



# Cabinet Environment, Energy and Climate Committee

## Minute of Decision

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### New Zealand Emissions Trading Scheme and Synthetic Greenhouse Gas Levy Regulation Changes 2021: Consultation Report Back

Portfolio                      Climate Change

On 5 August 2021, the Cabinet Environment, Energy and Climate Committee:

#### Background

- 1        **noted** that in April and May 2021 the Ministry for the Environment undertook public consultation on proposals to address specific updates to the New Zealand Emissions Trading Scheme (NZ ETS):
  - 1.1      updating unit limit and auction price control settings;
  - 1.2      updating the default emissions factor for waste and natural gas fields;
  - 1.3      updating default emissions factors and other reference data to take into account new global warming potentials;
  - 1.4      improving the methodology that accounts for the re-disposal of waste in the NZ ETS;
  - 1.5      updating the electricity allocation factor methodology and value used in industrial allocation;
  - 1.6      updating the schedule of goods covered by the synthetic greenhouse gas levy;
  - 1.7      implementing new regulations for an NZ ETS Auction Monitor;

#### Updating unit limit and auction price control settings

- 2        **noted** that the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 need to be updated to include 2026 values for unit limit settings and price control settings;
- 3        **noted** that updates to other years can also occur;
- 4        **noted** that increases to the price control settings may result in NZ Units (NZU) prices continuing to increase;

5 **noted** that:

5.1 a higher NZU price is likely to increase the incentive for forestry (primarily pine trees) as the lowest cost abatement option;

5.2 work on the Emissions Reduction Plan is intended to address these implications with decisions to be made later in 2021;

6 **agreed** to make updates to Schedule 3 of the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 as detailed in the tables below:

**Limits**

Column 1	Column 2	Column 3	Column 4
Calendar Year	New Zealand units available by auction (millions)	Approved overseas units used (millions)	Overall limit on units (millions)
2021	unchanged	unchanged	unchanged
2022	unchanged	unchanged	unchanged
2023	unchanged	unchanged	unchanged
2024	25.0	0	32.9
2025	23.3	0	29.6
2026	21.7	0	27.9

**Price Control Settings**

Column 1	Column 2	Column 3	Column 4
Calendar Year	Minimum price below which units must not be sold by auction (\$)	Trigger price for sale of reserve amount of New Zealand units (\$)	Reserve amount of New Zealand units (millions)
2021	unchanged	unchanged	unchanged
2022	30.00	70.00	unchanged
2023	32.10	78.40	unchanged
2024	34.35	87.81	unchanged
2025	36.75	98.34	6.8
2026	39.32	110.15	6.7

**Updating the default emissions factor for waste and natural gas fields**

7 **noted** that emissions factors for waste and natural gas fields need to be updated to align with the most recent waste and natural gas composition data;

8 **agreed** to update the waste default emissions factor from 1.19 to 0.91 in regulation 5(1)(a) of the Climate Change (Waste) Regulations 2010;

9 **agreed** to update the waste default emissions factor used in the calculation of a unique emissions factor from 1.19 to 0.91 in regulation 23C(1)(g) of the Climate Change (Unique Emissions Factors) Regulations 2009;

- 10 **agreed** that Schedule 2 Table 10 of the Climate Change (Stationary Energy and Industrial Processes) Regulations 2009 be updated with emissions factors and classes based on 2020 calendar year data;

#### **Updating default emissions factors and other reference data to take into account new global warming potentials**

- 11 **noted** that emissions factors and reference data in the NZ ETS and Synthetic Greenhouse Gas (SGG) levy use GWP100 values from the Fourth Assessment Report (AR4) of the Intergovernmental Panel on Climate Change (IPCC);
- 12 **noted** that the IPCC released its Fifth Assessment Report (AR5) in 2014 and updated the GWP100 values for all greenhouse gases, including methane and nitrous oxide;
- 13 **noted** that New Zealand's first nationally determined contribution (NDC1) under the Paris Agreement was also submitted using AR4 reference data;
- 14 **noted** that consistency between NZ ETS and SGG levy data and New Zealand's international obligations, targets, and emissions budgets is required;
- 15 **noted** that New Zealand's first emissions budget must be set in 2021, and an update to NDC1 is also likely to occur in 2021;
- 16 **agreed** to updating NZ ETS and SGG Levy reference data to reflect AR5 GWP100 values if a decision is taken to update NDC1 or set first emissions budgets in reference to AR5 reference data;
- 17 **noted** that updating default emissions factors and other reference data will require updates to the following regulations:
- 17.1 Climate Change (Liquid Fossil Fuels) Regulations 2008;
  - 17.2 Climate Change (Other Removal Activities) Regulations 2009;
  - 17.3 Climate Change (Stationary Energy and Industrial Processes) Regulations 2009;
  - 17.4 Climate Change (Synthetic Greenhouse Gas Levies) Regulations 2013;
  - 17.5 Climate Change (Unique Emissions Factors) Regulations 2009;
  - 17.6 Climate Change (Waste) Regulations 2010;

#### **Improving the methodology that accounts for the re-disposal of waste in the NZ ETS**

- 18 **noted** that the NZ ETS settings result in calculations of emissions from waste that is re-disposed that are inconsistent with actual emissions;
- 19 **noted** that this inconsistency, referred to in paragraph 19, could result in negative environmental outcomes with respect to the management of closed landfills at risk of flooding and erosion;

- 20 **noted** that section 60 of the Climate Change Response Act 2002 (the Act) allows the Minister of Climate Change to recommend the making of an Order in Council exempting a person or class of persons from emissions liabilities under the NZ ETS if certain tests are met;
- 21 **noted** that the Minister of Climate Change is satisfied that the relevant tests have been met;
- 22 **noted** that the Minister of Climate Change has had regard to the required matters under section 60(3) of the Act and that the required consultation under section 60(5) of the Act has been undertaken;
- 23 **agreed** to make regulations to amend the Climate Change Response (General Exemptions) Order 2009 to provide a full exemption from NZ ETS obligations for redispersing waste from closed landfills;

#### **Updating the electricity allocation factor methodology used in industrial allocation**

- 24 **noted** that a new methodology for calculating the electricity allocation factor (EAF) used as a component of allocative baselines used for industrial allocation was supported by submitters;
- 25 **noted** that any change to the EAF value from implementing this new methodology would require a subsequent regulatory amendment process to incorporate the changed EAF in allocative baselines;
- 26 **invited** the Minister of Climate Change to report back to the Cabinet Environment, Energy and Climate Committee before the end of 2021 with further details on the methodology and options for its implementation;

#### **Updating the schedule of goods covered by the synthetic greenhouse gas levy**

- 27 **noted** that the synthetic greenhouse gas levy fails to include all imported goods containing synthetic greenhouse gases;
- 28 **noted** that updates to the working tariff document are required to allow for extending the levy coverage;
- 29 **agreed** to extending the synthetic greenhouse gas levy to cover products containing R407C, R407F, R513A, R448A & R449A, R452A and HFC-365mfc as described in table 1 of appendix one to the paper under ENV-21-SUB-0041;
- 30 **noted** that drafting will not be able to occur in time for these to be in effect until 1 January 2023;
- 31 **noted** that there are some minor errors and inconsistencies in the descriptions of some SGG contents and amounts in the SGG Levy regulations;
- 32 **agreed** to update the Climate Change (Synthetic Greenhouse Gas Levies) Regulations 2013 to address these minor errors and inconsistencies as described in tables 2 and 3 of appendix one to the paper under ENV-21-SUB-0041;

**Implementing new regulations for an NZ ETS auction monitor**

- 33 **noted** that regulations need to be made to enable the appointment of an auction monitor for NZ ETS auctions;
- 34 **noted** that there is interplay between the auction monitor role and work underway on market governance in the NZ ETS;
- 35 **agreed** to the making of regulations for an auction monitor under section 30GD of the Act;
- 36 **noted** that regulations can include prescribed appointment method or process and specified functions;
- 37 **agreed** to allow the Minister of Climate Change to appoint an auction monitor on behalf of the Crown;
- 38 **noted** that this will also require that the regulations prescribe that the person appointed be independent of any auction agents and any persons who are likely to be auction participants;
- 39 **agreed** that the following be included as functions of the auction monitor:
- 39.1 validating auction results;
- 39.2 publishing reports on the results of auctions;
- 40 **noted** that regulations can specify additional functions of the auction monitor;
- 41 **agreed** that the regulations made will also include the following specified functions of the auction monitor:
- 41.1 monitoring the conduct of any auction agents and auction participants;
- 41.2 providing periodic assessments of the auction system and making recommendations for improvements;
- 41.3 calculating additional specified metrics in respect of the auction process and auction results (such as bid volume statistics and relevant aggregate information);
- 42 **noted** that in March 2020, the Cabinet Economic Development Committee agreed to the auction monitor publishing a report on the outcome of each auction before the next auction occurs, including detail of the information to be included in that report [DEV-20-MIN-0047];
- 43 **agreed** to prescribing this previously agreed report content in regulation;
- 44 **authorised** the Minister of Climate Change to further clarify and develop policy matters relating to the auction monitor regulations outlined above, in a way not inconsistent with Cabinet's decisions;

**Legislative implications**

- 45 **authorised** the Minister of Climate Change to further clarify and develop policy matters relating to the amendments outlined above, in a way not inconsistent with Cabinet's decisions;

- 46 **invited** the Minister of Climate Change to issue drafting instructions to the Parliamentary Counsel Office in order to promulgate amendment regulations by 26 September 2021 for:
- 46.1 updating unit limit and auction price control settings;
  - 46.2 updating the default emissions factors for waste and natural gas fields;
  - 46.3 improving the methodology that accounts for the re-disposal of waste in the NZ ETS;
  - 46.4 updating the schedule of goods covered by the synthetic greenhouse gas levy to address known inconsistencies;
- 47 **invited** the Minister of Climate Change to issue drafting instructions to the Parliamentary Counsel Office in order to promulgate further amendment regulations at a later date consistent with Cabinet decisions in the paper under ENV-21-SUB-0041.

Vivien Meek  
Committee Secretary

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**Present:**

Hon Grant Robertson  
Hon Kelvin Davis  
Hon David Parker (Chair)  
Hon Stuart Nash  
Hon Willie Jackson  
Hon Michael Wood  
Hon James Shaw

**Officials present from:**

Office of the Prime Minister  
Officials Committee for ENV  
Ministry for the Environment