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**REPORT 6**  
(1215/52/IM)

## **SUBMISSION ON CLIMATE CHANGE (EMISSIONS TRADING AND RENEWABLE PREFERENCE) BILL**

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### **1. Purpose of Report**

To seek the Committee's approval to the attached submission on the government's *Climate Change (Emissions Trading and Renewable Preference) Bill*.

### **2. Executive Summary**

The Climate Change (Emissions Trading and Renewable Preference) Bill was tabled in Parliament on 4 December 2007. The Bill has two distinct parts:

- **Part 1:** amends the Climate Change Response Act 2002 to introduce a greenhouse gas emissions trading scheme (ETS) covering all sectors of the economy and all gases
- **Part 2:** amends the Electricity Act 1992 to create a preference for renewable electricity generation by implementing a ten year restriction on new fossil-fuel thermal electricity generation, except to the extent required to ensure the security of New Zealand's electricity supply.

The draft submission (attached as Appendix 1) is largely supportive of the Bill. The likely outcomes of the Bill will complement the Council's environmental strategic priorities and the recently agreed Climate Change Action Plan. Specific points of the draft submission include:

- general support for the forestry component of the ETS based on the benefits available to Council in terms of potential 'forest sink credits'
- support for including mature indigenous forests in the same category as 'pre-1990' exotic forests
- requesting that the government fully assess the effects of the proposed waste levy (part of the Resource and Waste Recovery Bill currently before Parliament) on reducing waste-to-landfill and landfill emissions before placing additional obligations on landfill owners relating to the ETS
- requesting government support for low-income households that are unable to afford energy price increases as a result of implementation of the Bill

- support for the provision that addresses security of supply issues by enabling exemptions from the restriction for new fossil fuel electricity generation.

### **3. Recommendations**

It is recommended that the Committee:

1. *Receive the information.*
2. *Approve the submission on the Climate Change (Emissions Trading and Renewable Preference) Bill, attached as Appendix 1.*
3. *Agree to delegate to the Climate Change Portfolio Leader and Chief Executive the authority to make any minor drafting changes necessary before forwarding the submission to the Finance and Expenditure Select Committee.*
4. *Note that a report will be presented to this Committee in April that will outline options for putting Council land into the New Zealand Emissions Trading Scheme and into the government's Permanent Forest Sink Initiative.*

### **4. Background**

The Climate Change (Emissions Trading and Renewable Preference) Bill was tabled in Parliament on 4 December 2007. Submissions on the Bill to the Finance and Expenditure Select Committee close on 29 February 2008. The Bill has two distinct parts.

#### **4.1 Part 1 – Greenhouse Gas Emissions Trading Scheme (ETS)**

Part 1 of the Bill amends the Climate Change Response Act 2002 to introduce the ETS covering all sectors of the economy and all gases. It is the primary policy response for New Zealand meeting its climate change objectives and Kyoto Protocol targets. The legislation is expected to be passed in 2008, in time for the first Kyoto commitment period of 2008 – 2012.

#### **4.2 Part 2 - Preference for Renewable Electricity Generation**

In October 2007, the government released the New Zealand Energy Strategy (NZES) and adopted a target for renewable electricity generation of 90 per cent of New Zealand's electricity generation by 2025. The NZES states a clear preference that all new electricity generation will be from renewable sources. Part 2 of the Bill amends the Electricity Act 1992 to create a preference for renewable electricity generation by implementing a ten year restriction on new baseload fossil-fuelled thermal electricity generation, except to the extent required to ensure the security of New Zealand's electricity supply. The NZES

signalled consideration of regulatory options under the Electricity Act 1992 to support this objective.

## **5. Discussion**

The following provides some discussion on the draft Council response to the Climate Change (Emissions Trading and Renewable Preference) Bill. The draft submission, attached as Appendix 1, supports the proposed ETS framework and the proposed change to the Electricity Act 1992, and raises some additional points specifically relevant to the Council.

### **5.1 ETS**

The ETS is the government's core price-based measure for reducing greenhouse gas emissions ('emissions') and enhancing forest carbon sinks. Placing a price on emissions will result in a less emissions-intensive economy over time. The Council's goals to reduce greenhouse gas emissions in the community will be more effective in a context where price signals are sending the same message. Moreover, it is unlikely the Council would be able to achieve its strong emission reduction targets in the community without an extensive price-based measure such as the ETS.

The primary obligation of participants covered by the ETS is to surrender one New Zealand Emission Unit (NZU) for each tonne of emissions that the participant is responsible for. To meet this obligation, participants have to monitor their activities and calculate any emissions that arise from their activities. The ETS includes all major sectors of the economy (forestry, transport, stationary energy, industrial processes, agriculture and waste) and all six greenhouse gases specified in the Kyoto Protocol.

The ETS also provide participants who undertake activities that remove emissions from the atmosphere to earn one emission unit for each tonne of emissions they remove. They can then sell the emission units they earn on the open market. The ETS will be implemented in a phased approach and the proposed timing is as follows:

- January 2008: Forestry
- January 2009: Liquid fossil fuels (mainly transport)
- January 2010: Stationary energy (coal, gas, geothermal) and industrial process emissions
- January 2013: Agriculture, waste, and all other emissions.

### **5.2 Overview of impacts to the New Zealand economy**

There are several probable impacts for the New Zealand economy following the introduction of the ETS:

- gradual reduction in New Zealand's net emissions as the economy moves towards low-emission energy sources, technology and agriculture activities
- increased cost of energy (electricity, natural gas, petrol and diesel); petrol may increase four cents per litre, and energy bills may increase by four or five percent
- flow-on price increases to consumers of goods and services that use these fuels; this is expected to be less than one percent of annual household expenditure
- reduction in relative price of low-emission goods and services
- increased attractiveness and relative profitability of low-emissions technology (e.g. wind and solar power) and afforestation
- forecasted overall macroeconomic impact in 2010 of less than 0.1 per cent of GDP; much less than underlying GDP growth of around two percent per year
- closer linkages to international carbon markets and associated opportunities.

### ***5.3 Costs, benefits and implications for the Council and Wellington residents***

The probable implications for the Council and Wellington residents as a result of the ETS include:

- the Council will be a participant in the ETS through obligations relating to the waste sector (Southern Landfill)
- the Council (and other Wellington landowners) will be eligible to generate and sell NZU's through pre-1990 and post-1989 forests
- increased energy costs to the Council and residents
- continued research and development of large-scale and small-scale renewable energy projects (particularly wind and marine) in Wellington
- increased financial pay-back periods from energy efficiency and technological innovations applied in households, office buildings, manufacturing sector and transport sector
- opportunities for projects that get allocated NZU's (such as the bio-reactor proposal).

### ***5.4 Forestry***

The proposed ETS legislation relating to forestry will be largely beneficial to the Council. A full discussion and options paper on Council's options relating to forest sinks will be presented to the Committee in April.

The ETS has different rules depending on when a forest was first established. These rules will determine the government's carbon credits and liabilities under the Kyoto Protocol. Under the Protocol, there are essentially two types of forests.

#### **5.4.1 'Kyoto forests' or post-1989 forests**

The government has decided in principle to give the owners of eligible post-1989 forest land the choice to enter the ETS. Owners who choose to enter the ETS will receive forest sink credits as NZU's when their forests grow, but will be required to surrender units if carbon stocks fall, such as when the forest is harvested. The government will retain the responsibility for the credits and liabilities for forest that do not join the scheme. The Council owns Clelland Forest (23ha), which fits the criteria for post-1989 forest.

#### **5.4.2 'Non-Kyoto forests' or pre-1990 Forests**

Pre-1990 forests will not earn NZU's on an annual basis; rather, the government will give free NZU's to owners of pre-1990 forests land. The liability associated with receiving the NZU's would be the obligation to repay them back to the government should there be any land-use changes. If landowners choose not to deforest, the NZU's could be sold without incurring future deforestation liabilities. Landowners can also choose to replace the exotic pre-1990 forests with native forests and because there is no land-use change, no emission liability would be incurred. The Council owns approximately 180 hectares of exotic forests planted prior to 1990: the Town Belt exotic forests (150ha) and Spicer Forest (42ha).

#### **5.4.3 Issues with Council's exotic forest land**

As stated above, the forestry proposals in the ETS are generally beneficial to the Council if the Council maintains the land-use of all eligible pre-1990 or post-1989 forest land entered into the ETS (either continuing exotic or replanting to native forests). The land-use management programme outlined in the Outer Green Belt Management Plan (2002) and Town Belt Management Plan state that regeneration of native forests is the key objective following the harvest of any exotics in Spicer Forest, Clelland Forest and the Town Belt.

For Clelland forest (post-1989), the Council would be liable for all decreases in carbon absorption. This means the Council would have to surrender NZU's to the government that match the drops in carbon absorption following harvest. If the Council developed a selective harvesting and restoration plan, it could likely ensure an annual net "profit" of carbon absorption.

#### **5.4.4 Indigenous forests**

Aside from the forestry proposals outlined above, the government is seeking feedback on whether mature indigenous forests should be included as pre-1990 forests under the ETS (currently just exotic forests are included in the pre-1990 category). If indigenous forests were included in the ETS, the Council could receive 'free' NZU's for land that fits the government's criteria. The Council has more than 100ha of indigenous forest in areas such as Otari-Wilton's Bush and Khandallah Park.

## **5.5 Waste**

From 2013, the Council could have obligations under the ETS relating to the Southern Landfill. Further details about the proposed obligations for landfill owners will not be released until 2010 or 2011. The government is waiting to see how effective the proposed waste levy is in reducing both waste to landfill and landfill emissions before developing obligations proposals for the waste sector. The final decision on the introduction of the waste levy can be expected by Parliament in the next few months.

## **5.6 Stationary energy and liquid fuels**

The Council will not have any direct obligations relating to stationary energy (electricity and natural gas) and liquid fossil fuels (petrol and diesel). However, there will be some impacts from the introduction of these sectors into the ETS that the Council will need to consider and manage appropriately:

- increase in Council's energy spend (a rough approximation is that the Council's energy costs will increase by around \$450,000 per annum as a result of the ETS)
- increase in energy costs for Wellington residents, with particular effects on low-income residents and Council housing tenants.

### **5.6.1 Increased Council energy costs**

One of Council's key environmental priorities is to decrease energy consumption through energy efficiency and renewable energy applications. The increased costs of energy will provide even more impetus for the Council to deliver on this priority. While these costs place further pressures on the Council's budget, they also provide further incentives for Council in achieving its carbon neutral goal by 2012.

### **5.6.2 Energy costs and low-income residents**

Increased energy costs, particularly for low-income residents, means less money to cover other essentials such as rent and groceries. The government has announced that it will be providing support to low-income households to soften the impact of the ETS on their overall financial situation. The details of this support will be released in the 2008 budget. The Council should advocate on the behalf of low-income Wellington residents for government support to ease financial strain caused by increased energy costs.

## **5.7 Moratorium on thermal electricity generation**

The government's goals for renewable electricity generation complement and support the Council in achieving its emission reduction targets for its own operations and for the community. It is still unclear what effect the legislation will have on the Council's authority in processing renewable energy projects such as wind farms. Council strategies and District Plan Change 32 are generally

very supportive of renewable energy generation. It is unclear how the Council's involvement might change in considering issues of local importance and significance with resource consent applications relating to renewable energy.

It would be disadvantageous to Wellington and New Zealand if this new legislation leads to greater risks to New Zealand's electricity supply. The government has acknowledged security of supply is a priority and support for this legislation should be contingent on this.

## **6. Conclusion**

The draft submission, attached as Appendix 1, generally supports the proposed ETS and the proposed change to the Electricity Act 1992. The proposals are consistent with the Council's Environmental Strategy and they will also be instrumental in assisting the Council to achieve its medium and long-term emission reduction targets. The Council will have a mixture of opportunities, liabilities, obligations and increased costs as a result of this Bill. The submission raises some additional points relevant to the Council and the Wellington community.

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## **Supporting Information**

**1) Strategic Fit / Strategic Outcome**

*Consistent with the Council's Environmental, Transport, and Urban Development Strategies.*

**2) LTCCP/Annual Plan reference and long term financial impact**

*Not applicable.*

**3) Treaty of Waitangi considerations**

*Nil.*

**4) Decision-Making**

*This decision does not trigger the significance policy. This submission is important in advancing the interests of the Council with respect to national energy and climate change policy.*

**5) Consultation**

**a) General Consultation**

*Not applicable.*

**b) Consultation with Maori**

*Not applicable.*

**6) Legal Implications**

*Nil.*

**7) Consistency with existing policy**

*Consistent with current policy as set out in the Council's Environmental Strategy and commitment to the Communities for Climate Protection (CCP-NZ) programme.*

# **APPENDIX 1:**

## ***SUBMISSION***

### **Climate Change (Emissions Trading and Renewable Preference) Bill**

**FEBRUARY 2008**

#### **1. Introduction**

Wellington City Council (the Council) welcomes the opportunity to make a submission on the Climate Change (Emissions Trading and Renewable Preference) Bill ('the Bill'). This submission outlines the Council's key comments on the Bill.

#### **2. Comments**

Addressing the challenges of climate change is critical for the future economic, social, and environmental well-being of New Zealand. The Council is committed to reducing greenhouse gas emissions ('emissions') for both our own operations and the wider community. The Council is acutely aware of the urgency necessary to reduce emissions on a global scale in order to control the effects of climatic change.

The Council supports the development of the Emissions Trading Scheme (ETS) in that it provides incentives to reduce emissions by making investment in low-emissions technology and energy sources more rewarding and beneficial. The development of emissions trading will be instrumental in leading to both national and global reductions in emissions.

The Council supports the government's move to include all sectors of the economy (through a phased approach) and all gases in the ETS. This is an equitable and balanced way to introduce a carbon price signal into the economy. The costs associated with climate change policy should be shared across producers and consumers and should apply to all sectors.

##### **2.1 *Forestry***

The Council supports the proposals for forestry including the free allocation of emissions units, which will be phased out over time. This allows landowners the time to develop appropriate land-use plans for pre-1990 and post-1989 forests.

The Council is strongly supportive of including indigenous forests in the ETS with a level of free allocation. Landowners who have made forward thinking decisions to preserve and protect indigenous forests (especially in urban areas) should be acknowledged for contributing to the removal of CO<sub>2</sub> from the atmosphere.

The Council supports the options of afforestation grants or 'carbon sink credits' for new forests, as well as the Permanent Forest Sink Initiative (PFSI) that has already been proposed.

## **2.2 Waste**

The Council is supportive of the government's approach of assessing the effectiveness of the proposed waste levy before developing obligation details relating to the waste sector. The Council believes that if the waste levy is effective in reducing waste-to-landfill (and associated landfill emissions) then it would be prudent to rely on waste levies as *the* price signal as opposed to introducing a second price signal, which could make landfill administration unnecessarily complicated.

It is important that landfill owners and local government are given regular updates and opportunities to provide feedback on this matter as this will assist with short and medium-term planning decisions.

## **2.3 Energy and the ETS**

The Council is supportive of introducing a price signal for fossil fuel based energy sources and acknowledges that a price signal on carbon will help with the transition to low-emissions energy sources and technology. While the Council is a relatively significant energy consumer (and is therefore likely to face increased costs as a result of the ETS), it welcomes the incentive to move away from fossil fuel usage in concert with the rest of the nation and the world. In time, the costs of transitioning to low-emissions energy are expected to be balanced by the economic benefits of mitigating climate change.

The Council understands the government will be providing support to low-income families and individuals that might be heavily impacted by even modest increases in energy prices. As a large provider of low-income housing, the Council is seeking more clarification on the proposed actions to assist low-income households following the introduction of the ETS. The Council strongly advocates that adequate government transitional support is provided to low-income households that cannot afford the increased costs of energy and goods as a result of the introduction of the ETS.

## **2.4 Agriculture**

The Council currently leases land to farmers for grazing purposes. While the Council understands the agriculture sector will not be included until 2013, the Council is supportive of the point of obligation for agriculture resting with the owner of stock as opposed to the landowner. The Council feels this is a more direct approach for providing incentives for low-emissions farming practices.

## **2.5 Comments on the Renewable Energy Preference Part of the Bill**

The Council acknowledges the significant benefits derived from renewable energy in New Zealand, specifically reducing national carbon emissions associated with energy consumption, reducing New Zealand's dependence on fossil fuels and also reinforcing New Zealand's image as a sustainable country. The government's aims to increase

renewable energy generation are in line with the Council's Climate Change Action Plan and associated emissions targets.

The Council has adopted District Plan provisions to help process renewable energy resource consent applications (specifically wind). The Council supports a resource consent process for renewable energy projects that proceeds in a timely manner but also considers issues of local importance and significance. The Council would like further clarification of how the Resource Management Act will be amended (if at all) or how the Council's involvement in resource consent decisions might change to allow for:

- the provisions of the moratorium on new fossil fuel electricity generation
- increased numbers of resource consents for renewable energy.

The Council supports the provisions that address security of supply issues by enabling exemptions from the restriction for new fossil fuelled thermal generation. The delivery of a secure and ongoing electricity supply is vital to Wellington's and New Zealand's economy. The Council's support for this part of the bill is conditional on maintaining security of supply.

The ten year moratorium on fossil fuel electricity generation will likely lead to electricity price increases. The Council would like to reiterate the points made in section 2.3 relating to support for low-income households if the moratorium results in significant increases in electricity costs.

## ***2.6 Distributive generation and projects that reduce emissions***

The Council believes additional support and incentives for small-scale micro-generation projects is necessary. Currently, most of the incentives are provided for large-scale renewable energy applications. While the Council acknowledges large-scale renewable energy developments have a greater impact on the national energy supply, smaller developments can play an important role in easing energy demand and reducing reliance on fossil fuels. Modest incentives would assist councils, businesses and other organisations in investigating and implementing potential distributive generation projects. These projects also have the potential to foster community interest and pride in renewable energy and deliver on the government's renewable energy goals.

## **3. Conclusion**

The Council is generally supportive of the Government's proposed direction on climate change with the ETS and the moratorium on fossil fuel electricity generation. Notwithstanding this general support, there are many details yet to be resolved with respect to the further development and implementation of the proposals, and the local government sector needs to be actively involved in discussions on these details. Option preferences for forestry, waste and agriculture have been identified and additional points specifically relevant to the Council and Wellington residents have been raised.