 review of the Emissions Trading Scheme.

1.2 The Council's submission is guided by the outcomes, priorities and advocacy actions in its 2009/19 Long Term Council Community Plan and its 2010 Climate Change Action Plan.

2. Background

2.1 The Council has responsibilities under the ETS as a point of obligation within the waste sector. The Council are also a participant in the forestry sector, and are responding to indirect effects of the ETS, such as increasing energy costs.

2.2 In order to prepare for these impacts, the Council has recently agreed a *Carbon Management Policy*. This policy sets out the basis for Council to meet its ETS obligations, including criteria for purchase and sale of carbon credits.

2.3 The Council therefore has a direct interest in the ETS, and an understanding of the impacts and opportunities of the scheme. However, the Council would also support and encourage the introduction of other measures to complement the effects of the ETS.

2.4 The Council believes that the ETS is fit for purpose. However, it will be most effective when similar measures are in place across key trading partners and a large scale international carbon trading market exists. The overall structure and rationale of the ETS is sound.

3. Summary comments

3.1 The Council supports the ETS and the utilisation of price-based measures as a key mechanism to reduce emissions, and believes that an "all sectors, all gases" approach will result in the most effective and economically efficient ETS. As such, the Council believes that there should be no further deferral of sectors, or exclusion of synthetic greenhouse gases.

3.2 A scheme covering all sectors of the economy best avoids resource allocation distortions across the economy. While the Council does not face issues of competitiveness at risk and is not receiving free allocation of emissions units (except in respect of pre-1990 forests), the Council believes that any free allocation erodes incentives to reduce emissions, and may lead to inefficient investment decisions. Further, allocation based on intensity does not respond to the core global issue of reducing absolute emissions.

3.3 With respect to a sector where few abatement options exist, the Council notes that if this sector is left out of the ETS or subsidised within it, there is no financial incentive (or limited incentive) for that sector to look to reduce emissions. Including the sector will encourage investment and innovation which may be unlikely to occur otherwise.

3.4 The Council agrees in general with the Panel's assessment of the current impact of the ETS, and believes that impacts on ratepayers and Council operations so far have been minor – particularly in the face of low carbon prices. However, the ETS does and will materially affect investment decisions. Particular impacts experienced by the Council include:

- preparing to pass cost increases in the waste sector on to consumers
- influencing some Council investment decisions, such as studies into landfill gas emissions and generating energy from waste
- placing up to 1500 ha of Council owned forests into the scheme – which may alter the future management of these forests, or lead to further land acquisition.

3.5 In addition the Council's ongoing commitment to energy management planning has been in-part driven by the need to respond to indirect costs faced under the ETS. It is too early to determine if social or environmental impacts have occurred, and the Council believes it is too early to make further changes to the scheme.

3.6 The Council have identified some issues in the waste sector, where the emission calculation methodologies do not allow for direct measurement of landfill gas or allowance for different rates of waste decomposition. This situation is likely to lead to poor outcomes, both environmentally and economically.

3.7 For future scenarios a key issue is uncertainty of the international response, which could have a major impact on the future shape of the NZ ETS – particularly the extent to which other economies place a price on carbon. The three proposed future scenarios capture the most likely outcomes for the international framework after 2012. The Council believes that neither the fixed price option nor the one-for-two obligation should continue beyond the current transition phase, because the transitional measures dampen investment signals in the economy, potentially leading to inefficient allocation of resources. This is especially so in the case of long-lived investments if decision-makers believe "transitional measures" may become permanent.

3.8 After 2012 the Council anticipate the inclusion of the waste sector and potentially higher carbon prices. Business risks will be managed through appropriate purchasing policies which include forward contracts and/or pooling of units. Business operations may be affected by changes in the merit of various projects – for example, the business case for pursuing renewable energy may become stronger with a price on carbon.

3.9 The Council sees technology playing a critical role in opportunities for ongoing abatement in areas such as energy efficiency, alternative fuels, renewable energy, and in NZ's important agriculture sector. Various abatement options will become more attractive as the cost of carbon increases, as it is expected to do. For example, there are currently significant opportunities in forestry through planting or avoiding deforestation. Once the waste sector comes into the ETS, there will similarly be greater incentives to capture, flare or generate energy from landfill gas.

3.10 With regard to potential long-term effects on the economy and on particular sectors (paragraphs 62-65) the Council believes that the economy will be affected regardless of the existence of an ETS. This is because New Zealand is likely to have some kind of obligation to reduce emissions and it is such an obligation that creates a cost to the economy. The ETS is simply the mechanism chosen to distribute this obligation across the economy. In the absence of an ETS, any costs to the economy are ultimately met by the taxpayer. An ETS represents the least-cost option for meeting any international obligations.

3.11 The Council believes that the administration of the ETS could be more efficient in some areas. There have been cases where it has taken longer than anticipated to have applications processed. However, it is acknowledged that the ETS is new to all parties, so a bedding-in period is to be expected. The Council have benefited from working alongside government agencies resolve issues, and believes that this input has assisted in the introduction of the ETS.

3.12 Direct compliance costs associated with the ETS do not seem unreasonable, however there has been a significant resource requirement within Council's as well as across central government and industry in order to respond to the introduction of the ETS. The Council supports MAF maintaining its role in the forestry sector, and as much of the remaining administration role as possible through one central agency.

3.13 The review panel asks if the ETS provides enough incentive for forestry investments. The Council does not believe that it is the role of the ETS to incentivise investment in particular sectors – this will occur when a carbon price provides the market signals and incentives across all sectors.

3.14 The Council believes that additional supporting measures will be required – an ETS should only be one component of a broad domestic response to address increasing greenhouse gas emissions. The Council support the development of complementary measures, including:

- the *Warm Up New Zealand: Heat Smart* programme
- energy efficiency programmes targeting households and businesses
- ensuring that the Building Act translates to lower-emission residential and commercial developments
- an energy strategy that promotes a low-carbon economy, renewable energy and energy efficiency
- supplementing the national energy network with distributed generation systems
- regulation for minimum energy performance standards, to remove substandard products such as appliances, vehicles and lighting from the New Zealand marketplace

- investment and support for New Zealand's clean-tech industries and the development of a low-carbon economy. The Council acknowledges the work underway by the Green Growth Taskforce, and looks forward to its recommendations
- investment and resources toward public transport, low-carbon transport fuels and initiatives that support compact growth and active transport modes
- investment in research and technology for reducing greenhouse gas emissions and increasing forest sinks
- assistance for participants to prepare for carbon trading and for calculating emissions.

3.15 The Council has concerns about inconsistencies between the ETS policy and other key government policies, such as the draft Energy Strategy, which indicated a strong shift towards more utilisation of fossil fuels for stationary energy and transport fuels (including exploring coal to gasoline technologies). Should the Government pursue the draft Energy Strategy as it stands (coupled with New Zealand's agriculture emissions profile), costs associated with increasing emissions may be expected to have a greater impact on the NZ economy. Alignment across all government policies, strategies and funding would provide a coherent national response to climate change.

On behalf of Wellington City Council

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