



Talking points for ENV committee - proposed consultation on NZ ETS and SGG levy regulation updates

Date Submitted:	31 March 2021	Tracking #: 2021-B-07761	
Security Level	In Confidence	MfE Priority:	Non-Urgent

	Action sought:	Response by:
To Hon David Parker, Minister for the Environment	Read before ENV meeting on 8 April	N/A
CC Hon James Shaw, Minister of Climate Change		

Actions for Minister's Office Staff	Return the signed report to MfE.
Number of appendices and attachments 1	Supplementary talking points for ENV, 8 April 2021: Proposed consultation on changes to NZ ETS and SGG levy regulations

Ministry for the Environment contacts

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Talking points for ENV 8 April 2021 - Proposed consultation on changes to NZ ETS and SGG levy regulations

1. This briefing provides you with talking points for presenting the Cabinet paper: *Terms of reference for the industrial allocation policy review* [2021-C-07622]. Key points are:
 - These changes are independent from the broader climate change reform programme.
 - These changes to regulations are more extensive than in previous years.
 - Two updates relate to recommendations in the Climate Change Commission’s draft advice.

Recommendations

2. We recommend that you:
 - a. **Note** the key talking points above and the supplementary talking points attached in Appendix 1 for you to use at ENV on 8 April 2021.

Signature



31 March 2021

Fraser Wyeth
Manager NZ ETS Markets
Climate Change

Hon David Parker
Minister for the Environment

Date

Appendix: Supplementary talking points for ENV, 8 April 2021: Proposed consultation on changes to NZ ETS and SGG levy regulations

This paper seeks approval to release a consultation document on changes to NZ ETS and SGG levy regulations

1. Updates and changes to NZ ETS and SGG levy regulations are considered each year to meet legislative requirements and address any issues that have arisen.
2. These updates are independent from the broader NZ ETS and climate change reform programme.
3. The proposed regulation changes for 2021 are more substantial than in previous years. This is because they not only address issues that have arisen during 2020, but also include:
 - new legislatively required annual updates,
 - new regulations,
 - updates that weren't able to be progressed during 2020.
4. Two of the updates relate to recommendations in the Climate Change Commission's draft advice. These are the updates to unit supply and auction price limits, and the proposal to update the global warming potential reference data to reflect the United Nations Intergovernmental Panel on Climate Change fifth annual report.
5. The consultation paper also references the work to implement infringement offence regulations, noting that this has already been consulted on.

Eight proposed sets of changes will be consulted on.

Three are significant.

6. The most significant change is the update to the unit supply and auction price control settings. This update is required to extend the years covered by these settings out to 2026. Changes to prior years are also considered. Options presented reference the recommendations on emissions budgets and price settings contained in the Climate Change Commission's draft advice, including the recommendation to increase the cost containment reserve trigger price in NZ ETS auctions from \$50 to \$70 from 2022. Changes to volumes of units available for auction are also considered.
7. The proposed update to the electricity allocation factor (EAF) used in industrial allocation, and creation of a new process for regular updates is significant as the EAF was a key contributor to calculating the allocative baselines used in determining free allocation to export intensive, trade exposed emitters. Due to current Act wording, a further process is required for any updates to allocative baselines other than for calculating emissions from large electricity contracts. This was not the policy intention and solutions to this problem are being developed, including through the review of industrial allocation policy.
8. The proposed update to NZ ETS and SGG levy reference data to consider updates to global warming potentials is significant due to the fact that this also considers a recommendation from the Climate Change Commission's draft advice. Updates will in some sectors have material impacts on the calculation of emissions with consequential NZ ETS cost impacts.

Five are less significant.

9. The remaining proposed changes are:
- to update emissions factors for waste to reflect most recent composition data,
 - to update emissions factors for natural gas to reflect most recent composition data,
 - to more accurately address the emissions from waste extracted from closed landfills for subsequent disposal in a landfill covered by the NZETS,
 - to update the schedule of goods covered by the SGG levy to address the risk of goods containing SGGs being imported but not captured by the levy, and
 - to create new regulations for the appointment of an auction monitor for NZ ETS auctions.

Consultation

10. Section 3B of the Act requires you to consult with people (or their representatives) who appear likely to be substantially affected by any regulatory change. Section 3A of the Act requires you to consult representatives of iwi and Māori that appear likely to have an interest in the regulations you recommend.
11. The consultation document will be released by the Ministry for the Environment on its website, and affected people will be contacted and invited to make submissions.

Next steps

12. A paper seeking policy recommendations and issuance of drafting instructions will be put to Cabinet in July. Amendment regulations will be published in the Gazette by late September.
13. Drafting the amendments will be combined with other technical regulations updates that do not require policy decisions or consultation. These include the annual update to synthetic greenhouse gas levy rates, and technical corrections to tariff codes used to reference liquid fossil fuels.