

Briefing: 9(2)(f)(iv)

Date submitted: 25 July 2024

Tracking number: BRF-3950

Security level: Policy and Privacy **CLASSIFICATION**

MfE priority: Urgent

Actions sought from Ministers

<i>Name and position</i>	<i>Action sought</i>	<i>Response by</i>
To Hon Simon WATTS Minister of Climate Change	9(2)(f)(iv) Note follow-up briefing to determine future direction of programme.	09 August 2024

Actions for Minister's office staff

Forward this briefing to:

Hon Melissa Lee, Minister for Economic Development (CNGP Co-Lead)

Hon Nicola Willis, Minister of Finance

Return the signed briefing to the Ministry for the Environment (ministerials@mfe.govt.nz).

Appendices and attachments

- Appendix 1: Projected annual offset demand & availability, and costs to agencies

Key contacts at Ministry for the Environment

<i>Position</i>	<i>Name</i>	<i>Cell phone</i>	<i>First contact</i>
Principal Author	Lucy Tyndall		
Responsible Manager	Bree Graczyk	0273092095	✓
General Manager	Hemi Smiler		

Minister's comments

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Key messages

1. The Carbon Neutral Government Programme (CNGP) was established to reduce public sector emissions, with an aim to achieve carbon neutrality by 2025. While significant reductions have been made, the 2025 date is not considered feasible and needs to be reviewed.
2. The CNGP has created a strong system for measuring, reporting, and reducing public sector emissions in line with corporate reporting standards. As of FY2022/23, it has achieved a 14% reduction in emissions across 84 reporting organisations, toward a total 2025 reduction target of 20%. Significant progress has also been achieved in coal boiler replacement, energy efficiency in office buildings, and air travel reductions.
3. The previous government agreed that CNGP participants should offset any remaining emissions annually from 2025 using domestic offsets where possible, and high-integrity offsets that contribute to New Zealand's Nationally Determined Contribution (NDC).

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Recommendations

We recommend that you:

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Yes | No

note that officials will provide you with advice and options on the future of the programme in a follow-up briefing in September 2024

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Yes | No

agree to forward this briefing to the Minister for Economic Development and Minister of Finance.

Yes | No

Signatures



Hemi Smiler
Manager – Climate Strategy & Mitigation
Policy

Ministry for the Environment

22 July 2024

Hon Simon WATTS
Minister of Climate Change
Date

Purpose

7. This briefing outlines the current state of the CNGP, 9(2)(f)(iv) and signals the need for a programme review that will be detailed further in your next briefing.

Background

8. The CNGP was established in 2020 to drive a long-term government approach to understanding and reducing emissions [CAB-20-MIN-0491 refers]. It has 69 mandated participants in Tranches 1 & 2, and 28 encouraged participants in Tranche 3¹. The CNGP follows best practices in emissions management, aligns with corporate sector standards, and supports our international climate commitments
9. The CNGP is co-led by the Minister of Climate Change and the Minister for Economic Development, and administered by the Ministry for the Environment (MfE), Ministry of Business, Innovation and Employment (MBIE) and Energy Efficiency and Conservation Agency (EECA). We provided an update on the programme's progress earlier this year [BRF-4099 refers].
10. In 2022, New Zealand joined the Net Zero Government Initiative (NZGI), which aims for net-zero emissions from national government operations by 2050 or earlier. New Zealand is one of 30 countries in the NZGI, including trading partners Australia and Singapore—who have net-zero targets of 2030 and 2045, respectively².

2025 carbon neutrality goal

11. In establishing the CNGP, the previous Government agreed that participants should offset their remaining emissions annually from 2025 to achieve carbon neutrality [CAB-20-MIN-0491 refers].
12. The previous Government also noted the importance of emissions reduction and that this should be prioritised before offsetting, and that any offsetting for the CNGP should contribute to our NDC, be domestic where possible, and have high environmental integrity [CAB-21-MIN-0530 refers].
13. In August 2023, the previous Government acknowledged the undersupply of domestic carbon credits to meet the 2025 neutrality date. It agreed in-principle that Tranche 1 and 2 participants should pay for their emissions from FY2025/26 baselines, and directed

¹ https://environment.govt.nz/assets/Current_CNGP_participants_December_2023.pdf

² [Australia's Net-Zero Government Initiative Roadmap \(sustainability.gov\)](#) and [Singapore's Net-Zero Government Initiative Roadmap \(sustainability.gov\)](#)

officials to explore options for using emissions payments to support CNGP goals [CAB-23-MIN-0348 refers]. The projected costs of this offsetting to mandatory CNGP participants is available in Table 2 in Appendix 1.

Progress to Date

14. The CNGP is referenced in New Zealand's first Emissions Reduction Plan (ERP1). ERP1 action 6.10 requires implementation of the CNGP, and highlights the following requirements for participants in the programme:
 - a. measure, verify, and report on their emissions annually
 - b. set gross emissions reduction targets, in line with a 1.5°C pathway
 - c. develop and implement an emissions reduction plan for their own organisation
 - d. offset remaining gross emissions from 2025.
15. The first three components above have been implemented, and significant progress has been made in several key focus areas across the programme:
 - a. There is now comprehensive information on government emissions and abatement potential. There was limited to no information prior to 2020.
 - b. As of December 2023, an overall emissions reduction of 14% from agency baselines has been achieved, moving toward the 2025 reduction goal of 20%.³
 - c. 23 out of 24 coal boilers undergoing replacement are on track to be removed by the end of 2025⁴.
 - d. 120 of 149 coal boilers in schools have been replaced.
 - e. 19% of the government light vehicle fleet has transitioned to battery electric or plug-in hybrid electric vehicles.
 - f. NABERSNZ energy efficiency ratings have been completed in 59%⁵ of government office buildings over 2,000m².
 - g. Air travel emissions have been reduced by 38% compared to agency baselines, resulting in significant cost savings.
16. Emissions from Tranche 1 and 2 have reduced by approximately .053 MtCO₂e since base year. This reduction translates to a decreased offsetting liability valued between \$4 million (\$68 per tCO₂e) and \$14.5 million (\$243 per tCO₂e), based on proxy figures from the Emissions Trading Scheme projections. For further details on projected offsetting costs, see Table 2 in Appendix 1.

³ This percentage is calculated against participants' base year emissions that are within scope of their organisational boundary. This is not measuring against the national GHG inventory or national-level targets.

⁴ These 24 boilers were partly funded through the State Sector Decarbonisation Fund (SSDF), and include 8 coal boilers in the health sector. An additional 2 coil boiler replacements in hospitals have been funded by the Ministry of Health.

⁵ As at July 2024, an assessment is planned, underway or has been completed for 71% of buildings. 72.5% of rated buildings have achieved 4 stars or above.

Analysis and advice

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17. The previous Government agreed on a set of guiding principles for CNGP offsets, 9(2)(f)(iv)

a. **Offsets should be domestic as much as possible:** 9(2)(f)(iv)

b. **Offsets should contribute to our NDC:** 9(2)(f)(iv)

c. **Offsets should be of high integrity:** 9(2)(f)(iv)

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20. No established pricing structure or legal framework exists to require CNGP participants to pay for their emissions from 2025 9(2)(f)(iv)

Participants are currently only required to measure, verify, and report on their emissions and set reduction targets and plans.⁷

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⁶ 9(2)(f)(iv)

⁷ Tranche 1 is mandated via Cabinet direction and Tranche 2 (Crown Agents) via a Section 107 direction under the Crown Agent Act. Tranche 3 is encouraged to meet requirements, so there is no mechanism.

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Future programme options to be considered in follow-up brief

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A detailed follow-up briefing will be provided in September 2024 to help you consider alternative options for programme settings. 9(2)(f)(iv)

26. The next briefing will present future options for programme settings in the CNGP, 9(2)(f)(iv) and the programme's broader objectives to support your Climate Strategy.

Next steps

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28. Officials will provide you with a follow-up briefing with detailed advice on options for alternative programme settings in September 2024.

Appendix 1: Projected annual offset demand & availability and costs to agencies

Table 1: Projected offsetting demand and availability

CNGP Target Years	2025	2030
Annual CNGP offset demand (tCO₂e)⁸	<i>513,000</i>	<i>365,000</i>
Annual Domestic offset supply (tCO₂e)⁹	<i>20,000</i>	<i>60,000</i>
Percent of CNGP offset demand able to be met by domestic supply	<i>4%</i>	<i>16%</i>

Table 2: Projected cost of offsetting to mandatory CNGP participants¹⁰

		ETS ¹¹		International ¹²	
		low price	high price	low price	high price
2025	cost per unit (1 tCO ₂ -e)	\$68	\$243	\$35	\$144
	total annual CNGP cost	\$34,871,488	\$124,614,288	\$17,948,560	\$89,229,984
2030	cost per unit (1 tCO ₂ -e)	Unknown		\$46	\$343
	total annual CNGP cost			\$16,760,468	\$124,974,794

⁸These numbers are derived from agency base years, and assume they have achieved a 20% reduction by 2025, and a 42% reduction by 2030 (as per initial programme targets). CNGP emissions in-scope for offsetting from mandatory CNGP participants, excluding schools, are estimated to be 512,816 tCO₂-e in 2025 and 364,358 tCO₂-e in 2030.

⁹ In September 2022, Te Whakahaere published a report for the Ministry for the Environment that assessed the domestic credit supply available under current projects in 2025. This is limited to high-integrity offsets with additionality that could be available through the Voluntary Carbon Market, outside the NZ ETS.

¹⁰ These prices act as a proxy to determine the likely range for costs of high-integrity domestic credits.

¹¹ NZ ETS low and high price based on reserve and tier 2 trigger price, which are only set until 2028 – [Climate Change \(Auctions, Limits, and Price Controls for Units\) Regulations \(2020\)](#).

¹² Based on International Energy Authority estimates for emerging and developing economies (low) and advanced economies (high). The Treasury (2023). [Climate Economic and Fiscal Assessment 2023](#). p. 80.