14 June 2024

Ministry for the Environment

Annual updates to New Zealand Emissions Trading Scheme limits and price control settings for units 2024

Meridian Energy Limited (**Meridian**) appreciates the opportunity to comment on Manatū Mō Te Taiao – Ministry for the Environment's (**MfE**) consultation document on annual updates to New Zealand Emissions Trading Scheme limits and price control settings for units 2024.

Introduction

New Zealand is not on track to achieve its NDCs. Settings in the NZETS and broader emissions policies should strive to reduce emissions further so that New Zealand avoids additional exposure to the costs of offshore reductions and/or a role in undermining the seriousness and effectiveness of the Paris commitments globally. In Meridian's opinion, structural changes to the NZETS are required beyond the scope of the consultation paper.

Forestry and its role within the NZETS

Meridian agrees with He Pou a Rangi – Climate Change Commission (the **Commission**) that the current NZETS settings in respect of forestry removals may dilute the effectiveness of the NZETS in influencing both the cost of emitting and the rate of reduction of gross emissions. As the Commission noted in its 2023 Advice on the direction of policy from the Government's second emissions reduction plan, the NZETS – as it is currently structured – is highly unlikely to drive the gross emissions reductions consistent with the Commission's recommendations and the demonstration pathway.[1]

Relying heavily on forestry before 2050 is likely to make maintaining net zero long-lived greenhouse gas emissions after 2050 difficult, and currently risks delaying action on

[1] He Pou a Rangi Climate Change Commission "2023 Advice on the direction of policy for the Government's second emissions reduction plan" at p 41, and chapter 5 generally.

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fundamental reductions in gross emissions, leading to higher cumulative emissions and making the job ahead of us more difficult. Forestry has many benefits and is no doubt an important tool for achieving New Zealand's targets. However, the availability of comparatively cheap forestry units currently dilutes the effectiveness of the NZETS in influencing both the cost of emitting and the rate of reduction of gross emissions.

In our opinion, there is an urgent need for careful policy action to adjust the role of forestry removals in the NZETS and prioritise the reduction of gross emissions – especially if the Government intends to manage emissions with only limited use of non-NZETS policy. Non-NZETS policy like the now-disestablished Government Investment in Decarbonising Industry (**GIDI**) fund was able to influence the underlying economics of industrial decarbonisation projects directly.

Non-NZETS policy as additional support for emissions reduction

In Meridian's experience, the now disestablished GIDI fund was a key enabler of the underlying economics for many industrial decarbonisation projects.

These opportunities not only cut emissions at the source but also help to support business cases for investment in new renewable generation, and may come with demand response options which help to ensure security of electricity supply.

Price seems to be the main barrier to industrial decarbonisation. The GIDI fund was having an impact on this barrier and the pace of electrification. Some of our customers have now deferred decarbonisation projects. Under the current NZETS settings it does not appear that NZETS prices alone will be sufficient to maintain the pace of industrial emissions reductions.

Concluding remarks

This submission is not confidential. I can be contacted to discuss any of the points made.

Nāku noa, nā

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Appendix

Responses to consultation questions

	Question	Response
1	What do you think of each of the options presented for step 1? What is your preferred option? Is there any other option that you think we should consider?	Meridian agrees with the Commission's approach on this issue – including the view that Option 3 should be urgently investigated as a part of the Government's overall approach to the NZETS. Meridian supports Option 2 but would support Option 3 as part of structural changes to the NZETS.
2	If option 3 for step 1 was proposed, what criteria could be used to identify eligible reductions and removals?	In our opinion, Option 2 is in many ways theoretically preferable to Option 3. It represents a more "pure" approach: - it makes it easier to monitor the activity of the NZETS, - it may make investment decisions more straightforward (as participants are not required to guess at the future decarbonisation activity of other participants), and - it avoids difficult philosophical problems around defining what reduction responses were caused by non-NZETS policy (or the possible extents of this). An implementation of Option 3 might for example require questions about whether the purpose of a non-NZETS policy was to drive emissions reductions, or cost reductions for households (i.e. the policy intent was actually to increase NZU availability), However, if a "pure" approach is taken, then the NZETS needs to be adjusted to support gross emissions reductions. NZU prices

		remain near the auction floor, thanks in part to the treatment of forestry units. The current settings limit the ability of the NZETS price corridor to drive emissions reductions, because forestry can already supply those NZUs more cheaply than the price corridor. Therefore, our view is that there is currently no scope to use a "pure" approach more aggressively without more fundamental changes to the NZETS that are outside the scope of the consultation paper.
3	Do you agree with the calculation for step 2? If not, why not? Do you have any evidence or information to suggest a different share of the emissions budget?	Meridian agrees with MfE's calculation.
4	Do you agree with the calculation for step 3? If not, why not? Do you have any evidence or information to support a different option?	Meridian agrees with this adjustment.
5	Do you agree with the calculation for step 4? If not, why not? Do you have any evidence or information to support a different option?	Meridian agrees with MfE's calculation.
6	Do you agree with the Commission's surplus methodology and estimate? If not, why not?	Meridian agrees with the Commission's recommendations.
7	What is your preferred option for step 5? Is there any other option that you think we should consider?	Meridian supports Option 3. Smoothing the effects of the surplus rebalancing ensures stable cost-paths and will ultimately smooth the impacts for households. We consider this justified under s 30GB(5) on the basis that the change has significant beneficial impacts for little cost.
8	We are interested in your views on the Commission's interpretation of increased transfers of pre-1990 units. Do you think	Meridian does not have specific experience with this issue and has no comments.

	the sale of pre-1990 units have increased? If so, what factors are influencing this?	
9	What is your preferred option for the price control corridor? Is there any other option that you think we should consider? What factors should inform the price these are set?	Meridian does not support lowering the price corridor and so strongly prefers Option 1. As MfE identifies, the only benefit of Option 2 is that is softens the impacts on households, but this comes at the direct costs of, for example: - our reduction ambitions, - the stability of the NZETS and trust of its participants that settings will be sufficiently consistent for decision-making purposes, - the cost-benefit and profitability pathways for existing and future decarbonisation investments, and, ultimately - our chances of limiting warming. We note it is not actually clear that Option 2 would benefit the economy – if the economy is properly supported then investment in emissions reduction may bring its own economic benefits in the medium term.
10	Do you consider a price corridor (ie, an auction floor price and a CCR), to be important? Why or why not?	Meridian considers the price corridor to be important. It presents a manifestation of the emissions budget as a price path, and this is useful for measuring the health of market-based discovery and the NZETS scheme as a whole, including for example the overabundance of forestry units.
11	What is your preferred option for the CCR volume? Is there any other option that you think we should consider?	Meridian strongly supports Option 1. The reduction in surplus volume was intended by previous settings decisions. Increases in the cost of NZUs is an inevitable but necessary part of the scheme and the work

		to manage surplus volumes back to more appropriate levels should not be discarded.
12	Do you agree with our impact analysis? Are there any further impacts that should be considered, which we have not captured in our analysis?	Meridian notes its general agreement with MfE's assessment of the impacts on landowners, including the option value of switching agricultural land to forests. We suggest that this highlights the need for reconsideration of the role of forestry within the NZETS.