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Dr Deborah Russell  
Chairperson  
Environment Select Committee  
Parliament Buildings  
Private Bag 18041  
Wellington 6160

By email: [zerocarbon@parliament.govt.nz](mailto:zerocarbon@parliament.govt.nz)

Dear Madam Chair,

**Re: Climate Change Response (zero Carbon) Amendment Bill**

The Independent Electricity Generators Association Incorporated (IEGA) welcomes the opportunity to make submissions on the Climate Change Response (Zero Carbon) Bill (the Bill).<sup>1</sup>

This Bill represents a significant milestone for New Zealand – committing future governments in legislation to achieve greenhouse gas emissions targets that aim to be consistent with global efforts to limit temperature rise. The framework in this Bill compliments the NZ Emissions Trading Scheme – due to be improved via legislative amendments during 2019.

The IEGA supports this Bill. We believe it provides all government agencies with an obligation to make decisions that support achieving these legislated targets and the associated shorter term carbon emission budgets. The framework established by the Bill also provides the public and businesses with the legislative and policy setting certainty that can support investment and actions to permanently reduce greenhouse gas emissions and transition New Zealand to a low-emissions economy.

This submission is in two parts: firstly a background on the IEGA followed by comments on specific sections of the Bill.

The IEGA would welcome the opportunity to meet the Committee to discuss this submission and answer any questions you may have.

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<sup>1</sup> The Steering Committee has signed off this submission on behalf of members

## **Background on the IEGA**

The IEGA comprises approximately 30 members who are either directly or indirectly associated with predominately small scale power schemes throughout New Zealand for the purpose of commercial electricity production.

Our members have made significant economic investments in generation plant throughout New Zealand that is embedded within local distribution networks. Our members are proud to contribute to achievement of New Zealand's 90% renewable electricity target with 95% of our electricity generated from renewable fuel compared with ~83% for the entire sector<sup>2</sup>. Combining the capacity of members' plant makes the IEGA the sixth largest generator in New Zealand and the combined portfolio benefits of this group to the energy market are material.

IEGA members are small, entrepreneurial businesses, essentially the SME's of the electricity generation sector, providing significant benefits to the regions in which we operate. Members are mostly not vertically integrated with retail. IEGA members' that do not bid their generation output into the wholesale spot market are therefore price-takers. This investment has to be as efficient as utility owned investment in order to be able to make an appropriate rate of return.

IEGA members own distributed generating plants that export electricity in to their local network and for the most part do not utilise transmission services but effectively compete with transmission services to deliver electricity to end users. The services provided by our sector assets differ from market generators and from consumer-owned DG predominately for own use, and the regulatory approach should be commensurately different. The following diagram demonstrates the relationship of distributed generation to other participants.

## **Comments on clauses in the Bill**

### ***Section 3 – amended Purpose***

IEGA notes that this amended purpose is very specifically linked to the Paris Agreement. The definition of the Paris Agreement (in section 4) includes the option for any amendments to that Agreement. However, if a new international Agreement was ratified which aimed to limit the global average temperature increase by a different amount we assume the government would update this purpose statement to apply New Zealand's commitments under the new agreement.

### ***Section 4 – amended Interpretation***

Emissions budget is defined as the permitted net amount of carbon dioxide equivalent during the emission budget period. The IEGA requests that the emissions budgets disclose both allowed gross emissions and assumed emission removals. Clarity about both is important for everyone to understand what is being achieved in permanent reductions and the reliance on indefinite or shorter term removals from forestry planting.

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<sup>2</sup> Source: [http://www.emi.ea.govt.nz/Datasets/Wholesale/Generation/Generation\\_fleet/Existing](http://www.emi.ea.govt.nz/Datasets/Wholesale/Generation/Generation_fleet/Existing)

### **Section 5H**

The IEGA agrees with the experience and skills expected of members of the Climate Change Commission. All of these attributes are relevant. We suggest the Commission members are operating in an international context and knowledge, understanding or linkage to that international context should be reflected in this section as well.

### **Section 5I**

The IEGA supports the arrangements in this section to ensure some rolling continuity in the membership of the Commission. However, we query whether the Bill should also include a maximum term for any one member.

### **Section 5N**

The IEGA supports the level of independence of the Commission implied by this section of the Bill. Again this clause is specifically linked to the Paris Agreement.

This section refers to the Commission's role in recommending unit supply settings of the NZ Emissions Trading Scheme (NZETS). The IEGA agrees the Commission should have this role. The Regulatory Impact Statement: Zero Carbon Bill states that the Commission is required to recommend the technical NZ ETS settings annually<sup>3</sup>. The IEGA is unclear how this annual requirement is reflected in the Bill.

The NZETS is a critical component of efforts to reduce emissions – being the only mechanism in NZ that provides investors and consumers with easily accessible information about the cost of emitting greenhouse gases. The IEGA recommends the emissions budgets include the Commission's expert opinion on the future price of carbon. This information will assist investors in long-life assets such as renewable electricity infrastructure as well as decarbonisation investments by industry and government.

### **Section 5O**

The IEGA supported a target of net zero emissions across all greenhouse gases by 2050 in our July 2018 submission on the Zero Carbon Discussion Paper. We saw a pathway transitioning from 'net zero long-lived gases and stabilised short-term gases' to a 'net zero' position overall in 2050.

### **Section 5P**

The IEGA agrees that the Commission should make public its advice to the Minister if it reviews the 2050 target.

### **Section 5W**

The IEGA strongly supports the requirement in this section 5W(1) that emissions budgets must be met, as far as possible, through domestic emissions reductions and domestic removals.

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<sup>3</sup> Page 6 second paragraph

Signatories to the Paris Agreement may choose to cooperate to meet their climate change commitments. However, verifying the environmental integrity and ‘additionality’ of projects overseas involves the dead-weight of bureaucracy (and uneven results as evidenced during the Kyoto Protocol arrangements).

We are also concerned that too strong a focus or reliance on emission reduction projects in “cooperating” countries will taint our international reputation.

While the following comment may be too operational for inclusion in the Bill, we suggest the Commission establish a mechanism whereby the price the government is prepared to pay for emission reductions from a project in a cooperating country is transparent and NZ firms have the opportunity to bid for this emission reduction payment to invest in a project in NZ (adjusted for risk). This would stimulate innovation and provide certainty for investors in low emissions activities.

With the principal focus on domestic reductions, the IEGA also supports a concerted focus on gross emission reductions. Planting forests is a short term solution which will create a ‘hole’ for New Zealand’s position post 2050. Relying on planting forests is also risky if the afforestation does not occur as expected. The Bill could include guidance to focus on gross emissions.

### **Section 5X**

*Clause (1)(d):* The IEGA supports publication in the emissions budgets of the proportion of the budget assumed to come from offshore mitigation. The Commission has the appropriate expertise to provide this advice. As discussed above under section 5W, it is important New Zealanders have the opportunity to invest in domestic emission reduction opportunities at the same price as the government is prepared to pay for offshore emission reductions.

*Clauses 4 and 5:* These clauses appear to overlap. Clause 4 states that after the Commission has provided the Minister with advice the Commission must make this advice publicly available. Clause 5 states that the Minister must present this same report to the House of Representatives within 12 weeks of receiving it.

- Does this mean that the Commission cannot make its report public until the Minister has provided it to the House of Representatives?
- Does the Minister’s report to the House of Representatives include additional information from that provided by the Commission?
- Why should it take the Minister 12 weeks – 3 months – to provide the Commission’s report to the House?

Interestingly these two clauses appear in other parts of the Bill – namely, section 5ZB(3) and (4), 5ZE(4) and (5), 5ZG(3), 5ZI(2) and (3), 5ZO, and 5ZT (in reverse order).

### **Section 5Z**

In essence this section is about the economic consequences of balancing:

- ongoing permanent emission reductions with temporary removals via forestry planting

- domestic emission reduction action – which the framework is aimed at encouraging – with purchasing international reductions and removals with the associated potential negative impact on New Zealand’s international reputation
- early adaptation with inaction.

It is critical the Bill provides certainty and long-term investment signals to reduce (or remove) emissions within New Zealand and adapt to a changing climate.

The government has the option of recycling income from climate related activity to assist with the economic impact of emission reduction choices on parts of society.

**Section 5ZC**

The IEGA supports the limit on borrowing of 1%.

**Section 5ZI**

The IEGA supports the requirement for the Commission to report, not later than 2 years after the end of an emissions budget period, on progress made during that period towards meeting the emissions budget in the next emissions budget period. We query whether section 5Z should include a reference to this report as one of the factors that must be considered in developing an emissions budget.

**Section 5ZK**

We query whether section 5ZK(2) means government agencies can choose not to take into account the 2050 target and emissions budgets. Consistent with our comments below on section 5ZL, the IEGA would be disappointed if that is the meaning of 5ZK.

**Section 5ZL**

This clause enables the Minister to issue guidance (practical assistance) for government departments on how to take the 2050 target and emissions budgets into account in decision making.

The IEGA believes that this Bill places an obligation on every government agency (whether they be a policy, operational or regulatory agency) to take into account the 2050 targets and emissions budgets in every decision it makes. This is critical. The government should be providing leadership in implementing decisions that transition NZ to a low emissions economy. There is the opportunity to achieve this across the entire portfolio subject to whole-of-government procurement as well as property management. Decisions about policy or regulator’s tier 3 rules can have consequential impacts on aspects of the economy that may not be ‘pulling in the same direction’ as these legislated targets and emissions budgets.

The IEGA strongly supports the government issuing guidance providing practical assistance to government decision makers on how to take the 2050 target and emissions budgets into account.

**Section 5ZN**

The IEGA suggests the Bill should include a link between information gathered in the national climate change risk assessment and preparation of emissions budgets. That is, section 5Z(2)(b) should require regard be taken of the most recent national climate change risk assessment.

We also suggest that international activity or trends should be taken into account in this risk assessment. For example, the global insurance market could have a major impact on risks faced by New Zealanders, businesses and the government.

**Section ZQ**

Climate change and adapting to it is a global issue. However, the only reference to the international context is to take into account New Zealand's relevant obligations under international agreements (section ZQ(4)(c)). The IEGA suggests this is too narrow. Global emissions and temperature rise will impact how New Zealand has to adapt – in spite of any international agreement.

The IEGA also suggests that an adaptation plan should take into account the success of emissions budgets to reduce / remove emissions. If net emission reductions are less than the budget – adaptation efforts may become more urgent. Similarly if emission reductions are being achieved faster than budgeted – the economic cost of adaptation may be lower.

The IEGA would welcome the opportunity to meet the Committee to discuss this submission and answer any questions you may have.

Yours sincerely



**Warren McNabb**  
Chair