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Environment Select Committee
Parliament Buildings
Wellington

By email: en@parliament.govt.nz

Climate Change Response (Emissions Trading Reform) Amendment Bill

Transpower New Zealand Limited (**Transpower**), the owner and operator of New Zealand's national electricity transmission network (the **National Grid**), welcomes the opportunity to submit on the Climate Change Response (Emissions Trading Reform) Amendment Bill (the **ETS Bill**). Transpower wishes to be heard in oral submissions.

Our submission first outlines Transpower's view of the transition ahead to a net zero carbon economy. The submission then discusses five aspects of the ETS Bill in turn:

- enabling the cap on emissions covered by the New Zealand Emissions Trading Scheme (the **NZ ETS**), where we address the need for other policy tools as well to drive the required emissions reduction;
- introducing robust and transparent auctions;
- phase-down of industrial allocation;
- transparency in the NZETS; and
- operational and technical improvements for forestry.

Energy sector's role in supporting the transition

The Ministry for the Environment (**MfE**) has previously stated the energy sector "will play a huge role in the transition"¹ with such role including the decarbonisation of the economy supported by renewable electrification. As owner of National Grid infrastructure and the operator of the electricity system in real time, our 2018 publication, [Te Mauri Hiko – Energy Futures](#), highlighted opportunities and challenges and started the conversation towards enabling a sustainable energy future for New Zealand.

Increasingly, there has been agreement around the trajectory of the future envisaged in Te Mauri Hiko. We have added to this conversation with our later publications "[The Sun Rises on a Solar Energy Future](#)" and "[Taking the Climate Heat out of Process Heat](#)". These publications focus on the role of solar, and electrification of process heat, in supporting the transition to a low-emission energy future.

We support the ETS Bill to help deliver on New Zealand's global commitment under the Paris Agreement and to create certainty for investment towards a low-emissions electricity system. For

¹ Page 52 of MfE's discussion document "Our Climate Your Say".

the electricity sector, a low-emissions economy entails the potential doubling of electricity demand by 2050, the challenge of ensuring the transmission system can meet the needs of increasing demand and supply when and where it arises, and more complex flows of electricity throughout the entire system.

Decarbonisation of transport and industrial energy consumption will require users to be confident and assured that a secure supply of renewable generation will be there to meet demand. In this context, the electricity sector will need to meet several important challenges, including significant investment in new renewable generation and associated transmission connections, new transmission investment, changes to the roles of networks (to enable new technologies and more complex trading relationships), and the increased importance of system reliability and security of supply. Only by focusing on both electrification of transport and process heat as well as enabling new renewable generation will New Zealand be able to achieve its ambition to decarbonise.

The energy transformation New Zealand needs will be possible through an investment environment that is sufficiently attractive for utility investors and for consumer-led investment by households and small businesses. An electrification transformation will require government and industry leadership including to drive new opportunities for employment and training.

We consider the ETS Bill, when passed, will support the transition to a lower-carbon electricity economy. Transpower is well-placed to support that transition.

Enabling cap on emissions covered by NZ ETS – carbon pricing to be used in conjunction with other policy tools to drive emissions reduction

We agree with the inclusion of a decision-making framework to enable the supply of New Zealand Units (**NZUs**) to be restricted, capping allowable emissions. Imposing a cap on NZUs supplied into the NZ ETS is important to provide certainty to the market to support investment and is a necessary part of transitioning to a low-emissions economy. In order to have integrity and align with New Zealand's national emissions targets, the ETS should require an emissions cap that is aligned to national carbon budgets to regulate the number of NZUs in supply and thus manage emissions levels.

We acknowledge that the central policy lever the Government is relying on to drive renewable electricity investments supporting a low-emissions economy is an effective carbon price through the NZ ETS, which will be underpinned by the cap on NZUs available. In that regard, carbon price volatility needs to be managed to provide clear and transparent pricing signals that allow for more informed investment decisions. Future supply and demand fundamentals also need to be clear and transparent to allow for informed views of forward price expectations. We also support a price floor and ceiling (cap and collar) to manage price volatility and forward price expectations.

We support the requirement that the regulations must always prescribe an overall limit and the price control settings for each of the following five calendar years, as well as the ability to update the overall limit and price control setting as set out in sections 30GB(3)-(4). The alignment between the overall limit on available NZUs and the emissions budget will help to manage price volatility and forward price expectations by providing transparency over forward expectations of NZU supply.

We note also that the Bill, reflecting the policy choices adopted in the Zero Carbon Act, requires the regulations on the emissions cap to restrict the approved overseas units available and prohibit the

use of such units by participants to the extent the cap would be exceeded. We support clear rules around the use and fungibility of international units in the NZ ETS.

While we support the NZ ETS, it is not sufficiently clear to us whether emissions pricing can single-handedly enable the full realisation of the decarbonisation opportunity. We consider the use of other policy tools will be required in conjunction with the NZ ETS to achieve this outcome.

For example, an excessively high carbon price may be counter to electrification objectives if it drives up the price of electricity by increasing the cost of gas bids into the wholesale electricity market. As gas is frequently the marginal bidder in the market, a very high carbon price is likely to increase the market clearing price. This may have negative consequences on disincentivising the electrification of transport and process heat. The Interim Climate Change Committee noted that the electrification of transport and process heat is one of the most prudent paths to decarbonising the energy sector. Furthermore, there are examples where lack of information and/or cognitive biases may lead consumers to be less responsive to carbon price signals. Driving further residential energy efficiency uptake may be better stimulated by improved information and other non- NZ ETS incentives.

We also consider the National Policy Statement on Electricity Transmission (**NPSET**) and the National Policy Statement on Renewable Energy Generation (**NPSREG**) under the Resource Management Act 1991 must be revised and strengthened to achieve the 2050 target and support the transition required to meet the cap on emissions. Obtaining resource consents to develop electricity connections and/or a new renewable electricity generation facility is often a time consuming and expensive process. Amendments to the RMA are required to enable strategic planning of electricity infrastructure, ensure efficient decision-making processes and strong national direction to provide easier consenting pathways to facilitate investment in renewable energy generation and electricity transmission infrastructure necessary to support electrification of transport and industrial energy consumers.

Introducing robust and transparent auctions

We support an auction system for NZUs which promotes the effectiveness of a market-based solution, minimises administrative complexity, and makes the auction process accessible to small participants. We also support the ability of the Minister to recommend regulations for the appointment of an independent auction monitor. We consider this role is important for the fair and effective functioning of the auction system, as well as its continual improvement.

We expect that there will be ongoing learnings from the operation of the auction system in practice, so there is a need for the auctioning framework to be flexible to enable it to be modified and enhanced over time as needed. The planned reliance on regulation-making powers to implement the detailed auction rules ought to facilitate this.

We also note our particular support for the requirement that the Minister, in prescribing overall limits or price control settings, must consider the forecast availability and cost of ways to reduce greenhouse gas emissions that may be needed for New Zealand to meet its targets for the reduction of emissions. As noted above, emissions pricing is not the only policy tool and its settings must be considered within a wider context of actions that facilitate emissions reductions.

We consider that the price control settings for the auctions should promote efficiency and certainty in the market, as well as operational simplicity.

Phase-down of industrial allocation

We support the phase-down of all industrial allocation from 2021, recognising that there will be implications for the electricity transmission system if major emitters that are energy-intensive reconfigure their industrial processes and power sources, or ultimately exit the market. Where this impacts energy flows through the National Grid or drives investment in new generation or grid infrastructure, Transpower and the wider electricity sector will need sufficient lead-time for adequate planning. Therefore, it will be important for the process of phase-down of industrial allocation to occur in a measured way, as is envisaged by the ETS Bill, with sufficient signals and road markers to enable broader sector planning and to ensure the necessary preparatory work and proactive investment is undertaken.

The ETS Bill would enable the Climate Change Commission to recommend that reductions in industrial allocation of NZUs after 2030 are slowed if there is still a risk of emissions leakage, or a more rapid phase-down for particular activities that are at low risk of emissions leakage. The Bill sets out the process for creating these new regulations for reducing or increasing the phase-out rate. As well as emissions leakage, there are a number of factors that must be considered before recommending the making of regulations increasing the phase-out rate for specific activities. In our view, a relevant factor that the Minister should consider in this assessment (under “any other matters that the Minister considers relevant”) is the potential impacts on the transmission system.

Transparency in the NZ ETS

Transpower supports the provisions in the ETS Bill that provide that data on the emissions and removals of individual businesses will be made publicly available online. Currently there is inadequate information on the emissions profile of businesses. The provision of more complete information about emissions for consumers and other groups could provide greater impetus for individual businesses to reduce their emissions.

In addition, as acknowledged in the explanatory note to the ETS Bill, access to this information will enable market analysts and researchers to form a more complete picture of New Zealand’s greenhouse gas emissions. It will significantly assist Transpower with undertaking its own analysis to support National Grid investment and transmission infrastructure planning.

Operational and technical improvements for forestry

We support the proposed approach of including a definition of “New Zealand’s best practice forest management” (**BPFM**) in the legislative framework by enabling defining regulations.

As the owner and operator of the National Grid, Transpower is required to manage potential risks to the health and safety of people, the protection of property and the ongoing security of the nation’s electricity supply in connection with transmission lines. If trees make electrical contact with high voltage conductors (or wires) a major electrical discharge can occur causing fires, increasing the risk of serious injury (or death) to bystanders, the destruction of property or otherwise affect the security of the nation’s electricity supply.

To avoid this, Transpower proactively manages trees near transmission lines, for example, by ensuring landowners / foresters maintain a safe distance between the two (by trimming or removing trees where necessary). In our view the status quo discourages best practice as there is a risk that

such forest clearing by landowners / foresters will be deemed to be deforestation (which attracts certain ETS liabilities).

To ensure and encourage the ongoing security of the national electricity supply, human safety and the protection of property, the definition of BPFM should include tree clearing for the purposes of creating safe separation distances between trees and transmissions lines (or other infrastructure associated with the National Grid). We understand there are limited publications which discuss and define safe separation distances between trees and transmission lines. However, we believe we are well placed to assist and, accordingly, we have formulated our own information sheet setting out what we consider to be BPFM for tree management near transmission lines. Transpower will be seeking that this information sheet is one of the specified publications for the purposes of the BPFM definition proposed to be included in the amendments to the Climate Change (Forestry Sector) Regulations 2008.

Summary

Transpower is committed to playing its part to tackle climate change and help New Zealand transition to a low-emissions economy.

We are part of the Climate Leaders Coalition in New Zealand – standing publicly with many other businesses to declare and report on our mission to reduce emissions in New Zealand. We are actively seeking to reduce our own greenhouse gas emissions across all areas of our own emissions inventory, and we are working hard to ensure we enable the transition to a low-emissions electricity future.

We consider the ETS Bill will be vital to support New Zealand's commitment to the international community. We look forward to the Bill's progress through Parliament.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'David Knight', with a stylized flourish at the end.

David Knight
General Counsel & Company Secretary