

Submission on two emissions trading scheme (ETS) consultations

14 June 2024

Thank you for the opportunity to submit on the Ministry for the Environment (MfE) consultations on *Annual Updates to New Zealand Emissions Trading Scheme Limits and Price Control Settings for Units 2024* (the ETS settings consultation) and *Proposed Changes to New Zealand Emissions Trading Scheme Regulations 2024* (the ETS regulations consultation).

We have reviewed and support the Business Energy Council's submission.

Our detailed responses to a subset of the questions posed by MfE are set out in the following pages. The remainder of this page sets out our general principles with respect to the ETS.

Predictability and certainty are vital for the ETS to be effective

Clarus is one of New Zealand's largest energy groups with perhaps the broadest array of energy services. As energy infrastructure is usually long-lived, we aim to invest based on long-term trends. Our experience with the ETS is that the sheer number of changes and the short-term mindset behind some of the changes has muddied the ETS as a means of discovering the marginal cost of reducing emissions. Predictability and certainty have been undervalued and this hampers the decision-making of decarbonisation.

As such, it is vital for the effectiveness of the ETS that predictability and certainty are highly prized. In practice, this means we want to see all governments:

- Refrain from intervening in the ETS with the intention of meeting short-term objectives
- Making enduring, bipartisan improvements to the ETS, but not undermining decision-making by changing the ETS settings within the then-next two years.

Greenhouse gas emissions have negative externalities that need to be priced. Our approach to emission pricing is that:

- The ETS needs to continue to reward emission removals
- The ETS should be adaptive and responsive to new, high-quality evidence and different technologies
- Over time, more parts of the economy need to face some kind of emissions price. That price mechanism need not be the ETS and the timing of when other industries face an emissions price is critically important.



This table contains our detailed comments on the ETS settings consultation:

MfE question	Clarus comments
7. What is your preferred option for step 5? Is there any other option that you think we should consider?	<p>We prefer option two, which involves updating surplus reductions for 2027-29 based on the new surplus estimate. We support reducing the volume to address the inherited risk from the stockpile. However, for regulatory certainty, the current settings should remain for year 1 and 2 (2025 and 2026).</p> <p>The surplus methodology heavily relies on assumptions about the units held for hedging, the long-term holding of pre-1990 units, and the units held for P89 forest harvest liabilities. We recommend that an analysis be conducted to determine whether the transfers of pre-1990 units are accessible for public use, and to verify if the assumptions made about the hedging profile accurately reflect the behaviours of ETS participants.</p>
9. What is your preferred option for the price control corridor? Is there any other option that you think we should consider? What factors should inform the price these are set?	<p>We prefer option one as it provides regulatory certainty. If option two were adopted, it may continue to weigh on the confidence of ETS participants and exacerbate market volatility.</p>
10. Do you consider a price corridor (i.e., an auction floor price and a CCR), to be important? Why or why not?	<p>Yes, we believe a price corridor is important as it is used as a signal for the trajectory price indication. Emitters will change their behaviours to reduce their emissions. Moreover, a CCR is crucial in providing a soft ceiling on prices, ensuring stability, and preventing them from becoming unacceptably high.</p>
11. What is your preferred option for the CCR volume? Is there any other option that you think we should consider?	<p>We prefer option two, which increases CCR volume to reflect surplus reduction to provide a protection against unexpected higher prices.</p>



This table contains our detailed comments on the ETS regulations consultation:

MfE question	Clarus comments
9. Do you support using historical waste composition to inform the calculation of UEFs?	Yes. This should lead to greater accuracy of emission estimates and therefore more efficient cost-allocation and investment decisions.
10. Do you support allowing landfill gas to be destroyed offsite, potentially by a third party? Are you currently working with a third party to destroy landfill gas offsite?	Yes, we strongly support this. We believe offsite destruction of landfill gases is a credible, near-term option. Amending this now should help keep the regulations fit-for-purpose and doing so just in advance of the industry need.