Ministry for the Environment
Manatū Mō Te Taiao

Transitional Measures:

Options to move towards low-emissions electricity and stationary energy supply and to facilitate a transition to greenhouse gas pricing in the future

Summary of submissions

New Zealand Government

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1 Introduction

Overview

This report summarises the submissions made to the New Zealand government on *The Discussion Paper on Transitional Measures: Options to Move Towards Low Emissions Electricity and Stationary Energy Supply and to Facilitate a Transition to Greenhouse Gas Pricing in the Future* (referred to hereafter as *Transitional Measures*).

The report begins with background information on how the *Transitional Measures* discussion document was developed, the subsequent consultation process and how submissions were received and analysed, and a sectoral breakdown of submitters. Section 2 then summarises the comments from submitters under the following eight principal themes:

- emissions trading
- a narrow-based carbon dioxide charge
- renewable obligations
- incentives
- project-based measures
- regulatory measures
- voluntary measures
- overarching comments.

Several submitters made comments that were not covered by questions in the *Transitional Measures* discussion document but which are relevant to climate change policy development. These comments have been summarised in section 3, and relate to:

- competitiveness issues
- coverage of a price-based measure
- taking account of other existing or proposed policies
- Māori submissions
- further consultation and communication
- criticism or praise for the consultation documents.

Background

In August 2006 Cabinet approved a series of whole-of-government climate change policy work programmes. These work programmes were designed to enable New Zealand to manage climate change as a long-term issue, to play its part in reducing emissions, and to encourage other countries – especially the major emitters – to reduce their emissions.

The work programmes culminated in the following five discussion documents being produced for consultation in December 2006:

- *Transitional Measures for Electricity and Stationary Energy Supply* (part of the New Zealand Energy Strategy – NZES)
- *Powering Our Future: Draft New Zealand Energy Strategy to 2050* (the NZES)
- *Draft New Zealand Energy Efficiency and Conservation Strategy* (an integrated subset of the NZES)
- *Discussion Paper on Measures to Reduce Greenhouse Gas Emissions in New Zealand Post-2012* (post-2012 measures)
- *Sustainable Land Management and Climate Change: Options for a Plan of Action.*

The *Transitional Measures* discussion document is part of the Draft New Zealand Energy Strategy. It explores ways to reduce greenhouse gas emissions in the stationary energy sector before 2012 (the end of the first commitment period of the Kyoto Protocol). In particular, the document presents options for lowering emissions from the supply of energy from stationary sources (electricity and industrial heat and power).

All five of the discussion documents are available online at the following web address: http://www.mfe.govt.nz/issues/climate/consultation/index.html

Public consultation and consultation with Māori as Treaty partners took place between December 2006 and March 2007. The consultation process included approximately 50 public or multi-sector meetings, workshops and hui, and approximately 100 focused stakeholder meetings. These events took place throughout the country, with over 4,000 people attending. The public were given until 30 March 2007 to make written submissions on the five discussion documents, and 123 submissions were received on the *Transitional Measures* document.

This summary report results from a detailed review of submissions on the *Transitional Measures* discussion document. The review is primarily based on responses to the questions (from 1 to 29) in the *Transitional Measures* document, grouped into eight principal themes.

Where possible we have attempted to provide statistics for the responses to the 29 questions. However, many submissions did not give specific answers to the questions set out in the discussion document, and many submissions did not specify whether their detailed preference was an interim or long-term measure, with many commenting only generally in terms of timeframes. Consequently, some interpretation was required when analysing the responses to some questions.

Also, a submitter's support of a certain measure was generally provisional on a number of additional conditions being met, so it was often difficult to tell whether a submission supported or rejected a specific policy measure. This is partly a result of the broad nature of the discussion document, which proposed a large number of policy options for consultation but did not set down any firm policy preferences.

We have used consistent qualitative statements to indicate the level of support for a given message. The qualifiers we have used, in order of weighting, are as follows: one, few, some, several, relative majority, majority and vast majority. A relative majority is defined as the largest share of something, which may not be considered a majority; ie, it is the largest group/category, but is not necessarily a majority (ie, more than 50%).

Submitters

The table below shows the number of submitters from various sectors or interest groups. A full listing of submitters can be found at:
http://www.med.govt.nz/templates/ContentTopicSummary____26416.aspx
(the line represents 4 underscores)

Sector/interest group	Number of submissions
Academic and research	3
Business and industry: • agriculture/dairy • energy • forestry • other	 3 16 5 9
Government, local government and political parties	11
Consulting and professional	7
Māori (iwi or hapū)	6
NGOs: • business (includes chambers of commerce, professional and business associations) • environmental • community	 19 18 4
Individuals	22
Total number of submissions	**123**

2 Analysis of Responses to Consultation Questions

Emissions trading

Of those submissions that held a clear view on emissions trading for the stationary energy and industrial process sectors in the short term, 57% (42 out of 74) were in support. The relative majority of business and industry submitters considered that any emissions trading scheme must be internationally linked and should address competitiveness-at-risk issues.[1]

Some submitters – primarily from business and industry groups – considered it would take time to implement an emissions trading scheme. These submitters proposed only a signal or framework development in the interim. Several community and environmental NGOs proposed a greenhouse gas charge and/or regulatory measures as an interim measure.

Some of those who criticised a narrow-based emissions trading scheme considered that such a scheme would be better suited to sectors that have a reasonable number of emitters, and where the transaction costs of including those emitters are not unreasonably high. These submitters noted that New Zealand has only three thermal electricity generators and around 15 industrial companies of a significant size, which would mean a narrow-based emissions trading scheme would result in very high transaction costs and only a small percentage of emissions would be covered. Some of these submitters thought this would lead to very limited opportunities to find least-cost abatement and would have flow-on effects for the competitiveness of New Zealand businesses.

Q1 Which of the four emissions trading options discussed (including the Trustpower proposal) would be the most suitable transitional measure for the New Zealand stationary energy sector?

This question was not explicitly answered by the relative majority of submitters because it refers to a short-term measure specific to the stationary energy sector and/or industrial processes sector. The relative majority of submitters commented instead on the conditions that *any* emissions trading scheme should feature, including international coverage and competitiveness issues being addressed.

[1] In the context of climate change policy, the term 'competitiveness-at-risk' applies to energy- or emissions-intensive firms that are exposed to international competition from countries with less stringent climate change policies. These firms may not be able to pass on emissions-related price increases to their customers. As a result, they may lose market share to international competitors.

The relative majority of submitters who held a clear view on emissions trading indicated a preference for a cap-and-trade scheme. These submissions were from several individuals and environmental NGOs, and some business and industry groups. One submitter noted that a cap-and-trade system for the stationary energy and industrial processes sectors would limit emissions while driving green investment, and would allow market forces to pick the winning technologies.

The few submitters who preferred a baseline-and-credit emissions trading scheme considered that this approach would provide flexibility, as well as incentives, to reduce the amount of emissions per unit of production. These submitters were critical of a cap-and-trade scheme because they believed it would provide a perverse incentive to reduce production as a means to profit from reduced emissions, rather than encouraging increased productivity.

The few submitters who indicated a preference for a cross-sectoral offset scheme suggested that it would present the least barriers to more efficient generation being developed to replace less efficient generation. These submitters criticised the other options as overly favouring existing thermal generators.

Several industry submitters criticised the Trustpower proposal for not adequately addressing non-electricity-generating sectors and for failing to deal with the impact of rising wholesale electricity prices on international competitiveness.

Several submitters (generally more environmental NGOs and some individual submitters) supported proposals similar to that put forward in the Green Party submissions, whereby the point of obligation is the large emitters who introduce fossil fuels into the economy (ie, upstream) rather than individual users. However, some noted that under any scheme the stationary energy sector will simply pass the full cost of any measure on to the consumer.

Several submitters, particularly business NGOs and industry groups, considered that none of the options discussed could be supported until competitiveness issues are satisfactorily resolved and cost-benefit analyses are undertaken.

Q2 Do you support gratis allocation, auctioning or hybrid allocation schemes, and why?

Twenty-three of the 123 submissions had a clear stance on allocation methods. The responses can be broken down as follows (rounded):

- 13% supported benchmarking
- 4% supported grandparenting
- 43% supported hybrid/other approaches
- 30% supported other gratis allocation
- 9% supported full auction.

Hybrid/other approaches were often suggested to address competitiveness-at-risk issues. Support for this approach was distributed across all sectors and groups. Business, industry and some energy groups who supported hybrid/other approaches generally emphasised the importance of some gratis allocation to industries exposed to international competition. In contrast, environmental and community NGOs who supported a hybrid approach generally emphasised auctioning, combined with targeted revenue recycling, but acknowledged that some level of gratis allocation may be appropriate for industries exposed to international competition. Some submitters from environmental and community NGOs rejected grandparenting as an allocation method on the basis that it would provide windfall profits to polluters.

A narrow-based CO_2 charge

Fifty-nine submissions had a clear stance on a narrow-based carbon dioxide (CO_2) emissions charge. Of these, 81% rejected the introduction of such a charge.

The majority of submitters indicated a preference instead for a *broad-based* carbon charge, applying to all sectors, although some did not indicate a preference for the timing of the introduction of this measure, either as a short-term or long-term option. Some environmental NGOs considered that a broad-based charge was more equitable, because a narrow-based scheme would place an unfair burden on particular sectors of the economy and redirect investment towards un-priced sources of CO_2.

A few submitters supported a narrow-based CO_2 charge but considered it needed to be widened slightly in scope to include additional sectors, such as agriculture and transport. Some submitters noted that the costs of any CO_2 charge on the energy sector would inevitably be passed on to consumers.

Some submitters noted that, while a CO_2 charge would provide certainty about the cost incurred from emitting CO_2, it is difficult to forecast the impact the charge would have on the volume of emission reductions. Some also noted that a charge would penalise emitters but would not necessarily reward those who reduce emissions. These submitters considered that emissions reductions from a narrow-based CO_2 scheme would be relatively minor, given the small amount of emissions covered by such a scheme and the high degree of efficiency already attained in energy-intensive sectors.

Other submitters were critical of a CO_2 charge because it does not provide any options except to reduce consumption to avoid the charge, while emissions trading provides opportunities to investigate least-cost emission reductions. It was also highlighted that if a narrow-based charge were used it would need to be set unreasonably high, due to price inelasticity, to reduce the demand for energy.

Some submitters were critical of a CO_2 charge because it did not provide scope for international linkage and would therefore create significant risk to competitiveness-at-risk firms. One reason given was that it would be difficult to interface a CO_2 charge with the international market, because emissions trading schemes are currently favoured ahead of CO_2 charges internationally.

Q3 Should a CO_2 charge on emissions for electricity and industrial heat be a preferred option as a transitional measure in the stationary energy sector?

If so:

Q4 How should the rate of the charge be set?

Q5 How should large emitters subject to the charge be defined?

Q6 Should electricity price impacts of the charge be managed? If so, how?

Q7 How should revenue from the charge be used?

These questions were not answered specifically by many submitters, particularly because 81% of submitters who had a clear stance on a narrow-based CO_2 charge opposed it. Of those who supported the use of a narrow-based CO_2 charge, some used the rationale that revenue from the charge could be used to incentivise investment in emissions reduction initiatives and technologies. Some submitters considered that the revenue should be used to compensate competitiveness-at-risk firms, who cannot reasonably pass costs on to customers.

Some submitters who supported a narrow-based CO_2 charge considered that, if it were introduced as an interim measure, it would enable major electricity generators to be exposed to the international cost of carbon in the short term. They suggested that this would provide the time to design and establish an emissions trading scheme in the longer term because a narrow-based CO_2 charge could be implemented relatively quickly.

One renewable energy provider considered it critical that the cost of carbon emissions be fully reflected in the electricity market, and that there be no interference in the operation of the electricity market when the cost of carbon flows into electricity prices. This submitter considered that any efforts by government to manage the impact on electricity prices faced by competitiveness-at-risk and low-income groups should be via mechanisms outside the electricity market (eg, revenue recycling in the form of tax breaks).

Several submitters considered that the discussion document understated the effects of a CO_2 charge on electricity price impacts. They argued that the analysis is flawed because it ignores the marginal price-setting model of the electricity market, which indicates that the additional entry of renewables will increase the price of electricity.

Renewable obligations

Of those submissions that held a clear view on short-term renewable obligations for the stationary energy sector, 67% (32 out of 48) were in support. Some supported the use of renewable obligations, but a number did not indicate what form they should take. Several submitters considered that renewable obligations were not as effective as a price-based measure in effecting change.

Q8 Should a renewable obligation be a preferred option as a transitional measure?

If so:

Q9 Should the obligations be to provide capacity or generation?

Q10 Should the obligation be placed on generators or retailers (suppliers)?

Q11 Is there a need for a buy-out mechanism to limit certificate price?

Q12 Should the obligation be un-banded?

The majority of submitters who supported the use of renewable obligations did not answer these questions specifically. The majority from business and industry groups and electricity generators were not in favour of renewable obligations, but many submissions from environmental NGOs supported the idea, particularly when linked with other initiatives such as feed-in tariffs.

With respect to question 9, one energy generator stated a preference for the obligation to apply to generation, whereas one environmental NGO wanted the obligation to apply to capacity.

Some submitters, particularly renewable energy providers, considered that investment in renewable energy may be one of the lowest-cost emission-reduction options available. These submitters suggested that if a price-based measure is not implemented in the short term, a renewable obligation could be considered as one of several possible renewable energy incentive schemes. However, one submitter noted that electricity only represents about 8% of New Zealand's emissions, and that therefore renewable obligations that are focused purely on the electricity sector would be inappropriate.

One industry submitter considered that irrespective of what mechanism is employed to signal a carbon price to the electricity sector, the renewable segment will reap windfall gains by being able to price their electricity up to the marginal cost of thermal electricity.

Several industry submitters noted that New Zealand already has a high percentage of electricity generated from renewable sources of energy, and some of these submitters questioned how a renewable obligation would have any impact on these market participants. They were also concerned that any capacity-building mechanism or renewable obligation would require long-term funding or tariffs (15 years or more depending on the chosen technology) in order to provide some certainty for investors. As a result, a renewable obligation would run well beyond 2012 and would thus be running in tandem with the post-2012 policies period. Electricity consumers could potentially receive a double hit due to likely cost increases from a renewable obligation, on top of further price increases from any price-based measure implemented post-2012.

Incentives

Of those submissions that held a clear view on short-term incentives and subsidies for the stationary energy sector, 78% (39 out of 50) were in support.

Many submissions did not restrict their consideration of incentives and/or subsidies to the stationary energy sector. Some submissions supported the use of incentives but did not indicate what form they should take.

Q13 Should capacity incentive measures be a preferred option as a transitional measure?

The majority of submissions that commented specifically on the stationary energy sector were in favour of the use of some kind of incentive or subsidy as a transitional measure, particularly feed-in tariffs. Many submitters who were not in favour of a price-based measure (eg, an emissions trading scheme or a CO_2 charge) were in favour of incentives as a preferred option as transitional measures, particularly if a choice had to be made between a price-based measure or an incentive.

One submitter gave the following list of reasons for supporting the use of incentives:

- Incentives have a negligible impact on wholesale electricity prices.
- Incentives minimise competitiveness issues for businesses.
- Incentives minimise affordability issues for consumers.
- Incentives avoid windfall profits for existing generators.
- The government can influence the certainty of environmental incomes more easily than using price-based measures.
- Discontinuing an incentive programme has no impact on those incentives already granted (unlike obligation-type schemes).

These themes were reflected by other submitters.

Of those who opposed the use of incentives, many from business NGOs and industry groups suggested they were unnecessary because renewable generation is already economic, as has been demonstrated by the recent development of wind farms. Some of these submitters suggested that investors are 'holding out' and waiting for incentives, or waiting for long-term policy certainty. These submitters suggested that there might be even more investment in renewable generation without requiring an incentive. Some suggested that an incentive system could be abused, and that capital grants might be given for projects with inflated costs.

If so:

[Q14] Should the transitional measure be a capital grant; or a capacity subsidy mechanism such as the Non Fossil Fuel Obligation or a feed-in mechanism?

The majority of submitters who stated a clear preference were in favour of a feed-in tariff. The strongest support for feed-in tariffs came from small wind generation investors (those that are most likely to benefit from a feed-in tariff) and individuals. Several submitters noted the success of feed-in tariffs in other countries.

Several submissions from business NGOs and industry groups supported capital grants. These submitters cited a report from ACIL Tasman, which states that renewable generation is already economic in New Zealand, but that if an incentive is used a capital grant that was allocated by way of a competitive bidding system would be the least distortionary.

A few submitters were opposed to the government 'picking winners' rather than allowing the market to choose which projects are economic.

Q15 Do the benefits of a feed-in tariff (lower risk, support for diverse technologies, successful deployment, industrial policy goals and simplicity of implementation) balance the way it runs parallel to the electricity market?

Some submitters, from a range of groups, praised the benefits of feed-in tariffs. They were said to reward performance and attract new entrants. Several of these submitters noted the success of feed-in tariffs in other countries. These submitters thought that feed-in tariffs would be particularly beneficial for wind energy because wind's variable nature means that it is traded at a discount, and it is difficult to get long-term contracts at a 'fair' price or to secure debt. They also noted that with feed-in tariffs it is easier to determine the correct tariff than it is to find a price for other measures such as capital grants.

Several submitters commented that the duration of a feed-in tariff meant that it would be impractical, because it could not be known how the electricity market would change during that time period. Some submitters suggested that the Electricity Commission could play a role in a feed-in tariff system by processing tariff payments and acting as a contracting party.

Q16 If a feed-in tariff is preferred, what technologies should be eligible?

Few submitters specifically addressed this question. Most referred to feed-in tariffs solely in relation to wind, because, as noted above, feed-in tariffs have particular benefits for wind generation and are used for wind generation in other countries. In contrast, all types of renewable energy were discussed in relation to capacity grants.

Q17 Is a feed-in mechanism compatible with New Zealand nodal pricing? If so, what policy should be introduced to link them?

Few submitters specifically addressed this question. Those that did recognised that the relationship between feed-in tariffs and nodal pricing is difficult. One suggested using historical nodal differences to scale the feed-in tariff at different locations, or using a simple nodal system (ie, a different price in different areas). Another suggestion was to encourage new generation close to load.

Q18 Are some technologies more suited to capital grants than others?

Few submissions specifically addressed this question. One suggested that feed-in tariffs were the preferable incentive, but that capital grants were more appropriate for solar water heaters. Another suggested that capital grants were the preferred incentive, and that they should be provided on a ratio basis. For example, investors could be required to invest $3 for every $1 granted by the government. The submission suggested that this would raise the efficiency of the scheme, because investors would only choose to contribute if the investment was economical.

Q19 Are there any reasons why an obligation or a capacity subsidy for certain technologies should or should not be linked?

Very few submitters specifically addressed this question. Those who did suggested that an obligation or a capacity subsidy for certain technologies should be linked to prevent the risk of overcompensating investors.

Project-based measures

Q20 Are projects 'a climate change policy measure worth considering' for the energy sector? If so, why?

Thirty-eight submissions had a clear stance on project-based measures. Of these, 89% supported them being considered for the energy sector. Many of these submissions identified project-based measures as a way of encouraging innovation and new technologies. Many also noted the success of the Project to Reduce Emissions (PRE) programme, and some suggested changes that could be implemented to improve this programme.

The support for project-based measures was often conditional. Support was given either subject to a cost-benefit analysis, or because project-based measures were preferred to the use of an emissions trading scheme. Some environmental NGOs supported project-based measures only if there was no broad-based carbon charge or feed-in tariffs.

Some submitters – even those who opposed a project-based measure – noted that it could provide a good transition to a price-based measure. Some thought that project-based measures could also provide international links because they operate in other countries under the Kyoto Protocol.

One submitter noted that a project-based measure is targeted, so it is more likely to achieve a reduction in emissions than a carbon charge. Another noted that project-based measures would avoid the price increases for consumers that would accompany a carbon charge, and that consequently they were more politically acceptable.

Q21 If a project programme was to be used for energy, what part of the sector should it cover and who should provide the incentive?

The majority of submitters who specifically commented on this question said that if there was a project-based measure it should focus on stationary energy. However, some environmental NGOs suggested that it should be broader and encompass the agriculture and transport industries. Some industry groups and business NGOs suggested that energy efficiency should be a focus.

Few submissions commented on who should provide the incentive, but those that did suggested that the Crown should fund it. One submitter argued for this on the basis that any liability under Kyoto will be funded via general taxation, so the Crown should also provide the incentives.

Q22 Should the incentive be provided upfront (and with claw-back provisions for non-delivery) or subsequent to delivery of abatement (as in PRE)?

Few submitters explicitly answered this question. Of those who did, responses were split. Some saw the benefits of the incentive being provided upfront, because this would ensure that complex or costly projects could succeed. Others said the incentive should be provided subsequent to delivery of abatement, because this prevents abuse of the system and makes administration easier.

Q23 Are there any experiences with PRE you would like to bring to the attention of officials considering policy options for the energy sector?

Few submitters had direct experience with PRE. However, those who commented on it, particularly business and industry groups, were largely positive. The flexibility of the scheme was praised, as were the low transaction costs involved.

Some submitters suggested some ideas to modify PRE. A few of these considered that the major problem with PRE was 'additionality', either because it was too difficult to determine the 'additionality' of some schemes, or because additionality should not be a requirement.

Some submitters suggested that any project-based measure should be simpler than PRE. PRE was also criticised because it does not cover small projects, or because the relatively small projects that were supported resulted in a bundle of credits that were too small to sell.

Regulatory measures

Forty-four submissions held a clear view on directive regulation relating to the stationary energy sector. Of these, 59% were in support.

Many submitters referred generally to directive regulation as a short-term measure, but not necessarily specific to the stationary energy sector. Some submitters, primarily environmental NGOs and individual submitters, supported directive regulation as an interim measure before implementing an emissions trading scheme, or as a supporting measure in combination with price-based measures.

Q24 What impact would you expect regulatory measures to have on energy prices?

Q25 What impact would you expect regulatory measures to have on security of electricity supply?

Q26 In addition to the measures discussed in this section, are there examples of regulatory barriers that need to be identified?

Q27 What activity should a national environment standard target?

Of those submissions that commented on the use of regulation specific to the stationary energy sector, submissions from groups representing emitters (eg, industry and business groups) generally wanted as little regulation as possible, suggesting it would be distortionary and inflexible. However, environmental NGOs and some renewable energy providers favoured regulations such as imposing minimum standards.

The idea of a consolidated consenting process was put forward in the draft New Zealand Energy Strategy, but two submitters to the *Transitional Measure* discussion document made explicit comments about it. One of these submitters favoured consolidated consenting, and suggested that it would improve the efficiency of the Resource Management Act (RMA). The other submitter opposed consolidated consenting, believing that it would:

- slow down the RMA process
- result in well-researched schemes being considered alongside poorly researched schemes, with undue weight given to those of lower quality
- detract from the ordered consideration of schemes
- cause trade-offs between schemes irrespective of their collective merit
- cause increased confusion among authorities, resulting in uncertainty for applicants.

Some other submitters were concerned about the perceived lack of consistency in the consideration of schemes through the RMA, both over time and between local authorities. Although these submitters did not explicitly mention a consolidated consent process, they expressed a desire for greater consistency between applications to provide more certainty for those who are planning projects.

Few submissions commented specifically on the increased use of call-in powers, but the relative majority of those who did comment supported its use. Some of these submitters wanted additional variations, such as having a requirement for complex or significant projects to go directly to the Environment Court. Some thought that call-in powers would be unnecessary if other measures were introduced.

Many submitters from a range of sectors expressed views on the RMA and how it affects new energy generation. A key message from some was that because local authorities concentrate on local costs at the expense of national benefits, local authorities are not the appropriate body to consider large-scale energy generation applications. Two environmental NGOs noted that outside of section 104E there is no ability for local government to consider climate change when making decisions, and that climate change should be able to be included in local decision-making.

Some submitters thought that the RMA is slow, costly and unpredictable. One suggested increasing funding of the Environment Court, and a number of others suggested incentives and penalties for local authorities (and, in one instance, the Environment Court) to ensure that timeframes are followed.

There was strong support from some submitters, including environmental NGOs and energy providers, for a national policy statement (NPS) on electricity generation under the RMA. Submitters from energy groups considered that an NPS would give clear guidance to developers of new generation capacity as to what is considered acceptable and where developments could occur, and that it would create consistency across different consenting bodies. Submitters from some environmental NGOs and individuals considered an NPS an appropriate mechanism for achieving emissions reductions.

Some submitters disagreed with the need for an NPS, while others thought that instead a well-documented standardised approach for resource consent applications should be issued. Some submissions from local authorities considered that an NPS would be impractical and that it should not urge the primacy of renewables.

The relative majority of submitters who commented thought that increased regulatory measures would negatively affect electricity prices, although some thought that this would be insignificant. Likewise, some of these submitters commented that the effect of increased regulation would be to lessen security of supply, although a few thought it would help by mandating what was required.

Some submissions from the energy sectors were very critical of the current regulatory environment relating to competition and the impact this is having on investment in renewable generation. These submissions suggested that this is due to government ownership of Transpower and most electricity generation. They felt that attempts to establish distributed renewable generation were being prevented by anti-competitive practices by Transpower and lines companies, and they wanted a fairer regulatory set-up for renewable distributed generation.

Voluntary measures

Thirty-six submissions had a clear view on short-term voluntary agreements in the stationary energy sector. Of these, 67% were in support. Many submitters referred generally to voluntary agreements as a short-term measure, but did not necessarily restrict their comments to the stationary energy sector.

Q28 What process should be used to develop voluntary agreements for generators?

Q29 Can voluntary agreements be used as an effective tool to make the transition to long-term price-based measures?

Of those submissions that commented specifically on voluntary agreements for the stationary energy sector, opinions were clearly split in their support or opposition to voluntary measures. The majority of submissions from business and industry groups emphasised voluntary rather than mandatory measures as being the most efficient way of achieving reductions. Some of these submitters regarded voluntary measures as an effective transitional measure leading towards a mandatory scheme in the future. Some who supported voluntary measures considered they should be broad-based, including sectors other than stationary electricity generation.

In terms of design, some submitters favoured an approach based on the principles of the Negotiated Greenhouse Agreements (NGAs).[2]

The majority of submissions from individuals, renewable electricity generators, and environmental NGOs did not support the use of voluntary measures as transitional measures. Several of these submitters noted that between 1990 and 2006 emissions rose by 22% under voluntary schemes. These submitters considered that voluntary schemes can be subject to gaming and informational asymmetries, and are ineffective because they are not binding. They considered that voluntary schemes are a poor substitute to more direct measures, such as price-based measures. Some of these submitters gave limited support to voluntary measures when used in conjunction with other mandatory measures.

Overarching comments

What key objectives should steer the choice of transitional measures in the stationary energy supply sector?

Many submitters who provided comment on the key objectives considered that one or more of the following issues needs to be a key objective:

- protecting the competitiveness of New Zealand firms
- keeping in line with the actions of New Zealand's major trading partners
- employing a broad-based design that applies across all sectors of the economy.

[2] NGAs were developed in preparation for the previously proposed carbon tax in New Zealand. Under NGAs, New Zealand firms whose international competitiveness would have been affected by the carbon tax could apply to negotiate an agreement with the Crown. This agreement would have given them full or partial exemption from the carbon tax, in exchange for agreeing to move towards world's best practice in emissions management.

Who should bear the costs of the measures – emitters, consumers or the government?

Some submitters noted that under any narrowly focused price-based measure, the cost will ultimately fall to consumers. Some submitters from environmental NGOs and energy groups considered that fossil fuel producers and those who import fossil fuels should bear the cost of any price-based measure. A few submitters from business and industry groups considered that during the transitional period the costs should be carried by the government. These submitters considered that as policy measures are developed, there will be opportunities for a gradual devolution of emission credits and liabilities to emitters.

Certainty of price or certainty of outcome?

Forty-two submissions had a clear stance on the relative importance of certainty of price over certainty of outcome. Of these, 60% considered that certainty of price is more important than certainty of outcome.

Some submitters felt that certainty of price and outcome are of equal importance. However, in general, business and industry groups sought certainty of price, while individual, community and environmental NGOs considered certainty of outcome (eg, through emission reduction targets) to be of greater importance.

3 Additional Comments in Submissions

Several submitters made comments that were not covered by questions in the *Transitional Measures* discussion document but which are relevant to climate change policy development. These comments related to:

- competitiveness issues
- coverage of a price-based measure
- taking account of other existing or proposed policies
- Māori submissions
- further consultation and communication
- criticism or praise for the consultation documents.

Competitiveness issues

Forty-two submissions had a clear stance on 'competitiveness at risk'. Of these, 93% considered competitiveness at risk to be an important issue. Submitters from a wide range of sectors – particularly business, industry, energy and government – commented on this issue. Many industry and business submitters expressed concern that insufficient consideration had been given to competitiveness-at-risk issues in the *Transitional Measures* discussion document.

A range of solutions was suggested to address competitiveness-at-risk issues, including gratis allocation methods under any emissions trading measure, NGA-style agreements with exemptions from price measures, and alignment with major trading partners.

One submission supported the use of emission reduction agreements (ERAs) for competitiveness-at-risk firms. The submission noted that any ERA process must involve union consultation, because change of work patterns, loadings and technologies is inherent in any ERA. The submission also noted that an effective way to mobilise collective action is to have clear targets for emissions reductions and practicable mechanisms for achieving those targets.

This submission also argued that transitional measures could include improving the capacity of major emitters to measure, monitor and report on emissions; increasing the capacity of major emitters to participate in emissions trading; and developing measures to influence investment in new plant capacity.

Coverage of a price-based measure

Some submitters criticised narrow price-based measures because they believe that such measures would be better suited to sectors that have a reasonable number of emitters and where the transaction costs of including those emitters are not unreasonably high. These submitters noted that New Zealand has only three thermal electricity generators and around 15 large industrial companies, so a narrow price-based measure would result in very high transaction costs for a small percentage of emissions being covered. They suggested that this would create very limited opportunities to find least-cost abatement.

The relative majority of submitters across a wide range of sectors – including individuals, environmental NGOs, business, industry and energy submitters – considered that any price-based measure must be broad-based and apply to all sectors of the economy.

Taking account of other existing or proposed policies

Some submissions expressed concern that any transitional measure would need to be consistent with policies adopted in the post-2012 environment. Some submitters considered it more important that the longer-term post-2012 policy be designed correctly, and that 'stop-gap' interim measures that might constrain the design of post-2012 policy should be avoided.

Comments specific to Māori submissions

Submissions from Māori organisations emphasised a number of concerns, including:

- the status of Māori as Treaty partner
- the need for an integrated Sustainable Development Strategy as a starting point for climate change policy development
- the importance of considerations of equity across economic sectors in terms of policy impact
- the incorporation of tikanga/value-based and evidence-informed analysis of climate change impacts
- the need to consider the specific issues and realities facing Māori communities
- the need for greater collaboration between government agencies on climate change
- the need for inter-departmental resourcing of an active Māori reference group on climate change, with Māori determining the representation.

Further consultation and communication

Many stakeholders, particularly Māori and industry groups, expressed an expectation or desire for further consultation on detailed preferred options, supported by further quantitative analysis of impacts, prior to final Cabinet policy decisions. Industry groups recommended that further consultation be undertaken so that policies can be developed in a thorough and open way, in order to achieve widespread 'buy-in'.

Criticism or praise for consultation documents

During public consultation meetings and in some submissions on the discussion documents, some stakeholders noted that the discussion documents presented high-level policy options and did not include detailed information on policy design or cost-benefit analysis of policy impacts. A number of submitters criticised a perceived lack of coherence and consistency between the various climate change consultation documents.

Some submitters felt there was ambiguity over which transitional measures were limited to the discussion of the energy sector, and which were more wide-ranging. This was reflected in submissions, in that many were unclear as to whether the submissions referred to the stationary energy and/or industrial processes sector, and what time period they referred to (eg, pre- or post-2012).