

Impact Summary: NZ ETS regulation updates 2019 – updating emission factors for natural gas opt-in participants

Section 1: General information

Purpose
The Ministry for the Environment is solely responsible for the analysis and advice set out in this Regulatory Impact Statement. This analysis and advice has been produced for the purpose of informing final decisions to proceed with a policy change to be taken by Cabinet.
Key Limitations or Constraints on Analysis
There are no limitations or constraints on the analysis in this summary.
Responsible Manager
Mark Storey Manager, Climate Change Policy Ministry for the Environment

Section 2: Problem definition and objectives

2.1 What is the policy problem or opportunity?
<p>Natural gas miners and NZ ETS opt-in participants use the methodologies and emissions factors in the Climate Change (Stationary Energy and Industrial Processes) Regulations 2009 (SEIP regulations) to calculate their emissions.</p> <p>Gas miners, using the methodologies, are required to run various tests on their gas to calculate an emissions factor specific to their field. They are required under the NZ ETS to report the amount of gas they mine and sell each year. This data allows the calculation of emissions factors for natural gas fields (“classes” in the regulations). This table of emissions factors and fields are updated each year in the Climate Change (Stationary Energy and Industrial Processes) Regulations 2009.</p> <p>Changes to the chemical composition of mined gas and the mix of producing gas fields result in variation in emissions per unit of energy produced. The regulations provide up to date emissions factors so that downstream users can avoid costs in measuring and testing the chemistry of the natural gas they consume. This increases accuracy of reporting and avoids compliance costs.</p> <p>An opt-in participant is a person who voluntarily takes NZ ETS obligations instead of their fuel supplier and who meets particular criteria, including volume of fuel purchased. Opt-in participants do not perform the same gas tests as the miners. They report emissions by</p>

referring to the gas field-specific and national average default emissions factors (DEFs) that are provided in Table 10 of the SEIP regulations in Schedule 2.¹

The DEFs in Table 10 need to be updated each year because the chemistry of natural gas from a mine is not constant. Not amending Table 10 will lead to gas purchasing (opt-in) participants inaccurately reporting emissions in the NZ ETS.

The DEFs are calculated from the emissions returns of natural gas miners.

2.2 Who is affected and how?

The persons impacted by this change are opt-in natural gas purchasing participants. The change will allow these NZ ETS participants to report their emissions accurately for the next reporting period and will continue to keep administrative costs low for opt-in participants.

2.3 Are there any constraints on the scope for decision making?

There are no constraints on the scope for decision making, or interdependencies or connections.

Section 3: Options identification

3.1 What options have been considered?

Aside from no change, the only option is to update table 10 for gas fields with DEFs calculated from the latest data.

If table 10 is not updated, then the DEFs will not accurately reflect the emission factors for natural gas currently mined from natural gas fields.

3.2 Which of these options is the proposed approach?

The preferred option is to update Table 10.

¹ See Table 10 at the end of this webpage:

<http://www.legislation.govt.nz/regulation/public/2009/0285/latest/DLM2390302.html>

Section 4: Impact Analysis (Proposed approach)

4.1 Summary table of costs and benefits

Affected parties	Comment:	Impact
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Additional costs of proposed approach, compared to taking no action

Regulated parties (Opt in participants)	Nil	Nil
Regulators	Nil	Nil
Wider government	Nil	Nil
Other parties	Nil	Nil
Total Monetised Cost	Nil	Nil
Non-monetised costs	Nil	Nil

Expected benefits of proposed approach, compared to taking no action

Regulated parties (Opt in participants)	<p>Reduced administration and compliance costs. Opt-in participants have confirmed that retaining up to date, gas field specific, DEFs allow them to verify the source and DEFs of emissions. This enables these parties to make informed commercial decisions, promoting market efficiency.</p> <p>The changes to the chemical composition of mined gas and the mix of producing gas fields are material in terms of meeting NZ ETS obligations.</p>	Low
Regulators	<p>NZ ETS regulations contribute to the objectives of the NZ ETS and must be accurate, efficient and clear. Accuracy requires ensuring the methodologies and emissions factors used in the regulations are as close as practically possible to those used in the Inventory, otherwise participants or the Government will incur costs for emissions that are either not occurring or are not covered by New Zealand's international obligations.</p> <p>The proposal improves the accuracy of the NZ ETS by keeping emissions factors for natural gas as up to date</p>	Nil

	as possible.	
Wider government	Nil	Nil
Other parties	Nil	Nil
Total Monetised Benefit		Low
Non-monetised benefits		Nil

4.2 What other impacts is this approach likely to have?

There will be no other impacts from the proposed approach. There are no risks or uncertainties.

Section 5: Stakeholder views

5.1 What do stakeholders think about the problem and the proposed solution?

Feedback from consultation in 2016, 2017 and 2018 was that opt-in participants in particular (and some gas miners) strongly supported the retention and regular updating of the table. Feedback from consultation in 2019 was received from one opt-in participant that supported the regular updating of the table.

Updating Table 10 is a routine update to the SEIP regulations.

Section 6: Implementation and operation

6.1 How will the new arrangements be given effect?

The updated Table 10 in the SEIP regulations will come into force from 1 January 2020 through amendment regulations. The implementing agency for the SEIP regulations is the Environmental Protection Authority. There are no implementation risks.

Section 7: Monitoring, evaluation and review

7.1 How will the impact of the new arrangements be monitored?

This is a regular and technical update to DEFs calculated from the annual emissions returns of natural gas miners. MfE will continue to update DEFs for natural gas annually.

7.2 When and how will the new arrangements be reviewed?

An update to Table 10, to apply from 1 January 2021, will be developed as part of the annual NZ ETS regulation updates work next year.