



The New Zealand Emissions Trading Scheme

Consultation on proposed updates to ETS allocative baselines

Purpose of this factsheet

The purpose of this consultation is to seek your views on the proposed updates to allocative baseline regulations under the New Zealand Emissions Trading Scheme (ETS).

The proposed changes will affect eligible persons within the ETS, in particular those who use coal, liquid fossil fuels in stationary equipment, and those who carry out the activity of manufacture of carbon steel from cold ferrous feed.

This consultation will close on 17 May 2013 and regulation amendments will be gazetted in August 2013.

Scope

The Climate Change (Emissions Trading and Other Matters) Amendment Act was passed by Parliament in November 2012. It amended the Climate Change Response Act 2002 (the Act) to make a number of changes to the ETS. Cabinet also considered options for the level of allocation of certain activities in July 2012. These changes need to be given effect by amending regulations made under the Act.

This consultation document covers regulation changes that affect ETS eligible persons by updating allocative baselines under the Climate Change (Eligible Industrial Activities) Regulations 2010.

Other consultation documents cover changes that affect:

- [updates to ETS operational regulations](#)
- [regulations for the synthetic greenhouse gases \(SGG\) levy](#).

Summary of proposed changes

Regulation changes are proposed for:

1. the inclusion of fugitive coal seam methane (FCSM) emissions as an eligible emission source for the purpose of industrial allocation to coal users
2. the inclusion of the direct use of liquid fossil fuels in stationary equipment (SELFF) as an eligible emissions source for the purpose of industrial allocation
3. the classification of the manufacture of carbon steel from cold ferrous feed (MSCFF) as a high emissions-intensive, trade-exposed activity, eligible for a 90 per cent level of allocation.

Background

The ETS provides an allocation regime that protects New Zealand's emissions-intensive, trade-exposed industries. The new provisions of the Act better align allocation with the approach taken by our key trading partners. The challenge now is to implement the new provisions of the Act in an efficient and effective manner. This factsheet outlines how this will be achieved.

1. Fugitive coal seam methane (FCSM)

Background

Fugitive coal seam methane (FCSM) emissions occur when a small amount of methane is released into the atmosphere when mining coal.

Emissions of FCSM are reported by coal miners in their ETS emission returns. They represent a significant cost in the case of coal that is mined underground.

Prior to the passing of the Amendment Act in November 2012, emissions from FCSM were not included in allocative baselines for any activity.

Status quo

Through the Amendment Act, FCSM can be considered as an eligible emissions source for allocative baselines.

Problem definition

The Amendment Act requires the inclusion of FCSM emissions as an eligible emissions source for coal users. This may help mitigate international competitiveness risks and make the industrial allocation rules more equitable to coal users.

This consultation is required to determine the best method for accounting for FCSM emissions in allocative baselines for coal users.

Objectives and assessment criteria

The objective of industrial allocation is to provide assistance to the parts of the economy most heavily affected by the ETS by granting units to businesses whose activities are considered emissions intensive and trade exposed.

To develop effective regulations the Government has established the following criteria:

- efficiency – adopt and maintain only regulations for which the costs on society are justified by the benefits to society
- effectiveness – regulation should be designed to achieve the desired policy objective of reducing a distortion
- transparency – the regulation-making process should be clear
- clarity – regulatory processes and requirements should be as understandable and accessible as practicable

- equity – regulation should be fair and treat those affected equally
- environmental integrity – the environmental integrity of the ETS should be maintained.

Options analysis

The Government is now considering two options to account for FCSM in allocative baselines for coal users:

Option one: Limited to underground coal users.

The allocative baselines for activities that use coal sourced from underground mines (as opposed to surface mines) would be adjusted to reflect the extra costs associated with FCSM emissions.

Option two: For all eligible coal users.

The allocative baselines for activities that use coal sourced from either underground or surface mines would be adjusted to reflect the extra costs associated with FCSM emissions.

Emissions would either be averaged across underground-mined coal (option one) or all types of coal, both surface and underground-mined (option two), to calculate the baseline.

The assessment of each option has potential implications for allocation recipients and for efficient operation of the coal market.

The point of difference between the two options is option one would create a perverse incentive to purchase and use coal from underground mines which would create an imbalance in the domestic coal market. This means option one does not meet the efficiency, effectiveness and equity criteria as well as option two.

Preferred option

The Government's preferred option is to account for FCSM emissions in allocative baselines for all eligible coal users (option two). The Government is interested in determining how implementation of these options would impact on stakeholders.

Impact assessment

Allocative baselines would increase slightly for eligible large-scale coal users. The effect on other eligible activities is likely to be insignificant.

2. Direct use of liquid fossil fuels in stationary equipment (SELFF)

The Amendment Act requires the inclusion of the direct use of liquid fossil fuels in stationary equipment (SELFF) as an eligible emissions source for the purpose of industrial allocation.

All SELFF emissions are directly attributable to the eligible activity, therefore no decisions need to be made on how the allocative baseline is distributed to recipients.

In light of this change, some new industrial activities may become eligible. If so, a new data collection and verification process may be required for any new or amended industrial activity definitions.

The Government is interested in finding out the impacts on stakeholders, whether any currently eligible activities may need to have their baselines reassessed, and whether any new activities may become eligible as a result of the inclusion of SELFF in allocative baselines.

Allocative baselines for eligible activities that use SELFF may increase. Only one affected participant is known to the Government.

3. Manufacture of carbon steel from cold ferrous feed

The manufacture of carbon steel from cold ferrous feed (MSCFF) is the physical and chemical transformation of cold ferrous feed (for example, ferrous scrap, pig iron, and flat iron) by heating and melting into liquid steel, cast carbon steel products and hot-rolled carbon steel products which start hot-rolling at over 800°C.

The Government is interested to know the impact of changing the emissions intensity of this activity from “moderate” (eligible for a 60 per cent level of allocation) to “high” (eligible for a 90 per cent level of allocation). This may help to mitigate competitiveness risks between steelmakers in New Zealand and Australia and to better align the industrial allocation regime in New Zealand with that in Australia. In Australia, all steelmaking activities (including MSCFF) are classed as high emissions-intensive and trade-exposed (EITE) activities.

Under section 161B of the Climate Change Response Act (which is commonly known as the Australian track), if an activity is eligible for industrial allocation in Australia, it may become eligible for industrial allocation in New Zealand and may be given a similar level of industrial allocation.

The Government is proposing to use the “Australian track” to implement this change. Section 161B states that the activity description in New Zealand’s legislation must be the same as that in Australian legislation.

The current Australian activity description has a much broader scope than the current New Zealand description. Currently, only one participant is registered as undertaking this activity in the ETS. This should mean that the current participant remains eligible.

New Zealand manufacturers of carbon steel from cold ferrous feed will see an increase in the level of allocation increase from 60 to 90 per cent.

Implementation timetable

The following implementation timetable relates to all three changes to allocative baselines in the ETS.

Consultation	24 April– 17 May 2013
Regulations amended	Prior to 30 September 2013
Regulations in force	1 January 2014

Consultation questions

Fugitive coal seam methane

1. What objectives should be used to assess and rank options?
2. What options should the Ministry consider for the inclusion of FCSM emissions in allocative baselines (either as identified in this factsheet, or as you identify the problem)?

Please suggest options not discussed here, and of those options discussed, please say what options should not be considered. In both cases, please explain why.

3. How will you be affected by the Government implementing its preferred option for the inclusion of FCSM emissions into allocative baselines? Please describe this impact.

Direct use of liquid fossil fuels in stationary equipment

4. How will you be affected by the Government including emissions from SELFF into allocative baselines? Please describe this impact.
5. How will the allocative baseline for a currently eligible industrial activity be affected? Please name the activity.
6. Will a new industrial activity become eligible for allocation under the ETS based on the inclusion of SELFF emissions in allocative baselines? Please name the activity.

Manufacture of carbon steel from cold ferrous feed

7. How will you be affected by the Government including emissions from the MSCFF into allocative baselines? Please describe this impact.
8. How would you propose to describe the activity of the MSCFF?
9. Is it preferable to maintain the status quo (current description and level of allocation) instead of new activity description and level of allocation?

Consultation

Please send your submission by email to:
etsconsultation@climatechange.govt.nz

If you are unable to email your submission then please post it to:

ETS Regulations updates 2013
Ministry for the Environment
PO Box 10362, Wellington 6143

The closing date for submissions is:
5pm Friday 17 May 2013.

Find out more

www.climatechange.govt.nz/ets.
Phone: 0800 CLIMATE (254 628).

Next steps

Submissions will be analysed by the Ministry for the Environment and reported to the Minister for Climate Change Issues for final decisions. Updates about the process will be provided on the climate change website: www.climatechange.govt.nz.

About submissions

The Ministry for the Environment may publish all or part of any written submission on the Government's climate change website. We will consider you to have consented to such publishing by making a submission, unless you clearly specify otherwise in your submission.

The content of submissions is subject to the Official Information Act 1982. Copies of submissions sent to us will normally be released in response to an Official Information Act request from a member of the public. If you object to the release of any information contained in your submission, please clearly state this in your submission, including which part(s) you consider should be withheld, together with the reason(s) for withholding the information. We will take into account all such objections when responding to requests for copies of, and information on, submissions to this document.

If you do not wish your name and any identifying details in your submission to be released in response to a request, please clearly state this in your submission. At your request, we will make your submission anonymous before it is published on the climate change website. However, please note that the Ministry for the Environment will not be able to withhold any information if doing so would contravene the requirements of the Official Information Act.

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